

S3 COMMERCE

INTERNATIONAL TRADE (FOREIGN TRADE)

International trade / foreign trade is the type of trade carried out between two or more countries. It involves the physical transfer of goods and services beyond the boundaries of a country.

Under foreign trade we have exports and imports trade.

Export trade is one that involves selling goods to other countries yet import trade involves buying goods from other countries.

WHY SHOULD COUNTRIES GET INVOLVED IN INTERNATIONAL TRADE

Countries also get involved in international trade because of the following reasons;

1. It helps a country to obtain goods that cannot be produced locally.
2. It helps a country to offset the surplus that might have been produced in a country.
3. A country can earn foreign exchange hence improving on the balance of payment position.
4. To promote the utilization of local resources which leads to production of goods for exchange / international trade
5. To cater for the shortages that might have been caused by wars, floods, etc
6. To promote employment opportunities in the export promotion industries
7. A country can acquire knowledge and skills of producing goods through trading with each other. ie they get improved technology and skills from other countries.
8. To get a variety of goods/services produced from different countries
9. A country can acquire a wide market for locally produced goods.
10. Foreign trade also helps a country to promote and maintain good friendly / political relations among countries.
11. To allow domestic industries to compete with international industries so as to improve the quality of the local products
12. Due to the differences in natural resources some resources can be got from the countries where God put them hence international trade.
13. To encourage specialization which leads to increased production

TYPES OF INTERNATIONAL TRADE

International trade is carried out in two different types and these are;

- i. Bi-lateral trade
- ii. Multilateral trade

Bi-lateral trade is when a country trades with only one other country. Under this type, transactions are carried strictly between two countries only.

Multilateral trade is where a country trades with more than one country. It is a trade between more than two countries e.g Uganda trading with Kenya, Tanzania, Egypt, and Nigeria at the same time.

LIMITATIONS OF INTERNATIONAL TRADE

The following factors can limit the smooth operation of international trade;

1. Protection policies by some countries aimed at protecting the home industries.
2. Political misunderstanding between countries.
3. Differences in languages can also pose a barrier to the smooth flow of international trade.
4. Poor market strategies adopted by some countries.
5. The long procedures in documentation often associated with international trade.
6. Price fluctuations especially for the agricultural commodities which are the major foreign exchange earners in developing countries.
7. Poor communication net work between countries.
8. Differences in cultures, ideologies and religions in the different countries also hinder international trade.
9. Competition where different countries produce the same kind of good.
10. Poor economic levels in different countries can also lower demand for imported goods.
11. The different monetary systems i.e. different currencies.
12. Geographical location where a country is situated can also be a hindrance at times

ADVANTAGES OF INTERNATIONAL TRADE

1. It enables countries to get what they cannot produce by themselves locally.
2. It enables countries to dispose off their surplus production which would otherwise have been wasted.
3. It enables the people of a certain country to get a variety of goods from different countries.
4. Expanded market for a country's product is created.
5. The government can get revenue from the taxes got from the traders.
6. It creates / promotes competition between local and foreign producers which results in improved quality.
7. Political and cultural ties are strengthened through international trade.
8. Employment is created to the people of a country.
9. The resources that would have been redundant are fully utilized with international trade.

10. Technological transfer is possible with international trade.
11. International trade facilitates innovation, improves skills and spread of ideas.
12. International trade leads to the development of the infrastructure like roads, communication network.
13. It leads to international specialization hence improved quality and quantity

DISADVANTAGES OF INTERNATIONAL TRADE

1. It leads to over dependency on one commodity or on a country for the supply of commodities.
2. International trade also leads to a balance of payment deficit if a country imports more than its exports.
3. Goods imported are at times of better quality than those produced locally hence posing a threat to the local industries.
4. Immorality is also imported into a country in form of pornographic magazines, films.
5. Over exploitation of resources due to surplus production for export.
6. International trade can also lead to imported inflation in a country.
7. Some countries produce primary goods for export and get little revenue from them / their prices are low yet the prices of the goods they import are high.

RESTRICTIONS OF INTERNATIONAL TRADE

A country may decide to restrict international trade that is the importation or exportation of goods to or from it because of the following reasons;

1. To protect the infant industries at home from foreign competition.
2. Countries may aim at being self reliant. i.e. to produce all what they need other than depending on other countries.
3. To reduce on the balance of payment problem in the country.
4. To encourage specialization in the country.
5. To avoid entry of harmful goods into the country.
6. Enable a country to develop its own natural resources.
7. To charge revenue for the government.
8. To control / avoid imported inflation.
9. To discourage dumping of goods.
10. To encourage employment opportunities.
11. To encourage development of entrepreneur skills in the natives
12. To encourage efficient utilization of the local resources

METHODS OF RESTRICTIONS USED IN INTERNATIONAL TRADE (BARRIERS TO INTERNATIONAL TRADE)

A country may control the volume of international trade by adopting the following methods;

