

SAMPLE CASE STUDIES MADE BY THE AUTHOR FROM DIFFERENT ENTREPRENEURS

- 1A). Name of the Business
KUTEESA NAMIREMBE ART & CRAFT, TAILORING & TRAINING PROJECT
2. Location of the Business
NAJJOOKI- SEMUTO TOWN – NAKASEKE DISTRICT
3. The nature of the products / services provided by the Business
It deals in making of all ladies and gents' clothes of all styles, Bitengi, Gomesi, Kids wear, craft making like mat, baskets, trains people vocational skills like tailoring and craft making, house hold retail outlet, e.t.c.
4. Name of the owner and contacts
Mrs. Theo Naava Nalunkuuma Kabonge, Tel:+ 256752-292510, +256755-292510
5. The type / form of the Business and when it was started:
A sole proprietorship Business, started on 15th February 1989
6. The initial capital invested, source of capital of 3,000 Ugandan shillings, sourced from her own savings and a donation i.e (in form of a sewing machines), estimated current capital is 19.7 million shillings.
7. Achievements realized from the Business
 - Building a residential and commercial house
 - Catering for family needs as a single mother including paying school fees for all six children up to higher learning institutions, and the author of this book being her last born.
 - Putting up a vocational training school that has trained over 620 students for the past 10 years e.t.c.
8. Personal Entrepreneurial skills for the success of the Business
 - Hard working
 - Persistence and endurance
 - Faith in God
 - Innovation and self confidence
 - Good customer relation skills e.tc
9. Message to the young and upcoming entrepreneurs
 - To the women entrepreneurs, They should not despise themselves especially single mothers through hard working, they can achieve their goals and sustain their families.
 - Having faith in God since with God everything is possible

- Should be persistent and risk takers, so innovative and flexible in all situations.
- 1B) Name of the Business
TWINCOH BEAUTY SALON
 2. Location of the Business
Busega towards round about - opposite MC² Petrol station
 3. The nature of the products / services provided by the Business
It deals in making of all ladies and gents hair styles and fashions, manicure and pedicure, Bitengi for both ladies and agents of all fashions, all cosmetics and toiletries.
 4. Name of the owner and contracts
Ms. Jane Florence Kaweesa & her brother Mark Ssempijja (AUTHOR)
 5. The type / form of the Business and when it was started.
A partnership Business, started on 20th December 2007
 6. The initial capital invested, source of capital and the current capital structure:
Started with an estimated capital of 2,200,000 Ug.Shs. (70% in form of fixed assets, 30% for working capital requirements and miscellaneous expenses), sourced from own savings, donations and grants from relatives and friends from abroad. Currently the capital structure is estimated to be 29,740,000 Ug. Shs.
 7. Achievements realized from the Business
 - Building a residential and commercial house
 - Catering for family needs like paying fees for children.
 - Carrying out further investments including publication of book.
 - Reputation and a sense of self respect, coupled with assured job security.
 8. Personal Entrepreneurial skills for the success of the Business:
 - Hard working
 - Persistence and endurance
 - Risk taking and information seeking
 - Accountability and goal setting
 - Innovation and self confidence
 - Good customer relation skills e.tc
 9. Message to the young and upcoming entrepreneurs
 - To the women entrepreneurs, They should not despise themselves especially single mothers through hard working, they can achieve their goals and sustain their families,
 - Always to be focused, irrespective of other peoples' views.
 - Should always carry out proper accountability for business operations.
 - Ensuring a proper employer relationship.
 - Constant networking and coordination to facilitate easy acquisition of extensional assistance mainly financial assistance so as to improve on productivity.

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TOPIC ONE

INTRODUCTION TO ENTREPRENEURSHIP EDUCATION

1.1 Basic definitions

Entrepreneurship is a factor of production that is concerned with having the creativity and innovation to generate business ideas.

It involves having the ability of mobilize or combine various resource in order to come up with new products or services.

An entrepreneur is a person who has the ability to see and evaluate business opportunities from his/her environment, collects the necessary resources and use the to start, operate and manage the identified business successfully.

Entrepreneurship education is a study that is concerned with providing one with knowledge and skills to create and operate a business successfully

1.2 Reasons for studying entrepreneurship education

There are a number of reasons why people (students) study Entrepreneurship education, these may include;

1. It provides one with knowledge and skills of setting up, operate and manage businesses successfully.
2. Through Entrepreneurship education, one is equipped with skills of how to mobilize the various resources needed in production like the human resource, financial resources (like capital), e.t.c.
3. It provides one with knowledge on how to properly relate and communicate with clients / customers. This is because in business a customer is the boss.
4. it provides one skills of how to scan the environment so as to identify existing and new business opportunities in order to come up with an opportunity that can be managed , run well so as to make profits.
5. Through Entrepreneurship education , one develops the skills of taking self employment as a career and t his helps one to get rid of job seeking which could cause un employment due to limited jobs.
6. It provides one with necessary skills needed to have a successful business, like marketing skills, financial management skills, personal selling skills, e.t.c.
7. Through acquisition of the Entrepreneurial skills, many people would come up with numerous business and this leads to economic development, social development through increased employment opportunities, infrastructural development, e.t.c.
8. Entrepreneurship Education equips one with skills which create self confidence, where one remains focused on he /she intends to do future or for a long period.
9. It provides one with skills of how to expand the business, increase productivity and consequently profitability which is one of the goals of operating a business .
10. It equips one with the necessary skills needed by business men in preserving the environment, how to successfully abide by the business legal requirements, so as to carry out the operations of the business smoothly without being intervened by the authorities.

1.3 Functions of an entrepreneur

An Entrepreneur is an important person in all businesses. In summary an entrepreneur is responsible for ;

- a. Identifying his / her needs, analyses them in relation to what he /she would wish to be in future goals in life.
- b. Scanning the environment to identify business opportunities that would help him / her to set goals in life.
- c. Conducting a market survey to determine the feasibility and viability of the identified business opportunities in order to come up with the best one.
- d. Calculating the risks involved in doing the selected business to find out if they can be easily managed or else to find an alternative that can be easily managed.
- e. Mobilizing the necessary resources needed to start and operate the selected business.
- f. Setting up an organization or arrangement through which the business will be operated.
- g. Monitoring the operations and performance of the business regularly to find out whether it is performing towards achieving the set goals and objectives or not.
- h. Carrying out innovations; i.e doing of new things in business or doing of things that are already being done but in a unique way Like launching a new product ,creation of new markets, discovering new raw materials ,new technology e.t.c.
- i. Carrying out decision making regarding the setting the business goals, acquisition of the necessary resources, marketing strategy decision, e.t.c.
- j. Management, which involves the business operations , day- to day activities, direction of men, machinery , materials e.t.c

1.4 Types of entrepreneurs

1. Innovating Entrepreneur: This is an entrepreneur who introduces new goods, inaugurates new methods of production , discovers new markets e.t.c
2. Imitative Entrepreneurs; These are characterised by readiness to adopt successful innovations inaugurated by successful innovating entrepreneurs , i.e they do not innovate the changes themselves, but only imitate the techniques and technology innovated by others.
3. Fabian Entrepreneurs: These ones are characterized by very great caution in trying or experimenting any change in their business, they only lack the will to new methods of production.
4. Drone Entrepreneurs: Such entrepreneurs do not adopt to new opportunities / changes in production methods, even if they are to experience losses , they may refuse to change in their existing methods. such entrepreneurs struggle to exist but not to grow, in such a way they are laggards as they continue to operate in their traditional way and resist changes.

