COMMERCE NOTES FORM FOUR

PAYE

INSURANCE

STOCK

Email: tzshule@gmail.com

TAXATION

This is the Compulsory Contributions from different Source of income to the government for the purpose of finance its activities.

WHY TAXATION OR WHY DO THE GOVERNMENT TAX/PURPOSE OF TAXATION/REASON OF TAXATION

1. To cover the cost of general administration

Government charge taxation purposely to cover such as defense and social services provided by the state i.e.

- Army
- Police
- Hospital

2. Control harmful goods like alcohol etc

To check the consumption of goods which can be harmful to human being.

To control the consumption of harmful goods such as spirits and tobacco by increasing its taxation.

3. To reduce income inequalities

The government adopt a system of taxation which reduce the gap between the lower income earner and higher earner through (**PAYE**)

'Pay as you earn'

PAYE

Is a progressive income tax system which imposed to a person according to his or her Income.

4. for furtherance of economic activities

The revenue is needed by the government in order to establish or improve economic activities such as road constructions, industries etc.

5. To control inflation

Government charges taxes to control inflation by reducing the amount of money in circulation and hence the purchasing power of the public increase.

6. To reduce a deficit in the balance of payment

-Tariffs are imposed on imports in order to reduce deficit in the balance of payment.

7. Protect local industries

The government imposes heavy tax on imported goods, on the other hand the government reduces tax on locally produced goods to promote localindustries.

OBJECTIVES OF TAXATION

The following are the main objectives of taxation;

1. **Financial or revenue objectives**

It is the main source of the funds/income

2. **Economic objectives**

- Control and regulate people's consumption.
- Encouragement of investments by reducing tax to the investors.
- Regulate the price level; This is done by the increase or reduction of taxes on other goods.
- Protection of inflation of local industries by discouraging the importation by increasing tax to the imported goods.
- Encouragement of exports; Taxation used for motivation the exportation by reducing the taxation to the business who exports goods to abroad.

3. **Social objectives**

- Impose high tax on harmful goods i.e. spirits, tobacco.
- Financing sports and games as well as entertainment e.g. music.
- Protect the country against the dumping reduce inequality.

CHARACTERISTICS OF TAXATION

There are three important characteristics of taxation.

1. A compulsory contribution

It is the contribution to the state to cover its expenditure fail to pay you will be permitted.

2. Not a payment for a specified person for specific profit.

3. The benefits of taxation is for all citizens or people (not selective).

4. Encourage social solidarity and common obligation goods to protect the health for the economic progressive.

SYSTEM OF TAXATION

1. **PROGRESSIVE TAX**

This is a system of taxation in which the amount of tax depends on the level of income (PAYE) i.e the amount of tax charged is proportional to the level of income. This system is very useful in reducing income inequalities among income earners.

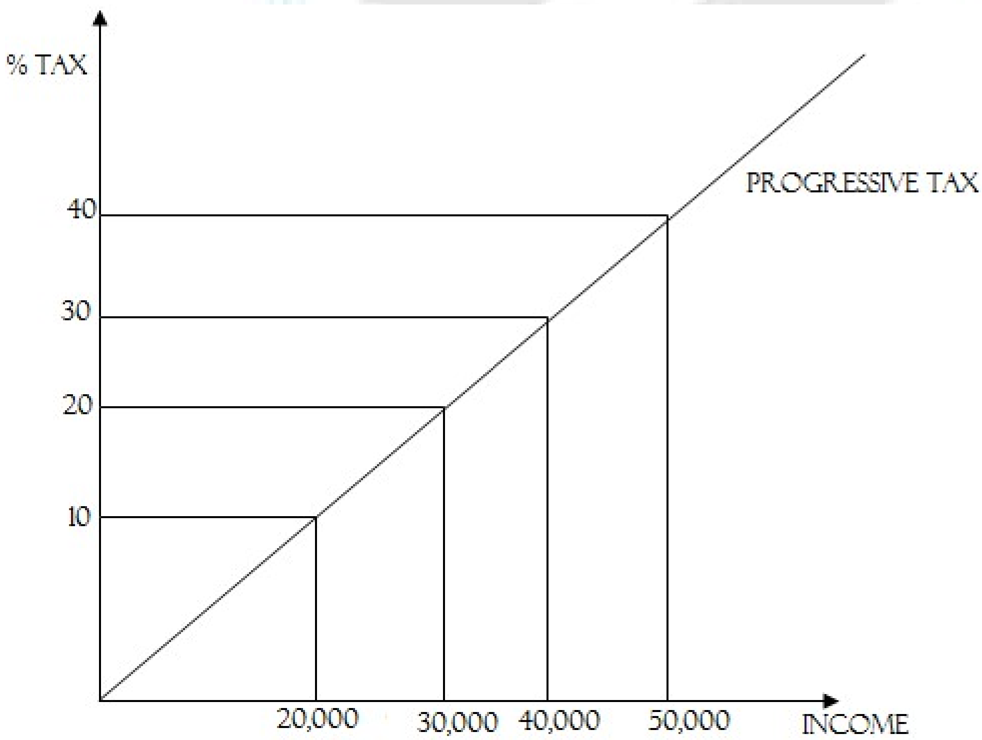
OR

The higher the income the higher the tax and the lower the income the lower the tax will be paid.

Example.

