Economic integration

This refers to the terms agreed upon by a group of countries to accord preferential treatment to goods imported from or to each other.
OR This is where countries in the same geographical region come together to merge their economies and economic policies so as to enjoy greater benefits from international trade.
This may involve reduction or elimination of tariffs among member countries.

Examples of economic integration

- East African community.
- Economic Community for West African States (ECOWAS)
- European Union
- Common Market for East and Southern Africa (COMESA)

Economic integration mainly arises out of countries finding themselves with inadequate market due to low purchasing power and sometimes small geographical size.

Economic integration can take the following forms/types/levels/stages

1. P.T.A (Preferential Trade Area)

This is where countries agree to accord preferential treatment to goods coming from each other. It involves charging each other lower customs duties on the various products.

2. Free Trade Area

This is a form of economic integration where there is free trade among member countries but each member country is free to levy different external trade barriers on goods coming from non-member countries.

3. Customs union

Here, there is free trade among member countries and a common tariff barrier on goods from non-member countries.

4. Common market

Here, there is free trade among member countries, a common tariff on goods from non-member countries and a free movement of factors of production among member countries.

5. Economic Union

Here countries go beyond a common market by setting up joint economic institutions which have excessive power to make economic decisions in the economies of member countries, joint planning of various institutions, joint solving of common problems and also share a common currency.

Advantages of economic integration

1. It helps to pull up resources to establish large scale industries and important infrastructure such as banks, roads railways etc. which individual countries would be unable to obtain.
2. It encourages free movement of factors of production to where they are most needed and productive. This helps in the transfer of knowledge and skills leading to increased productivity.
3. It creates a wide stable market which in turn increases production of goods and services.
4. It facilitates easy mobilization of resources from outside which would have been difficult if entrusted to one poor nation.

5. Economic problems are tackled by a common front which helps disadvantaged countries to sort out their balance of payment problems.
6. It helps to attain full utilization of available resources thus increasing output.
7. There is increased competition between firms which leads to production of better quality goods at cheaper prices.
8. There is increased variety of goods and services from the various countries thus improvement in people’s welfare.
9. The use of a common currency under economic union makes trading easier between member states since there is no need for foreign exchange.
10. Countries within the integrated region can afford joint research in the areas of production, marketing, science and Technology etc. and the benefits are shared amongst member states.
11. It leads to trade creation where consumers shift from consuming expensive products to consuming cheap products after integration.
12. It encourages economies of scale due to large scale production.

Disadvantages of Economic integration.

1. There is usually tendency of unequal development whereby industries, high income, employment opportunities all concentrate in one area /country at the expense of others.
2. It leads to trade diversion as people are subjected to high priced goods from within the integration instead of buying low priced goods from non-member countries.
3. People are subjected to poor quality goods from infant industries within the integration instead of acquiring better quality goods from non-member countries.
4. There is loss of customs revenue as a result of free trade within the member states so the government has to look for other sources of revenue.
5. The political leaders or even the nationals themselves put the national interests first before integration.
6. Differences of language hinder trade.
7. Differences of political ideologies which makes integration difficult. This leads to the collapse of the integration
8. Personal differences between the political leaders which leads to the collapse of the integration.
9. The reduced sovereignty of the country makes integration unpopular.

Question

Why have some countries have failed to integrate?

BUSINESS UNITS

A business unit is an organization or firm that deals in the production or distribution of commodities usually for the purposes of making profits. The different forms of business units include

1. Sole proprietorship
2. Partnership
3. Joint Stock Companies
4. Cooperative societies
5. Marketing boards
6. Parastatal bodies

SOLE PROPPRIETORSHIP

This is the simplest form of business owned and run by one person called a sole proprietor/trader. He contributes all the capital to start the business, he enjoys all the profits and meets all the business losses, and undertakes all the obligations of the business.
Or Sole proprietorship is a form of business organization which is owned, managed and controlled by a single person who is responsible for the profits and losses and he is the sole owner of the business.
The capital may be out of his personal savings or borrowing from friends, relatives, banks, etc.

A Sole proprietor is a person who owns a business alone, contributes capital towards the business, enjoys all the profits alone and meet/suffers all the losses of the business.
By law a sole proprietor is not a separate entity from his business.

Characteristics of Sole Trade

1. Capital is contributed by the owner
2. The owner takes all the profits and meets all the losses.
3. The owner is the organizer and manager
4. The liability of the sole trader is unlimited i.e. there is no distinction between the business and his personal property. In case of failure to pay the debts, the personal property of the sole trader can be sold to cover the debts.

