S2 COMMERCE

AGENTS

Agents are people who act as a means of communication between two or more parties i.e. between the buyer and the seller in the purchase or sale of goods.

TYPES OF AGENTS

BROKER

This is an agent who represents either the buyer or the seller in the negotiating the purchase or sale of a good without physically handling the good involved. His work is to bring the buyer and the seller together for which he is paid an agent's commission called **brokerage** by whoever is his principal.

Characteristics of a broker

A broker does not possess or own the goods he deals in, his work is to bring the buyer and the seller together.

A broker does not buy or sell in his own name but in the name of his principal.

A broker earns a commission called brokerage based on the value of the good he may help to buy or sell.

A broker is not answerable for the debts of the buyer.

A broker is not responsible for delivery of goods to the buyer.

FACTOR

A factor is an agent who sells goods in his possession and under his control on behalf of his principal.

Characteristics of a factor

A factor possesses goods he deals in.

A factor can sell goods in his name.

A factor receives payments and issues valid receipts.

A factor may give credit to a reasonable extent.

A factor is answerable for the debts of the buyer

Differences between a broker and a factor

BROKER	FACTOR
He cannot use the goods to pledge for a loan	**C**an use the goods to pledge for a loan.
Does not possess the goods he deals in but simply connects the buyer and the seller.	**P**ossesses the goods he deals in
He does not receive payment for the goods	**H**e receives payments and issues valid receipts
Does not give credit	**C**an give credit to a reasonable extent.
He is not answerable for the debts of the buyer.	**H**e is answerable for the debts of the buyer.
He is not responsible for delivery of goods	**H**e is responsible for delivery of goods.
Does not sell goods under his name	**H**e sells other people's goods in his name.

Del credere agent

This is an agent who guarantees to pay the supplier or his principal for the goods he sells on his behalf. The supplier or principal is assured of his payments whether the goods are bought or not. A delcredere agent also guarantees to collect all the money from those who take goods on credit. He is also personally liable for any debt that may arise from such customers. He earns a commission known as **a delcredere commission.**

Del credere is an Italian term which means belief or trust.

Auctioneer

This is an agent authorised to sell goods by public auction and has authority to sell to the highest bidder.

Export agents

These are agents who contact buyers in foreign markets.

Import agents

These are home based middlemen or agents who collect orders for goods from other countries or abroad on behalf of local buyers.

Forwarding agents

These are agents who transport and deliver goods on behalf of others eg inter freight ug ltd , trans oceans ug ltd etc.

MIDDLEMEN

These are traders who connect producers to consumers eg wholesalers and retailers, and the wholesaler is the most important middleman in the chain of distribution of goods.

Functions of middlemen

They store goods bought from producers until when they are demanded by consumers.

They transport goods bought from producers and sometimes taking them to the buyer's premises.

They advise consumers regarding handling and use of some goods.

They advertise goods on behalf of the producer.

They bridge the gap between producers and consumers.

They provide continuous working capital to producers since they buy in large quantities and pay promptly which enables continuous production.

They break bulk by selling in affordable quantities.

Problems or disadvantages of middlemen

Over charging

Middlemen tend to overcharge customers by increasing the prices of goods in order to make unnecessary large profits.

Diluting goods

Middlemen tend to dilute some goods especially liquids with the intention of increasing the volume for sale so that they can get more profits.

False advertisement

Some middlemen make false advertisements regarding goods they sell so that they can attract many customers.

Sale of defective goods

Some middlemen sell outdated or expired goods to consumers which are dangerous to the health of the customers e.g. drugs and tinned foods.

Hoarding or hiding goods

Some middlemen create artificial shortages by hiding certain goods with the intention of making large profits and this is very common with essential goods like sugar, salt , soap, fuel etc.

ELIMINATION OF THE WHOLESALER FROM THE CHAIN OF DISTRIBUTION OF GOODS

(Circumstances under which a wholesaler may be eliminated from the chain of distribution of goods)

In case of expensive goods

Producers of expensive goods tend to sell directly to consumers in order to avoid further increase of prices hence eliminating the wholesaler.

In case of sale by contract

Where the sale is by contract, producers tend to deal directly with consumers thus eliminating the wholesaler. Eg; setting up buildings, construction of roads etc.

In case of mail order retailing

The establishment of mail order retailing has enabled consumers to order for goods directly from producers through post offices hence eliminating the wholesaler.

In case of local demand

Where the demand is local and small producers tend to deal directly with consumers thus eliminating the wholesaler.eg sale of food stuffs in rural areas.

In case of branded and packed goods

Packaging and branding has enabled producers to advertise their goods so in this case consumers tend to buy directly from producers hence eliminating wholesalers from the chain of distribution.

In case of large scale retailing

The presence of large scale retailers who buy directly from producers in large quantities and sell to the consumers has also led to the elimination of the wholesaler from the chain of distribution of goods.