1. Imposing a heavy tariff (import duties):-
A tariff is a tax imposed on goods moving across a country's boundaries.
2. Quota system (quantitative restrictions):-
A quota is a quantitative restriction imposed on the free flow of international goods to be imported or exported (the amount to be imported or exported is fixed/restricted).
3. Imposing a total ban:-
This is when the government stops any importation of certain commodities like drugs, chemicals or goods that can easily be produced at home.
4. Exchange control:-
This requires the central bank to issue foreign exchange to specified importers who are to import only those goods lacking in the country.
5. Trade agreement:-
These are agreements between different countries regarding foreign trade where countries may decide to trade with each other.
6. Administrative controls:-
7. Deflationary policy ; this involves reducing liquidity in the public hands i.e. reducing the amount of money in circulation which reduces demand for the imported goods
This requires importers to get licenses before importing in any commodity.
8. Use of a trade license, where a trader starts business only when he has been issued with a license. Without it one is not allowed to carry on business
9. Qualitative control / requirements/sanitary control this is where a country sets the standards of goods to be imported, below the set standards goods are not allowed in a country
10. Devaluation policy this policy helps in limiting the value of imports by making them more expensive compared to domestic products ,hence restricting their in flow
11. Prepayment tax at times traders are requested to pay this tax before importing .if he fails to pay he is not allowed to bring in his goods.
12. Use of subsidies /subsidization policy; this where a country helps the local industries by contributing some money towards the production costs so that items are sold at a lower price than the imported ones

NB: The trade barriers are either **physical or monetary**.

The **physical** ones include; total ban and quotas.

And the **monetary** ones are exchange control and taxing.

TERMS USED IN INTERNATIONAL TRADE

1. VISIBLE TRADE:-

This is the import and export of goods which are tangible or seen.

2. INVISIBLE TRADE:-

This is the importation and exportation of services

3. BALANCE OF TRADE:-

This is the difference between a country's visible imports and visible exports for a given period of time usually a year. If a country's visible exports exceed the imports during a given period / year a country is said to have a **favorable balance of trade**.

Yet if the visible imports exceed the visible exports a country is said to be having **unfavorable balance of trade**.

4. BALANCE OF PAYMENT (B.O.P):-

This is a summary of all the transactions carried out by a country with other countries. It is the difference between the visible and invisible imports and the visible and invisible exports within a period.

It can as well be defined as the difference between the total receipts of a country and the total expenditure within a given period of time.

If the receipts are more than the expenditures the country is said to be having a **favorable balance of payment** and if the expenditures are more than the receipts then it is said to be having **unfavorable balance of payments** (B.O.P deficit).

5. TERMS OF TRADE:-

This is the ratio at which goods are exchanged between two countries. It is the relationship between export prices and import prices.

If the price of imports is higher than the price of exports a country is said to be having **unfavorable terms of trade** and if the price of exports is higher than the price of imports a country is said to have a **favorable terms of trade**.

6. DUMPING:-

This refers to the selling of goods in a foreign market at a price lower than that charged in the home market.

7. DEVALUATION:-

This is the lowering of a country's currency in relation to other countries' currencies.

8. ENTRE-PORT TRADE:-

This is the re-exportation of goods previously imported.

TERMS OF SALE OR PRICE QUOTATIONS IN INTERNATIONAL TRADE

1. **EX-WORKS (LOCO);**
This means that the price quoted include the cost of goods only as they leave the factory (works). Therefore all other expenses are paid by the buyer.
2. **LOADED;** includes all costs up to the port of destination including the off loading charges.
3. **FRANCO** (Free of expenses after paying the quoted price);
Includes all expenses / charges up to the buyer's premises, (including the delivery from the port to his premises).
4. **FREE ON RAIL (F.O.R);**
This means that the price quoted includes the charges of carriage up to the nearest railway station from the seller's factory (premises) but the freight charges are not included.
5. **DELIVERED DOCK (D.D);**
This price quotation includes the cost of carriage to the docks (docks are places where ships wait for cargo) but it does not include freight charges.
6. **FREE ALONG SIDE SHIP (F.A.S);**
This quotation includes all prices to be incurred until the goods are alongside the ship. The dock handling charges and the dock dues are all included but the loading expenses are not included.
7. **FREE ON BOARD (F.O.B):-**The price quotation includes all expenses to be met until the goods are on board of the ship (loading charges inclusive).
8. **COST AND FREIGHT (C & F):-**This price quotation includes all expenses up to the port of destination except insurance.
9. **COST INSURANCE AND FREIGHT (C.I.F):-**
Under this price quotation, all the expenses up to the port of destination including the insurance charges are catered for.
10. **IN BOND:-**This price quotation includes all the items of expenses until the cargo is delivered to the bonded warehouse plus any handling costs.
11. **DUTY PAID:-**This price quotation includes all the expenses plus the customs duty (import duty) for the goods

DOCUMENTS USED IN INTERNATIONAL TRADE

1. INQUIRY:-

The intending importer sends a document or calls the suspected seller requesting for the information about the goods in stock or about the out lined goods. The document sent or call made to get the information about the goods is the inquiry.

2. AN INDENT:-

An indent is an international order or it is a document containing the list of goods needed by the intending importer. An indent is always through an agent and it is either open or closed.