Advantages of Sole Proprietorship

1. It is easy to start as it requires little capital and no legal documents are required like registration with the Uganda registration of service bureau apart from trading licenses.
2. Decision making is easy and fast because the owner of the business makes the decisions alone and no consultations from other people is required. This even makes implementation also quick.
3. He enjoys all the profits alone and this motivates him to work harder since the more profits he gets the more he enjoys.
4. The business is flexible since the owner can easily change from one line of business to another without consulting anybody. This enables the business to meet the demands of the people.
5. The business establishes a direct contact both with his customers and employees. This enables the sole trader to easily identify the needs of the customers and employees. This further enables the trader to closely supervise the business affairs.

6. He enjoys top secrecy since business records are confidential. A sole trader is the only person who owns his business secrets and has a better chance to preserve them.
7. The business can save money from administration and management since the sole trader usually uses the family members in the day to day running of the business.
8. It is simple to organize since the business is usually small. This makes it easy for the sole trader to run and manage the business.
9. The business is charged relatively lower tax since the operations are usually on small scale.

Disadvantages of Sole Proprietorship

1. The sole trader has unlimited liability. This means that in case he fails to clear the debts of the business using the business resources, his personal property is taken to pay the business debts.
2. There is limited capital for expansion since the sole trader depends on his personal resources to operate the business which resources are limited.
3. Since the sole trader is alone he is likely to be overworked. Besides there is limited specialization since everything is almost done by him leading to inefficiency in the business.
4. There is limited managerial ability since it is difficult for one man to be competent in all business aspects. This further constrains the future expansion of the business.
5. The business lacks continuity since it heavily dependent on the life of the owner. In case of death, sickness, or absenteeism, the business comes to a standstill.
6. The sole trader operates on small scale hence there are no economies of scale enjoyed. This explains the high prices charged by small scale business.
7. The fear of risks and the limited storage space usually forces the trader to carry limited stock. This makes him to make limited profits.
8. There are chances of wrong decision being made because of one individual’s judgment and skills.
9. Due to no or limited collateral security, the business has a weak bargaining power for credit loans. This makes future expansion difficult.
10. A sole trader suffers all the losses alone. This makes him fear to take bigger investments because of fearing big risks and losses.

PARTNERSHIP

A Partnership is an association of two or more persons carrying out a business with a common view of earning profits. A partnership normally consists of two to twenty members for ordinary partnership and two to fifty members for professional partnership.

Characteristics of Partnership

1. It is formed by a minimum of two and a maximum of twenty members for commercial business and two to fifty members for professional firms.
2. Capital is contributed by partners in agreed proportions.
3. Profits and losses are shared by all partners in agreed proportions.
4. The burden of running the partnership is shared by the partners.

5. Each partner is personally responsible for all debts of the firm.
6. Any act or agreement made by an individual partner in the name of the partnership binds all the other partners.
7. Unless specified in a partnership deed, the liability of individual partners is unlimited.
8. Transfer of ownership and admission of a new partner is by the consent of all partners.
9. Decision making has to take majority vote of the partners.
10. The association is registered with Uganda registration of services bureau.
11. There should be contractual agreement amongst the partners before it is started.

Types of Partnership

1. Temporary Partnership

This is a partnership that is established for a particular purpose or a specified period of time, at the expiry of which the partnership is dissolved.

2. Permanent partnership

This is a type of partnership intended to last indefinitely. Its particular period of duration is not known at the time of its formation.

3. Ordinary Partnership/General partnership

This is where the liability of the partners is unlimited. Therefore, they are answerable to the debts of the firm up to the extent of selling off personal belongings to cover the debts. The members have equal rights and responsibilities. A member stands to lose all his money contributed as capital should the business make losses, even the personal property of members may be sold off to recover the money.

4. Limited Partnership/Registered partnership

This is where the liability of members is limited to their capital contribution except at least one member who has unlimited liability. It must be registered with Uganda registration of services bureau.

Types of Partners

1. Classification according to the role played

a) Active/managing/working Partner. This is a partner who takes part in managing the day today running of the business on behalf of other partners. He contributes capital to the business, shares the profits and losses of the firm.
b) Dormant/Sleeping/Silent Partner. This is a partner who invests money in a business, shares the profits or losses but takes no part in the daily running of the business.

2. Classification according to liability.

a) A general Partner. This is the one who has unlimited liability to the business and may be called upon to meet the firm's debts from his personal resources if the firm fails to settle them. Because of this, he is entitled to take full share in the management of the firm.
b) Limited Partner. This is a partner whose liability is limited towards the debts incurred by the business to his capital contribution. He can't withdraw his capital

without the consent of other partners and is not allowed to take part in the running of the business. He is permitted to have access to the books of the firm and can offer advice to the general partners.