In case of direct services

The provision of direct services has also enabled consumers to deal directly with producers hence eliminating wholesalers.eg tailoring, hair dressing, and medical care.

In case of consumer co operative societies

Consumers themselves can raise capital and buy directly from producers in large quantities at a lower price thus eliminating the wholesaler.

In case of large purchases

Some organisations and individuals are in position to buy in large quantities from producers thus eliminating the wholesaler.

In case of producer's retail outlets

Some producers are in good financial position to set up their own retail shops so in this case they are able to serve their customers directly hence eliminating the wholesaler.

In case of improved transport and communication services

With improved transport and communication services, consumers are encouraged to move and communicate directly with producers hence eliminating the wholesaler.

In case of perishable goods

Where goods are perishable and delicate they do not need to pass through wholesalers, they are sold directly to consumers thus eliminating wholesalers from the chain of distribution.

PROBLEMS FACED BY TRADERS IN HOME TRADE

Lack of enough capital

Most traders do not have enough capital to finance and expand their businesses. The majority of traders operate on a small scale and realise very little profits.

Small market

Most traders serve a very small market which limits the volume of sales and profits made by them.

Lack of business knowledge

Many traders are ignorant about the way businesses are conducted .They lack proper business management skills, they do not keep books of accounts and have no proper accountability.

Exposure to many risks

Traders face a number of risks like highway robbery, theft and burglary .There are also risks of accidents when goods are in transit and they are often unable to insure their businesses.

Poor storage facilities

There is lack of proper storage facilities for trader's goods which makes it difficult to store and preserve their goods for a reasonable period of time.

High rates of taxes

There is excessive taxation by the government especially in urban centres which limits the accumulation of capital due to little profits.

Political instability

This has limited the conduct of businesses since traders fear to lose their lives and goods in such areas with political instabilities.

Inability to get loans

In most cases traders lack assets which they can pledge to financial institutions in order to get loans and at times they are discouraged from borrowing due to high interest rates charged by banks.

N:B. An ASSET *is an item of value that belongs to a business or an individual*

Inflation

This is an economic problem which leads to persistent and continuous price increase of products. During inflation prices of various items like fuel and raw materials increase which forces the prices of finished goods to go up and causes a fall in demand.

Expensive premises

The premises where to operate from are quite expensive. Many business people cannot afford to set up their own buildings so they resort to renting which has proved to be very costly thus affecting their profits.

Poor transport and communication facilities

Most traders especially in rural areas are faced with a problem of poor feeder roads, poor telephone and postal services which limits quick movement of goods and transfer of information to traders in different areas.

REVISION QUESTIONS

1. **1.** Define the following terms
   i) Wholesale trade
   ii) Wholesaling
   iii) Wholesaler
   iv) An asset
   v) Inflation
2. Explain the qualities of a good wholesaler
3. Explain the different types of wholesalers
4. Explain the functions of a wholesaler in the chain of distribution of goods
5. Explain the services of a wholesaler to;
   i. Manufacturer
   ii. Retailer
   iii. Consumer
6. Explain the circumstances under which a wholesaler may be eliminated from the chain of distribution of goods
7. Write briefly on the following
   i. factor
   ii. broker
   iii. delcredere agent
   iv. forwarding agent
   v. auctioneer
   vi. import agent
   vii. export agent
8. What are the characteristics of a broker?
9. Give the characteristics of a factor
10. Give the differences between a factor and a broker
11. How are middlemen important in trade?
12. Explain the problems of middlemen in trade
13. Illustrate and explain the chain of distribution of goods
14. Explain the factors that determine the chain of distribution of goods

DOCUMENTS USED IN HOME TRADE

(IN A COMMERCIAL TRANSACTION)

Commercial transaction

A commercial transaction is any dealing between two or more parties that involves the transfer of goods and services from one party to another for money.

A commercial transaction has two major types

i **C**ash transaction

ii **C**redit transaction

A Cash transaction is business dealing between two parties where the transfer of goods or services and payment for them is done at the same time. I.e. the buyer pays for the goods or services by cash as soon as they are handed over to him.

A Credit transaction is a business dealing where the transfer of goods or services takes place but the payment for them is made/ done at a future date.

Steps in a commercial transaction

There are certain steps in a commercial transaction and each step gives rise to a particular document(s) that evidences part of a transaction and such documents are called **commercial documents.**

A commercial document is a written information giving details of a transaction between parties involved in a particular business deal.

Step 1

BIRTH OF AN IDEA

Before any transaction takes places there must exist an idea in the minds of the buyer towards the product he wants to buy. Here effective / extensive advertisement plays major role in creating an idea in the mind of the buyer on where to get the product, its price, quality etc

Step 2

INQUIRY

After the buyer has developed an idea about what he wants to buy, he will look for further information before he actually places an order and this may done verbally or by writing an inquiry letter. **An inquiry letter** is a document written by the buyer to the seller seeking for various information about the products the buyer wants to buy. This information may include;

I. **A**vailability of the product
II. **P**rice of the product
III. **T**he use of the product
IV. **M**ethods of payment etc

SEED SCHOOL.