INCOME	PERCENTAGE	TAX
20,000	10%	2,000
30,000	20%	6,000
40,000	30%	12,000
50,000	40%	20,000

<u>GRAPHICALLY</u>

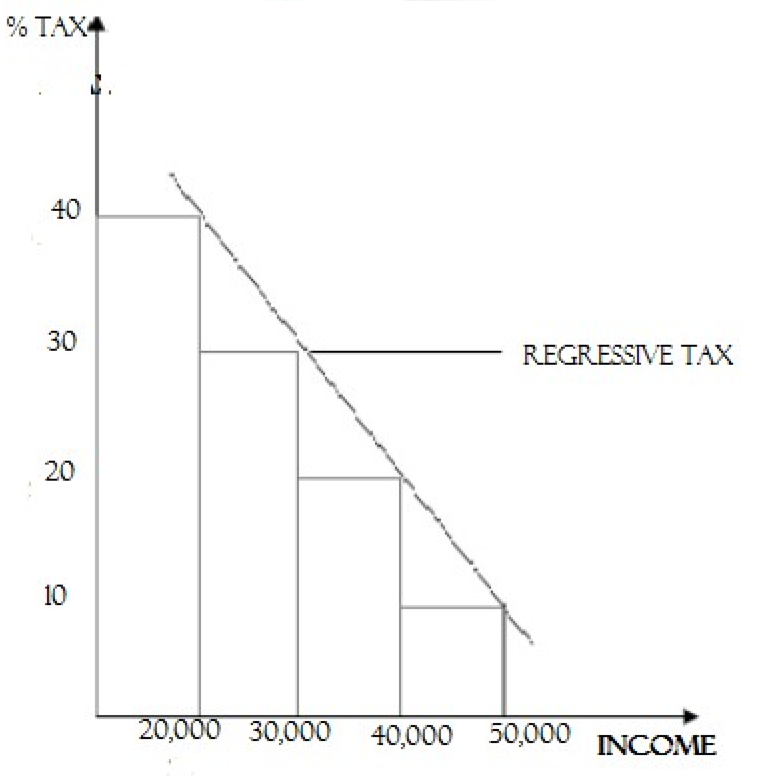


2. <u>REGRESSIVE TAX SYSTEM</u>

Means that the Lower the income the higher the tax and the higherthe income the lower the tax will be paid.

Example:

INCOME	PERCENTAGE	TAX
20,000	40%	8,000
30,000	30%	9,000
40,000	20%	8,000
50,000	10%	5,000



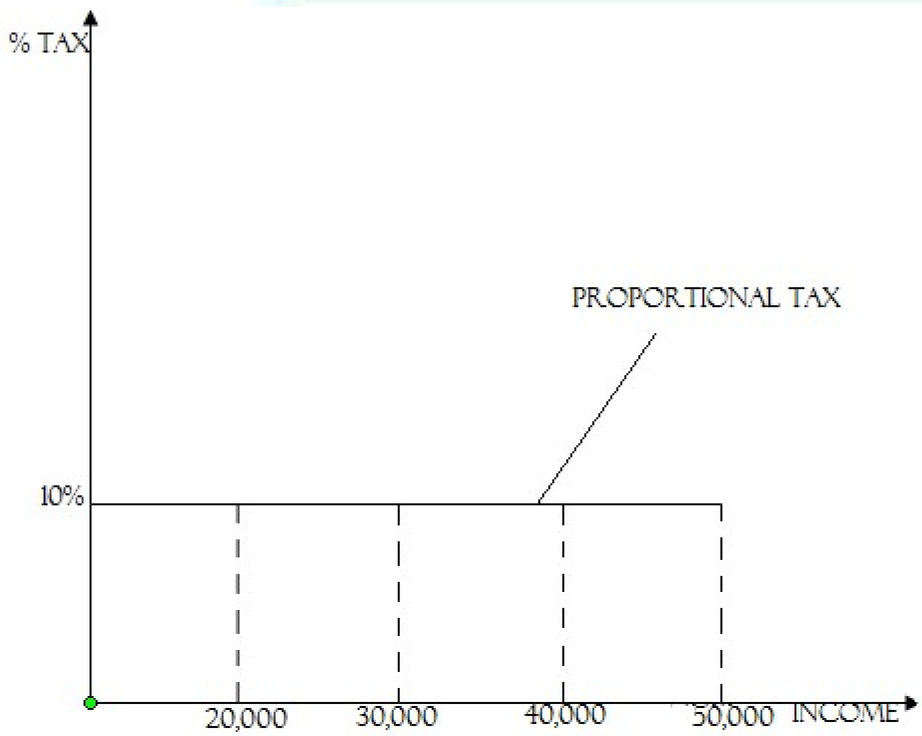
3. PROPORTIONAL TAX SYSTEM

This is the system of taxation in which the percentage of tax is the same to all level of incomes. For example :

When the person who earns T.sh. 40,000 per month pay 10% of the income as tax and a person who earns T.shs. 50,000 per month also pay 10% of the income as tax.

INCOME	PERCENTAGE	TAX
20,000	10%	2,000
30,000	10%	3,000
40,000	10%	4,000
50,000	10%	5,000

Diagrammatically



CLASSIFICATION OF GROUPING TAXES

The following are the criteria used in grouping taxes;

1. According to the taxable objective

- **Income tax**

This is the tax charged to the employee (labour) salaries.

- **Sales tax**

Is the tax imposed to the business men or women during the sales processing "**VAT".**

- **VAT**

Value added tax is the tax imposed for every stage of production and distribution of goods and services.

- **Capital gain tax (industrial)**

Is the tax imposed on the gain made by seller of a capital asset during the disposal (sale).

- **Property tax**

Is a tax imposed on the property such as building (house).

2. According to the visibility

- **Open tax (direct tax)**

Is the tax charged direct from the main source of income i.e. company.

- **Hidden taxes (indirect tax)**

Is the tax charged during purchase of goods and services.

3. According to their effect on the tax buyer

- Progressive tax
- Regressive tax
- Proportional tax

4. According to the way it is collected

- **Assessed taxes (custom tax)**

Imposed when the person imported goods from outside the country. Specific add value according to the quantities.

- **Deductive taxes**

Is imposed on the income of the employer salaries.

- **Excise tax [inside]**

Tax for the goods produced within the country.

5. According to the tax payer

- **Sole proprietorships /sole traders**

Is a person who owns business singly privately?

- **Corporate taxes**

Is the tax for the company operations?

6. According to the recipient

- **Govern taxes**

Taxes imposed by Tanzania revenue authority (TRA) as a whole.

- **Municipal tax**
- **Village taxes**

PRINCIPLES OF TAXATION (CANNONS OF TAXATION)

A good tax system should be based on the following basic principles;

- **Equity**

  The burden should be equal according to the income i.e Pay as you earn (PAYE).

- **Certainty**

  The tax payer should know how much he/she pays to the state.

- **Convenience**

  The time and manners of collect tax should be known to the tax payer and tax collectors i.e. labour during the harvest.

- **Productivity**

  The tax should be used in economic development i.e. construction of roads and industries.

- **Economy**

  The amount collected should be higher than cost of collection.

- **Elasticity**

  The tax should be charged according to the economic changes example inflation.

TYPES OF TAXATION

- Direct taxes
- Indirect taxes

DIRECT TAXES

Is the tax levy directly from the main source of income.

- Income tax
- Corporate tax

Or

Is a type of tax where the impact fall to one person.

ADVANTAGES OF DIRECT TAXATION

- **Low cost of collection**

Low cost because the collectors know the source of income where to collect.

- **Tax payer know how much to pay [certainty]**

If you know how much to pay you can arrange your budget.