3. **Classification according to age.**
   a) Major partners. This is a partner who is 18 years and above of age. He is liable for all the debts of the business.
   b) Minor Partner. This is a partner below 18 years and is not liable to firm's debts that exceed his capital.
4. **Classification according to capital contributed.**
   a) Quasi/Normal/ostensible Partner. This is a partner who offers or allows his name to be used in the business because of his high reputation and conduct. This type of partner does not take part in the management of the business, sharing of profits and losses neither does he take part in contributing towards the capital of the business.
   b) Real Partner. This is a partner who contributes capital to a business, shares the profits and losses and is responsible for other obligations of the business.

Other types of partners

1. Partner by Estopel. This one is not really a partner, but the way he conducts himself makes others believe him as a partner.
2. Outgoing/Retiring Partner. This is a partner who has withdrawn from a partnership. However, he is liable for all the debts or losses the firm incurred before his withdrawal.
3. Incoming Partner. This is a partner who is admitted into an existing partnership business with the consent of all other partners.
4. Senior Partner. This is a person who has served the partnership for a long time as a general partner and owns a large share of the business capital.
5. Junior Partner. This refers to a person who has been with the partnership for a short time and does not hold significant responsibility of the firm.

A PARTNERSHIP DEED/AGREEMENT

A Partnership deed is a written agreement by partners spelling out the terms and conditions of the partnership business. It is intended to outline the basis on which the partnership is being formed, so that future misunderstandings and quarrels are avoided.

Contents of partnership deed

1. It states the name of the firm/business and its location.
2. It shows the name, address and occupation of each partner.
3. It shows the type/status of each partner, e.g. active, dormant, general, limited, minor or major.
4. It indicates the duration of the partnership if it is a temporary partnership.
5. It states the nature of the partnership and the purpose for which the firm is established.
6. It shows the amount of money (capital) contributed by each partner.
7. It indicates the withdrawals to be allowed to each partner.
8. It shows the procedure of sharing profits and losses.

9. It states the rights of each partner.
10. It shows the duties and responsibilities of each partner.
11. It shows the salary to active partners if any.
12. It shows the procedure on how books of accounts will be prepared or kept.
13. It states the procedure of settling any disputes which may arise between partners.
14. It states the procedure of calculating goodwill in case of death, retirement or admission of a new partner.
15. It states the procedure for admission of new partners.
16. It shows the procedure for dissolution of a partnership
17. It indicates the borrowing methods of the firm/partnership.

Note; In absence of a written partnership Deed, or in an event of any ambiguity in it, the provisions of the partnership act, 1934, Cap. 29 apply.

CONTRACTUAL CAPACITY

This means that a person entering into a contract should have enough mental reasoning capacity to carry out the daily affairs i.e. a person should have the contractual capacity to join the partnership. He should not be insane or bankrupt.

Rights and Duties of Partners

Unless the partnership agreement specifies otherwise, the partners have the following rights

1. All partners have a right to act on behalf of the business e.g. signing documents.
2. All partners are fully liable for the debts incurred by the firm.
3. Every partner who has access to the firm's funds or other properties must render accounts displaying utmost good faith i.e. partners must be faithful to each other.
4. No new partner may be admitted without the consent of all partners. Similarly, no partner can sell his shares without the consent of others.
5. No partner should carry out any competing business with that of the partnership and if he does so, must surrender the profits to be shared by all the partners.
6. All partners have a right to inspect the books of accounts of a business.
7. All partners should display utmost good faith in handling business funds and property.
8. A partner who carries out duties of the partnership carelessly is bond to meet penalty.
9. Every partner is expected to carryout business of the firm whenever called upon to do so.
10. In case of expelling a partner, the partnership must be dissolved.

Advantages of Partnership

1. A partnership has access to more capital since money is contributed and collected from many partners hence availing more money for the business.
2. Specialization is possible because a partnership brings together people of different skills and talents. This leads to efficiency in the business.
3. Partners are not overworked since work is shared among all partners thus reducing the workload for each partner.
4. Business can run on even in the absence of one member i.e. there is continuity in business in case of absence of one partner especially if the partner is dormant.

5. The burden of losses incurred by the firm are shared amongst all partners, thus reducing the share of losses for each partner.
6. A partnership is simple to start since it does not involve many legal formalities to start it except registration of the business's name.
7. There is limited liability in limited partnerships. This means that in case the partnership incurs debts, the personal property of partners can't be sold off.
8. There is better credit standing since credit in form of loans can be acquired from banks, even from suppliers due to the security possessed by the firm. This makes running and expansion of the partnership easy.
9. Business accounts are kept secret to the partners since the accounts of the business cannot easily be accessed by the public. This is because the partnership is not required by law to publish her books of account as is the case with public limited companies.
10. There are higher chances of making right decisions since all partners are consulted when making certain decisions. "Hence two heads are better than one"
11. Low taxes are payable by the partnership since it's not a separate legal entity. i.e. the business is relative small or medium. This reduces the cost of operation of the firm.

