

MOUNT OF OLIVES COLLEGE KAKIRI

S4 COMMERCE

AIDS TO TRADE

TRANSPORT

Is an aid to transport trade, involving the movement of people, goods and services from one place to another.

IMPORTANCE OF TRANSPORT IN TRADE

Transport plays the following role in trade: -

1. Transport has promoted foreign trade in that goods can be produced and sold to other countries.
2. it encourages development of industry and agriculture and may lead to commercialization of agriculture
3. It's a source of government revenue through taxation e.g. road license, driving permit fee e.t.c.
4. Good efficient transport system may lead to the development of regions by opening them to production process thus utilization of idle resources.
5. Goods and services become only useful when they are moved from producers to consumers. who are scattered over a wide area in the local markets.
6. It helps in advertising goods and services. Advertising messages may be written on vehicles.
7. It encourages specialization i.e. producers from different parts may concentrate on producing a particular good or service since exchange is possible.
8. It creates employment to people like drivers, pilots captains, road workers e.t.c
9. Movement of goods from one place to another avails people with a variety of choice.
10. Workers are easily moved to their places of work.

11. It facilitates communication. Post office uses transport (post bus) to carry letters and parcels from one place to another.
12. Goods can be moved from one areas of surplus to areas of scarcity.
13. It widens the size of the market. Finished goods can be transported to all parts of the world and sold.
14. It has promoted international understanding by moving people from one country to another.
15. Tourism has succeeded in many countries because of better method of transport.

ELEMENTS OF TRANSPORT

The four (4) elements of transport are:-

1. The way
2. the unit f carriage
3. the method of population
4. the terminal

THE WAY

This is where goods and people pass. It may be natural like water (sea), Air lakes or it may be man - made like the roads, railways or bridges..

UNIT OF CARRIAGE

This refers to the vessel that is used to move people and their goods from one place to another. For example a car , train ,bus ,aero plane, a ship e.t.c.

THE METHOD OF PROPULSION

This refers to the driving force or power of a unit of cairage e.g petrol engine, diesel engine, electric motor. The choice of the

method depends on the size of the vehicle, speed desired, and fuel available.

THE TERMINAL

This refers to the starting and end point where goods and people are loaded and offloaded from the unit of carriage e.g taxi park , bus park air port, railway stations ,sea port.

Sometimes a terminal of one unit of carriage is the starting point of another unit of carriage e.g bus park marks the end of goods transported by bus, but the goods may still be transported by some other means of transport to where they are needed say by boda boda.

FORMS OF TRANSPORT

The three (3) forms of transport that uses the way. It consists of Head porters, wheel barrows, Lorries, buses, bicycles, cars motorcycles.

ADVANTAGES OF ROAD TRANSPORT

1. Setting up a road is easier than other systems.
2. It's good for carrying goods over short distances in a short time.
3. Road transport is flexible where switching from one route to another is concerned
4. Selling and collection of goods along routes can be possible.
5. It's flexible i.e good for door to door services as goods are taken to their destination.
6. It's relatively cheaper than air transport.
7. Special arrangements can be made for particular occasions.
8. Road transport is in use all the time as it does not follow time table
9. Its faster than rail transport over short distances
10. It is suitable and economical for small consignments.

DISADVANTAGES

1. It may not be in use during bad weather especially murrum routes during heavy rains.
2. Space is limited where carrying bulky goods is concerned.
3. Its expensive for long distances, due to high costs of fuel
4. Return cargo may not be possible because of lack of tie table schedule.
5. Traffic congestion may contribute to delays in delivery.
6. It is slow for long distance
7. High way robbery is possible especially through heavy forests
8. High rate of accidents. Unlike railway transport which has a private way in road transport, the way is open to many users, some of whom are careless. This increases the chances of accidents.
9. Its liable to frequent break down. These lead to damage and delay of goods.

RAILWAY TRANSPORT

This involves using trains to carry goods and people.

ADVANTAGES

1. Its quite cheap over long distance.
2. its suitable for carrying bulky goods like copper ore, coffee, cattle, timber, charcoal e.t.c
3. Special wagons may be designed for particular commodities and people.
4. The rate of accident is low compared to road transport.
5. Suitable for carrying containers.
6. It is faster than road transport over long distances. This is because railway lines are free of other traffic.
7. Road transport economizes labour and fuel. One train can carry goods for 100 or more tracks and one operate and a

guard can effectively manage a cargo train of up to 50 to 60 wagons.

8. Trains are not affected by bad weather.
9. Return cargo can be arranged as trains move on time table schedule.

DISADVANTAGES OF RAILWAY TRANSPORT

1. Railways are not flexible like roads.
2. Its un economical for short journeys
3. There is a possibility of damaging cargo because of increased handling.
4. its show means over long distances
5. Trains may not pass through mountainous regions.
6. Trains delay at particular stop-over because of time table schedule.
7. Constructing railway is very expensive.
8. Roads normally delay at depot stations because of clearance of procedures.
9. The risk of damage and theft is high this is because the owner of the goods do not travel with them.
10. Its not suitable for delicate and high value goods.
Transshipment involved in railway transport may lead to heavy damages of such goods.

WATER TRANSPORT

This is the movement of passengers and cargo over water bodies mainly rivers, lakes and oceans.

These are several water vessels used e.g. canoes, boats, liners ferries, steamers, tankers, bulk carriers, coasters, roll-on, roll-off e.t.c.

ADVANTAGES OF WATER TRANSPORT

1. The way is free, since its provided by nature except for canals and man-made lakes
2. Its good in carrying special goods like oil in long distances
3. There is not traffic congestion on water transport
4. Very heavy goods like machinery, mineral ore may be carried by ship.
5. Maintenance charges of water vessels are relatively low.
6. The use of automatic cranes eases the work of loading and off loading cargo.
7. Very large ships may be build to increase tonnage..... and reduce carriage costs.
8. It is economic less fuel is required than for road transport.
9. A return cargo can be arranged for a ship this enables the operational costs.
10. Container package is possible; this reduces theft, loss and damage.

DISADVANTAGES OF WATER TRANSPORT

1. The speed is low and this may not favour perishable goods.
2. port congestion may lead to delay in delivery
3. Providing facilities at the port may be very expensive.
4. It's not flexible. Water vessels can not stop or call at all points at the sea or lake.
5. Some water ways are seasonal. This means vessels can not sail over some water bodies all the time. This could be due to freezing or fall in water levels.
6. Not all countries have access to the sea, thus its limited to countries with water bodies.

7. Sea accidents usually lead to total loss of life, goods and the vessel. This is when a ship sinks together with everybody and the goods.
8. Heavy loads may not go over shallow water levels.

TYPES OF WATER VESSELS

Sea transport is carried out by two types of ships viz; liners and tramps

Liners may be passenger's liner or cargo liners.

LINERS

The ships follow a regular time table, call at ports at regular intervals and follow a regular route even if they have to without enough cargo.

And are normally owned by established shipping company.

TRAMPS

Are ships that do not follow a regular route or time table. They would go any where if there goods to be carried.

CHARTER PARTY

An agreement between the shipper and the importer to carry cargo for a particular route or a number of voyages. Charter party is of two type's i.e.

(I) Voyage Charter

Is an agreement between the shipper and the importer to carry goods for a particular route.

(ii) Time charter

Is an agreement between the shipper and the importer to carry goods for a certain period of time.

BILL OF LANDING

When several business men use one vessel to transport their goods, they are issued a bill of landing.

FUNCTIONS OF A BILL OF LANDING

1. It acts as a contract of carriage between businessmen and the shipping company.
2. It acknowledges receipt of goods by the shipper.
3. It is a document of title which a businessmen uses to claim for goods when they arrive at the dissipated port.
4. It's a negotiable instrument in that title to goods can be transferred by endorsing the bill of landing.
5. It shows all the details of good carried.
6. It shows the shipping charges and all conditions of carrying the goods.

BULK CARRIERS

These are large vessels, specially used to carry particular type of cargo e.g. timber, mineral ore e.t.c.

OIL TANKERS

These are mainly chartered or owned by the large petroleum companies to carry petroleum products.

ROLL- ON- ROLL- OFF

These are large ferries used to carry vehicles. The vehicles carried are driven on the ferry and driven off when they reach final destination.

FERRY SHIP

These are specially designed to connect one land mass to another by carrying goods and services.

AIR TRANSPORT

This is the most rapid, convenient and comfortable form of transport. Under this air crafts are used to carry passengers and cargo.