Open indent; under this type of indent the details of the goods and the suppliers are not given. The importer just mentions the types of goods he wants and manufacturer / supplier the specifications of the goods are left to the agent.

Closed indent; this is where full details of the exact goods required, price and particular suppliers are mentioned by the intending importer.

3. A CHARTER PARTY:-

A charter party is a written contract between the exporter and the shipping company where a ship has been hired for transporting cargo.

4. THE BILL OF LADING:-

This is a document drawn by the ship owner at the port of embankment showing the goods loaded into the ship, the terms and conditions under which they have been accepted by the shipper and the shipping charges when this document is signed by this ship captain it becomes an evidence of receipt of the goods by the shipper.

A bill of lading serves the following functions;

- i. It is a receipt for the goods by the shipper.
- ii. It is a contract of carriage.
- iii. It is a document of title to the goods.

A bill of lading is prepared in triplicate one copy is sent to the exporter another one to the importer and the third one to the transporter (captain of the ship)

5. CERTIFICATE OF ORIGIN:-

This is a certificate that shows where the goods were bought / manufactured from. It helps countries with mutual agreement to charge no or less customs duties on goods imported from one to another country.

6. PROFORMA INVOICE:-

Is the document sent to the buyer when payment is required before the delivery of the goods it contains the goods to be delivered and their prices

7. FREIGHT NOTE:-

This document is drawn by the shipping company showing the charges for shipping the goods. It is sent to the exporter / importer who pays the amount.

8. LETTER OF CREDIT:-

This is a document through which an importer obtains credit and the exporter gets an assurance of payment of the amount due to him. This letter is issued to the exporter through the importer's bank and it signifies that the issuing bank will pay to the corresponding bank in the exporter's country the amount stated there in.

9. LETTER OF HYPOTHECATION:-

This is a document / letter from the exporter to his bank authorizing the bank to sell goods being exported for the best price it can get, if the bank cannot obtain payment on a bill of exchange drawn on the importer.

10. CONSULAR INVOICE:-

This is an invoice that has been seen and signed by the consular or the embassy of the country to which the goods are being exported to ensure that the goods are reasonably priced.

11. BILL OF EXCHANGE:-

This is an unconditional order in writing addressed by one person to another, signed by the person giving it requiring the person to whom it is addressed to pay on demand or at a fixed or determinable future time a sum of money stated there on.

12. WEIGHT NOTE:-

This is a note which states the weight or and measurement of the goods delivered at the dock.

13. SHIPPING ADVICE NOTE:-

This is a document sent to the importer by the exporter giving the details of the goods and the ship by which the goods have been sent and when they could be expected. This helps the importer to prepare for the receipts of these goods.

14. INSURANCE CERTIFICATE:-

This is a document that shows that the goods in transit were insured.

Revision questions

- 1 Why should countries get involved in International trade?
- 2 Explain the limitations of International trade
- 3 How is International trade restricted?

REGIONAL INTEGRATION / CO-OPERATION

Regional integration is where countries in a given region join together and form themselves onto one trading block. The integration is aimed at offering preferential treatment for goods from member countries like reduced tariffs or being removed completely. Examples of regional integration include;

- East African Community (E.A.C)
- Kagera Basin Organization (K.B.O)
- South African Development Co-operation Association (S.A.D.C.A)
- Common Market for Eastern & Southern Africa (COMESA)
- Preferential Trade Area (P.T.A)

ADVANTAGES OF INTEGRATION

1. A large market is created.
2. It reduces the cost of duplicating work.
3. There is greater bargaining power on world market by the integrated countries.
4. Improved quality of goods achieved due to the internal competition.
5. Peaceful relationship among the member countries is created.
6. Transfer of skills and technology is made possible
7. It encourages specialization as each country consecrates on what it does best

DISADVANTAGES OF INTEGRATION

1. Loss of customs revenue which would have been collected from the goods entering the country
2. Most less developed countries produce almost similar products and this minimizes the trade between themselves.
3. The poor system of transport and communication undermines such efforts of integration.
4. There is likely to be uneven distribution of industries and general development if the countries are at different economic levels (some countries will be favored at the expense of others).
5. Less quality goods and less variety will be got / imported into a country as imports are restricted to certain countries.
6. Consumption of poor quality goods ;countries may be compelled to buy and use poor quality goods from member countries instead of getting better ones from other countries

7. Political problems ; instabilities in member countries may lead to changes in policies which affect the regions trading bloc

BUSINESS UNITS / ENTERPRISES

A business unit / enterprises / firm is an organization formed and owned by an individual, a group of persons or by the government with an aim of making profits or satisfying the needs of the people. These organizations can either be private or public.

Business units / enterprises / firms include:-

- i. Sole proprietorship
- ii. Partnership
- iii. Companies (joint stock companies)

SOLE PROPRIETORSHIP

A sole proprietorship is a business undertaking formed and owned by one individual / person. This person who undertakes to start up a business alone is called **a sole proprietor / trader**.