1.5 Characteristics of an entrepreneur

An entrepreneur is a highly achievement, oriented, enthusiastic energetic individual who possesses the following characteristics.

- a. Entrepreneurs are action oriented , highly motivated individuals who take risks so as to achieve goals.
- b. They have unweavering determination and commitment . They are creative and result oriented, they work hard in turn for personal and financial rewards.
- c. Entrepreneurs accept responsibilities with enthusiasm and endurance, they accept to do any kind of work with all their effort under all circumstances.
- d. They have self confidence, dedicated, setting self determined goals and markets for their ideas responding to existing markets.

- e. They are thinkers and doers , planners and workers
- f. They can fore see future e.g they have a financial talent of manipulating funds I their near future.

1.6 Entrepreneurship and intraprenurship

Intraprenuership or intrapreneuring or corporate intrapreneurship is different from Entrepreneurship.

It is the process by which other new ventures are born with in the confines of an existing enterprises.

It involves expansion by discovering new opportunities through new combination of the existing resources.

Intrapreneurship encourages top executive inside the company to be entrepreneurs with in the company rather than going outside to start new ones.

TOPIC TWO

2.0 ENTREPRENEURSHIP SKILLS

2.1 Personal entrepreneurship characteristics (pecs)

These are also terms as “ Traits,” they enable an entrepreneur to do what is expected of him I order to succeed. For one to secede, one must posses most if not all these traits. They are broadly divided into three clusters. i.e planning , power and achievement clusters.

A Planning cluster , This includes;

- a. Goals setting ; i.e entrepreneurial ability to set clear and specifis goals and objectives. These goals seem to challenging, but can be attained given that the resources needed are available.
- b. Information seeking; i.e having the urge to look for the required information in order to make informed decisions , for instance for one to start and manages a business well, one needs to seek information concerning clients, competitors, suppliers e.t.c.
- c. Systematic planning and monitoring; This is the ability to develop plans that be used to monitor and evaluate the actual performance against the desired performance and try alternatives if needed so as to achieve the set goals.
- d. Accountability; This involves a need for proper books keeping, where every shilling received or spent in business is properly accounted for so as to meet the profitability standards as one of the common objectives of a business.

B Achievement cluster, This involves

- a) Opportunity exploring: This enables one to see and identify new business opportunities, analyses them and concert them into realistic achievable goals , e.g an opportunity to obtain the necessary resources like finance to enable him implement his or her business ideas.
- b) Commitment to the work contract, i.e ability to accept final responsibility for completing the job for the customers as agreed. Entrepreneur should do anything possible to make sure that he /she fulfills the commitment with the customers.
- c) Persistence, This is the quality which enables an entrepreneur to develop determination to do the job thoroughly well at any cost in terms of personal sacrifice , i.e he will have to endure at any cost and remain working towards the achievement of the goals and objectives.
- d) Risks taking; the ability to take moderate and well calculated risks, an entrepreneur assesses risks associated with the business being selected and their ability to manage them. There after they will take on an activity even though the risks involved in doing it are high (so long as they can be managed) in order to enjoy the expected output / profits.

- e) Demand for efficiency and quality; this enables an entrepreneur to do things that meet or surpass the existing standards of excellence or improving on performance by striving to do things faster, better and cheaply. By this, an entrepreneur remains a head of others, makes higher profits and retains a growing market shares

C. Power cluster; This includes;

Persuasion and networking; this is the ability convince and influence other individuals agencies and other groups in order to maintain business contract at high level.

- a. Self confidence, this is the ability to have a strong belief or confidence in oneself and abilities complete a difficult task or meet a challenge.
- b. Handwork; An entrepreneur will always make sure that he /she works better and more than other, one tends to work even for longer hours in order to fulfill the set goals and objectives.
- c. Innovation; One's ability to tackle the unknown and do things in a new and a better or difference way, changing old into new ones , new technology e.t.c.

2.2 Risks in Business

2.21 Introduction

A Risk is a situation where one is required to make a choice between two or more alternatives which result into differing rewards for success or penalties for failure.

Risk taking is important in that it helps an entrepreneur in decision making , on which choice to take which one to leave, for instance the type of business to start, whether to expand the business or not,e.tc

2.22 Types of risks

Low risks: these are very minimal risks that do not yield a lot of benefits to an entrepreneur, and such risks tend to discourage one from investing resources into new ventures due to fear of loss / failure.

In such a situation, an entrepreneur starts a business that is common to him ./ her, or similar to already existing ones, it will automatically bear few or low risks of failure but will face stiff competition, i.e risks are associated with lower profits.

Moderate risks: These are ones that can be forecasted, calculated and managed by an entrepreneur such a situation, there are higher chances of managing and controlling them i.e ensuring that incase happens, it doesn't affect the business, e.g fire burglary, theft e.t.c.

High risks: These are risks have a high chance of occurrence, and in case they occur , one has less no control over them, examples of such risks include; smuggling, dodging government taxes, e.t.c How ever, such business with high risks tend to fetch higher profits in case they succeed.

There are various examples of risks that an entrepreneur may encounter in business and these include ;

- Risk of losing market due to changes in customers tastes, demand and fashions.
- Risk of being out competed in the market due to changes in the level of competition.
- Risk of getting out of business due to changes in technology resulting into obsolescence of plant and machinery techninery techniques of production e.t.c
- Risk of failure to produce due to changes or shortage of raw materials , power fuel e.t.c

- Risk of business failure due to deterioration in industrial relations leading strikes, lock outs.
- Risk of fire, theft and other natural calamities that can be insured against.
- Faulty managerial decisions concerning these of capital and other resources.

2.23 Risk Assessment

This involves determining the potential success (that will arise out of the risk not happening) or potential loss (arising of the risk happening). Risk Assessment can be based on the following factors.

- Viability of the idea: whether the chosen business idea would be profitably done in the area, given the available resources, staff e.t.c. This could assess the risk of failure to produce.
- Availability of the market, i.e whether the people in the area in need are willing and able to buy the products from the business.
- Experience and abilities i.e whether the person involved in promoting and managing the business possesses the required knowledge and experience.
- Pricing policies and strategies i.e one should find out whether the proposed price at which the goods will be sold will be competitive in the prevailing situation in the market.
- Establish whether the business will generate enough cash inflows to cater for the planned cash outflows, and if not, determine whether it will be in position to look for other sources to bridge the gap (negative net cash position).
- Flexibility of the business: whether the people whom the business is dealing with are honest and easily be relied on e.g suppliers, employees, clients e.t.c.

2.24 Risk management

Once an entrepreneur is aware of the potential risk, he /she can take appropriate measures to control them and ensure that they do not happen, they do not have a very big effect on the business.

There are Marjory two methods that an entrepreneur can adopt to manage business risks, these include

Minimizing the risk, for an entrepreneur to reduce the chances of risks happening, he/she can take preventive measures that will minimize them and they may include;

- Employing experienced personnel to reduce on the problem of faulty managerial decisions regarding the use of capital, machines, materials e.t.c
- Maintaining and upgrading production technology and products to minimize the problems of changes in customers tastes and fashions plus demand.
- Extensive training of self and or staff on new equipment of reduce the risk of staff, and the entrepreneur himself being left behind the technological changes.
- maintaining adequate security and strengthening burglar proofs, security lighting, e.t.c to check on the risk of theft and break up.