ADVANTAGES OF AIR TRANSPORT

1. It is the fastest means of transport.
2. It's the best for delicate and valuable goods.
3. There is less chance of loss, because security is highly observed
4. Suitable for long distances, without shopping.
5. Most comfortable form of transport free from topographical barriers.

DISADVANTAGES OF AIR TRANSPORT.

1. It's the most expensive system of transport.
2. Its costly in terms of full and flying operations
3. Weight of cargo carried is limited.
4. Aircrafts cannot take cargo and passengers to final destination
5. Incase of accident, all cargo and passengers are likely to be completely destroyed.
6. Hijackers may affect air operations.
7. Weather conditions may interfere with air services.

AIR WAY BILL

This is a document drawn between the airline company and the businessman using it to carry his goods.

PIPELINE TRANSPORT

Under this, pipes are used to carry fuel, water and gaseous products from one place to another.

In Uganda pipes are widely used to carry water and sewerage disposals in major urban centers.

ADVANTAGES OF PIPELINE TRANSPORT

1. It reduces the cost of repairing road and railway which wear due to heavy commercial traffic.
2. Because they pass underground, pipes are not affected by atmospheric conditions
3. Speed is reasonable high.
4. Pipes are suitable for carrying liquids over rough hand were higher roads or railways can be used.
5. The running costs of pipes are very low.
6. Large volumes can be carried in a very short period.
7. It reduces traffic congestion and the rate of accidents on roads which would be carried by fuel tankers.
8. Safest and most convenient means of transporting flammable products like petroleum.

DISADVANTAGES

1. Only liquids and gasses can be carried.
2. Repairs tend to be costly and difficult to locate.
3. Soil erosion may expose underground pipes.
4. Installing pipes is very expensive especially with long distance.
5. Pipes can easily be damaged by terrorists and other saboteurs.

CONTAINERISATION

This is a system of transport by which standard metal or wooden boxes are specially constructed to carry certain goods.

ADVANTAGES

1. Properly packed containers accommodate a large quantity of cargo than it would with goods packed in a ship.
2. Goods are protected from damages and theft
3. Loading and unloading is easy because of using automatic crane.
4. It saves time which would be wasted loading small number of packages on a ship. This reduces the chances of damage especially where shipment is involved.
5. Specially constructed containers can be built for special goods.
6. Insurance premiums for containerized goods are lower since it's difficult for the whole container to disappear.
7. Trucks to carry containers are available
8. Goods in containers are not affected by atmospheric conditions.

DISADVANTAGES

1. Without automatic cranes, loading and unloading may not be possible.
2. Containers bring about a lot of congestion, delays in packing goods resulting into late delivery.
3. They require large parts hence not suitable
4. Containers are very expensive
5. Containers may not carry living things like cows and people.
6. It is unsuitable for small quantities of cargo
7. Containers are usually returned empty which is extremely uneconomical.

FACTORS THAT INFLUENCE THE CHOICE OF MEANS OF TRANSPORT

1. Cost of goods.

The type of transport chosen should be relatively cheap compared to the value of goods carried.

2. Nature of goods

Perishable goods and Newspapers require fast means of transport where speed is required air transport is the best.

3. Size of load

Bulky goods may go by railway and Lorrie's small cargo may go by road or air.

4. Value of goods

Valuable goods may be transported easily by air e.g. gold, diamonds or mercury.

5. Flexibility of the system.

System chosen should be flexible, especially where switching from one route to another is concerned. Road transport is most flexible system.

6. The distance to cover should be considered.

When the distance is short, then road transport may be used but trains and air crafts may work better for long distances.

7. Speed should also be considered.

When urgency of delivery is required then the fastest means may be chosen. Air transport is the best where speed and urgency is concerned.

TERMINOLOGIES IN WATER TRANSPORT

(I) DEMURRAGE

Is money or free charged if the ship is not unloaded with in the agreed time.

(ii) WHART

This is a structure on the bank of the Navigable waters where ships can be loaded and unloaded.

Wharf age; is the payment made for the use of a wharf

(iii) STEVEDORES

These are people who are actively involved in the loading and unloading of ships.

(iv) RUMMAGING

Its an exercise which involves customs officials which is purposely conducted so as to search for dutiable goods on the ship.

(v) DOCK WARRANT

Document which is given to the owner of the goods stored at the dock warehouse. It serves as recognition of his title to those goods.

INSURANCE

Is an aid to trade where by people contributing money towards a common pool against various risks for compensation should be risk take place.

POOLING OF RISKS

This is where by every person exposed to a risk should pay a small amount to an insurance pool from where people suffering a loss are compensated.

COMMON TERMS USED IN INSURANCE.**1. PREMIUM**

This is money paid by a person towards an insurance policy. Premiums constitute a pool from which compensation is made to those who incur losses.

2. RISK

A risk is the event against which an insured take up with the insurance company.

3. INSURED

Is the person or organization which takes out an insurance policy.

4. INSURER

This is the insurance company offering the insurance policy.

5. SURRENDER VALUE

This is the money paid back to the insured party when he decides to cancel the insurance agreement before the period specified.

6. SUM INSURED

This is the exact value of the item insured which the insurance company undertakes to pay in form of compensation in case of a loss.

7. LOSS

This is the occurrence of the event against which an insurance policy is taken up.

8. ACTUARY

A person who calculates the premium to be paid basing on past statistical information or data.

9. CO-INSURANCE

When the article is insured against similar policies with a number of insurance companies in event of a loss the co-insure share the amount towards compensation.

10. RE-INSURANCE

This is when an insurance company insures a risk with a second insurance. This may be because the property is so valuable to be handled by the first insurance company.

11. OVER-INSURANCE

This is when a businessman over declares the value of his property at the time of applying for insurance i.e. he over insures

He will be required to pay a higher premium but in event of a total loss he will be paid only the current value of the property.

12. UNDER INSURANCE

This is when one under declares the value of his property. He is charged lower premium but in event of a total loss he is paid only the sum insured which is less than the current value of property.

This does not fully compensate him e.g. Damba has insured his stock in trade at sh.60000= but the current value of his stock is sh80000= fire destroyed apart of his stock value at sh50000=.

In this case even through the loss of sh50000 (value of stock lost) is less than sh60000 (sum insured) Damba can only claim sh37500 from his insurance company.

Calculations

Sum insured	shs. 60,000=
Correct value of stock	shs. 80,000=

Sum insured as % of correct	
Value of stock	→ $\frac{60,000 \times 100}{80,000}$
	75%

Value of stock destroyed shs 50,000

Value of claim

NB Whole stock was shs 80,000

Insured shs 60000

Thus only 75% of stock was insured.

Claim is 75% of destroyed stock as calculated above.

PRINCIPLES OF INSURANCE

These are regulations governing the insurance business.

1. UTMOST GOOD FAITH (*Uberrimae Fides*)

Under this, the insured is required to state all the relevant material facts concerning the item to be insured. Should any information be hidden regarding the good insured, it may lead to the cancellation of the policy and the already paid premium is not refunded.

2. INDEMNITY

This state that compensation must be made to those who suffer loss, but one should not profit from his policy. The aim of insurance company is to compensate the insured for what is lost but not to put him in a better position than before.

3. PROXIMATE CAUSE

This states that before compensation is made, the cause of the risk must be close to the actual risk insured e.g. if a car is insured against accident, then its later destroyed by fire, compensation will not be carried out since there is not connection between fire and accident.

4. SUBROGATION

With insurance one is not expected to gain from his policy. Subrogation states that after compensation, the remains of the destroyed property should not be left to the insured, but must be left to the company e.g. incase of accident the scrap is taken by the insurer.

5. INSURABLE INTEREST

This states that one must insure some thing in which he has interest, such that when a loss occurred to the property insured the owner is bound to suffer.

6. INSURABLE RISK

This states that one should take up a policy against risks whose loss can easily be calculated with fair compensation. Some risks are non-insurable e.g. war, damages, change in fashion and gambling.

7. CONTRIBUTION

Some properties like ship Aircrafts are so expensive that one firm is not able to undertake the insurance cover. Such

properties are insured with more than one insurer, so that in event of total loss both companies contribute to settle the claim.

FEATURES OF INSURABLE RISKS:-

- I. Its occurrence should be accidental in nature.
- II. The effect should be great enough to cause some serious or real hardship to individual.
- III. There should be past record to enable insurer to assess premiums.
- IV. The loss should have a financial value or be expensive in monetary terms to enable insurer to be able to market it.
- V. The loss should not be catastrophic in nature e.g. death as a result of earthquake, famine etc.
- VI. It should not be a loss of profit as a result of poor management.