- **It stimulates the tax payer**

It encourages the tax payer because they know how much he/she contributes to the state.

- **It is progressive in nature**

It brings equality because high incomes pay high tax while low income pays low taxes.

INDIRECT TAXES

This is the tax levy on price of commodities and services.

ADVANTAGES OF INDIRECT TAXATION

- The tax payer does not feel the burden direct.
- The tax payer does not feel pain because the tax charged during the purchases of goods and services.
- Easy method of collection.

  Collection is simple because the tax is imposed during purchasing.

- Difficult of evasion /evading.

  Escaping is difficult this is due to the fact that the tax is levied during purchasing.

- It is convenient in nature.

  Small amount is paid at the time of purchasing.

- Cost of collection is low.
- Reached to even those with small income
- The tax is charged to every person hence large income is control the use of harmful foods by increase in its price.

DISADVANTAGES OF INDIRECT TAXATION

- It increases the price of goods and service.
- It can cause inflation.

- It is uncertain in nature.
- It is unequitable.
- It is not possible to determine its full effects.

Effects of the taxation

On the tax payer

- It increase the price of goods.
- Affects the investors.
- It affects the employee (labour).
- Effects on saving is decreased.
- No money for precaution and health.
- It affects the entrepreneur.

IMPACT AND INCIDENCE OF TAXATION

-Incidence is the burden of paying tax.

-Impact effects based by the 2nd person who pays tax.

INSURANCE

DEFINITION

Is a contract whereby one party called the Insured (Person taking out Insurance) agrees to pay the sum of money to another party called the Insurer (Insurance company) and the Insurer also agrees to Indemnify (compensate) the Insured in the happening of an event.

OR

Is a system of pooling risk together by contributing small sum of money to a common pool which in the long run compensates those who will suffer actual loss.

TERMINOLOGIES USED IN INSURANCE

In Insurance, the following terms are used;

(i) Insured

This is the person or firm taking out Insurance and who is promised to be compensated by the Insurance company in case of a loss.

(ii) Insurer

This is the Insurance company granting the Insurance policy e.g National Insurance Corporation, Global Insurance company ,etc.

(iii) Premium

Is the amount of money the Insured pays to the Insurer as the consideration to the latter's undertaking to compensate him in event of loss. Premium is always a very small proportion of the total value that the Insurer stands to lose.

(iv) Risk

Is the event against which the Insurance is taken out for example; One may Insure his car against accident and fire. So accident and fire are called the risk.

(v) Insurable Risks

These are Risks whose probability of occurrence can be determined. Such risks include fire, accident, theft, damage of goods in transit. With such risk Insurance Companies are able to estimate the possible future losses and thus premium can be calculated with some degree of precision.

(vi) Non-Insurable Risks

Are those risks which in principle Insurance doesn't accept to be Insured against. Example; Diseases, natural calamities such as floods, murder, losses due to wars, etc. They are also referred to as Uninsurable Risks.

(vii) Loss

This is an occurrence of an event against which Insurance is taken out. For instance; if one insured his vehicle against accident and the vehicle is latter destroyed in an accident, the loss of a vehicle has occurred if only party of the property is destroyed. Then the loss is said to be partial loss but when the entire property is destroyed, then that is the total loss.

(viii) Pooling Risks

This means that several individuals bring their risks together and a fund is created into which they all pay. Those who actually suffer loss are paid from this fund and essentially this is how Insurance Companies work.

(ix) Sum Insured

This refers to the value of the property Insured as stated by the owner at the time of applying for Insurance.

(x) Proposal form

This is the document issued by the Insurance company to a person intending to become Insured which he or she fills it in. All the details of the Insurance Policy required and the goods and property involved must be given. The truth, the whole truth and nothing but the truth should be disclosed.

(xi) Cover Note (Temporary Agreement)

This is the document issued by the Insurance Company as the proof that premiums have been paid and accepted by the Insurance Company. A cover note is issued for the period between the payment of the premium and the issue of the policy.

(xii) The Policy (Permanent Agreement)

In Insurance, it is the major document that contains the terms and conditions of the agreement between the Insurer and the Insured.

(xiii) Re- Insurance

This is the practice of Insurance companies Insuring themselves against risks Insured with them by their customer. It is usually done by the Insurance Companies which cover properties of high value like aeroplanes, ships, trains, expensive buildings, etc. It is done to avoid the risk of failure to meet customers' claims.

(xiv) Co- Insurance

This is the situation where several Insurance Companies come together to share a risk Insured with one of them. Each Insurance Company, accepts the responsibility for part of the risk in the event of a loss. Several Insurance Companies contribute according to the their respective shares of the risk in order to compensate the Insured.

(xv) Claim form

If the Insured event takes place then the Insured person is required to notify the Insurer. He fills a claim form, this form shows the full details of loss. After receipt of the Claim form the Insurance Company sends an assessor to determine the loss of the Insured and on the basis of the assessor the Insurer pays compensation to the Insured.

(xvi) Underwriter

This is any employee of the Insurance Company. His work is to accept or refuse the nature of the risk presented to him. If he accepts it, he is also responsible for computing the premium to be paid. In consultation with the Statistical Department of Insurance.

(xvii) Insurance Agent

This is the one who represents the Insurance Companies Interest in a particular part of country or the world at large.

(xviii) Insurance Broker

This one transacts the Insurance business on behalf of the Insurance company.

(xix) Actually

Is a skilled person in assessing and calculating risks and determining premiums charged by the Insurer.

(xx) Assessor

This is an Insurance official who calculates the amount of danger involved in any risk when the Insured makes a claim on the Insurer.

(xxi) Floating Policy

It is a policy for a certain amount, Insuring goods which are not all in one place, but one spread over a certain District or areas so that the goods are covered with wholly or in part according to their aggregate value as may happen to be either under or above Sum Insured.

(xxii) Renewals

This means giving new life to an Insurance contract so that it continues for a further period after the expiry of its current period. It is at discreation of the Insured to renew the Insurance policy. The Insurer only reminds him of the expiry date of the policy by sending him to renewal notice.

(xxiii) Terminating the policy

This is bringing an Insurance Contract between the Insured and the Insurer to an end. The Insured may terminate the policy by not renewing the policy at its expiry or by stopping to pay premiums.

(xxiv) Surrender Value

This is the amount of money paid back to the Insured when he decides to terminate his life Insurance Policy before it expires.

The policy holder is only refunded a portion of the total amount he had earlier paid as the premium.

It should be noted that the premium does not attain surrender value until a specified time.