Disadvantages of Partnerships

1. There is unlimited liability in case of ordinary partners, which means the personal property of the partners may be sold off in case of debts.
2. There is delayed decision making since all partners have to be consulted when making resolutions concerning the business.
3. Profits are shared among all partners which reduces the amount received by each partner.
4. Death, insanity, bankruptcy, withdrawal of a key partner may lead to dissolution of a partnership implying that there is limited or no continuity in the business.
5. Disagreements between partners are common and this slows down the progress of the business. This may eventually lead to the collapse of the business.
6. A mistake made by one partner affects the entire partnership/business. All the partners have to share the consequences.
7. Chances of expansion are limited since members are restricted to twenty/fifty.
8. Profits generated by a hardworking partner are shared by all the partners, which reduces on what is received by each partner. This is a disincentive to the hardworking partners.
9. Partnerships are not legal entities; they have no separate existence from the owners.

DISSOLUTION OF A PARTNERSHIP

This is the bringing of a partnership to an end.

A partnership is dissolved when,

1. The partnership has fulfilled the purpose for which it was established in case of a temporary partnership.
2. One of the partners dies, becomes insane or bankrupt especially when he was an active partner.

3. The law banning the activities of such a partnership is introduced. Or when an event occurs that makes the partnership unlawful.
4. The partner notifies and convinces other partners the intention of dissolving the partnership.
5. There is compulsory dissolution when partners are declared bankrupt, insolvent etc.
6. There is dissolution by court of law on application by partners on grounds of a partner's misconduct, violation of agreement, etc.
7. The partnership is constantly operating at a loss.

Differences between a Sole Trader and Partnership

1. In Sole Trade the business consists of one person while in partnership consists of between two to twenty people.
2. The sole trader can dispose off his business anytime, but in partnership shares are not transferable.
3. The sole trader is personally liable for the debts incurred (unlimited liability), while in partnership all partners are liable for the debts of the firm and in some cases have limited partners.
4. Auditing of accounts may be optional under sole trade while it is necessary under partnership.

JOINT STOCK COMPANIES

A Joint Stock Company is a corporate body of people formed to carry out specific business functions with a view of making profits. It is referred to as a "joint stock" because individuals combine their capital to form a business by buying shares. Joint stock companies are called incorporated business because the shareholders have a separate entity from it. i.e. the company has a separate legal entity.

Shares are units of capital in the company and a collection of paid up shares is called a stock hence the name joint stock companies. There are two categories of registered companies.
a) Private Limited Companies,
b) Public Limited Companies

Types of Companies

Companies are classified in two groups

a) Registered companies
b) Statutory companies
a) Statutory companies. These are companies created by an Act of Parliament and basically owned by the government.
b) Registered companies. These are companies which are formed and registered under the company Act.
c) Companies limited by shares. These are limited companies which have a fixed share and the liability of their shareholders is limited to the face value of the shares held by them.

d) Companies limited by guarantee. This is a company with share capital but the liability of its members are limited to a sum guaranteed by them e.g. churches and sports organization, charitable organizations.

Advantages of joint stock companies

1. The shareholders have limited liability. The owner's property has no risk since the shareholders are not liable to paying anything more than the face of their shares.
2. A joint stock company can easily mobilize more capital than a sole trader or partnership because of the bigger membership.
3. A joint stock company can expand hence enjoying economies of scale (advantages of large scale production).
4. Continuity of the business is assured as the death of a shareholder can't affect the business. This is because of the free transferability of shares.
5. Employment of specialists is possible due to large capital, this leads to improved production and efficiency of the business.
6. Shares are easily transferable. In case of Public Limited Company, a shareholder can easily convert his shares into cash by selling them.
7. The risk of loss is spread over a large number of investors hence the burden of loss is reduced.
8. Large profits are enjoyed than in sole trade and partnership this is because large capital is employed.
9. A joint stock company can easily acquire a loan from a bank because it has assets which can be used as collateral security.

Disadvantages of joint stock companies

1. They are difficult to start than sole trade or partnership because there are many legal documents required in its formation.
2. Management is difficult because of their large size.
3. There is lack of personnel interest because the business is collectively owned.
4. There is slow decision making because a lot of consultation has to be made.
5. The various taxes levied on joint stock companies reduce the profits.
6. Sharing of profits reduces the dividends received by each shareholder.
7. There is absence of secrecy since many people own the business.