STEPS IN TAKING OUT A POLICY

The following steps are involved in taking out an insurance policy.

1. The person wishing to be insured should have contractual capacity in order to apply for an insurance policy he then fills in a proposal form, which constitutes his application for insurance and signifies his willingness to pay premium.
2. On filling this form, one is required to disclose all material facts about the property to be insured, and state clearly the risk to be insured and the sum insured.
3. On receipt of the proposal form the insurance company calculate premium to be paid. Or may if necessary arrange for the inspection of the property before accepting premium.
4. The insured pays premium and is issued with a cover note.

A cover note

Is a proof that premium has been paid to and accepted by the insurance company who undertakes to indemnify the insured.

A cover note is valid for 30 days during which period a policy must be issued.

5. Within 30 days a policy is issued which constitutes a contract between the insured and insurer.
6. If the event insured against happens, the insured is required to notify the company and will fill a claim form to claim compensation.
7. The insurance company now arranges to survey the property to assess the extend of loss.

On receipt of survey report the insurer pays due compensation to the insured.

CLASSES OF INSURANCE

Two classes of insurance are noted i.e. life insurance and general insurance.

LIFE INSURANCE

This is commonly known as life assurance and it covers insurance of human life. Insurance involves uncertainty and covers risks that may or may not occur. With assurance, one takes out a cover against a risk that will happen e.g. death.

There are two major policies under this i.e.

1. WHOLE LIFE POLICY

This requires payment of premiums through out the life of the insured no matter how long one lives or for a specified period, but the sum insured is payable only after the death of the life insured.

This type of policy is therefore meant to provide money to the beneficiaries when the bread earner dies.

2. ENDOWMENT POLICY

This requires payment of premium for a specified period only with the sum insured becoming payable at the expiry of such period or at death whichever ever is earlier.

3. GROUP LIFE ASSURANCE

Under this families or business take out insurance to provide pension during old age.

4. SICKNESS POLICY

This covers against a specified disease or all forms of curable diseases. The insurer under takes to pay medical treatment fees.

GENERAL INSURANCE

This covers insurance of properties. A person can insure any property he has interest in. and its normally divided into fire, accident and marine insurance

FIRE INSURANCE

This insures property against fire breaks in addition to fire policy, its advisable to take out policies covering later losses as repairs being done to fire damaged property such policy known as **consequential loss insurance.**

BURGLARY POLICY

This covers against forced house breaking and is normally taken by businessmen, bankers and lords e.t.c.

THIRD PARTY RISK POLICY.

Concerns three people insurer 1st party insured 2nd and 3rd party being any other person injured as a result of the accident

This policy covers.

1. Passengers traveling in a car injured
2. People injured as a result of accident.
3. Any other property damaged as a result of the accident

4. owners of any other vehicle affected by the accident
 N.B It's compulsory to buy this policy together with road license.

PERSONAL ACCIDENT

Is by individuals to cover against any accident which may affect them especially due to vehicles.

FIDELITY GUARANTEE.

This is the insurance against the dishonesty of particular employee or the entire working staff.

This is necessary especially for cashiers and accountants who handle large sums of money.

PLATE GLASS POLICY

This covers members of staff or customers of a business against serious injury from broken piece of glass.

CASH IN TRANSIT POLICY

This safe guards money loss while leaving or going to the business firm.

BAD DEBT POLICY

This protects against loss arising from debtors failing to pay their dues to the creditors.

EMPLOYERS LIABILITY POLICY OR WORKING COMPENSATION

This is taken up by employers and protects against any injury that may occur to his employees or customers while at work and during working hours.

(I) PUBLIC LIABILITY POLICY

Covers against nay injury which may occur to a person while passing near the property injured.

(ii) AVIATION INSURANCE POLICY.

This covers personal accidents and cargo damages due to Air craft crashes.

MARINE INSURANCE

This refers to the insurance of water vessels, cargo and passengers against damage, injury or loss due to water body problems.

Several types of marine insurance may be taken up:-

(i) MARINE HULL POLICY

This safeguard against damage or loss due to fierce storms or collision. This also takes up the 3rd party like damage on other vessels.

(ii) MARINE CARGO INSURANCE POLICY

This offers policies covering goods on the vessel.

(iii) SHIP OWNERS LIABILITY POLICY

This policy covers people lives and cargo against damage or injury resulting from negligence in navigating the vessel.

(iv) VOYAGE POLICY

This undertakes to insure the vessel or cargo against damage or loss for a specified journey.

(v) TIME POLICY

The ship or cargo may be insured for a certain period of time e.g. from Feb-June.

(vi) OPEN POLICY/FLOATING POLICY/DECLARATION POLICY.

Here the owner of the vessel insures it against any risk which may occur to it on any journey at anytime.

(vii) MIXED POLICY

This combines both voyage and time policy. The time and voyage are fixed e.g. Mombasa to Alexandra 3 months.

LOSSES IN MARINE**1. ACTUAL TOTAL LOSS**

Occurs when the vessels or goods insured are totally destroyed or when they are damaged beyond repair.

2. CONSTRUCTIVE TOTAL LOSS

Under this, the damage on the ship or cargo may be repairable or recovered. However should the cost of repair be exceeding the value of a new vessel, the insurer may prefer compensating the insured by buying a new vessel.

PARTICULAR AVERAGE LOSS

This is the loss caused or damaged implicated to a particular cargo. Its taken up by owners of the cargo.

FACTORS THAT DETERMINE THE PREMIUM TO BE PAID.

1. Age of the item has stayed for a long period of time, its likely to face more chances of damage, so large premiums are paid then when the property is new.
2. Precautions taken to reduce the risk. Should the insured take up precaution any measures to reduce the risk up precaution any measures to reduce the risk, then lower premium will be paid. Incase of fire, fire extinguishers tend to reduce the amount of premium to be paid.

3. **Number of applicants.** The number of people applying for that similar policy also determines for premium to be paid. The more the people for the same policy, the lower the premium to be paid.
4. **Types of policy.** Some policies are more expensive compared to others. The more valuable the property, the higher the premiums paid. For example aviation policy requires higher premium than accident policy.
5. The nature of the property being insured incase of fire, those handling inflammable substances pay high premiums e.g. petrol stations.
6. Age of the person. The age of the person taking out the policy determines the amount of premium to be paid. Incase of life assurance, old people pay high premiums than young ones.
7. Because in normal situations old people face high chances of death than young ones. But incase of motor accident teenagers pay high premiums because chances of running down vehicles due to over speeding are high.

INSURANCE UNDERWRITERS.

Are people who work on their own account to offer insurance covers to prospective customers.

INSURANCE BROKERS

These are middlemen who connect people requiring insurance cover to the insurance company. But don't handle policies themselves physically.

IMPORTANCE OF INSURANCE TO BUSINESSMEN

1. The property of businessmen is securely safeguarded against all risks e.g. fire, Burglary, theft e.t.c.

2. Businessmen are assured of continuity in their operations in presence of insurance
3. Insurance companies can act as trustees for the businessmen.
4. Some insurance companies give loans to businessmen e.g. interstate insurance company.
5. Insurance has played an important role in international trade. I.e. dealing with a buyer abroad, a variety of risks ranging from that of delay in exchange (foreign currency) payment by a foreign buyer to outright default. But with insurance a seller is assured of payment even if the buyer decides to default payment for the goods.
6. It performs educational services to the business community.
7. Insurance creates employment opportunities for people who work as insurance agents, broker's e.t.c.

INSURANCE AND GAMBLING SIMILARITIES

1. Insurance is related to gambling only because in both cases, a number of people contribute small amount to a common pool.
2. In both cases at least two people or parties must be involved. Insurance involves insurer and insured, while gambling involves the loser and winner.

DIFFERENCES BETWEEN INSURANCE AND GAMBLING.

1. Insurance is an aid to trade which attempts to help those who suffer loss under various risks insured. While gambling is a risk and a social act where people work on probability or chance.
2. Insurance is a legal business registered and recognized by government. While gambling is illegal.

3. Under insurance, the risk insured against may never occur, unlike in gambling where the event must take place in order to determine the winner.
4. In insurance one must have insurable interest in the property insured. But this does not exist in gambling.
5. In insurance there is not profiting, but in gambling the rewards as a result of a successful bet makes the winner richer.
6. In insurance money is paid in installments, while in gambling it's paid once and taken once.
7. Insurance is of great help to businessmen, while gambling is a curse.
8. In insurance, the one who receives the money is the one who has suffered a financial loss, while it's the opposite in gambling.