CHARACTERISTICS OF SOLE PROPRIETORSHIP

1. Management and control is under one person.
2. The owner / sole proprietor provides the initial capital to the business
3. The liability of the business is un limited.
4. The sole proprietor takes all the profits a loan
5. No legal requirement is needed when opening up the firm
6. Sole proprietor bears all the business risks and losses a loan

ADVANTAGES OF SOLE PROPRIETORSHIP

1. Formation is easy as it requires few legal procedures.
2. Business decisions can easily be taken and implemented.
3. The sole trader takes all the profits alone.
4. The operation costs for the business are low.
5. The business is not liable to high tax compared to other firms.
6. Since the business is personal the owner's interest in it makes him put in more efforts for its success than a person working for somebody else.
7. The business is easy to run and manage as it is always small.
8. There is direct contact between the customers and the sole proprietor.
9. The owner of the business enjoys top secrecy as he is a sole owner.
10. The business is flexible; the owner can decide to change its form without consulting any body and at any time.
11. The business can conveniently be located in both rural and urban places

12. The business provides self-employment and employment to the family members
13. Little capital can be used to start this business.

DISADVANTAGES OF SOLE PROPRIETORSHIP

1. The business has unlimited liability. This means the owner is personally liable/responsible for any debt of the firm.
2. The continuity and succession of the business depends on the owner.
3. The capital resources are limited to the sole traders' savings and some borrowed money which makes the expansion of the business difficult.
4. Lack of business knowledge i.e. skills and experience to run the business efficiently which leads these traders to over work themselves and at times to getting losses
5. As the scale of operation of sole proprietors is low the prices are always high.
6. There is lack of proper accounting system in sole proprietorship.
7. The business owner shoulders all the risks and losses alone.
8. The business working capital is normally small so the purchases are also relatively small and the discounts received on the purchase are also small compared to large scale organizations.

PROBLEMS FACING SOLE PROPRIETORS IN UGANDA

- 1 Control and management are done by one person which over burdens the owner
- 2 They have limited capital for expansion
- 3 They have limited Entrepreneurship skill/ managerial skills
- 4 The market they share is limited
- 5 They have a high competition as many people can afford starting up those businesses
- 6 Unfavorable Government policies eg taxation that can reduce their profits
- 7 Poor decision making results into losses
- 8 There is lack of continuity when the owner passes on or becomes sick
- 9 The owner bears the burden of all the business risks /losses alone
- 10 The business has unlimited liabilities the owner hasn't got a separate legal entity
- 11 The sole proprietor hasn't got enough collateral security to acquire a big loan from the bank

PARTNERSHIP

Partnership is a relationship that subsists between persons carrying on business in common with a view of making profits. The people involved in the relationship are called **partners**.

FORMATION OF A PARTNERSHIP

Partnership requires no legal formalities and it can be brought into existence by an agreement in writing known as **a partnership deed** or **the partnership act of 1890**

When forming up a partnership there must be at least two and at most twenty members for a common partnership. If it is going to be a professional partnership e.g. lawyers, doctors, teachers, and accountants there must be at least two and at most fifty members.

When the minimum number of members is got they write up an agreement on which they will be working. This agreement is called **A PARTNERSHIP DEED**.

CONTENTS OF A PARTNERSHIP DEED

- The name of the firm / business enterprise.
- Name, address and occupation of each partner.
- Status (or type of each partner) e.g. active, dormant, general e.t.c.
- The duration of the partnership if it is a temporary one.
- Capital to be contributed by each partner.
- The ratio in which profits and losses would be shared by the partners.
- Rights of partners e.g. drawings allowed, interest to be allowed on capital, salary if any.
- The conditions of admission of new members /partners and removal of old ones from the firm.
- Duties allocated to partners.
- Methods of calculating good will at the time of retirement, death or admission of a partner.
- The way in which books of accounts could be kept or audited.
- Procedures to adopt at dissolution of the partnership and settlement of disputes / problems.
- The purpose for which the firm is established. However in absence of a partnership deed the following provisions of the partnership Act 1890 are applied.
- Every partner has a right to take part in the conduct of the business.
- In case of any disagreement the decision is taken by the majority.
- No interest is to be allowed on capital.
- No salary is to be allowed to any partner.

- 5% interest is to be paid to any loan advanced to the business (other than capital) by any partner.
- Every partner has a right to inspect the firm's books of accounts.
- All profits and losses are shared equally.
- Changing the nature of the business should be the consent of all the partners.

THE RIGHTS AND DUTIES OF A PARTNER

- A partner has a right to act on behalf of the partnership.
- Every partner has got the right of accessing the partnership books of accounts.
- No new partners can be admitted without the consent of all the partners.
- No partner can be expelled without dissolving the partnership.
- All partners are personally liable for the debts of the firm..
- If a partner has got a business competing with the partnership the profits from the private business should be surrendered to the partnership.

CHARACTERISTICS OF A PARTNERSHIP

1. A minimum of 2 to 20 members or 2 to 50 members for a professional partnership.
2. Capital is contributed by the members/ partners.
3. Profits and losses are shared by the members./ partners
4. Each member / partner acts on behalf of the partnership.
5. Any agreement made by one partner on behalf of the partnership abides the partnership.
6. A partnership has got unlimited liability except for the limited partners.
7. The death, insanity or bankruptcy of a partner brings the partnership to an end.