P O BOX 2560

KAMPALA

23/03/2020

TO THE SALES MANAGER,

ARITIC BOOKSHOP,

P O BOX 300,

KAMPALA.

Dear Sir/ Madam,

RE: INQUIRY ABOUT COMMERCE BOOKS

On behalf of Seed school, please let me know the different types of commerce books you have in stock and their prices, terms of delivery and terms of sale.

Yours,

MBABAZI CHARITY.

SCHOOL LIBRARIAN.

Step 3

REPLY TO THE INQUIRY

Having received inquiries from the buyer the seller may reply the inquiries using any of the following methods/ ways.

Price list
This is a document showing the list of items on sale together with their respective prices. It is brief and does not describe the goods on sale.

Catalogue
This is a booklet describing goods on sale with their pictures and prices, it is more illustrative and informative than the price list and their price current.

Price current
Sometimes prices change over time, in this case the seller sends a price current which shows the current prevailing prices at a time.

Samples
Some suppliers may send samples to their prospective buyers.
A sample is an item representing the many items a seller has in his ware house. Samples are usually sent by suppliers of text books, new fashions of cloth, furniture etc.

Estimates
These are used by suppliers of items requiring skills of craft man ship eg house construction, road construction etc where the cost cannot be determined but estimated.

Quotation
This is more specific in nature and it is used where the price list and catalogues are not available and it is commonly used to quote only the information the buyer wants to know eg prices of products, the credit period, delivery service, after sale services, discounts allowed etc.

ARITIC BOOKSHOP
P.O. BOX 300 KAMPALA
26/03/2020

QUOTATION No 004

TO SEED SCHOOL,
P. O. BOX 2560,
KAMPALA.

Dear Sir/ Madam,

RE: QUOTATION

We acknowledge receipt of your inquiry and we would like to quote as follows:

CODE	DESCRIPTION	UNIT PRICE(Shs)
E01	ESSENTIALS OF COMMERCE By S A BUTT	20,000
T09	TEXT BOOK OF COMMERCE By D KAMASANYU	50,000
N07	NEW COMMERCE FOR UGANDA By MUGERWA	30,000
A08	ACCOUNTING SIMPLIFIED By CHAGAN	40,000
E03	ELEMENTARY ACCOUNTING By SOZINO	30,000

TERMS OF SALE: Discount 5%, for 30 days.

TERMS OF DELIVERY: 7 days

To accept this quotation, sign here and return

....

Prepared by: Katende Peter

SALES MANAGER

Step 4

PLACING AN ORDER

When the buyer is satisfied with the information given to him about his inquiries, he may now go ahead and place an order. An order may be done verbally, or by writing an order letter or by filling a pre printed order form.
An order is request from the buyer to the seller to supply the buyer with certain goods.

SEED SCHOOL
P O BOX 2560
KAMPALA
28/03/2020

ORDER No 0010
QUOTATION No 004

TO THE SALES MANAGER,
ARITIC BOOKSHOP,
P O BOX 300.
KAMPALA.

Please supply the following commercial books:

QUANTITY	CODE	DESCRIPTION	UNIT PRICE (Shs)	TOTAL
20	E01	ESSENTIALS OF COMMERCE	20,000	400,000
50	T09	TEXT BOOK OF COMMERCE	50,000	2,500,000
100	A08	ACCOUNTING SIMPLIFIED	40,000	4,000,000
200	E03	ELEMENTARY ACCOUNTING	300,000	6,000,000

SIGNED

MBABAZI CHARITY
SCHOOL LIBRARIAN

Step 5

CASH OR CREDIT

At this stage it is the duty of the seller to decide whether to sell his goods on cash basis or to allow his goods be taken on credit and payment is done later.
If the goods are to be sold on cash basis, the following should be specified:

C.W.O (Cash with order)

This means when buyer is sending the order, he should do it with cash.

C.O.D (Cash on delivery)

This means that on delivering the goods to the buyer, the seller should collect cash. This may also be the case when goods are delivered by post where by the postman making the delivery should collect cash from the buyer.

Spot cash S.C

This means that the buyer pays for the goods as he collects them from the seller's premises.

However if the buyer wishes to be given credit and it is the first time transaction between them, the seller has to make sure that the buyer is credit worthy by making a credit status inquiry to ensure that he does not incur heavy losses.

Step 6

CREDIT STATUS INQUIRY

This is a document drawn and sent by the seller to find out the credit worthless of his prospective buyer .It can be done by sending a credit status inquiry to any of the following sources.

The buyer's bank

The seller asks the buyer's bank about the buyer's credibility in relation to the buyers trust worthiness.