Shifting the risk. This can be done by an entrepreneur, i.e shifting the burden of shouldering the risk, say to insurance companies through obtaining appropriate insurance covers like protection against fire, theft, accidents e.t.c.

Other ways to risk management may includes;

- Diversifying the product line or range to a less risky line
- Installing fire extinguishers in and around the business premises.
- Employing security guards to maintain 24 –hour maximum security.

2.30 Decision making in business

2.31 Introduction

Decision making is the process of identifying and selecting a course of action (from the many alternatives) to deal with problem or take advantage of an opportunity.

It is an important part of the entrepreneur's work and trust must one must possess the necessary decision making skills.

2.32 Factors that influenced decision making

- a. Nature of the situation; The that requires a decision to be taken affects the kind of decision that an entrepreneur can make. For instance if the problem appears to be complex and requires urgency, e.g a decision to hire a machine to replace a broken one to accomplish an urgent piece of work.
- b. Availability of resources. Decision making normally rotates on the available resources, if there required resources to implement a decision are readily available, the process of decision making will be easy and the required funds to pay them are available.
- c. Environmental factors. The environment in which the business is located or operating will affect any decision to be made, for instance a decision on whether to manufacture plastic products will have to be taken after considering its impact on the natural environment and the surrounding community, i.e whether they will accept such a business and their products or not.
- d. Expected benefits i.e the outcomes of the decision once it is implemented will be considered decision whose costs are too high compared to the expected benefits may not be implemented decision will be made basing on how much it will improve the market and profits, its benefits to people, whether it will be made basing on how much it will improve the market and profits, its benefits to people, whether it will meet the set objectives or not.
- e. The costs involved in the process making and implementing a decision will have to be considered, it will be useless to implement a decision whose costs are too high to fit into the available financial resources, e.g a decision to purchase machinery, raw materials etc.
- f. Time pressure; Time influenced the making and implementation of any decision, if the decision to be taken needs urgency, then it will have to be taken faster, but if the situation is relaxed and needs a careful and slow pace, then the decision will definitely take some time to be taken, e.g decision to change the line of business or products.
- g. Past experiences and expectations: This will also be considered when taking a decision, one may experience and what he expects to achieve in future so as to implement a decision which yielded low profits in the previous period (given other factors left constant)

Other factors may include

- h. Knowledge about the subject matter
- i. Self confidence etc

2.33 Steps taken in decision making

When making a decision, one considers past experience, present circumstances and future expectations.

When determining its consequences, one should also consider its effects to other people.

The most effective decisions result when an entrepreneur follows a four step process i.e

- Investigating the decision: this will involve identifying the problem, finding out the causes of the problem and identifying a reason for taking up a given solution.
- Developing alternative solutions on top of the selected solution, one needs to go a head and look for other alternative solutions and make an assessment on each solution.

- Selecting the best alternative / solution, This may be done after finding out that it can solve the problem at hand. however, ,one needs to asses the various alternatives identified to select the best one.
- Implementing and monitoring : this involved drawing a plan for implantation , implementation of the plan and keep on monitoring the decision being implemented to watch its progress and in case of a deviation fro the planned activity, corrective measures can be taken to check the deviation.

2.40. Leadership skills in business

2.41 Introduction and meaning

Leadership refers to the ability of a person to influence other people to strive willingly to work towards achieving the set business goals and objectives.

It involves guiding and encouraging people to follow a course of action or perform duties that are aimed at achieving common objectives.

A leader ensures that all workers efforts and energies are target towards proper operations and performance of the business in order to achieve the objectives.

2.42. Qualities of a good leader

For an entrepreneur to be successful, he /she should posses the following qualities.

- Responsibility and readiness to complete work, i.e once you begin a particular piece of work , you should persevere under all situations until it is accomplished.
- One should be enthusiastic and persistent in following up of the set goals, i.e should endeavour to make a follow up of the activities in order to a chive the set goals of the business.
- Ability to think of new ideas in case a problem arises, i.e ability to deal with emerging / new situations, in other words one should be adaptive to the changing situations.
- Self confidence and esteem , i.e ability to have a strong belief or confidence in one's and ability to complete a difficult task or meet a challenge and over come it.
- willingness to accept the consequences of his / her decisions and actions made, i.e one should be ready for any outcome of a decision or action taken.
- One should knowledgeable about the subject matter or in the field where he/ she is operating should be well equipped with the necessary skills needed to do the work.
- Readiness to cope up with stress, since hard working is one of the features of an entrepreneur, it is followed that by fatigue or stress, so one should be ready to adapt to such a situation and cope up with it.
- Should be exemplary, i.e should lead by good example, one should not mere direct his / her subordinates , he/she should however act the way he/she wishes his /her subordinates to act.
- A good leader should be a good communicator in terms of speaking , listening and writing in order to facilitate effective communication which is an essential aspect in business operations

2.43 Leadership styles

A leadership style is a behaviour that the leader portrays or exhibits to others (as perceived by them) where trying to influence them. Some of the common leadership style include;

The people centered style: This is where participation of the subordinates in decisions making is normally encourage. Under this, employees development and welfare is emphasized, which encourages a sense of belonging to the employees.

The task-oriented style: Under this, there little consultation, where the leader has less concern for other people's welfare provided the organization objectives are being realized, set targets are met, deadlines are observed and the quality of the products is what is what is demanded / needed by customers. (i.e there is no employees' participation or concern)

The contingency style: Under this, organizational performance is possible through balancing the necessity to get work done while maintaining the morale of the people at a satisfactory level.

2.44 Leadership skills

For a good leader to enforce team work among his /her employees, he/she should posses certain skills which will increase his/her competence. Such skills include;

- Diagnosing skills: This is the ability to assess and understand situations being confronted. It involves an analysis of what the situation is now and prediction of how it will be in the future, and the gap that exists between them is the problem that the leader should change.
- Adapting skills; i.e being flexible and sensitive to change .This will enable him /her to manage the changing customers taste, costs , prices and competition.
- Communicating skills i.e ability to understand and be understood by others, both orally and through writing , for people to beb influenced, they need to understand and accept what is to affect them.
- Technical skills, such skills involves knowledge and full understanding of the business production processes, e.g ability to use machinery and equipment, so as to produce results that conform to the set goals. Such skills are usually acquired through training, education and experience.
- Interpersonal skills i.e ability to work with others effectively and in harmony (like subordinates). A leader is expected to have good public relations, respect for subordinates and clients, e.t.c
- Conceptual skills. i.e being in position to know and understanding the mission, goals and objective of the business, this may facilitate a leader's innovative
- Decision making skills; the success of the business depends on the appropriate decisions made, so a leader should make decisions even if they may appear un usual as long as they are made in the interest of the business.

2.45 Benefits and challenges of an entrepreneur

There are number of benefits being enjoyed by an entrepreneur , however, they face a lot of challenges during the course of doing their work. Among which include;

A Benefits

- Social recognition: successful entrepreneurs are highly praised and recognized in society, due to their innovations and creativity, they gain good reputation in the community , for instance Gordon Wavamuno of Wava Group of companies, Mulwana of House of Plastics Uganda and Gesa Farm.
- Increased incomes: When the business operations are run successfully, an entrepreneur enjoys increased and unlimited incomes arising out of his productive decisions made.
- Through increased incomes enjoyed , an entrepreneur is more likely to have improved standards of living as he/she can get access to what ever is needed.
- He enjoys flexibility in decision making ; he does not to consult any one when making a decision i.e in case a need arise. This facilitates smooth running of the business.
- An entrepreneur develops self confidence , i.e develops a strong belief in him / her self and ability to do difficult tasks and meet various challenges.