DISSOLUTION OF A PARTNERSHIP

A partnership may be dissolved in/ under the following ways;

1. If it is a temporary partnership at the expiry of the specified period or on the fulfillment of the purpose of the partnership.
2. If a partner notifies other partners in writing of his intentions to dissolve the partnership.
3. If the partner becomes insane, bankrupt or if he dies.
4. If an event that makes the partnership unlawful occurs e.g. sacrificing a person
5. A court may dissolve a partnership on application of partner or any other interested party.
6. If a partner acts contrary to the provision of the partnership deed and damages the interest of the firm.
7. If the business cannot be run on profit./ That is if the business only gets losses

TYPES OF PARTNERSHIP

Partnerships can either be temporary or permanent.

- I. **A temporary partnership:** - this is formed for either a specified period of time or specified purpose. This type of partnership dissolves at the expiry of that period or after the completion of the work
- II. **Permanent partnerships:** - these are intended to continue indefinitely i.e. their end is not known at the time of formation.

TYPES OF PARTNERS

Partners are classified according to the following;

- I. Classified according to the role played by them i.e. active or dormant.
- II. Classified according to their liability for the firms debts i.e. general or limited.
- III. Classified according to their age i.e. major or minor.
- IV. According to their capital contribution i.e. real or quasi.

a) ACTIVE PARTNERS:-

These are partners who take active parts in the running and management of the business in addition to providing capital and sharing profits and losses. Active partners sometimes get salary.

b) DORMANT, SLEEPING, SILENT PARTNERS:-

These are partners who do not take any active role in the running of the affairs of the business but they contribute capital share profits or losses and are equally responsible for the firm's debts.

c) LIMITED PARTNER:-

A limited partner is one whose liability towards the firm's debts is limited to the capital contributed by him / her. This means that if a partnership fails to meet its debts a limited partner will not be called upon to pay / contribute anything more than the amount of capital for him.

d) GENERAL PARTNERS:-

A general partner is one with unlimited liability. This one is always called upon to meet the firm's debts from his personal resources if the firm fails to settle them.

e) MAJOR PARTNER:-

This is a partner above the age of 18 years.

f) MINOR PARTNER:-

A minor partner is one below the age of 18 years.

g) REAL PARTNER:-

Any partner who contributes capital to run the business in a partnership is called a real partner.

h) QUASI PARTNER/ NOMINAL PARTNER/ OSTENSIBLE:-

This is a partner who does not contribute any capital and does not take any part in the business but allows the firm to use his name as a partner and he is not liable for the firm's debt but at times he gets a share on the profits or good will of the partnership. A partner by estoppel is a partner by conduct someone who conducts himself as a partner when he has never even contributed capital in that partnership

ADVANTAGES OF PARTNERSHIP

1. A partnership has got more capital as each partner contributes towards the partnership capital.
2. Work load is divided among the partners which reduces the load for each partner.
3. Losses and liabilities are shared by all the partners.
4. Better decisions are made due to mutual discussion.
5. Better combination of talents as many people join with different talents.
6. Formation of a partnership is simple as there are no legal requirements to be complied with.
7. The business can easily be expanded by admitting new partners.
8. The absence of one partner may not affect the partnership.
9. A partnership is in a better position to borrow money from any financial institution.
10. Specialization is possible as each partner takes up a task he / she knows best

DISADVANTAGES OF PARTNERSHIP

1. The liability of most partners is unlimited.
2. Death, retirement or bankruptcy of a partner leads to its dissolution.
3. Profits are shared by all the partners.
4. Major decisions may be delayed as all the partners must agree.
5. In the event of a mistake or loss by one partner all the partners suffer the consequences.
6. Partners are liable to disagree on various matters affecting the business. This may create unpleasant situation and may slow down or even retard the firm's progress.
7. If one partner works hard the profits arising out of his labour is shared by all the partners. This often reduces ones' enthusiasm.
8. Chances of expansion are limited since members are limited / restricted to 20 or 50.

JOINT STOCK COMPANIES

A joint stock company is a corporate association of persons formed to carry out a certain specified function. A joint stock company is created by law and it is regarded as a legal person that can enter into contract, own property, incur liability, sue and can be sued. This means that a joint stock company has got a separate legal entity from its members.

TYPES OF COMPANIES

Companies are classified mainly into two groups;

- Registered companies
- Statutory companies

A registered company is one that is formed and registered under the companies Act 1962 (1985) cap 486 and they are the most common ones.

Statutory companies are created by an act of parliament and they are subject to parliamentary control they are owned by the government in most cases e.g. parastatal bodies and co-operations.

TYPES OF REGISTERED COMPANIES

Registered companies may be classified into the following;

- According to the number of members i.e. private or public companies.
- According to the liability of members' e.g. limited or unlimited companies.
- The limited companies may be limited by shares or by guarantee.

PRIVATE AND PUBLIC COMPANIES

Private companies have from two to fifty/infinity members excluding the employees. Transfer of shares is restricted in a private company. Yet a **public company** has a minimum of seven members and the maximum number is not limited and shares are freely transferable.(the new company act says a private company has got two to infinity and the public two to infinity also

LIMITED AND UN LIMITED COMPANIES

A limited company is one with the liability of its members limited to a stated amount.