Other suppliers

The seller may ask the buyer for the names of the suppliers and checks his credibility with these suppliers.

Other customers

The seller may ask his clients about the credit worthiness of his prospective buyer.

Trade association
This is an association that brings together all traders in the country.
If the seller wants a confidential report about his buyer, he can approach this association.

Step 7

CREDIT TERMS
If the seller finds out the credit worthiness of the buyer, he will go ahead and offer credit facilities and will also state the credit terms in terms of period.
The credit period usually ranges from 7to 30days for normal orders and 1to3months for very large orders.

Proforma invoice
This is a document sent by the seller to the stating the terms and conditions under which goods will be supplied.

Step 8

PACKING OF GOODS
The order received from the buyer will now be passed on to the seller's sales department to the ware houses packing section. Goods will be packed in appropriate cases or boxes and the content of each box noted on a sheet called a package sheet.
A package sheet is a document that gives the contents of goods being packed. It is usually printed in four copies , the original is placed inside the box, one is sent to the buyer by post, one is sent to the accounts department and the last one is retained by the warehouse for it is own records.

THE DESPATCH NOTE
This is a document sent by the seller to the buyer to inform him that the goods he ordered for have been sent or despatched and therefore should prepare space for them. It acts as an advice note.

ARITIC BOOKSHOP
P O BOX 300 KAMPALA
03/04/2020

TO: SEED SCHOOL,
P O BOX 2560,
KAMPALA.

Dear Sir/ Madam,

We have today 3rd April 2020 despatched to you by taxi as per your order No **0010** dated 28th March 2020 the following items;

CODE	**DESCRIPTION**	**QUANTITY**
E01	ESSENTIALS OF COMMERCE	20
T09	TEXT BOOK OF COMMERCE	50
A08	ACCOUNTING SIMPLIFIED	100
E03	ELEMENTARY ACCOUNTING	200

Yours faithfully,
Katende Peter
SALES MANAGER

Step 9

DELIVERY OF GOODS

Goods packed may be delivered by the seller to the buyer's premises or collected by the buyer or transported through public carriers. Goods delivered are accompanied by a document called a delivery note.

A delivery note is a document sent by the seller to the buyer giving brief details of goods being delivered.

ARITIC BOOKSHOP
P O BOX 300 KAMPALA
06/04/2020

DELIVERY NOTE No **002**
SEED SCHOOL
P O BOX 2560
KAMPALA
YOUR ORDER No **0010**

Please acknowledge receipt of the following items in good order.

CODE	**DESCRIPTION**	**QUANTITY**
E01	ESSENTIALS OF COMMERCE	20
T09	TEXT BOOK OF COMMERCE	50
A08	ACCOUNTING SIMPLIFIED	100
E03	ELEMENTARY ACCOUNTING	200

Received by...

Delivered by...

Signature..

Date...

Step 10

INVOICING
Once goods are delivered on credit they are accompanied by a document called an invoice.
An invoice is a document that gives brief details of goods delivered on credit.

ARITIC BOOKSHOP
P O BOX 300
KAMPALA

INVOICE No **004**
Your Order **0010**

SEED SCHOOL
P O BOX 2560
KAMPALA

QUANTITY	CODE	DESCRIPTION	UNIT PRICE (Shs)	TOTAL
20	E01	ESSENTIALS OF COMMERCE	20,000	400,000
50	T09	TEXT BOOK OF COMMERCE	50,000	2,500,000
100	A08	ACCOUNTING SIMPLIFIED	40,000	4,000,000
200	E03	ELEMENTARY ACCOUNTING	300,000	6,000,000
TOTAL			12,900,000	
Less 5%Cash discount			645,000	
Amount payable			12,255,000	

E & OE
Kaende Peter
Sales Manager

An invoice serves the following purposes

I. it notifies the buyer the amount owed by him for the goods supplied to him
II. it serves as an evidence to the debt due to the seller.
III. it demands for payments.

An invoice contains the following information.

The date of transaction.
Name and address of the seller and the buyer.
The buyers order number.
The quantity of goods.
The unit prices of goods charged.
Any discount allowed.
The total cost of goods sold on credit.

The length of the credit period.
E and OE

Note: E and O.E

These letters stand for “errors and omissions excepted.”

The purpose of these letters on an invoice signifies that the seller reserves the right to correct any error and omission on an invoice Should they arise.

Step 11

PROCEDURE ON THE RECEIPT OF GOODS

After receiving goods from the seller, the buyer takes the following steps;

Inspect the goods to see that they not damaged.
Make a record in his store and record books of the description and quantity of goods received.
Verify the goods with the copy of the order placed and the package sheet received / delivery note to ensure that what he ordered for has been packed and delivered.

