Preface

Why is COMMERCE always among the worst performed subjects at your School? With this book in your hands, you will never have such questions again. This book has been designed to assist commerce students at O – level always remember what to present in the final exam.

All basics of commerce and usually the most examinable issues in the recent years have been handled professionally in an easy to understand language. The book is designed to match the changing patterns in the changing Commerce curriculum and new examinable areas have been included in this edition.

We are extremely overwhelmed to present this years' edition of "UCE Commerce at finger tips" in preparation for UCE exams to assist in memorizing.

This book is written in a special way in that; it has been designed basing on the commerce syllabus. The essence of this mode of presentation is to enable students to prepare themselves especially before the final examination.

The writers therefore believe that students using this book will find commerce a very interesting subject and easy to pass.

SEBADDAWO IVAN
AND
MBOOWA STUART

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Dedication

This book is dedicated to commerce students all over the world yearning for reading materials.

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Acknowledgement

How does a person say, “Thank you” when they are so many people to thank? Obviously, this book is a thank you to a number of individuals and institutions whose contribution has led to this publication.

The authors would therefore wish to acknowledge the invaluable contribution of the following individuals and institutions for their contribution;

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Space cannot allow us mention each and every one that had an input in the production of this work, but all individuals who in any way contributed towards this book, we appreciate it.

Lastly special thanks to the students not mentioned for their various contribution towards the production of this book. They have really given us a good experience that we are availing to you in this book.

Comments

Now that this book is printed and to be given to the world, a sense of its short coming both in style and comments, weighs very heavily upon us.

Therefore we wish to call upon whoever will read this book and may want to advise the authors to forward his /her advice through the following contacts.

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The Scope of Commerce

COMMERCE is the movement of goods from the point of production to the point of consumption

OR

Commerce refers to trade and aids to trade.

Why do we study Commerce?

i. It enables students to understand and experience the developments in the world of business.
ii. It enables students to acquire the knowledge necessary for running a business in the future.
iii. It helps students to find out about the different goods and services available and why prices fluctuate.
iv. Studying commerce gives a good background knowledge to the study of other subjects like Economics, Entrepreneurship, Business laws and accounting courses.
v. Enables learners to learn the commercial language used in the day today commercial transactions.
vi. To pass Commerce exams.
vii. It is one of the subjects designed by NCDC to be studied in secondary schools.

Commerce can be classified under two main branches i.e trade and aids to trade (Production and exchange) as illustrated below

Illustration of the scope / coverage of commerce

- COMMERCE
  - Trade (exchange)
    - Home trade
      - Retail trade
      - Wholesale Trade
    - Foreign trade
      - Import trade
      - Export trade
      - Entrepôt trade
  - Aids to trade (Production)
    - MR – Market research
    - B - Banking
    - A - Advertising
    - T - Transport
    - W - Warehousing
    - I - Insurance
    - C - Communication

IMPORTANCE OF COMMERCE.

1. To create utility to the public.
2. To provide a link between producers and consumers / Bridges the gap between producers and consumers because consumers are made aware of the available goods and services for sale eg through advertising.
3. Facilitate acquisition of a variety of quality products through specialization. People are therefore able to make a choice.
4. Creates awareness to the public through advertisement in terms of sales and promotions.
5. It avails goods and services to the consumers through mail order service.
6. Provision of capital for starting and running business opportunities like from loans.
7. Provide protection to the public people through insurance.
8. It reveals peoples opinion through carrying out market research.
9. Provision of a variety of goods and services.
10. It improves the standard of living through proper quality.

COMMON TERMS USED IN COMMERCE

1. The Fundamental Economic Problem; In the satisfaction of needs / wants, there is always a problem i.e;
   i. Scarcity; This refers to the limitation in the supply of goods and services in relation to demand.
   ii. Choice; This means selecting something from all the possible alternatives available. Choice means the preferred option.
   iii. Opportunity cost; This is the alternative fore gone when choice is made OR It's the second best alternative when choice is made. This is due to the fact that almost all things are limited in supply; people cannot satisfy all their wants or needs, so they must make choice between one thing and another.

2. Investment refers to applying capital in a business venture with the aim of making profits.

3. Consumption is the using up of a good or service produced.

4. Aids to trade, are services that facilitate the smooth running of trade. And they are sometimes referred to auxiliary services. Aids to trade are basically seven (7) among whom are;

   i. Market research: Aimed at finding out public opinion about a particular good to be put on market by the producer / manufacturer/ seller.
   ii. Money and banking: An aid to trade through which banking financial institutions assist the public on monetary problems especially lending and safe guarding businessmen money.
   iii. Advertising and sales promotion: Activities aimed at informing the public about the presence of goods or services for sale.
   iv. Transport: Involving the physical movement of raw materials, finished goods, animals, workers, people or services from one physical place to another where they are needed.
   v. Communication: Act of conveying information, interpretations and payments from one place to another.
   vi. Ware housing: Concerned with protecting raw materials, finished goods, exported / imported goods until demand is available and against bad atmospheric conditions, theft and other eventualities.
   vii. Insurance: An aid to trade that undertakes to compensate those unfortunate business men who incur / suffer losses from the risks insured against.

5. Human wants: These are desires of man. The things that man needs to live a happy life. Otherwise man may leave even without them. Eg Cars, suits etc

   Characteristics of human wants
   i. They are insatiable/ unlimited in nature. They cannot all be satisfied.
   ii. They are recurrent. When satisfied now, demand for it keeps coming back.
   iii. They are complementary. In most cases, when one is satisfied, it creates demand for another.
   iv. They are competitive. It is very hard for one to satisfy all her needs at once.

   Types of Wants
   i. Material wants are satisfied by consuming physical goods like food, drinks, cloth and

others. In other wards they are tangible.

ii. Immaterial wants, these are satisfied by intangible things or services. For example a football match, transport, music and others.
iii. Primary wants / Basic wants / Basic needs; These are wants that people must have in order to stay alive.
iv. Secondary wants; These are wants which are not essential in life and failure to satisfy them does not necessarily result into death.

6. Human needs: These are necessities of man. The things that man must have to live. Otherwise man cannot leave without them eg food, housing, medical care etc

7. Services: Are intangible things (that we cannot touch and see) that are used to satisfy man's unlimited needs and wants.

Types of Services

i. Commercial Services; These are services involving production and exchange of goods / services ie trade and aids to trade / commerce.
ii. Direct Services; These are services which benefit an individual directly eg teaching, medical services, legal services etc.

8. Goods: A good is anything tangible (that we can touch and see) that are used to satisfy man's unlimited needs and wants.

Types of goods

i. Consumer goods: These are goods which have reached their final stage of production ready for consumption. Eg books, pens, desks, chairs, clothes, food etc.
ii. Free goods: These are goods abundantly supplied to be consumed at Zero price. Provided by nature E.g Rain water, Sun light, Moon light etc
iii. Economic goods: These are goods that are scarce in relation to peoples' desires for them. The have money value. E.g Cars, Clothing's etc
iv. Producer goods / Capital goods; They are already produced goods used in production of other goods. Eg Timber, Computers, Tractors etc
v. Convenience goods; These are goods which are frequently bought and immediately satisfy household needs eg Salt, Sugar, Soap, Match box etc.
vi. Inferior goods; These are goods whose demand reduces with an increase in consumers income.
vii. Private goods: These are goods owned and controlled by an individual eg. Private buildings, private cars etc
viii. Public goods: These are goods owned and used communally by people living in a given area. Government provides them to be used publically eg. Public schools, Public hospitals, roads, Churches etc.

9. Trade: This is the exchange of commodities.

Classification of trade

i. Monetary trade refers to a type of trade where money is used as a medium of exchange. Money is simply a means to an end but not needed for itself.
ii. Home trade, is the buying and selling of goods and services within the boundaries of a country.
iii. Foreign trade / international trade refers to the trade between countries / Trade beyond boundaries of a given country.

10. Barter Trade: It refers to the exchange of goods for goods, goods for services or services for services

OR

It is any form of exchange that does not involve money

PROBLEMS ASSOCIATED WITH BARTER TRADE

1. Need for / Lack of double co-incidence of wants: A person who wants to exchange his / her goods for others has to look for somebody who needs his / her goods and at the same time needs what he / she has.
2. Lack of measure of measure of value: It is difficult to determine the rate at which goods are to exchanged
3. The indivisibility nature of goods: Some goods are not easily divisible so as to enable settlement of small debts eg a cow for tea leaves.
4. Difficulty in transportation: Some goods are bulky making transportation difficult.
5. Difficulty in storage: Some goods are perishable making storage difficult
6. Lack of differed payments: It is difficult to use goods for future payments
7. It could not encourage lending and borrowing.
8. Does not facilitate international exchange and specialization.
9. No government revenue is raised since it is only goods / services that are exchanged for others.
10. There is a problem of portability for exchangeable goods. Some goods are not easy to carry.

REASONS WHY SOME COUNTRIES STILL DEPEND ON BARTER TRADE

1. Solves the problem of scarcity of foreign exchange
2. Widens the market for surplus not sold under monetary system
3. Solves BOP problems / encourages exchange of goods value for value
4. Preserves foreign exchange for essential goods
5. Does not involve foreign exchange / eliminates the problem of currency differences among trading countries
6. Promotes good relationship among trading countries
7. There few / limited procedures involved in barter trade for trade to be effective
8. Avoids imported inflation because of no use of money

UNEB QUESTIONS SINCE 2001

2004

26. (a) Distinguish between the following
    (i) Consumer goods and producer goods
    (ii) Primary Production and secondary production
    (b) Explain the factors of production giving their rewards in each case.

2007

22. (a) What is meant by aids to trade?
    (b) Explain any **five** aids to trade.
    (c) Give any **four** reasons why commerce is studied in schools

2010

21. (a) Give **two** examples of;
    (i) Consumer goods
    (ii) Producer goods
    (b) Outline **eight** factors that influence the supply of a commodity in the market

2012

23. (a) Define **barter trade**.

(b) Explain the problems associated with barter trade
(c) Despite the problems identified in (b) above, give **four** reasons why countries still depend on barter trade

2013
21. (a) Draw a diagram showing the divisions of commerce
(b) What six factors will influence a buyer to choose a particular commodity in the market?

Production

Production refers to any activity aimed at bringing about a physical change in the nature of resources to make them more useful to satisfy human needs and wants.
Or
Production is the creation of Utility

Utility is the ability of a good to satisfy human needs and wants. Utility is classified under;
a) **Place utility**: Satisfaction derived from having a commodity at a particular place.
b) **Form utility**: Satisfaction derived from changing a commodity at a particular form.
c) **Time utility**: Satisfaction derived from having a commodity at a particular time.
d) **Possession utility**: Goods can't satisfy human wants unless they're in possession of a consumer

Factors of production

1. **Land:-** This refers to anything provided by nature / God given and is freely available on, under or above the earth's surface. It includes all gifts of nature like soils, water, forests, minerals, air and sunshine. Land is the source of all natural resources or raw materials used in production. The reward for the use of land is **rent**.
   Land is a fixed factor of production whose values keeps accumulating with time.

2. **Labour** is the human effort that contributes to production process to produce goods or services. It may be physical, mental, skilled, semi-skilled or unskilled. Its rewarded **Salaries / wages.**

   Common terms used under labour

   1) **Labour Supply**; This is the number of hours an individual offers for work at a given wage rate over a given period of time.

      Factors influencing labour supply
      i. Attitude of workers towards work.
      ii. Expected wage rate / remunerations.
      iii. Population size and structure ie age, sex etc.
      iv. Labour mobility.
      v. Labour training / Skills of a worker.

   2) **Labour efficiency**; This is the measure of the quality and quantity of output that a given unit of labour can produce in a given period of time.

      Factors influencing labour efficiency
      i. Level of organisation of a firm.
      ii. Level of labour training.
      iii. Personal qualities of a worker.

iv. Labour motivation.
v. Quality of inputs used in production.
vi. Duration of work.
vii. Amount and quality of equipment and machines for use in production.

3) Labor mobility; This is the ease with which labour can move from one geographical place to another or from one occupation to another.

Factors influencing labour mobility
i. Level of education / training / skills
ii. Expected wage rate / remunerations.
iii. Demand for labour
iv. Cultural hindrances.
v. Social factors like age and experiences.

Labour may be;
- Skilled: with skills acquired through training and education.
- Semi-Skilled: with limited / in adequate skills usually acquired through experience.
- Unskilled: Which is not at all trained and usually engaged in manual labour.
- Mental labour; This is when the labour provider uses more of his / her brain than physical energy to produce goods and or services eg a lawyer, judge etc.
- Physical labour; This involves use of more physical energy than mental abilities to accomplish the tasks given to them

Features of Labour force in Uganda.
i. It is dominated by the youngest groups of people aged between 15-30 years.
ii. It is growing at a fast rate, faster than the general population growth rate.
iii. The labour force conditions are unfavourable.
iv. Most of the labour force is unskilled or semi-skilled.
v. There is a high rate of brain drain.
vi. It is of low quality due to poor health and poor training
vii. Most of the labour force is equipped with inappropriate theoretical education which encourages white collar job seekers.
viii. There is high level of illiteracy among the labour force.

3. Capital:- It is the stock of assets used in the production of other goods and services. It may be in form of real or physical capital e.g. machinery or nominal capital in monetary terms. The reward for capital is interest.

Importance of Capital
i. Enables entrepreneurs hire / buy other factors of production.
ii. Enables entrepreneurs buy modern technology hence improving on labour efficiency.
iii. Used in the acquisition of raw materials needed to produce goods.
iv. Increases productivity of land and labour because without it, productivity of the two is usually very low.
v. Capital in form of assets enable businesses acquire loans from financial institutions since they act as collateral security.

Types of Capital:-
i. Real capital:- This refers to physical assets that facilitate the production process

e.g. machinery, business premises, equipment, etc. It is also called physical capital.

ii. Nominal (money) capital:- This refers to capital which is reflected in monetary terms e.g. working capital etc.
iii. Human capital:- This is the one in form of accumulated skills and knowledge of people in a country usually acquired through education and training.
iv. Social capital:- This refers to publicly owned capital e.g. roads, schools, hospitals.
v. Private capital:- This is the one which is owned by private individuals e.g. private buildings.
vi. Fixed capital:- This is the one in form of permanent assets of the business which are not for resale e.g. plant and machinery, furniture, equipment of all types, land etc.
vii. Liquid capital:- This is the one in form of cash or assets which can easily and quickly be converted into cash e.g. cash in hand, bank balances and debtors.

The role of capital in economic development.

i. It facilitates optimum utilization of resources hence full employment.
ii. It improves the quality of final goods and services which can easily compete on the international market.
iii. It increases the productivity and efficiency of other factors of production e.g. the use of a computer improves labour efficiency.
iv. It facilitates the industrialization process through advanced capital equipment in form of industrial machinery and spare parts.
v. It promotes specialization in the production process hence encouraging exchange and trade.
vi. It is a means of technical development and technological transformation. This is the case with capital in form of advanced equipment or machinery.
vii. It facilitates research hence leading to better methods of production.
viii. It facilitates exchange (trade) and thus commercial production.
ix. It simplifies and quickens the production process thus increased output of goods and services e.g. the use of computers and AMTS in banking, tractors and combine harvesters in agriculture.
x. It facilitates the development of infrastructure such as roads, power dams, and telecommunication network, e.g. the use of advanced road construction equipment like graders.
xi. It facilitates further capital accumulation as capital is used as collateral security for investment loans e.g. buildings.

4. Entrepreneurship- This is undertaking the investment in the project, buys land and pays for the other factors of production. Bears risks / losses and enjoys the profits. The reward for entrepreneur is profit.

The individuals taking on entrepreneurship roles are called Entrepreneurs who coordinate other factors of production.

Functions of an entrepreneur:-

i. He initiates or starts the business.
ii. He coordinates other factors of production in the production process.
iii. He bears the risks of the business.
iv. He employs or hires other factors of production i.e. land, labour and capital.

5. Organisation / Management / Administration: - This brings together and coordinates other factors to ensure smooth production process. Organisation does not take part in actual

production process, of transforming raw materials into finished goods. The payment is salary

Levels / Stages of Production

a. Primary production: Also called extractive industry. Getting goods from nature eg oil drilling, Brick laying, mining, fishing, farming, lumbering, quarrying etc.

b. Secondary Production: Involves transformation of raw materials into finished goods. Secondary production may include;
   - Manufacturing industry eg Coca Cola plant at Namanve, textile making, food processing, making roofng tiles, plastic production etc.
   - Construction industry eg Bridge making, road construction, car assembling, house building etc.

c. Tertiary Production: Deals with production of services. Services may be direct or commercial;
   - Direct services are done for us but we can't see them yet we derive satisfaction
   - Commercial services also termed as aids to trade eg transport, insurance, banking etc

TYPES OF PRODUCTION

1. Direct Production: Refers to production of goods by one individual for his consumption only

   Features;
   i. Low level of out put.
   ii. Use of poor methods of production.
   iii. Use of simple tools / low levels of technology.
   iv. No skills or experience.
   v. Limited specialization.
   vi. Out put is mainly for home consumption.
   vii. Mainly family labour is employed.
   viii. Low quality goods are produced.

2. Indirect production / Commercial production: This refers to the production of goods for others / for sale

   Features
   i. High levels of output.
   ii. Its associated with division of labor and employment of skilled labor
   iii. Application of better methods of production.
   iv. Specialization is highly practical
   v. Use of modern tools.
   vi. There is acquisition of skills and experience.
   vii. There is exchange of goods and services.
   viii. High quality goods are produced.
   ix. Much labour is employed.
   x. Large sums of capital is employed.

Extraction means getting the raw material from the gift of nature without changing their form e.g. mining and fishing.

Construction is where different raw materials are put together to get a complete item. , for example getting bricks, Timber and iron sheets to put a house.

SPECIALIZATION AND DIVISION OF LABOUR

SPECIALIZATION refers to the concentration on the production of what one or a region can do better and leave the rest to others hence encouraging exchange.

Forms of specialization.

i. Specialization by commodity; This is the concentration on the production of one product e.g. a maize farmer.
ii. Specialisation by craft; This is when an individual concentrates on practicing and perfecting a given skill eg pottery, iron smithing, farming etc.
iii. Specialization by process; This is the concentration on a particular stage in the production process e.g. ginning, spinning, weaving or dyeing in the textile industry.
iv. Specialization by profession; This is the concentration on a particular work or skill one is good at e.g. teaching, engineering etc.
v. Specialization by region (Regional specialization); This is where a particular area concentrates on a particular economic activity or commodity e.g. tobacco growing in Arua.
vi. International specialization:- This is where a country concentrates on a particular commodity or field of production in which it has a comparative advantage over others e.g. Brazil for coffee.
vii. Specialisation by Skill; This is when a given activity is divided into a series of activities and individuals are allocated to specific tasks that suit their skills.

Advantages of Specialization

1. Leads to increased production and low costs of production
2. Saves time ie little training time or others learn on job / reduces on labour movement as labour moves from one task to another in the production process.
3. Saves on tools / a single set of tools is used for a particular task
4. Improves on the quality of production
5. Improves skills of workers hence increased productivity of labour
6. Encourages trade and exchange due to surplus production.
7. Enables use of specialized machines and equipment.
8. Improves standards of living due to increased quality and quantities of goods and services available.
9. Facilitates innovation and inventions.
10. Facilitates research
11. Improves working relations because of the inter dependency among workers.
12. Reduces fatigue from moving from one place to another.
13. Increases the degree of choice ie workers are able to choose areas where they are more talented
14. Leads to full utilization of resources.

Disadvantages of Specialization

1. It creates monotony and boredom by doing the same task repeatedly.
2. It leads to over production hence a waste.
3. It leads to quick depletion / exhaustion of resources due to over exploitation.
4. The absence of one specialist worker brings the whole production process to a halt.
5. Break down of machinery at one stage brings the entire production process to a standstill.
6. It leads to unemployment in the event of change in demand or fashion as specialist workers who are laid off cannot easily shift to other tasks or jobs / May result into labor immobility.
7. It leads to total loss of income in case of price fluctuations or unfavourable natural factors for agricultural products.

8. A worker placed in the wrong place may spoil the entire production process / inflexibility of workers.
9. Decline in craftsmanship / lack of development of other talents
10. Lack of diversification
11. May encourage dependence on other countries, or on other lone producers who may become exploitative in the long run.
12. Limiting wider exposure.
13. The workers' health may be affected.
14. May result into over production and thus wastage of resources.
15. Uneven development of the country due to regional specialization.

DIVISION OF LABOR refers to the breaking down of an activity into departments such that each individual is allocated to a section where he is a specialist.
OR
DIVISION OF LABOUR is the distribution of work among different people in the production process.

LABOR PROBLEMS

i. Quality of labor
ii. Supply of labor
iii. Labor mobility (Occupational and Geographical mobility)
iv. Health problems
v. Unemployment / under employment of labor

Merits of division of labor.

i. It is time and energy saving.
ii. It allows choice of work.
iii. Leads to development of skills.
iv. Leads to specialization.
v. Leads to greater output.

Demerits of Division of labor.

i. Limits and development of general craftsmanship.
ii. Breakage in production at a certain level may lead to a standstill.
iii. May lead to unemployment.
iv. Lead to labour immobility.
v. Leads over production.
vi. Leads to over exploitation of sources.
vii. Lack of diversification.
viii. Workers are exposed to occupation hazards.

Uneb Questions since 2001

2008

27. (a) Distinguish between specialization and division of labor
    (b) Give **five** advantages and **five** disadvantages of specialization.
    (c) Describe the following types of specialization;
        (i) Specialization by Process
        (ii) Specialization by craft / profession.
        (iii) Specialization by area.

2014

21. (a) Describe five factors of production ad state the reward for each

(b) Outline five advantages of specialization in production

Consumption & the Market concept

Consumption; refers to the total quantity of goods and services used in a given period of time. Consumption and the market theory is all about studying the consumer behavior ie does a consumer buys more or less of a product? When does a consumer buy more of commodity A and less of commodity B and why?

THE MARKET CONCEPT

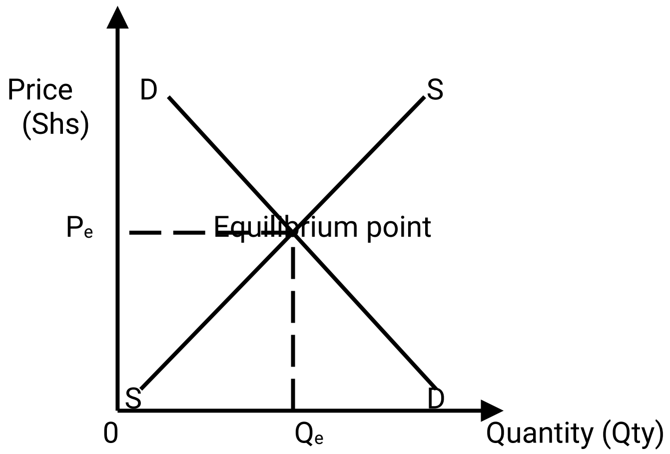
A market is an arrangement in which buyers and sellers meet for purposes of exchanging goods or services / transacting business.
A market is not a fixed place, but anywhere where two parties meet to exchange goods becomes a market.

Characteristics of a market

- Buyers and sellers
- Commodities to be exchanged
- Medium of exchange
- Price

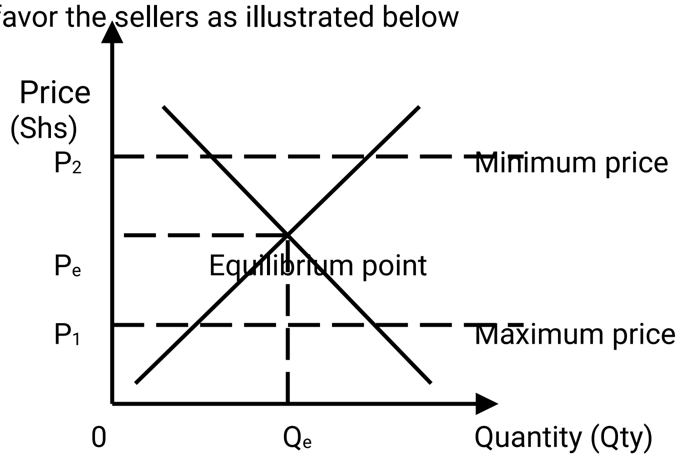
Price is the measure of value of an item. It's the exchange value of a commodity. Prices in a market are determined by;

1. **Sale by private treaties:** In this case the market price is determined by collusion or formation of a cartel which decides a price at which to sell the commodity for all firms e.g OPEC determines the price of oil.
2. **Bargaining and haggling**: Mutual agreements between the buyer and seller trying to come at a mutual price favoring both the buyer and the seller.
3. **Sale by auction / Auctioning**: A commodity is offered for bidding among different bidders and the bidder offering the highest price takes the commodity.
4. **Resale price maintenance**: The producer sets a price for his commodity and all sellers intending to sell the commodity sells it at the same price set by the manufacturer.
5. **Price leadership**: One dominant form sets a price which other firms selling the same commodity in the market follow. This takes place under oligopoly market situation where the dominant firm or market leader sets the price which other firms follow e.g. the petrol industry in Uganda, prices are determined by Shell.
6. Market forces of demand and supply (**Equilibrium price**) : The price at which demand and supply will intersect as illustrated below.



The point where the demand curve intersects the supply curve becomes the equilibrium point and at this point Equilibrium price is determined along the price axis as P_e and Equilibrium quantity is determined along the quantity axis as Q_e .

7. **Cartel**: All firms producing the same commodity agree to sell their commodity in all the markets at the same price that favors them all.
8. **Price discrimination**: The same commodity is sold in different markets at different markets.
9. **Price legislation**: Government either sets up a maximum price to favor the buyers or the minimum price to favor the sellers as illustrated below



When the equilibrium price set by the market forces of demand is too high for majority of the people to afford the commodities, government sets in to set the Maximum price slightly lower than the Equilibrium price and when the equilibrium price set by the market forces of demand is too low making it unable for the suppliers to produce and supply, government sets in to set the Minimum price slightly higher than the Equilibrium price

Factors considered when determining prices

i. Forces of demand and supply; under normal circumstances, when supply is low and demand is high, prices tend to be high while when supply is low and demand is high, prices tend to be high.
ii. Cost of production, the higher the cost of production for a commodity, the higher its price will be.
iii. Quality of goods; High quality goods tend to be more expensive than low quality goods keeping other factors constant.
iv. Time of buying; Usually some commodities become more expensive during particular seasons than when the seasons end eg scholastic materials during term opening days are more expensive than when towards the end of the school term.
v. Government price legislation on particular goods eg essentials.
vi. Origin of commodities; Some commodities from some countries are assumed to be original than others from other countries hence they tend to be more expensive eg electronics from England tends to be more expensive than China products.
vii. Appearance of the customer; some customers depending on how they appear in the eyes of the seller on outlook, prices tend to vary.
viii. Number of producer; usually goods produced by many producers tend to be cheaper due to competition.

NB

Cost of living*:* Can be defined as the amount of money we need to maintain a given level of standard of living. **OR** What (amount of goods and services) our money can buy on the market.
Therefore cost of living largely depends on price levels.
Standard of living*:* Is a measure of goods and services an average person can enjoy in a given community or country. It is a condition in which people live or hope to live or the level of economic welfare.

DEMAND AND SUPPLY

DEMAND: This refers to the quantity of goods or services an individual is able to purchase at a given price, in a given period of time

Or

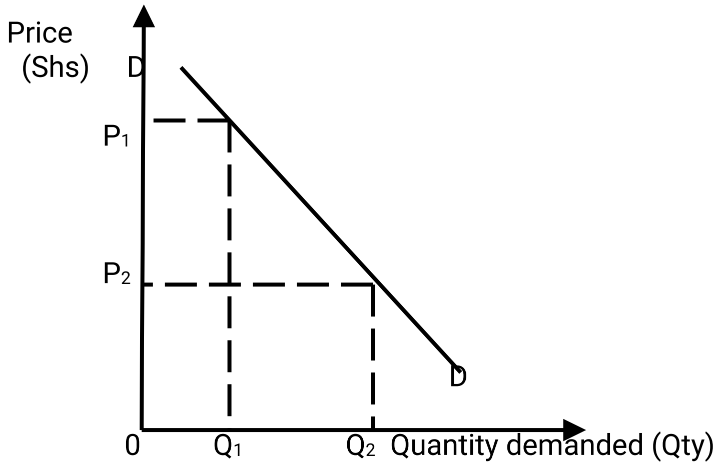
Demand is defined as the desire backed by ability and willingness of a buyer to pay for a good or service at a given price during a given period of time.

The **law of demand** states the "The higher the price the lower and quantity demanded and the lower the price the higher the quantity demanded keeping other factors constant"
This can be illustrated below;

NB: A demand schedule is the graphical representation of the totals of the different demand curves in the market

A **demand curve** is a graphical representation of which quantity is demanded at a given price at a particular period of time.

AN ILLUSTRATION OF THE DEMAND CURVE



At a higher price P_1 quantity demanded is low at Q_1 and with a fall in price to P_2, quantity demanded increases to Q_2.

Types of Demand

i. Joint Demand; This refers to the demand for commodities that are used together. An increase in demand for one automatically results into an increase in the demand for another.
ii. Composite Demand; This refers to the demand for a commodity that has many uses such that its total demand is arrived at by adding up quantities demanded by all consumers.
iii. Derived Demand; This is the type of demand for a commodity mainly because of that commodity's use in producing desired products.
iv. Independent demand; This is where the demand for one commodity does not affect or is not affected by the demand for other commodities.
v. Competitive Demand; This refers to the demand for a commodity which serves almost the same purpose as another. If someone demands that commodity, they will not need to demand the same commodity for the same purpose.

FACTORS INFLUENCING DEMAND / *Factors affecting consumption*

i. Price of the commodity: Lower price is really the best but depends on quality and higher price of the commodity discourages buyers.
ii. Existence of discounts ie trade discounts, cash discounts. Goods sold under discounts are demanded more than other not sold on discount

iii. Income of the consumer / buyer. The higher the buyer's income, the higher to demand of particular commodities and vice versa keeping other factors constant.
iv. Quality of goods / services, Consumers prefers high quality goods and don't compromise quality to cheapness.
v. Tastes and preferences of consumers / buyers. Buyers buy more of that commodity with which they have a positive taste to others
vi. Seasonal goods. Some goods are demanded more during particular seasons and less or none after such seasons eg Success cards during examination periods.
vii. Provision of after sales services to the buyer eg free delivery to goods to his location
viii. Level of advertising eg Packaging. Highly advertised goods (Well packaged goods) in most cases are demanded more than poorly packaged and less advertised goods
ix. Price of related commodities ie substitutes and complimentary goods
x. The method of payment ie Cash / Cheque / bill of exchange. Presence of any of such options of payment facilitates a buyer's decision to demand a particular commodity.
xi. Bandwagon effect / Consumption patterns of other people
xii. Government policy on taxation and subsidization. If government restricts consumption of a particular good, its demand automatically falls. OR If the government hikes taxes on a particular commodity, its demand falls due to its high resultant price.
xiii. Habit of the buyer / consumer. Habitual buyers demand for more of the commodity they developed a habit to and less or none of the other commodity they didn't develop a habit.
xiv. Future price expectations / anticipated price changes. Consumers demand for more of a good whose price is expected to rise in the near future and vice versa
xv. Convenience in acquiring the commodity

REASONS WHY PEOPLE CONSUME/DEMAND CERTAIN GOODS AND SERVICES.

i) Functional demand: Here the commodity is demanded for own use or satisfaction
ii) Impulsive demand: This is the demand for a commodity because you have seen it e.g. hawkers passing by with some goods
iii) Snob effect: This is the demand for commodities to impress others with ones' ability to consume expensive goods in society e.g. Jewellery, designer perfumes and clothing, expensive cars. As their prices rise, then snob appeal also rises leading to high demand.
iv) Bandwagon effect. This is the demand for goods or services to appear like others i.e. desire for commodities after observing others using them e.g. fashions and hairstyles.
v) Derived demand, i.e. demand for a commodity not for its own use but because it is used to produce other goods e.g. labour, machinery.
vi) Speculative effect: This is the desire for commodities in order to make capital gains or profits by buying commodities at a low price with a hope of selling them at high prices in the future e.g. buying of shares, treasury bills and bonds.
vii) Veblem effect: This is the desire for commodities for being unique or exclusive in society.
viii) Advertisement effect: At times people consume goods because they have been extensively advertised and their opinion has been greatly influenced. So they end up buying and consuming such goods.

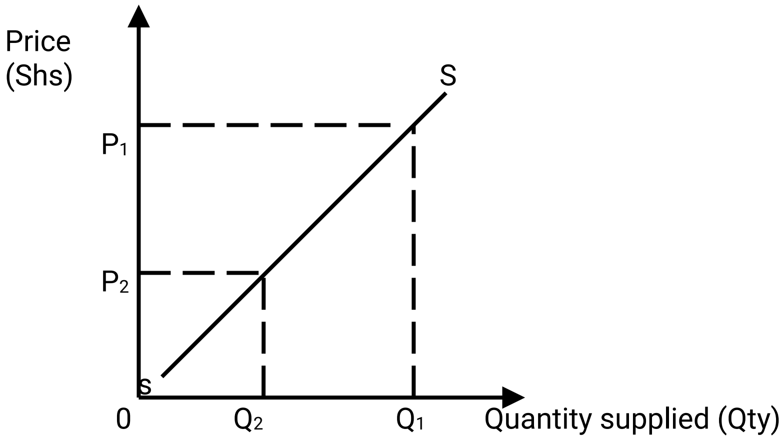
SUPPLY: This refers to the quantity of goods and services that a producer is willing to offer for sale at a given price during a given period of time.

The law of Supply states the "The higher the price the higher and quantity supplied and the lower the price the lower the quantity supplied keeping other factors constant"
This can be illustrated below;

NB: A **supply schedule** is the graphical representation of the totals of the different supply curves in the market

A **supply curve** is a graphical representation of which quantity is supplied at a given price at a particular period of time.

AN ILLUSTRATION OF THE SUPPLY CURVE



Quantity supplied at a higher price P_1 is higher at Q_1 and as price decreases to P_2, quantity supplied decreases to Q_2.

Types of Supply

vi. Joint Supply; This refers to the supply of two or more commodities in the course of production ie the supply of one commodity automatically leads to supply of another.
vii. Composite supply; This implies that if the supply of a commodity is composed of several items, its supply may vary as a result of a change in the supply of one of the items. Eg Supply of cakes depends on the supply of wheat.
viii. Derived supply; This is when supply of one commodity is dependent on the supply of another commodity.

Factors influencing supply of a commodity

- **The price of a commodity**: The quantity supplied of a commodity mainly depends on the price of that commodity. High price implies increase in profits which induce producers to produce more thereby increasing quantity supplied. On the other hand, a decrease in price of a commodity discourages producers as it implies a fall in profits thereby leading to a decrease in quantity supplied.
- **The prices of other related commodities;** The supply of a commodity is influence by the price of other related commodities i.e. substitutes and jointly supplied commodities.
  - Substitutes: In case of commodities which are competitively supplied i.e. substitutes an increase in the price of one reduces the supply of the other and vice – versa e.g. an increase in price of beans while that of peas remaining constant implies beans are more profitable to supply leading to an increase in the supply of beans and a fall in the supply of peas.
  - Jointly supplied commodities: In the case of jointly supplied commodities, an increase in price of one commodity leads to an increase in the supply of the other and vice – versa, e.g. an increase in the price of beef will not only lead to more beef being supplied but increased supply of hides as well since the two commodities are derived from the same source.
- **The level of demand:** An increase in demand for a commodity or size of the market increases the supply of a commodity while a decrease in demand reduces the supply of a commodity.

- **The state of technology:** Adoption of better technology or efficient technique of production reduces costs of production and increase producers' profit margin thereby increasing production and supply. On the other hand, the use of poor or inefficient technology reduces production and supply.
- **The number of producers:** An increase in the number of producers or firms of a given commodity increases supply while a reduction in the number of producers reduces supply.
- **The cost of factors of production:** A rise in cost of factors of production in form of high rent, wages, salaries and interest implies reduced profits for entrepreneurs hence reducing production and supply. On the other hand, a fall in cost of factors of production increases entrepreneurs' profit margins leading to increased production and supply.
- **The gestation period:** This refers to the time it takes to produce a commodity or the period of maturity. When a commodity has got a short gestation period, its supply tends to be high as production can be increased within a short period of time. On the other hand, when a commodity has got a long gestation period e.g. agricultural products, supply tends to be low because production cannot be increased within a short time.
- **Government policy:** Favourable government policies to producers in form of subsidies reduces production costs which motivates producers to increase production and supply more. On the other hand unfavourable government policies like high indirect taxes increase production costs leading to reduced production and supply
- **The political climate:** A peaceful and politically stable atmosphere in the country implies that entrepreneurs are able to invest with greater confidence leading to increase in production and supply. On the other hand, political insecurity in the country increase risks and uncertainties and scares away potential investors hence leading to reduced production and supply.
- **The goals (objectives) of the firm:** Where producers aim at sales maximization, supply increases as they produce and supply more even at low prices. On the other hand, when producers aim at profit maximization, supply reduces as output is restricted in order to charge high prices.
- **Climate in case of agricultural products:** The supply of agricultural products is influenced by climatic or natural factors like rainfall, frost, sunshine, etc. When the climatic conditions are favourable, the production of agricultural products increases leading to increase in their supply. On the other hand, when climatic conditions are unfavourable e.g. drought or frost, production and supply of agricultural products reduce.
- **The degree of freedom and entry of new firms into production:** Freedom of entry of new firms into the industry increases supply whereas restriction or blocking of entry of new firms into the industry reduces supply.
- **The working conditions:** Favourable working conditions or terms of service increases labour efficiency and productivity and increase supply while unfavourable working conditions reduce supply.
- **Future price expectation:** If the price of a commodity is expected to rise in future, firms reduce the amount they supply in the current period and build up stocks to be sold when prices rise in the future. On the other hand, when producers expect price to fall in the future they increase the amount they supply in the current period to avoid making losses in the future.

UNEB QUESTIONS SINCE 2001

2002

21. (a) What is the difference between demand and supply?
    (b) Explain the factors that influence the demand of a commodity

2019

21. (a) Differentiate between **demand** and **supply.**
    (b) Explain any **eight** factors that influence a traders' level of supply of goods in Uganda.

Location, Localization & Delocalization of industries

AN INDUSTRY: Is a collection of firms producing products eg the Beverage industry includes firms producing

- Wines
- Beers
- Liquor

Location of industry is the establishment or setting up of a firm or industry in a particular area i.e.
OR
Location of industry the selection of that site or place where an industry should be set up.

Factors that influence the location of industry in Uganda.

i. Availability of raw materials:- Industries are located near the source of raw materials to reduce the cost of production especially when the raw materials are bulky in order to reduce the transport costs e.g. the location of cement industries at Hima and Tororo where there is limestone.
ii. Availability and size of the market:-Industries are located where there is a big market for their products especially when the final products are perishable e.g. bread. This partly explains why most industries in Uganda are being located in Kampala.
iii. Availability of good transport and communication network (accessibility):-Industries are located near good and well developed transport and communication network e.g. roads, and railways in order to facilitate easy and quick movement of raw materials to the factory and final products to markets.
iv. Availability of labour:- Labour intensive industries are normally located where there is abundant supply of cheap labour, both skilled and unskilled to reduce the cost of transporting labour.
v. Availability of power:-Industries are located where there is adequate power supply which is necessary for the smooth operation of machines. This helps to reduce the cost of power transmission to the factory.
vi. Availability of Water:-Industries which use much water as an input are located where there is adequate water supply e.g. Nile Breweries in Jinja near lake Victoria.
vii. Availability of security:-Industries are located in areas which are politically stable in order to reduce risks and uncertainties associated with insecurity such as destruction of industrial plants.
viii. Availability of ancillary services:- Industries are located where there are ancillary services e.g. banking, insurance, education and health services, recreation centres.
ix. Government policy:-The government may influence the location of industry in a particular area for economic reasons such as reducing regional imbalances in development or creating employment to the local population. This is done by reducing taxes, offering tax holidays, extending necessary infrastructure or allocating land estates e.g. Namanve industrial park. Government may also influence location of industries in a particular area for political reasons.
x. Good and favourable climate: Some industries are located where there is a cool and pleasant climate for the workers.
xi. Cost of land and room for expansion:-Industries are usually located outside urban centers

where land is relatively cheap and have enough space for future expansion of the industry.

xii. External economies of scale:-Industries are located where others already exist in order to share the already existing services such as communication facilities, workshops, banking, insurance and recreation services at low costs hence enjoy economies of scale.

xiii. Industrial inertia:-This is the tendency for industries to remain located in an area or even new ones being attracted in the area even after the original advantages of locating that industry in that area are no longer significant.

xiv. Entrepreneur's choice:-The site of an industry can be determined by an entrepreneur himself who may decide to locate the industry in his own area e.g. Madhivani in Jinja.

INDUSTRIAL INERTIA is the tendency of an industry or industries to remain based in an area or even new ones being pulled to the area even after the original advantages of location in that locality are no longer significant.

Localization is the concentration of similar of related industries in an area or region e.g. Jinja, Nakawa and Kampala

OR

Localization is the concentration of a particular type of industry in one town due to existence of many factors that influence location

OR

Is the setting up of many industries in a particular area.

Advantages of localization.

i. It creates / expands employment opportunities to many people in an area where the industries are concentrated thus boosting people's incomes e.g. Kampala.

ii. It leads to development of physical, social and economic infrastructure in form of transport and telecommunication network, power, security, banks, insurance firms, etc which are provided at lower costs.

iii. It creates a big centralized market for goods and services within the localized area where many people work or reside e.g. Kampala.

iv. It attracts a pool of highly skilled and specialized labour to stabilize or settle in one location.

v. Government assistance such as security and training facilities can easily be obtained in an area where many industries are concentrated.

vi. It is possible to establish interdependence among firms or industries e.g. the bi-products of one industry can be used as raw materials for another industry.

vii. Industries enjoy external economies of scale by sharing common facilities such as communication, workshops and research findings at reduced average costs.

viii. It encourages commercialized agriculture by providing a big market for agricultural raw materials and food stuffs.

ix. It leads to urbanization / growth of towns and urban centres and its related benefits.

x. It leads to increase in government revenue in form of taxes charged from the industries in the localized area and salaries of the employed people.

xi. It leads to improvement in the quality of goods and services due to stiff competition among industries in the area.

xii. Industrial disputes can easily be settled in a more organized manner.

xiii. It encourages research for study purposes and innovation.

xiv. It attracts specialised auxiliary services into the localized area eg banking, insurance facilities etc.

xv. Industrial disputes can be settled easily through trade unions.

xvi. Easier for government to provide proper control and supervision of industries.

xvii. Brings goods and services closer to the traders and consumers living in the area around the localized area.
xviii. Improves standards of living and welfare of the people; those directly employed by the industries and those engaged in other activities.

Disadvantages of localization.

(i) It leads to pollution of air and water in the area where industries are concentrated.
(ii) It leads to regional imbalances in development due to uneven distribution of industries in the country.
(iii) In the event of a depression, war or natural calamities like earthquakes, heavy losses are incurred by the country.
(iv) It contributes to unemployment as the number of people looking for jobs exceeds the available jobs.
(v) It encourages rural-urban migration and its related consequences.
(vi) It contributes to quick depletion of natural resources in an area due to over exploitation.
(vii) It increase pressure on the existing social and economic infrastructure e.g. roads, schools, hospital etc.
(viii) It may lead to displacement of people in the area where industries are concentrated.
(ix) It leads to breakdown of traditional norms and customs leading to cultural decay.
(x) It leads to overcrowding and traffic congestion in the area.
(xi) It leads to high cost of living as prices of goods and services as well as factors of production tend to rise due to high competition for them.
(xii) It leads to development of slums due to inadequate accommodation facilities.

DELOCALISATION is the process of evenly spreading or distributing or scattering a particular type of industries to different parts of the country due to natural / economic / political reasons. It is the opposite of localisation.

Advantages of delocalisation.

(i) It reduces the level of unemployment since people in a particular region compete for jobs. / Creates new employment opportunities in the new areas where industries are set up.
(ii) It reduces migration of a large number of people from one part of the country to another and its associated effects.
(iii) It leads to balanced development of all regions of the country i.e reduces regional imbalances.
(iv) It leads to fair development and distribution of social and economic infrastructure in all regions of the country like Schools, hospitals etc.
(v) It reduces the risk of total destruction of all industries in the event of disasters like earth quakes, war, famine etc.
(vi) It reduces traffic congestion and human congestion associated with localised areas.
(vii) It results in reduced development of slums and associated problems of localisation ie social evils like prostitution.
(viii) It reduces the extent of air and water pollution from industries.
(ix) It increases government revenue by widening the tax base.
(x) It reduces the cost of goods and factors of production by minimizing competition.
(xi) It reduces pressure on existing social and economic infrastructure.
(xii) Brings products closer to the people in the locality where the industry is set. This reduces costs ie transport.
(xiii) Promotes utilisation of locally available idle resources.

Disadvantages of delocalisation.

(i) It is difficult for industries to cooperate in areas of research and training.
(ii) High initial costs of establishing the necessary infrastructure eg roads, power, water, telecommunication facilities, banks etc.
(iii) Displacement of people to create enough land for the new industries.
(iv) Limited local market for the products thus high marketing costs through transportation, advertising, market research etc.
(v) May encounter resistance from the community who are usually displaced.
(vi) High costs of production due to limited raw materials necessitating their transportation from other areas.
(vii) High costs of skilled labour which may have to be obtained or hired from other distant areas.
(viii) Suffocates the development of linkages between industries ie industries that depend on each other eg cotton and cooking oil industries might be set up in different areas.
(ix) Industries may not enjoy economies of scale because they are scattered.

UNEB QUESTIONS SINCE 2001

2003

23. (a) Distinguish between location and localization of industries
    (b) What factors influence the location of an industry?

2011

25. (a) Give any **four** reasons for the existence of small firms alongside large scale firms
    (b) Explain **six** factors that influence the location of an industry

2015

27. (a) Differentiate between **location** and **localization** of industries
    (b) Explain **eight** factors that should be considered by a trader when determining the location of a business.

2016

21. (a) Differentiate between **location** and **localization** of industries
    (b) Explain **eight** advantages of localization of industries.

2018

27. (a) Define the term **localization of industries**. (02 marks)
    (b) Explain any **five** advantages and four disadvantages of localization of industries. (18 marks)

The Size of a Firm / Business

THEORY OF A FIRM

A FIRM: is a business undertaking set-up to carry on business with the aim of making profits

Major objectives of firms in Uganda.

i. **Profit maximization:-** The major objective of the firm is to maximize profits. Profits are maximized where MC = MR.
ii. **Sales maximization:-** Some firms aim at selling as much output as possible even at low prices.

iii. **Good reputation or public image:-** Firms aim at attaining and maintaining a good public image.
iv. **Long run survival:-** Firms aim at remaining in business for as long as possible.
v. **National or public interest**:-Public enterprises like parastatals and public corporations aim at serving public interest e.g. creation of employment opportunities or provision of essential public utilities at fair and affordable prices.

SOURCES OF BUSINESS FINANCE.

i. **Personal savings:-** Personal savings may be accumulated or inherited.
ii. **Loans:-** This involves borrowing from financial institutions e.g. commercial banks, development banks, etc.
iii. **Retained profits:-** This is where part of the profits made are ploughed back or re-invested in the business.
iv. **Selling shares:-** Public limited companies can raise capital by floating their shares to the public on the stock exchange e.g. Stanbic Bank, DFCU Bank Ltd, New Vision.
v. **Trade credit**:-This is where a firm obtains goods or stock credit and pays after selling.
vi. **Debentures:-** This involves borrowing from the public by selling loan certificates with a fixed rate of interest.
vii. **Gambling:-**This involves sale of lottery tickets to the public with the surplus constituting business finance.
viii. **Gifts and grants:-** A firm may obtain business finance from gifts and grants from friends and donors.

FACTORS THAT DETERMINE THE SIZE OF A FIRM.

i. **Availability and amount of capital employed;** Firms with adequate capital are able to expand to become large while firms with limited capital are unable to expand hence remaining small.
ii. **Size of the market;** When the market is large a firm is able to produce more output and expand in size. On the other hand, when the market is small, it cannot sustain large scale production hence making a firm to remain small.
iii. **Period of operation;** In the short run when the firm has just started operating, it remains small in size since it is an infant firm. However in the long run the firm is able to grow and expand in size.
iv. **The nature of the business;** Some businesses by their nature necessitate small or large scale operation e.g. watch repair, shoe shinning, etc are usually small businesses.
v. **Level of technology;** Advanced technology enables a firm to produce more output and expand in size. On the other hand the use of rudimentary technology hinders large scale production making firms to remain small.
vi. **Government policy;** Favourable government policies like subsidies and tax holidays encourage large scale production and hence expansion of firms. On the other hand, unfavourable government policies like high taxes hinder production and expansion of firms as firms may remain small due to fear of high taxes.
vii. **Availability of land (space);** The bigger the size of land available for expansion the larger the firm and vice-versa. A firm may remain small due to limited space for expansion.
viii. **Objective of the entrepreneur;** The owner may be satisfied with a small business to provide employment to himself and family members hence operate a small business.
ix. **Political climate;** A politically stable atmosphere in the country encourages large scale production and expansion of firms while political instability disrupts production hence hindering expansion of the firms.
x. **Entrepreneurial (managerial) skills;** Some businesses are small because their owners lack sufficient skills to manage large scale businesses. On the other hand, those with adequate

entrepreneurial skills and management experience are able to operate large scale firms.

Classification of businesses according to Size

1. Micro businesses; These are very small businesses like hawkers, single shops, canteens, kiosks, groceries, roadside traders etc. These are characterised by the following;
    - Started with very little capital.
    - Requires little or no legal formalities to start eg operational license only.
    - May not have fixed premises.
    - Operates from temporary structures (if any)
    - Sales are usually very low.
    - In most cases, they employ family labour or unskilled labour.
    - They use very simple technology (if any)

2. Small businesses; These are slightly larger than the micro businesses like millers, bakers etc. These are characterised by the following;
    - Started with little capital.
    - Operates from fixed premises.
    - Employ few labourers most of whom are unskilled. They in most cases use family labour.
    - Sales are relatively higher compared to those of micro businesses.
    - Some may produce for export but mainly produce for the local market.
    - Use simple technology in production.
    - Low operational costs ie, does not incur costs of rent, electricity, dodge government taxes etc.
    - Short establishment procedure
    - Serve a small market.