- Self employment : with this, one is assured of a job security , job satisfaction and improved earning as long as the business succeeds, he /she even enjoys privacy in utilizing resources and decision making.

B Challenges

- So at to meet certain targets, he normally experiences long and irregular hours of work which leads to stress and fatigue.
- He experiences low levels and insecurity of his ink comes as it can be used up at any time in case a need arises in order to meet the demand of the enterprise.
- He experiences low life style, i.e however much he/she gets good incomes , he may fail to enjoy it duwe to hard work which is so demanding and there fore takes most of his / her time. That's why rich partners end up losing their families due to neglect of their family responsibilities.
- There is a potential loss of all resources that were invested into the business , e.g in case the business fails to prosper, he ends up losing all the money he/she invested in it.

TOPIC THREE

3.0 Dignity of work

3.1 Introduction

Work refers to the use of bodily (physical) or mental powers or both with the purpose of doing something that can turn out to be beneficial to the one involved in the activity.

Or

it may be any productive activity that results into something useful.

3.2 Types of work done in communities

There are mainly two categories of works and these can be differentiated by the use of their characteristics . These are:

- a. Physical type of work: This involves the use of the body muscles to perform a given task. Here the person involved may have to use some bit of muscle powers and has to sweat in the process of doing work, e.g digging, brick making, race running. e.t.c.
- b. Mental or knowledge based type of work. With thus, body muscle are used but mainly brains so as to perform a given task. One used his/ her reasoning ability to figure out what the work requires like driving, teaching , computer operations, e..t.c

However, there are a number of activities that require both mental and physical characteristics, where one requires a lot of thinking as well as working with his /her bodily muscles, for instance road construction, carpentry, machines repairs., e.t.c.

There are a number of activities / different types of work done in our communities for a purpose of earning income and these may include;

- a. Agriculture: This involves raring of animals like cows, goats, , pigs, keeping birds like chicken, ducks, growing cash crops and food crops, floriculture, horticulture, Mushroom growing , e.t.c
- b. Trading: This is the buying and selling of goods which can b done either through the exchange goods for money or goods for goods (barter trade) Examples of goods include, pencils, books , drinks, clothes e.t.c.
- c. Manufacturing : This involves the processing of raw materials into finished goods , e.g processing cotton fibres into cloths.
- d. Service : This is the use of some one's skills and knowledge to perform a particular task to be paid by another person. What one pays for is satisfaction got but not physical possessions of the product, e.g transport like Bodaboda, teaching, secretarial services , et.c

3.3 Myths and beliefs about nature of work

Myths are widely held but false beliefs or ideas about certain things. Myths may be held about work, food, acquisition of entrepreneurial skills, etc. Some of the false beliefs held about some work include:

- Entrepreneurship is for men only
- Building is for a particular sex (men)
- Business is normally a last resort after one has failed to succeed with one's studies.
- Child care is work for women
- You can not start a business unless you have a lot of money
- Quality in business is only a concern for big business.
- Starting a business is risky and ends in failure
- Entrepreneurs are born but not made
- You cannot get rich unless you cheat.
- Hard course and subjects in schools are for boys
- Physical type of work is for uneducated people.

3.4 Meaning of dignity of work

Dignity of work refers to the importance and value one attaches to one's work, i.e. when one values something, it means he/she wants to have it or would like it to happen as deserved

3.5 Importance and values of doing work

Self employment. one may start doing work with a view of becoming self employed, this will help him/her to do things for him/her self, maintaining self confidence, having independent decisions, etc.

1. Social recognition: Some people indulge in doing their work so as to succeed and be respected and recognized by / in their communities.
2. Increased income: Most of the people get involved in work like paid employees in order to generate income, i.e. in case work is done well, and this helps them to accumulate their incomes if done for a good period of time.
3. With the accumulated incomes earned, one can be in position to acquire the necessary goods and services which one could not afford before, this leads to improved standards of living.
4. It gives one an opportunity to utilize the idle resources and skills one possesses by putting them into better use.
5. Work could be useful to society through provision of goods and services they need, more so, some members may get employed in various types of work established, this improved on their wellbeing.
6. Work leads to the production of a variety of goods and services, which improves on the people's quality of life, for instance through manufacturing of medicine, people's health is improved, manufacture of vehicles etc.
7. Work leads to development of people's talents, through work, one may end discovering numerous talents in him/her, which leads to improved welfare and development through the utilization of the identified talents as well as that of their society.
8. It leads to preservation of culture, some people work with a view to preserve and promote their culture, for instance "Nandujja and the Planets Group" preserves Buganda Culture through music, dance and drama.
9. Some people work due to competition, for instance one may work in order to acquire better pay and property so as to be better off than others and may be to be recognized in society.

3.6 Personal attributes that lead to success in life

For one to be successful in life, there are a number of attributes / qualities which he /she must possess, among which include:

- Hard work: Putting extra effort in what ever one is doing in order to do the best. Through putting extra commitment, time and resources, one will be able to achieve what one wants in a rather a shorter period of time.
- Persistence : i.e the urge to do something consistently in order to reach set goals. When one continuously does the same thing for some time, he achieves experience and becomes more perfect.
- Creativity and innovation: i.e the need to be independent and using original ideas and critical analysis of situations, i.e in case of sudden change in plans, one is able to quickly think of a new solution and move ahead to implement.
- Task-oriented i.e having the commitment to accomplish work in a stated period of time. This is essential for one to succeed as one will have a strong determination in accomplishing jobs in a stipulated time at any cost (in terms of personal sacrifice)
- Initiative: i.e the ability to make decisions and take actions without consulting or waiting for others to tell you what to do, this is important for success as it gives one the opportunity to measure his / her impact in problem solving.
- Concern for quality and efficiency. i.e the doing of things in the right way by being faster, better and cheaply. This helps one to effectively compete for the market share.

3.7 Factors that promote status in society

In most cases, success works hand in hand with status, as for one to be successful, he will have to consider those factors that tend to promote his /her status (Social recognition). This will attract other people towards them and their activities.

If one is to succeed, one has to deal with others fairly and honestly in all his /her affairs, thus being recognized socially. Among the factors that promote status in life include ;

- Reputation of one's business; This is simply people's opinion about a particular business which could have been gained out of honesty, good relations and efficiency that the owner of business displays in its operations. A good reputation improves status in society.
- Excellent performance : One may promote his /her status through doing extremely good or high quality work in his field or in a particular task.
- Values : These include hard work, honesty, respect, compliance with laws, e.t.c such will promote status as people have a belief that what ever he /she is doing is in line with what the society and law requires.
- Education status. This is very important as people's understanding and ability to perform is judged by one's level of education . The higher the education, the better one is expected to perform, hence societal recognition.
- Family background: One is normally given respect and recognition by the society basing on the family he/she is coming from, e.g royal families, successful families, e.t.c A person coming from such family will be highly recognized in society as he /she is expected to perform well like his /her basing on the good background one is having.
- Economic status: people are normally / oftenly given respect and highly recognized based on the wealth that they have at their disposal. The more the wealth that one has, the more respect he/she will be given by the society.
- One's contribution to the society may determine his status for instance people who contribute a lot towards the development of the society are highly respected, e.g improving on infrastructure, like building roads, schools, hospitals, setting up business to provide essential services and employment opportunities to the society e.t.c.