PUBLIC LIMITED COMPANIES

A Public Limited Company is a joint stock company whose members subscribe money to a common pool with a view of investing in it. It comprises of a minimum of seven shareholders with no maximum number of shareholders.

Characteristics/features of Public Limited Companies

1. The minimum number of members is seven and no maximum number.
2. The capital of the company is divided into units of uniform value called shares and capital is raised by selling shares.
3. Shares are freely transferable. Any member of the public is free to join the company by buying shares from those holding them.

4. Shareholders enjoy limited liabilities.
5. The company is a legal entity. It can own property, enter into contract, incur debts, sue or be sued.
6. The accounts of the public limited company must be published to the public.
7. The directors who are elected by the shareholders from among themselves conduct the affairs of the company.
8. Public limited company is owned and controlled by shareholders.

Advantages of public limited companies

1. More capital is raised with a large number of shareholders than in case of sole trade and partnership.
2. Members of public limited companies enjoy limited liability.
3. The death, bankruptcy or withdrawal of any one member does not affect the existence of the business.
4. Employment of specialists is possible due to large capital. This leads to improved production.
5. Expansion of the business is made easy through selling of shares. This because they have greater chances of improving their capital through selling shares, debentures and borrowing from financial institutions.
6. The loss suffered is shared between members and therefore felt lightly by individual members.
7. Shares are freely transferable; members who want to sell their shares can easily do so. This makes easy for individual shareholders to change business with ease.
8. Shareholders are safe guarded against fraud by the annual publicity of company accounts as they are made aware of what is happening in the business.
9. Specialization/division of labour can easily be exploited since shareholders are many with different abilities.

Disadvantages of public limited companies

1. The owner (shareholder) does not have direct control of their business since they employ experts to undertake administrative activities of the firm.
2. The directors employed by the company may have their own interests which may conflict with the objectives of the company.
3. Formation of the public limited company is long and expensive. Before commencing business, a company has to be registered with Uganda registration of services bureau.
4. Decision making is slow and expensive due to the very many consultations.
5. There is no privacy since the balance sheet must be read to the public every year.
6. Companies sometimes become too large for efficient management.
7. The ease of share transferability makes it possible for another company to acquire controlling powers.
8. Lack of flexibility. The activities the company can engage in are limited by its constitution.

PRIVATE LIMITED COMPANIES

A Private Limited Company is a joint stock company consisting of a minimum of two members and a maximum of fifty members who have joined together as a body for the purpose of running a business to earn profits.

Characteristics/features

1. It has a minimum of two and a maximum of 50 members.
2. The liability of members is limited to their capital contribution.
3. Shares are not sold to the public and are not freely transferable.
4. The company starts operating after the issue of a certificate of incorporation. It does not wait for the issue of a trading certificate.
5. Its capital is divided into various shares.

Advantages of private limited companies

1. Members enjoy limited liability.
2. It is capable of raising more capital to expand operation and enjoy economies of scale.
3. The accounts of a private limited company are not publically published hence non-members can't know the financial position of the company.
4. Formation is not lengthy and complicated like the formation of a public limited company.
5. The continuity of a business is not affected by the death of a shareholder.
6. Employment of specialists is possible leading to efficiency.
7. Decision making is faster compared to a public limited company.
8. Specialization/Division of labour can easily be exploited since shareholders are relatively many with different abilities.

Disadvantages of private limited companies

1. Shares are not freely transferable thus reducing the possibility of expansion.
2. It may be difficult to raise initial capital since shares are not sold to the public.
3. Formation requires expensive and long legal formalities due to the many documents involved.
4. Employees are not allowed to buy shares this discourages them.

Differences between Partnership and Public Limited Companies

1. A partnership may take any name, unless it is a registered partnership, but a public limited company must use the registered name appearing on its Memorandum of Association.
2. A partnership is formed by mutual agreement which may or, may not be written, but a public limited company is formed by registration according to the Company Act which is the legal formality.
3. A Partnership does not have a separate legal entity unlike a public limited company which has a separate legal entity.

4. Every partner has right to manage the firm, but in a public limited company, shareholders do not manage the business since management is in the hands of directors.
5. Members of the partnership range from 2-20 in case of ordinary partnership or 2-50 in case of professional partnership. But membership of a public limited company ranges from 7 members to no limited number i.e. infinity.
6. Partners are jointly liable for the debts of the firm to no limit, but for a public limited company, shareholders are limited to the capital they contributed.
7. Transfer of ownership in a partnership is by unanimous consent, but in public limited company shares are freely transferable.
8. In partnership there is no continuity in event of death/retirement. While in a public limited company there is continuity of business in case of death of a shareholder.
9. The affairs/accounts of a partnership are private, while those of public limited companies are not.