    Problems faced by small scale firms / businesses.
    - Absence of the owner results into closure of the business.
    - They cannot afford expensive advertising hence cannot easily increase sales volume.
    - Some traders sometimes sale inferior goods.
    - They are allowed small discounts compared to their large scale counterparts.
    - Bad debts due to selling to untrustworthy clients resulting into losses.

3. Medium Sized businesses; They are well established businesses like Processing and packaging firms, milling firms, manufacturing factories etc. They are characterised with the following;
    - Employ a number of employees both skilled and unskilled.
    - Operates from well-established premises with permanent structures specifically built for the production of the product dealt in.
    - Production is both for the local market and for export.
    - They produce on large scale.
    - Sales are usually high since they serve a large market.
    - Long formation procedure requiring a lot of legal procedures as most of them are registered as limited companies.
    - Large amount of capital is invested.
    - Use advanced technology in the production process.

4. Large Sized Businesses; Just like the name, these operate on large scale eg Plantation firms, industries and large factories. They are characterised with the following;
    - Employ a number of employees both skilled and unskilled.
    - Produce high output.
    - Produce mainly for export and large scale local consumers.
    - Operates from well-established premises with permanent structures specifically built for the

production of the product dealt in.
- Sales volume is usually high.

AMALGAMATION / INTERGRATION OF FIRMS

Amalgamation is where two or more firms which separate entities combine
Natural growth is where a firm expands on its own by the owners' policy of ploughing back profits

Reasons for merging of firms

i. They want to maximize marketing economies of scale by selling related commodities and advertising.
ii. Attaining monopoly by selling at reasonable prices and maximizing profits.
iii. Merging enable firms to gain better power with other firms especially in areas of marketing, selling prices and acquiring loans.
iv. Merging enable firms involved to get a market for their products.
v. Market research can be carried out and this improves quality and widens the market of the business.
vi. Capital for operating a business also expands. This increases the rate of production and reduces the cost of production per unit.
vii. To reduce on competition among firms.

WAYS OF AMALGAMATION

(i) Complete amalgamation / Consolidation: All companies intending to amalgamate dissolve, combine and create a completely new company to take over their business
(ii) Absorption / Merger: One company takes over the business of other companies completely, but retains its entity. Shareholders in the liquid companies will be issued with shares in the merging company
(iii) Holding company: Various companies enter into combination but retain their entities. A holding company is one that has bought more than 51% of the share capital of other companies known as subsidiary companies.
(iv) Cartel: Various companies agree to sell their products through a central selling agency but do not combine as such. They retain their entities.

INTEGRATION OF FIRMS is the coming together of two or more firms to form one firm. It is also referred to as merging.

Levels / ways of integration

i. Horizontal integration:-This is the coming together of firms at the same stage of production in the same industry.
ii. Vertical integration:- This is the coming together of firms at different stages of production in the same industry e.g. spinning and weaving firms in the textile industry. Vertical integration may be forward or back ward integration.
   - Forward vertical merger is where a firm at a lower stage of production combines with another at a higher stage of production i.e. merging is towards the market. Backward vertical merger is where a firm at a higher stage combines with another at a lower stage of production i.e. merging is towards the source of raw materials.
iii Lateral integration is the coming together of firms producing related products that are not competing with each other e.g. the merging of foot wear firm with a shoe polish firm.
iv. Conglomerate merger:- This is the coming together of firms producing a wide variety of

commodities which are not related e.g. a merger involving a bank, an airline company and a hotel.

v. Absorption:- This is where one firm takes over the assets and business of another firm e.g. shell oil company took over Agip and UPET.

Merits of integration of firms in an economy.

i. It reduces stiff competition among firms for the market or raw materials.
ii. It increases production through full capacity utilization.
iii. Management becomes more efficient as a result of integration of firms.
iv. It eliminates or reduces duplication of goods and services.
v. It increases access to loans as firms have more collateral security.
vi. Firms can share risks jointly.
vii. It reduces the cost of advertising.
viii. Research can easily be undertaken due to large capital base.
ix. It increases the market share.
x. It increases profits due to increased production.
xi. It increases the firm's capital base.
xii. Firms can easily acquire better technology in production.
xiii. It leads to optimal level of production because of minimal wastage and costs.
xiv. There is increased supply of skilled manpower from the different firms.

Disadvantages of integration of firms.

(i) It results into unemployment through restructuring and retrenchment of some workers.
(ii) It creates monopoly and its related consequences.
(iii) It may lead to over production leading to wastage.
(iv) Huge losses are incurred in case of a disaster.
(v) It leads to over utilization of resources.
(vi) It leads to increase in the level of taxation e.g. corporation tax.
(vii) Management may become inefficient.
(viii) It leads to loss of identity or independence of some firms.

Economic factors limiting the merging of firms in Uganda.

i. The fear of diseconomies of large scale production as a result of over expansion of the firm.
ii. The fear of higher taxes imposed on the single larger firm e.g. corporation taxes which are not levied on small firms.
iii. Government policy discourages monopoly through merging of firms.
iv. The fear of complexity in management e.g. bureaucratic red tape which delays decision making leading to failure to exploit immediate business opportunities.
v. Firms fear to lose the independence as a result of merging.
vi. The fear of losing close contact with customers due to over expansion of the firm.
vii. The limited size of the domestic market cannot sustain large scale production which merging of firms entails.
viii. The fear of unemployment on the part of management and staff as a result of restructuring and retrenchment limits the merging of firms.
ix. The differences in economic goals or objectives of firms limit merging of firms e.g. some firms aim at profit maximization while others aim at sales maximization.
x. Production in unrelated fields hinders merging of firms.
xi. The fear of sharing losses by firms discourages merging of firms.
xii. Limited entrepreneurial skills to manage large scale firms limit merging of firms as entrepreneurs prefer small independent firms which are easy to manage.

UNEB QUESTIONS SINCE 2001

2012

23. (a) Differentiate between natural growth and amalgamation. (04 marks)
    (b) Explain any **four** ways of amalgamation. (08 marks)
    (c) Explain any **four** advantages of amalgamation. (08 marks)

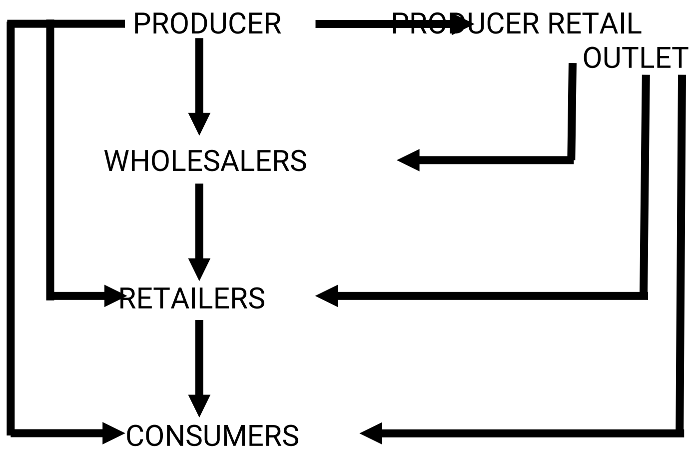
Home trade and the Chain of distribution.

Home trade involves the buying and selling of goods and services within the same country. This type of trade could be retail or wholesale trade.

The Chain of distribution of goods

This refers to the paths which products follow from the producer to the final consumer.

Illustration of the chain of distribution of goods



Types of Distribution channels

a) Long Channel; This involves the manufacturer selling goods to the Wholesaler, the wholesaler sells them to the retailer and the retailer sells them to the final consumer.

b) Medium Channel; This requires the manufacturer / producer selling goods to the retailers who finally sell the goods to the final consumers.
At times the manufacturer sells goods to the wholesaler who finally sells to the final consumer.

c) Direct / Short Channel; This involves the manufacturer / producer selling goods directly to the final consumer.

FACTORS THAT DETERMINE THE DISTRIBUTION CHANNEL OF GOODS

i. Nature of goods ie heavy, bulky and delicate goods are usually sold using the short channel ie directly to the consumers.
ii. Nature of business; The nature of business normally determines the channel to be used eg service businesses obviously sell directly to final consumers.
iii. Size and nature of the market; A large market usually attracts many retailers and wholesalers and therefore goods with a wide market are usually sold through the long distribution channel.
iv. Speed and urgency; depending on need, a faster distribution channel is always preferred to long channels.
v. Price of the product; Very expensive commodities are usually not dealt in by retailers and wholesalers hence sold directly to the consumers using the short channel.
vi. Cost of the channel; If the cost of the long channel outweighs the cost of the Short channel, then the short channel is taken to minimize costs.
vii. Marketing risks; Depending on the risks associated to each channel, a less risky channel is always taken and in most cases a short channel is chosen which is usually less risky.

RETAIL TRADE is the form trade involving the exchange of smaller quantities of goods usually to final consumers. The business men engaged in the sale of goods under retail trade are called the Retailers.

QUALITIES OF A GOOD RETAILER

i. Pleasantness; He should not be rude but polite at all times to his customers to encourage them come back to his shop.
ii. Knowledgeable about the goods on sale in his shop so that he can give correct advice to customers.
iii. Ability to forecast demand as regards quality, quantity, price and brands. He should also be able to fore see changes in consumer tastes and stock accordingly.
iv. Honesty; he should always sell at fair price prices and selling the right quantity and quality to his customers.
v. Co-operative; He/She should be cooperative with her/his suppliers by paying them promptly to ensure efficient flow of business activities.
vi. Good buyer; He/She must know what to buy, when to buy and at what price to buy. He should stock a variety to enable consumers make a choice.
vii. Good administrator; should be able to control and regulate the movement of his stock and other business property. He should take off some time to audit his books.

FUNCTIONS OF A RETAILER

(a) TO A MANUFACTURER & WHOLESALERS

i. Informs producer about consumers' complaints since they are in direct contact with the consumers. / Helps in carrying out market research on behalf of the producer / wholesaler.
ii. Advertises producers' goods to the consumers who visit his / her shop.
iii. Provides transport for goods bought from the producer or wholesaler to their premises hence saving them of transport costs that would reduce their profits.
iv. Provides market for goods produced by the manufacturer hence financing the activities of the producer or wholesaler as most retailers pay promptly.
v. Looks for market for goods produced by the manufacturer
vi. Links manufacturers to consumers / Bridges the gap between producers and consumers.
vii. At times prepares goods for sale like blending, packing, weighing etc.

(b) TO A CONSUMER

i. Breaks bulk by selling in affordable quantities hence enabling low income consumers also get a chance to enjoy some would be expensive products.
ii. Gives advice to them and helps them in making a choice over the best product from the variety available.
iii. Provision of storage facilities for goods until they are demanded by the consumers.
iv. Brings goods close to them since they are conveniently located to bring goods in access of consumers.
v. At times prepares goods for sale like blending, packing, weighing etc.
vi. Offers after sales services like packaging materials and installation services.
vii. At times offers discounts to the consumers
viii. Provides transport for goods from the producer
ix. Links the producer to the consumer

Types of Retailers

a. Small scale retailers

b. Large Scale retailers

SMALL SCALE RETAILERS

Characteristics / features

- Stock limited range of goods
- Employ limited capital
- Employ no or few un skilled / semi-skilled labor
- Occupy small floor area
- Sell at relatively higher prices
- Do not usually offer credit sales
- Limited space for display and expansion
- Usually sell defective / outdated / expired goods
- Standard of hygiene is poor.

ADVANTAGES OF SMALL SCALE RETAIL TRADE

i. It requires little capital
ii. Easy to set up
iii. Such a business is more flexible
iv. Usually sell cheap commodities needed by the general public
v. They use bi-products of large scale businesses
vi. Easy to supervise
vii. Requires relatively small space available in Kampala Suburbs
viii. Less risky compared to large scale businesses
ix. Number of market served is also small
x. Does not require a lot of legal formalities
xi. Quick and easy decision making

DISADVANTAGES OF SMALL SCALE RETAIL TRADE

i. There prices are often higher than large scale stores
ii. Limited scope for display and advertisement
iii. Small scale retail shops employ small capital thus limited expansion of the business
iv. They cannot enjoy economies of scale like large trade discounts
v. Turnover is low and cannot keep up with the new trends hence low profits / limited market
vi. Giving credit sometimes leads to bad debts
vii. They can stock only a few varieties of goods because of their limited storage space and capital hence limiting consumer choice
viii. Some of them sell defective / expired / poor quality goods
ix. Limited skills in business management
x. Their standard of hygiene may be lower than in some large stores
xi. Small scale shops have limited access to bank loans due to inadequate collateral security.

WHY THE NUMBER OF SMALL SCALE RETAILERS IS ON AN INCREASE TODAY.

i. No formalities needed to start a hawker business.
ii. Little capital is needed to start the business.
iii. It’s flexible.
iv. Are not over taxed as compared to large shops.
v. The existence of efficient network.
vi. Decision making is easy.
vii. Traders enjoy this business because they can get flat commission the more they sale.
viii. Fixed cost like rent, electricity is avoided.

ix. Some traders with premises find it convenient to give their goods to be sold by hawkers on a commission basis.
x. Large profits are enjoyed by hawkers.

TYPES OF SMALL SCALE RETAILERS

Small scale retailers are mainly classified under two main categories including the following;

a. Itinerant traders : Keep moving without a permanent place for selling goods
b. Fixed traders: Who are situated in a fixed place where they sell their goods

The two broad categories above are further classified into the following categories;

1. A pedlar / peddler is a small scale trader who moves from door to door with goods on motor vehicles, bicycle and others looking for customers
2. A hawker is a small trader who moves from place to place at a regular schedule carrying goods on vehicles.
3. A Market stall holder / trader is a small trader who operate in market stalls provided by themselves or local authorities. Some of them move from one market to another on various market days.
4. Road side / street trader is a small scale retailer normally found along busy streets, bus stops, market places or in public halls. They offer small items like sweets, cigarettes etc.
5. Barrow boys: They arrange their goods on wheel barrows / carts and move to where they expect to sell their commodities
6. Mobile shops: These are small scale retailers who have their shops on motor vans. They move from one place to another selling their goods from their vehicles. In other words the vehicle is the shop. May or may not follow a fixed time table.
7. Single shops: These have fixed premises owned by individuals offering a limited variety of goods usually house hold basically needed goods.
8. Tied shops: These are small scale retail outlets who sell products of only one manufacturer. E.g Mukwano Enterprises products only, Coca cola products only etc
9. Canteens: These are small scale retail units operated within fixed premises, usually located in Schools, hospitals etc.
10. Kiosks: These are small scale retail units in form of make shift structures which can be shifted from one place to another eg Coca Cola and Pepsi Kisks, MTN kiosks etc
11. Urban stores: A number of stores located in the same place dealing in almost the same commodity eg Food stuffs, Clothes etc

Advantages of Itinerant traders

i. They need little capital to start their businesses.
ii. Decision making in regard to their business is very simple since no consultations are usually required based on the fact that that most of them are a one-man's business.
iii. They deliver goods to the customer's premises hence saving customers of the high transport costs that may have been involved.
iv. They don't incur expenses of rent, electricity, water etc hence their overhead expenses are low.
v. The business is easy to start since the legal formalities involved are fewer.
vi. They always have personal contact with their customers to whom they explain how to use the products they sell to them.
vii. Their business is very flexible ie they can easily change from one line of business to another due to little stock held

Disadvantages of Itinerant traders

i. They normally dodge paying taxes reducing on government revenue.

ii. The life of the business depends on the life of the itinerant trader.
iii. Little capital invested does not allow business expansion due to very low profits realized.
iv. The business is tiresome some the traders move long distances looking for customers.
v. They are largely affected by weather changes like too much rainfall, sunshine hence limiting their movement.
vi. They take advantage over their customers' ignorance and sell defective goods to them.

Problems faced by itinerant traders.

i. Lack of enough capital.
ii. Walking long distance which makes them tired.
iii. Small market for their goods.
iv. Insecurity due to civil wars.
v. Government interference.
vi. Bad weather i.e. too much rain and sun shine.
vii. They face a problem of boredom due to sitting along the way and walking time to time.
viii. Allowing bargaining which reduces the profits.
ix. They face a problem of debts leading to failure of the business.
x. No use of modern equipment's due to little capital.
xi. Failure to know the performance of the business due failure to keep records of their business.
xii. Inadequate business management skills.
xiii. Lack of enough working skills due t inadequate security to acquire loans.
xiv. High tax rates which reduces their profits.
xv. High rate of inflation in the country.

How can itinerant traders promote his business?

i. Being a good buyer.
ii. By fore seeing the demand of his customers.
iii. By being pleasant of his customers.
iv. By being honest to his customers.
v. By co – operating with suppliers.
vi. By limiting his operational expenses.
vii. By being faster in his dealings.
viii. By respecting government rules and regulation governing his business.
ix. By giving credit to trust worthy customers.
x. By being flexible.
xi. By advertising.
xii. By giving samples to trust worthy customer.
xiii. By offering after sales service.
xiv. Keeping proper records.

LARGE SCALE RETAILERS

Characteristics

- Hold a large variety of stock
- Invest large amount of capital
- Tonnage is very high
- Employ highly skilled labor with vast management skills
- Occupy large floor area
- Sell at relatively lower prices
- Enjoy economies of scale

- Usually offer credit sales to bulk buyers
- Usually sell good quality goods
- Hold more assets.

TYPES OFLARGE SCALE RETAILERS

1. Multiple shops: These are large retail outlets under one ownership and control selling same classes of goods or a related range of products of similar appearance with numerous branches worldwide e.g MTN, BATA, Zain, Warid, Coca-Cola and others.
   Salient features
   i. All administrative decisions are centrally located at the head office
   ii. There many shops spread in different towns but under one management
   iii. They usually sell their goods on cash basis
   iv. They deal in a very small range of but closely related goods
   v. Purchasing of goods is centrally planned but selling is decentralized.
   vi. Prices are fixed by the headquarters and are similar in all shops
   vii. They all have similar frontal appearance and method of display.

2. Departmental stores; These are expensively furnished shops or departments under one roof and management. Each Department is selling a different item under a separate manager
   Salient features of departmental stores
   i. These are expensively furnished shops
   ii. Have several Departments under one roof and management.
   iii. Each Department is selling a different item under a separate manager
   iv. Sells a variety of commodities They operate on large scale
   v. They tend to offer goods at a relatively reduced price
   vi. They are in most cases urban based
   vii. Operates on large scale
   viii. Usually sell in whole sale.

3. Supermarkets *:* These are large scale retail outlets selling goods on self-service basis selling a variety of goods usually household goods on cash basis. E.g Shoprite, Game, Uchumi and others.
   Features of a supermarkets
   i. They operate on large scale
   ii. They sell a variety of goods
   iii. Usually they sell household goods
   iv. They employ a system of self service
   v. Pre – priced goods
   vi. Goods are marked with price tags
   vii. They tend to offer goods at a relatively higher price
   viii. Usually they sell packed goods
   ix. They do not employ shop attendants except a cashier to whom payment is effected
   x. They offer cash sales only. Do not extend credit facilities to their buyers.
   xi. They are in most cases urban based where market is big.

4. Hyper markets: This is a large supermarket with a variety of business run by different firms under one roof. Eg Freedom City in Uganda along Entebbe Road
   Characteristics
   i. Ample parking space
   ii. Usually located away from the main city

iii. Offer self service
iv. Sells a wide range of goods and at low prices
v. Opens for longer hours than other ordinary shops

5. Mail order Shops: These sell goods through the post office. Buyers place orders through the internet and goods are delivered to the Agents ware house.

6. Automatic vending: Sell of goods through coin operated machines. The machine is the shop; however it deals in usually small items like eatables and in most cases drinks.

   Advantages
   i. Its fast means of selling small goods
   ii. Operates 24 hours a day
   iii. May not require shop attendants
   iv. Tends to be very accurate
   v. May not be able to give back "change" (balance)
   vi. It saves time.

   Disadvantages
   i. The machine is expensive to install
   ii. Consumers may cheat with fake coins
   iii. May not work without electricity
   iv. Few and small goods can only be sold
   v. Limited to urban centers
   vi. It is not easy to operate.

ADVANTAGES OF LARGE SCALE RETAILERS
i. They make bulk purchases and thus get bigger discounts and consequently sell at lower prices.
ii. They can afford insurance services hence reducing trading risks
iii. Can easily borrow capital from financial institutions for they have enough collateral securities.
iv. Can afford expensive advertising hence increasing turn over
v. Division of labor is encouraged leading to better quality and efficiency
vi. Turnover is higher resulting into higher profits.
vii. They offer a variety of goods which increases customers choice
viii. Offer credit facilities enabling buyers attain expensive goods that they couldn't have paid for.
ix. They offer after sales services to their customers
x. They ensure steady supply of goods and thus stable prices
xi. Can employ specialists which provide quality services

DISADVANTAGES OF LARGE SCALE RETAILERS
i. Large capital requirement
ii. Diseconomies of scale arise due to over expansion
iii. Management becomes very difficult in the long run
iv. Lack of buyer seller contact

METHODS OF INCREASING PROFITS IN A RETAIL TRADE BUSINESS
1. Increasing the amount of capital employed. This means greater sales and possibly greater net profits
2. By employing various methods of sales promotion e.g advertisement, after sales services etc
3. In some cases, a retailer may charge high prices especially in cases where competition is low or non-existent

4. By taking advantage of better terms of purchase eg buying in bulk at low costs
5. By stocking a wider range of goods which can attract more customers. Because of the greater choice offered, the number of customers will increase the sales of the business hence better profits.
6. By cutting down on all types of expenses eg introducing self-services to reduce labor (attendants) costs
7. Expanding business operations eg expanding and opening up new branches to serve more customers
8. Close supervision and proper book keeping reducing the unnecessary losses is difficult.
9. Lack of contact between the owners and customers.
10. They are normally located in urban areas neglecting rural areas.

WHOLE SALE TRADE

Whole sale trade is the form trade involving the exchange of larger quantities of goods usually to retailers and sometimes final consumers. The business men engaged in the sale of goods under Wholesale trade are called the **Wholesalers**. These are mainly classified under the following categories ie

a. **General wholesalers**: These deal in a wide range of goods that they sell to retailers
b. **Specialists Wholesalers**: These deal in a limited range of items eg hardware, stationery etc
c. **National wide wholesalers**: These operate on large scale and have branches in almost all parts of the country or major towns and cities
d. **Regional wholesaler**: These operate in specific regions/ parts of the country.
e. **Cash and carry wholesalers**: These sell goods to retailers at very low prices but do not offer credit and delivery services to retailers.
f. **Mobile Wholesalers**: These sell their goods on moving vans and trucks. They usually visit major towns and cities on specific days.

CHARACTERISTICS OF WHOLESALE TRADE.

i. Usually sell to retailers
ii. Goods are sold in smaller quantities.
iii. Goods are bought in large quantities.
iv. Provide a link between producer's retailers and consumers.
v. Involves large capital base.
vi. Involves purchase of goods from producers in large quantities
vii. Involves preparing goods for sale eg branding, blending and packaging

FUNCTIONS OF A WHOLESALER TO THE RETAILER

i. Constant supply of goods to the retailers
ii. Advises retailers
iii. Sells goods to the retailers in relatively affordable quantities
iv. Some extend credit facilities to the trusted customers (retailers)
v. Keeping prices stable
vi. Bring goods nearer to retailers
vii. Brands and blends goods that give consumers choice
viii. Sells directly to large scale consumers at a discount eg schools, hospitals etc

FUNCTIONS OF A WHOLESALER TO THE MANUFACTURERS

i. Links producers to retailers

ii. Provides ware housing services
iii. Finances production
iv. Transports producer's goods
v. Advertises goods on behalf of the producer
vi. Provides market for goods produced by the manufacturer
vii. Advises the producer about what to produce and when to produce
viii. Adds value to goods bou8ght from the producer
ix. Selling goods on behalf of the producer

FUNCTIONS OF A WHOLESALER TO THE CONSUMERS

i. Maintains a steady supply of goods
ii. Meets changing customer demands
iii. Plays an important role in the distribution of goods
iv. Keeping prices stable
v. Sale directly to large scale consumers e.g. school
vi. Bringing goods nearer to consumers
vii. Advertising goods to consumers

WHEN MAY THE SERVICES OF A WHOLESALER NOT BE REQUIRED?

i. In Case of presence of Producer retail outlets
ii. In Case of presence of Mail order shops
iii. In Case of presence of Expensive goods
iv. In Case of presence of Consumer co-operatives
v. In Case of presence of Sale by contract
vi. In Case of already Branding and packaging
vii. In Case of very small Quantity purchases
viii. In Case of Direct services
ix. In Case of Local demand
x. When the buyer (retailer / consumer) is physically near the producer

MIDDLE MEN / AGENTS IN HOME TRADE

Middlemen. are traders who connect producers to consumers. A wholesaler is the most important middlemen in the chain of distribution.

FUNCTION OF MIDDLEMEN.

i. They store goods bought from producers.
ii. They transport goods bought from producers/ minimizing transport expenses
iii. They pay cash when getting goods from producers, hence allowing continuous production.
iv. They sell goods in affordable quantities to consumers.
v. They advertise goods bought from producers.
vi. They advise consumers regarding handling of certain goods.
vii. Facilitate the flow of business information from producers
viii. Stabilize prices
ix. Break bulk

TYPES OF MIDDLE MEN / AGENTS

1. Brokers: These simply bring buyers and sellers together but do not physically handle the commodity. He receives a brokerage fee for his service
2. Factor: These sell commodities on behalf of their principal in their own names and physically

handle the commodity that they are selling. He receives a commission fee for his service.

3. Del –credere agents: These is one employed to sell goods on behalf of his principal and he guarantees to pay whether goods are sold or not. He receives a del – credere commission fee for his service.
4. Import commission agent: He sells products on behalf of a foreign manufacturer in a home market.
5. Forwarding agents: These help the importer or exporter in clearing documents for the transportation of goods. They look for market for goods and sell in their own names at the best price earning a commission.
6. Auctioneers: These are individuals who under take to sell goods at public auction for a fee.
7. Accredited sole agent: This is an agent who has been allocated a particular area abroad to sell products of a given producing company.

Qn:
Mention the different middle men in the chain of distribution of goods
In the normal chain of distribution of goods in retail trade, goods must move from the manufacturer to the retailer, therefore whoever is involved in between this order is called a middle man. They include

- Whole sellers
- Retailers
- Manufacturer's agents
- Producer retail outlet
- Brokers, Factors, Merchants etc

UNEB QUESTIONS SINCE 2001

2002

27. (a) What factors should be considered when setting up a retail business?
    (b) Explain the functions of a retailer in home trade

2003

26. (a) What are the functions of a wholesaler?
    (b) Under what circumstances may the services of a wholesaler not be required?

2004

21. (a) What are the qualities of a good retailer?
    (b) State any three advantages of installment selling to a;
        (i) Seller
        (ii) Customer

2005

24. (a) What is a retailer?
    (b) State any three differences between departmental stores and multiple shops.
    (c) Explain why most traders prefer small scale retailing to large scale retailing.

2006

24. Explain the services a wholesaler provides to:
    (a) A manufacturer
    (b) A retailer
26. (a) Describe each of the following types of small scale retailers
        (i) Single shops

(ii) Tied shops
(iii) Mobile shops
(iv) Itinerant traders
(b) Explain the problems faced by small scale retailers

2007

23. (a) Describe any **five** services which a retailer offers to;
(i) Customers
(ii) Wholesalers

2008

21. (a) Explain any **five** services a wholesaler offers to a manufacturer.
(b) Give any **five** circumstances under which a wholesaler may not be necessary in the chain of distribution.

22. (a) Outline any **four** advantages of large scale retail outlets.
(b) What are the features of the following retail outlets and traders?
(i) Departmental stores
(ii) Multiple shops
(iii) Supermarkets
(iv) Hawkers

2009

24. (a) Outline the characteristics of supermarkets
(b) Explain **four** advantages and **four** disadvantages of large scale retailers

2010

22. Explain any **five**;
(a) features of small scale retailing
(b) qualities of a good retailer

2013

22. (a) Describe **five** types of small scale retailers in Uganda
(b) Explain five disadvantages of small scale retail trade

2019

22. (a) State any **six** features of multiple shops.
(b) Explain **seven** benefits of large scale retailing to a trader.

RECENT TRENDS IN RETAIL TRADE

1. Pre packing / Packaging is the wrapping of goods in special containers to protect them against atmospheric conditions especially pouring and contamination.
   Advantages.
   - Well packed goods are easy to handle, especially liquids cereals and flour.
   - Some packaging materials may be put to other uses after removing the goods.
   - Goods packed create a good product image and may attract people to buy them.
   - Goods are protected against atmospheric germ contamination.
   - Well packed goods can be sold by automatic machines.
   - Packed goods can easily be identified by consumers.
   - Packed goods can easily be sent by mail order service.
   - Packaged goods always have containers with instructions given.
   - Self service is possible with packed goods.

   Disadvantages.
   - Packed goods tend to appear bigger than the actual size.
   - Packaging may make the goods more expensive.
   - Low quality goods may be enclosed in beautiful packets encouraging one to purchase them.

   Qualities of a good packaging material.
   - It should be easy to handle.
   - They should be used for other purposes.
   - They should be easy to attract customers.
   - They should be capable of protecting goods against atmospheric conditions.
   - They should be light in weight. That is easy to carry.
   - Should allow instruction to be written on for example name, duration, expire and date and others.
   - Cost price of the material should compromise with the value of the content e. g cheap.

2. Branding is the giving of a mark, design or symbol to a product to distinguish it from other similar goods of other producers.
   Advantages
   - Saves time in picking what you want
   - Branded goods are easy to advertise
   - They are already weighted thus less chances of exploitation
   - Branded goods usually have uniform prices where ever they are sold
   - Branded goods are usually packed thus easy to handle
   - The packaging material may be used for other uses
   - A good brand name may become a household name e.g. Samona
   - Branding gives a trademark which protects producers against trade mark violators

   Disadvantages
   - The cost of branding makes the final price high
   - Retailer may not be able to offer discounts
   - Customers may get addicted to certain brands hence ignoring others
   - Some packaging materials are hazardous to the environment

3. Automatic vending: Sell of goods through coin operated machines. The machine is the shop; however it deals in usually small items like eatables and in most cases drinks.
   Advantages
   - Its fast means of selling small goods
   - Operates 24 hours a day
   - May not require shop attendants
   - Tends to be very accurate
   - May not be able to give back "change" (balance)
   - It saves time.

   Disadvantages
   - The machine is expensive to install
   - Consumers may cheat with fake coins
   - May not work without electricity
   - Few and small goods can only be sold
   - Limited to urban centers
   - It is not easy to operate.

4. Blending: This is the process of adding or mixing different types of spices or commodities in order to produce a high standard or quality product.e.g mixing vanilla powder to tea leaves to produce vanilla tea, mixing ginger powder to tea leaves to produce ginger tea
   Or
   This is the addition of flavor and weighing of goods accounting to their quality.

5. Self-service: This is when a customer goes in a shop, picks what he wants and then proceeds to the cashier to effect payment. Goods are arranged in departments and are usually price tagged saving time wasted on bargaining.
   Advantages
   - The cost of paying shop attendants is omitted / reduced
   - As customers move around shelves, they tend to buy other goods on top of what they had planned to purchase
   - No credit facilities, hence avoids bad debtors
   - Beautiful and attractive display tend to increase sales turnover
   - Saves time in purchasing since goods are price tagged
   - Customers are able to compare prices
   - Similar goods / substitutes are usually arranged together widening consumer choice and brand comparison
   - Customers choose goods at leisure without persuasion

   Disadvantages
   - No bargaining thus customers don't exercise their bargaining skills
   - Usually goods are highly priced making them not affordable
   - Some untrustworthy customers may steal small items from the shop if not carefully monitored.
   - Customers delay in the shop as they compare the goods
   - Sellers are not able to advise buyers on better qualities to purchase
   - No physical contact between buyers and sellers

6. Mail order retailing: This one enables customers order for goods through the post office. In

reply to a letter of inquiry, the supplier sends a catalogue and a price list from which a buyer selects a commodity to pay for.

Advantages

- It does not incur expenses of rent, electricity etc
- Transport expenses are minimized since it does not involve the physical movement of buyers and sellers
- No cost of shop attendants
- Middlemen are eliminated that would have increased the final prices of goods
- Customers in distant places can be catered for
- Losses arising from bad debtors can be avoided since only Cash means of payment are accepted.
- Goods are advertised over the internet and catalogues thus the adverts can be widely accessed.

Disadvantages

- Not be possible for large items
- After sales services may not be possible
- No physical contact between the buyers and sellers
- At times delays are there as sellers await payment before delivery of goods and buyers wait for goods after payment.
- It may not be effective in areas where post office services are poor or non-existent
- No room for inspecting goods before buying
- Requires continuous advertising which is expensive
- A lot of documentation is involved hindering its efficiency in LDC like Uganda

7. Resale price maintenance (RPM): The producer sets a price for his commodity and all sellers intending to sell the commodity sells it at the same price set by the manufacturer.

8. Bar Coding: This is where the computer records each item and sends back the price to the sales assistant and reduces the stock level. Bar codes are printed on each item normally at the back or in the sides of containers.

9. Customers' request: This is recent move taken by retailers to get to know what and when customers require to be stocked.

10. Goodwill: This is the loyalty the outgoing owner of a business has already established with the old customers. / It's a right to represent oneself as the successor to an already established business.
11. Loss leader policy: This is where a retailer decides to charge a low price of a fast moving item. Customers will struggle to buy that commodity from him but as well buy other highly priced goods from him unknowingly

12. Auctioning: Under this system of selling, goods are arranged infornt of potential buyers and taken by the highest bidder. Different buyers compete on buying a particular commodity with each other and the one who pays the highest amount takes the good.

13. Tender: This is made in response to an advertisement inviting willing suppliers of particular goods or services. In other words, a tender is an offer to supply specified goods or services.

TERMS AND MEANS OF PAYMENT

TERMS OF PAYMENT are ways through which payments can be made. Payment may either be by;

a. Cash payment
b. Installment / credit payment

CASH PAYMENT is when the buyer pays cash for goods bought from him. Cash payment may take the following forms;

1. Spot Cash: This is when the buyer pays cash for goods ordered for. The buyers pays there and then
2. Net cash: This is the original price paid by a customer who fails to pay within the specified period of time and the discount is removed from him.
3. Prompt cash: This is when the buyer pays for the goods sold to him with in the agreed period eg within one months, one year etc.
4. Cash with Order: this is when the buyer pays for goods immediately as he places the order.
5. Cash on delivery: This is when the buyer pays cash for goods when they are being delivered to him.

INSTALLMENT SELLING is a system of retailing that allows customers to pay a portion of the price of the goods on the day he takes the goods and promises to pay the remaining portions at regular intervals.

Advantages of installment selling to the buyer

- Obtaining expensive items
- Raising standards of living
- Convenient system of buying goods
- Enables partial payment
- Acquisition of assets
- The item bought can be used as bank security

Advantages of installment to the seller

- High profits enjoyed
- Increased turn over
- Increased sales
- Repossession may be possible
- Increased sales
- Facilitates continuation of the business
- Defaulters can be eliminated
- Promotes seller – buyer relationship

Disadvantages of installment selling to the buyer

- May incite unplanned buying
- Lacks full rights over the goods
- Buyers may lose the goods at the end
- Burdens and stresses buyers in a bid to pay
- High interest charged
- Commodities are expensive

Disadvantages of installment to the seller

- Ties-up sellers capital

- Items reposed may not easily be sold
- Raises cost of collecting unpaid for goods
- May spoil business image
- May result into total loss.

FORMS OF INSTALMENT SELLING

1. Hire purchase is a form of installment selling by which the buyer takes possession but not ownership of the property until the last installment is made ie where the buyer fails to pay any of the installment, the seller has a right to repossess the product.

   Advantages of hire purchase.
   - Poor people can afford using expensive goods
   - It enables the seller earn a high turn over
   - Assets obtained can be used as collateral security
   - The seller enjoys high profits since prices charged are higher
   - Hire purchase creates a good buyer seller relationship
   - In case of failure to pay, the seller can repossess his property
   - Defaulters can be eliminated

   Advantages of hire purchase to the consumer
   - Payment is spread over a long period of time enabling low income earners acquire expensive items.
   - Items generated can be used to generate income, thus able to pay the instalments.
   - A form of saving in form of durable goods instead of cash that can easily loose value.
   - The item bought may constitute security for loans.
   - Improves the standard of living since a consumer can make use / enjoy the item before completing the payment
   - Hire purchase is a convenient method / way of purchasing items ie provides convenience and comfort with the higher prices.

   Disadvantages of hire purchase
   - Consumers may be forced to buy things they cant afford thus loose in case of failure to pay
   - Prices charged are higher than in cash sales
   - The buyer is over burdened by the regular payments
   - In case of failure to pay, buyers loose the goods obtained
   - In hire purchase, the buyer possesses but does not own the good
   - Capital of the seller is tied up in debts
   - Items repossessed may be in bad conditions thus not easy to sell
   - Requires a lot of book keeping hence tiresome
   - In case of death or accidents of the buyer, the seller incurs total losses
   - Too much expense and other debt recovery expenses.
   - The sellers need more capital as most of it is tied up in debts.
   - Customers attempt to buy more than they can afford to pay or maintain.
   - Customers pay out a lot of money that would be paid on cash basis.

   Disadvantages of hire purchase to the consumer.
   - Consumers may be forced to pay items that they may not need. (beyond their own means)
   - Hire purchase price is often higher than cash price, thus consumers are exploited.
   - If the consumer fails to complete, he may loose the item and no refund is made
   - It over burdens the buyer with regular visits to the seller for making payments ie time wastage and additional costs.

2. **Deferred payment** is a form of installment selling by which the buyer takes possession and ownership of the good immediately after the first installment (down payment / deposit) is made. Where the buyer fails to pay the remaining instalments, the seller cannot repossess the product but may **sue in court** for unpaid amount.

CREDIT SELLING: This is a system under which a buyer takes the goods from the supplier / seller without paying anything or half of the lamp sum but settles the payment in future.

Advantages of credit
- ✓ Salaried earners can obtain what they want and pay later when paid
- ✓ Goods are usually expensive boosting the suppliers profits
- ✓ Promotes buyer-seller relationship
- ✓ Promotes sales of the trader hence high turnover
- ✓ Improves buyer's standards of living.

Disadvantages of credit
- ✓ The business is likely to collapse because of bad debts
- ✓ Goods are usually expensive exploiting buyers
- ✓ Not possible for buyers to bargain for price reductions and discounts
- ✓ Affects the capital of the seller
- ✓ Administering credit requires much paper work
- ✓ Increases costs of demanding debts

Cash discount is a reduction in price allowed to a buyer who pays cash for goods bought from the Seller / pays within a specified period of time.

Trade discount is a reduction in price allowed to a buyer who buys goods in large quantities from the seller

UNEB QUESTIONS SINCE 2001

2005

23. (a) Distinguish between hire purchase and deferred payment
    (b) Explain **four** advantages and **four** disadvantages of hire purchase.

2014

24. (a) Differentiate between hire purchase and deferred payment forms of installment selling.
    (b) Explain **five** benefits and any three disadvantages of hire purchase form of installment selling to the buyer.

DOCUMENTS USED IN HOME TRADE

1. LETTER OF INQUIRY; this is sent by a prospective buyer to the seller, seeking information regarding the nature of goods available and the prices at which can be supplied.

2. QUOTATION: This is the reply to the letter of inquiry. It is sent by the prospective seller to the prospective buyer stating the terms and conditions under which goods can be sold. A quotation may be inform of;
   - Catalogue
   - Price list
   - Price current: A list updating prices of goods different from those in the original price list
   - Samples
   - Estimates

3. ORDER NOTE, after the buyer has received a quotation, he critically examines and selects the goods required and then sends an order. An order states the type of goods required, the quantities wanted, the qualities and the price of individual items ordered for.

   Contents
   i. Name and address of the buyer.
   ii. Name and address of the supplier / seller.
   iii. The order serial number.
   iv. Date of writing the order.
   v. Quality / description of items required.
   vi. Quantity of goods required.
   vii. Date / Period when delivery is required.
   viii. Place where goods should be delivered.
   ix. Means of delivery preferred.
   x. Form of packaging.
   xi. Signature and (or) Stamp of the buyer.

4. CREDIT STATUS INQUIRY*:* This is a document sent by the buyer to the seller inquiring the credit worthiness of the prospective customers to the business men.
   It provides confidential report about the credit worthiness of the prospective buyer to the business men.

   Sources of information about creditworthiness of a buyer.
   i. Bankers to the buyer: A confidential report may be obtained from the bank where the new buyer has an account.
   ii. Other suppliers: Information can also be got from suppliers who may have had dealings with the buyer regarding his payment habits.
   iii. Other customers: The seller may ask other customers eg regular customer who may happen to know the prospective buyer about his credit worthiness.
   iv. Trade associations: Information can as well be got from trade associations where the new buyer happens to be a member.
   v. Local authorities where the business is located eg if the trader fulfils his obligation eg paying taxes, observes environmental rules and has a license.
   vi. Insurance companies ie if the trader has an insurance policy the insurer may act as a

referee.

vii. Competitors ie other traders dealing in a similar business may offer information relating to the trader.
viii. Social organisations eg churches, rotary clubs, Saccos etc.

5. PROFORMA INVOICE, this is sent by the seller to the buyer indicating terms and conditions under which goods have been supplied. A proforma invoice is similar to an ordinary invoice, except that it is normally sent to new aspiring customers.

6. ADVICE / DISPATCH NOTE, this note tells the buyer that the goods have been sent or are almost on their way. It gives him the exact time they should be expected and this gives room to the buyer to arrange his ware house and transport to collect them from the nearest delivery point.

   Importance
   i. Advises him on the means used and advises him on the means used and when and when they are likely to arrive It gives full information about goods and services sent to the buyer.
   ii. Indicates the date when goods sent are likely to arrive.
   iii. Advises buyers on the means used to transport goods.
   iv. It indicates the means of transport which have been used to deliver the goods.

7. DELIVERY NOTE*,* This is sent by the buyer with the goods. It is handed to the buyer by the transporter, to confirm that goods have been delivered to him. The buyer signs it after crossing checking whether the goods correspond with the delivery note and the order form.

   Along with the delivery note, a supplier may send;
   - A package sheet : A list of all goods that have been packed.
   - A consignment note: Showing brief description of goods sent.

8. INVOICE: This is sent by the supplier to the buyer summarizing details of goods supplied on credit. It is a document prepared by the seller, sent to the buyer to let him know the amount he is supposed to pay for the goods supplied to him.

   Contents
   i. A brief description of the goods and services sold ie name, quality, quantity, size.
   ii. Name and address of a supplier / seller
   iii. Name and address of the buyer.
   iv. Date of sale of goods or services.
   v. The order number if any.
   vi. Invoice number / serial number.
   vii. Quantity and description of each item that is bought.
   viii. Unit price of goods.
   ix. The total cost of each type of goods sold.
   x. Gross total cost of goods sold
   xi. Any discount allowed. ie. Trade discounts or cash discount.
   xii. Net amount payable by the buyer.
   xiii. Length of credit or period allowed.
   xiv. Cash discount offered
   xv. Signature and or official stamp (If any)
   xvi. E and OE (Error and Omissions Excepted)

xvii. Means of delivery.

Importance

- Serves as evidence for goods supplied on credit
- It's a notification to the buyer of the amount owed / due / debt due.

Steps taken when an invoice is received.

- Verify with the copy of the order placed to ensure that the goods are correct.
- Verify it against the package sheet, delivery note or goods received note to make sure that goods invoiced were received.
- Check the prices and trade discount allowed to make sure that no cover change has been made and the discount has been allowed.
- Check the calculation and the arithmetical accuracy of totals, multiplication, and percentage e.t.c.
- If correct then a cheque is prepared and when incorrect the seller is informed accordingly.

NB

If there is any mistake with an invoice, there usually two documents one of which might be sent to the buyer to correct the mistake ie a debit note or a credit note.

9. DEBIT NOTE: This is a document sent by the seller to the buyer correcting an undercharge in an invoice. This is written in duplicate, a copy kept by the seller and the original is sent to the buyer. A debit note adjusts an **undercharge** in the invoice. The undercharge may be due to wrong price quoted, arithmetic error or may be due to omissions of some of the goods from the total.

   Importance

   i. Corrects an undercharge in the original invoice.

10. CREDIT NOTE, it is sent by the seller to the buyer to adjust an **over charge** or if part of the goods supplied are returned to the supplier.

Circumstances for issuing a credit note.

i. When there is an overcharge in the price quoted in the invoice.
ii. When an error was made in the trade discount calculation or totaling in the invoice.
iii. When wrong items were included in the invoice.
iv. When goods were damaged.
v. When goods are of poor quality.
vi. When goods are expired.
vii. If the containers which were invoiced have been returned by the buyer eg empty crates of Soda, beer, jerry cans etc.
viii. When goods are wrongly packed.
ix. Where less quantity of goods is supplied compared to the invoiced.
x. Where wrong description of goods is sent.
xi. If part of the goods supplied are returned to the supplier.

11. STATEMENT OF ACCOUNT*:* It is sent by the seller to the buyer summarizing all the transaction between him and the buyer in a given Period of time.

Contents

i. The amount due from the buyer at the beginning of the months

ii. List of invoices issued during the month
iii. Total remittances received during the months / period
iv. Total value of credit notes issued during the month / period
v. The amount due at the end of the month
vi. Name and address of the seller
vii. Name and address of the buyer
viii. Months / date / period of the statement
ix. Signature and or official stamp
x. Total value of debit notes issued
xi. E & OE

Importance

- This document reminds the buyer to pay for the goods he took on credit in a given period / It's a polite request or demand for payment of the balance due / owing for a particular period.
- Provides information about transactions between a seller and a buyer over a given period of time

12. RECEIPT, as soon as a statement is sent to the buyer, he should pay the amount he owes to the seller. A receipt should be issued after payment.
A receipt is an official acknowledgement that money has been paid for a good or service.

13. A BANK STATEMENT is a bank document sent by commercial banks to their current account holders usually a month indicating all financial transaction that have taken place between the current account holder and his bank.

GENERAL IMPORTANCE OF BUSINESS DOCUMENTS

- ✓ They are used for record purposes / serves as a reference of transactions.
- ✓ Discrepancies / errors in transactions can be traced / detected by use of delivery notes, local purchase order, goods received note etc.
- ✓ Correction of errors / discrepancies eg by use of a credit note or debit note.
- ✓ They provide information / data to record in the books of accounts
- ✓ Facilitate proper decision making eg credit status letter / Provide necessary information for accounting system.
- ✓ They provide evidence / proof that a transaction has occurred eg cash sale receipt, cheque, bank draft.
- ✓ They signify ownership of goods ie bill of lading
- ✓ Show accountability and procedure / systematic follow up of a transaction ie for audit purposes
- ✓ For purposes of tax assessment eg sales invoice.
- ✓ Tool for controlling stock eg Stock cards, delivery note.
- ✓ They enable sellers to keep track of their customers and their suppliers for the items sold / bought on credit.
- ✓ They provide detailed information about the goods for sale.
- ✓ Enables the buyer to convey complaints about goods sold.
- ✓ Enables the seller to demand payments for the goods supplied.
- ✓ Enables the seller to know the value and amount of goods sold during a particular period
- ✓ Can act as security in acquisition of loans. / Basis for borrowing funds from financial institutions ie Proforma invoice, bill of lading etc.
- ✓ Evidence for payment of goods / services eg Receipt
- ✓ Safer payment is made using crossed cheques.

- ✓ Initiate and facilitate transactions eg letter of inquiry, quotation, order letter etc.
- ✓ They signify ownership of goods eg a bill of lading.

UNEB QUESTIONS SINCE 2001

2001

25. State the function of each of the following documents as used in home trade
    (i) Advice note
    (ii) Debit note
    (iii) Statement of Account
    (iv) Credit status inquiry
    (v) Receipt

2012

23. (a) State the purpose of;
    (i) an invoice. (02 marks)
    (ii) statement of account. (02 marks)
    (b) Outline any **four** pieces of information contained in;
    (i) the invoice. (08 marks)
    (ii) the statement of account (08 marks)

2016

23. (a) Explain **six** uses of documents used in business transactions.
    (b) Explain any **eight** contents of an invoice.

2017

22. (a)

NOTES

There a number of business units that can be formed, however for the sake of commerce we shall mainly dwell on the following;

1. Sole trade / proprietorship
2. Partnerships
3. Joint stock companies – Public limited companies
   - Private limited companies
4. Public corporations
5. Marketing boards
6. Co-operative societies

SOLE PROPRIETORSHIP: This refers to the business owned, financed and managed by one individual .He is responsible for all the profits and losses.

FEATURES OF A SOLE PROPRIETORSHIP BUSINESS.

- Little capital invested
- It's a one man's business.
- It is easy to set up.
- Few people are employed usually family labor.
- Market served is usually small.
- There are few departments involved.
- There are few goods produced and sold and usually poor quality.
- Operates on small scale
- Some times little space is used.

Advantages.

- Little capital is required to start / set up
- Few legal requirements ie licence / formation is simple
- Enjoys all the profits alone
- Gives a lot of independence / imitates his owns plans without interference.
- Quick decision making
- Flexibility of the business
- Close contact with customers and employees hence better relationships and customer loyalty
- Easy management and coordination of production
- Few risks involved
- Receives government support
- Provides self-employment and its associated advantages.
- Business can conveniently be located in both rural and urban areas.

Problems faced by sole proprietors / Disadvantages.

i. Bears the burden of business risks / losses alone.
ii. Since he employs limited capital he also enjoys low profits.
iii. Poor / wrong decision since he operates on a small scale because of the absence of the adviser that results into losses.
iv. Uncertainty / lack of continuity / Personal problems of the owner may affect the running of the business e.g his death.
v. The sole trader has unlimited liability.

vi. Control and organization are done by one person which over burdens the owner.
vii. Limited capital which limits the expansion of the business
viii. Limited entrepreneurship skills / managerial skills
ix. Limited market
x. High competition with large firms
xi. High taxes which reduce their profits / unfavorable government policies
xii. Inadequate collateral security to acquire loans.
xiii. It's not a separate legal entity ie not recognized legally as separate from owners.