TOPIC FOUR

4.0 CAREER OPPORTUNITIES

4.1 Introduction / meaning

A career refers to an understanding that a person gets involved in for survival and to achieve his/her goals. Or it may be an activity / work that one gets involved in for a longer period of time / or what one wants to be.

4.2 Possible career opportunities

There are a number of career opportunities from which one may choose, these may be categorized basing on the different types of sectors, they may include:

1. Education sector: One may choose to become a Teacher of any grade or level, there are various types of educational institutions operating at different levels of education, Like universities , N.T.C s
2. Health sector: The various opportunities from this sector include: Doctors, Nurse , Mid wives Laboratory assistants, Dentists , Pharmacist, e.t.c
3. Security sector: Opportunities in this sector include: Army, police, Prison and another security companies like Saracen, securiko, e.t.c provide such opportunities.
4. Law sector: Under this, opportunities may include; advocates, lawyers, Judges, Magistrates, prosecutors, e.t.c.
5. Hotel and Tourism guides, Park rangers, Chefs travel Agents e.t.c
6. Commercial and manufacturing sector: In this we find opportunities like Managers , Accountants, secretaries, Banking Officers, Engineers e.t.c
7. Media sector, career opportunities in this sector include , News readers, Reporters , Journalists. TV Cameramen , News editors, Designers , printers and engineers e.t.c.
8. Construction : In this, we find Architects , Engineers, Surveyors, Plumbers, contractors , construction workers e.t.c.

4.3 Types of employment

There are normally two types of employment, i.e self and paid employment. However these two may be further sub divided into two i.e white collar and blue collar jobs.

Self employment: This is where one goes private by utilizing his/ her resources to start his /her own income generating activity.

This type of business may vary from one person to a large organization that employs many people.

Paid employment: This is where one gets employed by another party like an individual, business, government, church, N.G.O.s e.t.c.

Such kind of employees are characterized by a fixed and regular reward (salary)

The two different careers i.e paid and self employment have different benefits and challenges. These may be broadly explained further in the next sub topic. (Advantages and Disadvantages of self and paid employment).

4.4 ADVANTAGES AND DISADVANTAGES OF SELF EMPLOYMENT

Advantages of self employment

- ❖ It creates independence since one is his /her own boss and has no interference from any one this gives him / her freedom to do what seems right for the success of the business.
- ❖ A self employer is the leader but not a follower, this gives him a chance to exploit his resources well by commending others as he wishes but not following others' commands.
- ❖ One gains status in a society by being self-employed, you are highly recognized in a society you become your own boss, hence improving on status.
- ❖ It allows one to be creative and innovative, through making his/her own decisions, he has no one to consult hence a need to be innovative for the success of the venture.
- ❖ There is improvement in one's standards of living, due to higher incomes, he receives unlimited income from the profits earned, so the more the business expands, the higher the incomes.
- ❖ There is improvement and security of one's job and income, he is assured of his income and the job, so long as the business is existing and successful. It promotes hard working as one strives to work hard to set that his / her ideas succeed.
- ❖ It leads to economic development as more entrepreneurs get knowledge and guidance from others and start their own ventures in order to enjoy the benefits of such people.

Disadvantages of self employment

- ❖ It leads to fatigue, exhaustion and reduction in the life span of an entrepreneur as he works long, irregular hours in order to succeed.
- ❖ There is uncertainty of income as he is not sure of his income at the end of a given period e.g monthly mainly if the business is not performing well.
- ❖ One is congested with broad responsibilities and hence finds himself doing a lot of things as he has no one to assist.
- ❖ He is a risk taker as he takes on a business or an activity where he / She is not sure of the future, hence bearing a risk of failure in case the business is not successful.
- ❖ He is normally faced with unstable incomes as his reward depends on the success or profitability of the business where there are no profits, he is assured of getting zero income.
- ❖ Since he is ever aiming at expanding the business, he may not enjoy any fringe benefits like extra assistance e.g medical allowances, leave, transport allowances e.t.c.

4.5 Advantages and Disadvantages of paid employment

Advantages of paid employment

- Unlike a self employer, a paid employer is assured of his regular payment at the end of specified period, whether the business has realized profits or not.
- One is allocated a specific or fixed responsibility (ies) depending on the agreed payments, unlike a self employee with broad responsibilities, hence not being overworked.
- He may enjoy fringe benefits as may be agreed, like transport, medical, periodical leaves e.t.c from his /her employer.
- Reduces fatigue of the employer as they have fixed and favorable working hours.
- One incurs minimum risks since the business is not his, therefore he is assured of his rewards irrespective of the business operation or performance.

Disadvantages of paid employment

- He lacks independency as he always waits for instructions from his employer, he can not act on his own.
- There is a set span of control, i.e hierarchy one has to follow or consult before implementing his own ideas, this hinders creativity and innovativeness.
- He receives a fixed rate of payment as agreed and can not be exceeded even if the profitability rate increases,, and for any adjustments, he has to first follow a long structure of the organization, which would take a long period, however this is not the case with self employment.
- One has limited and specific responsibilities and doesn't go beyond doing work that is not specified in the job specifications, this hinders creativity and initiating new ideas by the employees. e.t.c.

TOPIC FIVE

5.0 Beliefs and values about business in Uganda

5.1 Introduction

There are a number of beliefs and values that people tend to attach to business, they may be positive or negative. Positive beliefs promote business ideas and growth. Negative beliefs tends to frustrate the growth of the business. These can be further discussed below.

5.2 Positive beliefs about business

- o Business is career that enables those who practice it to meet the needs of their owners and also offers good services to the community.
- o A person involved in business is rich / has wealth and thus he /she becomes his /her own money
- o Business is a major source of income and created jobs. It is an alternative to paid employment.
- o Ant person can start a business, so long as he/she is creative and the willingness to take risks.

5.3 Negative beliefs /Misconception about business

- Business people are born but not made, this is totally false in that many people are born with out business knowledge and skills.
- Business people are academic failures and only go to business as a last resort after failing to get paid employment.
- For a business man to get rich quicker, he /she has to cheat , one cannot get rich unless he /she cheats.
- Business people are rich since they own and manage businesses.
- People in business apply charms to attract customers and most of them are superstitious.
- Business is all about gambling its benefits are unpredictable.
- I Business, people experience a great deal of stress and pay a high price for success.
- It is so risky to start a business and often ends in future.

5.4 Ways of over coming misconceptions about business

There are a number of misconceptions that people raise about business and business people, these tend to frustrate people and if one is to carry out business, such issues have to be demystified, these may be done in the following ways.

- ❖ Once you have decided to go into business, you should ignore such negative beliefs and values, and press ahead with your decision so long as you follow the necessary steps in decision making.
- ❖ Get trained and learn business skills so that you can get realities about business and business people.
- ❖ Develop self confidence and apply good business practices when operating your business.
- ❖ Take business as a career, not a part time engagement. Be convinced that it is good to be in business and seek long-term engagement to realize your goals.
- ❖ Interact with various people who have taken business as a career and succeeded, like Mulwana, Wavamuno, Uhuru, Kirumira, Ssebaana, Kizito e.t.c so that you can gain from their experiences.

TOPIC SIX

6.0 Success in business

6.1 Introduction and meaning

Business performance varies from one business to another, one business may be successful while another one may be a poor performer or a failure.