PROBLEMS FACING INSURANCE INDUSTRY IN UGANDA

MONEY AND BANKING

Currency notes and coins issued by the central bank act as money.

Money is anything valuable which can be used as a medium of exchange for goods and services.

It's something readily acceptable as a medium of exchange;
Before money came into use, exchange took place by means of barter.

BARTER TRADE

Any trade arrangement involving the exchange of goods and services for service without the use of money.

ADVANTAGES OF BARTER TRADE

1. It does not involve money document.
2. It tends to avoid too much dependence on currencies from other countries. Hence it reduces the need for foreign currency as the country just exchanges commodities and services for those of other countries.
3. Promotes social understandings amongst the parties involved.
4. It widens the market for a country as it does not require a country to link itself to a particular country as it would be the case with monetary trade.
5. It makes one to value his/her wealth in real terms other than in respective terms.
6. Barter eliminates the risks involved in carrying money.
7. It strengthens the bargaining position of the parties involved especially developing countries.

DISADVANTAGES OF SHORT COMING OF BARTER TRADE

- Double confidence of wants. E.g. if A posses a cow, and work to exchange it for maize, he has to find a person who not only posses maize but also wants a cow.
- Storage. Its hard to store the goods to be exchanged especially if they are perishable
- Lack of a common measure of value. E.g. if two people who want each others goods meet together, there is difficulty of what proportion of commodities to be exchanged.
- Indivisibility of certain goods. Even if the agreement is reached regarding the proportions in which things should be exchanged. It's difficult to divide say $\frac{1}{2}$ cows to one bag of maize.
- Transport from one place to another.
- Determination of relative values e.g. how many eggs should one offer for a goat.

EVOLUTION OF MONEY

Introduction of money overcome most of these disadvantages. However, currency coins and notes are of relatively recent origin. In the past, various other items like;- shelter precious stones, metals, skins e.t.c. were used as money.

It was later realized that treating something as money only because of its intrinsic value was becoming a seriously limiting factor.

This led to the use of coins and later paper money which people were required by law to accept for value printed on their face than for their intrinsic worth.

e.g. the metal content of five (500) shillings coin is not necessary worth (500) shillings.

QUALITIES OF GOOD MONEY

1. **General acceptability:** i.e. acceptable to every body in order to facilitate commercial transaction.
2. **Durability:** It should be able to last for long.
3. **Portability:** It should be convenient to carry.
4. **Divisibility:** i.e. easily dividend into small units of 50,100,200,500,100 e.t.c. shilling note and coins so as to enable payment for cheap goods and services.
5. **Homogeneity:** Money from a particular country should actually look like.
6. **Stability:** Good money should be stable in value for long period of time.
7. **Scarcity:** Money should be relatively scarce.
8. **Identifiable:** Easily recognized.
9. Not easily forged i.e. it should be difficult to copy.
10. It should be convenient and cheap for government to print.

FUCNTIONS OF MONEY

- Money is issued as a medium of exchange for goods and services.
- It's a measure of value. The relative prices determine what one commodity is worth in terms of the others.
- Money is a store of wealth i.e. persons whose wealth consists of perishable items can sell them for money and store the money till he needs it.
- It's a unit of account. It enables computing of stock and future incomes in business possible.
- Money makes it possible for price mechanism to operate since its used as a value to determine the price of a commodity.
- It facilitates one way of payments e.g. payments of taxes.
- Money serves as a standard of deferred payments to be affected in future can be calculated at present.
- It is standard value which is used to asses the value of various and services.
- Money serves as a tool which the government uses in the monetary policy. E.g. if government restricts credit it may control inflation.

LEGAL TENDER

1. **COINS.** This is any metallic money it may be cent or shillings.
2. **STANDARD COINS.** These are ones where the face value is equal to the value of the metal from which it is made.
3. **TOKEN COINS.** These have the face value grater or less than the real value of the metal from which it is made.
4. **BANK NOTES.** This is money in form of people issued by the central bank.
5. **BANK DEPOSITS**
This is the money which is deposited by the public on their accounts in banks.
6. **CHEQUE**
A cheque is a written order by a bank customer to his bank to pay a specified sum of money to a named person or order.

BANK.

A bank may be defined as an institution that: -

- Accepts deposits from those who have some money in excess of their immediate needs.
- Safe guards the so money so received
- Makes it available to its true owners on demand or at notice.
- Advances loans (those who are in need of financial assistance and are able to provide adequate security and are willing to pay interest.

CONDITIONS CONSIDERED BEFORE GIVING A LOAN

- Credit worthiness and personal integrity of the barrower.
- The viability of the project for which the loan is required
- Assets in relation to liabilities of the borrower.
- Period for which the loan is to be used.
- The prevailing government policy
- Whether the borrower is a bank customer or not
- The economic intergrity of the applicant.
- Nature, value and marketability of the security presented.
- The amount of money required by the borrower.

2. BANK OVERDRAFT

This is money lent by a bank to its prominent customer exceeding the amount on his account.

3. BANK DRAFT

Is a cheque by which a bank pays money to a named person. It's the safest means of paying money to a person because a bank quarantines payment on it. I.e. it's a cheque drawn on a bank itself and a bank will issue it only if a person requesting it has paid money to the bank.

4. STANDING ORDER

It's a system where a customer of a bank with a current account authorizes his bank to pay a given amount of money to a named person or company at regular intervals on given day of the month.

5 CREDIT TRANSFER SYSTEM.

This is when a bank customer authorizes his bank to pay money into the account of a named company or individual. Payments are made directly into the bank account of the named person.

TRAVELLERS CHEQUES

These are cheques issued by the commercial bank to people who travel to distance places i.e. within and a broad. A person pays for them in advance and are useful because they are both in local and foreign current.

IMPORTANCE OF TRAVELLERS CHEQUES.

- (i) Some shops and hotels may be un willing to accept personal cheques.
- (ii) They are available in various currencies.
- (iii) They are safe to carry than cash.
- (iv) Travelers cheques may be given different denominations.
- (v) Travelers cheques are easy to carry. They are light compared to hand cash.

TYPES OF BANKS

1. SAVINGS BANK

These banks are mainly intended to provide a safe place for keeping money and to promote a habit of careful management of money among individuals. They offer very few of the services rendered by a modern bank. They accept small deposits, pay interest on such deposits and offer only limited withdraw facilities.

2. CENTRAL BANK

Is the main financial institution in the country established by the government to control and guide government finance, commercial banks and other financial institutions and to manage the domestic and foreign monetary systems.

FUNCTIONS OF CENTRAL BANKS.

- 1) Issuance of currency. The central bank has the sole authority to issue the national currency which circulates in the country.
- 2) Control of money supply. The central bank regulates the amount of money in circulation in the country. i.e. controls all cash in hands of general public and deposits with commercial banks.
- 3) Banker to commercial banks. All commercial banks in the country have accounts with the central bank. These accounts are used to settle inter-bank indebtedness through the clearing house.
- 4) Replacement of worn out notes. Bank notes that have deteriorated through wear and tear are withdrawn from the public and destroyed. It's the duty of central bank to mint and print currency for replacement of the one which worn out.
- 5) Banker to the government. The central bank manages government accounts, receives all revenues and affects payments both internal and external on behalf of the government.
- 6) Supervisor of commercial banks. Central bank gives advice to commercial banks concerning the monetary payment. It requires periodic reports of their activities e.g. on deposits and lending.
- 7) Lender of the last resort. Central bank offers advance payments at short notice to the government commercial banks.
- 8) Management of foreign exchange operations central bank manages the day to day foreign resources e.g. conducting daily sales and purchases of foreign exchange through money markets.
- 9) Management of external reserves. It's the responsibility of the central bank to enforce foreign exchange regulation. All foreign exchange proceeds from export of goods and services in a country should be surrendered to the central banks.
- 10) Advisor to the government. The central bank advises the government on matters of economic reviews periodically which economy.

- 11) Banker to International Institutions. It maintains close links with other central banks and several international institutions like red cross, worldbank, IMP, ADB among others.
- 12) Regulator of the countries balance of payments position (B.O.P) through management of external debt and ensuring safe limits of borrowing.

HOW CENTRAL BANK CONTROLS COMMERCIAL BANK TO GIVE LOANS.

- (i) Open market operation (O.M.O) sale of treasuring bills and government bonds to attract depositions withdraw their money or deposits from commercial banks.
- (ii) Increasing the cash ratio that should be held by the commercial banks so that they have less money for lending.
- (iii) Raising the bank rate at which commercial banks borrow from the central bank. This forces the interest rate up and hence discourage borrowers.
- (iv) Commercial banks may be required to make special deposits with the (OB). This reduces amount available for lending.
- (v) Moral version- commercial banks are requested to restrain from excessive lending.
- (vi) Selective credit controls (CB) are requested to give credit to only selected sectors.