PARTNERSHIP: This is a business unit where 2 or more people up to twenty (20) come together to pool their resources and carry on business jointly. However in case of banking business the number is limited to ten (10) yet professional businesses e.g. Lawyers the number may exceed from twenty.

TYPES OF PARTNERS

1. **An active partner / Real partner** is a type of partner who contributes capital, engages in the day today running of the partnership business and personally liable for the debts of the business.
2. **Dormant partner / sleeping partner** is a type of partner who simply contributes capital but does not engage in the day today running of the business.
3. **Quasi Partner** is a partner who does not contribute capital and does not share any losses in the business but simply allows his name to be used by the partnership business.
4. **Major Partner** is a partner who has attained the age of 18 years and above.
5. **Minor Partner** is a partner who is below the age of 18 years but enjoys the benefits of the partnership business.
6. **Limited Partner** is one whose liability to losses is limited up to his capital contributed by him only
7. **Unlimited Partner** is one whose liability to losses is not limited. He is liable to all the debts of the firm up to the extent of selling personal belongings.

TYPES OF PARTNERSHIPS

1. **A Syndicate Partnership** is a type of partnership formed for purposes of carrying out financial transactions
2. **A Temporary Partnership** is a type of partnership formed for to serve a particular purpose or specified time and immediately dissolved as soon as the purpose is accomplished or finished.
3. **Permanent partnerships** are set up to exist indefinitely. Time of dissolution is not known.

FEATURES OF A PARTNERSHIP BUSINESS

i. Its started up by two or more people
ii. Usually requires much capital
iii. Partners sign an agreement called a partnership agreement / deed.
iv. Liability of all members is unlimited unless specified in the partnership deed.
v. Partners range between 2 – 20 except for professionals like doctors
vi. Capital is jointly contributed by each partner
vii. Profits and losses are shared according to one's capital contribution
viii. Burden of running the business is a responsibility of all partners
ix. Admission of new partners is by consent of all partners

PARTNERSHIP DEED: A partnership deed is a written agreement setting out the terms and conditions under which the partnership business will be conducted.

Contents of the partnership deed

i. Name of the business
ii. Location of the business
iii. Number and addresses of the partners
iv. The line of business dealt in
v. The procedure of partners retiring
vi. Duties and rights of each partner
vii. Procedure of settling disputes among partners
viii. How the management committee is to be elected and how to run the business
ix. Salary to any employee if any
x. How drawings will be carried out
xi. Beginning and duration of the business
xii. Procedure of sharing of profits and losses
xiii. Procedure of dissolving the business

ADVANTAGES OF A PARTNERSHIP OVER A SOLE TRADE BUSINESS.

i. More capital is raised than in sole trade
ii. Absence of partners does not stop business while the business comes to a standstill in sole trade in absence of the proprietor.
iii. Work is divided among partners hence reducing the load unlike in sole proprietorship.
iv. The business can easily expand because of admission of more partners unlike in sole proprietorship which is a one man's business
v. More profits are enjoyed due to large capital contribution than in sole trade
vi. Management is easier than in sole trade / Better decisions are made as a result of consultation while in sole proprietor may make poor decisions
vii. Partnerships have a better chance of acquiring loans from financial institutions than a sole proprietorship since they have more assets.
viii. Losses are shared by many people unlike sole trade
ix. Tapping of skills from various individuals / A partnership can have better combination of talents unlike sole proprietorship.
x. Liability of members is limited to their capital contribution
xi. A business is more flexible.
xii. In case of a limited partnership, Limited partners have limited liability while a sole proprietorship has unlimited liability.
xiii. New partners may be invited to contribute more capital

DISADAVANTAGES OF PARTNERSHIPS

i. Unlimited liability to unlimited partners
ii. A mistake of one partner affects all partners
iii. Disagreements are common hindering efficiency in business
iv. Bureaucratic red tape and long decision making process and implementation
v. Death or departure of an active partner affects the whole business
vi. Sharing of profits irrespective of one's effort or input
vii. Cannot be sued in its own name but rather the partners are sued.
viii. Administrative inefficiencies arise since they are usually large.

CIRCUMSTANCES UNDER WHICH PARTNERSHIP BUSINESS MAY BE DISSOLVED.

i. If it's a temporary partnership, it dissolves at the expiry of the stated period.
ii. If it's not making profits / If the business can no longer be run at a profit.
iii. If the purpose for its formation has been accomplished.

iv. If such circumstances prevail ie serious disagreements between partners in view of which it is only fair and just to dissolve the partnership business.
v. If a partner informs others in writing that he intends to dissolve the partnership. Partners may agree to dissolve it.
vi. If an active partners become insane or bankrupt or dies
vii. If the court of law orders that the partnership should dissolve ie due to bankruptcy, creditor goes to court.
viii. If an event occurs that makes the partnership unlawful.
ix. If a partner acts contrary to the provisions of the partnership deed and damages the image and interests of the firm.
x. In case of admission / retirement of a partner.

DIFFERENCES BETWEEN A SOLE PROPRIETORSHIP AND A PARTNERSHIP FORM OF BUSINESS

i. **Ownership**; Sole proprietorship is owned by one person whereas partnership is owned by between 2 – 20 partners or 2 – 50 partners in case of professionals.
ii. **Capital**; In sole proprietorship, capital is contributed by one person where as in partnerships many people contribute capital towards the running of the business.
iii. **Profits**; In sole proprietorship, all profits are enjoyed by one person and all losses are suffered by one person whereas in a partnership all members share profits and losses **except** a quasi-partner in case of losses.
iv. **Secrecy**; There is top secrecy in sole proprietorship whereas there is no top secrecy in partnership businesses.
v. **Formation**; In a sole proprietorship, only a trading license is required to start the business while in partnership there is need for a partnership deed and trading license. / Formation does **not** require many documents for a sole proprietorship while formation of a partnership requires many documents.
vi. **Continuity**; If the sole proprietor is absent, the business closes whereas a partnership continues in operation even in the absence of a member.
vii. In case a sole proprietor dies / becomes insane / bankrupt, the business collapses whereas in case of partnership, if a minor / quasi dies / becomes insane / bankrupt, the business continues.
viii. **Liability**; There is unlimited liability in sole proprietorships while in partnership some partners for instance limited partners enjoys limited liability.
ix. **Decision making**; Decisions are made by one person in sole proprietorship businesses who is usually the owner while in partnerships, partners consult each other before a decision is taken.
x. **Management & Control**; Management and control is done by one person while in partnership, management and control is shared among / by many people.

JOINT STOCK COMPANIES: This is a corporate body formed for purposes of carrying out a specific business.

FEATURES OF JOINT STOCK COMPANIES

- It's a separate legal entity from its owners.
- Can own property, borrow or lend out money.
- The capital of companies is raised by the sale of shares
- Profits are shared according to one's capital contributed

Joint stock companies are classified either as limited companies or un limited companies.
A limited liability company is one where each share holders' financial obligation is limited to a

stated amount or capital contributed or guaranteed to the business of company.

An un limited liability company is one where the shareholder's liability to financial obligations / to debts of a company is not fixed to any stated amount.

Limited liability companies are further classified into two;

a. Private limited companies
b. Public limited companies

FEATURES OF PUBLIC LIMITED COMPANIES

i. Limited liability of members
ii. Minimum shareholders are 7 and no maximum
iii. Sells shares to the public to raise share capital
iv. Shareholders are the business owners
v. Shareholders have no direct contact with the employees or customers for the company
vi. Shares are freely transferable
vii. Shareholder's bankruptcy or insanity does not affect the company

ADVANTAGES OF PUBLIC LIMITED COMPANIES.

a) Companies have independence of legal existence from the owners.
b) The company shareholders have limited liability to capital contributed.
c) Companies have large capital resources contributed by the different shareholders / sale of shares. This is due to their open membership nature.
d) Shares are freely transferable. A shareholder does not need to seek for permission to sell of his / her shares.
e) There is continuity of existence. The death / bankruptcy or insanity of a shareholder does not dissolve the business thus there is perpetual succession.
f) Economies of scale are enjoyed due to large scale operation
g) The management of the business is in the hands of the directors who are experts. They are liable to be removed if shareholders find their work unsatisfactory.
h) There is easy access to bank loans due to possession of collateral security and the company's legal existence.
i) The company is in position to employ quality workers who are specialists who can improve quality and efficiency.
j) Low income earners can be able to invest because shares are usually issued at very low prices.
k) If a company is performing well, shareholders will be able to sell their shares at higher prices.
l) Employees may be encouraged and allowed to buy shares in the company giving them added incentive to work.
m) A company may issue different types of shares to suit the different needs of the investors.
n) Large sums of capital enables large scale production which results into less costs of production and consequently higher profits.
o) The publication of books / financial accounts of the business safeguards shareholders against incidences of fraud by the director or employees.

DIFFERENCES BETWEEN A PRIVATE LIMITED COMPANY &
PUBLIC LIMITED COMPANY

Ownership: In a private limited company the number of shareholders ranges between 2 – 50 while public limited company the number ranges between 7 to infinity.

Transfer of shares: Shares in private limited company are not freely transferable while in public limited company shares are freely transferable.

Raising of capital: In private limited companies do not call the public for funds while in public companies are free to call upon the public to buy shares by issuing of a prospectus.

Accountability; The books of account of the public company can be published to the general public which is not the case with private limited company.

The employees in a public limited company are free to buy shares in the company which is not the case with private limited company.

Capital contributed; usually more capital is raised under public limited companies because shareholders are not limited in number unlike private limited companies where the number is limited.

Settling misunderstandings; In public limited company misunderstandings are settled by referring to table A of the companies act while private limited company they refer to article of association.

Commencement of business; Private limited company commences with a certificate of incorporation but for a public limited a certificate of trading or trading license is required.

DOCUMENTS IN THE FORMATION OF JOINT STOCK COMPANIES

i. Articles of association : This is a document written and signed by owner of the business or proprietor of the business showing the internal working rules and regulations that governs the company.

It has the following contents

- It shows the rules and regulations which govern the internal organization of the company.
- It shows the objectives, aims of the company.
- It shows the type and power of shareholders.
- It shows the ways of appointing the managers.
- It shows the duties of managers and directors.
- It shows the ways of calling and holding meeting both the executive and the general meeting.
- It shows the sharing of profits.
- It shows the rights of the shareholders.
- Shows the provision of changing the articles of association.

ii. Memorandum of association: This is a document which governs the relationship with the general public.

It has the following contents;

- It shows the name of the company with the word, 'Limited".
- It shows the status of the liabilities of the shareholders whether limited or unlimited.
- It shows the objectives, aims for which it was formed.
- It shows the authorized capital or nominal
- It shows the address clause and location.
- It shows salaries to be given to shareholders if any.
- It shows the declaration.

iii. The certificate of incorporation: This is a document which allows private limited companies to start operating the business as a trading license is still being prepared.

iv. <u>The trading certificate / license</u>: This is a document which allows Public limited companies to start operating the business as a trading license is still being prepared.

v. <u>The Prospectus</u>: This is a document which serves as an advertisement to the public inviting those interested to subscribe and buy shares of a public limited company.

CAPITAL STRUCTURE OF COMPANIES

In most cases, capital of a company is called share capital because it's raised through the sale of shares to the public. Capital is classified into;

a. **Nominal / authorized share capital**: This is the maximum amount a company may raise by selling shares as stated in the memorandum of association.
b. **Called up share capital**: This is the amount of money called up on shares issued to the public.
c. **Uncalled up share capital**: This is the amount of money not called up on shares issued to the public.
d. **Paid up share capital**: This is the amount of money paid up on shares issued to the public.
e. **Issued share capital**: This is the amount of shares issued to the public
f. **Minimum share capital**:

SHARES

Capital of companies is classified into different **shares** while the profits of companies are called **dividends**. Thus a share is a unit of capital while a dividend is the profits of a joint stock company.

Types of shares

Shares are mainly classified into two broad categories ie;

1. Ordinary shares
2. Preference shares

Ordinary shares are held by the owners of the company with no fixed dividends out of the company profits.

Preference shares are shares without voting rights but entitled to a fixed rate of dividends on their contributed share capital. Preference shares are further classified into;

a) **Cumulative preference shares**: These are entitled to a fixed rate of interest every year whether the company makes profits or not until they are fully cleared..
b) **Non-cumulative preference shares**: These are entitled to a fixed rate of interest only for the year when the business has declared dividends.
c) **Redeemable shares**: These are shares that can be bought back by the company after a stated period of time.
d) **Irredeemable preference shares**: These are shares that cannot be bought back (refunded) by the company once issued, they can be bought only when the company winds up.
e) **Participating preference shares**: These have in addition to a fixed rate of dividends a share in the surplus profits remaining after the ordinary shares have paid.

DEBENTURES

A debenture is a unit of a loan borrowed by a joint stock company. This is the money borrowed by the company for the public as a way of obtaining funds for operation.

Types of debentures

a. **Naked debentures**: These are borrowed with no security backing it up. It's not secured.
b. **Mortgage debenture**: This is a debenture which has a specific property pledged against it.

These are borrowed with security backing it up. In case a company fails to pay, the security is old off.asses

c. **Floating debentures**: These are borrowed but companies sell some of their assets to clear / pay off such loans.
d. **Redeemable debentures**: These are bought back by the company after a specific period of time
e. **Irredeemable debentures**: These cannot be bought back after the expiry of the specified period but rather transferred to the stock exchange instead of the company repaying money to the shareholder.

DIFFERENCES BETWEEN SHARES AND DEBENTURES

i. Shares are paid dividends while debentures are paid interest
ii. Share is a unit of capital while a debenture is a unit of a loan
iii. Shares can be irredeemable while debentures must be paid back to debenture holders (redeemed)
iv. Shareholders may have a voting right unlike the debenture holders
v. Dividends to shareholders are usually paid in consideration of profits made while debentures are paid back irrespective of whether the company made a profit or not.
vi. Debenture holders are creditors to the company while shareholders are the owner of the company.
vii. The shareholder has chances of becoming a director of the company while the debenture holders do not stand this chance.
viii. The shareholders are allowed to look through the books of accounts while the debenture holders are not allowed.

How can the government of Uganda promote the activities of limited companies?

i. Providing Tax holidays.
ii. Provision of financial assistance.
iii. Security or political stability.
iv. Improvement in infrastructure.
v. Subsidization of production.
vi. Reduction of taxes.
vii. Sensitization of the public about public limited companies.
viii. Liberalization of the economy in form of loans.
ix. Promoting the stock exchange council.

DIFFERENCES BETWEEN A PUBLIC CORPORATIONS AND PUBLIC LIMITED COMPANY

Ownership: Public limited companies are owned by individuals / shareholders **while** Public corporations are owned by the state. The government either owns all the shares or the majority.

Control and Management: In Public limited companies, owners have no direct control, management is in the hands of the board of directors elected by the shareholders **while** Public corporations, control is under government officials ie board of directors appointed by the government

Raising capital / funds: Public limited companies invite the public to subscribe for shares through issuance of a prospectus **while** public corporations are financed by the government through funds usually from taxes.

Distribution of profits / dividends: In Public limited companies, shareholders share dividends according to share holdings and class of shares **while** in public corporations, profits are taken by the government (if any).

Purpose: Public limited companies are profit making organizations **while** Public corporations are for provision of goods / services at reduced cost / price.

Formation: Public limited companies are incorporated by registration under the company act **while** public corporations are formed by act of parliament.

Accountability: Public limited companies are accountable to shareholders in an annual general meeting **while** Public corporations are accountable to the government.

MARKETING BOARDS: These are trading organizations which are set up by the government and the private sector to purchase agricultural products from the farmers and sell them to the customers. E.g Uganda coffee marketing Board, cotton marketing board and others.

Types of marketing boards.

1. **Commodity marketing boards**: These are marketing boards that deal in the marketing of only one type of agricultural produce. Eg Coffee marketing board.
2. **Produce marketing board**: This is a marketing board that deals in the marketing of a wide range of produce. Eg beans, cassava, cabbage etc
3. **Advisory marketing board**: Established to offer advisory services to farmers and other marketing boards. They carry out intensive research on modern techniques of farming and advice stakeholders accordingly.
4. **Export marketing boards**: These are set up to promote the exportation of one or a wide range of goods. They look for market abroad and go on to sell the produce abroad

Roles of marketing boards.

- Buying and selling produce
- Collecting and transportation of produce from farmers to market centers
- Storing produce for the farmers
- The carry out market research into agricultural products and related problems
- Provides farmers with fertilizers and pesticides
- Provide packing materials like suckers, paper bags etc
- Providing loans to farmers
- Stabilizing prices of agricultural commodities
- Controlling production of agricultural products
- Representing farmers at international organization.
- Storage of produce.
- Carry out Research
- Development of infrastructures especially training ground, demonstration farms and roads in villages
- Advice to farmers on the good methods of farming.

Problems facing marketing boards.

- Inadequate funds.
- Underdeveloped transport and communication network.
- Corruption and embezzlement of funds.
- Production of poor quality produce
- Price fluctuations
- Competition from private buyers.
- Over production and at times under production.
- Price fixing/ legislation where the legislated prices are very low.

- Mismanagement by the members of the association.
- Political instability.

CO-OPERATIVE SOCIETIES. Are groups of consumers / producers who voluntarily join together to achieve common social and economic objectives aimed at improving their welfare.

Aims and objectives of co-operative societies.

- Promote sales.
- Provide seeds to farmers.
- Give advice to farmers.
- Provide loans to farmers
- Group buying from farmers.

Types of co-operative societies

- ✓ Consumer co-operatives: This is a retail business owned and operated by final consumers to purchase and distribute goods among themselves at lower costs.
  Advantages
  - Sells goods to members at fairly low prices
  - Protect members from exploitation and low quality goods
  - Allow members participate in the running of the business so as to earn a living
  - Enables consumers directly meet producers and send in their complaints
  - Makes goods available even in remote areas
  - Bulk purchases reduces the final price of goods

- ✓ Producer co-operatives: This is a retail business owned and operated by to collect, process, transport and market their produce.
  Advantages
  - Members can easily get credit facilities
  - Bulk Purchases of raw materials at relative lower prices
  - Minimizes the cost of transport since different producers transport as one group.
  - Farmers are assured of stable supply of raw materials

- ✓ Wholesaler co-operatives: This is a retail business owned and operated by wholesalers in a given geographical area to purchase and distribute goods among themselves at lower costs.
  Advantages
  - To bring goods as close as possible to final consumers at lower prices
  - Import / buy a variety of commodities cheaply
  - Extend credit facilities to members

Principles of co-operative societies.

Open and Voluntary membership: Any member of the public with contractual capacity is free to join

Democratic administration: Voting must be done by all members on basis of one man one vote

Dividend payment: Profits in form of dividends must be shared according to ones contribution at the end of each trading period. This is not based on capital contribution but ones effort in the society.

Interest payment: Every member must be paid interest depending on his capital contribution

Co-operation: Different co-operative societies must cooperate with each other both domestically and internationally.

Share capital: A minimum share capital (amount) must be contributed by each member. A member is free to own as many shares as he wants as per agreed.

Non –Religious: The society should not be based on any religious belief or basis

Non-political: Societies are supposed to be neutral to all political issues in the country

Education: Co-operatives must provide education to members on co-operative affairs and successful business techniques

Role of co-operative societies.

i. Bring goods as near as possible to members
ii. Promotes social understanding among members
iii. Members enjoy limited liability
iv. Co-operatives provide market for goods produced by members
v. They sell goods to members at fair prices
vi. Provide transport and delivery services for the goods of the members
vii. They advise members on matters pertaining to the their business
viii. Some offer short term loans to their trusted member

Problems faced by co-operative societies.

i. Inability to get loans
ii. Management is not skilled
iii. Language barrier
iv. Limited capital investment
v. Limited range of supply
vi. Dishonesty among members
vii. Political instability in many African states
viii. Savings may not be possible since members are low income earners
ix. Difficult decision making
x. Government may limit the activities of co-operatives / Government interference.
xi. Price fluctuations
xii. Shortage of skilled administrators.
xiii. Underdeveloped transport and communication facilities.
xiv. Lack of enough storage facilities.
xv. Low income earners.
xvi. Price fluctuation.
xvii. Lack of securities when in need of acquiring a loan.
xviii. Some members use them as political platforms.
xix. Corruption and embezzlement of funds.
xx. Ignorance of the public about the co – operative society.
xxi. Language barrier.

NATIONALIZATION AND PRIVATIZATION

NATIONALIZATION is where the government takes up the control and ownership of private enterprises.

PARASTATALS are state organizations which are set up mainly to perform developmental functions. E.g. National water and sewage cooperation, Uganda National Examination Board (UNEB) and others

ADVANTAGES OF PARASTATALS

i. To provide essential services to the public e.g. garbage collection
ii. To provide capital to projects which require large capital e.g. water supply
iii. To invest in risky ventures which cant be left in control of the private sector e.g. army, police etc
iv. To provide services to the public at a lower cost e.g. government hospitals
v. To provide employment opportunities to the public e.g. employees in the post office
vi. To widen its tax base by taxing the organization and the employed workers
vii. To achieve equal regional development as they are set up country wide
viii. To eliminate duplication of goods and services
ix. To enjoy profits which are extended to the public in form of public services e.g. roads, hospitals
x. To guide and influence the activities of the private sector.
xi. To reduce exploitation of the public by stabilizing prices
xii. Parastatals act as pilot projects from which the private sector will copy.

DENATIONALIZATION / PRIVATIZATION is the situation where government leaves business in the hands of the private sector.

REASONS FOR PRIVATIZATION

i. To encourage investments in the economy
ii. To encourage efficiency and reduce wastage of resources
iii. To increase employment opportunities
iv. Liberalization of the economy
v. As a condition to meet donor requirements eg IMF, World bank
vi. To earn foreign exchange / revenue. This improves BOP position
vii. To reduce bureaucratic delays / red tape in decision making
viii. To encourage exploitation and utilization of idle resources
ix. To reduce embezzlement and corruption
x. To increase on the tax base for the government / Finance infrastructural development
xi. To improve on quality of the products through competition
xii. To encourage Public – private partnership
xiii. To diversify economic activities
xiv. To reduce excessive government expenditure

WHY THE GOVERNMENT STILL OWN SOME ENTERPRISES / DANGERS OF PRIVATIZATION

- To avoid exploitation of consumers by the private sector
- To avoid dependency on single private producers
- Ensure equal regional industrial distribution
- Influence political atmosphere
- Avoid Nepotism
- Privatization may lead to unemployment
- Ensure optimal utilization of resources
- Limited capacity for funding of some projects by the private sector
- Inadequate bargaining power
- Influence political atmosphere

Why the government operates business alongside the private enterprises / Explain reasons for state ownership of enterprises.

i. To promote the general welfare of the public.
ii. To provide essential services like education, health at affordable prices.
iii. To raise government revenue.
iv. To set up public service which requires heavy capital but take long to bring returns e.g mineral research.
v. To ensure national security for example production and supply of arms and money.
vi. To provide essential services which are unprofitable to attract foreign investment eg garbage collection.
vii. To guard against foreign control of the economy
viii. To protect consumers against exploitation by private business people.
ix. To minimize wasteful competition due to duplication of services through state enterprises eg NWSC, Uganda railways corporation. etc
x. To carry out activities which require large initial investment capital like generation of electricity.
xi. To boast competition between the public and private sector to improve quality of goods and services.
xii. To create regional balance and development / even distribution of resources
xiii. To attract foreign capital investment.
xiv. To set up certain activities which are too risky to be left in the hands of the public individuals e. g Atomic energy, arms and ammunitions.
xv. To control prices by producing those commodities which would have been costly if produced by private individuals.
xvi. Provide / Create employment opportunities to the public.
xvii. To avoid disruption, waste and inefficiency in the provision of services e.g railways, telecommunication.

CHAMBERS OF COMMERCE.

This is a body of businessmen set up to specifically promote commerce and industry in the country .e.g. the Uganda chamber of commerce of Uganda has membership comprised of traders, industrialist, importers, exporters bankers,insurances,n transporters and others

OBJECTIVES OF CHAMBER OF COMMERCE

a. To promote trade and protect the interests of both the business community and the government
b. To enable members of the business community to share ideas with other chambers of commerce through international forum, buyers/seller conferences, trade fairs and publications etc
c. To gather data, analyze it and disseminate useful information on matters pertaining to trade.
d. To search for international markets for local produce
e. To organize trade fairs, exhibitions and to educate the business community in matters related to international trade.
f. To liase with government and other international agencies in the formulation of policies and regulations related to commerce and industry

FUNCTIONS OF THE CHAMBER OF COMMERCE.

i. It links local business people with foreign markets

ii. It advises members on technical pertaining business.
iii. To present collective issues concerning business to the government on behalf of business men.
iv. It ensures that there is harmony amongst the business community.
v. It assists local business men to look for foreign investment opportunities.
vi. It may organize trade fairs both locally and internationally with a major aim of promoting commerce.
vii. It publishes brochures and magazines with an aim of advertising the products of members.

WAYS WHICH THE GOVERNMENT GETS INVOLVED IN BUSINESSES.

i. By setting up a national body of standards to monitor the required specification.
ii. Holding company by holding a large percentage in the business and allow private sectors to own the minority share.
iii. The government may restrict the private sector from business operation hence nationalize such business.
iv. The government can set up public enterprises to produce goods or services.

METHODS USED BY GOGERNMENT TO CONTROL PRIVATE ENTERPRISES

- Taxation / imposing taxes. High taxes restrict private investors while low taxes attract more private investors to participate in business
- Licensing / Trade licensing: Allowing licenses to investors investing in priority sectors and rejecting others who wish to invest in less valuable sectors.
- Price control: Determining either the maximum or the minimum price to avoid exploitation of the consumers and protecting the business men respectively
- Foreign exchange control:
- Bureau of standards:
- Consumer protection laws / business laws:
- Credit control:
- Import restriction:

UNEB QUESTIONS SINCE 2001

2001

23. a. Distinguish between the following types of partners
    i. Active partner and dormant partner
    ii. General partner and limited partner
    iii. Real partner and quasi partner.
    b. Outline the rights and duties of a business partner.

2002

23. a. i. Define a memorandum of association
    ii. Name and explain six clauses / contents of a memorandum of association
    b. Outline the steps involved in selling shares of a public limited company.

2003

25. a. Give the differences between ordinary partnership and limited partnership
    b. What are the advantages and disadvantages of partnerships?
27. a. Explain the use of each of the following documents
    i. Articles of association
    ii. Memorandum of association

iii. Prospectus
iv. Certificate of incorporation
b. Under what circumstances may a partnership be dissolved?

2004
25. a. Define a partnership deed
b. State any **eight** items contained in a partnership deed.
c. What are the advantages of a partnership over sole proprietorship?

2005
22. a. Define the term partnership as a form of business unit.
b. State any **eight** characteristics of a partnership
c. Explain the circumstances under which a partnership may be dissolved.
25. a. Outline the reasons why the government of Uganda has continued to sell off its enterprises.
b. Despite the benefits of privatization, explain why the government still owns some enterprises.

2006
21. a. Give any **six** differences between private limited companies and public limited companies
b. State any **eight** advantages of limited companies over other forms of business units.

2008
22. a. Give **five** differences between private limited companies and public limited Companies
b. Explain **five** advantages of private limited companies over other forms of business units.

2009
25. (a) Distinguish between **produce** marketing boards and **commodity** marketing boards.
(b) State **six** functions of marketing boards
(c) What problems are faced by marketing boards?

27. (a) Define a partnership deed
(b) Outline **eight** items contained in a partnership deed.
c. Explain the advantages of partnership form of business.

2010
25. a. Describe any **six** documents used in the formation of a public limited Company
b. Give **four** reasons why a company may wind up.

26. a. State **six** contents of a partnership deed
b. Give **six** advantages of partnerships over sole proprietor form of business.

2011
23. (a) Outline **five** features of public limited companies
(b) Explain **five** contents of a memorandum of association.
24. (a) Give any **four** problems faced by state owned enterprises
(b) Why does the government of Uganda continue participating in business activities despite the problems in (a) above?

2012

24. (a) Outline the contents of a partnership agreement
    (b) What advantages does a partnership enjoy over a sole proprietorship?

2013

24. (a) Explain **four** differences between public limited company and public corporations
    (b) Give **six** reasons for privatization of public corporations in Uganda.

2014

22. (a) Give seven reasons why sole proprietorship is preferred to other forms of business organization in your country
    (b) State six problems faced by sole proprietors in Uganda

23. (a) Give five reasons why the government of Uganda operates businesses alongside the private enterprises
    (b) Explain any five methods used by the Government of Uganda to control the activities of private enterprises.

2015

22. (a) Distinguish between the following types of shares
        (i) Cumulative preference shares and non cumulative preference shares
        (ii) Redeemable preference shares and non redeemable preference shares
    (b) Give six advantages of limited companies over partnership as a form of business organization.

2016

22. (a) Differentiate between a limited liability company and an unlimited liability company.
    (b) State **eight** advantages of public limited companies.

2018

21. (a) State **five** differences between sole proprietorship and partnership as a form of business units. (10 marks)
    (b) Under what **five** circumstances may a partnership be dissolved? (10 marks)

ECONOMIC SYSTEMS

1. A LAISSEZ FAIRE ECONOMY / FREE MARKET ECONOMY is the one where there is private ownership of property and the means of production and resources are allocated by the market forces of demand and supply with limited or no government intervention. It is also called a free enterprise economy, market economy, unplanned economy or capitalism

Features of a Market economy.
- There is private ownership of property and the means of production: Individuals and firms are free to own and sell property and the means of production. Individuals and firms are free to own and sell property and e.g land, labour and capital.
- There is freedom of choice and enterprise: Entrepreneurs are free to choose and invest their capital in any business enterprise or economic activity of their choice.
- There is limited role of the state or government: The major role of the government is limited to the provision of public goods like roads, bridges and security as well as providing an enabling environment for economic activities to take place. It is not directly involved in economic profit making ventures. That is why it is referred to as 'laissez-faire' economy meaning no government intervention.
- Resource allocation is by the price mechanism: Resources are allocated by the price mechanism i.e. the market forces of demand and supply.
- Self-interest or profit motive: Self-interest or profit maximization is the dominating motive or driving force for economic activities i.e. firms aim at maximizing profits.
- There is competition: There are many firms (sellers) competing for the market. There are also many buyers.

Merits of a laissez faire economy
- There is consumer sovereignty i.e. consumers have an upper hand in deciding what should be produced, how much and when to produce.
- There is no resource wastage because resource allocation is by the price mechanism where higher consumer demand leads to increase in prices which induce producers to produce what consumers have demanded.
- It encourages competition among firms hence efficiency and better quality goods and services
- There is increased variety of goods and services produced hence improved welfare.
- There is increased output of goods and services leading to economic growth due to the profit motive which acts as an incentive for increased production.
- Resource allocation is made by the price mechanism which is an automatic and cheap method of resource allocation without involving government in unnecessary costs of rationing scarce goods.
- There is a greater degree of accountability and transparency

Demerits of laissez faire economy
- It characterized by gross inequalities in income and wealth: This is because certain groups of individuals and firms have access to more resources than others.
- It leads to the rise in monopoly and it's related effects with private firms controlling a lot of resources
- Unemployment arises when inefficient firms are forced to close and the use of capital intensive techniques by firms in a bid to reduce production costs and minimize profits
- It is characterized by instability in economic activities which is reflected in form of booms

and slumps

- It leads to misallocation of resources to the production of luxuries demanded by the rich leaving the poor without cheap commodities
- There is likely to be over consumption of demerit goods e.g. cigarettes
- It is difficult to cope with rapid structural changes e.g. changes in technology and changes in the structure of demand
- There is wasteful competition and duplication of activities
- There is divergence between social costs and private benefits e.g. factory owners gain profits while the public suffers noise and pollution from their factories.
- There is exploitation of consumer ignorance.

2. A CENTRAL PLANNED ECONOMY is one where resources are owned by the state and allocated by the central planning authority appointed by the state on behalf of the people. It is also referred to as a command economy or socialism

Features of a central planned economy

- There is a public ownership of property and the major means of production through the state (government). The key industries and resources are owned by the state
- There is a dominant role of the state (government) in the economy: The public sector is the driving force of the economy. The private sector is very small.
- Resources are allocated by the central planning authority appointed by the state which makes major economic decisions like what, when, how and where to produce it is also formulates plans, set plans targets and implements plans.
- Economic decisions and activities are motivated by the need to satisfy public needs rather than making profits.
- There price controls in form of maximum and minimum prices to protect consumers and producers respectively.
- The major goal of economic policy is self-reliance.

Advantages of a central planned economy

- It promotes a more equitable distribution of income and wealth in the economy as the central planning authority determines the prices of all factors of production. Unlike a market economy, individuals are not able to accumulate large amount of capital as major production enterprises are owned by the state
- Essential goods and social services are provided to all people in the economy: The state is able to achieve desirable standards of education, health and housing for all members of the society
- There is minimum wastage of resources: Compared with private monopolies seeking to maximise profits in a market economy, state monopolies in public interest may need less wastage of resources in a command economy.
- The state is able to formulate and implement economic plans efficiently because all economic activities are controlled by the state which implies that a large part of the economy is directly under the control of the central planning authority.
- There is no wasteful competition and duplication because all the economic activities are controlled by the state.
- Monopoly power is controlled: Monopolies that exist are state owned and operate in public interest providing goods and services e.g. public utilities like water and electricity at fair prices.
- Central planned economies are relatively free from economic instabilities in form of booms, slumps and unemployment which are typical of free market economies.

- The central planning authority enables a command economy to achieve full employment of resources by directing labour to production activities even if those activities are not profitable.
- Given that a command economy is characterized by a whole range of administrated prices for goods and services, a much lower rate of inflation can be maintained than in an economy subjected to the price mechanism.
- A central planned economy can more easily deal with social costs or harmful effects of production activities, all of which are under the direct control.

Disadvantages of central planning economy

- There is no consumer sovereignty since the major economic decisions such as what to produce are dictated by the state through the central planning authority.
- There is limited or restricted consumer choice because demand is manipulated to match with the limited range of the goods available on the market. Also, the goods produced tend to be standardized with practically no regard for individual tastes.
- There is no private initiative as well as efficiency due to the lack profit motive. With administered prices and wages and absence of profits, workers and managers' incentive or motivation to greater effort and to take business risks this delaying expansion of the economy.
- There is production of poor quality goods and services due to lack of competition as most enterprises are statutory monopolies.
- There is wide spread corruption and embezzlement of public funds in the state owned enterprises.
- It uses an expensive system of allocation of resources: This is because government officials are employed to oversee the allocation and distribution scarce resources.
- There bureaucratic red tape which delays decision making i.e. delays between collection of information and the formulation of the production plans based on that information, and the further delays between the implementation of production plans and the realization of plan targets
- It is characterized by rationing of scarce goods and services where consumers are not given enough of what they want and experience inconvenience through long queues.

3. A MIXED ECONOMY is the one where both the state and the private sector participate in resource allocation with neither sector being dominant of the other. It has elements of a free market economy and a command economy.

   The features of a mixed economy

   - Some resources or means of production are owned by the state while others are owned by private individuals
   - Resource allocation is done by the price mechanism and the state.
   - There are both the private sector and the public sector. The private sector comprises of the private investors whose major aim is to maximise profits while the public sector comprises of government owned enterprises e.g. parastatals and public corporations.
   - Some economic decisions are taken by the government while others are taken by private individuals.
   - Prices of some commodities are fixed by government e.g. maximum prices for essential commodities and public utilities while others are determined by the market forces of demand and supply.
   - Some enterprises are owned partly by the state and partly by private individuals i.e. joint ventures.

CONSUMER PROTECTION

CONSUMER PROTECTION is a policy taken by law to safeguard consumers from being exploited by the businessmen

OR

These are measures and efforts of government, public-interest organizations, individuals and business to establish, protect and enforce the rights of people who buy products such as food or services such as health care and insurance.

Consumer exploitation are practices by the business men intended to make more profits at the expense of the buyers e.g. over charging, wrong weights and measures, false descriptions etc.

What factors make consumer protection necessary?

To reduce or avoid;

- Over charging of consumers
- Misleading advertisements
- Expired drugs
- Consumer ignorance
- Unhygienic goods sold to consumers
- Ensure corrects weights and measure are offered to consumers
- Selling of inferior goods

Why do consumers need government protection?

- To be protected against abnormal price charged by middle men.
- Protect against less weight and measures hence cheating consumers.
- Protect them from unhygienic food stuffs and drinks.
- Protect them from misleading adverts.
- Protect them against inferior and substandard goods.
- Consumer ignorance.

Methods employed by the government to protect consumers.

- Through price control act to protect consumers from being over charged.
- Through weights and measure department.
- Through the sale of goods act.
- Through the ministry of health.
- Through the ministry of agriculture and vet. Services.
- By the government involvement in the production of essential goods to do away with monopolistic tendencies.

2007

27. a. What is meant by consumer protection?
    b. Explain four reasons for consumer protection
    c. Outline any five methods used to protect consumers.

INTERNATIONAL TRADE

International trade refers to the exchange of goods and services between or among countries.

COMMON TERMS USED IN INTERNATIONAL TRADE

1. Balance of trade is the difference between visible exports and visible imports. When Visible exports outweighs Visible imports, then Balance of trade is said to be Favourable and when Visible imports outweighs Visible Exports, then balance of trade is said to be unfavorable.
2. Terms of trade is the ratio of a country's imports price relative to the price of its exports. When export prices outweighs import prices, then terms of trade are said to be Favourable and when import prices outweighs Export prices, then terms of trade are said to be unfavorable.
3. Balance of payment is the difference between a country's export earnings and its import expenditure. When export earnings outweighs import expenditure, then Balance of payment is said to be Favourable and when import expenditure outweighs Export earnings, then balance of payment is said to be unfavorable.
4. Bi lateral trade is trade that t takes place between two countries e.g. Uganda and Kenya exchanging goods only.
5. Multi-lateral trade is trade that takes place between more than two countries e.g. Uganda trading with all European countries
6. Export trade is the sale of goods and services to other countries
7. Import trade is the purchase of goods and services from other countries.
8. Visible trade is the trade in goods i.e. tangible items e.g. coffee, cloth e.t.c
9. Invisible trade is the trade in services i.e. intangible items e.g. tourism, education, insurance, banking e.t.c.
10. Invisible exports are services a country sells to other countries e.g. Uganda's invisible exports include tourism, education, transport, hotel services and specialist professional services while Invisible imports are services a country purchases from other countries e.g. Uganda's invisible imports include banking by foreign commercial banks, insurance by foreign insurance firms, transport by foreign transport firms, e.t.c.
11. Bilateral trade is the trade between two countries e.g. Uganda's trade with Kenya
12. Multilateral trade is the trade with many (more than two) countries e.g. Uganda's trade with Kenya, Tanzania, Rwanda, South Africa, e.t.c.

DOCUMENTS USED IN INTERNATIONAL TRADE.

Indent: An order for goods in international trade placed through an agent and not the producer. It's a request to the agent to place an order on behalf of the importer. It can be an open indent in which the agent is free to approach any supplier. It can be a closed indent where the importer specifies the producer or supplier from whom the goods are to be obtained.

Certificate of origin, A document that certifies / shows the origin and place of manufacture of goods. It helps customs officials calculate correctly the customs duty on goods.

Certificate of inspection: This only applies to food stuffs. It evidences that the foods are consumable and free from contamination.

Consular invoice, An invoice that has been signed by the consulate or embassy of the country to which the goods are being exported. This is necessary to ensure that the goods have been reasonably priced. It's also used to curb undesirable goods from entering the country.

Bill of lading, this is the evidence of a contract between the consignor and the shipping company arising out of carriage of goods. It contains all the details of goods loaded on the ship.

Functions.

- It acts as a contract of carriage between the business man and the shipping company.
- It acknowledges receipt of goods by the shipper.
- It shows all the details of goods carried.
- It shows the shipping charges and all conditions of carrying the goods.
- It is a document of title which a business man uses to claim for goods.
- It is a negotiable instrument in that it's a document of title to goods.

Export license, it is issued for the export of certain types of cargo.

Air way bill, this is the contract of carriage between the importer and the airline company for goods transported by air. An air bill is similar to a bill of lading.

Shipping note, this is issued by the shipping company to the seller giving details, and conditions of the carriage. This document also tells the local authorities the goods involved on the ship and their destination.

Weight note, this shows the quantity of goods delivered at the dock. It states the number of boxes in a particular consignment and the income of the person responsible for all costs.

Freight note, this simply shows transport cost from one point to another.

Letter of credit, the exporter may ask the importer of open a credit with a bank in the exporter's country. In case the importer gets a letter of credit from the bank he issues the exporter since it gives an assurance of payment of money specified.

Calling forward note, this informs the seller the date and time by which the goods should be ready for loading to a particular ship.

Letter of hypothecation, it's a letter from the supplier of the goods to his bank authorizing the exporters bank to sell goods if the importer fails to pay. This arises when the bank fails to obtain payment of a bill of exchange drawn to the importer which is already discounted for the supplier or exporter.

Letter of credit: This is a letter written by the bank of the intending importer who wants to buy goods on credit guaranteeing payment on behalf of the importers' bank than the importer himself.

Ship manifest, this is a customer's declaration giving full details of the contents on the vessel. This shows the crew, passengers, and cargo carried as soon as the ship arrives at the port, a ship manifest should be presented to the customs office before the ship is unloaded

Customs drawbacks: A refund of customs duty made to a producer who imports raw materials, processes them and then exports the finished products.

Charter party: This is an agreement / contract between the chartering business and the ship owner giving the hirer absolute control over the vessel / ship for the period of the contract.

Proforma invoice: This is sent by the seller to the buyer indicating terms and conditions under which goods have been supplied. A proforma invoice is similar to an ordinary invoice, except that it is normally sent to new aspiring customers.

Calling forward note: This is the document sent by the shipping company to the exporter stating the place and date when goods will be at the dock in order to be loaded on a particular ship.

FACTORS THAT GIVE RISE TO INTERNATIONAL TRADE

i. Differences in natural resources e.g. minerals, fisheries, forestry e.t.c which enable countries to produce different types of goods and hence the need for exchange.
ii. The difference in the level of technology and skills which enable countries to produce different commodities.
iii. The difference in climatic conditions which give rise to production of different products.
iv. The need to dispose off surplus products by exporting to trading partners.
v. To overcome domestic shortages during periods of natural calamities e.g. drought, floods, earthquakes. e.t.c.
vi. To obtain coperant factors e.g. capital and skilled labour necessary for development.
vii. To obtain foreign exchange through export of goods and services to other countries.
viii. The law of comparative advantage; This encourages countries to specialize in the production of commodities they can produce at less opportunity cost and exchange them for what they can't produce.

ADVANTAGES OF INTERNATIONAL TRADE

Qn
1. Explain the importance of international trade.
2. Explain the reasons why your country (Uganda) trades with other countries.

i. It enables countries to obtain what they cannot produce by importing goods and services from trading partners.
ii. It enables countries to dispose off their surplus output by exporting it to other countries. This facilities optimum exploitation of a country's resources.
iii. It encourages international specialization based on the law of comparative advantage which leads to increased volume of output, better quality and low prices.
iv. It generates government revenue in form of import and export duties.
v. Increases employment opportunities in export promotion industries, shipping, transport and warehousing of exports and imports.
vi. Promotes utilisation of local resources to produce goods for foreign markets.
vii. It enables people in the country to enjoy a wide variety of goods and services from many different countries. This widens the consumers' choices.
viii. It facilitates technological transfer from developed countries to less developed countries through importation of advanced capital equipment and machinery.
ix. It promotes international relations among trading partners.
x. It helps out in times of natural disasters e.g. earth quakes, drought or floods as supplies of relief items like food may imported from other countries / Caters for shortages as a result of wars, floods people can survive on imported goods.
xi. It generates foreign exchange earnings through exports of goods and services to trading partners.
xii. Allows domestic industries to compete with international industries which results into improvement in the quality of locally produced goods.
xiii. Countries can get a variety of goods
xiv. Develops local entrepreneurship.
xv. Encourages exchange of ideas and values at international level
xvi. Promotes international peace and understanding among trading countries.

xvii. Reduction of inflation.

DISADVANTAGES OF INTERNATIONAL TRADE

i. It encourages international specialization (over specialization) which may be dangerous in case of price fluctuation or unexpected fall in demand for exports.
ii. It encourages dumping i.e. the sale of goods abroad at gives away prices in order to dispose off the surplus at home. This may be disastrous to the economy.
iii. It may lead to imported inflation when a country imports goods from an inflationary prone economy.
iv. Domestic infant industries may be out competed by imported goods which are cheaper and of better quality. This leads to closure of infant industries thus unemployment.
v. It may worsen the country's balance of payments problems due to excessive importation and limited exports.
vi. It encourages political dominance of one country by another especially where one country depends on another for an important commodity.
vii. Exhaustion of resources / over exploitation of resources
viii. Leads to dependency
ix. Sale of defective goods
x. May result into immorality
xi. May result into "beggar my neighbor policy"
xii. May result into dumping
xiii. Use of machines may result into unemployment
xiv. Reduction in foreign exchange.
xv. Negative effect on citizen.
xvi. Encourages laziness.

PROBLEMS FACING LDCS WHEN TRADING WITH MDCS

i. Trade restrictions imposed by trading partners eg heavy duties on her exports.
ii. Fluctuation in foreign exchange rates.
iii. Prices of exports are determined by the trading partners ie low prices are being given for the products from LDCs.
iv. Unfavorable competition due to poor quality of products / exports due to use of poor technology / skills.
v. Dumping of foreign poor quality goods.
vi. Technological advancement leading to the replacement of agriculture products with synthetic raw materials.
vii. Unstable / rising prices of imports leading to imported inflation.
viii. Language differences causing difficulties in communication during negotiations.
ix. Delays in delivery of goods due to long distances.
x. High risks involved in the transportation of merchandise eg theft, damage, pilferage enroute.
xi. Currency differences ie it becomes difficult to get / acquire other currencies because of restrictions.
xii. Difference in weights and measures.
xiii. Long procedure and too many documentation.
xiv. Political instabilities.

Reasons why less developed countries have not benefited from international trade as much as developed countries.

i. **Exportation of primary products with low value added;** Developing countries are exporters of basic primary products of low value added e.g. semi processed agricultural and mineral products whose prices on the world market are low thus low export earnings.

ii. **Discriminatory policy and trade restrictions by more developed countries on exports from developing countries;** These reduce the rate at which developing countries can accumulate foreign exchange.
iii. **Low volume of exports;** Developing countries have a narrow export base i.e. they export only a few goods and services which limits export earnings.
iv. **Weak bargaining power of developing countries;** Developing countries have weak bargaining power in commodity markets and are unable to bargain for high prices for their exports which are dictated by major buyers in more developed countries thus low export earnings.
v. **Importation of expensive manufactured capital and consumer goods;** Developing countries import high volumes of expensive manufactured capital and consumer goods leading to high rate of foreign exchange out flow to developed countries.
vi. **Limited markets for developing countries' exports;** The markets are flooded by products from other primary products leading to low prices.
vii. **High marginal propensity to import;** Developing countries have a high marginal propensity to import thus increased out flow of foreign exchange to more developed countries for imports.
viii. **Low quality exports;** Developing countries export low quality products which can not compete favourably on the world market. These fetch low prices leading to low export earnings.
ix. **Increasing competition or substitution of developing countries' exports with synthetics produced by developed countries:-** This has reduced the demand for exports from developing countries thus reduced export earnings.
x. **Unfavourable exchange rates;** Unfavourable exchange rates due to depreciation of local currencies against hard currencies like the United States dollar result into high prices for imports and low export prices hence low export earnings and high import expenditure.
xi. **Falling prices of exports;** Prices of export from developing have been falling leading to low export earnings.
xii. **Invention of raw material saving techniques by developed countries;** The adoption of raw material saving techniques by developed countries has reduced the demand for exports of raw materials from developing countries thus reduced gains from international trade.
xiii. **Political instability;** Developing countries are characterized by rampant political instability which discourages domestic production for exports thus reducing export earnings while increasing expenditure on excessive importation of military hardware thus increased foreign exchange out flow.

The possible measures that can be taken to improve the less developed countries' position in international trade.

i. **Export diversification;** Developing countries can widen their export base by increasing a wide variety of exports to increase export earnings.
ii. **Import substitution industrial development strategy;** This helps to save the scarce foreign exchange by producing locally industrial products formerly imported.
iii. **Improving the quality of exports;** Developing countries should improve the quality of their exports to make them more competitive on the world market in order to increase export earnings.
iv. **Export promotion industrial development strategy;** Developing countries should promote and expand the manufacturing sector with a view to increasing export of manufactured goods which command higher prices thus increased export earnings.
v. **Trade restrictions (protectionism);** Developing countries should impose restrictions on imports from developed countries to reduce the volume of imports with a view to reducing foreign exchange expenditure.
vi. **Economic integration;** Developing countries should encourage trade among themselves

through regional economic integration e.g. PTA, COMESA, SADC, E.A.C in an attempt to widen export markets and improve their bargaining power thus increase gains from trade.

vii. **Value addition to exports;** Developing countries should add value to their exports by processing them into finished products to make them more competitive and fetch higher prices instead of exporting them as semi-processed agricultural and mineral products like coffee beans, cotton lint, and copper e.t.c

viii. **Strengthening commodity agreement;** Developing countries should encourage and strengthen commodity agreements to which they are signatories with a view to increasing their bargaining power and negotiating for better export prices e.g. International Coffee Agreement.

ix. **Encouraging barter trade;** Developing countries should encourage barter trade arrangements to conserve and minimize the use of scarce foreign exchange.

x. **Negotiating for removal of trade barriers in more developed countries;** Developing countries should negotiate for lifting of trade restrictions in developed countries and opening up of their markets through organizations like the World Trade Organization (W.T.O) as well as taking advantage of AGOA (Africa Growth Opportunities Act) to penetrate the American market.

xi. **Controlling out put on the world market;** This can help to reduce supply on the world market thus raising prices e.g. the coffee retention scheme.

xii. **Political stability;** This can help to reduce excessive importation of military hardware thus reducing foreign exchange expenditure while increasing domestic production to increase exports and increase export earnings.

xiii. **Devaluation;** This can help to increase export earnings by making exports relatively more cheap and competitive in foreign markets while reducing imports which are made more expensive at home.

xiv. **Looking for alternative markets;** Developing countries should look for alternative markets for their exports e.g. China and the Middle East.