Success refers to the realization of a worthy intention. This implies that one becomes successful each time he/she takes a step towards achieving a predetermined goal, objective or target. For instance a business can be said to be successful when it realizes an increase in sales and profits which could be a step towards achieving its goal of covering a bigger market share in the long run.

Some of the indicators used to measure the success of a business include;

- a) An increase in assets: A successful business will have its production operations increase every after time, (Due to increased demand) and this will call for additional assets to handle the increased volume of operations, like buying another production machinery to help increase the production capacity required to meet or cope up with new orders.
- b) Increased profits: A Persistent increase in the level of profits indicates success of a business, may be due to an increase in the volume of operations brought about by increased demand.
- c) Experience of the business: A successful business will experience a constant expansion in form of market share, production lines (Number of products produced), improved quality, increased number of employees and assets, etc.
- d) Recognition in business community and the general community i.e the business reputation in market and community, other entrepreneurs, the government, customers, etc shows how well the business is doing.
- e) The rate of returns on investment, a successful business will consistently realize increasing rate / level of returns on capital that was invested by the owners. this is quite different from the overall profits realized.

6.2 Factors leading to the success of a business

- a. Personal entrepreneurial characteristics of the management and business owners, i.e. such people should possess the required PECs. If the business is to succeed, this will provide their business with good, efficient and effective leadership and management.
- b. Clear objectives: For a business to be successful, it should have clear and defined objectives and once they are set, an entrepreneur should ensure that he/she closely follows the guidelines that were set to achieve these objectives.
- c. Efficient and effective planning: This is an important factor if a business is to succeed since it enables a business to set its targets, methods of achieving them and resources needed in the process. This therefore enables a business to operate within a known and provided framework hence saving it from losses, crisis and moving off course.
- d. Proper location and plant layout: This greatly affects the success of the business. An appropriate location of business helps a business in securing the required inputs like raw materials, Labour, etc. and access markets at lower costs.
It also needs to have a proper layout of plant, equipment, machinery, etc. to provide efficient utilization of resources, time, labour, energy, materials etc.
- e. Availability of support services: These also greatly influence the success of the business (if there are available) e.g. financial service, business information, transport, communication, water, power etc. Like the existence of Banks helps the business to secure financial assistance and also carry out constant savings for future investment.
- f. Availability of market: It is useless to produce goods and services where there are customers to buy them at a price that will yield profits to the business. So the existence of the market that is willing to buy the products at profitable prices will lead to high chances of success to the business.
- g. Conducive government policies: In case policies are conducive, it will lead to business growth and success. e.g. fair taxation, controlled inflation, fair interest / bank rates, social, economic and political stability etc.

6.3 Benefits of a successful business to an entrepreneur

There are a number of benefits that an entrepreneur enjoys through running or operating a successful business. These include:

- a) Self reliance and fulfillment: One gets to do things for him / her self, maintain self confidence and carry out independent decisions. He / She will also be in position to meet or produce some if not all of his / her needs.
- b) Increased income and further investment like putting up another production line or another business opportunity.
- c) Recognition in community. A successful entrepreneur and his business are highly respected and recognized in society, because of the goods and services they provide, which in the end attracts more customers to the business.
- d) Improved standards of living: Due to the increased profits, an entrepreneur enjoys increased income which makes him being in position to meet most of the need and thus improving on his standards of living.
- e) Permanent address for an entrepreneur and the workers i.e. a successful business is always established and permanent which provides confidence and a permanent address for the owner and workers.

6.4 Factors leading to business failures

There are very many businesses that are started and fail afterwards, they totally disappear without even noticing their route to disappearance. This is due to a number of factors and they include the following ;

- Inadequate market for the products; i.e when the business is not having enough people who can buy its product, it will automatically fail, for instance if there is stiff competition, varying customers tastes, un competitive market price ,e.t.c all this will lead to a low market share hence failure.
- Poor handling of customers: No business can survive with dissatisfied customers, when customers are handles poorly, e.g when the entrepreneur and employees are rude, and do not listen to customers needs and complaints. this forces them to shift to your competitors and thus failure of the business.
- Poor management of business stocks. when a business; i.e when a business fails to manage adequate varieties of goods in the shops, customers will end up looking for other competitors who are always equipped with a variety of goods from which they can make their choice i.e where there is ready supply of commodities.
- Poor or low quality of products for sale i.e this is measured in terms of customers expectations and competing products , which reduces the number of customers as they move to their businesses which produce better quality products and hence low sales due to high competition which results into failure.
- Un suitable business location: i.e where a business was located in a place that is unsuitable, there are various considerations made when choosing location like access to raw materials, market, enough land, labour, power and transport. So in case some or all these were not considered, it will affect the profitability of the business due to high costs involved in accessing all those factors hence leading to business failure.
- Poor management of the business: For instance if the management is inefficient in utilizing the resources, no proper record keeping, use of wrong costing and pricing methods, e.t.c, all this will lead to increased of an then loses which in the end leads to business failure.
- Loss of interest of an entrepreneur : Some times an entrepreneur may lose interest in the business, may be if it does not suit his/her personal intentions and characteristics , he /she ends up losing commitment to it terms of funding supervision, creativity, e.t.c and hence the business ends up losing direction and thus collapse / failure .

6.5 Management mistakes that cause business failure

It is very important that one gets to know the common management mistakes that lead to business failures.

These will enable one to avoid them and save his/ her business from failing due to similar reasons. Some of these management mistakes include.

- a. Mistaking cash for profit: Some people tend to mistake cash received from the sale of goods / services to be profit, so they tend to use it for other purposes that may not be related to business operations, and as it gets finished the business fails to meet its financial obligations like buying new raw materials, paying employees, e.t.c thus failure.
- b. Un controlled credit facilities being given to customers: A business requires a constant fund / cash flow if it is to meet its operations and succeed. But if many people like friends take a lot of good without immediate payment, the business will soon run out of cash to be used to meet the operating expenses (working capital) and if the entrepreneur does not have more cash to inject in it, it will fail and close.

- c. Lack of record keeping: Unless there is proper record keeping, it is very difficult to ascertain whether the business is facing financial troubles or not like if the entrepreneur doesn't know who owes him and how much is remaining in the business, how much profits are realized in a given period, e.t.c thus will lead to funds flow flows due to failure to detect it before it too late and hence business may fail in the end.
- d. Poor customer care; if customers are poorly handled, they will go to the business where they are treated better thus the business will end losing market and thus reduced sales which makes the business run out of cash leading to collapse and failure.
- e. Neglect: little attention that is given to the business by their owners, this leads to lack of supervision and guidance to business employees, the business ends up losing directions and control, good workers may leave the business and hence quality declines which leads to low sales and eventually failure.
- f. Incompetence i.e inability of the business owners and employees to manage the business operations efficiently and effectively, this may be due to inadequate technical skills and required to do the work, hence collapse due to limited market for the poor quality goods produced.
- g. Theft of business funds, stock, assets, e.t.c: This may lead to loses in business due to inadequate requirements. Theft may be done by either employees, thieves from outside the business, e.t.c. Hence low operations and output, leading to low profits and thus collapse and failure.
- h. Interference of the 'family members in the running of the business, this may lead to mis use of business funds, increased bad debtors, chasing away of useful business employees and partners e.t.c. this leads to low productivity and output, leading to low sales, low profits and consequently leading to failure.
- i. Death of the business owner (incapacity of the owner): If the entrepreneur or owner dies or runs mad and there is no one to take over his /her responsibilities in business, this may lead to family wrangles and poor management thus leading to business failure.