(xxv) Over Insurance

This happens when the Insured over declares the value of his property at the time of taking out the Insurance. In such case he will be required to pay higher premiums to the Insurer but in the event of total loss he will be paid only the correct value of the property.

(xxvi) Under Insurance

This happens when the Insured under declares the value of his property at the time of taking out Insurance. But in the event of total loss he is paid only the sum Insured and not the correct value.

IMPORTANCES OF INSURANCE IN COMMERCE

1. It creates confidence among businessmen and Investors

Insurance creates confidence among the businessmen and investors to undertake risky business ventures without fear of loss in which they would otherwise not have invested their money.

2. Provide Compensation

Insurance Companies compensate the unfortunate people who actually suffer loss as a result of Insured risk.

3. It is a means of saving

This is particularly true with life assurance policies which is a suitable way of saving money for old age, disability and retirement. Also money paid as premium can be used to help the family after the death of the wage earner.

4. Assured policies act as security for loans

Businessman who is short of money can use his Insurance Policy as security for the loan from the bank or any other Credit Financial Institution and thus raise capital for the business.

5. Provide employment opportunities

Insurance Companies provide employment opportunities to the general society. Some are employed as Manager, Insurance Agent, Insurance Brokers, Secretaries etc. hence solve the problem of unemployment in the country.

6. Provide Government Revenue

Insurance Companies pay tax to the government which can be used to develop infrastructures like roads, hospitals, schools etc. Again Insurance contributes towards a country invisible Exports just like tourism, shipping and banking.

7. Insurance promotes investment

The owners or proprietors of the Insurance Company can put to use money so collected as premium to set up business ventures like houses for rent, factory or in stock shares. This helps to generate funds to pay for the claims made on Insurance companies.

8. Promotes International Trade

Insurance promotes International Trade whereby businessmen can transport their goods from one country to another without fear or loss.

9. Educates the public

Insurance Companies provide educational services. They conduct campaigns on safety, heath care, disease etc. through mass media like radio, television, newspapers. This promote better standard of living of the public.

HOW INSURANCE MAKE THEIR PROFIT

The main source of income for insurance companies is as follows;

1. Premiums contributed by the insured.
2. Insurance company Construct their own building e.g. 'KITEGA UCHUMI' receive rent insurance investment
3. Provide loans.

   Insurance provide loans to their members with the expectation of return of interests.

4. Selling the scraps.

   When insurance settle the claim; the remaining property scraps is sold by them hence making profits.

5. Securing bank.

   The money contributed as a premium is kept at bank hence get interests of saving.

6. Buying shares.

   Insurance companies buy shares from different companies.

INSURANCE AND ASSURANCE

Insurance refers to cover against events which may or may not happen e.g fire Insurance, theft, accident

WHILE

Assurance covers against an event that is bound to happen, the uncertainty of which being the time at which it will happen. This is in respect of death. This event will occur in the life of everyone hence life policies are assurance policies.

PRINCIPLES OF INSURANCE

The system of insurance depends upon certain doctrine (principles) which both the Insurer and the Insured are required to obey. These are;

- Indemnity
- Insurable interest
- Utmost good faith (Uberrimaefidei)
- Proximity cause
- Subrogation
- Contribution

Indemnity

This principle requires that the compensation given to the Insured should only restore him to the exact financial position he was enjoying first before the loss occurred not better. According to this principle the Insured is not supposed to make any profit or benefit from Insurance.

Insurable Interest

This principle requires that a person or organization can Insure only that property whose destruction will cause a financial loss to him. According to this principle Insurance can only be taken out by people who will suffer financial loss of the event occurs against which they have Insured.

In view of the above, it is for example permissible that;

i) You can Insure your car but not your friend's car.

ii) You can insure your children but not your neighbour's children.

Utmost Good faith (Uberrimaefidei)

This principle requires that all parties to the Insurance contract (The Insurer and The Insured) should be faithful to one another by disclosing all the material facts concerning the property Insured or life Insured. Any person taking out the Insurance is required to disclose all the relevant material facts about the property being insured so as to help the Insurance Company to assess the suitability of the property for Insurance and accordingly calculate Premiums accurately. This is known as acting in Utmost good faith.

Proximity Cause

This principle requires that there must be fairly close connection between the Cause of the loss and the risk Insured against in order for the person (Insured) to claim compensation. The Cause of the loss must be one that was stated in the policy for the Insurer to accept liability for example; If someone insures his car against the accident and the car is consequently destroyed as the result of fire, then the Insured can not claim compensation.

Sabrogation

This principle states that, In the event of total loss after the Insured has received full compensation the Insurer (Insurance Company) acquires the rights that the Insured had in the property destroyed.

The guiding principle is that the Insured is not supposed to benefit from the loss. For example; If a lorry is involved in the accident, and the Insurance Company fully compensates the owner, then the wreck (scrap) of the vehicle becomes the property of the Insurance Company who may do as they wish with it.

Contribution

This principle prevents the insured recovering from more than one insurer. If he has insured his property with more than one insurer and the risk occurs the loss is shared proportionally between the insurers.

TAKING OUT AN INSURANCE POLICY

The steps involved in undertaking the Insurance Policy change according to the particular types of Insurance concerned. Traditionally however, the following steps are common in all Insurance Policies.

1. A proposal form is filled in by intending Insured in which all details the Insurance required and the goods and property involved must be given. It should be remembered that the principle of Utmost Goodfaith applies.

2. The premium is calculated by the insurer after studying the completed proposal form .

3. The premium is paid and the cover note is issued to the insurer.

4. A policy is issued after one month. It is a printed contract of insurance and sets out all the details of insurance.

5. In case of loss occurring the insured informs the insurer and the claim form is filled.

6. Property is surveyed by insurer and the extent of loss is assessed and compensation is given.

INSURANCE AND GAMBLING

Insurance is a system of pulling risk together by contributing small sum of money to a common pool in order to compensate those who will suffer loss.

Gambling is a game or Play whereby people enter and its winner or the lucky people are given prizes.