UGANDA DEVELOPMENT BANK

Was established to finance projects meant for long term basis. It was set up in 1972 by government funds with assistance from international financial institutions.

FUNCTIONS OF UGANDA DEVELOPMENT BANK (UDB)

- 1) To finance small scale projects aimed at bringing foreign exchange.
- 2) To give loans to firms and companies on long term basis.
- 3) To assist into sectors where commercial banks are reluctant to invest because of high risks involved.
- 4) To finance domestic import substitution industry.

COMMERCIAL BANKS

These are financial institutions aimed at helping business men and the general public in Uganda commercial banks includes: - Barclays bank, Bank of Baroda, African tropical Bank, Standard chartered bank e.t.c.

FUNCTIONS OF COMMERCIAL BANKS

- ❖ Receiving and safeguarding money on deposits, savings and current a/cuss, commercial banks accept money from public in form of deposits.

- ❖ They offer right safe facilities i.e. facilities where money can be kept after banking hours.
- ❖ Credit transfer facilities e.g. payment of salaries. A Customer to the bank prepares a list of the people he is supposed to pay. He specifies the amount to be paid of them and the total amount to be paid to each and pays it by one cheque. The bank then ensures the payment to each payee.
- ❖ Overdraft services i.e. allowing a customer to draw more than what is on his A/c
- ❖ Supply of notes. Commercial banks supply bank notes issued by the central bank.
- ❖ They provide foreign exchange to businessmen who are engaged in international trade.
- ❖ They give advice to investors.
- ❖ They issue cash and travelers cheques
- ❖ Trustees and administrators of a will. they act as referees especially on the credit worthiness and financial position of their customs.
- ❖ They give advice upon matter of taxation.
- ❖ They offer bank drafts
- ❖ Commercial banks buys and sells stock and shares for customers.
- ❖ Implementations of monetary policies
- ❖ Commercial also offer facilities of standing orders. A customer may issue on instruction at regular intervals to pay a specified amount of money to a normal person or organization of a regular interval e.g. rent.
- ❖ They at times offer automatic computed withdrawal of a cash at time saving teahouse (ATM)
- ❖ Credit creation facilities.
- ❖ Discounting bills of exchange

QN Describe the functions of a commercial bank.

PROBLEMS FACED BY A COMMERCIAL BANK.

- 1) Poor communication system. There is lack of up to date communication facilities.
- 2) Insecurity in some parts of the country is a threat to commercial bank branches in rural areas.
- 3) Low levels of education among customers i.e. many people are still ignorant about the services offered by the commercial bank.
- 4) High degree of competition. There are many commercial banks in Uganda. High competition among them is likely to limit the degree of mobilization of savings.
- 5) Lack of trained man power.
- 6) Low incomes. The majority of Ugandans are poor, cash savings comes from many scattered people, banks find it difficult to mobilize savings.
- 7) Lack of security limits lending by commercial banks.
- 8) High rates of interests tends to scare potential borrowers
- 9) Poor infrastructures e.g. roads in rural areas have limited the activities of commercial banks.
- 10) Mismanagement of funds by some bank officials.
- 11) Customers in credit worthiness.
- 12) Low savings due to inflation

- 13) The existence of large subsistence sector.
- 14) High costs incurred on service and hence low.
- 15) Government interference
- 16) The general negative attitude and worry of leaving savings with banks. Some people prefer keeping money under mattresses, inside pillows, pots e.t.c.

SPECIALISED BANKS.

These banks serve a special type of customers or are aimed at providing a specified type of service e.g. former co-operative bank which mainly societies, the agric-development bank which mainly serves farmers and finances companies that provide finance for buying and building houses only.

MERCHANT BANKS.

This banks specialize accepting and discounting bills of exchange and in assisting traders in international trade. And does not provide the usual banks services like current deposit accounts.

However in present day commercial world the importance of bills of exchange has been greatly reduced and this in turn reduced the volume of business transaction by merchants, banks and more so some commercial banks have started performing the functions of merchant banks leaving no room for their survival.

QN Out line the characteristics of the following bank accounts.

TYPES OF ACCOUNTS

A person wishing to keep his money in a bank must choose the type of account he will use.

There are several types of accounts e.g. each with its own features.

SAVING ACCOUNTS

These accounts are offered by both savings and commercial banks
Features of savings account.

- (i) A minimum initial deposit is required when opening up the account and it differs from bank to bank.
- (ii) Account holders are required to maintain certain minimum balance at all times.
- (iii) Money can be deposited any time. In case of post office savings bank, money can be deposited from any post office.
- (iv) No overdrafts are allowed. But a balance in savings account may be used as security when applying for an overdraft against current account. If a person operates both accounts.
- (v) A pass book is provided but not cheque book which the holder must present to the bank when withdrawing or depositing the money.

- (vi) Banks allow interests on deposits held in savings account.
- (vii) Account holders can not send some one to with draw money on his behalf, he must be there in person.
- (viii) In case of post office savings account one can withdraw from any post office within the country of issue.

CURRENT ACCOUNTS

These accounts are offered by commercial banks only and ideally suited to the needs of business.

- 1) A minimum initial deposit is required at the time of opening a current account.
- 2) No minimum balance is required to be maintained. An account holder can withdraw all his deposit.
- 3) An account holder can withdraw any amount at any time on demand without giving notice.
- 4) An account holder can deposit any amount at anytime in any form e.g. cash, cheque, bank drafts postal orders e.t.c.
- 5) A cheque book is proved to the account holder
- 6) Bank statement are issued to customer on monthly basis.
- 7) No interests is paid on current accounts
- 8) Sometimes banks allow overdraft facilities to their customers.

PAYING IN SLIPS

This is used to pay, deposit money into the current account.

HOW ATO OPEN A CURRENT ACCOUNT

A person wishing to open a current account must present the following.

- (i) Name, address and occupation if any.
- (ii) Two (2) refers who should be bank employers/bank customers who must give information regarding your financial position.
- (iii) A signature card is issued
- (iv) A specimen signature is displayed
- (v) The applicant is then issued with account number
- (vi) He is then issued with a cheque book ready to begin transacting with the account.

FIXED DEPOSIT ACCOUNT

Features

1. May be opened with not less than a certain minimum amount for a specified period.
2. A fixed rate of interest is paid on these account and its higher than that of a savings account.

3. They are very good for those who have large sums of money which they don't intend to use in the near future.
4. Notice must be given before withdrawals take place.

BANK CLEARANCE HOUSE

It's a place where the representatives of different commercial banks meet each other and clear the amounts due to and from other banks.

RUN-ON-THE BANKS.

This is a situation when many bank customers wish to withdraw their money from the accounts. This may be due to loss of confidence of customers in that particular bank.

A CHEQUE

Is a written from a bank current account holder to his bank to pay a specified amount of money to a named person or order.

A cheque may be open or closed

OPEN CHEQUES

These are payable across the bank counter, payable to the holder or bearer or a named person.

Where no payee is named such a cheque is called a bearer cheque, and where the payee is named is called an order cheque.

FEATURES OF THE CHEQUE

- Name of the bank (drawee) and branch
- Date
- Name of the payee
- Amount of money in words and figures
- The signature of the drawee
- The account number of the drawer
- The cheque number no

SPECIMEN OF A CHEQUE

200

201

BARCLAYS BANK (U) LTD

MBALE BRANCH

PAY

C

Amount

UGX 200000

2446448
Counter foil

PARTIES TO A CHEQUE

These are usually three (3) persons involved

1. **DRAWER:** Is a person who writes and signs a cheque
2. **DRAWEE:** Is the banker (bank) that pays the money to given individual.
3. **PAYEE:** Is the person whom the cheque is made payable e.g. Mr. Wambede has account in CRANE BANK and decides to pay Mr.Wamanga. Wambede (drawer) crane Bank (Drawee and Wamanga (payee).
4. **ENORSER**
A person to whom the cheque has been written, signs at the back and transfers it to another individual. Is given after being signed by the endorser.