6.6 Indicators of non- performing business

There are very many signs which can show that a business is not doing well. These may include:

- (i) Empty shop shelves i.e when the business does not have cash to buy fresh stocks to replace old ones.
- (ii) Expired or absolute goods; i.e where the business has lost market and cannot sell goods in time and no cash to replenish old / expired stock.
- (iii) Low sales i.e when the business has lost market, may be when its products do not meet customer needs, or due to competition.
- (iv) Low profits i.e where the operating expenses are high or the prices have declined and the business can not do anything about it, it cannot re-invest to expand or change line of business.
- (v) High expenses which reduce the profits of the business, i.e if the business can not increase the selling price to off set the increasing expenses.

TOPIC SEVEN

7.0 Goals in business

7.1 Introduction

A goal is an aim of achieving something and what is to be achieved should be achievable, measurable and definable within a definite time and with a given amount of resources. A business goal is what an entrepreneur expects to achieve over a given period of time through setting up a business.

7.2 Types of business goals

They are categorized into two;

Specific goals: These are tangible targets that are to be realized in a short period of time, say about 1 year. They are almost the same as objectives and they include:

- Increase the business gross sales by 25%
- Increase the business market share by 5%
- Opening a new store, e.t.c

Long term goals: These are targets that are to be realized over a relatively large period of time like 3-5 years. They include,

- Increasing the business product lines
- Becoming a market leader
- Realizing increasing profits on an annual basis.

7.3 Characteristics of goal

The goals that will lead to the success of a business should have the following characteristics : They are summarized in an abbreviation (S.M.A.R.T) i.e specific, measurable, Achievable, Realistic and time bound. They are discussed below:

- a. **Specific:** A good goal should be clear in terms of what is to be achieved, when and how it will be achieved, an example of a clear goal is to become a market leader or raising customer satisfaction.
- b. **Measurable:** A good goal should have indicators to prove or show whether it is being achieved or not and if achieved, how much of it is being realized. e.g a clear goal of becoming a market leader can be measured by customers' statements on how satisfied they are with the business.
- c. **Attainable:** A good goal should be feasible within the area where it is being pursued, e.g whether it is feasible to set up a pork joint near the mosque or Muslim community.
- d. **Realistic:** A good goal should be achievable given the available resources, workers and legal regulations, thus one should avoid setting goals that are realistically not attainable like expanding a business when other related businesses are failing or downsizing due to the existing economic conditions.
- e. **Time bound:** A good goal should have target time within which it should be achieved, e.g a market leader in 2-3 years time.

7.4 Importance of goal setting in business

An entrepreneur is driven by his / her goals while managing business. So setting goals is so important in business, this is due to the following reasons:

- ❖ It provides targets that are to be achieved, thereby helping an entrepreneur to work towards achieving the set targets, this is because goals are well known, measurable and time bound.
- ❖ Maximum utilization of resources, as goals are set with a view that resources are scarce, an entrepreneur is compelled to optimize the use of the scarce resources so as to achieve the set goals.

- ❖ Helps in effective decision making ,this is because in decision making ,one has to identify the problem to be solved , and this is identified in terms of the business goals that are being blocked .
- ❖ Evaluation of business performance: When business goals are well set, an entrepreneur will be able to find out the extent to which he/she has been successful in achieving his/her goals. This is because what is to be achieved is known, and the target dates are specified.

7.5 Setting business goals using swot analysis

In order to set meaningful goals, an entrepreneur should first look at the would be his strengthens and opportunities. Self examination is the best and most creative step in goal setting since it can lead to discovering the weakness and threats that may affect the entrepreneur's efforts to achieve this goal.

A Comparison of the strengthens and opportunities with weaknesses and threats to the business will help the entrepreneur to evaluate different business opportunities and then arrive at a decision on what to do in business. This comparison is what we term as SWOT analysis.

When determining whether a particular opportunity is worthy any amount of effort, one has to estimate the time, effort and costs involved and compare them to the potential incomes that will be generated to determine if there is enough potential profits to motivate him go into the business.

While setting business goals, the entrepreneur needs to identify the likely constraints, which may prevent him /her from achieving his/ her goals, the likely constraints may include resources, labour, competition, e.t.c.

N.B

- Strengths and weaknesses are always related to the individual organization interested in business.
- Opportunities and threats are usually related to factors coming from the outside environment in which the business is operating.
- One needs to analyze his / her weaknesses so that she / he can try to reduce them in order to minimize their efforts on the business.
- Opportunities at one's disposal are to be taken advantage of to maximize the business returns.
- The impact of threats on the business is to be minimized by taking appropriate measures that will protect the business from them.

7.6. Meaning of priorities

One of the most difficult tasks that entrepreneurs face is how to achieve the numerous goals with limited resources. Such task can only be solved by having goals prioritized in order of their importance. to him / her.

Priorities are things that should be treated as being the most important ones out of the very many. Their importance may be based on their contributions to the attainment of the goals and how they facilitate the happening of others.

7.7 Importance of prioritizing activities

One should be in position to distinguish between things that must be done from those things that one wants to do. One should never allow those things that must be done to accumulate. And when this is done, it will facilitate the following.

- Elimination of unnecessary and inevitable fatigue
- Meaningful and effective utilization of the available resources.
- Systematic implementation of his/her plans
- Monitoring and evaluation of his/her plans.

7.8 Time frame / time schedules

After setting business goals, one needs to decide on how best to meet these goals, this will help him/her to:

- Lay out precisely the steps that are considered necessary to implement the activities that will lead to achievement of each goal.
- Fix the responsibility for each step when either the entrepreneur and the business employees.
- Set deadlines for the implementation and accomplishment of each activity and ultimately each goal
- A time schedule is prepared to ensure timely implementation and completion of the business goal.
- Timely completion will help to avoid time and cost overruns
- Delays may also jeopardize the financial viability of the business

7.9 Framework schedules

Framework schedules should be designed in order to make things happen. Goals are meaningless without plans to breathe life into them. They are drawn in a simple way / not so elaborate.

An example below shows a framework schedule that includes steps taken when starting a small business, with the allowed time to complete each step.

Item No	Details of activities	Time frame
1	Making commitment to go into business for your self	Week 1
2	Analyze your strengths, weaknesses, opportunities and threats	Week 2
3	Choose the product / service that fits your strengths and desires	Week 3
4	Find out the market for your product / service	Week 3
5	Forecast your share of the market	Week 6
6	Choose a site for your business	Week 6
7	Produce a plan of getting the products	Week 7
8	Produce a plan showing how the market will be reached	Week 8
9	Draw a plan showing how workers will be got	Week 9
10	Decide on the form of a business to start	Week 9
11	Prepare a plan showing which and how records will be kept	Week 9
12	Prepare a plan showing costs that will be met and how they will be financed e.t.c	Week 12
13		Week ...

TOPIC EIGHT

8.0 Income and its uses

8.1 Introduction and meaning

Entrepreneurs and other people go into business or take up any work purposely to earn income and acquire wealth.

Income refers to what one earns from engaging in any legal gainful (economic) activity. This income is measured in monetary terms like Uganda shillings (sh). Dollar, Pound sterling, e.t.c

It may also be referred to as the proceeds that one gets after undertaking a gainful activity. This income may be in form of money or in goods or services.