DIFFERENCES BETWEEN INSURANCE AND GAMBLING

INSURANCE	BLING
1. Insurance involves some formalities and use of documents.	1. In gambling such formalities are not there.
2. In Insurance, one must have Insurable Interest in the property he or she is insuring.	2. In gambling there is no such condition of Insurable Interest.
3. In Insurance money is paid in Installments.	3. In gambling it is paid once and taken once.
4. In Insurance the one who receives the money is the one who suffered a financial loss.	4. It is opposite with gambling.
5. In Insurance it is only one Party (the Insured) who contributes the money.	5. In gambling both parties contribute money.
6.Insurance is legally accepted.	6. Gambling is not in many cases accepted.
7. In Insurance the event Insured may never happen e.g I may insure my house against fire and the house never catches fire.	7. In gambling the event must happen to decide the winner.
8. Insurance aims to help the unlucky one. The unfortunate one is restored to the financial positions he was before the loss thus not gaining anything.	8. The gambling makes the lucky one improve their status. In gambling where the financial position of the winner improves.

TYPES OF INSURANCE

Insurance can be divided into two main parts

1. Assurance/ Life Insurance
2. General Insurance

ASSURANCE/LIFE INSURANCE

Refers to Insurance against human life i.e

-Death

-Old age for specific years

POLICY UNDER LIFE INSURANCE

Endowment policy

The money is paid to his relatives at his death or when the period expected whenever is earlier.

Whole life Policy

This requires payment of premium throughout life of Insured, therefore compensation after death and money will be given to beneficiaries.

TERMS OF LIFE INSURANCE

Surrender Value

This is the money paid back to the Insured part when he decides to cancel the Insurance agreement before the period specified.

General Insurance

This is the Insurance properties when the property of the cause death varies, etc.

TYPES OF GENERAL INSURANCE

1. Marine Insurance

2.Fire Insurance

3. Accident Insurance

MARINE INSURANCE

Refers mainly to the Insurance of ships and the goods in the ships

TYPES OF MARINE INSURANCE

Voyage Policy

The policy will specify the given route i.e

- Four route

-Two route

-Or ten route (journey)

Time Policy

The policy will specify only a given period i.e

-Two weeks

-Two months, etc

Mixed Policy

The policy will specify a given route at a specific period of time e.g

-Two route for two months,etc.

Floating Policy

Covers losses associated with a particular ship or ship with a particular route.

Port Policy/Open Cover Policy

This is cover to a ship during the period of off load (dis embark)

Fire Insurance

Is the type of Insurance which cover against fire and acts of God like

-Flooding

-Lightning

FIRE POLICY

-Fire

-Theft and Burglary

-Floods

-War

-Rioting

-Loss and profit liability

-All risks of household

ACCIDENT INSURANCE (ASSURANCE)

This department mainly Insures vehicles.

MOTOR POLICY

(a) Motor

The motor policy may be third part or comprehensive

-Third party

Is the motor policy where by cover the risk against person and accidents/death or injury

Comprehensive

This is based on property (car) and person

(b) Goods or Cash in Transit

(c) Fidelity guarantee

Insurance against the destination of an employee for keeping money.

(d) Workers' compensation

Machinery breakdown and consequential loss.

(e) Aviation and Aviation hull

Insurance against aeroplanes.

Aviation hull includes the properties and the passengers.

TYPES OF LOSSES

Total Loss

Occurs when property is destroyed completely.

Partial Loss

Occurs when property is destroyed but there is some particles remaining it can be taken into the Insurance for repair.

STOCK EXCHANGE MARKET

Is the market which deals with the purchase and sale of already issued security such as share, bonds, etc**.**

BROKERS

Are the people who buy and sell share on behalf of others. Anybody wishing to buy a share must approach a broker, who will brief him on various matter and offer free advice on different type of share on behalf of the other. He is paid commission for the work of buying and selling share on behalf of others.

JOBBERS

Can be linked to whole sellers, they buy and sell share on their own account i.e They trade in share in much the same manner as a wholesaler deals in merchandise. A broker must buy and sell share through a jobber. A broker is in between the jobber and the public. He is also paid commission.

TYPES OF JOBBERS

BULLS- These are traders who buy share when they are cheap in hope that the prices will soon rise and therefore sell them at the profit.

BEARS-These are traders who sell share when the price are high in hope that they will soon drop so that they may buy them back too much lower price.

STAGS- These are traders deal in new issue that is when there is a rise in addition capital. Stags buy these shares in a hope that they will soon appreciate and be able to sell them at a profit.

SPECULATION

This is the act of buying something with a view of making profit when the prices change, bulls, bears and stags carry this activity of speculation.

FUNCTIONS OF STOCK EXCHANGE

1. It provides a ready market for those who want to buy and sell their shares.
2. It sets a price for every security.
3. It acts as a middle man between the company and the public.
4. It helps direct a large part of saving by members of the public to invest in joint stock company.
5. It publishes useful information in statistical and summary form this guides investors to know health and sick companies.
6. It publishes useful information about shares from different limited companies.
7. It keeps an eye on the financial affairs of every company whose shares are bought and sold.

SECURITIES TRADE ON STOCK EXCHANGE

1. **Stock**

A bond issued by a government or local authority signifying a debt.

2. **Port folio**

A collection of various securities hold by one investor or institution.

3. **Bonds**

A loan security issued by the government is called debenture.

4. **Bearer security**

Security that can be transferred by more delivery i.e without transfer from being made out of the transfer being registered by the issuing company.

5. **Gilt edged**

A security that is absolutely safe in respect of both the capital redemption and payment of Interest e.g bonds issued by the government.

TOPIC 1

BUSINESS UNITS

Definition

Is an organization or firm that deals in the production or distribution of commodities usually for the purpose of making profit. It may be set up by an individual or group of individuals and its size depends on the amount of capital invested.

FORMS OF BUSINESS UNIT

(i) Public sector

(ii) Private sector

PUBLIC SECTOR

The public sectors comprise of business organization owned by the government. The sector consist of the following;

- Public cooperation
- Public companies
- Local government authorities
- Parastatals

PRIVATE SECTOR

The private sectors comprise of business organization owned by private individuals. The sector consist of the following;

- Sole proprietorship
- Partnership
- Private companies
- Cooperative society

Email: tzshule@gmail.com

SOLE TRADER

Is a person who owns a business singly. He is the only owner of the business, he provides all the necessary capital, employs all the necessary labour and bears all the risk of the business.

Characteristics of a sole trader

- Owned by one person.
- Provides capital himself.
- Earns profit and bears loss.
- The main final authority on all affairs of the business versus liabilities or assets of the business is limited.

UN LIMITED LIABILITIES

It occurs when the business and the owner are not separated.

ESTABLISHING OF A SOLE TRADER BUSINESS

-Presence of the accepted location.

-Place should be recognized by the government policy.

Finding capital

-Money being invested to start the business.

-Submission of provision income for tax assessment (TRA) calculate according to income quarrying.