CROSSED CHEQUES

Features of a crossed cheque: -

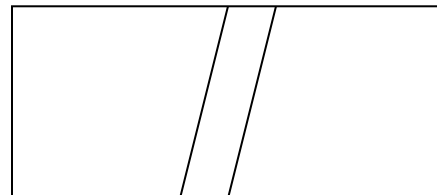
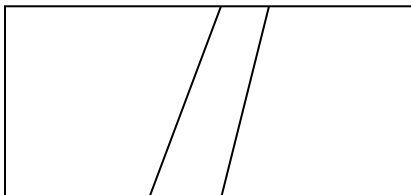
- I can't be paid across the counter, must be deposited in a bank account before money is issued.
- II A crossed cheque bears two parallel lines across its face called crossings.

GENERAL CROSSINGS

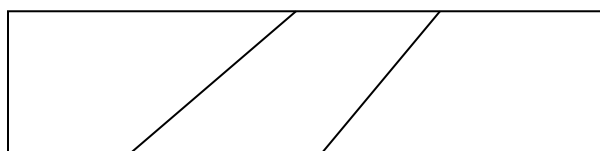
This can be viewed from the following aspects.

1. A cheque having two parallel lines with or without words "Not Negotiable" in this respect when a cheque is lost no one else can get money the one indicated.

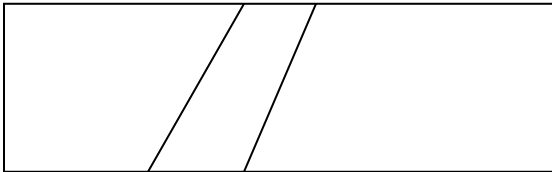
To receive it.
e.g.



- II A cheque with words and company or any abbreviation between two parallel line.



III A cheque having two parallel lines with words account payee only in between in this respect money is supposed to be paid in the account of a named person and not across the counter or to any body else.



SPECIAL CROSSINGS

This is the type of a crossed cheque where by in respect of general crossings, the name of the bank branch is included, name of payee and at times the amount is included.

Other cheques are Bank cheques, postdated cheques, forged cheques, lost cheques, stale cheques.

ADVANTAGES OF USING A CHEQUE.

- (i) It is safe especially when it is crossed
- (ii) Its portable
- (iii) It can be used to carry whatever amount of money required
- (iv) It can easily be sent through post office without extra pay
- (v) It is negotiable unless stated
- (vi) It saves time.
- (vii) It is convenient
- (viii) It can be used in deferred payments (post date)
- (ix) A cancelled cheque (i.e. the cheque against which payment has been made) is an evidence of payment in itself.

WHY CHEQUES ARE NOT WIDELY USED IN UGANDA.

- 1) Banks are not widely spread in Uganda
- 2) Ignorance of the public
- 3) People fear banks
- 4) Bouncing cheques have reduced their popularity
- 5) There is still existence of barter trade
- 6) People buy in small quantities where cheques may not be necessary.

- 7) Cheques are costly and can not be used in small installment payments.
- 8) Many people prefer savings accounts because they show the account status immediately.

PRECAUTIONS TO MAKE A CHEQUES SECURE

These are several measures which may be taken by account holder to ensure the security of his cheques.

- A. He should avoid writing open cheques. This is because if lost such cheques can be cashed by any body.
- B. He should draw crossed cheques to be paid into the payees account only.
- C. Should avoid signing cheques in banks. They are unsafe because they can be filled by any body and withdraw made.
- D. Should avoid leaving his signature on any part of his cheque book. This gives chance to people to copy the sign.
- E. When writing (drawing) a cheque, one should use an ink which is immediately permanent. Cheques should never be written in pencil.
- F. Report loss of cheques immediately to the bank and police.
- G. Should avoid leaving gaps when writing amounts to be paid out.

Example of poorly written cheque.

QN Under what conditions may a commercial bank refer a cheque to the drawer

DISHOURING OF CHEQUES

Refers to a situation whereby a bank does not (refuses) accept payment of money when a cheque is presented.

A cheque will be dishonored if: -

- 1) The drawer does not have sufficient funds in his account with the bank. In this case the cheque is labeled. “/F” (insufficient funds) or “R/D” (Refers to Drawer)
- 2) The drawer is dead or has become bankrupt.
- 3) The drawer has instructed the drawee bank not to honour the cheque
- 4) Different signatures from the specimen possessed by the bank.
- 5) When the cheque is stale has stayed more than six (6) months from when it was written.
- 6) The cheque is post dated (presented) before the dated stated on it.
- 7) When the drawer becomes insane or lunatic.
- 8) If unnecessary crossings appear on the cheque.
- 9) It figures differ from words
- 10) When the date is not properly stated
- 11) The drawer has closed his account with the drawee bank.

NEGOTIABLE INSTRUMENTS

These are documents whose title can easily be transferred from one person to another by endorsement.

Endorsement refers to signing at the back of the document to transfer title to a document or to evidence title.

TYPES OF NEGOTIABLE INSTRUMENTS



BILL OF EXCHANGE

Is 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 stated future dated a sum of money to a certain person or the order of the person or to bear.

TYPES OF BILLS

1. SIGHT BILL

2. USANCE BILL

Is a bill of exchange payable at a future date.

3. CLEAN BILL

Refers to a bill of exchange that is sent by an export to the importer without any accompanying documents. It shows that importer and exporter trust each other.

4. RETIRED BILL

Is a bill of exchange paid by the drawee before its maturity date.

PARTIES TO A BILL OF EXCHANGE

- (i) The drawee. To whom the bill is sent (debtor)
- (ii) The drawer. A person who writes the bill (creditor)
- (iii) Acceptor. The drawee or debtor is the acceptor.
- (iv) The payee. The money on the bill is paid to the drawer so he is the payee or nay other person sent by him.

NB A bill of exchange is not valid unless it has been accepted by the debtors, that is to become a legally enforceable document.

PROMISSORY NOTES

Is an instrument in writing containing an unconditional promise or under taking signed by the maker, to pay a certain sum of money only to or the order of a certain person.

SPECIMEN OF PROMISSORY NOTE

Kampala

UGshs. 400,000

14th-06-2006

The months after date, I promise to pay Aisha or order the sum of shs 400,000 (four hundred thousand only) with interest of 5% p.a for value received.

Stamp

Gguluma.p.

NB Gguluma .p. is the promisor or maker and Aisha is the payee.

FUNCTIONS OF BILL OF EXCHANGE

FINANCIAL ASPECTS OF BUSINESS (BUSINESS CALCULATIONS)

CAPITAL

Is the amount of money invested in the business by its owner. Or money used to start business. It can be inform of cash or property.

FORMS OF CAPITAL

I CAPITAL OWNED

Is the amount of money a business owes to its owner.

II BORROWED CAPITAL (Long term liabilities)

These are long term liabilities since they are payable after along period of time.

III WORKING CAPITAL

Is the excess of current Assets over current liabilities i.e.

$$WC = CA - CL$$

Where WC =stands for working capital

CA=stands for current Assets

CL=stands for current liabilities

CAPITAL EMPLOYED

Is the money invested in business. Or the sum of fixed Assets plus working capital.

$$CE=FA+WC$$

Where CE=stands for capital employed

FA=stands for fixed Assets

WC=stands for working capital.

FIXED CAPITAL

Is the total sum of fixed Assets

CIRCULATING CAPITAL FLOATING

Is the total of current Assets,. Their value keeps on changing e.g. stock, Debtors, cash at Bank, cash in hand.

BALANCE SHEET

Is a statement drawn to show the assets, liabilities and capital of a business over a given period of time.

Or

Is a statement drawn to show the assets, liabilities and capital of a business over a given period of time.

Or

Statement showing the financial position of a business or individual at a given period of time.

The balance written in 3 lines i.e. 1st line name of business organization

2nd time- The statement balance sheet

3rd line- The date/period when its presents

e.g. P.Guluma's

BALANCE SHEET

AS AT 31ST DEC 2005

LIABILITIES	ASSETS
Capital 75000	Furniture 10,000
Creditors 25000	stock 70,000
	Debtors 20000
<u>100,000</u>	<u>100,000</u>

NB The balance sheet has two sides ,the left hand side is the liability side and Right hand side is the Assets side.

Both sides must balance and its drawn basing on an equation called balance sheet equation or book keeping equation which states that:

$$A = L + C$$

Where, A stands for Asset, L stands for Liabilities and C stands for Capital.

TERMS COMMONLY USED

ASSETS

These are business properties i.e. what the business owns. And its of two types

FIXED ASSETS

Are properties that are meant to stay in business for a long period of time. E.g. hand, premises, furniture, motor van e.t.c.

CURRENT ASSESTS

Are those business properties that stay in business for a short period of time i.e. their value keep on changing from time to time.

e.g. Stock 31st Dec.