Step 12

PROCEDURE ON THE RECEIPT OF AN **INVOICE**

On receiving an invoice from the seller, the buyer takes the following steps;

Verify it against a copy of order placed to ensure that he has been involved for the goods he actually ordered for.
Verify it against the delivery note and the package sheet to ensure that the invoiced goods were packed and delivered .
Check the prices and trade discounts allowed to ensure that no overcharge has been made.
Check the calculation and arithmetical accuracy of the invoice
If the invoice is found accurate in all aspects above, it is then passed onto the accounts department which will prepare for payments.

Step 13

DISCREPANCIES IN AN INVOICE/ ERROR IN AN INVOICE

If the invoice is found incorrect the buyer takes appropriate steps to ensure that he pays the correct amount.
An incorrect invoice may lead to an over charge or under charge of the buyer.
The under charge or over charge on an invoice may result from;

Incorrect pricing
Error in calculating discounts
Inclusive of some items
Defective goods sent
Wrong quality or quantity of goods sent
Omission of some items etc

Over charge

This occurs when the total of the invoice is higher than the actual amount due. In this case the seller sends a credit note

A credit note is a document sent by the seller to the buyer to correct an over charge on an invoice. It is usually printed in red.

Under charge

This occurs when the total amount on an invoice is less than the actual figure owed.

In this case the seller sends a debit note.

A debit note is a document sent by the seller to the buyer to correct an under charge on an invoice. It is usually printed in blue.

Step 14

RETURN OF GOODS

If the buyer on the receipt of goods from the seller finds some or all of them defective or unsatisfactory he may return such goods and claim for a credit Note. When returning the goods to the seller, they are accompanied by a document called **a goods return Note**.

It is a document sent by the buyer to the seller giving reasons for the returning goods.

Some of the possible reasons may include;

I. The goods are damaged
II. The goods were not ordered for
III. They are of poor quality
IV. They are not fit for the purpose for which they were ordered for.

When the seller receives a goods return note and he is satisfied with the reasons given by the buyer, he prepares a credit note to reduce on the amount owed by him to the buyer.

Step 15

STATEMENT OF ACCOUNT

This is a document that contains a summary of all transactions that have taken place between the buyer and the seller for a period of one month.ie It is sent monthly.

It contains the following information;

Amount due from the seller at the beginning of the month
List of invoices sent during the month
Amount of money paid by the buyer during the month
Total amount of credit Notes issued to the buyer during the month
Amount due at the end of the month

ARITIC BOOKSHOP
POBOX 300
KAMPALA

10 MAY 2020
Statement a/c no:001
To: seed school
p.o.box 2560 kampala

RE: STATEMENT OF ACCOUNT FOR THE MONTH OF APRIL 2020

DATE	PARTICULARS	DEBIT(shs)	CREDIT(shs)	BALANCE(shs)
10th-april	Invoice no;004	12,255,000/=		12,255,000/=
15th-april	Cash payment		10,000,000/=	2,255,000/=
25th-april	Cash payment	2,255,000/=	2,000,000/=	255,000/=
30th-april	Amount due	255,000/=		255,000/=

E&OE
Katende Peter,
Sales manager.

Step16

Procedure on the receipt of the statement of account

After receiving the statement of account from the seller the buyer takes the following steps;

Check against the previous statements of accounts to ensure that the opening balance is correct
Verify it with invoices received during the month
Verify it with any payments made during the month
Prepare a cheque or cash for payment

Step 17

RECEIPT

This is the last stage in a commercial transaction. On the receipt of money in cash from the buyer, the seller issues a receipt.

A receipt is a document that acknowledges payment for the goods and services.

It is however not necessary to issue a receipt when payment is by cheque because it is also an evidence of payment and a receipt is also called **a cash sale slip** and it marks the end of a transaction.

ARITIC BOOKSHOP
P.O.BOX 300
KAMPALA

25th April 2020

Receipt no; 001

Received with thanx from **<u>seed school,</u> the sum of Shs 2,000,000/= (two million shillings only).**

Being payment for text books.
Total amount; shs 2255000/=
Amount paid shs 2,000,000/= **Balance shs 255,000/=**

....
Katende peter,
Sales manager.

Importance of business documents

They enable the business owner to know their sales for a given period of time.
They enable sellers to have track of their buyers by use of invoice.
Receipts acknowledge payments for goods and services.
Documents are a basis for proper book keeping.
They enable the buyer to know when the goods are arriving at his premises and prepare space for them.
Documents save time and money because instead of physically moving you just send a document.
The seller's turnover is raised since he is able to inform buyers about the availability of goods such that they can come and buy.
The seller is able to find out the credit worthiness of buyer by use of a credit status inquiry which reduces on bad debts and losses.

Buyers are able to know the availability and other important information concerning goods they wish to buy.

BUSINESS UNITS/OWNERSHIP

Some businesses are owned by one person while others are collectively owned, some are small and others are large.

FACTORS DETERMINING THE SIZE OF A FIRM

A business may be called large or small depending on the following factors;

The size of the market served:

Large firms produce in large quantities so this calls for a large market for such goods. Small firms on the other hand serve a small market due to small production.