Obtain trading license

Is a document which gives power to start the business.

Starting operation

Soon after trade license has been issued the aim commencing the business.

A sole trader business is very flexible

Change the nature of the business any time without offending any body.

ADVANTAGES OF SOLE TRADER

1.Organization is very simple

He takes all the decisions no necessity to call a meeting.

2. He takes all the profit and bears the loss.

3. Contact with costumers

He is able to establish a direct contact both with his employees and any problem can be solved easily.

4. Business is very flexible

He can change the nature of the business at any time without asking for permission.

5. He enjoys top secret

He is the only person who knows the business secrets.

6. Need for small capital

The business can be established with any amount of money.

DISADVANTAGES

- Unlimited liabilities

When he enters into serious loss his personal resource is taken as security to cover bad debts.

- Capital resource is limited

Resources are small hence no expansion.

- Limitation of talent

Every person has limitation, nobody is well in every aspect that's why there is division of labour and specialization.

- He bears the loss alone

Sole trader is the only person who owns the business therefore he suffers all loses which occur.

- Lack of continuity

Performance of sole proprietorship is always uncertain and difficult to maintain. The success of sole proprietorship depends on the personal efforts and abilities of the owner. In case the owner dies, the business is adversely affected. The business may even collapse.

PARTNERSHIP

A partnership is a business organisation formed and owned by two or more people known as partners to carry out business with an aim of making profit.

OR

Is the association of two to twenty peoples carrying on a business in common with a view of making profit.

FEATURES OF PARTNERSHIP

i. They are formed by a minimum of two and a maximum of twenty in the case of ordinary partnerships and a maximum of fifty in the case of partnerships formed by professionals such as doctors, lawyers and accountants.

ii. The partners provide capital jointly in the proportions agreed either from personal savings or loans from banks and other financial institutions.

iii. The action of one partner is binding to all other partners. For instance, any debt incurred by one partner on behalf of the business is binding to all partners. The liability is spread among all partners in proportion of their contribution to partnership capital.

iv.Partners usually share duties and responsibilities in the management and operation of business as spelt out in the partnership deed.

v. Legally, there is no distinction between the partnership business and its owners, That is the business is not a legal entity. If the business fails to pay its debts, the partners will be required to contribute from personal sources to pay up the debts.

vi. Each partner acts as an agent of the business. Partners can therefore sell and buy on behalf of the partnership.

vii. The profit made by the business belongs to the partners jointly. This profit is divided in the proportions agreed upon in the partnership deed.

viii. In case the business makes a loss, the loss is shared by partners in the proportions agreed in the partnership deed.

ix. All business decisions are made jointly by the partners through constitutions, discussions, consensus and through majority vote.

FORMS OF PARTNERSHIP

1. **Temporary partnership**

This is formed for a specific period or for a specific purpose.

2. Permanent partnership

Is the partnership which is formed for a long time the end is not known

TYPES OF PARTNERS

1. According to the rule played by them

- **Active partner**

An active partner is also known as working partner. He or she manages the day to day affairs of the business on behalf of the other partners on top of the profit share, he or she is entitled to a salary

- **Dormant partner**

He is also known as sleeping partner or financing partner. Such partner does not participate in the management of the partnership business. He invests capital in the business but his share of profits will generally be lower than of the other partners.

2. Classified according to liabilities for firm debts or unlimited

-General partner

A person who liability towards the firm is limited.

-Unlimited partner

A person whose liability of the firm debt is limited usually the capital contributed by him.

Email: tzshule@gmail.com

LIMITED LIABILITIES

Occur when business and the owner are separately entity i.e. not close relationship between the owner of asset towards firm debt.

3. Classified according to age

-Major partner

Is a partner who is over 18 years of age.He is liable for all the debts of business.

-Minor partner

Under 18 age he contributes capital, share profit but he is not ready or able for the firm debt but his capital contribution.

4. According to capital contribution

-Real partner

Person who contributes capital share profit and loss.

-Quasi partner

Who don't contribute any capital, take part in business but allows the firm to use his name as partner. He is not liable for the firm debts in the most of the cases, but he gets share from the profit. The agreement is called **partnership deed**

PARTNERSHIP DEED OR PARTNERSHIP AGREEMENT

This is the written document which governs members in the partnership firm. It includes the following;

Contents of the partnership deed

Partnership deed would usually state the following

1) Name of address firm

i.e. Baraka business enterprises.

2) Name, address and occupation of each partner, Director, accountant.

3) Type of partner; Active, dormant, and capital to be contributed by each partner.

4) The ratio in which profit and loss would be shared by the partner

5) Right of each partner i.e.

- Drawings
- Salary
- Interest

6) Method of calculating goodwill start at the time of distribution.

7) The duration of the partnership i.e.

- Temporary

  OR

- Permanent

8) The procedure to be taken during dissolving partnership.

9)Purpose of establishing the partnership

RIGHTS AND DUTIES OF A PARTNER

1. Indemnity of a partner for liability

If the partner use excess expect in conduct the business firm business must indemnity.

2. Displaying utmost good faith

If the partner provide property or funds

It should be discounted by the firm and the partners should the material facts.

3. No new partner may be included without permission or information

   No new member admitted without the consent of all partners.

4. No partner are personally liable for debts incurred by the firm except quasi partner.

5. Every partner has a right to act on behalf of the business e.g. Sign and provide information.

6. If a partner have a private business that competes with the partnership all profits made by him should be surrendered to the firm.

ADVANTAGES

1. Raise more capital

Partner can use more capital because of capital contribution

2. Work is divided

There is specialization and division of labour

3. Decisions shared

4. Better combination of talents [skills]

Partners sharing ideas from each other hence leads to added knowledge to the members

5. Losses and liabilities are shared

6. Formation is fair and simple

There is no legal or complicated formality during formation

7. The expansion of the business due to capital accumulated

8. In the event of a difficult partner, partners are likely to come up with a solution

DISADVANTAGES

- The liabilities of a partner is unlimited
- Profit is shared

When profit is distributed to partners it may reduce the amount

- Temporary

Duration /period of time

- The business is affected by the death of one partner or bankrupt
- Delay in decision

Since all major action must be taken by the consent of all partners they often be delayed hence cause risk or loss.

DISSOLUTION OF PARTNERSHIP

Definition

The dissolution is wind up to the firm in venture

A partner notifies the other partner in the following are:

1. If the partner is temporary.
2. If partnership notifies the other the other partner right to dissolve.
3. If a partner became insane bankrupt or due to order made the winding of the partnership.
4. If the partnership became unlawful doing against of the partnership agreement.