Debtors, cash at bank, cash at hand e.t.c.

LIABILITIES

These are debt obligations or claims a business is supposed to pay. The debts pertain to outside persons or organization e.g. bank loans, creditors, bank overdraft e.t.c.

LONG TERM LIABILITIES

Are business debts that are payable after along period of time.

CURRENT LIABILITIES

Are those business debts that are payable with in a year e.g. creditors, bank overdrafts, accrued expenses

SOLVENCY

It's a business has more assets than liabilities. Its said to be solvent i.e. can meet its debts from its own resources.

But when the debts exceed Assets its said to be insolvent i.e. it can not settle its debts its own resources.

EXAMPLE I

The following information was supplied by Oscar and Cos as at

31 st – Dec- 2001	Shs
Barclays loan	280,000
Furniture	350,000

Capital	2000,000
Premises	1150,000
Bank balance	8000
Motor vehicle	777000
Creditors	33000
Rent due	2800
Debtors	30800.

Calculate

- (i) Value of fixed assets
- (ii) Value of current Assets
- (iii) Value of current liabilities
- (iv) Value of working capital
- (v) Value of capital employed

SOLN: OSCAR AND CO

BALANCE SHEET

Capital	2000,000	Furniture	350,00
Barclays loan	280,000	Buildings/premises	1150000
Creditors	33000	Motor vehicle	777,000
Rent due	2800	Debtors	30800
		Bank balance	8000
	2315.000		2315,8000

Value of fixed Assets

Premises	sh 1150,000
Furniture	shs 350,000
Motor vehicle	shs 777,000
	Sh

SALES PROMOTION AND CONSUMER PROTECTION

Sales promotion refers to attempts made by producer/traders to give tempers increase (boast) in the sale of the products. In other words sales promotion refers to measures used to publish, attract and commence consumers to buy goods and services.

Sales promotions therefore aims at increasing amount of goods and services sold. Sale promotion can be achieved through advertising, market research, use of loss leader, offering credit facilities, widow display, and discount samples among other.

Qn(a) with examples, explain the forms of sales promotion used by manufactures in Uganda.

(b) What are the services offered by advertising firm.

The following are the forms of sales promotion.

- Free sample. As the saying goes a good product promotes itself, producers may distribute free samples of their products to potentials customers. They expect most of those who receive sample to approve later they buy the product.
- Giving free gifts. This involves giving free gifts to any customers who buys the product of a specific value so as to encourage him to buy more. In Uganda, a free gift may give to maintain or encourages others to come and buy e.g. Caltex give a piece of soap, shell offers omo soap.
- Price reduction. This is an attempt by a producer to boost the sale of their products through temporary price reduction. The price reductions are made for a specific period of time to attract more customers. Its hoped that this new customers Credit facilities to boost the sale, a manufacturer may offer credit facilities to his trust worthy customers. Such customers are asked to pay at an agreed period say after a month or two.
- Sales drive (sales men) this is where sales men are employed to visit both potential and existing customers persuading them to buy or increase purchase of a product.
- Demonstration, this is where a manufacturer of a product organize public demonstration in a given area in order to promote his products. This is usually done to introduce anew product to the market for example if Nile breweries in Uganda in launching anew brand of beer it may organize people to march through the town with anew brand.
- After sales services. This is where customers are provided with services e.g. repairs or servicing which is done by a seller free of charge. This encourages customers to buy more products.
- By giving discounts such as cash and trade. This encourages costumers to say more of the product.
- Personal selling. This is where producers or traders employ the qualities of a good retailer such as honest and kind to his customer to increase the sale of goods and services.
- Provision of transport facilities
- Branding and packing.

ADVERTISEMENT

Advertisement refers to the spread or publication of information about goods and services available for sale to the general public. Advertising aims at attracting consumers' attention by stimulating them to buy goods and services.

VARIOUS MEDIAS OF ADVERTISEMENT

There are many different classifications of advertising among which are;

- 1) Informative advertisement. This is the type of advertisement which tries to inform the buyers that the type of goods or service exists. It therefore gives information about goods and services and it does not seek to induce/attract the buyer. It only informs consumers about new products, recent innovation about old ones e.g. cement is sold here, and fresh pork is available.
- 2) Persuasive advertisement. This type of advertisement tries to induce (attract consumers to buy a given product). It aims at creating the mind of consumers that a certain goods or service is superior to the other substitutes e.g. oris is the only international watch, there is not substitute “tiptop” Uganda aim line offers the best meals on the journey ever our competitors agree with this.
- 3) Competitive advertisement. This is like persuasive advertisement, it tries to attract customers to buy a given product or brand instead of that of other competitive firms. Competitive advertising is common among firm producing similar/related products e.g. Omo, Nomi, Toss e.t.c.
- 4) Collective/mass advertisement. This is when all the producers (manufactures) in an industry combine and advertise their products as a giving unit instead of each producer advertising its own product e.g. producers of can decide to advertise like this “Drink more beer” instead of Nile special, pilsner being advertised individually.
- 5) Direct advertisement. This is were an advert is directed to a particular class of people for example advertising Toys and direct than to babies, walking stick and directed to old people e.t.c.
- 6) Indirect advertisement. This is the type of the publication information about goods and services which is not directed to a particular class of people. It generally appeals to the majority of the people. Indirect advertisement is common where posters are used e.g. Disco, Kakira sugar is for me and you.

AIMS/FUNCTIONS OF ADVERTISING

Generally advertising is important in the following;

- Advertisement maintains the market for the firms products therefore increased sales.
- It educates the public about the quality size and use of the product available for sale.
- It creates and enlarges and widens market for the and services available for sale.
- Advertisement increases sales and therefore creates more profit for the manufacturer (producer)
- The advertisement creates employment for the working in advertising firm, e.g. on Radios, TVs, e.t.c.
- It creates and maintains the brand reforces.
- Advertisement is a source of income to the government e.g. government earns revenues by taxing advertising firms.

- Competitive advertisement causes the manufacturers to improve on the quality of the products.
- Advertisement also attracts a consumer to buy a given product.

ADVANTAGES OF ADVERTISEMENT TO CONSUMER

A consumer is a person who uses a commodity and it is the last man in the chain of distribution. Therefore advertisement is important to the consumers in the following ways as seen below.

- Through advertisement consumers get in touch with sellers
- Through advertisement consumers are educated on the use of quality and prices of the product.
- It informs the consumer about price changes for goods and services
- Through advertising consumer get to be convinced that money is spent on the best products.
- Advertisement leads to the production in a price of which is beneficial to the consumer.
- Through advertising consumer becomes aware of goods and services available for sale.
- Through advertisement, consumers are in position to compare and contrast different products.

DISADVANTAGES OF ADVERTISEMENT TO CONSUMER.

- Advertisement may encourage evils like smoking, sexual immorality e.g. sex for men prostitution.
- Some commodities advertised turn out to be inferior to what one expected e.g. super deep.
- Advertising may be misleading e.g. Rex best of success
- When advertisement is competitive, price of goods and services, this directly affects the consumers
- Extensive (persuasive) advertising puts the manufacturer on top, this therefore leads to monopoly.
- Advertisement encourages luxury consumption which is a hindrance to economic growth.

MERITS OF ADVERTISEMENT TO PRODUCER

A producer is a first man in the chain of distribution and therefore advertisement is advantageous to him in the following ways.

PREPARATION OF ADVERTISING AND CHOICE OF MEDIUM

Before advertising goods or service they must be on objective of advertisement i.e. the advertising the

- 1) Danger. Tomorrow your house may get fire, buy your insurance now.
- 2) Age. Every women has a right to be look young than she is e.t.c.

FACTORS CONSIDERED A MEDIUM OF ADVERTISEMENT

Before you choose a medium of advertisement, the following factors should be considered.

- 1) The cost of the medium. Advertise are always made on cheap medium e.g. a radio is preferred in compulsory to TV.
- 2) Flexibility of the media e.g. the radio covers appropriately the recent changes in prices unlike advance on films.
- 3) The number of people the media appeal to. Through posters, signpost, a few local people will be appeal while through the press, radio, TV many people receive the appeal.
- 4) Geographical coverage (area). Local adverts can be made through local stations where as international adverts can be done through internal radios like B.B.C.
- 5) The nature of the product e.g. sellers or dealers of technical goods like computer are advertised through medium like TV, Films e.t.c.
- 6) Special group of people e.g. A group of a scientist may get information about scientific research which it is advertised through scientific magazines.
- 7) The size of advertisement. This is through especially with posters, sign posters e.t.c. The bigger the advertisement the greater the impact and vice versa.
- 8) Frequency of the publication. E.g. Daily newspaper are sold on the same day, they are published e.g. the monitor, news paper, mirror e.t.c. which keep the public inform.
- 9) The age of the groups. Advertisement to young people should be through medias like TV straight talk papers e.t.c.