CONTROL OF INTERNATIONAL TRADE / THE DIFFERENT WAYS OF PROTECTIONISM.

i. **Use of Tariffs / Imposing Taxes / Fiscal control:-** A high tax can be levied on goods or services coming into country hence making imported goods more expensive than locally untaxed goods.

ii. **Fixing import Quotas:-**This refers to the quantitative restrictions or limit imposed on the amount of goods to be imported or exported in a given period of time. It may be an **import quota** or **export quota.** An import quota involves direct restriction on the physical amount of the commodity which can be imported into the country in a specific period.

iii. **Use of Total ban / trade embargos / Sanctions:-** This is a complete refusal or legal prohibition of entry of specified goods into the country i.e. the government prevents completely the importation of certain commodities into the country.

iv. **Use of Government Subsidies to domestic producers / Subsidization policy;** This is where the government gives incentives or extends physical assistance to support weak sectors in local industries so as to improve their productive capacity to substitute imports.

v. **Devaluation policy;** This is the legal (official) lowering of the value of a country's currency in terms of other currencies. Devaluation has the effect of making imports relatively more expensive thereby discouraging their inflow into the country while at the same time increasing exports by making them relatively cheaper in foreign markets.

vi. **Use of Import trade licenses:** The government can restrict imports by issuing out only a limited number of import licenses or issue import licenses to only imports of priority goods while denying them for importers of non-essential goods.

vii. **Foreign exchange control:** The government regulates the amount of foreign exchange available for importation of goods.

viii. **Quality control requirements / Sanitary regulations:** These are normally set by the importing country short of which the exporting country is not allowed to sell her commodities to other countries.

ix. Advance import deposits or payments (import deposits scheme): These are sums of money in form of foreign exchange importers are obliged or required to deposit with the central bank before they can import goods into the country. The sum deposited is normally related to the value of goods imported. This reduces the volume of imports since the importers' capital is tied up with central bank.

x. Voluntary export restrictions: This is where the importing country appeals to its trading partners to reduce on the volume of exports they are sending to the country on a voluntary basis especially when such exports are deemed to threaten the domestic industries.

xi. Quality control requirements / sanitary regulations; Government can set sanitary regulations to importers short of which the exporting country is not allowed to sell her commodities to the importing country.

xii. Direct administrative controls / delays: The government can put in place complicated and bureaucratic or time consuming and lengthy procedures importers have to go through before they are cleared to import goods into the country. This limits the inflow of imports into the country.

xiii. Preferential duties: Goods from specific countries may be taxed less than those from other countries.

xiv. Transport discrimination: Imports may be charged more than exports to restrict their inflow into the country.

xv. State trading (public procurement policy):- The government through its trading agencies adopts a preference for purchase of locally produced goods rather than imported goods.

xvi. Trading blocs / Regional co-operation where countries form regional trading blocs eg EAC to encourage trade among members and restrict imports from non-member countries.

xvii. Use of Trade agreements / State trade; This is where agreements are made between different countries regarding the foreign trade such that some commodities are imported from specific countries.

xviii. Deflationary policy; involves reducing liquidity in public hands ie reducing the amount of money in circulation which reduce demand for imported goods domestically.

xix. Prepayment of taxes; where the importer is required to pay taxes in advance but failure to pay, he is not allowed to import.

REASONS FOR RESTRICTIONG INTERNATIONAL TRADE

i. To protect newly established domestic infant industries from unfair foreign competition.

ii. To generate government revenue; Countries adopt protectionism as a means of generating government revenue through imposition of import tariffs or duties.

iii. To reduce / improve the balance of payments position; Protectionism reduces excessive importation of goods and services into the country thereby saving the foreign exchange that would have been spent on imports and hence improving the balance of payments position.

iv. To protect the health of citizens; Protectionism is adopted to protect the health and morality of the nationals. This is done by imposing high tariffs or total ban on harmful or undesirable goods e.g. narcotic drugs like cocaine, cigarettes, and animal products from countries affected by animal diseases like bird flu or pornographic materials.

v. To reduce dependence and promote self-sufficiency or self-reliance; Imports are restricted to reduce the extent of external dependence and promote a self- sustaining independent economy.

vi. To control/prevent imported inflation; Imports are restricted to protect the country against imported inflation by banning imports from inflationary prone economies.

vii. To prevent dumping; Protectionism is an anti-dumping tool aimed at protecting the country from cheap and substandard imported goods sold at giveaway prices which may be disastrous to the domestic economy.
viii. To create and maintain employment at home; The imposition of high import duties on substitutes produced by home industries stimulates domestic demand for locally produced goods enabling the domestic infant industries to grow, expand and employ more local labour force.
ix. National security reasons; Import restrictions on strategic or dangerous goods like firearms and ammunitions and all forms of military hardware are necessary to protect national security.
x. To protect strategic industries; It is necessary to restrict imports in order to protect basic or strategic industries e.g. food or agricultural processing industries by encouraging production of goods of strategic importance in case supply is cut off e.g. during war.
xi. To promote political objectives; Protectionism may be used as a tool of foreign policy e.g. during the apartheid policy in South Africa, African countries had imposed economic sanctions on South Africa.
xii. To improve terms of trade; This is done by restricting the supply of exports on the world market in order to raise prices e.g. the Coffee Retention Scheme.
xiii. To strengthen closer political ties; Protectionism may be used as a tool of fostering political ties e.g. preferential duties where goods from some countries are taxed less than goods from other countries.
xiv. To retaliate against trade restrictions imposed by other countries; Protectionism is used as a retaliatory measure against high tariffs imposed by other countries on a country's exports i.e. beggar-my-neighbour policy.
xv. Limit exhaustion / over utilization of resources
xvi. To improve on the country's standards of living.
xvii. To check on immorality that may come along with international trade
xviii. To diversify the home industries to encourage as many industries as possible to come up.
xix. To develop the key / basic industries such as oil, Iron and steel as to avoid depending on foreign suppliers.
xx. To prevent importation on harmful or expired commodities.
xxi. To reduce outflow of essential strategic goods.
xxii. To reduce / control political dominance by foreign companies / firms.

FACTORS THAT LIMIT INTERNATIONAL TRADE

- Language barrier that is countries speak different languages.
- Currency difference that is countries use different currencies
- Physical Distance
- Difference in measurement
- Cultural differences
- Tariff barriers
- Risks involved
- Poor transport system
- Documentation is too much
- Political misunderstanding between countries leading to political instability.
- Imposition of high tariffs on international goods by the government.
- High competition in the market leading to loss of market in the same country.
- Too many risks involved.
- Expensive imports due to poverty.
- Dominance of the Subsistence economy in many LDCs
- Scarcity of foreign exchange.

WAYS OF PAYMENT IN INTERNATINAL TRADE

1. Cash with order where buyers pay cash for goods as they are placing orders for goods
2. Cheques which is a written order by the bank customer to his bank to effect payment to a named person or business.
3. Promissory note. A document where the buyer assures payment to the seller a specified sum of money on a given named date.
4. Letter of credit. A means by which an importer obtains credit and the exporter gets assurance of payment of money done to him.
5. Telegraphic transfers – Fastest means of paying through the post office using a telegram.
6. BILL OF EXCHANGE is unconditional order addressed by the seller to the buyer requiring him to pay on a stated date.

ESSENTIALS / FEATURES OF THE BILL OF EXCHANGE

i. Date at which it was signed.
ii. Be signed by the drawer
iii. Be accepted by the drawee by writing the words "Accepted"
iv. The name of the person to which the bill is sent. (Drawee / Acceptor)
v. The name of a person who has written the bill. (Drawer)
vi. Amount of money to be paid.
vii. Be unconditional
viii. The period when the payment is to be made
ix. It bears the appropriate revenue stamp / seal.
x. It should be paid on demand.
xi. The address of the person to whom the exchange has been written to and that of a person who has written.

TYPES OF BILLS OF EXCHANGE

i) Sight bill: This is a bill of exchange payable on demand or on sight.
ii) Usance bill: This is a bill of exchange payable at a future date
iii) Retired bill: A bill of exchange settled by the acceptor before the maturity date.
iv) Trade bills: These arise out of trading activities
v) Treasury bills: These are issued by the government to borrow money from the public
vi) Inland bills: These ones are issued when both parties involved are from one country
vii) Foreign bill: Under these; the parties involved are from different countries

PARTIES OF A BILL OF EXCHANGE

a) The drawee / acceptor: to whom the bill is sent (debtor)
b) The drawer / Payee: who writes the bill (creditor)

CONDITIONS MAY A BILL OF EXCHANGE BE DISHONORED.

- Incase the drawee is bankrupt.
- If the drawee is insane.
- When the bill is not yet matured.

Advantages of bill of exchange

- Acknowledges a debt by a debtor to a creditor
- Can be discounted with a bank
- An accommodation bill can help a trader out of temporary financial difficulties

- ✔ It's a negotiable instrument; it can easily be transferred from one person to another in the settlement of a debt.
- ✔ It allows enough time to the buyer to dispose off the stock he/she has bought before maturity date.

NEGOTIABLE INSTRUMENTS

This is a document whose title can be transferred from one person to another, by endorsement eg Cheques, Promissory notes, Bank notes, Treasury bills, Bills of exchange etc.
Endorsement refers to the signing at the back / face of the document to transfer title of such a document.

Endorsement may be classified under;

a) Conditional endorsement: This has a condition to be fulfilled before one takes over title of the document
b) Special endorsement: This requires the drawer to name a specific person who becomes the new payee.
c) Open endorsement: This requires the drawer to sign on the document without naming any payee.
d) Restrictive endorsement: This restricts title to a named person such that it cannot easily be transferred further to another payee.

NON-NEGOTIABLE INSTRUMENTS: are documents whose title cannot easily be transferred from one payee to another. Such documents may include; money orders, Postal orders, Letters of credit, Bills of lading, Bank drafts etc.

TERMS OF DELIVERY / SALE IN INTERNATIONAL TRADE

Terms of delivery are conditions set by the seller to the buyer on how goods will be delivered.
Terms of payment are ways in which payment can be made.
Terms of sale refers to the terms indicating whether the seller shall pay the direct charges or the buyer, or whether the charges will be shared. Among them are;

- ❖ Ex-works: Includes the cost of the goods as they leave the factory. All other expenses are paid by the buyer.
- ❖ FOR (Free on rail): All expenses of transporting goods to the nearest railway station of the buyer are met by the seller. Any other expense beyond then is met by the buyer.
- ❖ DD (Delivery Docks): Price quoted on the invoice includes cost of the goods, carriage charges of goods to the dock from where it will be loaded on to the ship.
- ❖ FAS (Free alongside Ship): Price quoted on the invoice includes cost of the goods, carriage charges up to where the ship is that will transport the goods to the buyers' premises. Loading expenses are excluded.
- ❖ FOB (Free on board): Price quoted includes cost of the goods, transportation of goods up to the dock and loading expenses. Any other further expense is met by the buyer.
- ❖ C&F (Cost and Freight): Price quoted includes cost of the goods, transportation charges up to the buyer's closest port of destination but excludes insurance charges.
- ❖ CIF (Cost, insurance and Freight): Price quoted includes cost of the goods, transportation charges up to the buyer's closest port of destination and insurance charges but excludes unloading charges.
- ❖ Loaded: Price quoted includes cost of the goods, transportation charges up to the buyer's closest port of destination, insurance charges and unloading charges.

- **In bond**: Price quoted includes the cost of handling goods that are in a bonded ware house however it excludes payment of customs duty
- **Duty Paid**: Price quoted includes cost of the goods, transportation charges up to the buyer's closest port of destination, insurance charges, unloading charges, cost of handling goods in the ware house and customs duty paid by the seller.
- **Franco**: Here the seller under takes to pay all the costs incurred to ensure that goods reach the buyers actual address or place.

PROBLEMS ENCOUNTERED BY IMPORTERS AND EXPORTERS.

- Too many expenses are incurred by exporters.
- Too many formalities are required to be followed e.g invoice, bill of lading.
- High competition in the market leading to loss of market in some countries.
- Too much risk involved.
- Language barrier between countries.
- Subsistence economy in some countries.
- Scarcity of foreign exchange.
- Imposition of high tariffs on international goods by the government.
- Political misunderstanding between countries leading to political instability.
- Expensive imports due to poverty.

DIFFERENCES BETWEEN HOME AND INTERNATIONAL TRADE

a) Home trade is carried out between **traders** of the same country / within the country where as foreign trade is trade between traders or governments of different countries. (Cross boarder trade)

b) Home trade mostly uses wholesaler and manufacturer **ware houses** while in foreign trade, bonded ware houses are mainly used

c) Home trade uses local **media of advertisement** while foreign trade uses mostly international medias

d) Home trade normally uses both **local and international languages** while in foreign trade mainly international languages are used in the exchange of goods and services

e) In home trade, **insuring of goods** is optional yet in foreign trade, goods must be insured

f) Home trade involves very few **legal formalities** especially the documentation where as foreign trade involves long and complicated legal formalities / documentation

g) In home trade the **mode of transport** is mainly road or railway transport yet in foreign trade the common modes of transport are sea and air.

h) In home trade the **conduct of traders** is regulated local / national laws eg trading licenses where as foreign trade is governed by international laws and agreements (restrictions and barriers)

i) Home trade involves **distribution of goods within the country** where as foreign trade involves Physical transfer of goods and services across Geographical boundaries of two or more countries (exports and imports)

j) Home trade involves use of local **currency** where as foreign trade involves the use of two or more currencies / foreign currencies

k) Home trade involves wholesalers in retailers while international trade involves importers and exporters.

ECONOMIC INTEGRATION refers to the cooperation of several countries or regions for the sake of enjoying economic benefits

STAGES IN ECONOMIC INTERGRATION

1. **Free trade area**: Removal of tariffs on goods from member countries. Each country is free to charge other countries taxes differently in a way they see appropriate.
2. **The customs union**: After removing tariffs on goods from member countries, all countries integrating adopt a common tariff structure on all other non-member countries for the goods they export.
   Advantages
   A. greater volume of trade among countries
   B. transfer of technological know-how
   C. co-operation in other spheres like research
3. **The Common market**: Member countries agree to remove all trade restrictions among themselves and adopt common barriers to the other countries in the world
4. **The Economic Union**: All member countries become one with a central taxing authority, common currency and joint economic planning.

ADVANTAGES OF ECONOMIC INTEGRATION.

i. Stimulates expansion and establishment of manufacturing industries
ii. Increases gains from international trade
iii. Countries can easily gain foreign resources they don't have
iv. May result into political cooperation
v. Countries / regions are able to share common resources
vi. Encourages competition that improves on quality
vii. Stimulates expansion and establishment of manufacturing industries
viii. More capital is raised thus leading to more production / Loan capital
ix. Better management skills are obtained / better decisions are made
x. Harmonization of marketing policies
xi. Specialization is made possible
xii. Avoids expensive / wasteful competition / Duplication of services
xiii. Countries can be able to get resources at cheaper costs than they have been incurring / Leads to minimization of costs and maximization of profits
xiv. Allows member countries to carry on research to improve quality / Joint research leading to higher quality / Greater efficiency and resource use leading to increase in production.
xv. May result into political cooperation
xvi. Increases bargaining power of countries

DISADVANTAGES OF ECONOMIC INTEGRATION.

i. May result into trade diversion
ii. Movement of goods may be in one direction i.e. all goods may be coming from Uganda
iii. Countries may be forced to buy commodities of poor quality from member countries
iv. There may be uneven distribution of industries i.e. when a country has comparative advantage
v. Dumping
vi. Most LDC's produce similar commodities thus a need to trade with MDC's

MEASURES TO PROMOTE REGIONAL TRADE

i. Trade liberalization
ii. Infrastructural development
iii. Export diversification
iv. Privatization
v. Regional economic integrations
vi. Relaxed fiscal policies especially on taxation

vii. Increase monetization/ commercialization of the economy
viii. Ensuring political stability and peace throughout the country
ix. Price stabilization
x. Maintaining macro – economic stability
xi. Relaxing monetary policies on priority areas
xii. Administration and social atmosphere

FOREIGN DIRECT INVESTMENTS AND MULTI NATIONALS

Multinational enterprises / Corporations: Are international or transnational companies which have headquarters in one country but with a variety of branch offices and areas of operation in a number of countries (both developing and developed). They are firms that own, control and manage production activities in several countries i.e. they are limited liability companies whose activities extend in several countries and in different continents. Examples include Coca-cola (with headquarters in Atlanta, USA), Pepsi, General Machinery (with headquarters in USA), Motorola (USA), Firestone (USA), Philips, Shell, Total, Caltex, Unilever, Siemens, Barclays Bank (England), B.A.T. etc.

Positive contributions of Multinational corporations

i. Creation of many employment opportunities:- Multinational corporations provide employment opportunities to many people in developing countries in different sectors in which they have invested e.g. Coca-cola and Pepsi in beverages, Shell, Caltex and Total in petroleum. This helps to reduce the unemployment problem in developing countries.
ii. Filling the foreign exchange gap:- Multinational corporations close the foreign exchange gap in developing countries through foreign exchange inflow from their headquarters to their subsidiary companies or branches in developing countries.
iii. Closing the manpower gap:- Multinational corporations close the manpower gap in developing countries by transferring their skilled technical personnel, management expertise and experience as well as entrepreneurial skills to developing countries.
iv. Closing the government revenue-expenditure gap:- Multinational corporations invest in a wide range of activities and increase the production of goods and services thereby widening the tax base and increasing government revenue through taxation. This helps to close the government revenue-expenditure gap in developing countries. For example the biggest contributors to Uganda’s tax revenue are Coca cola, MTN, Shell, Stanbic Bank, Unilever all of which are multinational firms.
v. Closing savings – investment gap:- Multinational corporations supplement the available low domestic savings thereby closing the savings – investment gap in developing countries.
vi. Closing the technological gap (means of technological transfers):-Multinational corporations are a means of technological transfer from more developed countries to less developed countries through transfer of advanced capital equipment and machinery from their headquarter in developed countries to their branches in developing countries e.g. computerization of banking operations and introduction of Automated Teller Machines (ATMS) in developing countries like Uganda by multinational banks like Barclays Bank, Stanbic Bank and Standard Chartered Bank.
vii. Development of infrastructure:- Multinational corporations greatly contribute to the development of basic social and economic infrastructure in developing countries like roads, railways, harbours, power dams, telecommunication network, banks, schools and hospitals which require massive capital investment which is inadequate in developing countries e.g. MTN, Vodafone in the telecommunication sector, Roko and Sterling in road construction, Sheration International in hotel, Escom and Norpak in power generation.

viii. Acceleration or growth of the industrial sector:- Multinational corporations accelerate the growth of the industrial sector through transfer of capital, foreign exchange, skilled technical personnel, basic intermediate inputs and machinery from their headquarters to their branches in developing countries e.g. Unilever and Coca cola in East Africa.
ix. Contribute to Gross Domestic product (GDP):- Multinational corporations contribute to gross domestic product by facilitating the production of a wide variety of quality goods and services.
x. Promotion of development of local skills:- Multinational corporations promote the development of local skills in developing countries by transfer of human resources, management experience and entrepreneurial skills by means of training programmes in developing countries.
xi. Promote efficiency of locally owned firms through competition:- Multinational corporations encourage competition with locally owned firms in developing countries which leads to improved efficiency of locally owned firms.
xii. Promotion of international co-operation:- Multinational corporations promote international relations and cooperation between developing countries where they are operating and developed countries leading to increased volume of goods and services traded.
xiii. Promote use of idle local resources:- Multinational corporations lead to massive investment in a wide range of sectors in developing countries e.g. mining, fisheries, lumbering, agriculture, manufacturing etc thereby promoting the use of the existing idle resources in these sectors in developing countries.

Negative contribution of Multinational corporations.

i. They accelerate capital outflow:- Multinational corporations are limited liability companies whose major objective is profit maximization. They accelerate capital outflow from developing countries to developed countries by repatriating their profits, interest and dividends in foreign currency to their home countries (headquarters) instead of re-investing or ploughing them back in the host countries. This contributes to balance of payment problems in developing countries.
ii. They contribute to unemployment:- Multinational corporations contribute to the unemployment problem in developing countries by using advanced capital intensive techniques which create technological unemployment and by concentration of their activities in urban areas which leads to rural-urban migration causing open urban un employment.
iii. They worsen the problem of income inequalities:- Multinational corporations worsen the problem of income inequalities in developing countries by promoting the interests of a very small section of a well-paid modern sector.
iv. They exert political influence on government:- Multinational corporations use their immense economic power to exert strong political influence on governments in developing countries to make policies and decisions which may not favour the local people.
v. They contribute to quick exhaustion (depletion) of resources: Multinational corporations contribute to quick depletion of resources in developing countries such as forestry, fisheries, minerals etc through irrational exploitation (over – exploitation) of such resources to meet the high international demand.
vi. They lead to regional and sectoral imbalances:- Multinational corporations lead to regional and sectoral imbalances in developing countries by concentrating their investments and production units in only few areas normally urban areas where there is a big market and better infrastructure leaving out rural areas.
vii. They promote external dependence of developing countries on more developed countries:- Multinational corporations promote dependence of developing countries economies on more developed countries economies by importing most of their intermediate products and capital goods from their head quarters in more developed countries.
viii. They out compete the locally owned firms:- Multinational corporations out compete the local firms in developing countries and push them out of the market since they have the capacity to

produce at low costs and it is difficult for the locally owned firms to compete with them in terms of quantity, quality and prices.

ix. Excess concessions granted to multinational corporations reduce their net benefits:- Multinational corporations insist on many concessions such as liberal taxes, tax holidays, free land etc which must be guaranteed by governments in developing countries before they can invest their capital. These excess concessions reduce the net benefits of multinational corporations in terms of their investments in developing countries.

FOREIGN DIRECT INVESTMENT is the transfer of productive resources or capital by foreign individuals, companies, and multinational corporations in form of business operations. It is the transfer of capital from one country to another by an individual or a multinational corporation (firm) – that exercises factual and legal control over the assets created in the Capital importing country by means of investment.

Positive contribution of foreign direct investment to Uganda.

i. It creates and widens employment opportunities in the country.
ii. It fills the foreign exchange gap through foreign exchange inflow to Uganda.
iii. It fills the manpower gap in the country by increasing the supply of skilled manpower.
iv. It is a source of government revenue through taxation thus closing the government revenue expenditure.
v. It closes the saving–investment gap by supplementing domestic savings to government expenditure.
vi. It is a means of technological transfer thus closing the technological gap in Uganda through transfer of advanced capital equipment and machinery to Uganda.
vii. It facilitates the development of infrastructure such as roads, railways, power generation and supply, water supply, posts and telecommunication network etc.
viii. It accelerates growth of industrial sector hence development of Uganda's economy.
ix. It facilitates production of a wide variety of quality goods and services hence leading to high economic growth rate as well as widening consumers' choice.
x. It promotes development of local skills by transfer of managerial and entrepreneurial skills through training programmes.
xi. It encourages competition with locally owned firms which leads to improved efficiency of locally owned firms.
xii. It promotes international co-operation leading to increased volume of goods and services traded.
xiii. It promotes the use of local idle resources such as minerals, forestry, fisheries etc.

Negative contribution of foreign direct investment to Uganda.

i. It accelerates capital outflow leading to balance of payments problems through repatriation of profits, interest and dividends by foreign investors and multinational firms.
ii. It contributes to unemployment problem through use of advanced but inappropriate capital intensive technology and rural-urban migration because of concentration of activities in urban areas.
iii. It worsens the problem of income inequalities in Uganda by promoting the interests of a small section of a well paid modern sector.
iv. It leads to quick depletion of resources through irrational exploitation.
v. It leads to regional or sectoral imbalances due to preference of concentration of foreign investment in urban areas.
vi. It promotes external dependency of Uganda's economy on more developed economies.
vii. Excess concessions given to foreign investors such as liberal taxes and tax holidays tends

to lower the net benefits in real terms of this foreign direct investment.

viii. Local firms are out competed by foreign investors and multinational firms whose products are of better quality and cheaper.

ix. Foreign direct investments lead to exertion of political pressure and influence on government to make policies and decisions which may not favour the local people.

Factors Limiting Foreign Capital Investment

ii. Limited size of the market:- The small market in Uganda cannot sustain large scale industrial production hence limiting foreign capital investment.

iii. Poor and underdeveloped infrastructure:- The poor social and economic infrastructure in Uganda as reflected in poor, inadequate and unreliable power supply, poor road, railway and telecommunication network hinder domestic production thereby limiting foreign capital investment in Uganda.

iv. Political instability:- Political instability in some parts of Uganda like the North increases investment risks and uncertainties which are a disincentive to foreign capital investment.

v. Limited supply of basic inputs and raw materials:- The limited supply of some basic inputs and raw materials in Uganda such as iron and steel increases the cost of importing these raw materials which discourages foreign capital investment.

vi. Limited supply of skilled manpower:- Uganda has inadequate supply of skilled manpower such as engineers to man industrial establishments. This implies dependence on expensive imported skilled personnel (expatriates) which increases the cost of production hence limiting foreign capital investment.

vii. The problem of land ownership (poor land tenure system):- This limits investors from accessing land or industrial plots hence discouraging foreign capital investment.

viii. Bureaucratic red tape and corruption:- The delays in government departments like Immigrations coupled with corruption as reflected by government officials demanding for bribes and kickbacks before issuing licenses or work permits to investors, delay in guaranteeing standards of goods by the National Bureau of Standards etc frustrate foreign investors hence limiting foreign capital investment in Uganda, e.g. it took very long for parliament to approve the construction of a power dam at Bujagali and to approve the award of Uganda Airlines to South African Airways which eventually pulled out.

ix. High costs of production:- These arise from high taxes imposed on firms, high cost of utilities and scarcity of basic raw materials. The high production costs lead to high prices making the final products less competitive on the local and international market hence limiting foreign capital investment in Uganda.

x. Low level of technology:- This leads to production of inferior quality products which are difficult to market hence limiting foreign capital investment in Uganda.

xi. Limited investment incentives:- The limited investment incentives offered do not make Uganda a favourable investment destination hence limiting foreign capital investment.

POLICY MEASURES UNDERTAKEN TO ATTRACT FOREIGN INVESTORS IN UGANDA.

i. Offering of investment incentives:- The government is providing incentives to foreign investors e.g. tax holidays, subsidies, reducing taxes on some products like beer, allocating land estates at Namanve, e.g. granting of subsidies and tax holidays to Tri-Star Apparel Textile Industry, tax holidays and land to BIDCO in Kalangala District.

ii. Liberalization of the economy:- The government is liberalizing the economy by allowing and supporting free enterprises with minimum interference from the government.

iii. Building of strong and sound infrastructural facilities:- The government is extending and improving basic social and economic infrastructure such as road network, power, telecommunications, etc in all parts of the country to attract foreign investors.

iv. Restoration and maintenance of political stability in the country:- The government is ensuring peace and stability in most parts of the country to create a conducive business environment hence attracting foreign investors.
v. Privatization:- The government is carrying out the privatization drive in order to attract foreign Investors e.g. by privatizing Uganda Commercial Bank to Stanbic Bank of South Africa.
vi. Establishment of specialized institutions to facilitate investors:- The government is putting in place specialized institutions to facilitate foreign investors e.g. the Uganda Investment Authority (UIA) which acts as a one stop investment centre by helping investors to secure licenses and work permits as well as industrial plots thereby relieving foreign investors of the bureaucracy in government departments.
vii. Creation of a wider market through economic integration:- The government is taking deliberate steps to create and widen the market through forming or joining strong regional economic co-operation e.g. the East African Community (EAC) and Common Market for Eastern and Southern Africa (COMESA).
viii. Maintenance of Macroeconomic stability; The government is implementing sound macroeconomic policies focused on the attainment or maintenance of economic stability e.g. controlling inflation and stabilizing prices in a bid to attract foreign investors.
ix. International publicity campaigns; The government is undertaking international publicity campaigns aimed at marketing Uganda as an attractive investment destination through strengthening of bilateral ties and intensive advertising campaigns in international media e.g. "Uganda Gifted by Nature" which features on CNN television.
x. Land reforms; The government is implementing the new land act and carrying our land reforms aimed at facilitating easy access to land by foreign investors hence attracting them to Uganda.

UNEB QUESTIONS SINCE 2001

2004

27. (a) What benefits do countries get from international trade?
    (b) Why do countries put restrictions on international trade?

2009

26. (a) State **four** reasons why international trade is essential
    (b) What **eight** measures can be taken by the government to promote regional trade?

2011

27. (a) State the use of each of the following documents in international trade.
        (i) Certificate of origin
        (ii) Indent
        (iii) Letter of hypothecation
        (iv) Consular invoice
    (b) Give any **six** advantages of foreign trade

2012

25. Explain the following as used in international trade
    (i) Custom drawbacks
    (ii) Balance of trade
    (iii) Certificate of origin
    (iv) Indent,
    (v) Consular Invoice

2013

27. (a) Differentiate between a sight bill and usance bill
(b) Outline **four** features of a bill of exchange
(c) Give any **four** advantages of a bill of exchange to a trader.

2015

21. (a) Give four differences between home trade and foreign trade
(b) Explain six measures that are being taken by the government of Uganda to control foreign trade.

2018

21. (a) Give **eight** reasons why the government of Uganda controls the volume of imports. (08 marks)
(b) Explain any **six** methods used by the government of Uganda to control its imports. (12 marks)

2019

23. (a) Name any **four** forms of economic integration. (04 marks)
(b) Explain any **five** benefits of the East Africa Co-operation to member countries. (10 marks)
(c) Give **three** disadvantages of economic integration. (10 marks)

COMMUNICATION

COMMUNICATION refers to sending and receiving of information from one person to another or from one organization to another and it involves two parties. That is the sender and the receiver.

METHODS OF COMMUNICATION

1. Reading and writing / written communication: This involves giving notices to people. Here, letters and telegraphs are mainly used. Its main problem is that it only favors the literates.

   Advantages
   - ✓ Details and illustrations can be included like in letters
   - ✓ Reference is always left by letters
   - ✓ Cheaper compared to other communication methods
   - ✓ Can favor the deaf unlike oral communication
   - ✓ Mistakes can be rectified / corrected
   - ✓ Allows the sender to plan for the message before it is sent

   Disadvantages
   - ✓ Only favors the literates
   - ✓ Messages take long before reaching the receiver
   - ✓ Immediate feedback / reply is not possible
   - ✓ Requires much paper work
   - ✓ Time consuming ie writing, sending and follow up
   - ✓ Benefits people in areas where post office services are available

2. Talking and listening / oral communication: This involves passing over messages to people through face to face discussions, telephones, radios, radio calls etc. Its main problem is that it does not favor the deaf.

   Advantages
   - ✓ Fastest method of receiving messages
   - ✓ Messages are clear
   - ✓ Immediate feedback is possible
   - ✓ Favors both the literates and the illiterates
   - ✓ Can cover a wide area eg over the radio
   - ✓ Can allow use of gestures and detailed explanations

   Disadvantages
   - ✓ Does not favor the deaf
   - ✓ Once message is missed, it does not leave room for reference
   - ✓ Medias like radios and TVs can only be accessed in urban areas
   - ✓ At times medias like radios, Tvs, Telephones are affected by network coverage
   - ✓ Language barrier especially in a multi lingua nations
   - ✓ Quite expensive to use or access communication medias

3. Using Signs / sign language: This are special signs / mode of communication usually designed and understood by the deaf as a way of sending and receiving messages

4. Telephone: This is a method of communication where people talk to each other through a telephone receiver. Telephones may be in form of;
   - Mobile telephones
   - Car Phones / Radio calls

- Answering machines / Voice bank telephones
- Loud speakers
- Fixed land lines / telephones

Advantages

- ✓ It's the fastest means of sending messages or information hence suitable for urgent information / Enables instant delivery of messages.
- ✓ It eliminates physical movement of people from one place to another to convey information hence saving time and money.
- ✓ Telephones are accurate and averagely cheap compared to other forms of communication
- ✓ Saves time that would be involved in writing letters.
- ✓ Record of messages can be kept by use of text messages SMS, and voice call recording / leaves a record for future reference.
- ✓ Enables instant / immediate feedback to be received.
- ✓ Avails information about payment of money ie mobile money and mobile banking. / facilitates payment by use of mobile money services.
- ✓ Allows dialogue between traders and suppliers / customers / exchange of ideas
- ✓ Distant places can be accessed with in the shortest period of time and at any time. Reaches people who are far apart. / covers a wide geographical area.
- ✓ E-commerce / E-trade is possible.
- ✓ Allows conduct of market research by use of internet.
- ✓ Advertising of goods / services is possible and cheap.
- ✓ Sms / Text messages can be used to send detailed information.
- ✓ It is possible to show samples of goods especially when mobile internet is used.
- ✓ It is possible to have face to face discussions eg using Skype / Whatsapp video calls.
- ✓ It enables tele-conferencing among traders.
- ✓ Possible to obtain information about competitors which enables the traders to have a competitive edge and devise means of maintaining his / her market share.
- ✓ Clarification and emphasis can be made easily since there is immediate feedback.

Disadvantages

- ✓ Very few people have telephones in their homes especially those in rural areas
- ✓ No physical face to face contact between the sender and receiver of messages
- ✓ Sometimes leaves no room for reference unless calls are recorded
- ✓ Limited by network problems / Some areas are not accessible
- ✓ A mechanical fault of a telephone is expensive to repair
- ✓ Conmen use them to cheat / steal people.

5. Post office: is a form of communication where information is passed on from one place to another through the post offices. Such information is inform of letters, booklets, pamphlets, catalogues and other business documents

Services offered by the post office in Uganda.

- ➤ Money orders: This is where a large sum of money, up to a limited amount is sent to a distant person through another post office.
- ➤ Postal order: This is where small sums of money are sent from one person to another through the post office with in a country
- ➤ Telephone services: This is the quickest method of oral communication where by persons can speak to each other through telephone receivers eg Uganda Telecom (UTL) in Uganda.
- ➤ Telex: This is a postal service which enables a message typed at the sender's machine to be

automatically printed at the receiver's set. A telex provides a direct link between subscribers and other users all over the world.

- Recorded delivery (Certificate of posting): Letters are sent under a certificate.
- Poste restante: Provided to travellers / businessmen who are supposed to be in particular towns for only a short time without having a post box number in that town.
- Business reply services: This is mainly used by business men who need to be replied without putting the addressee to any expense.
- Printing and distributing Post office directories which give addresses and telephone numbers of subscribers to the general public.
- Telegram services: This is used to send brief written information. The cost depends on the number of words used in sending a telegram.
- Facsimile Telegraph: This is one of the most modern techniques of communication through writing, live maps, drawings etc.
- Delivery of ordinary mails Ie letters, pockets, news papers and others.
- Delivery of registered posts / mail services for special fee used to send cash, cheques, drafts or other important documents.
- Offering cash on delivery services.
- EMS Expedited mail service which guarantee quick service.
- Offers business services reply services.
- Provide banking service e.g. post bank.
- Transport service e.g. post bus.
- Licensing news papers, magazines e t c.
- Express delivery.

Problems associated with post office services in Uganda.

- Competition with better services like western union, DHL for sending money and parcels.
- Decline in confidentiality of the services offered.
- The new technology of mobile Phones has driven people away from post office communication.
- High operating costs making it expensive to most Ugandans. / Expensive especially if money and urgent messages are to be sent
- Existence of Internet and social networks like Face book, twitter etc enhancing quick communication.
- Uneven distribution of branches throughout the country
- Loss of sender's letters and mails / Lack of safety especially with parcels.
- Delays in the delivery of mails

FACTORS INFLUENCING THE CHOICE OF COMMUNICATION MEDIA.

i. Urgency of the message, Telephones are faster than letters.
ii. Distance involves Letters and phones are best for long distances compared to face to face.
iii. Detailed messages requiring a lot of details may be sent using letters.
iv. Confidentiality. Confidential messages must be sent using letters not phones.
v. Reference. Messages requiring records of reference should be sent using letters instead of phones.
vi. Cost involved. Letters are cheaper compared to phones and face to face cheaper with all.
vii. The need for immediate feedback.
viii. Nature of the message.
ix. The availability of the means of communication.
x. The need to put emphasis on certain points and under such oral communication is the best.
xi. Public opinion: The number of people to receive the message

BARRIERS TO EFFECTIVE COMMUNICATION

Factors that limit effective communication

i. Language barrier / differences. Hence failure to understand communication.
ii. Network coverage problems
iii. Unclear unfamiliar messages / terminologies / jargons
iv. Lack of interest. / bias / negative attitude causing anger of either party.
v. Wrong address / wrong channels of administration.
vi. Different perceptions. People perceive differently different things
vii. Poor listening skills
viii. Distrust, emotional reactions which may lead to ignoring of the communication.
ix. Illiteracy. Inability to read and write messages.
x. Poor communication. Telephone and internet network disturbances.
xi. Slow and poor postal services which may cause delays in the delivery of letters and also limit access to letters. / Limited service providers.
xii. Lack of adequate equipment for communication like phones, pens, papers.
xiii. Inadequate planning before communication / inadequate preparation.
xiv. Noise; failure to perceive the correct message because of noise.
xv. Pre-mature evaluation of the message.
xvi. Distortion of non-verbal communication / signs and gestures.
xvii. Information overload which may lead to ignoring / forgetting of some information.
xviii. Physical appearance of the sender. / Receiver.
xix. Poor timing of communication.
xx. Impairment / disability of the receiver / sender eg deaf / dumb etc.

UNEB QUESTIONS SINCE 2001

2005

21. (a) What is communication as used in commerce?
    (b) Explain any;
        (i) **five** roles of communication in any business activity
        (ii) **four** factors considered when choosing a medium of communication.

26. (a) Distinguish between money order and postal order
    (b) Explain the services other than those in (a) above that are provided by post office to facilitate trade

2006

22. (a) Outline the factors that influence the choice of communication medium
    (b) How does communication facilitate trade?

2015

25. (a) Give advantages of telephones as a form of communication in trade
    (b) Explain five factors that limit effective communication among traders in Uganda.

2018

22. (a) State **eight** advantages of using telephones as a medium of communication in trade. (08 marks)
    (b) Explain **six** factors that limit effective communication among traders in Uganda. (12 marks)

2019

25. (a) Describe any **four** means of payment offered by the post office to traders in Uganda. (08 marks)

(b) Explain any **six** benefits of effective communication to traders in Uganda. (12 marks)

WARE HOUSING

WARE HOUSING*:* This is the storing of goods or raw materials awaiting demand, sale clearance or processing.

Essentials of a goods ware house

- ✓ Suitable / Ideal location / accessibility. Should be located in an area which is easily accessible by producers and traders to store goods.
- ✓ Suitable building ie well ventilated and leak proof
- ✓ Proper storage and preservation equipment so as to cater for all types of goods eg refrigerators for perishables, drugs etc.
- ✓ Skilled, efficient and well trained staff to handle various aspects of specialized activities and to provide satisfactory service to clients / traders.
- ✓ Safe and free from rodents and destructive insects.
- ✓ Free from pests and rodents.
- ✓ Appropriate, speedy and efficient means of transport in place
- ✓ Presence of loading and off loading facilities / equipment eg trolleys, cranes etc.
- ✓ Tight security to guard goods. It should be well protected or equipped with proper safety measures in case of accidents, fire, theft and burglary eg it should have fire extinguishers, security guards, fire detectors, a nearby source of water, security cameras etc.
- ✓ Spacious / Large Enough to accommodate different types and sizes of goods.
- ✓ Good layout for easy and speedy movement of equipment, goods and people and allow for enough parking of vehicles.

TYPES OF WARE HOUSES

(i) Public ware houses: These are mainly owned by private individual business men for hire to the public

(ii) Manufacturer's ware house: These are owned by producers, manufacturers to store both raw materials and finished goods ready for sale.

(iii) BONDED WARE HOUSE: These are owned by private businessmen but under the control of custom authority, goods are normally stored pending payments.

Benefits of a bonded ware house to the Government.

- ➤ Prohibiting dangerous un desirable goods
- ➤ Checking on smuggling
- ➤ Government is assured of getting its duty since goods are charged duty from the bonded ware house
- ➤ Government can check on importation of expired and un hygienic goods
- ➤ Tax evasion on the side of importers is limited if not reduced

Benefits of a bonded ware house to the business men / Importer.

- ✓ May get out goods in small quantities as he makes partial payments of the total customs duty required
- ✓ If the importer sells goods while in bond, the liability of the customs duty is passed on to the buyer
- ✓ If the import decides to re-export the goods, he does not pay customs duty but pays storage charges only.
- ✓ Importer can look for market while the goods are still in the bond. / Can advertise his goods

- ✔ Lowers the duty paid as a result of some goods losing weight while in bond eg if the duty is based on weight eg specific tax
- ✔ Goods can be prepared for sale while in the bond ie branding, packaging, blending and sorting
- ✔ Gives the importer time to look for money to pay the duties.

(iv) WHOLESALERS WARE HOUSE: These are owned by the wholesalers to store finished goods from the producer and also pending increase in market.

ORGANIZATION OF A WHOLESALERS WARE HOUSE

A typically large ware house is organized with several departments i.e.

- ➤ Secretarial department
    - i. Keeps up to date and makes correspondences with customers.
    - ii. Maintain / keep all company records by opening up necessary files.
    - iii. Advise management on all legal matters e.g company registration, dividends.
    - iv. Responsible for staff matters ie interviewing, recruiting, appointing, promoting, demoting and even dismissal of staff.
    - v. Arranging for training of personnel / Staff.
    - vi. Maintain staff records.
    - vii. Responsible for improving working conditions and general welfare.

- ➤ Accounts department
    - i. Maintains accounting records.
    - ii. Prepares and sends invoices and statements to customers.
    - iii. Prepares the budgets and plans activities of the organisation.
    - iv. Calculate and makes payment of wages and salaries to workers and other expenses of the organisation.
    - v. Ensures that all financial commitments of the business are conveniently met.
    - vi. Prepares final accounts at the end of the year.
    - vii. Analyses the financial position of the business.
    - viii. Advises management on financial matters.

- ➤ General administration
- ➤ Purchases department
- ➤ Sales department
- ➤ Transport department
- ➤ Legal department

ROLE OF WARE HOUSING AS AN AIDS TO TRADE

i. Preserves surplus thus saving large quantities of goods which would otherwise be wasted.
ii. In a ware house, goods can be prepared for sale, they can be sorted out, weighed and repacked.
iii. Public ware houses provide temporary accommodation of goods for the producers with no sufficient stores
iv. It serves as a reservoir letting trade to continue all the year round.
v. Traders can defer payment of highly taxed goods which enables the importer to look for market before clearing them.
vi. Enables stabilization and regulation of prices
vii. Encourages more production which may lead to lower prices which increases demand / market
viii. Facilitates entre-pot trade because goods are kept in preparation for re-export
ix. Reduce congestion at the terminals, goods are easily removed from the terminals to the stores

to create space

x. Provision of storage facilities to protect goods from damage, theft etc

UNEB QUESTIONS SINCE 2001

2002

25. (a) What is ware housing?

    (b) Describe the organization of a ware house of a large scale business

2011

22. (a) What is ware housing?

    (b) State any **four** characteristic of a good warehouse

    (c) Explain **five** advantages of a bonded warehouse to the importer.

2014

22. (a) Describe four types of ware houses

    (b) Explain **six** ways in which ware housing aids trade in Uganda.

TRANSPORT

TRANSPORT refers to an aid to trade involving movement of people, goods, services and information from one place to another

COMMON TERMS USED IN TRANSPORT

Full container load (FCL): This is where the shipper loads the container with his own cargo destined for one consignee ie all the cargo belongs to an individual trader / importer.

Less than Container load (LCL): This is where cargo packed in the container belongs to many shippers / traders ie the cargo is consolidated. At the port of destination, the container is opened ie de-consolidated and deliverances are made to various consignees.

Dry Port: This is an inland container terminal where exporters who are located inland take their products to be packed and sealed in containers ready for export ie all the clearances and documentation is done here.

Liner conferences: This is an association of liner companies who operate on a particular route / set of routes to withstand unfair competition from tramp owners

Charter Party: This is an agreement / contract between the chartering business and the ship owner giving the hirer absolute control over the vessel / ship for the period of the contract.

IMPORTANCE / ROLES OF TRANSPORT

i. Helps in transportation of goods from one place to another ie from the point of production to the point of consumption / Links production centers to markets centers
ii. Helps in the transportation of commercial documents ie letters, invoices, contracts / Facilitates communication necessary in business
iii. Makes it possible to exploit distant and new resources eg minerals etc
iv. Encourages and supports agriculture and may lead to agriculture commercialization.
v. Facilitates advertisement of goods and services thus creating market.
vi. Avails consumers with a wide variety of goods and services thus improving their standards of living / widens consumer choice.
vii. Source of government revenue which can be used for more development of infrastructures.
viii. Provides employment opportunities / Source of income to the people employed in transport and transport firms providing transport services.
ix. Promotes the tourism industry through making distant places reachable hence more income to the government
x. Regional development
xi. Promotes international trade
xii. The surplus can easily be disposed into other markets
xiii. Creation of utility
xiv. Providing a variety of goods to the public
xv. Transport eliminates scarcity of goods in markets
xvi. Links producers to consumers.
xvii. Generates revenue in form of road license, driving permits etc
xviii. Enables industrial development by moving raw materials from one place to another.
xix. Reduces over charging in one market
xx. Specialization and exchange are promoted
xxi. Eases transportation of workers from their residences to their work places

QUALITIES OF AN EFFICIENT TRANSPORT SYSTEM.

- Time keeping.
- Speed and agency.
- It should be cost effective.
- Safety offered by the type of transport system.
- Flexibility of the transport system.
- Reliability or accessibility or easily available means of transport.
- Terminal that is point of loading and off loading.

ELEMENTS OF TRANSPORT.

1. The way: This refers to the paths / route / channel / anything on which different vessels (units of carriages), goods and people move. They can be natural or manmade.
2. Unit of carriage: These are vessels used to carry goods or passengers eg vehicles, trains, aeroplanes etc.
3. Method of propulsion: This is the force that drives the unit of carriage e.g. Petrol / diesel engines.
4. Terminals: This is the points or places where loading and offloading is done eg railway station, airport sea ports, car parks etc.

FORMS / MODES / MEANS OF TRANSPORT

- ✓ Road transport
- ✓ Air transport
- ✓ Sea / Water transport
- ✓ Railway transport
- ✓ Pipeline transport
- ✓ Containerization

FACTORS CONSIDERED WHEN CHOOSING A MODE / MEANS / FORM OF TRANSPORT

i. Type / Nature of goods : Fragile / Perishable goods need special care and handling thus air transport is the safest
ii. Bulkiness' / Weight of goods: Heavy / Bulky goods are economically sent using slower transport like railway and water / sea.
iii. Cost of transport / transport means: Cost of transporting goods should be taken into consideration in relation to the value of goods. The cost should be lower than the value of goods
iv. Distance: Road transport is best for short distances while air / water is best for long distances
v. Terminals: These are the beginning and the ending points like railway stations and airports
vi. Risk involved / Safety: The slower the mode of transport, the greater the risk involved
vii. Flexibility of the means of transport: ie can easily reach goods to their final destination.

SEA / WATER TRANSPORT:

Elements of Transport

The way	-	Water bodies eg lakes.
The unit of Carriage	-	Ship, canoes.
The method of Propulsion	-	Propellers
The terminal	-	Sea Port, Landing sites

CONDITIONS WHEN SEA TRANSPORT MAY BE PREFERRED

- The way is free. No country has to pay anything
- Where water bodies are navigable
- Where goods are fragile / delicate or when there is less risk of loss
- Where goods are not needed urgently
- Where there is terminal for loading and unloading
- Where there is traffic congestion on waters compared to other means of transport
- Where tonnage is high and carriage cost reduces.
- Where special types of goods can be transported in special ships eg oil tankers (flammable goods)
- Where goods are too heavy / bulky
- Where the distance to be covered is long

AIR TRANSPORT:

Elements of Transport

The way	-	Air space.
The unit of Carriage	-	Aeroplanes, air jets.
The method of Propulsion	-	Aircraft engines
The terminal	-	Air Port, Air strips.

Advantages of air transport.

- It is a quick means of transport.
- It is faster for perishable goods.
- It is best for perishable and fragile goods.
- There are less chances of loss.
- It is most suitable for suitable long distances.
- It is very comfortable.
- Some air crafts have large storage facilities.
- No traffic jam.
- No costs of constructing air ways.
- Flying space is unlimited.

Disadvantages of air transport.

- It is expensive to buy aircrafts and construction of terminals.
- Inflexible since it moves along few destination.
- Not suitable for bulky goods.
- Moves on time table.
- Costly in terms of fuel.
- Limited cargo may be carried.
- Cannot carry people to final destination.
- Incase of accident, life and property is lost.
- Hijackers may affect their operation.
- Weather conditions.
- Requires a lot of formalities to travel by air.
- Too strict in their operation.

RAILWAY TRANSPORT:

Elements of Transport

The way	-	Railway line
The unit of Carriage	-	trains.
The method of Propulsion	-	Diesel /Petrol engines.
The terminal	-	Railway station.

Advantages.

- It is suitable for carrying bulky commodities.
- Special wagons can be designed for particular commodities.
- The rate of accident is relatively low.
- It can transport many people and cargo for long distance.
- Return cargo can be arranged as trains move on time table.
- It cannot be easily be faced by bad weather.
- Trains are not affected by traffic congestion.
- It is suitable for carrying containers.

Disadvantages.

- Railways are not flexible.
- May not pass through mountainous regions.
- Trains delay at particular stop over.
- Constructing a railway line is very expensive.
- Goods usually delay at particular depot of clearing procedures.
- It is a slow means over long distances.
- It is uneconomical for short journeys.
- There is a possibility of damaging the cargo because of increased handling.