JOINT STOCK EXCHANGE

Definition

Is a cooperative association of a person formed to a certain specific function

Or

Is cooperative body is created under the law and has an entity of its own quite separately from the members that comprises.

TYPES OF COMPANIES

1. Statutory company
2. Registered company

STATUTORY COMPANY

Is a company created by act of parliament.

REGISTERED COMPANY

Are those formed and registered under the companies act 1962 cap 486.

TYPES OF REGISTERED COMPANY

Registered companies can be further classified into the following groups

1. According to the member
2. Private company 2-50
3. Public companies

Characteristics of private companies

1. Can have two to fifty members
2. Shares are not transferable or sold
3. Owned by family
4. Can start business soon after owning a trading certificate
5. It is not required to publish its account

PUBLIC COMPANIES

Are companies owned by the public [government]

Characteristics of public companies

1. Can be any number starting from 7 no maximum
2. Owned by the public

3. Shares can be transferred
4. Can start business soon after given certificate incorporate and certificate of trading.
5. Must publish its accounts

According to liabilities:

1. **limited companies**

Is the liability of those members in limited resources do not involve in serious firm debt

2. **Unlimited liability**

Is the one of the liability of those members is limited

Or

Private person resource are involved in serious from debt

Liabilities quaintest

Is the company which do not issue share or own because its debt with business e.g. Simba sports limited

PUBLIC LIMITED COMPANIES

Is the company which is owned by the government where by the liability of the members is limited to a stated amount

IMPORTANCE /FEATURES OF PUBLIC LIMITED COMPANIES

-Owned by public

-Legal personality

-They have an entity of them own quite separately from members that constitute them

-Limited liabilities

-The liabilities of share holder is limited should be published to the a/c in government media

-Capital is divided into transferable share

-The capital of the company is divided into a number of shares each share is transferable

-Perpetual succession

-The company exist identity fill its dissolved does not affect by death or insanity

-They have minimum of seven members to the maximum

-Common seal/law

-Since the companies are separate entity it will be necessary for it to sign papers and documents

-The owners have no direct contact with the employees or customers

FORMATION OF COMPANIES

The person who want to establish company he is required to fill the following documents to the legislator of the companies

- Memorandum of association
- Article of association
- List of directors
- A statement signed by director stating that they agree to act on behalf of the company
- A declaration that the necessary requirements
- Certificate of trading /start business
- Certificate of incorporation

MEMORANDUM OF ASSOCIATION

Is the document to be prepared when forming a company which define the power and limitation of the company withoutsiders.

CONTENTS OF THE MEMORANDUM OF ASSOCIATION

Name clause

This clause states the name of the company the last word of the name should be limited to serve as a reminder to the people dealing with the company that the liability of its members is limited.

Situation clause

State the location of a place where the company has been allocated OR Every company must have a registered office, where its office is situated and notice can be put.

Objective clause

This clause states the purpose of establishment of the company

Capital clause

This clause states the share capital which the company wishes to have

Liability clause

This clause states that the liabilities of the members shall be limited

Declaration clause

This is the last clause which states the desire for members to engage themselves into a public limited company.

ARTICLE OF ASSOCIATION

Is the document which lays down the rules and the requirements of the company internal organization of the company.

CONTENTS OF ARTICLES OF ASSOCIATION

- The rights and powers of each type of shareholder.
- The powers of directors.
- The methods of conducting meetings.
- The issue and transfer of shares.
-

CERTIFICATE OF TRADING

Is the document issued by the register who allows the company to commence its operation.

CERTIFICATE OF INCORPORATION

This documents are presented to the registrar of companies and everything found satisfactory, a certificate of incorporation may be issued. This brings the company into the existence as a separate legal entity.

SHARES

A share is a unit of capital of Joint Stock Company.

Types of shares

- Ordinary shares
- Preference shares

ORDINARY SHARES

Is the kind of share which do not occurs or carry a fixed rate of returns

PREFERENCE SHARES

Is the kind of share which carry fixed rate of return preference share holder have a first right dividend

DIVIDEND

Is the profit distributed to share holders in the limited company [only for those who joint /share the capital]

Types of reference shares

1. **Accumulative preference shares**

Those shares are entitled to a fixed rate dividend till they are paid.

2. **Non accumulative preference shares**

These are entitled to a fixed rate of dividend but only for the year for which a dividend is declared.

3. **Redeemable preference shares**

Are shares which are brought back by the company after a stated period

Irredeemable preference shares

Shares can't be brought back by the company

DEBENTURES

Is a unit of loan of a limited company

Types of debentures

Classification according to the security pledged against them

1. **Naked debentures**

Are debentures which do not have security pledge against them

Classification according to the redemption

Redeemable debenture

Are never refunded the money borrowed against them remains outstanding of the full company is liquidated

Debentures differ from shares in the following aspects;

1. Share is a unit of capital while debenture is a unit of loan
2. Share is paid a dividend while debenture is paid interest
3. Most share holders have the right to vote or favours the company while debenture holders they don't have the right to vote.
4. Return on share is not restricted while debenture rules is restricted to a certain percentage

ADVANTAGES OF PUBLIC COMPANIES

1. The liabilities of the members is limited
2. Raise capital

   -Company is better placed to raise amount of capital through high profit

3. Large scale production

   -Large sum of money enable large production hence high profit

4. High dividend cause share increase

   -It is value share in the market

5. Shares are freely transferable

   -Members can sell shares to another person

6. Employees may be allowed to buy shares hence become share holder
7. Management is controlled by directors who expect to lead efficient cooperation
8. Perpetual succession

The company has a continuous existence and are not affected by

- Death
- Bankrupt
- Insanity

MANAGEMENT AND ORGANIZATIONS

-Is the process of making things done through other people that means management involves setting objectives for the firm and Supervise the Implementation of those objects.

OBJECTIVES OF MANAGEMENT

- Keep customers satisfied with goods and services
- Supplying services on time
- To achieve the organizational goals
- Organization goods into minimizing costs and maximizing profit
- To achieve good relations between suppliers and customers
- Sell the production at a reasonable price
- To achieve better utilization of resources

PRINCIPLES OF MANAGEMENT

1. **Sound policy**

The policy should be stable as well as flexible enough to meet changing conditions in management

2. **Scientific approach**

A correct analysis of the situation should be during problem solving. Decisions of action taken is in a accordance with the careful procedure during decision making

3. **Management of effectiveness**

Do the right thing at the right time

4. **Division of labour and specialization**

Classification of work according to the labour skills knowledge

5. **Unit of strength**

Joint the labour effort, team work together

6. **Measure of activeness**

7. **Discipline and remuneration**

8. **Authority for responsibility**

FUNCTIONS OF MANAGEMENT

1. Planning
2. Organization
3. Staffing
4. Direction
5. Control

PLANNING

An act of thinking what to do how to do and what will happen when it is done

Is therefore casting the future demand in the organization so as to meet the objectives.