Unlimited companies are those with the liability of the members not limited to any amount. In case of a loss in the company a members' personal property can be sold.

NB: Both private and public companies can be limited or unlimited.

LIMITED BY SHARES OR BY GUARANTEE

Limited by shares is where the liability of a share holder is limited to the face value of the shares he bought.

Limited by guarantee is when a company has no share capital and the liability of its members may be limited to the sum guaranteed by them.

FEATURES / CHARACTERISTICS OF PRIVATE LIMITED COMPANIES

1. They have a minimum of two and a maximum of fifty members.
2. This company can commence business immediately on receiving a certificate of incorporation.
3. It is not allowed to call upon the public to buy its shares or debentures thus a prospectus is not required.
4. The transfer of shares is restricted thus shares are not freely transferable.
5. It does not publicize its accounts to the public.
6. The liability of its members is limited or unlimited.

FEATURES / CHARACTERISTICS OF PUBLIC COMPANIES

1. They have a minimum of seven (two) members and maximum of infinity.
2. Their capital is divided into units of uniform values called shares.
3. The owners of such companies are the share holders.
4. The shares are freely transferable.
5. The company is not affected even if one of its members share holder becomes bankrupt, insane or dies.
6. The liability of its members is limited.
7. The companies have got Separate legal entities of their own.
8. At times public limited companies may not make a memorandum of association and it uses table A in the company's act.

FORMATION OF A COMPANY. The people who are in need of forming up a company are required to finish the registrar of companies with the following documents;

- Memorandum of association.
- Articles of association.
- List of directors.
- A statement signed by the directors stating that they agree to act as such.
- Declaration that the necessary requirement have been duly. Complied with it has to be signed by one or all the directors / promoters.

MEMORANDUM OF ASSOCIATION; A memorandum of association is a document that lays down and defines the power and limitations of a company. It also governs the company when dealing with the outside world, so any body dealing with the company is supposed to know the contents of its memorandum of association.

A memorandum of association is made up of clauses as given below;

a) Name clause:-

This clause consists of the name of the company which is not supposed to be similar or identical to any other existing company. This name is also supposed to end with the word limited (Ltd) to remind those dealing with it that the liabilities of the members is limited.

b) Situation clause:-

Every company must have a registered office to which notices can be sent and the exact location of that office i.e. Uganda, Kawempe division. A situation clause is sometimes called a location clause.

c) Objective clause:-

This clause outlines the aims and objectives for which a company was / is formed. Once this company is formed it cannot act beyond these objectives and once it does the act will be considered void by law.

d) Capital clause:-

In this clause the total capital a company wishes to use is stated and the details of capital as given below are also stated;

- The total amount of share capital.
- The units (shares) into which the share capital is divided.
- The value of each share.
- The types of shares.

e) Liability clause:-

This clause states that the liability of the members shall be limited.

f) Declaration clause:-

The desire of the promoters to form themselves into a company is given under this clause. The declaration is signed by at least seven promoters who have agreed at least to buy a share from that company. The clause sets out the names and addresses of the promoters and the number of shares bought.

ARTICLES OF ASSOCIATION

This document lays down the rules and regulations for the internal organization of a company. These include the rights and powers of each type of share holder, the powers of directors, the methods of calling and conducting general meetings, the rules governing the elections of directors and auditors procedures of sharing profits and losses.

If a company fails to make an article of association of its own then table A in the company act 1962 will be used. It lays down all the major contents of an Articles of Association.

A LIST OF DIRECTORS

A list of persons who have consented to become directors and their written promises to act as directors and to pay up for the shares taken.

DECLARATION DOCUMENT

This one is a declaration document to show that all the requirements have been fully complied with.

CERTIFICATE OF INCORPORATION

This is a certificate issued by the registrar of companies to the company directors after the needed documents have been filled with him (the needed documents include memorandum of association, articles of association, list of directors, declaration statement).

The issuing of a certificate of incorporation means that;

- The company in the eyes of the law is considered to be having a separate legal entity.
- The company in the eyes of the law is considered to be an artificial person.

NB: A private company is allowed to start trading after receiving a certificate of incorporation but a public limited company will be expected to float / call upon the public to buy its shares by using a prospectus.

PROSPECTUS OF A COMPANY

A prospectus is a document that advertises shares or invites the public to subscribe or purchase shares (or debentures) of a company. A prospectus is usually printed in news papers or can be sent to the suspected buyers. A prospectus is only used by a public limited company and after getting a certificate of incorporation.

CERTIFICATE OF TRADING

A certificate of trading is a document that is issued to a public limited company by the registrar to allow it to start business, thus a public limited company cannot start business before it gets a certificate of trading, and it is only issued when the minimum capital is got

SHARES

A share is a unit of capital of a joint stock company. The person who contributes to the capital of a joint stock company is taken to be one of the owners of the company and is called a **share holder**.

TYPES OF SHARES

There are two major types of shares;

- i. Ordinary shares
- ii. Preference shares

Ordinary share holders are the ones who do not have a fixed rate of return called dividend (Dividends is part of the profit shared amongst the members) and it is got after the preference share holders have received theirs.