PIPE LINE TRANSPORT: This is where liquids, fluids and gases are transported through pipes.

Elements of Transport

The way	-	Pipe lines.
The unit of Carriage	-	Pipes
The method of Propulsion	-	Pressure.
The terminal	-	Reservoirs.

Merits.

- Pipes are very safe and convenient.
- It is good for transporting risky goods.
- Pipes are not affected by atmospheric conditions.
- The running costs are low like maintenance.
- Reduces traffic congestion and accidents.
- The speed of goods is reasonably high.

Demerits.

- Physical and tangible goods are not transported.
- Repairs tend to be costly and difficult.
- Exposure of pipes by soil erosion.
- Expensive in terms of installing.

ROAD TRANSPORT:

Elements of Transport

The way	-	Roads
The unit of Carriage	-	Vehicles.
The method of Propulsion	-	Diesel /Petrol engines.
The terminal	-	Car Parks / Stages.

WHY IS ROAD TRANSPORT SO POPULAR? / ADVANTAGES OF ROAD TRANSPORT

- It is easy to set up / construct roads compared to other types of transport.
- It is good for short journey.
- It is flexible.
- Selling and collection of goods can be possible.
- It is good for door to door services.
- It is relatively cheaper than air transport.
- Special arrangement can be organized for particular occasions.
- It can be used all the time as it does not need followed time table.
- It is quite fast over short journeys compared to railway.
- Easy to organize any time.
- Roads are easier to set up
- Very suitable for short journeys
- Return cargo can easily be arranged
- Can deliver goods to their final destination
- Enroute business is possible
- Speed is averagely high
- Can be used 24 hours
- In case of emergency organizations can easily be arranged
- There is not much documentation compared to other form of transport

Problems associated with road transport

- Highly affected by weather
- Limited space for carrying goods
- Very expensive over long distances
- Return cargo is usually not assured
- Delayed by traffic congestion
- Relatively slow over long distances
- Highway robbers affect transporters
- Highly prone to accidents
- Interfered by political instabilities

CONTAINERIZATION: This is the sealing of goods in metallic containers which are lifted by cranes during loading and offloading for transportation on to different units of carriage.

NB

Containerization applies to all other modes of transport. These containers can be transported by Air ie by Aeroplanes, Water where containers are loaded on large water vessels, Road where containers are loaded on transit goods trucks or moved by railway lines.

Therefore the advantages of Containerization transport we are yet to look at, are general thus some do not apply to particular modes of transport.

General Advantages.

i. Saves time and labor since containers are packed at the exporters premises
ii. Enables use of modern cargo handling equipment to ease loading and off loading
iii. Larger consignment of cargo can be carried which wouldn't be carried if separate units of goods were loaded on a ship
iv. Movement of containers in the sea port is comparatively simple and cheap
v. Reduces risks of theft or loss of goods since containers are sealed at the exporters premises
vi. Eases transportation of cargo on road when goods are loaded in containers.
vii. Special containers can be made to transport special types of goods eg gases and liquids
viii. Low insurance premiums are paid due to safety
ix. There is no need for large ware houses for keeping the goods

General Disadvantages.

i. It cannot be loaded or off loaded without using cranes.
ii. It is not suitable for transporting fragile goods.
iii. It cannot be handled by ports with a limited space.
iv. Goods can be destroyed by heavy rains while in a container in an ample space.
v. Containers cannot be handled by railway stations with small space.
vi. Absence of automatic cranes makes the loading and off loading almost impossible
vii. Containers are very expensive
viii. The cost of the container makes the final price of goods very high
ix. Its highly exposed to highway robbery
x. They are specifically designed for non living things not humans
xi. May not be suitable for transporting unpacked cargo
xii. Delicate goods may not be transported by containerization transport
xiii. Transport is affected by weather changes e.g slippery roads especially in East Africa

ADVANTAGES OF CONTAINERIZATION IN SEA TRANSPORT.

i) Containers are packed at the exporters premises not at the port. This saves time and labour in loading a small number of packages on the ship.
ii) A properly arranged load of containers accommodate a large quantity of cargo.
iii) Movement of containers on the sea is comparatively simple and cheap because containers are specially fitted with devices that assist in the movement.
iv) Containers are sealed at the exporters premises and delivered without the seal being broken to the importer which makes goods safer from loss and theft.
v) Insurance premiums are lower on containerized cargo since the risk of theft and loss are minimized.
vi) Damage due to bad weather is minimized since goods are transported in containers.
vii) Special containers may be built to handle special type of cargo or goods eg chemicals and other liquids like Petrol, diesel.
viii) It minimizes the cost of constructing warehouses since the goods are safely kept in the containers at the port.
ix) Containers take up little space ie at the sea port hence less space is used to keep many containers since they can be piled on each other awaiting further transportation.
x) Enables modern cargo handling machinery to be used.

UNEB QUESTIONS SINCE 2001

2001

22. (a) Mention any **two** commodities transported by pipeline
    (b) Give any

(i) **four** advantages
(ii) **two** disadvantages
of pipeline transport.

(c) What factors influence the choice of means of transport?

2003

22. (a) Distinguish between liners and tramps as used in sea transport
(b) Outline the advantages and disadvantages of sea transport

2006

23. (a) Define containerization
(b) Outline any **five** advantages and **four** disadvantages of containerization

27. (a) Explain any **four** factors considered when choosing a means of transport
(b) Why is road transport popular in Uganda?

2007

24. (a) Explain six factors to be considered when choosing a means of transport
(b) What problems are faced by the business community in Uganda when using road transport?

2012

27. (a) Give any **four** forms of transport used in your country
(b) Explain the role played by transport in your country

2013

23. (a) Explain the following terms as used in transport
(i) Full container load (FCL)
(ii) Less than container Load (LCL)
(iii) Dry Port
(iv) Liner conferences
(v) Charter Party
(b) Under what **six** conditions may sea transport be preferred to other forms of transport?

2015

23. (a) Advise a trader on any five factors that should be considered when choosing means of transport
(b) State five advantages of containerization to traders.

2016

23. (a) Describe **four** elements of transport.
(b) State **six** advantages of containerization in sea transport.

MONEY AND BANKING

MONEY refers to anything, which is generally acceptable as a medium of exchange for goods and services and settlement of debts and obligations.

COMMON TERMS USED UNDER MONEY AND BANKING

- Legal tender is money which people are compelled by law to accept in the settlement of debts and obligations. It consists of a country's bank notes and coins issued by the central bank
- Currency is money which is nationally accepted as a medium of exchange for goods and services in a particular country e.g. the Uganda shilling in Uganda.
- Fiduciary Issue is money issued by the central bank at its discretion and is not backed by gold or foreign reserves but by government securities
- Fiat money is money issued by the Central Bank on the directive of government regardless of the level of economic activity and is not backed by gold reserves or government securities.
- Quasi money or near money refers to liquid assets which can easily and quickly be converted into cash e.g. treasury bills and bonds
- Deposit money is money which is deposited by the public on savings, current and fixed deposit accounts.
- Demand deposit is money deposited on a current account and can be withdrawn on demand by use of cheques. No interest is earned since money can be withdrawn anytime on demand
- Time deposit are deposits made for a specific period of time and can be withdrawn after the expiry of the deposit period with the account holder earning high interest.
- Standard coins are coins whose face value is equal to their metal value while
- Token coins are coins whose face value is greater than their metal value
- Paper money or bank notes is money issued by the central bank in form of paper while
- coins refer to metallic money i.e. money minted out of metals e.g. copper or silver.

- Money market is a market for short term loans
- Capital market is a market for long term loans.
- Treasury bill is an instrument of short term borrowing by the government normally maturing within 91 days.
- A bond is an instrument of long term borrowing normally maturing beyond 91 days.
- Liquidity preference is the people's desire and willingness to hold their wealth in cash or near cash form instead of other assets.
- Deposit rates refers to the interest paid by commercial banks to depositors normally holders of savings or fixed deposit accounts
- Lending rates are interest rates charged by commercial banks on borrowers i.e. those advanced loans or overdraft facilities.
- Nominal interest rate is the actual interest rate observed in the market
- Real interest rate is the nominal interest rate adjusted for changes in the price level.

FUNCTIONS OF MONEY IN AN ECONOMY

- Medium of exchange: Money makes it possible to exchange goods and services without physically involving them.
- Measure of value: Money is used to determine the relative values (prices) of goods and services to be exchanged.
- Store of value: Money is the most convenient way of storing value because it is relatively more durable than other goods e.g. a person can sell perishable goods like tomatoes or fruits, get the money and stores it until he needs it for future transactions.

- **Standard of deferred payment:** Money is used as a means of setting debts in future of goods and services taken on credit.
- **Unit of account:** Money acts as a unit of account i.e. all transactions are recorded in monetary terms e.g. wages, salaries, profits e.t.c

QUALITIES OF GOOD MONEY

- **Acceptability:** Good money must be generally accepted as a medium of exchange by all people in the country concerned.
- **Divisibility:** Money must be capable of being divided into suitable denominations (monetary units) to enable the purchase of goods or services both small and large without getting problem of change.
- **Durability:** Money should last for a fairly long time to reduce the cost of replacing worn out currency notes and coins from time to time by the government.
- **Homogeneity:** Money used in the country should be similar and have the same value to avoid confusing the public and also safeguard against counterfeit currency in a circulation e.g. all ten thousand shilling notes must look alike.
- **Portability:** Money should be relatively light and easy to carry from one place to another to facilitate exchange in different places in the country
- **Scarcity:** Money should be limited in supply relative to demand so that people work for it if it is to be valuable.
- **Fairly stable in value:** Money should not lose its value so easily but should be fairly stable in value so as to maintain its worth.
- **Recognisability:** Money should be easy to recognize by the public as money so that it is freely accepted and used in the country.
- **Difficult to forge:** Good money should not be easy to forge or copy if it is to maintain its value. Money whether in form of coins or bank notes should have unique features which make it difficult to forge in order to avoid counter felt currency in circulation which may result into too much money in circulation and cause inflation.
- **Malleability:** Money should be cheap and convenient to print.

BANKING IN UGANDA

Banking Financial intermediaries are specialized financial institutions which stand between savers (Lenders) and borrowers, integrating and satisfying the interests of both. They bring together the surplus spending units (savers or lenders) and deficit spending units (borrowers).
OR
Banking Financial intermediaries are financial institutions that receive deposits from the public, give loans and create new deposits or credit e.g. commercial banks

Differences between banking financial intermediaries and non-bank financial intermediaries

- Banking financial intermediaries create new deposits or credit while non – bank financial intermediaries do not create new deposits (credit)
- Banking financial intermediaries usually deal in money markets by lending money on short term basis while non – bank financial intermediaries deal in capital markets by lending money on a long term basis.
- Banking financial intermediaries maintain short term deposits while non – bank financial intermediaries maintain long term deposits.
- Banking financial intermediaries pay low interest rates on deposits since they are held for a short period of time while non – bank financial intermediaries pay high interest rates on

deposits since they are held for a long period of time.

- Banking financial intermediaries usually undertake less investment risks by lending to less risky ventures while non – bank financial intermediaries undertake more investment risks.

A BANK is a financial Institution which accepts people's deposits (money), safeguards it, and makes it available to its true owners on demand and advances loans to those who are in need of financial assistance and are able to provide security.

Different types of banks

i. Savings Banks: These are banks basically intended to provide a safe place for keeping cash and to promote a habit of savings among low income earners e.g. Post Bank Uganda (PBU).
ii. Specialized Banks: These are banks which serve a special type of customers and are aimed at providing a special service to specified customers e.g. Housing Finance Company of Uganda which provides finance for buying or setting up housing estates.
iii. Central Banks: A central bank is a government owned financial institution established to control and assist other banks and ensure economic stability in the country e.g. Bank of Uganda.
iv. Merchant Banks: These are financial institutions which specialize in assisting traders involved in international trade through opening letters of credit on behalf of the traders, accepting and discounting bills of exchange e.g. Cairo International Bank.
v. COMMERCIAL BANKS: These are banks which are owned by shareholders and run as joint stock companies with the aim of making profits. They offer a wide range of services which are of particular importance to businessmen e.g. Stanbic Bank, Barclays Bank e.t.c

THE FUNCTIONS OF COMMERCIAL BANKS

i. Accepting and safeguarding deposits: Commercial banks accept and safeguard money (deposits) from the public by permitting them to open different types of accounts with them namely savings, current and fixed deposit accounts.
ii. Provision of credit facilities: Commercial banks provide credit facilities to their customers through advancing bank loans, overdrafts and discounting bills of exchange.
iii. They provide excellent means of payment: Commercial banks provide excellent means of payment or money transfer by use of such facilities as cheques, bank drafts, standing orders, credit transfers, Automated Teller Machines (ATMs) etc.
iv. They act as custodians of valuable items: Commercial banks act as custodians of valuables such as gold medals, Jewellery, land titles and academic certificates which people consider risky to keep in their homes and business premises.
v. They act as Referees: Commercial banks act as referees for those traders applying for credit facilities from suppliers by providing confidential reports about their customers' financial position or credit worthiness.
vi. They act as trustees: Commercial banks act as trustees to execution of wills or estates of deceased persons. This is done to assist the dependants or orphans.
vii. They provide night safes: Commercial banks provide night safes for banking beyond banking hours. This service basically enables customers to deposit money beyond the normal banking hours instead of taking a risk of carrying money at night to their places of residence or keeping it at their business premises.
viii. They give financial advice to their customers: Commercial banks advise their customers on investment decisions, taxation and other financial matters.
ix. They act as agents of the stock exchange: Commercial banks act as agents of the stock exchange by buying and selling shares and securities on behalf of their customers.
x. They facilitate international trade: Commercial banks assist traders in carrying out

international trade by opening letters of credit to intending importers and guaranteeing payments in international transactions as well as issuing international traveller's cheques.

xi. They exchange foreign currencies: Commercial banks exchange foreign currencies for their customers by dealing in the buying and selling of foreign currencies e.g. dollars, pound sterling.

xii. They assist the central bank in implementing monetary policy: Commercial banks are used by the central bank to achieve its monetary policy objectives e.g. controlling money supply in circulation in order to control inflation and attain price stability.

MEANS OF PAYMENT OFFERED BY COMMERCIAL BANKS IN UGANDA

i. Standing order: This is an instruction by a bank customer to his bank to pay a specified sum of money to named persons or organizations at regular and specified interviews until the arrangement is cancelled. It is used for paying many creditors e.g. rent, electricity and water bills, insurance premiums, hire purchase instalment etc.

ii. Credit transfer: This is an arrangement where a bank customer writes out one cheque to his bank to pay specified sums of money to named people at ago by transferring money from his account to their respective accounts. It is used to pay many people at ago.

iii. Cheques: A cheque is a written order from an account holder to his bank to pay a specified sum of money to a named person on demand.

iv. Bank draft: This is a cheque drawn by the bank against itself. It is issued by the bank after receiving money from the person requesting it.

v. Traveller's cheques: These are cheques issued by banks in fixed denominations to people travelling to distant places after paying for them in advance.

vi. Automated Teller machines (ATMs): These are banking facilities which provide a 24 hour service to account holders enabling them to access their money even after the normal banking hours.

vii. Credit cards: These are issued by banks authorizing holders to buy goods at designated shops for amounts up to a specified maximum.

The factors which are considered by a bank manager when advancing loans to a loan applicant

i. The type of investment (purpose of the loan): Loans are only advanced to projects which have the capacity to generate profits to enable the borrower pay back. When the project is not profitable, the bank will not advance a loan to the applicant.

ii. The value and marketability of the collateral security presented by the applicant: The applicant must have collateral security in form of land title, building, share certificate etc before a loan is granted such that in case the borrower fails to pay the loan, the bank can recover the money by selling the collateral security.

iii. The credit worthiness or financial status of the loan applicant: The bank manager must determine whether the applicant has the ability to repay the loan.

iv. The length of the period for which the loan is required: Usually commercial banks advance short term loans i.e. those loans which are repayable with in a short time.

v. The amount of money required: The smaller the amount required, the easier it is to obtain a loan.

vi. The prevailing government policy on lending: If government is in favour of the idea of lending to the public, more people will access loans from commercial banks. However, when the government is against lending to the public in order to control inflation, very few people will get loans from the banks.

vii. The income of the loan applicant: The bank will look for the customer's records to judge his average income to date and determine whether from such income he can repay the loan.

viii. **The nature of the applicant i.e. whether he is an account holder or not:** The bank's existing customers' are given first priority when advancing loans compared to non-customers.
ix. **The guarantors of the loan applicant:** The loan applicant is always required by the bank manager to have some people stand for or support him while acquiring a loan. Some guarantors are always customers of the bank.
x. **The probation period of the loan applicant:** Some banks require that loans are given out to those who have held accounts for a period of not less than six months.

ROLE OF COMMERCIAL BANKS IN DEVELOPMENT OF UGANDA

i. **Mobilizing savings**; Commercial banks mobilize savings by providing facilities which enable investment in future leading to development.
ii. **Creation of employment opportunities;** Commercial banks provide employment opportunities to many people e.g. Cashiers, accountants, security guards, etc thus reducing the unemployment problem in the county.
iii. **Source of government revenue through taxation;** Commercial banks contribute to government revenue in form of taxes such as VAT, PAYE etc which is invested in the public sector leading to development
iv. **Assisting potential investors;** Commercial banks assist potential investors by giving them advice on trade and investment prospects.
v. **Assist government in implementing the monetary policy;** Commercial banks are used by government through the central bank in implementing the monetary policy so as to attain desired development objectives e.g. price stability, exchange rate stability, higher levels of employment.
vi. **Contribute to investment capital;** Commercial banks contribute to investment capital in the country by purchasing shares from various companies.
vii. **They invest in other fields;** Commercial banks invest in other fields e.g. agriculture thus contributing to development.
viii. **Promotion of investment;** Commercial banks promote investment by extending credit facilities to potential investors.
ix. **They facilitate international trade;** Commercial banks facilitate international trade by opening letters of credit to intending importers, issuing traveller's cheques etc
x. **They act as money markets providing short term finance;** By discounting bills of exchange, commercial banks operate as money markets providing short term finance for development.
xi. **They give covering letters to potential investors;** Commercial banks give covering letters to potential investors and also act as trustees.

BANK ACCOUNTS OFFERED BY COMMERCIAL BANKS

i. Savings account

- Money can be deposited at any time.
- Account holder is requested to deposit not less than minimum initial deposit.
- No overdraft facilities are allowed.
- No issuing of cheque books.
- Account holder is issued with a pass book for withdraw purpose.
- Interest is payable.
- Withdraw are allowed any time.

ii. Current account

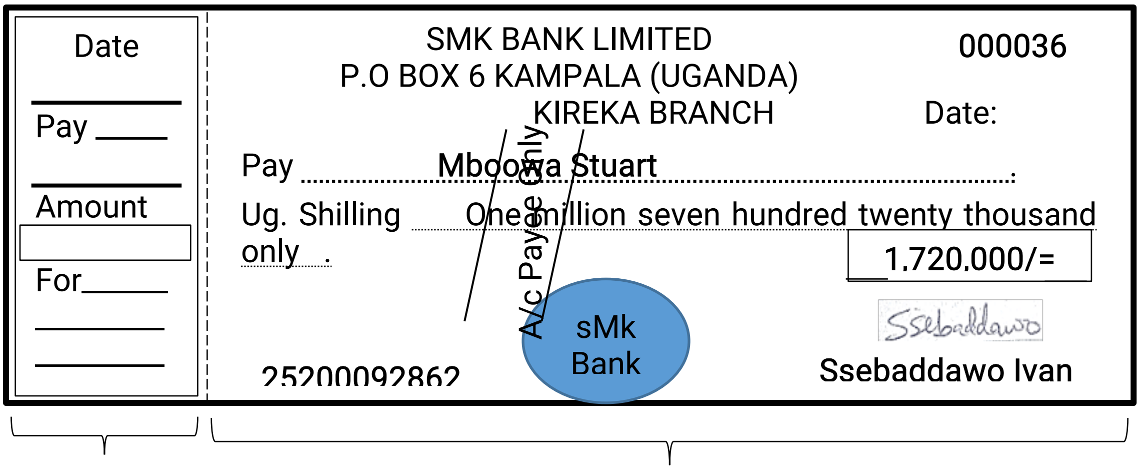
- All withdraw must be effected by use of a cheque.
- The customer can withdraw as much as he can.

- There is no minimum balance required.
- Depositing can be done any time.
- Bank statements are issued to account holders.
- Bank overdraft is allowed.
- No interest is paid to the account holder.
- Minimum initial deposit is required at any time of opening an account.
- A cheque book is provided to the holder.

iii. *Fixed deposit account.*
- It's opened with not less than the minimum amount which is maintained for a specific period of time.
- No further withdraw are made before the expiring period.
- Fixed rate of interest is paid.
- Account holders are given receipt book.
- Notice must be given before withdrawing.

A CHEQUE is a written order by a bank customer instructing the bank to pay a named person the indicated amount of money.

MAIN FEATURES OF A CHEQUE



Counterfoil / Cheque

Cheque

- ✓ It should bear a date ie 18/January/2014
- ✓ The payee ie Mboowa Stuart
- ✓ The Drawer ie Ssebaddawo Ivan
- ✓ Should have a cheque number ie 000036
- ✓ It should have a drawer's signature ie 
- ✓ The name of the bank / branch where the cheque is to be cashed / Drawee ie SMK BANK LIMITED KIREKA BRANCH
- ✓ Crossings ie with words A/c payee only
- ✓ The counter foil
- ✓ The drawers account number ie 25200092862

Importance of a counterfoil

i. The counterfoil acts as a record of payment for future reference.

ii. It also helps to reconcile with the bank statement.

iii. It may be used to make entries in the cash book.

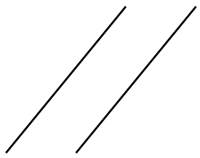
TYPES OF CHEQUES

a. *Open Cheques*: these are payable across the bank counters to the holder
   - Bearer Cheque: This is an open cheque where there is no payee named.
   - Order Cheque: this is an open cheque where the payee is named
b. *Crossed cheque:* This is a cheque bearing two parallel crossings on its face and cannot be cashed across the counter
c. Stale cheque: This is one that has stayed for over six months from the day it was written
d. Postdated cheque: This is one presented to the bank before its maturity date
e. Stopped cheque: This is one which the drawer instructs his bank not to cash it.
f. Blank cheque : This is a cheque which has been completed except for the amount in words and in figures

- Lost cheque : This is one that has gone out of the hands of the holder
- Forged cheques : This is one used by an impostor to get money from another person's account
- Specially crossed cheque: This is a cheque which should be presented for payment only at the bank and branch named on it.

CROSSING A CHEQUE

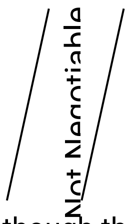
Crossing a cheque is the safest way of safe guarding a cheque. The following are the commonest forms of crossings



General Crossings: These on a cheque has no much significance only that the cheque must be presented and cashed only through a bank account

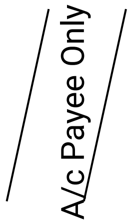
Special Crossings: These carry with them special words amidst the crossings. Some of which words include;

(i)



This means that though the cheque can be transferred, the new payee cannot transfer it to a new payee by endorsement.

(ii)



This means that the payee must pay the cheque into his own bank account and can't endorse it to pass to another person.

SIGNIFICANCE OF CROSSING CHEQUES

- Implies that the cheque is not payable across the counter ie cannot be cashed at the counter.
- A crossed Cheque cannot be presented for payment across the bank counter therefore this

enables the drawer or the bank to trace the payee.
- The money is payable only in the payees bank account.
- The crossed cheques must be presented through the bank account hence this prevents forgery and theft since money cannot be withdrawn immediately.
- Crossings on a cheque may indicate the amount payable against the cheque which is precaution against falsification of figures on a cheque.
- Proof of payment because once a cheque has been effected by a bank, it shows that money has been paid.
- Makes the cheque safe / secure. It can be personalized by crossing

CONDITIONS WHEN A CHEQUE CAN BE DISHONOURED
- When there no sufficient funds on the payer's account.
- When the drawer is dead
- When the drawer runs bankrupt
- When the drawer runs insane
- When the cheque has an error eg when the figures differ from the words.
- When the cheque is stale.
- In case of a postdated cheque
- If the signature of the drawer on the cheque is different from the specimen signature with the bank.
- When the drawer instructs the bank not to cash it.

ADVANTAGES OF PAYING BY CHEQUE
i. It is safer to carry a cheque than large amounts of cash.
ii. Saves time / convenient ie easier to write a cheque than count large sums of money.
iii. The counter foil acts as a record for future reference.
iv. Postdated cheques can be used to postpone payment till money is available on account ie can be used for future payment when there is no cash.
v. Even if a crossed cheque gets lost, an impostor (thief) cannot obtain cash against it since it is only payable through a bank account of the payee or the drawer can stop the bank from honoring payment.
vi. A cancelled cheque ie a cheque against which payment has been made is an evidence of payment in itself.
vii. A trader can use one cheque (Credit transfer) to pay many employees at once.
viii. It is cheaper to transfer large sums of money using a cheque eg bank draft than physical cash which may require hire of security and bullons vehicles / effects of transfer of money without money leaving the bank.
ix. It is light and easy to carry ie it is portable.
x. It ensures accuracy of payment and avoids making mistakes.

WHY CHEQUES ARE NOT WIDELY USED IN UGANDA

- Most banks are limited to urban centers / banks are not widely distributed.
- Most people are illiterate and do not know how to use cheques.
- Most people prefer operating savings account which does not use cheques.
- Most people are engaged in small transactions which makes use of cheques un commercial.
- Majority prefer keeping their money at home instead of banking it hence rendering use of cheques irrelevant.
- Fear for cheques to be dishonored.
- Sometimes cheques take long to mature.

- Fear of banks by people due to a number of guards around it.

PROBLEMS FACING COMMERCIAL BANKS

- Low deposits, majority Ugandans are peasants and poor. Some do not need the services of commercial banks/
- Ignorance about banking services
- Loss of trust in banks
- Loan defaulters, bank debtors are at times reluctant to pay back loans causing losses in banks
- Political instabilities, some parts of the country are not accessible by banks due to instability
- Higher rates of inflation, which makes interest rates charged to borrowers high.
- High interest rates which discourage the would be borrowers
- Forgery and money landering which results in massive / gross loss of money
- High levels of conservatism and poor saving habit among Ugandans
- Stiff competition among banks / incur high operation costs.
- Government stringent guidelines on commercial banking / restrictive monetary policies
- Dishonesty of workers / robberies / theft.

A CENTRAL BANK is a government owned financial institution established to control, guide and assist other financial institutions in the country, advise the government on monetary and financial issues and ensure economic stability in the country. e.g. Bank of Uganda

THE FUNCTIONS OF A CENTRAL BANK IN AN ECONOMY

1. Issuing of currency; The central bank is the only bank legally authorized to issue a country's currency notes and coins which circulate as legal tender. It is also responsible for the replacement of worn out currency notes and coins which are withdrawn from circulation through commercial banks.
2. Banker to government; The central bank provides banking services to the government just as commercial banks do to the public. It keeps accounts for government ministries and departments to pay her civil servants through commercial banks. It also receives deposits from government e.g. tax revenue from Uganda Revenue Authority and it also keeps money generated from the sale of public enterprises (privatization)
3. Banker to commercial bank; The central bank provides banking services to commercial banks in the country just as commercial banks do to the public. It accepts and safeguards their cash deposits (cash reserve). All commercial banks must have accounts in the central bank. These accounts are used to settle payment from one bank to another through the clearing house.
4. Control of money in circulation; The central bank uses the tools of monetary policy to regulate the amount of money in circulation in order to achieve development objectives such as price stability, higher levels of employment etc.
5. Banker to international agencies working in the country; The central bank provides banking services to international agencies working in the country e.g. World Bank, IMF, UNDP, UNICEF etc by keeping the accounts of these agencies in both local and foreign currencies.
6. Lender of last Resort; The central bank is not basically a money lending agency. However, when commercial banks are faced with financial difficulties and have failed to obtain assistance from other sources, then they can borrow from the central bank as the last resort.
7. Management of external debt; The central bank is responsible for handling government loans and ensuring prompt payment of these loans on their maturity. It has an external debt management office through which it sends money abroad to settle debts e.g. debts contracted from IMF and World Bank.

8. **Lender to government;** The central bank provides short term loans to the government by selling government treasury bills to the public and therefore borrowing money from the public on behalf of the government
9. **Advisor to government;** The central bank advises government on fiscal policy i.e. on how to raise revenue and spend it. It advises the government on issues concerning preparation of the national budget and taxation. The central bank also advises government on monetary policy i.e. how to control money in circulation, how to embark on the process of privatization etc.
10. **Management of foreign exchange control;** The central bank controls the outflow of foreign currencies by restricting the sale of foreign currencies to commercial banks and private Forex Bureau. In this way the central bank is able to stabilize the value of the local domestic currency in relation to other currencies and fight currency depreciation.
11. **Advisor to commercial banks;** The central bank advises and guides commercial banks on policies like opening up of new branches, methods of lending to the public, types pf accounts to maintain on behalf of their customers, planning programmes and training of personnel as well as which sectors to lend.
12. **Custodian of foreign reserves;** The central bank acts as a manager and custodian of foreign reserves available in the country.

DIFFERENCES BETWEEN CENTRAL BANKS AND COMMERCIAL BANKS.

- Central bank operations are basically not guided by the profit motive but maintaining economic stability thus development of the economy while commercial banks aim at accumulating profits and wealth in hands of shareholders.
- A central bank is owned exclusively by government while commercial banks may be private or government owned or run as joint ventures.
- Central bank is the only bank legally permitted to issue a country's currency while commercial banks are not authorized to issue currency, but issue deposits to regulate money supply.
- A central bank does not deal with the public directly but indirectly through commercial banks while commercial banks deal directly with the public e.g. accepting and safeguarding their deposits.
- A central bank is a banker to the government as it accepts cash deposits from the government unlike commercial banks which lend money to the public and government for investment purposes.
- A central bank is a lender of last resort while commercial banks lend as a priority to make profits.
- The central bank can formulate and execute a monetary policy while commercial banks cannot do so but are only used to implement the policy.
- A central bank is a custodian of foreign exchange while commercial banks keep currency.
- A central bank does not establish branches in other countries but mobilizes foreign exchange from exports while commercial banks establish branches in other countries.
- A central bank accumulates foreign reserves while commercial banks accumulate capital in the private sector.

MONETARY POLICY refers to the guidelines taken by government through the central bank to regulate and control the supply of money in circulation to influence the level of economic activities in order to achieve development objectives such as price stability, exchange rate stability, higher levels of employment etc. It is concerned with increasing or reducing the amount of money in circulation.

Tools of monetary policy are guidelines or instruments employed by government through the central bank to regulate (increase or reduce) the supply of money in circulation so as to achieve development objectives such as price stability, exchange rate stability etc. These tools are basically methods of credit control.

The tools of monetary policy

i. Bank rate: This is the rate of interest charged by a central bank on commercial banks when they borrow money from it. The bank rate directly influences the interest rate charged by commercial banks on loans advanced to their customers. During inflation the central bank raises the bank rate and commercial banks are consequently forced to increase the interest rate charged on customers on loans and overdrafts advanced thereby discouraging borrowing, reducing money supply and controlling inflation. During a deflation or recession, the bank rate is reduced and commercial banks also reduce their lending rates thereby encouraging borrowing and increasing money supply.

ii. Open market operations: This refers to the sale and purchase of government securities by the central bank to the public through commercial banks on the open market for borrowing and lending purposes. During inflation the central bank sells securities such as treasury bills and bonds to the public thereby reducing money supply. During a slump (deflation), the central bank buys back treasury bills and bonds from the public thereby increasing money supply.

iii. Legal Reserve Requirement: Commercial banks are required by law to keep a specific proportion of their money/deposits as a reserve with the central bank. During inflation the central bank raises the reserve requirement thereby reducing money at the disposal of commercial banks for lending to the public thus reducing their ability to create credit.

iv. Margin requirement: This is the difference between the value of collateral security required to acquire a loan and the value of the loan advanced. During inflation the margin requirement is increased thereby discouraging borrowing and controlling inflation. To increase money supply, the central bank reduces the margin requirement thereby encouraging borrowing.

v. Selective credit control: This is where the central bank instructs/directs commercial banks to be selective in their lending policies by lending money to only approved priority sectors e.g. agriculture and industry or for importers of essential commodities only. This reduces the number of sectors receiving loans thereby reducing money supply and controlling inflation. To increase money supply, the central bank lifts restrictions on lending thus increasing the number of sectors getting loans from commercial banks.

vi. Special Deposits: This is where the central bank instructs commercial banks to make and maintain certain deposits with it beyond the minimum legal reserve requirement. This reduces money available in commercial banks for lending thereby limiting the capacity of commercial banks to advance loans and controlling money supply in circulation.

vii. Moral suasion, Direct Action and publicity: This is where the central bank gives information, advice and appeals to commercial banks persuading them to act in a specific manner in the interest of the country in their lending policies by conforming to appropriate policies which are consistent with the stable growth of the economy. During inflation, the central bank appeals to commercial banks to limit lending thereby reducing money supply and controlling inflation. To increase money supply the central bank appeals to commercial banks to increase lending to the public.

viii. Currency reform: When there is excess supply of money in circulation especially the cash component, government through the central bank may be compelled to undertake currency reform. This involves withdrawal of the old currency from circulation and replacing it with the new one. This reduces the amount of money in circulation e.g. in 1987 the Uganda government carried out currency reform.

ix. Rationing of credit: During inflation the central bank fixes a ceiling or limit on loans advanced to commercial banks. To increase money supply, the central bank removes the limit on loans to commercial banks.

x. **Cash ratio:** To increase money supply, the central bank reduces the cash ratio thus increasing the ability of commercial banks to lend to the public. To reduce money supply the cash ratio is increased thus reducing the lending capacity of commercial banks.

xi. **Direct intervention in operation or management of commercial banks:** When commercial banks fail to conform to the policies and guidelines of the Central Bank, the Central Bank may be forced to directly intervene in operation or management of a commercial bank e.g. the Bank of Uganda took over operation and management of defunct Greenland Bank before it was eventually closed.

Factors limiting the successful implementation of the monetary policy in Uganda

1. Excess liquidity among commercial banks: Most commercial banks in Uganda are foreign owned banks which are financially sound and enjoy excessive liquidity and they rarely borrow from the central bank. Consequently the use of bank rate and rationing of credit as monetary tools in Uganda is ineffective.
2. High liquidity preference by the public hence limited effective use of commercial banks: There is high liquidity preference amongst the population in Uganda and hence limited use of banks as people prefer holding their wealth in form of cash instead of depositing it in banks. This makes it difficult on the part of the central bank to control a lot of money which is outside the banking system.
3. Dominance of foreign commercial banks which are not under the direct control of the central bank: The banking sector in Uganda is dominated by foreign commercial banks which play a significant role in the economy. The Bank of Uganda is not in position to effectively control money supply because these banks have enough cash at their disposal from their foreign headquarters e.g. Barclays Bank from Britian, Stanbic Bank from South Africa and can easily ignore any monetary tool aimed at reducing their business activities and profits.
4. Ignorance of the public about facilities offered by commercial banks e.g. open market operations: The public in Uganda is ignorant about open market operations and hence do not buy government treasury bills and bonds whenever they are declared for sale. This makes the tool of open market operations ineffective.
5. Government (Political) interference: The central bank in Uganda is not completely independent as it is subjected to government pressure and interference which leads to the failure of the monetary policy objectives. This political /government interference is reflected in government ordering the central bank to print more money to finance its fiscal deficit, extending loans to private investors e.g. Hassan Basajjabalaba, Tri-star Apparels etc. This increases money supply leading to inflation.
6. Rampant corruption and Bribery: There is rampant corruption and bribery in Uganda which limits implementation of monetary tools like selective credit control as loan applicants bribe bank officials to be given loans which are meant for other priority sectors.
7. External influence: The monetary policy fails in Uganda because of heavy dependence of Uganda's economy on international financial Institutions i.e. IMF and World Bank whose terms and conditionalities may not be in line with monetary policy objectives.
8. Underdeveloped money markets: The money market in Uganda is still weak and not yet developed. Consequently an open market operation as a monetary tool which involves the sale and purchase of government securities is ineffective.
9. Poor lending and borrowing habits because of limited collateral security: Credit creation by commercial banks in Uganda is very limited due to inadequacy of credit worthy customers as a result of lack of collateral security. Hence there is no need for any monetary tool aimed at controlling credit.
10. Large subsistence sector: Uganda's economy is not fully monetized as there is a substantial

subsistence sector which limits the success of the monetary policy. The monetary policy works effectively in monetized economies.

11. Conflicting government objectives: The central bank fails to effectively implement monetary policy in Uganda due to conflicting government objectives e.g. government through bank of Uganda can pursue a restrictive (tight) monetary policy aimed at controlling inflation and maintain domestic price stability but on the other hand the same government increases the wage bill of civil servants or force bank of Uganda to extend loans to private investors which increases money supply causing inflation.
12. Poor distribution of commercial banks: Commercial banks in Uganda are not evenly distributed throughout the country but concentrated in urban areas. This implies that many potential savers and borrowers do not have easy access to banks leading to failure of monetary policy objectives.
13. External influence from international bodies: The central bank in Uganda cannot carry out monetary policy effectively to control the amount of money in circulation because it is limited by interference from IMF, World bank and other western donors.
14. Political instability: Rampant political instability in Uganda limits successful implementation of monetary policy e.g. expansion of credit facilities through selective financing of different projects and sectors fails in times of political instability.

THE REASONS FOR THE POOR PERFORMANCE OF THE BANKING SECTOR IN UGANDA

- Limited credit worthy customers: There is inadequate credit worthy customers due to poverty in the country. This limits lending by commercial banks thus low profits.
- Ignorance of the public about the use of Banks: The public is ignorant of the use of banks and do not operate accounts with banks. This limits the deposits in commercial banks.
- Poor infrastructure: The poorly developed infrastructure in form of poor road net work, communication facilities and poor and unreliable power supply especially in rural areas hinders the operations of banks in Uganda.
- Limited skilled manpower: There is limited supply of skilled manpower e.g. accountants to work in the banking sector.
- Predominance of subsistence sector: Uganda is dominated by a large subsistence sector which results into low incomes and therefore commercial banks have little deposits to mobilize from rural areas.
- High level of competition among several banks: Commercial banks in Uganda are concentrated in urban areas and as a result face stiff competition amongst themselves for business
- Political instability: Political instability in some parts of the country hinders the smooth operation of the banking sector.
- Rampant corruption and embezzlement of funds: There is wide spread corruption and embezzlement of funds by bank staff leading to closure of some banks like the Co-operative bank.
- Persistent inflation: This discourages the public from saving with commercial banks due to fear of loss of value of money with time.
- Reduced public confidence in the banking sector: The closure of several banks has reduced public confidence in the banking sector resulting into reduced deposits in commercial banks.
- Low marginal propensity save: The low marginal propensity to save due to low incomes by the population leads to low deposits in banks hence reducing the loanable funds.
- Unfavourable central bank intervention: Unfavourable central bank intervention through tight monetary policies e.g. directing commercial banks to reduce lending reduces the profits of commercial banks.
- High level of liquidity preference: The public has high desire to hold money instead of depositing it in commercial banks. This reduces the deposits in banks for lending.

MEASURES UNDERTAKEN TO PROMOTE THE BANKING SECTOR IN UGANDA

- Strengthening the supervisory role of the Bank of Uganda
- Extension and maintenance of social and economic infrastructure e.g. road network, power supply, telecommunication network etc especially in rural areas.
- Restoration and maintenance of a politically stable atmosphere in all parts of the country.
- Sensitizing the public on the importance of banking with a view to increasing deposits in banks
- Encouraging banks to open branches in rural areas in order to mobilize rural savings and also reduce competition among banks in urban areas.
- Encouraging the training of more bankers.
- Liberalization of the banking sector.
- Provision of credit e.g. “Entandikwa” to increase household incomes with a view to increasing savings and deposits in banks.
- Controlling inflation to encourage savings in commercial banks
- Reducing interest rates on loans to encourage public borrowing and increasing interest rates on deposits to encourage the public to save with banks.

UNEB QUESTIONS SINCE 2001

2001

26. (a) Describe the functions of commercial banks
    (b) Outline the characteristics of the following bank accounts
        (i) Savings
        (ii) Current
        (iii) Fixed Deposit
    (c) Under what conditions may commercial banks refer a cheque to the drawer?

2002

26. (a) Distinguish between a bank loan and a bank overdraft
    (b) What factors will the bank manager consider in giving a loan to an applicant?
    (c) How does a central bank control the commercial banks’ capacity to give loans?

2004

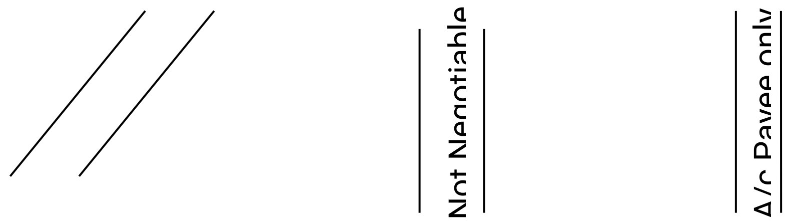
24. (a) Name the main features of a cheque
    (b) Give **five** methods of using a cheque as a method of payment
    (c) Why are cheques not widely used in Uganda?

2006

25. (a) What is the difference between a central bank and a commercial bank?
    (b) Explain the services offered by commercial banks to traders.

2007

21. (a) Explain **five** reasons why the business community in Uganda current accounts to fixed deposit accounts.
    (b) Describe the process of opening a current account.
25. (a) What is the effect of the following crossings on a cheque?



(i) (ii) (iii)

(b) State **seven** circumstances when a cheque may be dishonored by a bank.

2008

25. (a) Explain the functions of the bank of Uganda

(b) Describe **five** methods used by the bank of Uganda to control commercial banks.

2009

21. (a) Give **six** advantages of paying by cheque

(b) Explain any **seven** (7) circumstances under which a cheque may be dishonored.

2010

24. (a) Define each of the following terms as used in banking

(i) Bank overdraft

(ii) Bank draft

(iii) Standing order

(iv) Credit transfer

(b) Explain **six** methods used by a central bank to control the amount of money in circulation.

2014

27. (a) Advise a retailer on any five services that can be obtained from a commercial bank.

(b) Explain any **five** problems faced by commercial banks in your country

2016

25. (a) Outline **five** functions of bank of Uganda.

(b) Explain **five** methods used by the bank of Uganda to control the lending activities of commercial banks.

SALES PROMOTION & ADVERTISEMENT

ADVERTISEMENT*:* This is an aid to trade aimed at spreading / giving information about the business products to prospective / potential customers to create awareness and interest them to buy that particular product.

TYPES OF ADVERTISEMENT

1. **Persuasive advertising** is a type of advertising meant to persuade the public to buy the advertised goods
2. **Informative advertising** is a type of advertising meant to simply inform the public about the nature of the product, its price, and uses and where it can be found.

ADVANTAGES OF ADVERTISING

(a) TO THE PRODUCER

- Bridges the gap between the producers and the consumer. / connects consumers to producers.
- Enables producers to sustain / retain market hence brand loyalty.
- Creates market for the producer's goods. / Attracts new market for the producers goods.
- Enables producers to notify the consumers of any changes in their products on the market.
- Helps producers to introduce new products on the market.
- Improves on the firms' image.
- Encourages research which makes producers improve on quality.
- Enables producers to outcompete other producers who produce similar products.

(b) TO THE CONSUMER

- Informs consumers of the available goods.
- Saves time in buying.
- Customers can exercise choice.
- Informs the consumers about prices, quality, size of the product.
- Explain the use and value of the product.
- Consumers compare the prices and other features of a product.
- Competition among sellers improves quality.
- Introduces new goods and services to customers.
- Some adverts are pleasant to listen to hence relieves one of stress.

DISADVANTAGES OF ADVERTISING

(a) TO THE PRODUCER

- Advertising is expensive increasing the costs of production hence increasing final price which reduces sales.
- Some adverts are inferior and do not yield expected returns.
- At times, some adverts do not reach the intended audience hence being useless.
- Misleading

(b) TO THE CONSUMER

- Cost of advertising increases the final price. Makes the product expensive
- Tempts consumers to make unplanned purchases.
- Misleads consumer to buy poor quality or inferior goods.

- Makes choice very difficult for consumers.
- Creates monopolies leading to consumer exploitation.
- Brand loyalty may lead to exploitation of consumers.
- Negative effects on morals.
- Only points out the positive side of the product omitting the negative effects.

ADVERTISEMENT MEDIAS

- Through radios: This is a device where messages are broadcasted to the public through listening over radio stations.

  Advantages
  - Information over radios cover wide areas
  - Delivers information in different languages. Favors all people speaking different languages
  - Favors both the literates and the illiterates
  - Also caters for the blind
  - It's faster and effective in message delivery and reception. Messages are received as soon as they are sent
  - Messages are very clear with explanations and details given
  - Corrections in case of errors can be made over the radio

  Disadvantages
  - Very costly to buy and maintain ie buying batteries and paying electricity bills
  - Favors only radio owners
  - Messages once missed may never be regained / got. No reference is left
  - Expensive to pass over adverts
  - At times some adverts are immoral or unworthy for society

- Through televisions: This is a form of advertisement media where advertisements are brought to the viewer or listener in the shortest time possible using television sets.

  Advantages
  - Information over televisions cover wide areas
  - Delivers information in different languages. Favors all people speaking different languages
  - Favors both the literates and the illiterates
  - It's faster and effective in message delivery and reception. Messages are received as soon as they are sent
  - Messages are very clear with explanations and details given
  - Corrections in case of errors can be made over the radio
  - Gives pleasure and relaxation

  Disadvantages
  - Very few people can access television sets in Uganda
  - Information is not usually detailed
  - Needs over repeating for adverts to be effective
  - Do not reference
  - Limited transmission waves in most parts of the country
  - Does not favor the blind
  - Very expensive to advertise with a television station

- Through press. Like in newspapers, magazines and others.

  Advantages

- Cheap and affordable by many people
- Covers a wide area
- Leaves reference
- Information can be displayed in different languages to favor all people
- Favors the deaf

Disadvantages
- Ignores the illiterates
- Usually caters for the urban dwellers ignoring rural people
- Most people lack interest in reading
- Sometimes press is expensive like newspapers
- Time consuming and wasting
- A few languages can be catered for

Advantages of using a radio over a television.
- Radios cover a wider area compared to televisions.
- All societies are favored using a radio (illiterates and literates) unlike TVs the blind do not benefit.
- The blind are catered for using a radio unlike TVs where illustrations are done.
- Radios are cheap to buy compared to TVs.
- Radios are continent in terms of carrying when listening than TVs which is impossible.
- Radios can operate in absence of power (Electricity) than TVs.
- Using radios corrections can be made easily unlike written or pictures and illustrations made on a TV.
- Radio messages are clear than TVs where some pictures are not under stood what is all about.
- Different languages are found on radio while only TVs few languages are used.
- TVs are not widely spread compared to radios.

Others include
- Through exhibition. Like at Lugogo show ground, Jinja and in the kabaka's palace(Lubiri)
- Through neon posters.
- Through trade fairs.
- Through direct mail.
- Through window display.
- Through outdoor adverts.
- Through catalogues.
- Through public transport agencies.
- Through banners.

FACTORS CONSIDERED WHEN CHOOSING AN ADVERTISEMENT MEDIA

1. The cost of the media. Cheaper medias are preferred to expensive medias
2. The economic group: The rich use newspapers and Tvs, middle income earners use radios while the poor would go for outdoor advertisement
3. Social class. The rich use newspapers and Tvs, middle income earners use radios while the poor would go for outdoor advertisement
4. Age group to which the media appeals: Televisions and Radios are mainly for youth while the old would go for magazines and radios.
5. Speed and urgency of the message / advert
6. Geographical Area coverage
7. Ability of the medium to arouse Interest

8. Nature of goods eg if they need demonstration, TV is preffered
9. Target audience / intended audience
10. Number of people reached by the media.

SPECIALIZED ADVERTISING AGENCIES

These are business men engaged in the advertisement business who mainly connect business men intending to advertise with advertisement Medias.

SERVICES OF SPECIALIZED ADVERTISING AGENCIES

(i) Offer expert advice on the medium to be used for advertising.
(ii) They have contact with various Newspapers, radio stations, magazines and TV stations and therefore they arrange for publication and broadcast of the adverts at a very short notice and on competitive prices.
(iii) They have their art section that designs the advertising material, newspaper adverts, brochures, pamphlets and catalogues.
(iv) They carryout market research on behalf of their clients.
(v) They design and arrange for the installation of Neon signs, bill boards etc.
(vi) They handle all arrangements for sales promotion campaigns, checking entries received and dispatching prizes.
(vii) They have contact with printing press and arrange for printing of posters, leaflets etc.
(viii) They design and make cinema, television slides and arrange to screen these slides and short films / movies.

Information a business shall give to enable advertising agent design a suitable advertisement.

- Name of the product.
- Nature of the product.
- Strength of the product.
- Weakness of the product.
- The market at which the product is aiming or target market.
- The amount the advertiser is prepared to spent or advertising costs.
- Price of the product to be advertised.
- Name of the business.
- Uses of the product.
- Location of the business.

METHODS / FORMS OF SALES PROMOTION

1. Personal selling refers to the direct contact that exists between the seller and the customer when exchanging goods and services through face to face interactions.

   Advantages of personal selling

   i. It creates a direct and good relationship between the seller and the customer / buyer.
   ii. The seller is able to know and meet specific needs of different customers. It is a form of market research.
   iii. The sales person can educate customers on the uses of the product while selling it to them.
   iv. It helps to win over buyers' confidence in the business and its products.
   v. It facilitates getting regular and permanent customers since it encourages repeated purchases.
   vi. The seller is able to analyze and negotiate prices with customers.
   vii. It helps the seller to give technical assistance to the customers through after sales

services like repairs, replacements etc.

viii. Arouses interests / creates interest in a customer about the product on sale.