MEANING OF THE ADVERTISING MEDIA

These are elements that are sued in the advertisement of goods and services and they include the following.

- 1) Radios, TVs, window display, trade faire and exhibition

THE RADIO

The radio is the media of advertisement which is used in the spread of information about goods and services. Information is being broadcast live on Radio station such as Top radio, capital BBC, impact radio and e.t.c.

ADVANTAGES OF ADVERTISING OVER RADIO

- Advertisement broadcast over radio are often repetitive. These enables the consumers properly against and interpret the message.
- Advertisement over the radio accompanied with the music which is played within background during advertising programmed. And this attracts million of consumers.
- Radio advertisement has loud coverage or appealed therefore it reaches all the people all over the nation.
- Radio advertisement is verbal and a bills to both educated and illiterate
- Radio advertisement can be carried out in many native and foreign language
- Radio advertisements are all day running round the clock especially with private local radio stations that advertised through out the day.

DISADVANTAGES OR LIMITATION OF RADIO ADVERTISEMENT

- It is limited to those with radios.
- Commercial advertisements on the radio are limited because of congested radio programmes.
- To be effective, radio adverts should be repeated failure to repeat many consumers miss important information
- Unlike TV, radio prospective customers can not see the product being advertised
- Radio broad casting advertisements are charged according to the time taken therefore it is expensive to advertise through the radio.
- Usually advertisements over the radio last for two (2) seconds which does not get room for the firm to advertise their products.

THE PRESS

This consists of the newspapers, magazines e.t.c.

ADVANTAGES OF PRESS

- It covers a wide area so that it can capture a good number of people.
- The press contains details of relevant fact or information which is needed about goods and services
- The press can be read and therefore understand well by very many people who are educated and not educated.
- The press has got a good frequency of publication e.g. quickly and monthly or years. This keeps the information up to date.

DISADVANTAGES OF THE PRESS

- 1) The press is abstracted by lack of efficiency means of transport so that wide areas may not receive the newspapers.
- 2) The press appeals to those who can read only.
- 3) Newspapers or magazines are expensive for the commoners to buy.

T.V (TELEVISION)

This can both be seen and heard by the audience the message being advertised can be directed to a specific audience by choosing the time of programme and the time of the day.

The audience can be directed in particular geographical areas by using local television station with the use of coloured television can be made more attractive in appearance than black and white.

Television advertising is very effective for technical which required demonstration e.g. WBS, UBC.

ADVANTAGES OF ADVERTISING OVER TELEVISION.

- Television advertisement is very effective because what is screened gives visual impression that can be remembered.
- The television educates people on the use and effectiveness of the product.
- Products advertised have clear vision simply means it can be seen easily
- The television gives pressure and adjustment to the people who view it.
- The television has ability to combines both songs and visuals

DISADVANTAGES OF ADVERTISING OVER T.V.

- Television advertisement are expensive through they are only used by large scale manufacturers. Small retailers are left out because it is very expensive for them.
- Very few people have Televisions and there fore the majority of the people go without information about goods and services when advertised on the T.V.
- Television covers a limited geographical area and largely confined to urban areas.
- It is costed to prepare and run on advert over the T.V
- Television advertisement is convenient i.e. the basic time may not be convenient to the customers .i.e. customers not being present.
- Television advertisement favour people with money ignoring the poor in the rural areas because most rich people are found in town or Urban areas.

WINDOW DISPLAY

Window display is situations where goods are placed outside the shop near the doors or inside the shop but in transparent mirror to attract customers as they move.

ADVANTAGES OF WINDOW DISPLAY

- Through window display, customers are attracted which shopping and hence sales are increased.
- Customers are helped to have a selection of goods they need to buy even before the actual day of buying.
- Through window display, customers are allowed great chance to buy a variety of goods.
- Window display helps the sellers to increase sales by attracting more customers, this is because goods or items on sale are arranged in an appealing manner especially to the customers.
- Finally the practice gives the customers range and free choice of goods to buy especially due to smart arrangement which captures the customers mind.

DISADVANTAGES

- Window shopping encourages stealing of small items
- The method may not be an effective way of selling goods especially when the items are too many and over crowded on the window.
- It may cause the window glass to be broken when this happens, sellers are forced to incur unnecessary costs of repair.
- This practice limits the number of buyers due to the fact that only those who move around are the ones to buy.
- It is limited to only literate class of people.

TRADE EXHIBITION AND FAIR

A TRADE FAIR. Is a place where manufacturers and business men are gathered together normally for few days or weeks so as to display their products to prospective buyers and stimulate trade inquiries. Producers or manufacturers organize exhibition to advertise their goods.

Trade fairs may be organized both at national and international level where products from different countries display what they produce for export.

Exhibition, Agricultural shows and trade shows are very effective means of informing customers of available products.

The purpose of displaying goods on the show is not to sell them but to encourage businessmen to make inquiries; however, some selling is done.

IMPORTANCE OF TRADE FAIRS AND EXHIBITION TO THE PRODUCER

Useful information especially from customers (feed back) concerning a particular product by the manufacturer is got. This is before trade affairs bring people together and discuss about goods and services.

By taking part in trade fair or exhibition, a producer make his product known and encourage inquiries from the traders.

Expert advisor can be given by the producer and he may answer questions which may be asked by potential buyers.

IMPORTANCE OF TRADE FAIR EXHIBITION TO CUSTOMERS.

Consumers are able to see for themselves a large number of products and hence they make a choice

Consumers will have a chance to ask questions about goods displayed and get immediate answer

Some stands in the trade fair may not be necessarily be commercial but may be for educational value.

DISADVANTAGES OF TRADE FAIRS.

It is very expensive to organize a trade fair, structure needs to be constructed, electricity bills to be made.

In cost of catastrophy (accident) a lot of goods can be spoiled e.g. motor vehicle accident e.t.c.

Trade fair exhibition or carried out in only specific areas e.g. Lukoko indoor or stadium therefore the rural population is left out and hence they don't benefit out of it.

Trade fair tend to be wasteful incase where goods are not brought.

CONSUMER PROTECTION

Although consumers are expended to be very careful with examining any item that buy, sometime they failed to do so and hence they need protection which will only be successful on the following points.

Producers may use dangerous and inferior component in the production of their goods and so consumer's protection is required to promote public health.

Some business is monopolized and the absence of competition they can charge high price and yet the quality of their goods and services will remain very poor.

Traders may use wrong measure weight which result into unfairness in business and hence consumers should be protected.

Sometimes the uses miss loading advertisement for goods which does not suit the purpose for which they are needed and therefore these should be checked up to safe guard the interest of the consumers.

Although customers are expected to buy and collect what they want, still the face a problem of making choice and hence consumers association should be formed to protect consumers rights and interest.

Some of the traders have a high bargaining power to promote their interests and therefore consumers being weak must be protected

Some traders may sell contaminated commodities, dangerous drugs to consumers therefore there is need for consumers protected to promote public health and welfare of individuals.

Some trader may supply expired food and drugs to consumers and they do so basing on consumers ignorance and therefore consumers' protection is need.

METHODS OF CONSUMER PROTECTION.

There several bodies which we do chock a consumer interest and the methods involved are as follows; -

- 1) Sells of goods act. 4A 93, the act provides, that sellers do not cheat the consumers by providing false supply of goods of inferior quality to the sample advertised.
- 2) Drugs and goods act. The act are prohibits the producers from including substances in their products that may be harmful to human life.
- 3) Weight and measures. The act assures that then producers have sold goods to consumers, their weight must be inspected to ensure that accurate measures are done. The ministry of commerce sends a representative to check on this.
- 4) Adversary price community. This community fixes prices for range of goods and service
- 5) Trade licenses. Traders will not be allowed to operate without a license.
- 6) Exchange control. Here the central bank can increase bank rate and high rate of interest discouraging borrowing by businessmen and only the right people can borrow.
- 7) Business association which are set up to promote. Certain standards of quality consumer goods and maintenance of high standard of advertising.
- 8) Consumers' organization. The consumers are protected by the organizations which are voluntarily set up by the consumers themselves to safeguard their interest. Every consumer is free to join by paying the membership fee.

QN (a) Present the care for the need of government protection of consumers in your Country today

(b) Discuss the methods used to protect the consumers.

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