Preference share holders are the ones with a fixed rate of return / dividend and they have the first right on receiving the dividend.

TYPES OF PREFERENCE SHARES

1. Accumulative preference shares:-

These shares are entitled to a fixed rate of dividend until it is paid. If a company makes losses in a certain year, these shares will get two years dividend in the following year so they do not loss dividends go on accumulating.

2. Non-accumulative preference shares:-

These ones are entitled to a fixed rate of dividend but only for the year for which a dividend is declared. If the company gets losses or little profits in a certain period then these shares do not also get anything.

3. Redeemable preference shares:-

These shares are bought back by the company after a certain period.

4. Irredeemable preference shares:-

These are shares that cannot be bought back (redeemed) by the company

SHARE CAPITAL

The capital of a company is called share capital because it is got from the sell of shares.

The following are some of the forms of share capital;

1. Nominal, Authorized or registered capital:-

This is the maximum amount of capital a company can get / raise from selling the shares. The amount is also stated in the memorandum of association for example a company might need to sale 100 shares at 100/= so the Nominal capital will be 10000/=.

2. Issued capital:-

This is the amount of share capital issued out to the public for subscription using the above, a company may decide to issue out 60 shares therefore the issued capital will be $60 \times 100 = 6,000$ /=.

3. Un issued capital:-

This is the amount of share capital that has not been issued out to the public for subscription i.e. $10,000 - 6,000 = 4000$ /=.

4. Called up capital:-

This is part of the issued capital that has been called up for example if in the above the company only calls for 60 shs out of the 100 per share then the called up capital will be $60 \times 60 = 3600$ /=.

5. Un called up capital:-

This is part of the issued capital that has not been called using the above example a share was at 100/= and they only called 60/= out of 100/= so the remaining $40 \times 60 = 2400$ /= is the un called up capital.

6. Paid up share capital:-

This is the amount that has actually been received by the company / paid by the shareholders. This is the actual amount received from the called up capital. The amount not yet received from the called up capital is referred to as **calls in arrears**

7. Minimum share capital:-

It is the smallest amount the promoters can start business with in a company.

DEBENTURES

A debenture is a document that evidences that a company has borrowed a specified sum of money from the person named on its face or bearer and the company undertakes to pay a fixed rate of interest for the loan / borrowed money. The person whose name appears on a debenture is called a **debenture holder**. The interest on debentures must be paid whether the company is making profits or not.

TYPES OF DEBENTURES

Debentures can be classified according:-

- To the security pledged against them i.e. they may be naked or mortgaged.
- To the redemption i.e. they may be either redeemable or irredeemable.

NAKED DEBENTURES

These are debentures that are not secured. No property is pledged against them in case of winding up of a company the naked debenture are paid last.

MORTGAGE DEBENTURES

These are debentures with a security, some property is pledged against them in case a company is bankrupt the property pledged is sold and mortgage debenture holders are paid off.

REDEEMABLE DEBENTURES

With these ones a company can buy them back. The amount borrowed against them is refunded by the company after a specified period of time.

IRREDEEMABLE DEBENTURES

These are debentures that are never bought back by the company. The amount borrowed against them remains in the company until it is winding up.

All the above mentioned debentures can either be registered debentures or bearer debentures. A registered debenture is one whose holder's name is recorded in the books of the company and on the face of that debenture.

A bearer debenture is one without a name against it who ever holds it can get money (interest) from the company. This type of debenture is transferable from one person to another.

DIFFERENCES BETWEEN SHARE (HOLDER) AND DEBENTURE (HOLDER)

1. A share is a unit of capital while a debenture is a unit of a loan.
2. Share holders are the owners of a company yet debenture holders are creditors of a company.
3. Shares are paid a dividend yet debentures get interest.
4. Share holders have got a right to vote on the affairs of the company debentures holders are not allowed to vote.
5. When the company is liquidated debenture holders are paid only the face value of the debenture held by them. Share holders may get more or less.

WINDING UP OF A COMPANY / LIQUIDATION OF A COMPANY

A joint stock company can be wound up under the following ways;

- I. Voluntarily winding up:-
A company may be wound up / liquidated voluntarily by share holders through the directors who will be required to file a declaration of solvency. (A declaration of solvency means that the assets of the company if sold off can be used to pay the creditors).
- II. Compulsory winding up:-
A court can order a company to wind up if;
 - If the number of members is less than seven.(two)
 - If a company is unable to pay its debts.
 - If the company is acting contrary to the law

ADVANTAGES OF JOINT STOCK COMPANIES

1. More capital: a company is in the position to raise large amounts of capital than sole proprietorship and a partnership.
2. Limited liability: the share holders of the company only risk the amount they have paid for the shares. The debts of the company cannot be paid by a share holder's personal property.
3. Continuity: a company is legal person on its own so the death, bankruptcy or instantly of one of the share holders can not affect its continuity.
4. The shares are freely transferable in a public limited company.
5. Companies do employ professional specialists / skilled people in the company hence high quantity and quality products.
6. Different types of shares are issued so even low income earners can be able to buy shares in these companies.
7. Risks and losses are shared amongst the share holders.
8. The publication of the final accounts in the Public limited companies safe guides members against fraud
9. The share holders have got a separate legal entity of their own