Differences between Private Limited Companies and Public Limited Companies

1. Membership in a private limited company ranges from 2-50 while a public limited company members range from 7 to infinity.
2. Shares in a private limited company are not freely transferable except upon private arrangement while those of a public limited company are freely transferable.
3. Private Limited companies do not call the public for funds in form of selling shares or they do not issue prospectus. While public Limited companies are free to call upon the public for funds in form of selling shares and debentures.
4. Private Limited companies can start business after acquiring a certificate of incorporation. While the Public limited company has to acquire both a certificate of incorporation and certificate of trading.
5. Private Limited companies do not publish their accounts, while Public Limited companies publish their accounts to the public annually.
6. In a Private Limited company, the owners have direct control over their affairs, while in Public Limited companies, directors have control over the company's affairs i.e. shareholders have no direct control over the company.
7. Public Limited companies at times can only prepare the Memorandum of Association and can be guided by Table A of the company Act, while Private Limited companies have to prepare both Memorandum and Articles of Association.

FORMATION OF JOINT STOCK COMPANIES

The person who first thinks of starting a company is called a promoter, when he starts looking for people to join him he is said to be floating the company. He must at least get six people for a Public limited company and one other person in case of a private limited company. Before a company begins operation the following documents are involved;

1. **MEMORANDUM OF ASSOCIATION**

This is a document which lays down and defines the powers and limitations of the company. It governs the relationship of the company with outsiders.

A memorandum of Association has the following contents/clauses;

a) Name clause. This states the name of the company with the word limited at the end. The company can adopt/take on any name as long as it is not identical to the name of an existing company and does not give a false idea of the nature of the company.
b) Situation clause/Domicile. This shows the registered address/locality of the company. Every company must have a registered office to which notices can be sent. i.e. the name of the country where the office is situated must be mentioned. The company is then governed by the laws of that country
c) Objectives/aims clause. This outlines the aims and objectives for which the company is being formed. Once a Memorandum is registered a company can't operate beyond these objectives i.e. any contracts or dealings made by the company which are not within the objectives laid down under this clause are considered void by the law. Therefore, the company must consider the main and secondary activities intended to be covered when drafting this clause.
d) Capital clause. This states the share capital the company wishes to raise. It gives the following information; the total amount of share capital, the units (shares) into which the share capital is divided, the value of each share, the types of shares.
e) Liability clause. This states that the liability of members is limited to their share capital contribution.
f) Declaration clause. This states the desire of the promoters to form a limited company. It is signed by at least seven in case of a public limited company and two for a private limited company who must agree to take at least one share each. This clause sets out the names and addresses of the promoters and the number of shares each has agreed to take.

2. ARTICLES OF ASSOCIATION

This is a document that lays down the internal rules and regulations which control the internal affairs and organization of the company i.e. it lays down/states the rules and regulations governing the internal policies of the company. It includes the following;

a) The rights and powers of each type of shareholder
b) The procedures of calling and conducting general meetings i.e. how and when to hold meetings. There are three categories of company meetings.
(i) Statutory meetings. This is usually the first meeting of shareholders where they are told various regulations and special matters pertaining to the company.
(ii) Annual General Meeting. Those are held once a year, the financial report of the company and the sharing of dividends takes place during this meeting.
(iii) Extra-ordinary meeting. This is held whenever there is a special matter requiring immediate attention.
c) Powers of directors
d) How to elect the management committee.
e) Ways of raising finances for expansion
f) How the records of the company are to be kept.
g) Book keeping and auditing requirements of the company.
h) Salaries to the management.

3. DIRECTOR'S LIST

This shows the names of directors and their written promises to take up shares in the company.

4. **CERTIFICATE OF INCORPORATION**

When all formalities have been completed, the registrar of Uganda registration of services bureau issues a certificate of incorporation which allows the company to legally offer its shares to the public for sale. In case of a private limited company, it can start operating as soon as it receives this document but a public company can't begin business until it has raised capital.
A certificate of incorporation establishes the company as a separate legal entity which can sue or be sued as an independent body from the owners.

N.B a) Unincorporated business; is a business which has no separate legal existence from owners, so the owners are liable for all aspects pertaining to the business e.g. sole trade, partnership.

b) Incorporated business; is one which has separate legal entity from the owners i.e. it can sue or be sued.