Ways of making Personal Selling an effective form of sales promotion

i. Good communication skills.
ii. Attractive personality ie smart, clean, presentable etc.
iii. Good customer care.
iv. Good public relations.
v. Honesty and sincerity.
vi. Knowledgeable about the product.
vii. Good negotiation skills.
viii. Good customer psychology.
ix. Patient with customers ie ability to return for an appointment.
x. Physical fitness / Good health.
xi. Self-confidence.
xii. Innovativeness.
xiii. Respectful.

2. Advertising; This is the spreading / giving information about the potential /prospective customers to create awareness and interest them to buy a particular product.
3. Samples
4. Convenient location
5. Exhibitions and trade fairs.
6. Organizing draws
7. Offering samples through sellers give free samples to prospective buyers.
8. Price deduction discounts; where prices are reduced to induce the buyers to take more.
9. Giving out manuals or brochures.
10. Sponsoring programs or sports events.
11. Face lifting or renovating business premises.
12. Provision of after sales services e.g. packaging
13. Offering free gifts / prizes.
14. Carrying market research.
15. Giving credit facilities.
16. Loss leader policy
17. Premiums
18. Good customer care
19. Organizing competition so that the winners are given prizes.
20. Packaging, branding including trade mark, trade names to enable customers to be able to distinguish one product.
21. Improving quality / blending
22. Employing the loss leader policy
23. Attractive window / counter display

Outline the different forms of outdoor advertising

- Neon signs
- Stickers
- Posters
- Banners
- Fliers and brochures
- Wall paintings

UNEB QUESTIONS SINCE 2001

2001

21. (a) State the difference between Persuasive advertising and informative advertising
    (b) Explain the importance of advertising to the;
        (i) Manufacturer
        (ii) Consumer

2003

21. (a) Explain the functions of advertising to a business
    (b) Outline the disadvantages of advertisement to a consumer

2004

23. (a) Mention any **four** types of information a business should give to enable the advertising agent design a suitable advertisement
    (b) Apart from advertising, What other methods may a trader use to promote sales of the business?

2005

27. (a) Differentiate between informative advertising and persuasive advertising.
    (b) Outline **four** advantages and **four** disadvantages of using radios as a medium of advertising.
    (c) Explain any four factors to be considered when selecting an advertising medium.

2010

23. (a) Distinguish between **sales promotion** and **advertising**.
    (b) Explain any **five** factors that should be considered when choosing a medium of advertising
    (c) Give **three** disadvantages of adverting to consumers

2011

21. (a) List **six** forms of sales promotion used in Uganda
    (b) Give any **three** advantages and **four** disadvantages of advertising to a consumer.

2014

26. (a) Other than advertising, advise a small scale manufacturer in your community on any four methods of promoting sales of the business.
    (b) Explain five factors a trader should consider when choosing a medium of advertising.
    (c) List six services offered by specialized advertising agencies to traders in Uganda.

2016

24. Explain **five**;
    (a) advantages of advertising to a producer.
    (b) services of specialized advertising agencies to the business community.

2018

23. (a) Differentiate between advertising and personal selling. (04 marks)
    (b) Explain **five** advantages of personal selling as a form of sales promotion.
    (c) Advise a trader on any **six** ways of making personal selling an effective form of sales

promotion. (06 marks)

2019

26. (a) List any **four** types of outdoor media of advertising used by traders in Uganda. (04 marks)

(b) Give **four** reasons why most traders in Uganda prefer using radio to television as a medium of advertising. (08 marks)

(c) Explain **four** disadvantages of advertising to consumers. (08 marks)

INSURANCE

INSURANCE refers to cover against events that may or may not happen like fire, theft, accidents etc.

COMMON TERMS IN INSURANCE

1. Assurance refers to cover against an event that is bound / must to happen. such as death, old age, retirement etc. (Uncertainty being about the time only)
2. Premium: Is the amount of money the insured pays to the insurer as consideration to take up an insurance policy
3. Sum insured: The value of the property insured stated by the owner at the time of applying for a policy.
4. Cover note is a document issued to the insured by the insurer as a temporal protection after the payment of the first premiums and also serves as evidence that the agreement is operational. It is usually given to cover a period of 30 days before the policy is given.
5. An insurance policy is a contract between the insurer and the insured giving all the terms and conditions under which the insured will be compensated in the event of a loss.
6. Re-insurance is when an individual insures his property with two Insurance Companies e.g. A car is insured with SWICO and PWICO.
7. *Co-insurance:* This is when more than one insurer is in direct contractual relationship with the insured for any part of the same risks. The co – insurers' shares and proportional of the risk.
8. Over insurance is when the insured over values the property insured at the time of taking the policy.
9. *Under insurance:* It declares the value of his / her property he/she is charged a cover or less premiums but in which events of the total loss. He/she is paid under sum insured which is less than the actual value.
10. Gambling is a risky matter where by people work on probability
11. *Whole life insurance:* A life insurance policy which requires payment of premium for the whole lifetime. That is till death. The total sum insured is only paid after death of the insured to the family / beneficiaries of the deceased.
12. *Endowment Policy* refers to payment for specific periods only. The sum insured is paid to the department of the policy holder on his death or at the expiry of the period whichever is earlier.
13. *Insurable risks* are risks where premium can be calculated by the insurance company.
14. *Non insurable risks* are risks where premium cannot be calculated.
15. *Loss* is the occurrence of an event against which the insurance is taken out.
16. *Total loss* is the destruction of the entire property.
17. *Risk*: Events against which insurance is taken
18. *Partial loss* is the partial destruction of a property.
19. *Surrender valve* is the valve of the property insured as stated by the owner while taking up an insurance policy.
20. Pooling of risks: This is where everybody exposed to a risk should contribute a small proportion of money and anybody who suffers losses is compensated form that money.
21. Aviation hull : This is a policy that covers personal accidents and cargo damages due to aircraft crashes
22. Employers liability insurance: This is a policy taken up by the employer and protects against any injury that may occur to his employees or consumers while at work and during working hours.
23. Fidelity guarantee: This is the insurance against the dishonesty of particular employees or entire working staff.

ADVANTAGES OF INSURANCE TO TRADERS IN UGANDA

i) Insurance compensates the traders who suffer loss from the pool / Enables continuity of the business because of compensation.
ii) Encourages / gives traders confidence to undertake risky but profitable ventures since they are assured of being compensated in case of a loss.
iii) A trader can use an insurance policy as security for a loan e.g life policy.
iv) In case of co-operative insurance, shareholders get both cover and investment
v) Contributes to growth of the economy through pooled resources which are re-invested in the development of infrastructures
vi) Promotes international / foreign trade because traders can export / import without fear
vii) Acts as trustees to business men by looking after their property ie in case of death of a trader, Insurance companies can look after his / her estates.
viii) Means of saving especially life insurance which earns interest.
ix) In case of injuries of employees while at work, the employer is protected against expenses of compensating the employees ie Workman's compensation / Employer's liability policy.
x) In case of life assurance, the beneficiaries of the trader are assured of continued survival through compensation by the insurer.
xi) It guarantees credit worthiness of a trader.
xii) Provides loans to trader which can be used to expand businesses.
xiii) Educates traders on ways of minimizing risks and also how to make profits,

PERSONALITIES IN INSURANCE

1. **Insured** : This is the person that has already taken the insurance policy against a given risk for compensation should it occur
2. **Insurer**: This is the insurance company granting the insurance policy
3. **Insurance under writers**: Insurance company employees to whom people willing to take up policies report for assessment of whether the risks they are insuring are insurable or not?
4. **Insurance agents**: More less like a branch. This is the person who represents the insurance company in one part of the country or world.
5. **Insurance brokers**: These link prospective insured's to the insurers. They at times transact the insurance business on behalf of the insurance company.
6. **Actuary**: An insurance company employee in charge of assessing and calculating the risks and determining the amount of premiums to be charged by the insurer.
7. **Assessor**: an insurance company employee responsible for calculating the amount to be paid in compensation to those that claim for the risks they insured.

STEPS TAKEN TO TAKE UP AN INSURANCE POLICY.

- A person fills the **proposal form** to show his willingness.
- The person **pays premium** and he is given a **cover note** valued for 30 days.
- Within 30 days an **insurance policy** is signed by the insurer which contains the terms and conditions of the contract.
- If an event occurs against a risk, a person fills a claim note to the insurance company and notifies the insurance company that he or she needs compensation.

BASIC PRINCIPLES OF INSURANCE.

- **Utmost good faith:** This principle states that the insured must state exactly the correct information regarding the item he is willing to insure with the company.
  / The insured should reveal all the necessary information about the property when applying for

an insurance policy.

- Proximate cause: The principle argues that before compensation is made, the cause of the risk must be closely related the risk insured against with the insurance company.

- Insurable risk : This requires the insured to take up a policy against risks whose loss can easily be calculated with fair accuracy both in form of compensation and charging premiums

- Insurable interest: This principle requires the insured only to insure a commodity in which he has interest such that in case of a loss, he is bound to suffer.

- Subrogation: This states that the insured should not benefit from the loss thus the remains of the destroyed property are taken by the insurance company since the insured may sell them and benefit from the policy.

- Contribution: "Is the sum paid by each insurance company if one insures his property with more than one insurance company".

- Indemnity: This states that "The insured is compensated back to his original position in case of a loss".

Trial Questions:

1. A businessman insured his stock against theft for shs. 200,000. His stock increased to Shs. 500,000 but his insurance cover did not change. Thieves stole Shs. 200,000 worth of stock. The remaining stock was valued at shs. 100,000. How much will he be compensated?
   <u>Shs. 100 because they expected to compensate the stolen 100,000</u>

2. A trader insured a stock of goods worth Shs. 14,000,000 for shs. 10,000,000 against theft. If all goods were stolen, how much would the insured be compensated?
   <u>Shs. 10,000,000 because that's the amount the trader declared</u>

ELEMENTS OF INSURANCE CONTRACTS.

- The parties of the contract that is insured and insurer.
- The beneficiaries that is the person to whom compensation is made.
- The claim form which refers to the evidence of a loss submitted to the insurance company by the insured seeking for compensation.
- The policy that is the provision and limits of the insurance cover.
- Proceeds. Amount of money paid to the benefiary (insured) as compensation

PROBLEMS FACED BY INSURANCE INDUSTRIES IN UGANDA.

- Ignorance of the public
- Moral decay in the Ugandan society.
- Limited market
- Insufficient capital to invest in insurance companies
- Decline in life assurance policies.
- Poor performance of Uganda's economy
- The 1987 currency change.
- Inflation which reduces the value of the currency.

- Nationalization of the businesses in 1970.
- The aids scourge.
- Expulsion of the Asians in 1972.

SOLUTIONS FOR THE PROBLEMS FACING THE INSURANCE INDUSTRY

- Through establishment of the Uganda insurance commission to control and supervise the work of the insurance companies.
- Through obtaining financial support from large international insurances industries like insurance companies of Sydney, Austria, and others.
- Through government liberalization policy.
- Through prompt settlement of customer's claims.
- Training of insurance members or staff about the activities of insurance companies.
- Through computeraliastion of operation in order to facilitate fast and efficient service delivery
- Through opening up country branches
- Educating the public on the value and importance of insurance.
- Introduction of compulsory 3rd parties insurance for all motor vehicle.
- De- licensing some insurance companies which do not fulfill the requirements of some insurance companies.
- Introduction of New insurance policies which suit the needs of Ugandans.

WHY INSURANCE SERVICES NOT WIDELY SPREAD IN UGANDA

- Limited market.
- Inadequate capital.
- Limited skilled manpower
- Political instability.
- Unemployment and poor terms of service.
- Negative attitude of Uganda towards insurance.
- Ignorance of the public about the service
- Poverty.
- Poor infrastructure.

PROCEDURES OF COMPENSATING THE INSURED.

i. Being notified by the insured.
ii. Investigating or surveying the destroyed property.
iii. Allowing the insured to fill a claim form.
iv. Compensating the insured.

Circumstances under which the insurance company may refuse to compensate the insured.

i. When the insured has no insurable interest in the property destroyed as he / she will not suffer a financial loss.
ii. In case the principle of utmost good faith is abused ie where the insured did not disclose all the relevant facts when filling a proposal form or claim form.
iii. When the loss occurred due to negligent action by the insured.
iv. When the principle of proximate cause does not apply ie there is no relationship between the cause of the loss and the risk insured against.
v. Where there is late claim, where the insured fails to claim for compensation with in the stipulated time as specified in the contract.
vi. Improper procedure, where the insured fails to follow legal procedures when claiming for compensation.

vii. In case the assured / insured is no longer paying premiums.
viii. Where the property has been destroyed by an act of God. Such risks are not insurable eg floods, lightening, earth quakes etc.
ix. In case the loss was intentional not accidental.

CLASSIFICATION OF INSURANCE

(a) Life insurance
(b) General insurance

LIFE INSURANCE

This refers to the insurance of human beings against events like death, sickness, old age, retirement etc. The following policies may be issued under life insurance

1. Whole life assurance : This policy covers the insured for life ie until one dies and payment of premiums is made throughout the life of the insured / assured. Compensation is made to the beneficiaries when the assured dies.

2. Endowment policy : This policy covers the insured / assured for a specific period of time and payment of premiums is made for this period. The claims are made at the expiry of such a period or at death of the insured whatever comes first.

3. Sickness policy : This policy covers to offer treatment to the insured / assured if he / she happens to fall sick during the agreed period.

GENERAL INSURANCE

Refers to the insurance of properties against events like damage, theft etc. General insurance is further classified under three broad groups ie

- ✓ Marine insurance
- ✓ Accident insurance
- ✓ Fire and theft insurance

COMMON POLICIES ISSUED UNDER ACCIDENT INSURANCE

- Motor Policy ie Third Party policy or comprehensive policy
- Goods in transit policy
- Cash in transit policy
- Fidelity guarantee: This is the insurance against the dishonesty of particular employees or entire working staff.
- Personal accident policy which is taken to safe guard against personal injuries due to accidental occurrences eg broken legs etc.
- Employers' liability / Workman's compensation policy.
- Machinery breakdown / Consequential total loss.
- Aviation and aviation hull.
- Public liability policy.
- Bad debt policy.

COMMON POLICIES ISSUED UNDER MARINE INSURANCE

- Marine hull policy: Covers only the ship with all its fixtures during the time it's on the sea.
- Marine cargo policy: Covers only the goods on the vessel on the sea
- Ship owners' liability policy: Taken by the ship owner to cover goods damaged / people injured

on the vessel as a result of carelessness of the vessel staff.
- Voyage policy: Goods are only insured for a particular journey on the vessel eg. From Mombasa to Rotterdam
- Time policy: Goods are only insured during a given period of time when they are on the ship eg From Monday 06:00 am to Monday 06:00 Pm
- Mixed policy: Goods are insured for a given period of time on a specific journey. It covers both the time policy and voyage policy.
- Open / Floating / Declaration policy: Covers ships and traders on regular routes for specified journeys.
- Fleet / Port risk policy: Covers goods and vessels for a specific period of time while still at the port.
- Construction policy: Covers the vessel against risks during its building process.

Common risks *schools are likely to insure against.*
- Fire.
- Theft
- Personal accidents
- Accidents to employers and students
- Burglary
- Cash in safe overnight
- Sickness of staff members and students
- Accidents to vehicles and buildings

Common risks *other businesses are likely to insure against under accident insurance.*
- Motor accidents
- Loss of cash in transit
- Loss of goods in transit
- Dishonesty of workers who handle goods / cash
- Personal accidents /injuries
- Cash in safe overnight
- Injuries inflicted to workers / employees while at work
- Injuries inflicted to members of public by the activities of the business
- Machinery breakdown and consequential loss
- Aviation accidents / damage to aviation hull
- Damage / breakage of glass plates of the business
- Bad debts

DIFFERENCES BETWEEN INSURANCE AND GAMBLING.

INSURANCE		GAMBLING
Aims at compensating.	While	Helps the lucky ones.
Doe snot gain but restore	While	Improves the financial standing of the winner.
Events May never happen	while	The speculated event might happen to decide the Winner.
Insurable interest in necessary	While	There is no insurable interest
Insurance is legal	While	Gambling is illegal
Is a great help to individual	while	Gambling is a great curse.
All sides benefit when loss occur	While	One side benefits mostly the winning side.

- Insurance is subjected to indemnity while No indemnity needed.
- It is encouraged in the state While Not encouraged in the state.

ROLE OF INSURANCE TO THE DEVELOPMENT OF THE COUNTRY.

i) Compensation incase of loss of property as a result of the effects of risks insured against.
ii) Compensation incase of loss of life leads to reduction of loss of social service to the government.
iii) Provides revenue to the government through payment of taxes.
iv) Business men can use insurance policy as security for borrowing money from financial institutions.
v) They offer employment opportunities to the people such as clerks auditors.
vi) Accumulated funds from insurance are always available for investment.
vii) Source of income to insurer.
viii) Promotes investment.
ix) Assist in international trade.
x) Reduces the cost of social service like transport.
xi) Offers employment opportunities.
xii) Compensated the unfortunate members.
xiii) Provides profits to the insurer.
xiv) They act as trustees to some business men.
xv) Provides courage to business men as they carry out their business without worry.
xvi) Can be used to acquire a loan since it can act as security.

REASONS WHY INSURANCE BUSINESS IS UNPOPULAR IN UGANDA

i) The insurance service benefits are invisible an only realized when the loss occurs hence people do not easily see it.
ii) The principles of insurance are not easily understood. The legal terms used are confusing to the lay persons.
iii) Insurance service firms are not widely spread in Uganda but only limited to urban areas where few people can access it.
iv) Inadequate sensitization / awareness. The would be insured are ignorant about the insurance services in the country.
v) Opening up an insurance policy is very complicated and involves very long procedures hence discouraging majority of the people.
vi) Insurance is misunderstood / regarded as a gamble and a curse to society thus it has limited market.
vii) Insurance services are regarded as an additional expense which increases the costs of production or running the business.
viii) Due to poverty, the would be customers do not have valuable assets worth insuring. Others are unable to pay premiums for most polices like Life assurance.
ix) Some insurance companies are reluctant to compensate in case of loss hence loss of confidence in the insurance business.

UNEB QUESTIONS SINCE 2001

2001

24. a. Differentiate between;
    i. Whole life policy and endowment policy
    ii. Co-insurance and re-insurance
    iii. Over insurance and under insurance

b. Explain the role of insurance companies in the development of Uganda.

2002

24. (a) Explain the following insurance terms.
    i. Pooling of risks
    ii. Over insurance
    iii. Under insurance
    iv. Re-insurance
    v. Co-insurance

    (b) Describe **five** risks an owner of a factory is likely to insure against.

2003

24. (a) Define the following terms as used in insurance
    i. Pooling of risks
    ii. Sum insured
    iii. Fidelity guarantee
    iv. Aviation hull

    (b) Explain the basic principles of insurance

2004

22. (a) Define the following terms as used in insurance
    i. Premium
    ii. Policy
    iii. Risk
    iv. Cover note

    (b) Explain the importance of any four principles of insurance

2007

26. (a) Explain the following terms as used in insurance
    i. Sum insured
    ii. Sabrogation
    iii. Contribution

    (b) Explain the role of insurance to traders in Uganda.

2008

26. (a) Differentiate between the following as used in insurance
    (i) Endorsement policy and whole life policy
    (ii) Over insurance and under insurance
    (iii) Sabrogation and proximate cause

    (b) Explain any **four** services which insurance companies offer to the business community in Uganda.

2009

23. (a) Outline the procedure of claiming for compensation from an insurance company.

    (b) Give **five** reasons why insurance services are not commonly used by business community in Uganda.

    (c) Outline any six policies issued under accident insurance

2010

27. (a) Explain the following terms as used in insurance

(i) Proposal form
(ii) Cover note
(iii) Risk
(iv) Surrender value

(b) Describe the basic principles of insurance

2011

26. (a) Differentiate between the following terms;
(i) insurance and assurance
(ii) premium and sum insured

(b) Outline the steps involved in taking up an insurance policy

2013

26. (a) Distinguish between
(i) Insurance and assurance
(ii) Cover note and insurance policy

(b) Explain **six** risks against which a business person may take up a policy under accident insurance.

2015

24. (a) Explain any five insurance policies that a maize milling firm can take under accident insurance

(b) State five roles of insurance to traders in your country

2016

27. (a) Explain the following insurance policies.
(i) Personal accident.
(ii) Endowment policy.
(iii) Whole life policy.

(b) Give **seven** reasons why insurance services are unpopular in Uganda.

2018

24. Explain any **five**;
(a) benefits of insurance to a trader. (10 marks)
(b) circumstances under which the insurance company may refuse to compensate the insured. (10 marks)

2019

24. (a) State any **six** contents of an insurance contract. (06 marks)
(b) Under what **seven** circumstances may an insurance company refuse to honour and insured's claim for compensation? (14 marks)

STOCK EXCHANGE

STOCK EXCHANGE: is where public company's shares, stocks and other marketable resources are sold and bought. If a person who holds shares in a public cannot approach a company for a refund instead he looks for another person who is willing to buy shares and then asks the company to transfer them into the buyers.

COMMON TERMS AS USED IN STOCK EXCHANGE.

- *Par value of shares,* the term par, face or nominal value of a share is the value written on its face. The total par value of a company's shares makes up the share capital of a company.
- *Market value of shares*, this is the value at which a share is sold on the stock exchange.
- *Dividends*, is the amount paid out of profit made by a company to the share holders
- *Bonus shares* means conversion of distributable profits into a permanent share capital.
- *Rights issues of shares*, this is when a company has profitility operated for some years, wishes to raise more capital by setting new shares and the existing members are given to buy shares out of the new issue.
- *Cum- Div*, this stands for "with dividends" this is when a seller sells his shares and the buyer becomes entitttled to the dividends that has already been declared by the company.
- *Selling prices of shares*, shares may be bought and sold at the stock exchange at Ex-Div, cum rights, Ex- rights.

AGENTS IN STOCK EXCHANGE

- Brokers, these are people who buy and sell shares on behalf of others. And earns a commission.
- Jobbers, these are people who buy and sell shares in their own names. thus jobbers are divided into;
- Bulls, this is a jobber who buys shares when they are cheap with hope that the prices will soon rise and he will be able to sell them at a profit.
- Bears, this is a jobber who sells shares when prices are high with hope that they will soon drop and he will be able to buy them at much lower price.
- Stags, these are jobbers who deal in newly issued shares.

SECURITIES SOLD IN THE STOCK EXCHANGE

- ✔ Shares: This is the unit of capital issued by a public limited company to the public in order to raise share capital of the public company
- ✔ Bonds: A loan security issued by the government, they carry a fixed rate of interest
- ✔ Debentures: A loan security issued by a public company to the public, they carry a fixed rate of interest
- ✔ Stock: A bond issued by the government local authority (local government) in order to raise money from the public
- ✔ Treasury bills: These are short term securities issued by the central bank, they are highly liquid financial assets by the bank.

THE ROLE OF THE STOCK EXCHANGE IN AN ECONOMY.

1. It provides a market for those who want to buy or sell shares
2. Assist in the buying and selling of shares and other securities
3. It makes the transfer of shares possible so that investors can easily shift their investment from one company to another
4. It is a source of employment to those who work with it e.g. stock brokers and jobbers.
5. It is an important means of raising government revenue through taxation

6. It facilitates the raising of capital for investment through selling shares.
7. It connects the country with outside investors especially when foreign investors buy shares in local companies in the country
8. It is the quickest means of raising liquidity through the sale of shares.
9. It publishes information from various companies to guide both investors and companies.
10. A large part of the public savings is directed to investment in joint stock companies which plays an important role in development of the country.
11. Government can invest its securities in the stock exchange
12. It keeps track of the financial performance of all companies whose shares are sold through its members. If a company is not performing well, its name is struck off from the list, This assures the public that their money is safe if invested in quoted companies.
13. Stock exchange indicators are taken as indicators of economic progress. The stock exchange index is prepared periodically on the basis of prices and volume of shares traded per week. This information can also be used by government for planning purposes.

FUNCTIONS OF STOCK EXCHANGE MARKET.

1. Makes transfer of shares easy with in the public.
2. Companies find it easy to raise revenue or capital by selling shares to the public.
3. Creates trust and faith among the public in the companies share which are quoted at the stock exchange.
4. The company can easily invest their money in shares if they know where they are sold.
5. Government finds it easy to sell its short term services e. g treasury goods.
6. It saves the companies advertising expenses of shares with the paper and radios. It normally meets the advert expenses.
7. Foreign investment on portfolio can easily be effected and this increases the foreign exchange to the selling country.
8. Provide employment to jobbers and brokers who work at the stock exchange.
9. Advise the public about the better performing companies and guides the public where to invest.
10. It monitors the financial affairs and stand of the quoted company and in case it's doing well it counsels it's name. This encourages companies to work hard.
11. It provides a ready market for both those who want to buy and those who want to sell shares.
12. It sets the price for every security whether or not it is actually bought or sold in a particular period.
13. It helps to direct a large part of people's saving to investment in joint stock companies.
14. It provides advice to companies, which are seeking for capital or expansion.
15. It gives assurance to members of the public that their money is safe by always striking off names of companies which are not performing well.
16. The stock exchange index may be used by the government as a barometer of the countries economic progress.
17. It publishes useful information, in statistical and summary form about the various companies for guidance to both investors and relevant companies.
18. It accords investors and opportunity to sell their shares when they find a more attractive security to buy.

PROBLEMS FACED BY THE STOCK EXCHANGE / BARRIERS

1. General low levels of income earned by the people, they cannot invest by buying shares traded on the stock exchange. / Poverty.
2. High degree of illiteracy and ignorance. People look at it with suspicion and prejudice thus not on demand

3. Lack of qualified stock exchange specialists for instance stock brokers and stock jobbers
4. Weak industrial sector. Many people are employed in the agricultural sector
5. Most business / firms operate on small scale. Small firms / private companies cannot be quoted on the stock exchange, since they usually have small profits due to small capital
6. Political unrest in some parts of the country, this has affected the expansion of the industrial sector
7. Low interest rates on securities, yet there's high rates of inflation in the economy thus the investment in securities is discouraged
8. Limited government support by way of developing the financial infrastructure and inadequate funding from the government
9. Operation of stock exchange markets are limited to urban centers
10. Dominance of foreign and privately owned companies which don't offer them shares to the public.
11. Existence of a large informal sector that is not regulated and monitored.

UNEB QUESTIONS SINCE 2001

2001

27. (a) What is meant by Stock Exchange?
    (b) Explain the importance of stock exchange to a country
    (c) Describe the role of the following in stock exchange
        (i) Brokers
        (ii) Jobbers

2009

22. (a) What is stock exchange?
    (b) Define the following terms as used in stock exchange
    (c) Outline any **six** roles of stock exchange in the development of the country.

2015

26. (a) Describe any five securities sold on the stock exchange market in Uganda
    (b) State five problems faced by the stock exchange market in Uganda

MARKET RESEARCH

MARKET RESEARCH: This refers to the objectives and systematic collection, recording, analysis, interpretation, reporting, information, but the existing potential market for a commodity or marketing strategies and tactic s.

OBJECTIVES OF MARKET RESEARCH

- To find the demand for a commodity in a given period of time.
- To expand the market for the product.
- To promote the business by helping the business men to answer questions like how to produce, what to produce, and for whom to produce.

IMPORTANCE OF MARKET RESEARCH.

1. It helps the seller to know the likes and dislikes of the consumers.
2. It helps the firm to compete favorably in the market.
3. It helps the firm to change its production process and marketing research to earn more revenue.
4. It allows the firm to produce according to the existing demands on the goods.
5. It helps to change the packaging, colors etc. in order to match with current.

METHODS OF MARKET RESEARCH

- Interview method, which involves asking questions about the opinion, suggestion and any thing else.
- Questioner which involves designing and giving paper to people to answer them concerning the products that are produced.
- Through quizzes, where simple questions are designed which require simple answers from customers.
- Observation method.
- Experimental method
- Contact method like
    - post office
    - talk
    - telephone

TAXATION

TAXATION: Taxation is a legally compulsory transfer of money from the public to the government as a source of government revenue.

A **tax** is a compulsory payment paid by individuals and firms to the state.

REASONS WHY TAXES ARE IMPOSED.

i) To raise revenue: Taxes are imposed to raise revenue for the government to meet her recurrent and development expenditure.

ii) To control inflation: Taxes are levied in order to control inflation and attain price stability in the economy. This is done by levying high direct taxes which reduce peoples' disposable income thereby controlling demand-pull inflation.

iii) To protect domestic producers from unfair foreign competition; Taxes are imposed to protect domestic producers especially infant industries from unfair foreign competition. This is done by imposing high tariffs on imported goods which are locally produced.

iv) To reduce income inequality and achieve equitable distribution of income and wealth; Taxes are levied to reduce income inequalities and achieve a more equitable distribution of income. This is done by imposing progressive taxes e.g. pay as you earn (PAYE) and personal income tax.

v) To regulate or improve the country's balance of payments position; Taxes are imposed to regulate the country's balance of payments position. This is done by imposing high tariffs on imports which leads to rise in import prices thereby controlling excessive importation.

vi) To discourage the production and consumption of harmful goods; Taxes are levied to discourage the production and therefore consumption of harmful goods e.g. cigarettes. This is done by imposing high taxes on such goods which increase their prices thereby discouraging their consumption as well as production.

vii) To control monopoly powers; Taxation is used as a means of controlling monopoly. This is done by imposing specific, Lump sum and corporation taxes on monopoly firms which increase their production costs thereby reducing profits.

viii) To prevent dumping: Taxes on imports prevent dumping of cheap and substandard goods into the country.

ix) To allocate and regulate the use of resources; When selectively imposed, taxes allocate and regulate the use of resources in the country.

x) It is a means of forced savings; Taxes are levied to increase the savings ratio of the population.

xi) To re-distribute labour; This is done by imposing taxes selectively in different regions and sectors of the economy.

DIFFERENT TYPES OF TAXES

- **Excise duty**: These are taxes imposed on locally produced goods with in the country eg OTT, Mobile money tax.
- **Import duty** refers to tax imposed on imports.
- **Export duty** refers to a tax levied on goods being exported to countries. Custom duty
- **Property tax** refers tax charged one one's property.
- **Octoral tax / Transit tax** refers taxes levied on goods passing through territorial bounds of another country.
- **Non dutiable goods**: These are goods that are not subject to customs duty
- **Income tax / PAYE** stands for pay as you earn. Is tax imposed on one's income
- **Specific tax** refers to taxes charged / imposed on a fixed amount per unit or levied on an item.

- **Direct taxes** are the ones charged from one person's income and individual's property
- **Indirect taxes** are taxes charged on commodities consumed by an individual
- **Advalorem tax** is a tax levied as a fixed percentage of the value of the a commodity e.g. value added tax (VAT) which is fixed at 18% in Uganda, excise duty, import duty etc.
- **Specific tax** is a tax levied as a fixed amount per unit of the commodity sold or bought such as per kilogram of sugar, Litre of fuel, bar of soap, bottle of soda or beer.
- **Dead weight tax** is the tax which makes the taxpayer abandon or give up an economic activity or tax base being taxed
- **Sumptuary tax** is a tax imposed on commodities to discourage their consumption e.g. a tax on cigarettes.
- **Lump sum tax** is the tax levied as a fixed amount regardless of the level of output produced or sold
- **Sales Tax** is a tax imposed on sale of commodities
- **Commercial Transactions Levy** is the type of tax imposed on services performed on credit at the time of invoicing
- **Stamp duty** is a tax payable on financial contracts or agreements involving the transfer of property from one person or party to another.
- **Capital gains tax** is the tax levied on (financial) assets whose values have increased from the time of their purchase to the time of their sales e.g. dividends on shares.
- **Corporation tax / corporate tax / Company tax / Profit tax** is a tax levied on profits of companies.
- **Customs duty** is a tax imposed on imports or exports while
- **Customs drawback** is a tax refund given to an importer on goods previously imported into the country when they are re-exported.

  OR

  It's a refund of customs duty given to the manufacturer who imports raw materials to produce goods for export.
- **Gift tax** is a tax levied on gifts of all forms
- **Estate duty** is a tax imposed on estates of a deceased person. It is also called death duty.
- **Wealth tax** is tax imposed on the stock of assets owned by an individual
- **Agricultural tax** is a tax levied on agricultural activity.
- **Withholding tax.**
- **Environmental tax.**
- **Rental income.**

Taxes collected by Uganda Revenue Authority

i. Value Added tax. (VAT).
ii. Income tax like Pay as you earn (PAYE).
iii. Corporation tax / corporate tax / Company tax / Profit tax.
Iv. Import duty. } Customs
v. Export duty }
vi. Estate duty
vii. Capital gains tax.
viii. Withholding tax.
ix. Transit tax / Octoroi tax.
x. Environmental tax.
xi. Rental income tax.
xii. Gaming tax.
xiii. Sumptuary tax

xiv. Excise tax like OTT, Mobile money tax.
xv. Stamp duty.

QUALITIES OF A GOOD TAX SYSTEM

i. Equity / Fairness: it should be imposed in such a way that the incidence of tax must be equal on different individuals.
ii. Economy: The cost of collecting a tax must be minimum / as low as possible.
iii. Convenience: Tax imposed must be in such a way that the time and method of a tax payment is convenient for the tax payers eg when a salary earner has just received salary at the end of the months / week etc.
iv. Certainty: The tax payers must be certain of the amount of tax, time and method of payment.
v. Productivity: Every tax imposed should give / generate greater income to the government. (Revenue)
vi. Elasticity: it must be possible to increase or decrease the taxes according to the economic situation of the country. / Change in proportion to change in tax base.
vii. Flexibility: There should be no hindrance in the way of government to impose taxes.
viii. Simplicity: It should be clear to understand and to assess tax, type of tax, method of assessment and collection.
ix. Diversity / Comprehensive: There should be different types of taxes so that the burden of these taxes is spread on different groups of society.
x. Ability to pay: The tax payer should be able pay the tax assessed on him.
xi. Political acceptability: The government should be able to collect the necessary revenue without encountering hostility from the tax payers.

PRINCIPLES OF GOOD TAXATION

Equity: The burden of the tax should fall equitably on all tax payers i.e. all tax payers should bear a proportionately equal burden. Equity may be horizontal or vertical.

- Horizontal equity: This means that similar and similarly placed people should be treated equally during taxation. Those who earn the same amount of income should pay the same amount of tax.
- Vertical equity: This means that different and differently placed people should be treated differently during taxation. Those who earn more income should be taxed more than those who earn less income.

Economy: The cost of tax collection and administration should be substantially lower than the actual tax proceeds. The cost should not exceed 5% of the tax yield.

Simplicity: The tax system should be fairly easy to calculate and understand by both the tax collector and tax payer to avoid misunderstandings, legal disputes and tax evasion.

Productivity: It should be able to encourage effort and initiatives thereby yielding substantial revenue to the government. It should not discourage investment.

Certainty*:* The tax base, amount to be paid and time of payment should be clearly known to both the tax payer and tax collector without any doubt to avoid resentment.

Convenience: The tax should be levied at a time and in a manner favourable or convenient to the tax payer e.g. farmers should pay taxes after the harvest and salary earners at the end of the month.

Diversity: A good tax should have a wider base or source in order to generate sufficient revenue. It should have a variety of taxes and not a single tax e.g. it should include tax bases on income, taxes on property, etc.

Neutrality: It should be impartial i.e. not discriminate tax payers e.g. indirect taxes are impartial because they are paid by anybody who purchases goods or services on which they are imposed.

Elasticity (flexibility): The tax should not be rigid but should change according to the prevailing conditions and requirements of the economy e.g. during a boom tax rates should be high and during a depression tax rates should be low.

It should **avoid double taxation**: The tax payer should not be taxed more than once on the same tax base in one year.

It should be **based on ability to pay**: The tax should be assessment on the ability of the tax to pay. If the tax payer is not able to pay the tax, then the tax is not worth imposing.

ROLE OF TAXATION

Positive role of taxation:

i) Raising revenue: Taxation is a means of acquiring public revenue for government to meet her recurrent and development expenditure.
ii) Controlling inflation: Taxation is an instrument of fiscal policy used in the economy to control inflation. This is done by imposing high direct taxes on people's incomes e.g. PAYE which reduces their disposable incomes thereby controlling demand pulls inflation.
iii) Protecting domestic producers: Taxation in form of high import tariffs protects domestic firms (infant industries) from unfair foreign competition. The high tariffs on imported goods make them more expensive compared to locally produced goods thereby discouraging imports in favor of locally produced goods.
iv) Promoting equitable distribution income: Progressive taxation reduces income inequalities and promotes a more equitable distribution of income since the rich pay more taxes than the poor e.g. PAYE.
v) Improving balance of payments position: Taxation helps to regulate, improve or maintain the country's balance of payments position and attain stability in balance of payments. This is achieved through imposition of high tariffs on imports which checks excessive importation thereby attaining balance of payment stability.
vi) Discouraging the production and consumption of harmful (demerit) goods: Taxation is a means of discouraging the consumption and therefore production of harmful goods like cigarettes. This is done by imposing high taxes on such goods which leads to rise in their prices hence discouraging their consumption and production.
vii) Controlling monopoly powers: Taxation is a tool used by government to regulate or control monopoly powers. The imposition of specific and lump sum taxes on monopolistic firms leads to increase in their production costs thereby reducing their super normal profits.
viii) Influencing the level of economic growth: Taxation is a means of influencing the level of economic growth in the country. Favorable tax rates encourage investment leading to high economic growth rate.
ix) Influencing and regulating use of resources: Taxation helps to influence resource allocation and utilization in the economy.
x) Redistributing labour: Taxation helps to redistribute labour in the economy

Negative role of taxation

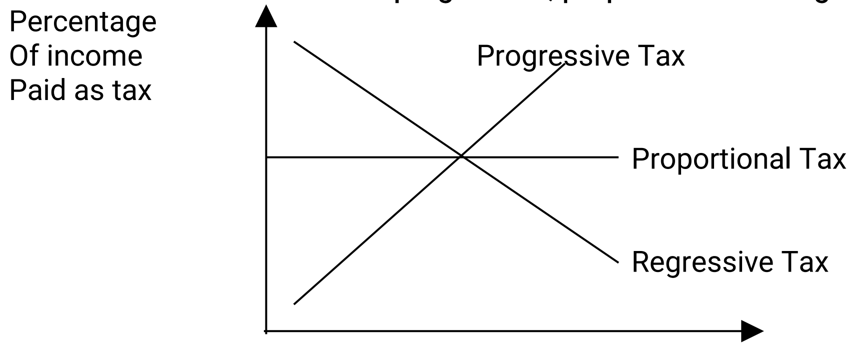
i) It is inflationary: High indirect taxes e.g. VAT, excise duty and customs duties increase the costs of production leading to cost push inflation in the economy.
ii) It discourages savings: High direct taxes on people's incomes e.g. PAYE or personal income tax reduces disposable incomes as well as the level of savings in the economy.
iii) It discourages investment: High taxes increase production costs thereby reducing profit levels of entrepreneurs and discouraging investment.
iv) It leads to misallocation of resources: Resources may be diverted from highly taxed but essential activities e.g. production of essential commodities to sometimes non-productive ventures where taxes are low.
v) It reduces people's welfare or standard of living: High indirect taxes lead to increase in prices and hence a rise in the cost of living which reduces consumption especially for essential commodities hence reduced welfare.
vi) Creates political resentment: High taxes generate political resentment that may erode popularity of government.
vii) Encourages illegal activities: High indirect taxes e.g. customs duties encourage illegal activities like smuggling which leads to loss of government revenue.
viii) Reduces the volume and thus benefits of trade: High taxes on imported goods reduce the inflow of imports into the country thereby reducing the benefits of world trade.
ix) It discourages effort and initiative: High taxes discourage efforts and initiative. This is the case with direct taxes which are usually progressive in nature e.g. PAYE. The more one puts in more effort or works harder and earns more incomes, the more tax he pays which is a disincentive to work and effort.
x) Creates income inequality: Regressive taxes result into income inequality.

SOURCES OF GOVERNMENT REVENUE

- Fines and penalties of law breakers
- Profits from government undertakings
- Sale of government properties
- Gambling e.g. National lotteries
- Gifts and grants from foreign countries
- Motor vehicle licenses
- Public borrowing
- Fees

A **progressive tax** is where the rate of tax increases as one's income increases i.e. the more income one earns the more tax he pays e.g. PAYE while a
Regressive tax is where the rate of tax reduces as one's income increases.
Proportional tax is a tax whose average rate of taxation is constant regardless of the level of income or tax base while
Digressive tax is a tax where the average rate of taxation increases with increase in income level and becomes constant after reaching a certain income level.

Illustration of progressive, proportional and regressive taxes



0 Income (Tax base)

Merits of a progressive tax.

- It reduces income inequalities and promotes a more equitable distribution of income in the country.
- It reduces wages differences e.g. pay as you earn
- It yields higher revenue to government as tax paid increase with increase in tax base.
- It is flexible (elastic) as it changes with changes in tax base.
- It is used to control inflation by reducing disposable incomes

Demerits of a progressive tax.

- It discourages hard work ie it is a disincentive to effort and initiative.
- It reduces savings by reducing disposable incomes.
- It reduces the aggregate demand.
- It discourages investment due to high corporate rates.
- It encourages tax evasion and tax avoidance by high-income earners.

Demerits of regressive tax.

- It is a disincentive to effort, savings and investment.
- It adversely affects the lower income earners compared to the high-income earners.
- It reduces the welfare or standard of living of low-income earners.
- Low tax revenue is realized due to high tax evasion and avoidance.
- It may adversely affect effective demand hence leading to unemployment
- It leads to social unrest and political discontent.

DIRECT AND INDIRECT TAXES

DIRECT TAXES are imposed on directly on one's income while indirect taxes are imposed on goods and services i.e. incorporated in the prices of commodities and paid when one are buying the commodity.

Advantages of direct taxes

i) They are progressive in nature and hence they redistribute incomes and reduce income inequality e.g. (PAYE)
ii) They are more convenient to the tax payer as they are collected at the appropriate time of earning.
iii) They are economical i.e. the cost of collection is low e.g. PAYE which is deducted on the salaries of civil servants by the employer on behalf of the tax authority and submitted to the tax authority (URA) at no extra cost.
iv) They have a built in stabilizer i.e. they have a stabilizing effect on the economy e.g. they are used to stabilize prices by controlling inflation.
v) They are elastic or flexible as they can easily be adjusted according to the requirements of the country.
vi) They conform to the principle of certainty, as the tax payer is sure of the amount of tax to pay, the time and manner of payment.
vii) They are productive i.e. they have a high yield e.g. income tax and PAYE
viii) They are a more sure source of government revenue i.e. they are reliable since they can easily be estimated thus enabling the government to plan in advance.
ix) They are used as a means of controlling inflation by reducing disposable incomes and aggregate demand.

x) They are used as a tool of controlling monopoly practices.
xi) They are fair because they consider the taxable capacity of the taxpayers who pay according to their ability.
xii) They are clear, straight forward and easy to understand by both the taxpayer and tax collector.

Demerits of Direct taxes.

i) They are characterised by high rates of tax evasion and avoidance especially in rural areas.
ii) The cost of tax collection and administration is very high.
iii) They discourage savings by reducing people's disposable incomes.
iv) High direct taxes may cause capital flight where foreign investors transfer their capital to other countries where taxes are low.
v) High direct taxes create resentment that may erode popularity of government.
vi) They have a low tax yield due to narrow tax base in developing countries.
vii) They discourage investment by reducing profit margins of entrepreneurs
viii) They are usually discriminative in nature i.e. they are not impartial since they are not paid by everyone and they tend to be unfair to low income earners.
ix) They are less convenient to tax payers compared to indirect taxes since they are paid in advance and in lump sum except for the case of salaried government civil servants.
x) They discourage effort and initiative since they are levied on one's hard earned income. They are a disincentive to work because when people work harder and earn more incomes, the taxes paid also increases.
xi) They are difficult to collect compared to indirect taxes since high direct taxes prompt tax payers to resent tax payment.

INDIRECT TAXES are imposed on goods and services i.e. incorporated in the prices of commodities and paid when one are buying the commodity.

Advantages of indirect taxes.

i) They are comprehensive and therefore yield higher revenue; Indirect taxes have a wider base or coverage and therefore yield higher revenue for government than direct taxes e.g VAT and Customs duties
ii) They are difficult to evade or avoid; Indirect taxes are difficult to evade or avoid compared to direct taxes because they are included in the prices of a wide range of goods and services.
iii) They are more economical in collection; Indirect taxes involve low cost of collection and administration compared to direct taxes.
iv) They are impartial; Indirect taxes do not discriminate tax payers as they are paid by every body who purchases commodities on which they are imposed.
v) They are convenient to the tax payers; Indirect taxes are more convenient to tax payers compared to direct taxes because they are paid in bits and only when spending occurs.
vi) They are flexible (elastic); Indirect taxes can easily be adjusted to meet the requirements or objectives of the government.
vii) They are less felt and resented; Indirect taxes are less felt and resented because they are included in the prices of the commodities purchased and people do not realize that they are paying taxes. They therefore limit the conflict between tax payers and tax collectors.
viii) They help check on consumption of harmful goods; Indirect taxes help check on consumption and therefore production of harmful goods e.g cigarettes because they increase prices of such commodities on which they are levied
ix) They help in correcting the balance of payments position; Indirect taxes have a built in stabilizer i.e. they have a stabilizing effect on the economy and can be used to correct balance

of payments problem e.g. import duties may be increased to reduce on the volume of imports while export duties may be reduced to increase on the volume of exports there by attaining stability in balance of payments position.

x) They can help in income redistribution; when selectively imposed, indirect taxes can help in income re-distribution and promoting more equitable income distribution e.g. high indirect taxes on luxuries bought by the rich such as Porsche cars and low indirect taxes on consumer goods or basic needs of low income earners.

xi) They are not a disincentive to effort and initiative: Indirect taxes are not a disincentive to effort and initiate and so they encourage production and hard work in an attempt to meet high prices as a result of increasing indirect taxes. This is because unlike direct taxes, indirect taxes are not imposed on hard earned incomes.

xii) They can be used to protect infant industries: Indirect taxes help to protect infant industries from unfair foreign competition by increasing prices of imported goods thereby discouraging their inflow into the country.

Disadvantages of indirect taxes.

i) They are inflationary as they increase costs of production e.g. high import duties on raw materials and other inputs may lead to rise in costs of production leading to cost push inflation.

ii) They reduce the economic welfare since they increase price and hence the cost of living forcing the poor to give up consumption of some commodities.

iii) High indirect taxes e.g. import duties may cause illegal activities or trade malpractices like smuggling leading to loss of government revenue.

iv) High indirect taxes discourage investment by increasing production costs of firms, which reduce profits.

v) When imposed on necessity goods indirect taxes become regressive in nature i.e. discriminate against the poor.

vi) Indirect taxes like customs duties reduce the volume and thus benefits of trade.

vii) They may cause resource diversion from highly taxed activities to sometimes non- productive ventures.

viii) Revenue from indirect taxes fluctuate a lot as it depends on volume of commodities produced and sold making it difficult for government to plan on projected income.

ADVANTAGES OF DIRECT TAX OVER INDIRECT TAX.

i) They can be imposed as progressive taxes which promote equitable income distribution.

ii) They are paid directly to the collecting authorities therefore they cannot be dodged.

iii) They are flexible.

iv) They are more certain in that tax payers know how much to pay.

v) They are easy to understand by both the payer and the collectors.

vi) They are convenient in that people know when and where they are supposed to pay.

vii) They are used to fight demand pool inflation.

viii) More revenue is raised.

VALUE ADDED TAX (VAT) is an indirect tax levied on value added at every stage of production. It is a multi-stage production tax.

Advantages of value added tax

i) It leads to increased government revenue because it is comprehensive i.e. it has a wider base.

ii) It is difficult to evade or avoid since it covers a wide variety of goods and services which must be bought whatever the price.

iii) It reduces corruption since payment is made through the bank and not directly to the URA tax officials
iv) It brings efficiency in business management as it encourages proper maintenance of books of accounts by businessmen or traders since tax assessment is based on the books of accounts.
v) It is not a disincentive to resource allocation as it does not lead to shifting of resources to other sectors.
vi) It is quite economical in terms of administration and collection i.e. the cost of collection and administration is low.
vii) It avoids double taxation i.e. the tax payer is not taxed more than once on the same tax base or activity.
viii) It encourages exports by making them more competitive as taxes on exports are refundable.
ix) It attracts more investment by lowering the production costs.
x) It spreads the tax burden between the producers and consumers.

Disadvantages of value added Tax (VAT)
i) It is unfair to the lower income earners since it is a proportional tax.
ii) It is inflationary as it leads to rise in prices.
iii) It a complicated tax i.e. hard and difficult to understand by both the tax payers and tax collectors.
iv) It increases book keeping and administration expenses on the part of the traders and businessmen since tax assessment is based on books of accounts.
v) It is expensive to the government as it requires tax education and sensitization of the tax payers by organizing seminars and workshops.
vi) It is difficult to assess in developing countries like Uganda where some traders and businessmen do not keep proper books of accounts.
vii) It may generate less revenue due to non- compliance by tax payers who may resist paying the tax.

REASONS FOR THE LOW TAX REVENUE IN UGANDA

i) Low taxable capacity; The taxable capacity in Uganda is low partly due to low incomes of the population. This results into low tax revenue.
ii) Narrow tax base; The tax base in Uganda is still narrow due to small industrial sector, big subsistence and informal sectors hence limited government revenue.
iii) High rates of tax evasion and avoidance; The rampant tax evasion and avoidance reduces government tax revenue as many potential tax payers evade taxes or pay low taxes.
iv) High level of corruption and embezzlement of public revenue; The rampant corruption and embezzlement of public revenue in URA reduces government tax revenue.
v) Large informal sector; The large informal sector with low production and low incomes reduces government revenue.
vi) Weak tax administration; The poor tax assessment, collection and administration limits government tax revenue.
vii) Offering of tax incentives to investors; The government offers tax incentives to foreign investors in form of tax holidays as a way of attracting them into the country e.g BIDCO Oil Company. This reduces government revenue.
viii) Limited non-tax sources of public revenue; Uganda has limited sources of non-tax revenue which leads to low government revenue.
ix) High level of smuggling; The high level of smuggling reduces revenue from customs duties.
x) The fear to raise taxes due to political resentment; The government fears to raise taxes due to the adverse effects of high taxes on the population e.g resentment which may erode popularity of government.

xi) Limited skilled manpower; There is limited supply of skilled manpower to properly assess and collect taxes. This limits government revenue.
xii) Political instability; The political instability in some parts of the country e.g the North hinders proper tax assessment, collection and administration hence limiting government revenue.
xiii) Poor and inadequate logistics; The tax revenue in Uganda is limited by the poor and inadequate logistics such as computers, vehicles, etc which hinder effective tax collection.