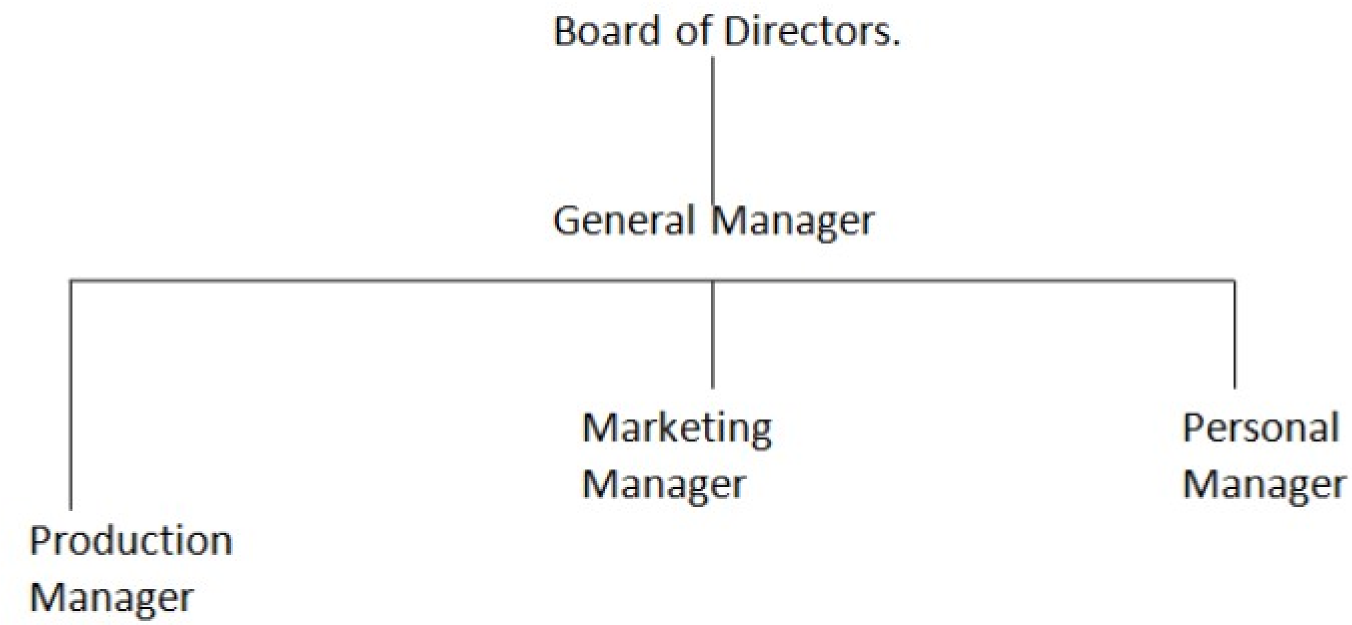
Importance of planning

1. To establish good aim objectives of the organization (setting the organization)
2. To coordinate activities so as to meet organizational goals
3. To reduce the gap between objectives and performance
4. Gives the time to evaluate measures to the performance of the organization
5. Gives direction of the future activities of the organization
6. Provide security management and workers because of guide (policy formation)

ORGANIZATION

Is the process of dividing tasks into a management unity division of labour.

An Organization Chart



General management

- Productive market
- Manage management
- Chief of accounting

IMPORTANCE OF ORGANIZATION

1. Better use of resources

It increases the capability of initiation of resources efficiency and effective.

2. Get new technology

    Technology increase due to employing labour according to their skills (innovation)

3. Facilitates coordination and communication

    It facilitates creation of clear relationship among positions

Email: tzshule@gmail.com

STAFFING

Involves the determination of main power requirements organization by following with qualified people. It deals with employment, recruitment, training, promotion, demotion and retiring

IMPORTANCE OF STAFFING

1. Recognition and competent state

Effective staff facilities motivating workers

2. Payment of salary

According to the employee skill use of revenue

3. Increase in the size of the organization

The size of the organization increase because of employee qualified people

4. Determination of manpower equipment

The addition of adding number of labour can be measured by determining the production process.

5.Establishing of relationship creating good relationship without side companies

6.Delegation of authority classification of work in small part department each should be supervised by one person according to the knowledge.

7.Identification and grouping work

8.Classification of workers according to their skills

PRINCIPLE OF ORGANIZATION

The principle in the guide to perform a certain activity in the organization unit of objectives

1. Employees should work to achieve the same objectives

2. Person who control and inform others
3. Unit of command employees should be able to answer one supervisor only
4. Authority the supervisor has legal to give order to subordinates
5. Span of control this mean how many person must be order the control supervisor
6. How many people to be control by supervisor
7. Specialization different employee gives different duties task according to experience

Deception employee should follow the rules s regulation /organization

- Scalar chain supervisor have ultimate authority

The organization should have and find say

- Flexibility

The management should be flexible to adopt any change from time to time

- Fair remuneration

The employee should be payable forward salaries according to their experience

- Unit of objectives

OFFICE MANAGEMENT

It is managing activities of an office by purchasing the level of staff to be engaged

Office -Any room that executive desk any typist perform their daily task

QUALITY OF GOOD OFFICE

1. Full utilization space available floor should be utilized enough
2. Free movement

They should be sufficiently space for free movement of employees

3. Stand proof

Well if necessary house equipment should be kept in separate rooms

4. Proper ventilation

Should be adequate enough lighting and ventilation

5. Reception

The reception room should be near the main entrance of the office on the same floor if necessary

6. Enough facilitation

The office should occupy full office equipment such as

- Stationary machines

FUNCTION OF AN OFFICE

1. Recording information

The reason for keeping records is to enable information to be reality available when required

2. Receiving information by letter

Under telephone and reports on the various activities of the business

3. Arranging information

The information accumulated should be arranged in any safe space accordingly

FUNCTIONS OF THE OFFICE

1. Collecting information
2. Recording information
3. Compiling information
4. Finishing information
5. Safe guard an asset