The number of departments involved:

Large businesses practice some specialization and this call for a large number of departments but Small firms usually have one department or very few departments.

Total number of goods produced:

The total output of a large business tends to be larger than that of a small firm. This is mainly because of using modern methods of production like machinery.

Techniques used in production:

The method of production also determines the size of a firm, Large businesses tend to employ modern techniques unlike small ones e.g. computerization and mechanization.

Number of people employed:

Though there is no definite number of people required to determine the size of a business, large firms tend to employ large numbers of labour force than small ones.

The amount of capital employed:

Large businesses employ large amounts of capital to operate. This is because of the many assets which have to be purchased. Small firms on the other hand employ little capital in the business.

The floor area occupied:

In many instances, large firms occupy a very large space as compared to small firms. This is very true with agricultural enterprises which are under large area of plantation, manufacturing industries. E.g. Mukwano, Nile Breweries, Coca-Cola etc.

ECONOMIES OF SCALE

Economics of scale are the advantages of a firm enjoys due to large scale operations.

Large firms tend to enjoy economies of scale and these include:

Decisions made are better because of a combination of ideas and opinions.

Specialists can easily be employed and this may increase production.

They contribute more to development since they pay higher taxes to the government than small firms.

Large firms can easily borrow money from financial institutions since they own collateral security in form assets.

Specialization can easily be practiced due to large number of people employed.

Large firms can afford modern techniques of production due to large capital employed.

They can afford large purchases and get raw materials at a low price or at a discount.

They stand high chances of expansion because of large profits and the possibility of getting loans.

They can afford advanced advertising and research due to large capital employed and profits earned.

They can easily venture into staff training programs through seminars and workshops due to large capital.

DISECONOMIES OF SCALE

These are the disadvantages a firm realizes when its operating on a large scale

Modern machinery is very expensive to install and maintain.

Employing a large number of people may result into labour disputes and misunderstandings.

Resource wastage tends to be high with large firms.

In case of natural disasters like floods, earthquakes etc. Large firms may be greatly affected.

Large firms are not flexible as far as changing from one line of business/production to another is concerned.

Being large, management may be difficult.

FACTORS CONSIDERED BEFORE INVESTING IN A PARTICULAR BUSINESS UNIT.

Number of people involved

Some people prefer to invest their money where they enjoy large profits hence majority prefer sole proprietorship where profits are enjoyed by one person to companies where profits are shared.

Accessibility

Many people prefer to invest money in enterprises they can easily inspect at any time to monitor progress.

Legibility

People will comfortably invest in business enterprises with proper legal documents and status e.g. public companies have more legal documents than sole trade and partnership.

Capital involved.

A person should consider the amount of capital involved. Some businesses require a large volume of capital while others require small capital e.g. Public companies require large capital compared to sole trade.

Ability to make profits

People will invest in business which can guarantee security of their capital.

TYPES OF BUSINESS UNITS

SOLE PROPRIETORSHIP/SOLE TRADE

This is a business owned by one person called a sole proprietor or trader who contributes towards its capital and enjoys all profits alone. The law does not separate the sole proprietor from his business i.e. a sole trader and a sole business are one.

FEATURES OF SOLE PROPRIETORSHIP

It's a one man business.

The business requires little amount of capital to start, so it is easy to set up.

Profits are enjoyed by one person.

The business operates on a small scale.

Losses are suffered by the sole trader alone.

The business is short lived i.e. its life depends on the life of the sole trader. Once he dies, the business is also likely to collapse

It is flexible i.e. can easily change from one line of business to another.

There is secrecy or confidentiality.

It is not a separate legal entity i.e. a sole trader and sole trade business are one.

ADVANTAGES OF SOLE TRADE

A sole trader enjoys all profits alone and his family.

A sole trader provides employment to his family members.

He enjoys secrecy or confidentiality since the affairs of the business are known to the sole trader alone

He advises his customers regarding handling and use of certain goods

He has a strict supervision which results into efficiency since the benefits of the business belong to him alone

There is personal interest in the business so a sole trader tends to work very hard since he knows all the outcome of his effort is his alone.

Decision making is easy since a trader does not need to consult anybody hence avoiding delays in making decisions.

Sole trade is easy to set up since small capital is required to start it.

It is flexible i.e. one can easily change from one line of business to another.

A sole trader has personal contact with his customers, therefore he knows the type of goods they need, gets their advice and opinions.

Being small, sole trade businesses are usually located within the residential areas of customers. This enables a sole trader to serve his customers for long hours and to save customers from moving long distances.

DISADVANTAGES OF SOLE TRADE

He suffers all losses alone.

A sole trader has unlimited liability i.e. if he experiences a bad debt, he may find his personal belongings sold to cover the debts.