HOW TAX REVENUE IN UGANDA CAN BE IMPROVED

i) Sensitizing the masses on the role of taxation to enhance compliance and reduce tax evasion.
ii) Training more manpower to asses and collect taxes.
iii) Ensuring political stability in all parts of the country to facilitate tax assessment and collection.
iv) Strengthening the fight against corruption and embezzlement of public revenue.
v) Developing a tax payer friendly system of collection.
vi) Adopting a fair assessment system based on the principle of equity.
vii) Making proper and effective use of taxes to enhance compliance and reduce tax evasion as people easily pay taxes when they see its benefits in terms of services provided by the state.
viii) Building up strong and sound infrastructural facilities e.g roads to facilitate tax assessment and collection.
ix) Improved implementation of tax laws to reduce tax evasion and tax avoidance.
x) Widening the tax base by introducing new taxes e.g excise duty on airtime for mobile phones.

ROLES OF Uganda Revenue Authority (URA) in tax administration

i. Asses and collects tax revenue.
ii. Advises the government on issues relating to public revenue, expenditure and also tax policy.
iii. Identifying tax payers.
iv. Increases tax revenue through coming up with different taxes ie it expands the tax base.
v. Ensures that tax compliance is observed through tax education by providing information to the tax payers on their responsibility of paying taxes.
vi. Penalizing tax offenders ie crack down on all tax defaulters.
vii. Accounts to the ministry of finance and the public for all the revenue collected.

Measures used by URA to encourage traders pay taxes

i. Extension of tax payment period to tax payers who may fail to pay within the stipulated time.
ii. Tax education through Medias like Radio, newspapers etc by sensitizing the masses on the benefits of paying taxes.
iii. Through fighting corruption and embezzlement of tax revenue by tax officials.
iv. Giving rewards to traders / companies that contribute highest taxes like the **tax appreciation week**.
v. Publicising the names of tax payers who evade taxes in the media. Publicising a shame list.
vi. Ensuring proper accountability for taxes collected.
vii. Penalising traders who evade taxes / imposing heavy fines to tax evaders.
viii. Using efficient and highly trained personnel.
ix. Encouraging traders to keep business records for accurate assessment.
x. Controlling smuggling of goods.
xi. Easing the method of paying taxes by use of electronic methods / internet eg E-tax ie making the procedure short.
xii. Consistence and fairness in application of the tax laws and the rules ie by fighting corruption in assessing and collection of taxes.
xiii. Ensuring the principle of equity / fairness.

xiv. Simplicity ie making tax laws easily understood.

REASONS FOR IMPOSING IMPORT DUTIES

i) To protect domestic infant industries from unfair foreign competition by making imports relatively more expensive.
ii) To generate government revenue from taxes on imported goods.
iii) To correct the balance of payments position by checking excessive importation.
iv) To discourage the importation of harmful or undesirable goods into the country thereby protecting the health of nationals.
v) To control imported inflation by checking imports from inflation prone economies.
vi) To create employment at home by restricting imports and stimulating domestic demand for locally produced goods.
vii) To reduce dependence on other countries and promote self-sufficiency.
viii) To discourage dumping of cheap or substandard products into the country.
ix) To improve the terms of trade by reducing the demand for imports.
x) To retaliate to the same policy (beggar-my-neighbour policy).

UNEB QUESTIONS SINCE 2001

2017

27. (a) Explain any **six** qualities of a good tax system. (12 marks)
(b) Outline any **eight** reasons why the government of Uganda collects taxes. (08 marks)

2018

25. (a) Identify any **four** taxes collected by Uganda Revenue Authority. (04 marks)
(b) Explain any **five** roles of URA in the administration of taxes. (10 marks)
(c) State **six** measures used by URA to encourage traders pay taxes. (06 marks)

2019

27. (a) Explain any **five** principles of a good tax system. (10 marks)
(b) Give **five** reasons why the government of Uganda imposes taxes on businesses. (10 marks)

BUSINESS CALACULATIONS / ARITHMETICS

COMMON DEFINITIONS

Carriage in wards refers to transport charges for goods purchased. It is part of the cost of buying goods and therefore it is added on the value of purchases.

Carriage out wards refers to transport charges for the goods sold. It means the carriage charges for goods living the business to its customer. It is treated as business expenses.

Solvency is a situation when a business has more assets than liabilities. Le. The business can pay off its debts using its own resources while insolvency.

Debtors: A person or organizations that owe the business money. Organizations / persons to whom goods / services have been sold on credit.

Creditors: A person or organizations that the business owes money. Organizations / persons that supplied goods to the business on credit

Insolvency is a situation when a business has more liability than assets.

Bankruptcy, is when a business is not in position to pay it's creditors (debts).

Drawings, are goods or cash withdrawn from the business by its owners.

Capital: Amount of money invested in the business by the owners.
Or. Anything of value that the business owes the owner.
Or. The difference between assets and liabilities of the business / firm

Capital employed refers to the total sum of fixed assets plus working capital or sum of capital owned plus borrowed capital / Is the amount of owners' equity plus long term liabilities.

Capital owned refers to the amount of capital invested in the business by the owner.

Working capital: Is the excess of current assets over current liabilities / Difference between current assets and current liabilities of a business / Amount of money used in the day today running of the business.

Mark up: is the extra amount added to the direct cost of production of goods to arrive at the selling price of those goods.

Margin: This the gross profit expressed as a percentage of sales / turnover.

Liquid Capital: This refers to asses of the business that can be easily changed into cash / It's the capital tied up in current assets.

A statement of account is a document in retail trade sent by the seller to the buyer requiring him to pay for the goods he took on credit in a given period of time usually a month

An **income statement** is a financial statement showing the value of a business' net profit.

Purpose of an income statement

- To determine the gross profit and Net profits of a business for a certain trading period.

A **balance sheet** is a tabular statement showing the value of the company's assets and liabilities at a particular date.

Purpose of a balance sheet

- To show the assets, liabilities and capital of a business as at a particular date.
- To show the financial position of a business as at a particular date.

Quick assets ratio it is e equals to quick assets over current liabilities

$$\frac{\text{Assets}}{\text{Current liabilities.}}$$

Net profit ratio this indicates the net profit as a percentage of sales,

$$\frac{\text{Net profit}}{\text{Sales}} \times 100$$

BENEFITS OF BUSINESS CALCULATIONS TO A TRADER

i. Comparing performance with in the business
ii. Comparing the performance of the business with other businesses
iii. Determining the profitability of the business. / Calculating the profits and losses in the business
iv. For planning purposes
v. For acquiring loans from financial institutions
vi. To control business activities ie assets, liabilities and expenses
vii. For proper and accurate tax assessment
viii. Determining the net worth of the business / capital / financial position of the business

COMMON FORMULA USED IN BUSINESS ARITHMETICS

Capital Employed = current Assets + Fixed Assets
Or = Fixed Assets + working capital
= capital owned + long term liability

Working capital = Current assets – Current liability

Capital owned = total assets – total liability

Total assets = Fixed assets + Current assets
Or = Capital – liabilities
Total assets may at times = capital employed
Fixed assets = Furniture + Equipment + building.

Turn over = Net Sales
Net Sales = Sales – Returns in wards (Sales returns)
Net Purchases = Purchases – Returns out wards (Purchases returns)
Turn over = Cost of sales + Gross Profit

Rate of turnover / Rate of stock turn $= \frac{\text{Cost of Sales}}{\text{Average Stock}}$

Net profit = Gross profit – Expenses (Overheads)

Gross profit = sales – cost of sales
Or = selling price – cost price.
= Expenses (Overheads) + net profit

Current assets = cash + debtors + stock

Return of capital = $\frac{\text{Net profit}}{\text{Capital}} \times 100$

Net margin ratio = $\frac{\text{Net profit}}{\text{Net sales}} \times 100$

Cost of sales = Turn over – Gross profit
Or = Net sales – Gross profit
= (opening stock + Net Purchases) – Closing stock
= Sales – gross profit
= Rate of stock turn X Average stock
= Goods available for sale – Closing stock

Goods available for sale = Opening stock + Net Purchases
Mark up = $\frac{\text{Gross profit}}{\text{Cost of sales}} \times 100$

Margin = $\frac{\text{Gross profit}}{\text{Sales.}} \times 100$

Average stock = $\frac{\text{opening stock + closing stock}}{2}$

Economy ratio = $\frac{\text{Expenses}}{\text{Net sales}} \times 100$

Capital = Assets – liabilities
Net loss = (Overheads) Expenses – gross profit
Net profit = Gross profit – Expenses (Overheads)
Gross loss = Cost of sales – Net sales.

Liquid or float capital = Current assets – closing stock

Assets = Fixed assets + current assets.
Or = capital – liability

Total Liabilities = long term liability + current liability

Gross profit ratio = $\frac{\text{Gross profit}}{\text{Sales}} \times 100$

Net profit ratio = <u>Net profit</u> X 100

Sales

Current ratio $= \frac{\text{Current assets}}{\text{Current liabilities.}}$

Rate of return on capital $= \frac{\text{Net profit}}{\text{Capital employed}} \times 100$

But capital employed = fixed assets + working capital

Rate of debtors to sales $= \frac{\text{Debtors}}{\text{Sales}} \times 100$

Ratio of creditors to purchase $= \frac{\text{creditors}}{\text{Purchases}} \times 100$

Quick assets ratio $= \frac{\text{Current assets}}{\text{Current liabilities}}$

Working capital ratio $= \frac{\text{Current assets}}{\text{Current liabilities}}$

NB;

Students are advised to be very keen with the use of formulas because some do not apply on some questions.

TRADING ACCOUNTS & A BALANCE SHEET

BASIC DEFINITIONS

If a candidate is required to find;

a) Total liabilities
b) Total assets
c) Long term liabilities
d) Short term liabilities
e) Currents assets
f) Fixed assets

Should simply outline all the items that appear in the question in the table in a formula like form and total them up.

Liabilities	Assets
Capital xxx	
Long term liabilities ✓ Bank loan xxx	**Fixed assets / Fixed capital** ✓ Fixtures and fittings ....xxx ✓ Machines ....xxx ✓ Furniture ....xxx ✓ Premises / land ....xxx ✓ Motor van ....xxx ✓ Buildings xxx
Short term / current liabilities ✓ Creditors xxx	**Current assets** ✓ Debtors xxx

✔ Bank overdraft ....xxx ✔ Fuel and electricity bills ....xxx ✔ Wages and salaries ....xxx ✔ Postage & telephone bills ....xxx ✔ Rent and rates ....xxx ✔ Unpaid taxes xxx	✔ Closing stock / stock ....xxx ✔ Cash at hand / in till ....xxx ✔ Cash at bank xxx
Total Liabilities xxx	Total Assets xxx

BASIC FORMULAES

1. Total Assets = Capital + Liabilities
   = Current assets + Fixed assets
2. Working capital = Current assets – Current liabilities
3. Capital Employed = Current Assets + Fixed Assets
   = Fixed Assets + working capital
   = Capital owned + long term liability
4. Capital owned = Total assets – Total liabilities

TRIAL QUESTIONS

3. The following information was found in the books of Mr. Eric Kibazo as at December 31st 2007:-

	Shs		
		Bank overdraft	80,000
Capital	1,000,000	Unpaid taxes	100,000
Premises	400,000	Debtors	350,000
Machinery	350,000	Motor van	150,000
10 year loan	500,000	Cash	30,000
Furniture	250,000	Creditors	120,000
5 year loan	200,000	Stock	470,000

Using Kibazo's information above determine;

(i) Fixed capital = Machinery + Furniture + Premises + Motor van
= 350,000 + 250,000 + 400,000 + 150,000
= Shs. 1,150,000

(ii) Liquid Capital = Current assets – Stock
But Current assets = Debtors + Stock + Cash
= 350,000 + 470,000 + 30,000
= Shs. 850,000
Therefore Liquid Capital = 850,000 – 470,000
= Shs. 380.000

(iii) Working Capital = Current assets – Current liabilities
Where current assets = Shs. 850,000
Current liabilities = Creditors + unpaid taxes + bank overdraft
= 120,000 + 100,000 + 80,000
= Shs. 300,000
:- Working capital = 850,000 – 300,000
= Shs. 550,000

(iv) Capital Employed = Fixed Capital + Working Capital
= 1,150,000 + 550,000
= Shs. 1,700,000

4. Given the information below, determine the value of current liabilities (UNEB 2010)

Stock	Shs 100,000
Trade creditors	Shs 80,000
Trade debtors	Shs 120,000
Bank overdraft	Shs 50,000

Current liabilities = Trade creditors + Bank overdraft
= 80,000 + 50,000
= Shs. 130,000

5. Determine the working capital of a business whose: (UNEB 2012)
Cash is Shs 5,600
Stock is shs 15,000
Creditors are valued at shs 4,200
Debtors are valued at shs. 2,400

Working Capital = Current Assets – Current Liabilities
Where Current Assets = Debtors + Stock + Cash
= 2,400 + 15,000 + 5,600
= Shs. 23,000
And Current liabilities = Creditors
= 4,200
:- Working capital = 23,000 – 4,200
= Shs. 18,800

6. Rafiki traders had the following records as at 31st – 12 – 2012.

	Shs
Opening Stock	7,000,000
Purchases	2,000,000
Sales	9,500,000
Purchases returns	120,000
Sales returns	95,000
Machinery	2,000,000
Buildings	4,000,000
Withdrawals	200,000
Closing stock	500,000
Capital	2,500,000
General expenses	350,000

From the above information, you are required to calculate;

(i) Sales at Cost
(ii) Rate of turnover
(iii) Margin
(iv) Mark-up
(v) Rate of return on capital

TRADE AND CASH DISCOUNT

Cash discount is a reduction in price allowed to a buyer who pays cash for goods bought from the Seller

Trade discount is a reduction in price allowed to a buyer who buys goods in large quantities from the seller

TRIAL QUESTIONS

1. A trader bought goods worth Shs. 160,000 and was allowed 10% trade discount and 5% cash discount. How much did the trader pay for the goods?

Value of trade discount = $\frac{10}{100} \times 160{,}000$

= Shs. 16,000

Cost price minus trade discount = 160,000 – 16,000

= Shs. 144,000

Value of Cash discount = $\frac{5}{100} \times 144{,}000$

= Shs. 7,200

Value after trade discount - Cash discount = 144,000 – 7,200

Actual amount paid = Shs. 136,800

2. Kato bought 100boxes of bread at Shs. 30,000 per box. Trade discount of 20% and cash discount of 10% were offered. How much did he pay?

Total Value payable 100 x 30,000 = Shs. 3,000,000

Value of trade discount = $\frac{20}{100} \times 3{,}000{,}000$

= Shs. 600,000

Cost price minus trade discount = 3,000,000 – 600,000

= Shs. 2,400,000

Value of Cash discount = $\frac{10}{100} \times 2{,}400{,}000$

= Shs. 240,000

Value after trade discount - Cash discount = 2,400,000 – 240,000

Actual amount paid = Shs. 2,160,000

3. Byansi bought 100 packets of Glucose biscuits at Shs. 3 per packet. She was allowed a trade discount of 20%. His net invoice amount is ....

Total Value payable 100 x 3 = Shs. 300

Value of trade discount = $\frac{20}{100}$ x 300

= Shs. 60

Cost price minus trade discount = 300 – 60

= Shs. 240

Net Invoice amount payable = Shs. 240

4. Mr Musoke a trader in Kabulasoke was offered 13% cash discount and 7% trade discount for buying goods valued shs. 750,000. How much he pay after the discount?

Value of trade discount = $\frac{7}{100}$ x 750,000

= Shs. 5,250

Cost price minus trade discount = 750,000 – 5,250

= Shs. 744,750

Value of Cash discount = $\frac{13}{100}$ x 744,750

= Shs. 96817.5

Value after trade discount - Cash discount = 2,400,000 – 240,000

Actual amount paid after the discount = Shs. 647,932.5

5. What is the amount payable to the seller if goods are invoiced at shs. 400,000 with 10% trade discount and 5% cash discount

Value of trade discount = $\frac{10}{100}$ x 400,000

= Shs. 40,000

Cost price minus trade discount = 400,000 – 40,000

= Shs. 360,000

Value of Cash discount = $\frac{5}{100}$ x 360,000

= Shs. 18,000

Value after trade discount - Cash discount = 360,000 – 18,000

Actual amount payable = Shs. 342,000

UNEB QUESTIONS SINCE 2001

2001

28. (a) Define the following terms as used in commerce.

(i) Working capital: These are the resources used in the day today running of the business.

(ii) Capital owned: This is the net worth of the business.
OR
This is the difference between total assets and total liabilities.

(iii) Liquid capital: This is capital that can easily be converted into cash. Or is itself in cash.

(b) Mujomba had an opening stock of Shs. 350,000, Closing stock of Shs. 1,820,000, expenses were Shs. 150,000 and sales were Shs. 3,100,000.

Calculate

(i) Cost of sales = Opening stock + Net Purchases – Closing stock
= 350,000 + 1,820,000 - 410,000
= 2,170,000 – 410,000
= Shs. 1,760,000

(ii) Gross profit = Sales – Cost of Sales
= 3,100,000 – 1,760,000
= Shs. 1,340,000

(iii) Average Stock

$$= \frac{Opening\ .stock + Clo\sin g.stock}{2}$$

$$= \frac{350,000 + 410,000}{2}$$

$$= \frac{960,000}{2}$$

= Shs. 480,000

(iv) Net Profit = Gross profit – Expenses
= 1,340,000 - 150,000

= Shs. 1,190,000

2002

28. A trading company had the following balances as at 31st December 2001.

	Shs.
Opening Stock	700,000
Purchases	200,000
Sales	950,000
Closing stock	50,000
Gross Profit	100,000

Calculate

(i) Average Stock $= \dfrac{Opening\ .stock + Clo\sin g.stock}{2}$

$= \dfrac{700,000 + 50,000}{2}$

$= \dfrac{750,000}{2}$

= Shs. 376,000

(ii) Sales at Cost = Opening stock + Net Purchases – Closing stock

= 700,000 + 200,000 - 50,000

= 900,000 – 50,000

= Shs 850,000

(iii) Rate of stock turn $= \dfrac{Cost\ .of\ .sales}{Average\ \ .stock}$

$= \dfrac{850,000}{375,000}$

= 2.3 times

= 2 times

(iv) Margin = $\dfrac{Gross\ .\Pr ofit}{Sales}$ x 100

$= \dfrac{100,000}{950,000}$ x 100

= 10.5 %

(v) Markup = $\dfrac{\text{Gross Profit.}}{\text{Cost of sales.}}$ x 100

$= \dfrac{100,000}{850,000}$ x 100

= 11.7 %

2003

28. (a) Distinguish between working capital and capital employed

Working capital are the resources used in the day today running of the business

While

Capital employed is the sum of fixed assets and working capital.

(b) The following were records of a business at the end of a trading period

	Shs.
Opening Stock	840,000
Closing Stock	970,000
Purchases	2,330,000
Sales	3,410,000

Required:

Calculate the;

(i) Cost of goods sold = Opening stock + Net Purchases – Closing stock
= 840,000 + 233,000 - 970,000
= 3,170,000 – 970,000
= Shs. 2,200,000

(ii) Gross profit = Sales – Cost of Sales
= 3,410,000 – 2,200,000
= Shs. 1,210,000

(iii) Average Stock = $\frac{Opening\ .stock + Clo\sin g.stock}{2}$

$= \frac{840,000 + 970,000}{2}$

$= \frac{1,810,000}{2}$

= Shs. 905,000

(iv) Rate of stock turn = $\frac{Cost\ .of\ .sales}{Average\ .stock}$

$= \frac{2,200,000}{905,000}$

= 2.4 times

= 2 times

2004

28. (a) Differentiate between Margin and Mark up

(b) The following information relates to a retailer's business for the year ending 31st December 2003

	Shs.
Stock on 1st January	344,300
Stock on 31st December	267,200
Net Purchases	2,122,900
Expenses	458,000
Mark up	40%

Calculate

(i) Cost of sales = Opening stock + Net Purchases – Closing Stock

= 344,300 + 2,122,900 – 267,200

= 2,467,200 – 267,200

= Shs. 2,200,000

(ii) Average Stock = $\frac{Opening.stock + Closing.stock}{2}$

= $\frac{344,300 + 267,200}{2}$

= $\frac{611,500}{2}$

= Shs. 305,750

(iii) Rate of stock turn = $\frac{Cost.of.sales}{Average.stock}$

Rate of stock turn = $\frac{2,200,000}{305,750}$

= 7.2 times

= 7 times

(iv) Net Profit = Gross profit – Expenses

But Gross profit from Markup = $\frac{Gross.profit}{Cost.of.sales} x.100$

40 = $\frac{Gross.profit}{2,200,000} x.100$

40 x 2,200,000 = 100 x Gross profit

88,000,000 = 100Grossprofit

Gross profit = Shs.880,000

Therefore Net Profit = Gross profit – Expenses

= 880,000 – 458,000

= Shs. 422,000

2005

28. The books of accounts for a business indicated the following on 31st December 2003.

	Shs
Opening stock	24,000,000
Closing stock	36,000,000
Sales	120,000,000

Gross profit	20% of sales	
Expenses	10% of gross profit	

Calculate

(i) Cost of sales = Sales – Gross profit

But Gross profit = 20% of sales

$= \frac{20}{100} \times 120{,}000{,}000$

= <u>Shs. 24,000,000</u>

:- Cost of sales = 120,000,000 – 24,000,000

= <u>Shs. 96,000,000</u>

(ii) Net Purchases

From Cost of sales = Opening Stock + Net Purchases – Closing stock

96,000,000 = 24,000,000 + Net Purchases – 36,000,000

Net Purchases= 96,000,000 + 36,000,000 – 24,000,000

= <u>Shs. 108,000,000</u>

(iii) Net Profit = Gross profit – Expenses

But Expenses = 10% of gross profit

$= \frac{10}{100} \times 24{,}000{,}000$

= <u>Shs. 2,400,000</u>

:- Net Profit = 24,000,000 – 2,400,000

= <u>Shs. 21,600,000</u>

(iv) Rate of turnover $= \frac{Cost\ .of\ .sales}{Average\ \ .stock}$

Where Cost of sales is 96,000,000

But Average stock $= \frac{Openingsto\ \ ck.+Clo\ \sin\ g.stock}{2}$

$= \frac{240{,}000{,}000 + 36{,}000{,}000}{2}$

$= \frac{276{,}000{,}000}{2}$

= <u>138,000,000</u>

Therefore Rate of stock turn $= \frac{96{,}000{,}000}{138{,}000{,}000}$

= 0.69 times

<u>= 0.7 times</u>

(v) Mark-up $= \frac{Gross profit}{Cost of sales} x.100$

$= \frac{24,000,000}{96,000,000} x.100$

$= \underline{\underline{25\%}}$

(b) If capital at start was shs. 60,000,000. Calculate the return of capital invested.

(i) Rate of return on capital $= \frac{Net.Profit}{Capital} x100$

$= \frac{21,600,000}{60,000,000} x100$

$= \underline{\underline{36\%}}$

2006

28. (a) Differentiate between **income statement** from a **balance sheet**.

An income statement is a financial statement that shows the gross profit or loss of a business over a given period of time.

Where as

A balance sheet is a financial statement that shows the position of a business or individual at a particular time.

(b) Kagezi's balance sheet as at 31st December, 2004

	Shs		Shs
Capital	2,000,000	Furniture	1,600,000
Debentures	2,000,000	Equipment	1,800,000
Bank loans	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 = Total assets – Total liabilities

Where Total assets = Furniture+Stock + Debtors + Equipment + Cash

= 1,600,000 + 1,450,000 + 1,080,000 + 800,000 + 480,000 + 480,000

= Shs. 6,410,000

And Total liabilities = Debentures+Bank loans + Creditors + Overdraft

= 2,000,000 + 1,350,000 + 800,000 + 760,000

= Shs. 4,410,000

:- Capital owned = 6,410,000 – 4,410,000
= 2,000,000

(ii) Borrowed Capital = Long term liabilities
= Bank loans
= Shs. 1,350,000

(iii) Working Capital = Current assets – Current liabilities
Where Current assets = Stock + Debtors + Cash
= 1,450,000 + 1,080,000 + 480,000
= Shs. 3,010,000

And Current liabilities = Creditors + Bank overdraft
= 800,000 + 760,000
= Shs. 1,560,000

:- Working Capital = 3,010,000 – 1,560,000
= Shs. 1,450,000

(iv) Fixed Capital = Furniture + Equipments
= 1,600,000 + 1,800,000
= Shs. 3,400,000

(v) Capital employed = Fixed Assets + Working Capital
= 3,400,000 + 1,450,000
= Shs. 4,850,000

2007

28. (a) Differentiate between the following

(i) Mark up and Margin

Markup is the gross profit expressed as a percentage of cost of sales (Cost Price) while

Margin is the gross profit expressed as a percentage of sales. (Selling price).

(ii) Capital owned and borrowed Capital

Capital owned is the net worth of the business.

Capital owned = Current assets – Current liabilities

While

Borrowed capital refers to the resources borrowed outside one's business. It includes all long term liabilities.

(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	8

(i) Cost of sales

From Rate of stock turn $= \frac{Cost.of.sales}{Average.stock}$

$8 = \frac{Cost.Of.Sales}{500,000}$

8 x 500,000 = Cost of sales

Cost of sales = Shs. 4,000,000

(ii) Closing stock

From Average stock $= \frac{Opening.stock + Closing.stock}{2}$

$500,000 = \frac{400,000 + Closing.Stock}{2}$

500,000 x 2 = 400,000 + Closing stock

1,000,000 – 400,000 = Closing stock

Closing Stock = Shs. 600,000

(iii) Net Purchases

From Cost of sales = Opening Stock + Net Purchases – Closing stock

4,000,000 = 400,000 + Net Purchases – 600,000

4,000,000 – 400,000 + 600,000 = Net Purchases

Net Purchases = Shs. 4,200,000

(iv) Net Sales = Cost of sales + Gross Profit

= 4,000,000 + 820,000

= Shs. 4,820,000

(v) Mark up $= \frac{Gross.profit}{Cost.of.sales} x.100$

$= \frac{820,000}{4,000,000} x.100$

= 20.5%

(vi) Margin = $\frac{Grossprofit}{Turnover} x100$

$= \frac{820,000}{4,820,000} x.100$

= 17%

2008

28 MR FOX'S BALANCE SHEET AS AT 31ST DECEMBER 2005

Liabilities	Shs	Assets	Shs	Shs
Capital	110,000	Motor Vehicle		100,000
Long term		Current Assets		
Loans (to firm)	50,000	Stock	60,000	
		Debtors	28,000	
Current liabilities		Bank	24,000	
Creditors	60,000	Cash	80,000	120,000
	220,000			220,000

You are also provided with the following information

	Shs
• Opening stock valued at	32,000
• Purchases for the year was	120,000

- Returns outwards amounted to 2.5% of Purchases

Calculate

(a) Net Purchases= Total Purchases – Goods returned

$= 120,000 - \left(\frac{2.5}{100} x120,000\right)$

= 120,000 – 3,000

= Shs. 117,000

(b) Cost of sales = Opening Stock + Net Purchases – Closing stock

= 32,000 + 117,000 – 60,000

= 149,000 – 60,000

= Shs. 89,000

(c) Average Stock = $\frac{Openingstock + Closing.stock}{2}$

$= \frac{32,000 + 60,000}{2}$

$= \frac{920,000}{2}$

$=$ Shs. 46,000

(d) Rate of stock turn to nearest whole number $= \frac{Cost\ of\ sales}{Average\ stock}$

$= \frac{89,000}{46,000}$

$=$ 1.9

$=$ 2 times

(e) Working Capital = Current Assets – Current liabilities

= 120,000 - 60,000

= Shs. 60,000

2009

28. A firm had the following records as at 31st December 2006

	Shs
Stock at 01st . 01. 2006	182,400
Stock at 31st . 12. 2006	213,000
Purchases	1,382,900
Sales	1,966,900
Returns outwards	34,100
Returns inwards	51,000

Determine

(a) (i) Turnover = Sales - Returns inwards

= 1,966,900 – 51,000

= Shs. 1,915,900

(ii) Net Purchases= Purchases - Returns outwards

= 1,382,900 - 34,100

= Shs. 1,348,800

(iii) Goods available for sale = Opening stock + Net Purchases

= 182,400 + 1,348,800

= Shs. 1,531,200

(iv) Cost of sales = Goods available for sale – Closing stock

= 1,531,200 - 213,600

= Shs. 1,317,600

(v) Rate of stock turn = $\frac{Cost\ .of\ .sales}{Average\ \ .stock}$

But Average stock = $\frac{Openingsto\ \ ck.+Clo\ \ \sin\ g.stock}{2}$

= $\frac{182,400\ +213,600}{2}$

= $\frac{296,000}{2}$

= Shs. 198,000

:- Rate of turnover = $\frac{1,317,600}{198,000}$

= 6.65

= 7 times / turns

(b) (i) Gross profit = Turnover - Cost of sales

= 1,915,900 – 1,317,600

= Shs. 598,300

(ii) Mark up = $\frac{Gross\ \ .profit}{Cost\ .of\ .sales}x.100$

= $\frac{598,300}{1,317,600}x.100$

= 45.4%

(iii) Margin = $\frac{Grossprofi\ \ \ t}{Turnover}x100$

= $\frac{598,300}{1,317,600}x.100$

= 31.23 %

2010

28. (a) Define the following terms as used in Commerce

(i) liabilities

(ii) **Stock taking:** This is the process of listing all the stock held in the business in order to find out number of item at a particular time.

OR

Stock taking is the physical counting of items in the stock in order to establish the quantity / number of items at a particular time.

(b) Given the following information;

	Shs
Stock on 01.01.2009	43,430,000
Net Purchases	312,290,000
Mark-up	25%
Stock on 31.12.2009	26,000,000
Expenses for the year	35,850,000

Calculate the:

i. Average stock $= \frac{Opening.stock + Closing.stock}{2}$

$= \frac{43,430,000 + 26,000,000}{2}$

$= \frac{69,430,000}{2}$

= Shs. 34,715,000

ii. Rate of stock turn $= \frac{Cost.of.sales}{Average.stock}$

But Cost of sales = Opening stock + Net Purchases – Closing stock

= 43,430,000 + 312,290,000 – 26,000,000

= 355,720,000 – 26,000,000

= Shs. 329,720,000

Therefore Rate of stock turn $= \frac{329,720,000}{34,715,000}$

= 9.4979 times

= 9.5 times / 10 times

iii. Gross profit from Mark-up $= \frac{Gross.profit}{Cost.of.sales} x.100$

25 $= \frac{Gross.profit}{329,720,000} x.100$

25 x 329,720,000 = 100 x Gross profit

8,243,000,000 = 100Grossprofit

Gross profit = Shs. 82,430,000

iv. Net profit = Gross profit – Expenses
= 82,430,000 – 35,850,000
= Shs. 46,580,000

2011

28. The following information was extracted from the books of accounts of a trader

	Shs
Capital	1,000,000
Total cost of sales	960,000
Average Mark-up	20%
Expenses	80,000

Calculate the trader's:

(i) Turnover = Cost of sales + Gross profit

But from Gross profit from Markup $= \frac{Gross\ .\ profit}{Cost\ .of\ .sales} x.100$

$$20 = \frac{Gross\ .\ profit}{960,000} x.100$$

20 x 960,000 = 100 x Gross profit
19,200,000 = 100Grossprofit
Gross profit = Shs. 192,000

Therefore Turnover =960,000 + 192,000
= Shs. 1,152,000

(ii) Gross profit

Gross profit from Markup $= \frac{Gross\ .\ profit}{Cost\ .of\ .sales} x.100$

$$20 = \frac{Gross\ .\ profit}{960,000} x.100$$

20 x 960,000 = 100 x Gross profit
19,200,000 = 100Grossprofit
Gross profit = Shs. 192,000

(iii) Net Profit = Gross profit – Expenses
= 192,000 – 80,000
= Shs. 112,000

(iv) Margin $= \frac{Grossprofi\ \ t}{Turnover} x100$

$$= \frac{192,000}{1,152,000} x.100$$

$= 16.67\%$

$\underline{\underline{= 17\%}}$

(v) Rate of return on capital $= \frac{Net.\ Profit}{Capital\ .Employed} x100$

$= \frac{112,000}{1,000,000} x100$

$= 11.2\%$

$= \underline{\underline{11\%}}$

2012

26. (a) Define the following terms as used in business calculations
    - (i) Capital
    - (ii) Debtors
    - (iii) Current assets
    - (iv) Working capital

    (b) Explain **six** methods of increasing profits of a retail business

28. The following records were extracted from the books of a trader as at 31st December 2011.

	Shs
Stock on 1st January 2011	11,400,000
Purchases	92,000,000
Sales	106,940,000
Returns outwards	3,400,000
Returns inwards	1,600,000
Overheads	13,400,000
Stock on 31st December 2011	17,400,000

Calculate the;

(i) Cost of sales = Opening Stock + Net Purchases – Closing stock

But Net purchases = Purchases – Returns outwards
= 92,000,000 – 3,400,000
= Shs. 88,600,000

Therefore Cost of sales = 11,400,000 + 88,600,000 – 17,400,000
= 100,000,000 – 17,400,000
= Shs. 82,600,000

(ii) Net sales = Sales – Returns inwards
= 106,940,000 – 1,600,000
= Shs. 105,340,000

(iii) Markup at cost $= \frac{Gross profit}{Cost of sales} x.100$

But Gross profit = Net sales – Cost of sales

= 105,340,000 – 82,600,000

= Shs. 22,740,000

Therefore Markup at cost $= \frac{22,740,000}{82,600,000} x.100$

= 27.5%

= 28%

(iv) Net profit = Gross profit – Expenses (Overheads)

= 22,740,000 – 13,400,000

= Shs. 9,340,000

(v) Rate of stock turn $= \frac{Cost.of.sales}{Average.stock}$

But Average Stock $= \frac{Opening.stock + Closing.stock}{2}$

$= \frac{11,400,000 + 17,400,000}{2}$

= Shs. 14,400,000

Therefore Rate of stock turn $= \frac{82,600,000}{14,400,000}$

= 5.73 times

= 6 times

2013

28. (a) State **four** benefits of business calculations to a trader

(b) Atrader's books of accounts had the following records;

	Shs
Stock on 1/1/2012	200,000
Purchases	480,000
Sales	820,000
Returns inwards	50,000
Stock on 31/12/2012	100,000

Calculate;-

(vi) Cost of sales = Opening stock + Net Purchases – Closing stock

= 200,000 + 480,000 – 100,000

= 680,000 – 100,000

= Shs. 580,000

(vii) Turnover = Sales – Returns inwards
= 820,000 – 50,000
= Shs. 770,000

(viii) Gross profit = Net sales – Cost of sales
= 770,000 – 580,000
= Shs. 190,000

(ix) Gross profit margin $= \frac{Grossprofi \quad t}{Turnover} x100$

$= \frac{190,000}{770,000} x.100$

= 24.67%

= 25%

2014

28. (a) Define Stock taking

(b) Atrader's books of accounts had the following records;

	Shs
Opening stock	1,800,000
Net Purchases	260,000
Closing Stock	1,200,000
Expenses	440,000
Mark-up	20%

Calculate;-

(i) Cost of sales = Opening stock + Net Purchases – Closing stock
= 1,800,000 + 760,000 – 1,700,000
= Shs. 860,000

(ii) Turnover = Cost of sales + Gross Profit

$= 860,000 + \frac{20}{100} x860,000$

= 860,000 + 172.000

= Shs. 1,032,000

OR

Turn over $= \frac{100 + Markup}{100}$ x Cost of sales

$= \frac{100 + 20}{100}$ x 860,000

= Shs. 1,032,000

(iii) Average Stock = $\frac{Opening\ .stock + Clo\sin g.stock}{2}$

$= \frac{1,800,000 + 1,200,000}{2}$

$= \frac{3,000,000}{2}$

= Shs. 1,500,000

(iv) Rate of stock turn = $\frac{Cost\ .of\ .sales}{Average\ .stock}$

$= \frac{860,000}{1,500,000}$

= 0.57 times App. 0.6 turns

= 1 time / turn

(v) Net Profit = Gross profit - Expenses

= 172,000 – 440,000

= Shs. -268,000 (Shs. 268,000)

OR

Net Loss = Expenses – Gross Profit

= 440,000 – 172,000

= Shs. 268,000

28. (c) **Ways in which Net Profits of a business can be used.**

- Ploughing it back / re investing in business
- Savings
- Personal use ie pay for personal private expenses
- Purchase of personal property / assets
- Other investments like lending out
- Donations / social responsibilities.

2015

28. (a) List any **four** sources of capital for traders in your country

- Personal savings
- Borrowing from friends / employers / relatives
- Loans from banks / micro finance / bank overdrafts
- Trade credits / buying goods on credit
- Sale of personal resources / properties / assets
- Government assistance eg. Bonna bagaggawale, Entandikwa and other grants / Subsides
- Donation from friends / relatives / foreign countries
- Inheritance of property

- ✓ Profits from investment
- ✓ Selling / floating shares
- ✓ Issuing out of debentures
- ✓ Formation of partnerships / combination of businesses / combination of resources

(b) **MMD Enterprises had the following records for the business as at 31st December 2014;**

	Shs
Stock (1st January 2014)	912,000
Purchases	6,914,500
Sales	9,834,500
Returns inwards	255,000
Returns outwards	170,500
Stock (31st Dec. 2014)	1,068,000

Required :
Calculate the;

(i) Net Purchases = Purchases – Returns outwards 1mk
= 6,914,500 – 170,500
= Shs. 6,744,000 1 mk

(ii) Goods available for sale = Opening stock + Net Purchases 1 mk
= 912,000 + 6,744,000
= Shs. 7,656,000 1 mk

(iii) Cost of sales = Goods available for sale – Closing Stock 1mk
Opening Stock + Net Purchases – Closing Stock
= 7,656,000 – 1,068,000
= Shs. 6,588,000 1 mk

(iv) Net Sales = Sales – Returns inwards 1mk
= 9,834,500 – 255,000
= Shs. 9,579,500 1mk

(v) Average Stock $= \frac{Opening\ ...Stock + Clo\ \sin\ g.Stock}{2}$

$= \frac{912,000 + 1,068,000}{2}$

$= \frac{1,980,000}{2}$

$= Shs.990,0000$

(vi) Rate of stock turn $= \frac{Cost\ .of\ .sales}{Average\ \ .stock}$

$$= \frac{6,588,000}{990,000}$$

= 6.7 / 6.65 / 7 times

(vii)	Gross Profits	=	Net sales – Cost of Sales
		=	9,579,500 – 6,588,000
		=	Shs. 2,991,500

2016

28. (a) Distinguish between;

(i) Capital owned and Capital employed

Capital owned is the amount of money or resources a business owes its owners.
It is the total amount of capital invested in a business.
It is the difference between total assets and total liabilities.

While
Capital employed is the sum of fixed assets and working capital.
It is the sum of capital owned and borrowed capital.

(ii) Assets and liabilities

Assets are valuable properties of the business. They include both fixed assets and current assets.

While
Liabilities are what a business owes other businesses or individuals. They include long-term liabilities and current liabilities.

(b) The following balances were extracted from Opuk's books of accounts as at 31st December 2015.

	Shs
Capital	1,600,000
Equipment	400,000
Debentures	400,000
Motor van	200,000
Bank loan	100,000
Stock	1,300,000
Overdraft	160,000
Debtors	20,000
Bank	100,000
Cash	240,000

Find the value of;

(i)	Fixed assets	=	Motor van + Equipment
		=	200,000 + 400,000
		=	Shs. 600,000

(ii) Current assets = Stock + Debtors + Bank + Cash
= 1,300,000 + 20,000 + 100,000 + 240,000
= Shs. 1,660,000

(iii) Working Capital = Current assets – Current liabilities.
= 1,660,000 – Overdraft
= 1,660,000 – 160,000
= Shs. 1,500,000

(iv) Long term liabilities = Debentures + bank loans
= 400,000 + 100,000
= Shs. 500,000

2017

28. (a) Sources of capital for small scale business.

i. Personal savings.
ii. Obtaining credit from suppliers. / Trade credit.
iii. Loans from financial institutions eg banks.
iv. Salary advance.
v. Contributions from family members / donations / gifts.
vi. Inheritance of wealth.
vii. Sale of personal property / use of personal property.
viii. Borrowing from friends.
ix. Ploughing back profits / retained profits.
x. Government assistance / grants eg wealth creation in Uganda.

(b) (i)

$$\text{Average Stock} = \frac{\text{Opening Stock} + \text{Closing Stock}}{2}$$

$$= \frac{144{,}000 + 72{,}000}{2}$$

$$= \frac{216{,}000}{2}$$

$$= Shs.108{,}000$$

(ii)

$$\text{Cost of Sales} = \text{Opening Stock} + \text{Net Puchases} - \text{Closing Stock}$$

But

$$\text{Net Purchases} = \text{Puchases} - \text{Retuns outwards}$$

$$= 680{,}000 - 52{,}000$$

$$= Shs.628{,}000$$

$$\text{Cost of Sales} = 144{,}000 + 628{,}000 - 72{,}000$$

$$= \text{Shs. } 700{,}000$$

(iii) Gross profit = Net sales – Cost of sales

But

Net sales = Sales – Returns inwards
= 1,280,000 – 60,000

= Shs. 1,220,000

Gross profit = 1,220,000 – 700,000
= Shs. 520,000

(iv) Net Profit = Gross Profit – Expenses
= 520,000 – 218,000
= Shs. 302,000

(v) Mark up $= \frac{\text{Gross profit}}{\text{Cost of sales}} \times 100$

$= \frac{520,000}{700,000} \times 100$

$= 74.28\%$

$\approx 74.3\%$

2018

28. (a) State the purpose of each of the following to a trader;
(i) Income statement, (02 marks)
(ii) Balance sheet. (02 marks)

(b) Jane, a retailer had the following records as at 30th June 2018.

	Shs
Sales	1,500,000
Average Stock	120,000
Returns inwards	75,000
Rate of stock turn	6 times
Expenses	90,000
Purchases	600,000
Returns outwards	45,000

Determine
(i) Turnover, (03 marks)
(ii) Net Purchases, (03 marks)
(iii) Cost of Sales, (03 marks)
(iv) Gross Profit, (03 marks)
(v) Net Profit ratio. (04 marks)

(i) Turnover / Net Sales = Sales – Returns inwards 01
= 1,500,000 – 75,000 01
= Shs. 1,425,000 01

(ii) Net Purchases= Purchases – Returns outwards 01
= 600,000 – 45,000 01
= Shs. 555,000 01

(iii) Cost of Sales = Rate of Stock turn x Average Stock 01
= 6 x 120,000 01
= Shs. 720,000 01

(iv)	Gross Profit	=	Net Sales – Cost of Sales	01
		=	1,425,000 – 720,000 01	
		=	Shs. 705,000	01
(v)	Net Profit ratio	=	$\frac{\text{Net Profit}}{\text{Turnover}} \times 100$	01
	But,			
	Net profit	=	Gross profit – Expenses	
		=	705,000 – 90,000	01
		=	Shs. 615,000	
		=	$\frac{615,000}{1,425,000} \times 100$	01
		=	43.2%	01

2019

28. (a) Identify the **four** types of capital used by traders. (04 marks)

- Capital owned / Equity Capital / Net worth / Owners Equity.
- Borrowed capital / Loan Capital.
- Working capital.
- Capital employed.
- Circulating capital / Floating capital.
- Fixed capital.
- Liquid capital.

(b) The following information was extracted from the books of Mivule Traders as at 31st December, 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 loan		4,000,000

Required

(i) Prepare a balance sheet for Mivule Traders as at 31st December, 2018. (14 marks)

MIVULE TRADERS'
BALANCE SHEET
AS AT 31ST DECEMBER 2018

Capital and Liabilities	Shs	Assets	Shs
Capital	3,550,000	Fixed Assets	
		Furniture & Fittings	2,500,000
Long term Liabilities		Vehicle	6,000,000

5 year Loan 4,000,000 Current Liabilities Creditors 1,400,000 Bank overdraft 2,500,000 3,900,000 11,450,000	8,500,000 Current Assets Stock 1,000,000 Debtors 1,200,000 Cash 750,000 2,950,000 11,450,000

OR

MIVULE TRADERS'
BALANCE SHEET
AS AT 31ST DECEMBER 2018

Details	Shs	Shs	Shs
Fixed Assets			
Furniture and fittings		2,500,000	
Vehicle		6,000,000	8,500,000
Current Assets			
Stock	1,000,000		
Debtors	1,200,000		
Cash	750,000	2,950,000	
Less : Current Liabilities			
Creditors	1,400,000		
Bank Overdraft	2,500,000	3,900,000	(950,000)
Working Capital			7,550,000
Financed by			
Capital			3,550,000
Long term liabilities			
5 year bank loan			4,000,000
			7,550,000

(ii) The purpose of a balance sheet to Mivule traders (02 marks)

- To show the financial position of the business as at 31st December 2018.
- To show the capital, Assets and Liabilities of the business as at 31st December 2019

MULTIPLE CHOICE QUESTIONS

1. An itinerant trader is one who
   A. Sells goods in bulk   B. Stocks goods from one producer
   C. enjoys limited liability   D. has no specific premises

2. Which of the following is an agreement for hiring a ship for a specific route?
   A. voyage charter   B. ship manifest
   C. Floating policy   D. Time charter

3. The type of business where profits are shared according to members' participation is called a
   A. partnership   B. public limited company
   C. co-operative   D. public corporation

4. Invisible trade refers to trading in
   A. smuggled goods.   B. services.
   C. services.   D. public corporation.

5. The arrangement made among insurance companies to spread risks insured is known as
   A. co-insurance   B. re-insurance
   C. over-insurance   D. under-insurance

6. Miners are classified under
   A. tertiary producers   B. secondary producers
   C. direct producers   D. primary producers

7. Stock, cash, debtors and bank balances in a business are part of
   A. Working capital   B. current assets
   C. current liabilities   D. fixed assets

8. Kato bought 100boxes of bread at Shs. 30,000 per box. Trade discount of 20% and cash discount of 10% were offered. How much did he pay?
   A. Shs. 1,680,000   B. Shs. 2,400,000
   C. Shs. 2,160,000   D. Shs. 3,000,000

9. Producers will offer more goods for sale when the prices are
   A. Low   B. stable
   C. fluctuating   D. high

10. Which of the following means of payment is offered by only the Post office?
    A. Promissory notes   B. Money orders
    C. Travellers' cheques   D. Drafts

11. Containerization in transport is associated with
   A. easier loading and unloading
   B. higher freight charges
   C. increased insurance risks
   D. reduced customs duty

12. Determine the working capital of the business whose
   Cash is Shs. 5,600
   Stock is Shs. 15,000
   Creditors are valued at Shs. 4,200
   Debtors are valued at Shs. 2,400

   A. Shs. 20,600
   B. Shs. 18,800
   C. Shs. 22,400
   D. Shs. 23,000

13. The advantage of using telephone services in business transactions is that they,
   A. allow face to face communication
   B. provide record of communication
   C. enables detailed communication at a very low cost
   D. enable immediate feedback to be received

14. A contract by which a ship is leased is called a;
   A. bill of lading
   B. consignment note
   C. charter party
   D. freight note

15. Par value of a share is;
   A. the original issue price on which dividends are based
   B. always higher than the nominal value
   C. the price for a share
   D. always lower than the nominal value.

16. Calculate the value of goods available for sale, where opening stock is Shs. 50,000, Purchases is Shs. 280,000 and closing stock is Shs. 40,000
   A. Shs. 290,000
   B. Shs. 370,000
   C. Shs. 240,000
   D. Shs. 330,000

17. Misunderstandings between partners can be solved by
   A. Eliminating some partners
   B. the decisions of the quasi partners
   C. referring to the partnership deed
   D. dissolving the partnership

18. The process of production is complete when the goods reach the
   A. premises of the retailer
   B. final consumers
   C. wholesalers
   D. bonded warehouse.