5. **TRADING CERTIFICATE**

This is issued to a public limited company after selling shares to the public and raising the required capital. A certificate of trading gives the company powers to commence business operations.

6. **PROSPECTUS**

This is drawn by the directors inviting the public to subscribe for the shares of the company. A prospectus gives much detailed information about the promotions and directors of the company. Reports by the company's auditors as for the profits, losses and dividends for the previous years may be given.

THE CAPITAL STRUCTURE OF A COMPANY

The capital of a company is called share capital basically because it is raised by selling shares to the public. The major forms of share capital are;

1. **Authorized/Nominal/Registered share Capital.**

This is the maximum amount of money the company is allowed for business operation by selling shares to the public. This amount is stated in the memorandum of association.

2. **Issued capital.**

This is the total face value of the shares that have been issued whether or not full amounts against them have been paid. E.g. out of 20 million authorized capital, the directors may decide to issue 15 million worth of shares for the public to buy therefore the 5 million becomes unissued capital.

Note; Unissued capital is the total face value of shares that have not yet been issued.

3. **Called up capital.**

This is the amount of money that shareholders have been asked to pay e.g. out of 15 million issued capital only 13 million, may be called up, the 2 million becomes uncalled up.

Note; Uncalled up capital is the amount of money that the shareholders have not yet been asked to pay.

4. **Paid up capital.**

This is the amount of money that has actually been paid by shareholders i.e. amount received from shareholders by the company. Out of 13 million called up capital only 10 million may be paid up, therefore 3 million becomes unpaid up capital called "calls" or capital in arrears.

Note; Unpaid up capital is the amount that has not yet been received by a company from shareholders.

5. **Loan capital.**

This is money proved by the issue of debentures or borrowing from the bank.

6. **Minimum share capital.**

This is the amount stated by promoters when making application for registration of the company. It is the minimum amount a company is required to have in order to start transacting business effectively. This amount must always be raised by a company before it can be allowed to operate. It is intended to protect the members' money to enable it run at a profit.

SHARES

A share is a unit of capital of a joint stock company. i.e. it is a unit in which the capital of a company is divided. The sale of shares is one of the principle sources of capital of a limited company. At the end of the trading period, profits are distributed among shareholders, these are known as dividends.

Steps involved in selling shares to the public;

1. An advertisement is placed usually in a newspaper; this may contain an application form or specify where it can be obtained.
2. Making an application and paying the application money.
3. When received the directors go through the applications and reject or approve them. Approved applicants are given allotment letters asking them to pay allotment money i.e. allotment is acceptance by the company of the subscriber's application.
4. When allotment money is received, share certificates are issued, applicants become shareholders.
5. The shareholders are asked to pay balance of shares in two or three installments (calls) when the company needs more cash.
6. A shareholder who fails to complete payment (calls) forfeits his/her shares and loses the money he may have already paid for them.
7. Forfeited shares are re-allocated (re-issued) by the company.

TYPES OF SHARES

There are basically two types of shares.

1. **Ordinary shares.** These are called common or equity shares and are held by the owners of the company, these shares have no fixed dividends. The dividends payable depend on the level of profits. If the profit level is zero, no dividends is payable hence keeps on fluctuating.
2. **Preference shares.** These are shares without voting rights which give the owners certain priorities of preference i.e.

a) The right to a fixed rate of dividend before any dividend is paid to ordinary shareholders.

b) In case of liquidation, the holders of preference receive their proceeds before holders of ordinary shares.

Types of preference shares

a) **Cumulative preference shares.** These are shares whose dividends have to be paid whether the company has made profit or not. If the company does not pay any dividends is one year, then payments are carried forward to the next year. i.e. dividends keep on accumulating until they are paid.
b) **Non-cumulative preference shares**. These are shares whose dividend is not paid if the company makes losses in a particular year. However, these shares carry a higher rate of dividends than ordinary shares.
c) **Redeemable preference shares**. These are shares which can be bought back by the company from shareholders after a given period of time. The company pays interest to the holders. These may be issued when the company wants money temporarily.
d) **Irredeemable preference shares.** These shares can't be bought back by the company, if the holder of an irredeemable preference share wants money, he can sell his shares to another person or stock exchange.
e) **Participating preference shares.** These carry fixed dividends and owners of these shares are entitled to a further share of profits which remains after all shareholders have got their dividends once they reached a certain level. Therefore, the share twice or double.