Expansion is not possible due to little capital employed and profits earned.

Sole trade businesses are short lived i.e. its existence depends on the life of the sole trader once he dies the business is also likely to collapse.

There is no proper accounting system in sole trade since a sole trader tends to depend on money seen in the drawer not knowing that losses can be made.

Many sole traders lack managerial skills since they tend to do everything themselves from purchasing, stocking, selling etc. yet one cannot have all these skills.

Wrong decisions may be made since a sole trader does not consult anybody and this may result into inefficiency which may result into losses.

Modernization is limited since a sole trader may not afford modern machines due to little capital.

A sole trader may not afford handling a variety of goods because of little capital and may not easily get a loan from banks due to lack of enough collateral security.

Review Questions

1) What is Sole proprietorship?
2) Give five features of sole trade.
3) What are the advantages and disadvantages of sole trade?
4) Why are sole trade businesses preferred to partnership in Uganda?
5) Why are sole proprietorships very common in Uganda today?

PARTNERSHIP

The law defines partnership as “the relationship that exists between persons carrying on a business with a common view of making profits.

Members in a partnership are called PARTNERS.

NB: Membership ranges between 2 – 20. However in case of banking business, the number is limited to 10 yet with professionals like lawyers, teachers, etc., the number may exceed 20 to a maximum of 50. This is provided by the partnership Act 1934, Cap 29.

The act also provides that a person who does not have **a contractual capacity** cannot be a partner.

It is a legal term which means that a person who in the eyes of law is not fit and proper or who does not have enough mental reasoning capacity to conduct his own affairs, he is not entitled to enter into any form of contract e.g. People who are insane, mentally incapacitated and those who are bankrupt.

TYPES OF PARTNERSHIPS

TEMPORARY PARTNERSHIP

This is formed for either a specified period or a specified purpose at the expiry of which or completion of the purpose, the partnership is dissolved for example people may form a partnership for constructing a building, once it is completed, the partnership is dissolved.

PERMANENT PARTNERSHIP

This is intended to continue indefinitely its end is not known at the time of formation.

ORDINARY/ GENERAL PARTNERSHIP

This is partnership whose members have equal rights and responsibilities. The liability of members is unlimited that is to say, members stand to lose all their money contributed to the business (capital) and may even lose their personal belongings in case the business fails to pay its debt.

LIMITED PARTNERSHIP

All partners in this business enjoy limited liabilities except one remains an ordinary partner or a general partner. The general partner has greater powers than the limited partners.

NB: In every partnership, there must be at least one general partner with unlimited liability.

TYPES OF PARTNERS

Partners are people who own a partnership business.

Partners are classified according to;

The role played by them e.g. active partner and dormant partner.

Their age, e.g. Minor and major partner.

The way they conduct themselves. e.g. Partner by Estopel

ACTIVE/REAL PARTNERS

This Contributes towards capital of the business, Shares profits and suffers losses, Liable for the business debts and Takes part in the day to day running of the business

DORMANT/SLEEPING/SILENT PARTNERS

This Contributes toward capital of the business, **S**hares profits and suffers losses, **L**iable for business debts but **D**oes not take part in the day to day running of the business

MAJOR AND MINOR PARTNER

A major partner is a partner who is 18 years and above while a minor partner is below 18 year of age as far as Uganda is concerned.

QUASI / NORMINAL PARTNER

This is a partner who does not contribute any capital or take part in the daily running of the business but allows the firm to use his name as a partner. He is generally not liable for the firm's debts but gets a small share of profits.

PARTNER BY ESTOPEL

This is not really a partner but the way he conducts himself makes others to believe him as a partner

GENERAL PARTNER

This is the one with unlimited liability and may be called upon to settle the firm's debts from his personal belongings / resources if the firm fails to settle them.

OUT GOING / RETIRING PARTNER

This is one who has withdrawn from the partnership however he is liable for the debts and losses the firm incurred before his withdrawal.

LIMITED PARTNER

This is a person whose liability towards the business debts is limited to the stated sum usually the capital contributed by him.

This means that should the business fail to meet its debts a limited partner would not be required to contribute anything more than the capital contributed.

FORMATION OF A PARTNERSHIP

A partnership may be formed with the minimum of 2 people to a maximum of 20 people. It is however provided in the partnership Act of 1934 that where all members offer personal and professional services in the same profession e.g. Lawyers, teachers and engineers the number may exceed 20 up to 50. The act also provides that any who is of unsound mind cannot be a partner. i.e. people who do not have enough mental reasoning capacity to manage their affairs are not entitled to enter any form of contract.

There is no major legal formality involved in forming partnerships if partners wish to run it in their own names. But if they want to give it a name other than their names, they are required to register the firm's name with the registrar of business.

Partners however find it necessary and useful to prepare another agreement before entering into a partnership. This agreement is called a **PARTNERSHIP DEED.**

PARTNERSHIP DEED

This is a written agreement intended to outline the basis on which the partnership is being formed. It sets out terms and conditions under which a partnership business will be conducted.