19. A written order from one person to another to pay a named third party a specified sum of money is known as a

A. bill of exchange
B. promissory note
C. demand note
D. bill of lading

20. Cash discount is allowed by a seller in order to encourage customers to
    A. buy regularly
    B. buy in large quantities
    C. settle their bills promptly
    D. buy on cash basis only

21. A minor partner in a partnership business is one
    A. who takes an active role in the running of the business
    B. who allows his / her name to be used as a partner
    C. below the age of 18 years
    D. with unlimited liability towards the debts of the business

22. The following are examples of after sales services except
    A. repair services offered to customers by the seller
    B. maintenance services provided by the seller
    C. self-service offered by large scale retailers
    D. transportation of the purchased goods by the seller to the customer's premises

23. Which of the following documents is issued by the supplier when goods are returned by the customer?
    A. Credit note
    B. Debit note
    C. Delivery note
    D. Dispatch note

24. Which one of the following documents gives details on how a company holds its meetings?
    A. Prospectus
    B. Articles of Association
    C. Memorandum of Association
    D. Certificate of incorporation

25. The desire backed by the ability to pay for a given commodity is known as
    A. supply
    B. utility
    C. consumption
    D. demand

26. A document showing the duty payable and kept by the collector of goods from the bonded ware house is called
    A. memorandum
    B. custom's warrant
    C. consignment note
    D. warehouse keeper's order

27. The contract between the insured and the insurer is called
    A. cover note
    B. insurance policy
    C. charter party
    D. proposal

28. Air transport is preferred if
    A. necessity for speed outweighs increase in cost
    B. destination is near
    C. Cost of transport is not considered
    D. Speed does not matter

29. The number of times goods are sold and replaced during a particular year is known as;
    A. gross profit ratio B. liquidity ratio
    C. stock turnover ratio D. net profit ratio

30. The service provided by post office to visiting traders to receive their letters for a particular period is called
    A. speed post B. business reply coupon
    C. poste restante D. telegraphic address

31. Excise duty is imposed on goods;
    A. produced and consumed within the country B. produced for export
    C. imported into a country for re-export D. considered to be harmful

32. The following are principles of co-operatives **except**
    A. democratic administration B. subrogation
    C. open and voluntary membership
    D. Payment of dividends according to members' contribution

33. An entrepreneur is rewarded with
    A. Interests B. rent
    C. profits D. wages

34. The drawer of a bill of exchange is a person
    A. who retires the bill B. to whom the bill is addressed
    C. in whose favor the bill is endorsed D. demanding payment against the bill

35. A trader insured stock of goods worth Shs. 14,000,000 for Shs. 10,000,000, against theft. If all the goods were stolen, how much would the insured be compensated?
    A. Shs. 4,000,000 B. Shs. 10,000,000
    C. Shs. 24,000,000 D. Shs. 14,000,000

36. The main purpose of fixing minimum prices by government is to
    A. Increase consumers satisfaction B. protect consumers against exploitation
    C. motivate producers D. increase demand for certain goods

37. A situation where a company is unable to continue functioning due to debts is called
    A. insolvency B. bankruptcy
    C. deficiency D. dissolution

38. The wholesaler who deals in a limited range of stock, and combines selling, delivery and collection in one operation is called a
    A. general wholesaler B. specialized wholesaler
    C. truck wholesaler D. cash and carry wholesalers

39. Capital employed , as used in commerce, is the sum of;
   A. fixed assets and working capital   B. current assets and borrowed capital
   C. fixed assets and current assets   D. current assets and current liabilities

40. A trader bought goods worth Shs. 160,000 and was allowed 10% trade discount and 5% cash discount. How much did the trader pay for the goods?
   A. Shs. 136,000   B. Shs. 136,800
   D. Shs. 144,000   D. Shs. 152,000

41. Tertiary production includes;
   A. Trading and hunting.   B. retail trade and teaching.
   C. Construction and oil refining.   D. Wholesaling and farming.

42. The main purpose of a cash discount to a seller is to;
   A. Sell in large quantities.   B. Attract more customers.
   C. encourage prompt settlement of bills.   D. Retain regular customers.

43. Identify from the following, a document drawn and signed by a person who owes money;
   A. Promissory note.   B. Statement of account.
   C. Credit note.   D. Bill of exchange.

44. The most suitable form of transporting ammunition, newspapers and gold from Kampala to Dar-es-Salaam is;
   A. Road.   B. Air.   C. Water.   D. Rail.

45. A price quotation which excludes the buyer from all import expenses is referred to as;
   A. Ex-works.   B. In-bond.   C. Franco.   D. LOCO.

46. A commission agent is one who;
   A. Link buyers and sellers for a fee.   B. Sells goods on behalf of the manufacturer.
   C. Sells goods by auction.   D. Guarantees payment for the principal.

47. A trader purchased goods worth 2,000,000/= and was allowed 20% trade discount. Calculate how much was paid.
   A. Shs. 1,520,000.   B. Shs. 1,600,000
   C Shs. 1,500,000   D. Shs. 1,700,000

48. The most common form of business in East Africa is;
   A. Sole proprietorship.   B. Partnership.
   C. Joint stock companies.   D. Co-operatives.

49. The document that acknowledges settlement of a debt is;
   A. An order.   B. An invoice.

C. A statement of account, D. A receipt.

50. The government may set up a business enterprise to;
- A. Earn more profit.
- B. Enlighten the public on how to conduct business.
- C. Provide essential but unprofitable goods and services.
- D. Sell shares to members of the public.

51. Which one of the following is a bill of exchange payable by the drawer before the maturity date?
- A. Retired bill. B. Usance bill.
- C. Sight bill. D. Conditioned bill.

52. Entrepôt trade refers to;
- A. Re-export trade. B. Multi-lateral trade.
- C. Trade between two countries. D. Barter trade.

53. A sole trader is one who;
- A. Enjoys limited liability.
- B. Only sells goods through an agent.
- C. Enjoys all the profits of the business.
- D. Has an inflexible business.

54. The practice by large scale retailers to keep prices as low as possible is called;
- A. Resale price maintenance. B. Minimum price legislation.
- C. Loss leader policy D. Maximum price legislation.

55. Which one of the following activities is an example of primary production?
- A. Road construction. B. Manufacturing.
- C. Teaching. D. Fishing.

56. Multi-lateral trade refers to trade;
- A. Between two countries. B. Among many countries.
- C. In a variety of goods. D. In both goods and services.

57. The process of distinguishing related products by producers is called;
- A. Branding. B. Blending. C. Pre-packing. D. Standardization.

58. The following are advantages of a sole proprietorship except;
- A. Enjoyment of limited liability. B. High level of flexibility.
- C. Enjoyment of all profits. D. Quick decision making.

59. The bearing of risks in the production process falls on;
- A. Capital owners. B. Laborers. C. Land owners. D. Entrepreneurs.

60. Which one of the following bank documents would help one to know the financially position of his/her customer before transacting a business?
    A. Bank financial statement. B. Letter of credit.
    C. Credit status inquiry. D. Credit transfer.

61. Which one of the following is a bill of exchange is payable when both parties involved are from the same country
    A. Retired bill. B. Usance bill.
    C. Sight bill. D. Inland bill

62. Advertising is important because it;
    A. Decreases costs of production. B. Creates the demand for goods and services.
    C. Reduces the price of goods. D. Discourages competition.

63. The following are advantages of customs union except
    A. greater volume of trade among countries
    B. transfer of technological know-how
    C. co-operation in other spheres like research
    D. Same currency and monetary system.

64. A bill of exchange payable after maturity date is called;
    A. A sight bill. B. A retired bill.
    C. An Usance bill. D. A documentary bill.

65. Assessors in insurance are responsible for;
    A. Determining the premium.
    B. Taking the scrap of the destroyed asset.
    C. Calculating the sum insured.
    D. Estimating the extent of damage and the value of compensation.

66. A document which invites the public to subscribe for shares in the public Limited company is the;
    A. Memorandum of Association. B. Articles of Association.
    C. Certificate of Trading. D. Prospectus.

67. A non-contributor of capital but whose name is used in partnership is referred to as the;
    A. Quasi partner. C. Minor partner.
    B. Limited partner. D. Dormant partner.

68. Why is an insurance contract referred to as a contract of indemnity?
    A. Is profitable to be insured. B. Gives confidence to the insured.
    C. Compensates the insured. D. Ensures safety of property.

69. A post office facility which is used to send money in case of an emergency is called;
   A. Registered post.
   B. Posta order.
   C. Expedited mail service (E.M.S).
   D. Telegraphic money order.

70. Which insurance policy would provide cover of goods stolen by factory workers?
   A. Work man's compensation.
   B. Public liability.
   C. Fidelity guarantee.
   D. Pilferage.

71. A stale cheque refers to;
   A. An out-dated cheque.
   B. An insufficient fund.
   C. A postdated cheque.
   D. A forged cheque.

72. A business is said to be insolvent when it has;
   A. More assets than liabilities.
   B. More liabilities than assets.
   C. Equal amount of assets and liabilities.
   D. More fixed assets and current assets.

73. Which type of insurance policy is compulsory to all commercial and private Vehicles in Uganda?
   A. All risks. B. Comprehensive. C. Third party. D. Road license.

74. Which of the following is a feature of cash and carry wholesalers?
   A. Offers self-service.
   B. extends credit facilities.
   C. Provides delivery facilities.
   D. Sells goods in bulk.

75. The term of payment where the suppliers demands payment before releasing goods to the buyer is;
   A. Spot cash.
   C. Prompt cash
   B. Cash on delivery.
   D. Cash with order.

76. An agent who guarantees collection of debts on behalf of his/her client is known as a;
   A. Broker. B. factor. C. Commission agent. D. Del credere.

77. Which one of the following documents does a buyer receives when he has been over charged in the invoice?
   A. Advice note. B. Credit note. C. Debit note. D. Proforma invoice.

78. Departmental stores and multiple shops are grouped under;
   A. Wholesaler
   B. Super markets.
   C. Large scale retailers.
   D. Small scale retailers.

79. Which one of the following is not considered as a productive activity?
   A. Looking after cattle.
   B. Hunting for leisure.

C. Preparing food for the school. D. Playing football for the soccer club.

80. A limited partner is one who;
   A. Plays an active role in the running of the business.
   B. Must have his or her name registered with the registrar of companies.
   C. Does not share in the payment of all liabilities of the business.
   D. Enters into contracts on behalf of the firm.

81. The reward for the use of land is called;
   A. Profit. B. Wages. C. Interest. D. Rent.

82. Which of one of the following is true of indirect taxes? They are charged on;
   A. Personal incomes. B. Expenditures.
   C. Excess goods produced. D. Illegal goods and services.

83. Government can best control imports through;
   A. Levying low excise duties.
   B. Fixing import and export quotas.
   C. Charging high taxes on foreign goods.
   D. Giving subsidies to local products.

84. A wholesaler offers the following services to the manufacturers except;
   A. Giving credit facilities. B. Buying goods in bulk.
   C. Advertising the goods. D. Sending consumers complaints

85. Calculate the average stock where a business had stock of shs 2,400,000 as of January 2001 and stock of shs 3,600,000 as of 31^{st} December 2001.
   A. shs 1,200,000. B. Shs 3,000,000.
   C. Shs.6,000,000 D. Shs. 12,000,000

86. A partnership;
   A. Is group of between 6 - 3 people joining to form a business.
   B. Is a group of people who come together to trade.
   C. Is a group of people who join together to form a business.
   D. Is a form of business organization owned by a minimum of two people who join together to start a business with a view of making profits.

87. Balance of payment refers;
   A. To the similarity among a countries receipts and payments.
   B. To the difference between countries receipts and its payments.
   C. To the payments and with draws of trade.
   D. Refer to the subtraction and equalization of trade.

88. The following are the reasons for international trade except;

A. To promote friendship in the country.
B. To encourage smuggling.
C. To get a variety of products from different countries.
D. To dispose off the surplus of goods produced in the international market.

89. Aids to trade refers to;
A. Activities that facilitate smooth running of political instabilities.
B. Activities that facilitate the smooth running of trade.
C. all components of commerce
D. None of the above

90. Privatization refers to;
A. The takeover of private enterprises to public enterprises.
B. The private control of government properties.
C. The nationalizing of private goods.
D. When government decides to convert state enterprises into private undertakings.

91. A cheque refers;
A. To a document written to check on the performance of the business
B. To an agreement between two individuals.
C. Anything used in exchanging money in money and banking
D. to a written order from an account holder to his bank to pay a specific amount of money to the named person.

92. A free market economy is;
A. An economy which is not easy in form of free entry and exist.
B. An economy where the government do not interfere in the working of businesses
C. An economy which have rules and regulations that governs it.
D. An economy which allows businessmen to participate in it freely

93. Consumer protection refers;
A. To the policy taken to discriminate consumers.
B. To policy taken to increase consumers.
C. to the government policy of providing security to consumers against theft.
D. To policy taken up by government to protect consumers from being exploited by business men.

94. Retail outlets which specialize in selling products of Mukwano Enterprises are classified under
A. Super markets C. Departmental stores
B. Multiple Shops D. tied shops.

95. Which one of the following activities is under primary production?
A. Coffee processing C. Road construction

B. Car manufacturing D. Oil Drilling

96. An allowance a seller gives to a customer when payment is made within a specified period of time is called
A. cash discount C. commission
B. trade discount D. quantity discount

97. Given the information below, determine the value of current liabilities
Stock Shs 100,000
Trade creditors Shs 80,000
Trade debtors Shs 120,000
Bank overdraft Shs 50,000

1. Shs 170,000 C. Shs 130,000
2. Shs 220,000 D. Shs 300,000

98. The principle of utmost good faith in insurance states that;
A. the insured who suffers loss should be compensated
B. the insured should reveal all the necessary information about the property when applying for an insurance policy
C. there must be a close relationship between the risk insured and the cause of the loss suffered.
D. the insurer takes ownership of the scrap of the destroyed property

99. The system of installment selling where the buyer takes ownership of the property immediately after paying the first deposit is known as;
A. hire purchase C. credit sale
B. mortgaging D. deferred payment

100. Which one of the following is the function of the stock exchange?
A. Buying and selling shares and other securities
B. Buying and selling of goods
C. Exchanging different currencies
D. Buying and selling of treasury bills

101. Given turnover worth Shs. 450,000 and cost of sales as Shs. 300,000. Calculate the mark-up of the business
A. 33.3% C. 50%
B. 66.7% D. 20%

102. Which one of the following documents helps a seller to know the creditworthiness of the buyer who wants credit?
A. Credit note C. Letter of credit
B. Credit status inquiry D. Trade credit

103. A debenture which has a specific property pledged against it is called

A. a mortgage debenture | C. a redeemable debenture

C. a naked debenture | D. an irredeemable debenture

104. Given an average stock at selling price Shs. 144,000 and turnover of Shs. 720,000. Calculate the rate of stock turn

A. 4 times | C. 5 times

B. 0.2 times | D. 0.8 times

105. Which of the following services is **not** rendered by microfinance institutions?

A. Giving credit facilities | C. Giving financial advice

B. Accepting deposits | D. Issuing currencies

106. The method of trade restriction used by government to stop the importation of a particular product is

A. Total ban | C. tariffs

B. quotas | D. exchange control

107. The principle of cooperatives which emphasizes one man one vote is

A. interest on share capital | C. democratic management

B. repayment of dividends. | D. open and voluntary membership

108. The turnover of a business was shs 360,000 and the cost of sales was shs 280,000. Find the margin.

A. 22% | C. 28%

B. 28.6% | D. 23%

109. Which **one** of the following is a function of Uganda Chamber of Commerce?

A. Reducing selling expenses of traders

B. Set prices of consumer goods

C. Encourage consumption

D. Create and expand foreign markets.

110. Which **one** of the following is a feature of supermarkets?

A. Credit sales | C. After sales services

B. Pre-Pricing | D. Automatic vending

111. What type of merger is created when a tea processing firm and a fish processing plant combine?

A. Lateral | C. Vertical

B. Conglomerate | D. Horizontal

112. Under what circumstances is a cash discount given to a consumer? When a customer

A. pays within the agreed period C. pays before delivery
B. buys in large quantities D. buys goods regularly

113. Middlemen who sell products on behalf of foreign manufacturers in home markets are called
A. Import merchants C. import brokers
B. import commission agents D. del-credere agents

114. A consignment of goods invoiced at Shs 200,000 carried a trade discount of 10% and a cash discount of 5%. What amount was paid to the seller?
A. Shs 170,000 C. Shs 190,000
B. Shs 180,000 D. Shs 171,000

115. A situation where a country buys more goods from the trade partners than it sells is called
A. unfavorable balance of trade C. unfavorable terms of trade
B. favorable balance of trade D. favorable terms of trade

116. Services of Uganda police are examples of
A. Secondary production C. tertiary production
B. primary production D. direct production

117. Producers will increase the production of a commodity when
A. demand is constant C. supply is equal to demand
B. demand is greater than supply D. supply is greater than demand

118. When the government wants to protect consumers against being over charged, it
A. extends subsidies to consumers C. impose higher taxes on goods
B. increase taxes on consumers' income D. eliminates imports completely

119. The type of large scale retail trade in which there is a central control over shops working under different units is known as
A. multiple shops C. departmental stores
B. supermarkets D. tied shops

120. The difference between sales and returns inwards is called
A. total sales C. gross profits
B. turnover D. purchases

121. The value of any share written on its face is known as
A. market value C. ad valorem
C. dividend yield D. nominal value

122. The ability of a good to satisfy human wants or need is called
A. consumption C. utility

B. production D. exchange

123. The amount of money the insured pays regularly to the insurer for an insurance policy is known as
A. sum insured C. contribution
B. surrender value D. premium

124. Which one of the following is an advantage of registered letters to the sender?
A. Compensated in case of loss C. Lower charges
B. Payment is on delivery D. Fast delivery

125. Gross profit expressed as a percentage of cost of sales is known as
A. return on capital C. mark-up
B. rate of turnover D. margin

126. A cheque payable at a future date is called
A. stale cheque C. post-dated cheque
B. crossed cheque D. open cheque

127. A trader bought goods at shs 160,000 and made a gross profit of 20%. Expenses amounted to 60% of the gross profit. Calculate the net profit for the trader.
A. Shs 19,200 C. Shs 32,000
B. Shs 12,800 D. Shs 64,000

128. "Omo removes dirt and stains which ordinary powders leave behind." This statement is an example of;
A. Persuasive advertising C. informative advertising
B. direct advertising D. indirect advertising

129. A type of partnership formed for purposes of carrying out financial transactions is called
A. limited C. permanent
B. Syndicate D. temporary

130. Which one of the following documents acknowledges the receipt of goods by the shipper?
A. Receipt C. Bill of lading
B. Insurance certificate D. Certificate of origin

131. Which of the following statements is correct?
A. Production is part of commerce C. Business is part of commerce
B. Economics is part of Commerce D. Commerce is part of business

132. Which of the following is not an importance of commerce?
A. To create utility to the public.
B. To pass commerce exams.

C. To provide a link between producers and consumers.
D. Facilitate acquisition of quality products through specialization.

133. When you change a commodity from raw material to a finished good. This is called
A. place utility C. form utility
B. time utility D. process utility

134. The turnover of a business amounted to Shs. 250,000, return inwards valued at Shs 10,000, return outwards Shs. 8,000. Calculate the Net sales?
A. Shs. 268,000 C. Shs. 252,000
B. Shs. 242,000 D. Shs. 240,000

135. Which of the following is not a characteristic of human wants?
A. they are limited C. they are insatiable
B. they are complementary D. they all have money value

136. Which of the following reactions would be taken by the manufacturer when price of his commodity reduces in the market?
A. Increase quantity demanded C. Decrease quantity supplied
B. Increase quantity supplied D. Decrease quantity demanded.

137. Bank rate is the rate of interest charged by
A. a commercial bank for short term loans
B. a central bank on loans to commercial banks.
C. a lender to a borrower
D. non-financial institutions to borrowers

138. Business occupations are.......
A. activities aimed at making profits C. secondary production activities
B. primary production activities D. tertiary production activities

139. Capital employed is the sum of current assets and.................................
A. working capital C. fixed assets
B. net capital employed D. gross capital employed

140. The main purpose of stock exchange is to.....................
A. sell the stock to wholesalers C. sell or buy shares and securities
B. sell goods in an open market D. sell or buy goods and services

141. One reason why ware housing is important is that............................
A. it enables continuous supply of goods even in non-production periods
B. it is made mainly to provide employment
C. it helps the low income earners to get goods cheaply
D. it is a source of revenue to the exporter

142. Why may government influence the location of an industry in a given area?
   A. To fight corruption
   B. To promote regional balance
   C. To increase rural-urban movement of people
   D. To promote income inequality

143. A case in sea transport where the shipper loads the container with his own cargo destined for one consignee is..................
   A. an order
   C. an indent
   B. full container load
   D. consignment

144. In buying and selling, a transaction is said to have taken place when the seller sends to the buyer a document called.......................
   A. a receipt
   C. an order
   B. an invoice
   D. a quotation

145. Given the following information, creditors Shs. 1,340,000, cash at bank Shs. 450,000, cash at hand Shs. 80,000, debtors Shs. 530,000 and stock Shs. 620,000. What is the working capital?
   A. Shs. 1,680,000
   C. Shs. 980,000
   B. Shs. 340,000
   D. Shs. 1,340,000

146. A stage when one company takes over the business of other companies completely is called
   A. consolidation
   C. Absorption
   B. Holding company
   D. Cartel

147. Which of the following is not a characteristic of multiple shops?
   A. A number of shops under one roof
   B. A number of shops selling similar products in different locations
   C. Goods are sold at uniform prices at all branches
   D. Have centralized purchasing of goods

148. The two main branches of commerce may include.......................
   A. industry and production
   C. industry and distribution
   B. commerce and trade
   D. trade and aids to trade

149. Which of the following is **not** true about direct production?
   A. There is use of simple tools
   C. Leads to acquisition of skills
   B. output is mainly for home consumption
   D. Low levels of output

150. Small scale retailers restricted by dealing in products of a particular manufacturer are termed as.........................
   A. single shops
   C. itinerant traders
   B. tied shops
   D. restricted shops

151. A special agent who has been allocated a particular place abroad to sell products of a particular manufacturer is termed as...............................

A. auctioneers
C. merchants
B. factors
D. accredited sole agent

152. When the total overheads of a business exceed the total revenue, the business is said to have incurred.............................

A. a net loss
C. a gross loss
B. a gross profit
D. a net profit

153. With business reply services...............................

A. a messenger delivers the parcel at the door steps of the addressee
B. the addresser pays the costs for the addressee to reply a letter
C. the letter is registered before it is sent to the addressee
D. mails are arranged according to departments

154. Who of the following requires the services of market research?

A. consumer
C. proprietor
B. insured
D. account holder

155. The following are functions of marketing boards **except**......................

A. buying produce
C. storing goods
B. stabilizing prices
D. processing produce

156. The abbreviation LST refers to a newly introduced tax. What does it stand for?

A. Local social tax
C. Local savings tax
B. Local service tax
D. Local security tax

157. In a limited company, the paid up capital is obtained through......................

A. the chairman of the board of directors
C. the share holders
B. the debenture holders
D. the registrar of companies

158. Which of the following is a formula for capital owned?

A. Fixed Capital + Working capital
B. long term liabilities + capital employed
C. total assets – total liabilities
D. total current assets + total current liabilities

159. Which of the following attempts to satisfy mans' wants?

A. Trade
C. Production
B. Commerce
D. Consumption

160. .... guarantees payment against goods to the principal whether the goods are

sold or not

A. Factor
B. Broker
C. Jobber
D. Del credere

161. Which of the following is a reward to an entrepreneur?

A. Rent
B. Wages
C. Profits
D. Interest

162. Which of the following refers to the term "Telex"?

A. A telecast programme
B. Technique for sending messages by means of tele printers through the post office.
C. A method of transmitting messages by telephone through the post office
D. A means of sending urgent messages by telegram through the post office.

163. .... handles only one type of agricultural produce

A. Central tender boards
B. Advisory marketing boards
C. Produce marketing boards
D. Commodity marketing boards

164. David Ochom bought goods worth Shs. 15,500 on credit and received a trade discount of 1%. When he settled his debt on time, his creditor gave him 2% cash discount. What amount did he pay?

A. Shs. 15,035
B. Shs. 15,038
C. Shs. 15,193
D. Shs. 15,345

165. A certificate of incorporation ....

A. gives the company a separate legal enity
B. sets out the rules and regulations of the company
C. states the names, objectives and share capital of the company
D. gives the company permission to begin business and invite shares

166. Utility is defined as ....

A. demand for a commodity
B. usefulness in production
C. ability to satify wants
D. ability to produce goods

167. A retailer paid Shs. 19,000 for goods on which 5% cash discount has been allowed. What was the Price before the discount?

A. Shs. 18,000
B. Shs. 18,500
C. Shs. 19,500
D. Shs. 20,000

168. Which of the following is least suitable for advertising brand new type writers?

A. Radio
B. Newspapers
C. Television
D. Direct contact with customers

169. What is a bank loan?

A. A large sum of money borrowed from a friendly organization
B. Money borrowed from the bank with a purpose of expanding the business
C. Money overdrawn from a customers' current account in excess of what is deposited
D. A large sum of money borrowed from a bank at a fixed rate of interest and backed by collateral security.

170. The difference between what we pay for visible imports and what we receive from the visible exports is called
A. Terms of trade
B. Balance of trade
C. Foreign exchange
D. Balance of payments

171. Which of the following is not an establishment with in the public sector?
A. Parastatals bodies
B. Local authorities
C. Public corporations
D. Public limited companies

172. What does the word "**market**" mean in commerce?
A. A place where items are bought and sold at a price
B. Buying and selling of goods and services
C. A place where customers haggle over prices
D. An arrangement by which buyers and sellers are kept into close contact to transact business.

173. The ratio of cost of goods sold in a trading period to the cost of average stock held during that period is known as the ....
A. working capital
B. Rate of turnover
C. Gross profit margin
D. Return of capital employed

174. If two brothers each invest Shs. 500,000 in a general partnership, what would be the liability of each, assuming none of them is a limited partner?
A. Unlimited
B. Shs. 250,000
C. Shs. 500,000
D. Shs. 1,000,000

175. Land and capital are factors of production. Which of the following would provide a 3rd factor?
A. Staff
B. Premises
C. Vehicles
D. Machinery

176. Why do you think government must put restrictions on international trade?
A. To evaluate its currency
B. To effect exchange control
C. To encourage expatriates into the country
D. To improve on its balance of payment of position

177. .... may be defined as the activities aimed at bridging the gap between producers and consumers

A. Commerce
B. Accounting
C. Tertiary activities
D. Production activities

178. What is working capital of the business?
A. Assets minus liabilities
B. Fixed assets minus long term liabilities
C. When the current liabilities exceed current assets
D. it's the excess of current assets over current liabilities

179. The Phrase standard of Living is often used to mean
A. the cost of living
B. conditions in which people live or hope to live
C. the general level of prices of goods
D. the amount of goods and services our shillings commands in the market

180. Two kinds of goods usually produced together are
A. investment goods and capital goods
B. labor and capital
C. assets and capital goods
D. consumer goods and capital goods

181. a retailer makes out a debit note in duplicate, Which one of the following statements is not correct in respect of the debit note?
A. If he was charged for cases which he sent back
B. In respect of goods that are found to be un acceptable and returned
C. In respect of goods received in an unsatisfactory condition but retained with allowance claimed.
D. If the wholesaler, by incorrect pricing had under charged the retailer.

182. Cadet Ojiko bought 100 bars of star Soap from Mukwano enterprises. Gross profit per bar is shs.300. Trade discount is 20%. What price shall be shown in the invoice as net amount due?
A. Shs. 24,000
B. Shs. 30,000
C. Shs. 806
D. Shs. 28,000

183. In hire Purchase agreement;
A. the product becomes the property of the buyer as soon as the 1st installment is paid.
B. the product remains the property of the seller until the last installment is paid.
C. the goods are hired by the buyer and later returned to the seller after use
D. the goods are not repossessed by the seller if the buyer fails to complete payment.

184. The difference between an import duty and an excise duty is that
A. An import duty is paid by the government and the excise duty is paid by the consumers.
B. an import duty is imposed by the government and the excise duty is imposed from

the sellers.

C. import duty is imposed on goods manufactured outside the country while excise duty is imposed on goods produced within the country

D. an import duty is levied on goods produced within a country and excise duty is levied on goods that have produced outside the country.

185. Sharing profits in a co-operative society differs from other business units in that it depends on

A. ones' capital contribution

B. whether profits are realized that season or not

C. the volume of sales and purchases a member makes with the society

D. the number of shares one has in it.

186. Sempa insured his car against damage for Shs. 560,000. When the accident occurred, he claimed compensation from his insurer. It was found out that prior to the accident, the value of the car had been estimated at shs. 480,000. The wreck was valued at shs. 80,000. The insurer paid him

A. Shs. 480,000 and the insurer took the wreck

B. Shs. 560,000 and the insured took the wreck

C. Shs. 560,000 and the insurer took the wreck

D. Shs. 400,000 and the insurer took the wreck.

187. Which of the following expenses will the importer **not** incur if his supplier quotes an FAS price?

A. Ship freight

B. Dock handling charges

C. Insurance

D. Ship loading expenses

188. Which of the following eliminates the need for custom inspection and complications over payment each time a vehicle crosses a frontier?

A. Preferential trade are

B. Transport international routiers

C. Special hauliers

D. Forwarding & Clearing agents

189. Activities aimed at getting goods with in the access of a consumer are referred to as;

A. Production activities

B. Trade activities

C. International activities

D. Commercial activities

190. "Sales Psychology" is scientifically applied. This is one of the chief features of;

A. multiple shops

B. retail co-operatives

C. supermarkets

D. departmental stores

191. The arguments for protection in international trade excludes;

A. infant industry argument

B. revenue argument

C. dumping argument

D. mobility of factors of production argument.

192. Nominal capital is
A. the amount that the shareholders have been asked to pay
B. the amount that has actually been received from the shareholders
C. tha maximum amount that the company can raise by selling shares
D. the total face value of the shares that have been issued

193. Which of the following is not an example of public enterprises?
A. Public corporations C. Municipal enterprises
B. Departmental stores D. Marketing boards

194. Legal tender is a term used in commerce r to mean
A. currency C. a country's bank notes & coins
B. money D. a country's earnings from her exports

195. Three companies, Kibimo Co. Ltd which grows pine apples and oranges, Ngetta Co. Ltd which deals in fruit canning and Bakulu Co. Ltd who are exporters of fresh and canned fruits wish to operate in one name and hence have a combined business. What type of integration would be most appropriate for them?
A. A cartel C. A vertical integration
B. A consortium D. A horizontal integration

196. .... are owned privately for renting to the public ware houses.
A. Bonded ware houses C. Silos
B. Public ware houses D. Wholesalers ware house

197. Kaza Imelda bought 400 meters of clothe from Mukwano enterprises. The gross price is shs. 1,000 per meter. Trade discount allowed is 20%. If he settles his debt within 30 days, he will be allowed a cash discount 2%. He intends to pay immediately. How much does he pay?
A. Shs. 31,360 C. Shs. 32,000
B. Shs. 40,000 D. Shs. 32,360

198. A loss resulting from an irrecoverable debt is called?
A. Gross loss C. Bad debt
B. Net loss D. Mark up

199. Fishing, lumbering and mining are classified under
A. tertiary production C. subsistence production
B. primary production D. secondary production

200. The desire backed by the ability and willingness of a buyer to pay for a given commodity or service, at a given price, in a given period of time is called
A. demand C. supply

B. consumption D. exchange

201. Retail businesses owned and managed by one firm, stocking the same classes of goods and with similar appearance in all branches are known as;
A. departmental stores C. super markets
B. multiple shops D. variety chain stores

202. A price quotation which includes all expenses to the nearest railway station is known as;
A. F.A.S C. C.I.F
B. F.O.B D. F.O.R

203. Which of the following documents authorizes the exporter's bank to sell goods, if the importer fails to pay?
A. Certificate of origin C. Consular invoice
B. Letter of credit D. Letter of hypothecation

204. Identify the document which governs the rules and regulations for the internal organization of the company
A. Memorandum of Association C. Articles of Association
B. Partnership deed D. Certificate of incorporation

205. Which of the following is not a reason for privatizing government owned enterprises? To
A. reduce public expenses C. improve service delivery
B. reduce foreign control of the economy D. increase tax revenue

206. "Cigarettes smoking is dangerous to your life" this warning on packets of cigarettes is a form of;
A. Consumer survey C. consumer protection
B. sales promotion D. persuasive advertisement

207. The force which drives a given unit of carriage in transport is referred to as
A. method of propulsion C. demurrage
B. unit of carriage D. terminal

208. Which of the following is not a short term source of finance for a business?
A. Bank overdraft C. salary advance
B. credit buying D. debentures

209. Which principle of insurance is abused when the insured under values the property insured?
A. utmost good faith C. insurable interest
B. Sabrogation D. proximate cause

210. Which of the following medium of advertising is suitable for agricultural tools demanded by rural farmers?

A. Television C. Radio
B. Magazine D. Direct mail

211. The postal service which enables a message typed at the sender's machine to be automatically printed at the receiver's set is called
A. telegram C. telex
B. typewriter D. e-mail

212. the refund of customs duty to a manufacturer who imports raw materials to produce goods for export is called
A. export duty C. import duty
B. custom draw backs D. value added tax

213. Given a margin of 20% and net sales of shs. 2,800,000, find gross profit.
A. Shs. 560,000 C. Shs. 2,240,000
B. Shs. 2,800,000 D. Shs. 3,360,000

214. Trade debtors, Cash at bank and cash in hand for a business are
A. current liabilities C. current assets
B. Working capital D. fixed assets

215. A cheque against which a bank refuses to make payment is known as
A. Post-dated cheque C. stale cheque
B. crossed cheque D. dishonored cheque

216. The following are negotiable instruments except;
A. bill of exchange C. cheque
B. bill of lading D. promissory notes

217. The money paid by foreign tourists for visiting Uganda's national parks is an example of Uganda's
A. invisible imports C. invisible export
B. visible export D. visible import

218. What organization is responsible for the buying and selling of shares and stocks in Uganda?
A. Uganda Revenue Authority
B. Capital Markets Authority
C. National bureau of standards
D. Uganda insurance regulatory authority

219. Tools, machines and equipments are examples of
A. entrepreurship B. land
C. capital D. labour

220. The following factors influence the quantity of a commodity consumed **except**

A. price of the commodity
B. tastes and preferences of a consumer
C. price of substitutes
D. income of the supplier

221. Which of the following forms of businesses is an example of a public enterprise?

A. Parastatal
B. Partnership
C. Co-operative society
D. Sole proprietorship

222. The difference between the value of visible exports and invisible imports of a country is termed as;

A. deficit
B. balance of trade
C. visible trade
D. balance of payment

223. The event against which an insurance is taken is called a

A. premium
B. loss
C. risk
D. pool

224. Ex-works prices include cost of goods as they leave the

A. customs bonded warehouse
B. retailer's premises
C. country of origin
D. manufacturers' factory

225. A quasi Partner is one who

A. contributes capita l of the business
B. allows the business to use his / her name.
C. actively takes part in day-to-day activities of the business
D. is entirely liable for the debts of the business.

226. When assets of a business are greater than its liabilities, the business is said to be

A. insolvent
B. bankrupt
C. liquid
D. solvent

227. Which document of a public limited company calls upon the public to subscribe for its shares?

A. Articles of association.
B. Certificate of incorporation
C. Prospectus
D. memorandum of association

228. An instruction by an account holder to the bank to regularly pay a specified sum of money to a named person for the given period of time is called

A. Standing order
B. credit transfer
C. bank draft
D. overdraft

229. The following are negotiable instruments **except**

A. promissory notes B. bills of exchange
C. cheques D. money orders

230. The system of installment selling where the buyer takes ownership of the property after payment of the first installment is known as
A. credit sales B. deferred payment
C. hire purchase D. cash deposit

231. Par value of a share refers to its
A. market price B. resale price
C. exact price D. fixed price

232. The following are reasons why government charges taxes on business **except** to
A. promote local industries B. raise revenue
C. gain popularity D. discourage consumption of harmful goods

233. The excess of current assets over current liabilities is referred to as;
A. working capital B. borrowed capital
C. capital employed D. capital owned

234. The agreement between a ship owner and the hirer of a ship to carry goods to a specified place in a given period of time is called.
A. bill of lading B. letter of hypothecation
C. consular invoice D. charter party

235. The transfer of state owned enterprises to individuals is referred to as
A. nationalization B. privatization
C. localization D. decentralization

236. Which one of the following documents is sent by the seller in reply to an inquiry?
A. Order B. Invoice
C. Receipt D. Quotation

237. Identify the warehouse where goods are kept before customs duty on them is paid.
A. Public warehouses B. Manufacturers' warehouse
C. Bonded warehouse. D. Private warehouse.

238. The form of integration where two firms are engaged in the production of a commodity at different stages is known as
A. vertical B. horizontal
C. consortium D. cartel

239. The reward for capital in the production process is
A. interest. B. profit.

C. rent. D. wage.

240. When the price of soft drinks decreases, consumers will
A. stop buying .
B. decreased the quantity purchased.
C. increase the quantity purchased.
D. purchase a constant amount.

241. Which of the following documents is used to encourage debtors to pay promptly?
A. Cash discount B. Trade discount
C. Commission D. Quantity discount

242. The purpose of a consular invoice is to
A. enable an importer secure credit.
B. ensure proper calculation of customs duties.
C. promote fair pricing and quality of goods imported.
D. authorize a bank to sell goods being imported.

243. An importer in Uganda intending to place an order for animal drugs from Twiga Chemicals industries in Kenya would send
A. a proforma invoice B. a closed indent.
C. a letter of credit D. an open indent.

244. Which of the following documents contains the terms and conditions under which goods have been accepted for transportation by a shipping company?
A. Consignment note. B. Bill of lading
C. Charter Party. D. Letter of Hypothecation.

245. The tax imposed on beer which is produced in Uganda is
A. export duty. B. advalorem tax.
C. sales tax D. excise duty.

246. A shop which sells products of a particular manufacturer is called a
A. multiple shop. B. supermarket.
C. tied shop. D. departmental store.

247. The combination where one company takes over the business of another company is known as
A. amalgamation. B. cartel.
C. holding company. D. absorption.

248. Which document in a partnership indicates the terms and conditions of the business?
A. Prospectus. B. Partnership deed.
C. Certificate of trading. D. Memorandum of Association.

249. The form of installment selling where a commodity becomes a property of the buyer as soon as a down payment is made is called

A. hire purchase. B. leasing.
C. auto-vending. D. deferred payment.

250. Which of the following types of cheques should be presented for payment only at the bank and branch named on the cheque?

A. Specially crossed cheques. B. Post-dated cheques.
C. Bearer cheques. D. Generally crossed cheques.

251. Given Turnover Shs. 480,000 and Cost of sales Shs. 400,000, find the mark-up of the business.

A. 15% B. 20%
C. 25% D. 30%

252. An insurer is

A. the company which undertakes to insure an already insured risk.
B. an officer who calculates premiums.
C. the company that offers insurance cover.
D. the person of firm seeking insurance cover.

253. The following are sources of short term finance for a business except

A. debentures. B. bank overdraft.
C. bill of exchange. D. credit buying.

254. A form of communication which can transmit written information, drawings and diagrams in their exact form is

A. radio. B. telegram.
C. fax. D. email.

255. The ware house where imported goods are kept until customs duties are paid is known as

A. private ware house. B. bonded warehouse.
C. public warehouse. D. manufacturer’s warehouse.

256. Magira bought goods worth Shs. 200,000 and was given a 15% trade discount and a 5% cash discount. How much did Magira pay for the goods?

A. Shs 170,000.
B. Shs 160,000.
C. Shs 190,000.
D. Shs 161,500.

257. A dishonoured bill of exchange is one

A. which has not been endorsed by the drawee.
B. whose amount is paid before the maturity date.
C. payable at a future date.

D. against which the drawee fails to pay the amount on its maturity.

258. "Ordinary soap removes dirt, but Simba soap makes white whiter and coloured brighter." This form of advertising is known as
A. informative advertising. B. direct advertising.
C. persuasive advertising. D. indirect advertising.

259. The distribution, exchange of goods and services, and the activities that help in the movement of goods from the producer to the consumer is known as
A. production. B. aids to trade.
C. trade. D. commerce.

260. Which factor of production is responsible for bearing of risks of the business?
A. Land. B. Labour.
C. Capital. D. Entrepreneurship.

261. The following factors affect the demand for a commodity **except**
A. income of the consumer. B. price of the commodity.
C. income of the producers. D. price of substitute goods.

262. Identify the document issued by the seller to the buyer when goods are sold on credit.
A. Invoice. B. Credit-note.
C. Receipt. D. Debit note.

263. A retail unit which sells only products from one manufacturer is called a
A. single shop. B. tied shop.
C. supermarket. D. mobile shop.

264. When a company is **limited by shares**, it means that
A. the shares sold by the company are limited.
B. the shareholders' liability is limited to the amount of capital contributed to the company.
C. each shareholder guarantees to pay a fixed sum of money to a company debts.
D. shareholders can sell their shares to the public to pay the company debts.

265. The difference between a country's total receipts and total payments abroad in one year is known as
A. balance of trade. B. visible trade.
C. balance of payments. D. terms of trade.

266. Which partner contributes capital, shares profits of the partnership but does **not** participate in the day to day management of the business?
A. Minor partner. B. Dormant partner.
C. Quasi partner. D. General partner.

267. Choose the document which acknowledges receipt of the goods by the shipper.

A. Bill of lading. B. Freight note.
C. Airway bill. D. Bill of exchange.

268. The organization responsible for controlling the quality of goods produced and imported in Uganda is
A. Uganda National Chamber of Commerce.
B. Uganda Investment Authority.
C. Uganda National Bureau of standards.
D. Uganda Revenue Authority.

269. A current account holder can instruct the bank to make regular monthly payments of electricity bills through a
A. credit transfer. B. bank draft.
C. post-dated cheque. D. standing order.

270. The amount charged by a commercial bank on loans extended to its customers is termed as
A. interest. B. bank rate.
C. commission. D. discount rate.

271. The spreading of risks among different insurance companies such that each takes only a portion of the risk in case of loss is called
A. co-insurance. B. contribution.
C. re-insurance. D. under-insurance.

272. Which document is filled by a person applying for an insurance cover?
A. Policy. B. Cover note.
C. Proposal form. D. Claim form.

273. The place where goods are loaded and off loaded is called the
A. way. B. terminal.
C. method of propulsion. D. unit of carriage.

274. Given;

Given;	Shs
Opening Stock	410,000
Closing stock	230,000
Sales	970,000
Purchases	740,000

Determine the value of goods available for sale.
A. Shs. 1,150,000. B. Shs. 920,000.
C. Shs. 1,480,000. D. Shs. 1,380,000.

275. Which of the following types of ware houses is owned by private individuals but can be used by anybody to store their goods temporarily?
A. Public warehouses. B. Wholesalers warehouses.
C. Private warehouses. D. Bonded warehouses.

276. What medium of advertising is suitable for solar lamps in rural areas?
A. Magazines. B. Internet.
C. Television. D. Radio.

277. The use of legal means by a tax payer to stop paying a tax for using a particular product is called tax
A. incidence. B. avoidance.
C. burden. D. evasion.

278. The value of unsold goods at the end of the trading period is called
A. opening stock. B. rate of stock turn.
C. average stock. D. closing stock.

279. Commerce is defined as
A. industry and production. B. trade and aids to trade.
C. industry and consumption. D. production and trade.

280. Which of the following factors of production undertakes risks of a business?
A. Labour. B. Organization.
C. Capital. D. Entrepreneurship.

281. Which one of the following is an example of a small scale retailer?
A. Multiple shops. B. Supermarkets.
C. Tied shops. D. Departmental stores.

282. When does the product become a property of the buyer under hire-purchase agreement? When the buyer pays
A. the first instalment. B. cash upon delivery of goods.
C. more than half of the cost price. D. the last instalment.

283. A document that gives legal status to a company is called
A. Articles of Association. B. Certificate of incorporation.
C. Prospectus. D. Memorandum of Association.

284. What term is used on an invoice when the exporter incurs carriage charges to the docks, dock handling charges, dock dues and loading expenses?
A. Delivered docks. B. Free alongside ship.
C. Free on Board. D. Free on Rail.

285. The role of Uganda National Bureau of Standards is to
A. create market for domestic and imported goods.
B. ensure that consumers buy good quality products.
C. discourage consumers from buying imported goods.
D. reduce prices of domestic goods.

286. A cheque can be dishonored if the drawer

A. is servicing a loan.
B. is operating more than one account in the same bank.
C. presents a cheque three months after the date written on it.
D. has less funds in the account than the amount on the cheque.

287. Which insurance policy covers manufacturer's goods against theft by workers?
A. Fidelity guarantee. B. Goods in transit policy.
C. Workman's compensation policy. D. Third party policy.

288. Which of the following activities aims at finding out the opinion of a prospective consumer about a particular good?
A. Market research. B. Advertising.
C. Insurance. D. Communication.

289. A trader purchased goods worth Shs. 20,000,000 and sold them at Shs. 25,000,000. Calculate the mark-up.
A. 80%. B. 25%.
C. 20%. D. 11.1%.

290. The tax deducted on employees' salaries by employers is known as
A. Value Added tax. B. Excise duty.
C. Pay As You Earn. D. Rental tax.

291. Uganda controls foreign trade because of the following reasons **except** to
A. reduce outflow of foreign exchange.
B. protect infant industries.
C. discourage importation of harmful products.
D. widen foreign market.

292. The document which shows ownership of goods kept in a ware house is known as
A. a charter party. B. a dock warrant.
C. a shipping note. D. an indent.

293. An arrangement under which companies agree to sell their products through a central selling agency is referred to as
A. merger. B. cartel.
C. consortium. D. holding company.

294. Which of the following forms of business units is an example of private enterprises?
A. Parastatals. B. Public corporation.
C. Co-operatives. D. Local authorities.

295. A charge payable to the owner of a chartered ship due to failure to load or off-load the ship within the agreed time is called
A. demurrage. B. poundage.
C. commission. D. brokerage.

296. Identify the type of bank that provides banking and financial advice to the government of Uganda.

A. Commercial bank.
B. Central bank.
C. Merchant bank.
D. Development bank.

297. Tourism is an example of

A. Visible trade.
B. Entrepot trade.
C. balance of trade.
D. invisible trade.

298. The type of sales promotion used by Uganda Manufacturers Association in October every year at Lugogo show ground is called

A. publicity.
B. exchange schemes.
C. trade fair.
D. branding.

ANSWERS TO MULTIPLE CHOICE QUESTION

1.	D	44.	B	87.	B	130.	C	173.	B
2.	A	45.	C	88.	D	131.	D	174.	A
3.	C	46.	A	89.	B	132.	B	175.	A
4.	B	47.	B	90.	D	133.	C	176.	D
5.	A	48.	A	91.	D	134.	D	177.	A
6.	D	49.	D	92.	B	135.	A	178.	D
7.	B	50.	C	93.	D	136.	C	179.	B
8.	C	51.	A	94.	D	137.	B	180.	D
9.	D	52.	A	95.	D	138.	D	181.	D
10.	B	53.	C	96.	A	139.	C	182.	A
11.	A	54.	C	97.	C	140.	C	183.	B
12.	B	55.	D	98.	B	141.	A	184.	C
13.	D	56.	B	99.	D	142.	B	185.	D
14.	C	57.	A	100.	A	143.	B	186.	A
15.	A	58.	A	101.	C	144.	A	187.	B
16.	D	59.	D	102.	B	145.	B	188.	A
17.	C	60.	C	103.	A	146.	C	189.	D
18.	B	61.	D	104.	C	147.	A	190.	D
19.	A	62.	B	105.	D	148.	D	191.	C
20.	C	63.	D	106.	A	149.	C	192.	C
21.	C	64.	C	107.	C	150.	B	193.	B
22.	C	65.	D	108.	A	151.	D	194.	C
23.	A	66.	D	109.	D	152.	A	195.	C
24.	B	67.	A	110.	B	153.	B	196.	B
25.	D	68.	C	111.	B	154.	C.	197.	A
26.	B	69.	D	112.	A	155.	D	198.	C
27.	B	70.	A	113.	B	156.	B	199.	B
28.	A	71.	A	114.	D	157.	C	200.	A
29.	C	72.	B	115.	A	158.	C	201.	B
30.	C	73.	C	116.	C	159.	D	202.	D
31.	A	74.	C	117.	B	160.	D	203.	D
32.	B	75.	B	118.	A	161.	C	204.	C
33.	C	76.	D	119.	A	162.	B	205.	B
34.	D	77.	B	120.	B	163.	D	206.	C
35.	B	78.	C	121.	D	164.	B	207.	A
36.	C	79.	B	122.	C	165.	A	208.	D
37.	B	80.	C	123.	D	166.	C	209.	A
38.	C	81.	D	124.	A	167.	D	210.	C
39.	A	82.	B	125.	C	168.	A	211.	C
40.	B	83.	C	126.	C	169.	D	212.	B
41.	B	84.	A	127.	B	170.	B	213.	A
42.	C	85.	B	128.	A	171.	B	214.	C
43.	C	86.	D	129.	B	172.	D	215.	D

216.	B	233.	A	250.	A	267.	A	284.	C
217.	C	234.	D	251.	B	268.	C	285.	B
218.	B	235.	B	252.	C	269.	D	286.	D
219.	C	236.	D	253.	A	270.	A	287.	A
220.	D	237.	C	254.	C	271.	A	288.	A
221.	A	238.	A	255.	B	272.	C	289.	B
222.	B	239.	A	256.	D	273.	B	290.	C
223.	C	240.	C	257.	D	274.	A	291.	D
224.	D	241.	A	258.	C	275.	A	292.	B
225.	B	242.	C	259.	D	276.	D	293.	B
226.	D	243.	B	260.	D	277.	B	294.	C
227.	C	244.	B	261.	C	278.	D	295.	A
228.	A	245.	D	262.	A	279.	B	296.	B
229.	D	246.	C	263.	B	280.	D	297.	D
230.	B	247.	D	264.	B	281.	C	298.	C
231.	C	248.	B	265.	C	282.	D		
232.	C	249.	D	266.	B	283.	B		

CURRENCIES OF SELECTED COUNTRIES

Country		Name of Currency
i)	Algeria	Dinar.
ii)	Australia	Dollar
iii)	Austria	Shillings
iv)	Belgium	Francs
v)	Canada	Dollar
vi)	Congo Republic	Cfa Franc
vii)	Den mark	Kroner
viii)	Egypt (UAE)	Pound
ix)	England	Pound
x)	Finland	Markka
xi)	France	Francs
xii)	Germany	Mark
xiii)	Ghana	New Cedi
xiv)	Greece	Drachma
xv)	India	Rupees
xvi)	Iran	Rial
xvii)	Israel	Pound
xviii)	Italy	lire
xix)	Japan	Yen
xx)	Kenya	Shillings
xxi)	Kuwait	Dinar
xxii)	Lebanon	Pound
xxiii)	Morocco	Dirham
xxiv)	Nigeria	Naira
xxv)	Netherlands	Guilder
xxvi)	Norway	Kroner
xxvii)	Pakistan	Rupee
xxviii)	Portugal	Escudo
xxix)	South Africa	Rand
xxx)	Spain	Peseta
xxxi)	Sweden	Kronon.
xxxii)	Switzerland	Franc
xxxiii)	Tanzania	shillings
xxxiv)	Turkey	Pound.
xxxv)	Tunisia	Dinar
xxxvi)	Uganda	shillings
xxxvii)	USA	Dollar
xxxviii)	Zaire (Congo)	Zaire
xxxix)	Zambia	Kwaca
xl)	European community	Euro.

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"NOTHING IS SWEET LIKE SUCCESS"

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Enjoy this jointed effort of qualified and experienced teachers in commerce.