3. **Deferred shares**. This happens when a business is converting to a public limited company and the proprietors want to retain powers of control and the rights to a large share of profits in their own hands. Therefore, they create a class of deferred shares giving them special voting powers and their rights to dividends are deferred to those of ordinary shareholders.
4. **Bonus shares.**

DEBENTURES

A debenture is money borrowed by the company from the public as a way of obtaining funds for operation. Debentures are loan certificates which are given by a company to a person (debenture holder) in exchange for a loan. i.e. it's a document that evidences that a company has borrowed a specific amount of money from the person named on it. A company pays a fixed rate of interest for the loan whether it is making profits or not.

Types of Debentures

1. **Naked debentures/unsecured.** These are issued but no security is given by the company (no property is pledged against them). Therefore, if the company goes bankrupt, the holders of such debentures rank among ordinary creditors of the company.
2. **Mortgaged debentures/secured**. These are fully backed by specific company assets (some property is pledged against them). Therefore, in case the company fails to pay the money, the pledged asset of the company is sold off to pay the debenture holder.
3. **Floating debenture**. The holders of this type of debenture have security in the sense that in case of company fails to pay the holder; it has to sell some of its current assets so as to pay the debts.

4. **Redeemable debentures**. These are issued for a specific period of time and bought back by the company.
5. **Irredeemable debentures.** Here the money borrowed against them is not refunded till the company is liquidated.
   These are debentures which when the specified time for the loan has expired, are transferred to the stock exchange instead of money being repaid to the holder by the company.

Differences between shares and debentures

1. A share is a unit of capital while a debenture is a unit of a loan.
2. A shareholder is the owner of a company while a debenture holder is a creditor of the company.
3. Shareholders are paid dividends while debenture holders get interest.
4. A shareholder has voting rights while a debenture holder has no voting rights.
5. Debenture holders are paid interest whether the company makes profits or incurs losses, while some shareholders may not get dividends in case the company gets losses.
6. If the company winds up debenture holders must be paid before shareholders. So if money is inadequate shareholders may get nothing.

WINDING UP OF A COMPANY

This means the end of life of a company. i.e. The closing down of business when a company ceases to exist. A company may be liquidated voluntarily by shareholders, or by the court upon petition from unsatisfied creditors.

There are several methods of winding up of a company.

1. Compulsory winding up by court. The main reasons of winding up by court are;
   (a) By special resolution. When a special resolution has been passed to wind up a company by court.
   (b) In case of failure to commence business within a given period of time. For example, if a public limited company does not start business in one year from the date of its incorporation or suspends business for a certain time period, the court may order it's winding up.
   (c) When members reduce below the required minimum. For a public limited company, it may be winded up by court if its members reduce below seven and less than two in case of a private limited company.
   (d) Defaulting or delay in submitting reports of meetings to the registrar of Uganda registration of services bureau. This may be because of delays in holding meetings in the prescribed time or failure to hold one or more consecutive annual general meetings.
2. Voluntary winding up.
   (a) Members voluntary winds up If they want to stop the company. The directors are required to file a declaration of solvency and this can take place if a majority of the directors in a special board meeting resolve to wind up the company and submit the

declaration to the registrar that the company has no debts or that it can pay all its debts but has decided to wind up

(b) In a general meeting a company may pass a resolution that it cannot continue the business due to heavy liabilities.

(c) When the period has expired especially for the temporary business.

3. Winding up under supervision of court.

   Court can also order the winding up a company under the following conditions.

   (a) When court is satisfied that the company is unable to pay its creditors.

   (b) When there is fraud or irregularities in voluntary winding up or the liquidator performs his duties partially when he is biased. In this case the court can appoint an official party who carries out the winding up.

   (c) If the rules of winding up are not completely followed.

   (d) If the liquidator is not taking keen interests in disposing off the company assets.

COOPERATIVE SOCIETIES

A cooperative society/movement is a group of people who voluntarily join together to achieve common social and economic objectives. The cooperation is aimed at members doing the same activity collectively that they were doing individually.

Cooperative movements are governed by the following principles.

1. Open and voluntary membership. Members of cooperative movements are open to all who can fulfill the regulations of the cooperative. Members are also free to leave the cooperative (withdrawal membership).
2. Democratic control. The management of a cooperative is democratically elected on the basis of one man one vote, regardless of the share capital contributed.
3. Dividend payment. Profits made by the cooperative society are distributed among members in form of dividends according to one's participation and contribution towards the cooperative. For example, in a consumer cooperative, profits are distributed in the ratio of purchases from the cooperatives retail shop, in marketing cooperatives, profits are divided to the ratio of each individual farmer's production which is subsequently sold through the cooperatives.

Limited interest on share capital. Ideally no interest should be paid on share capital contributed, but if the society's constitution provides for it then it should be given and known by all members. With this a society is able to pay better dividends to the members. The idea behind a cooperative society is not to encourage financial investment habits but to improve on production or participation