10. Specialization can easily be exploited in the different departments of the company
11. A company can issue several types of shares to suit the investment habits of different types of people.
12. Employees are allowed and encouraged to buy shares in the company at times.
13. More talents can easily be got from the different share holders
14. Joint stock companies can easily get loans because of the large capita they have
15. If the company is doing well its shares can be sold at a high price
16. Better talents are got from the many people in the Joint stock company

DISADVANTAGES OF JOINT STOCK COMPANIES

1. The directors may have their own interest that may conflict with the interest of the company.
2. Formation of a company is a long and expensive procedure.
3. The share holders may not have a direct control over the running of the business.
4. Decision making may be slow and expensive for the company as each share holder is supposed to consent.
5. Lack of privacy. There is no privacy in a company each and every share holder must know the income and expenditure assets and liability of the company.
6. The profits got in a joint stock company are shared by all, regardless of the participation in getting it

STOCK EXCHANGE, A stock exchange is a market where already issued shares and stock are bought and sold.

MEMBERSHIP

The members of a stock exchange are either the brokers or the jobbers and are the only people allowed to buy or sell shares at a stock exchange. Any member of the public wishing to buy or sell shares must do so through either a broker or a jobber. These members elect their own leaders and contribute money to cover the expenses of the stock exchange.

BROKERS

These are people who buy and sell shares on behalf of others. Brokers are approached by people who may need to buy shares and find those who may have shares for sell and sale them to those who need them. A broker gets a **COMMISSION**

JOBBERS

Jobbers buy and sell on their own account. They work like wholesalers they buy shares from those who may need to sell them and sell them to those who are in need of them. The difference between the selling price and the cost price of a share sold by a jobber is called **A JOBBER'S TURN**. Brokers in most sell the shares they get to jobbers.

TYPES OF JOBBERS

There are three types of jobbers, Bulls, Bears and Stags. All these types of jobbers are speculative .they buy or sell shares with a view of making profits when prices change.

I. BULLS:-

A jobber who buys shares when they are cheap with hopes that the price will soon rise and he sells them at a profit. The profit he gets is a bull's reward

II. BEARS:-

A bear is a jobber who sells shares when the prices are high with a hope that they will soon drop and he will be able to buy them back at a much lower price.

III. STAGS:-

A stag is a jobber who deals with new issues. When a company wishes to raise additional capital it offers shares for public subscription, stags buy them (these shares) with a hope that their value will soon appreciate and they will be able to sell them at a profit within a short time

FUNCTIONS OF A STOCK EXCHANGE

1. It provides ready market for those who want to buy and those who want to sell their shares.
2. It sets a price for every share whether or not actually bought or sold in a particular period.
3. It encourages the public to invest in joint stock companies for better development of the country.
4. It offers investors an opportunity to sell their shares when they find a more attractive security to buy.
5. It publishes useful information in statistical and summary form about the various companies for guidance of both investors and other companies.
6. It keeps an eye on the financial affairs of every company whose shares are bought or sold through its members.
7. A stock exchange can be used to judge a country's economic progress.
8. It provides employment opportunities.

IMPORTANCE OF STOCK EXCHANGE

1. It is the quickest means of acquiring liquid cash (capital) through the sale of shares
2. It creates employment for those who work in it eg Brokers ,clerks
3. Provides market for those who want to buy and sell shares
4. It keeps track of the financial performance of all the companies whose shares are sold through the stock exchange
5. It is an important means of raising government revenue through taxations
6. It connects the country with the outside investors
7. Stock exchange can indicate a country's economic progress
8. It publishes information on various companies to guide the investors
9. it makes transfer of shares possible so that investors can easily shift from one venture to another
10. It helps people to save when they buy shares
11. It sets the prices of all the shares of quoted companies
12. It provides an avenue for the government to sell of its assets

SOME IMPORTANT TERMS USED IN THE STOCK EXCHANGE

- I. **Par value of shares / face or nominal value of shares:** - is the value of a share written on its face.
- II. **Market value of shares:** - market value is the amount at which shares are sold in the stock exchange.
- III. **Cum-div or Ex-div:** - shares may be bought or sold at the stock exchange either at cum-div or ex-div. cum-div stands for with dividend and ex-div, without dividend.
- IV. **Quoted companies:** - these are companies that allow their shares to be bought or sold on the stock exchange.
- V. **To go public:** - this is when a private company converts its self into public limited company because it wants its shares to be sold and bought through the stock exchange.
- VI. **Security:** - a security is any document that gives its holders a right to money or other property not actually in possession.
- VII. **Guilt edged security:** - these are securities issued by the government e.g treasury bills, government stocks, government bonds.
- VIII. **Blue chips:** - these are shares of very power full companies / companies with high reputation.
- IX. **Bond:** - a bond is a loan security issued by the government, big companies or corporations. (a company bond can also be called a debenture).
- X. **Issuing house:** - this is a bank that specializes in launching new issues.