CONTENTS OF A PARTNERSHIP DEED

A partnership deed would usually state the following

Name of a firm and location

Name, address and occupation of each partner

Status / type of each partner e.g advice partner, dormant etc.

Capital to be contributed by each partner

The ratio in which profits and losses would be shared by the partners

Rights of each partner

Duties allocated to partners

Methods of calculating good will at the time of retirement, death or admission of a partner

The manner in which books of accounts would be kept

The procedure to be adopted at dissolution of the business

The purpose for which the firm is established/ the line of business

Drawings allowable each year and how they will be carried out

How the management committee will be elected

Procedure to be taken in case of dispute among partners.

In the absence of a written partnership deed or event of ambiguity (not defined or in the event of confusion) in it, the provisions of the partnership Act 1934, Cap 29 apply.

PARTNERSHIP ACT

The act states that:

Every partner will have the right to take part in the conduct of the business.

Every partner will have right to protect the firms books of accounts.

No salary is to be allowed to any partner.

5% interest is to be allowed on capital.

In case of disagreements arising as ordinary matters, connected with a business, the decision may be taken by the majority of partners

No change may be made in the nature of the business without the consent of all partners.

All profits and losses are to be shared equally among all the partners.

RIGHTS AND DUTIES OF PARTNERS

Unless the partnership deed states otherwise the partners have the following rights and duties;

If a partner has a private business that competes with the partnership, all profits made should be surrendered to the partnership firm.

No partner may be expelled without dissolving the partnership.

The firm must compensate the partner for liabilities incurred by him in the conduct of the business

Every partner has the right to act on behalf of the business i.e to sign documents on its behalf and to bind it under a contract as long as he acts with in the provisions of the partnership deed

All partners are personally liable for the debts incurred by the firm.

No new partner may be admitted without the consent of all partners.

A partner cannot sell his shares to any outsider without the consent of all other partners.

Every partner who has access to the firms funds (money) or other properties must show accountability which must be true (display utmost good faith) i.e partners should be faithful to each other.

Every partner should comply with the provisions of the partnership deed.

Every partner has the right to inspect the books of accounts.

Every partner has the right to share profits of the business incase made.

Advantages of partnership business

More capital is raised than in case of sole trade and this gives room for expansion.

Partners have a chance of getting loans from banks because of enough collateral security in the business.

Partners share ideas which lead to efficiency unlike in sole trade.

Different partners with different skills can easily be achieved unlike in sole trade.

In case the business makes losses a burden is shared among all partners unlike in sole trade.

It is easy to start since it doesn't involve many legal formalities (documents) like companies.

Absence of a dormant partner cannot stop the business from operating.

There is secrecy i.e. information regarding a business is kept only to the members, their accounts can't easily be inspected like those of other companies.

There is division of labour among members and this leads to efficiency because work is distributed among members accordingly.

In a limited partnership business partners enjoy limited liability i.e their liability is limited to the money contributed as capital to the business.

It is flexible i.e. a partnership business can easily change from one business to another provided partners are willing to change a clause of their deed.

Disadvantages of a partnership business

Sharing of profits reduce the amount earned by each partner.

Death of an active partner may lead to the end of the business.

A misconduct one partner may affect the entire business.

Decision making takes long since all partners need to be consulted before any decision is taken.

With ordinary partnership business, the liability of the members is unlimited.

Partners may not be encouraged to work harder since they know that profits are to be shared among them.

Being many in the business, personal contact is not created with their customers like in sole trade.

Since they are many people in the business, differences and disagreements may arise.

DISOLUTION OF A PARTNERSHIP

Dissolution of a partnership refers to bringing the existence of a partnership to an end.

Circumstances may prevail such that there is no better alternative than dissolving a partnership. This may take place because of the following:

If a partner becomes bankrupt.

Death of a partner especially an active partner may lead to dissolution of a partnership.

If the partner becomes mad or insane.

By law if one partner acts contrally to the provisions of the partnership deed.

If the law banning the activities of the partnership is introduced it can still be dissolved.

If a partner discloses his intentions in writing to dissolve a partnership or if he retires.

If it is not operating on profits but only losses.

Should the partner carry out illegal activities the court may dissolve it.

Creditors may also petition the partnership in court to be dissolved in case they fail to discharge or pay off their debts.

If the duration of the partnership has expired i.e. in case it is temporary partnership.

If the partnership doesn't conform to the regulations of its information i.e. when it has less or more than the required number of partners.

Review Questions.

1. What is a partnership?
2. Define a partnership deed and state its contents.
3. Explain the types of partnership.
4. Give the different types of partners,
5. Explain the advantages and disadvantages of a partnership.
6. Explain the rights and duties of partnerships.
7. Give the circumstances under which it may be dissolved.