8.2 Types of income

The various types of income include;

- Wage: This is payment received according to the amount done, or number of hours, days, or weeks done, e.g a person who digs a given piece of land earns a wage and one who works or cleans an office for a given number of hours per day earns a wage.
- Salary: This is a fixed and regular normally does not vary with the level of output, e.g income received by Accountants, Managers e.t.c.
- Commission: This is normally earned by those people who sell goods/ services on behalf of others and that percentage is deducted from the value or the sales made. So this income depends on the value of volume of goods / services sold.
- Profit: This is income earned by a person from another one who uses his / her money or any asset such income is earned by individual lenders, Banks or micro finance institutions from borrower for using the money lent is termed as an interest.

8.3 Sources of income

- Farming i.e growing crops, rearing animals or poultry and through selling their products, e.t.c.
- Trading i.e through buying and selling different goods, so revenue / profit got from the sale of these goods becomes income.
- Manufacturing i.e producing / making and selling goods like weaving baskets, producing household consumables, e.t.c. So profit realized from the sale of these products will be income to them.
- Rendering services: i.e providing services that people are in need of and are willing to pay for, like education, driving e.t.c.
- Paid employment: people in paid employment earn income known as salary or wage, this depends on the nature and type of job being done, there are others who work on behalf of others and earn commissions. e.t.c

8.4 Ways of using income

There are mainly four ways through which people use their income. They include the following;

- a. Consumption; i.e this ranges from buying household items, paying children, fees, clothing, food, drinks, entertainment e.t.c.
- b. Saving i.e reserving one's income for future use, this necessitates one to reduce one's current consumption to leave part that can be saved for future use.
- c. Investment; i.e income can be invested through starting a business, buying productive resources like land, houses, e.t.c buying shares in other businesses, buying treasury bills, Bank deposits to earn interest on the deposited amount e.t.c.
- d. Meeting precautionary needs, some income may be reserved to meet some anticipated future needs like sickness, old age, deaths e.t.c.

8.5 Relationship between income, consumption, savings and investment

A. Income and consumption

- A change in one's income may reflect one's consumption patterns.
- An increase in one's income may influence one to start consuming goods he/she could not previously afford due to the limited income.
- If one's income reduced, one may reduce consumption and says with only necessities, this normally happens if one did not anticipate such a change for one to set aside some of the income for such an instance.

B. Consumption and savings

- When one earns income, one has two alternatives, i.e. to consume it or save it.
- If one consumes more of it, one will have less remaining to save.
- If he/she saves more of it he/she will have less left for consumption.

C. Saving and investment

- When one saves money, one may normally use it start investing in business.
- When the rate of savings is high, similarly the level of investment, will be high, *ceteris paribus*.
- When the level of saving decline, the level of investment will also reduce as there will be little money left aside to invest in business.

D. Consumption and investment

- For one to invest, one's level of consumption will have to remain constant or reduce even if the level of income increases, to enable him/her save and later use the savings for investment.
- The more you consume, the less will be left for savings which could be for investment and hence reduced investment.

8.6.1 Importance of savings

- a. To meet future consumption needs which could seem more important than the current ones, like paying for medical bills and to solve other unforeseen/unexpected needs.
- b. To meet future investment plans like starting a business, expanding a business, etc.
- c. To meet specific/stated or particular needs, like investment plans, e.g. building a house, paying or bride price, etc.
- d. To store current value or surplus that could be used during the periods of scarcity.
- e. To meet certain legal requirements like paying for National Social Security Fund (NSSF) contribution.

8.6.2 Importance of investment

- a. Self employment: Through investment one will create employment opportunities for his/her self and hence promoting self reliance.
- b. Exploitation of the idle resources: Investing in business enables entrepreneurs to resources that may be idle and convert them into goods and services to meet the needs of the people that had not been satisfied.
- c. Creation of employment opportunities to people, i.e. in case the investment made needs some labour, this reduces the rate of unemployment in the community and hence improving on the standards of people being employed through earning income.
- d. Utilization of resource; establishing an enterprise will help to tap numerous resources like land, human resources, minerals etc., and producing goods for local consumption and export, this leads to economic growth of the area and the country at large.
- e. It promotes economic equality through producing goods or services and provision of income to investors and employees, as many people get involved in numerous economic activities and hence increased incomes among them.

- f. Through taxes charged by the government from the investments made; it can be used to improve and extend social services to people like medical / health, education, transport e.t.c.
- g. Savings are improved ; investment helps people and other businesses to increase their incomes, which makes it possible for them to save part of this income for future usages.

8.6.3 Ways of increasing savings and investment

- a. Through reducing on consumption, savings will increase which can be used to increase investment.
- b. Through provision of banking facilities to the people, like financial institutions which encourages people to make deposits, such deposits could be extended to borrowers to carry out investment plans.
- c. Through improving on the environmental factors, which increases the lives of savers and makes the value of savings secure, it will give them courage and confidence about the future, hence saving more, for instance if the security of life and property is guaranteed then the environment will be favourable to induce more savings.
- d. Through creation of investment opportunities; these are services and businesses which when provided or established in an area will create further investment opportunities for different business, for instance putting up a tea factory in an area will create more business like metal fabrication for repairing machinery food processing to cater for the employees, e.t.c.
- e. Through developing attitudes of savings ; developing a saving culture among the people like through sensitizing over the media, training programmes, workshops, e.t.c so that people are informed about the advantages of savings over consumption.

8.7.1 Characteristics of people who prefer to consume most of the income.

- a. They are very extravagant, i.e they always spend any incomes that comes their way on things they need or may not need immediately.
- b. They live a luxurious way of life by buying luxury and expensive goods that they come across some of which may not even be necessary but they just want to show off.
- c. They have a low desire to save, such people rarely save and invest their income.
- d. They have got no investment plans for the future since all incomes is always spent as they get it.
- e. That income got normally tend to be used for paying debits that were incurred prior to being earned.
- f. When ever they earn money, they become unstable all the time with desire to go out to spend and will only stabilize after all the money is exhausted.

8.7.2 Characteristics of people who prefer to save

- They are so seen in their spending; i.e every expenditure has to be justified in terms of necessities.
- They tend to live a simple life, i.e they do not engage in spending their income on luxurious commodities.
- They have a high motivation to save and invest, they tend to give priority to saving most of their earned income.
- They tend to look out and take up every opportunity that is available for them to save.
- They tend to prefer a lot of things at the beginning i.e at times they even go without meals with views to save for the future.

8.8 Making plans for savings

Planning involves deciding what to do, how to do it and when to do it. It is common for one to who is interested earning income, saving and investing to plan how to do it.

Making a plan for saving necessitate one to forecast how, when and how much income he /she will receive during a given period.

Through forecasting, one needs to clearly identify the factors or things that affect it and planning how to counteract them.

The next steps is to develop a budget, and in so doing, priorities the needs. This will involve the following;

- Identification of needs
- Setting the savings targets
- Prioritizing the needs.
- Finding out the cost of each need
- Finding out the total cost of the needs
- Checking the total cost of the needs to the incomes and establishing whether the balance meets the saving targets.
- Spending part of the income on the priority list items that have been provided with in the budget.

8.9 Ways / forms of saving

There are different forms in which an individual may save, they may include;

Through opening bank accounts and carry out deposits.

Near cash investments which bear interests like treasury bills, fixed deposits, e.t.c.

Buying assets like land, buildings animals, e.t.c

Land, this is traditional but high yielding form of savings.

Buying valuable items like jewelery, gold, art works e..t.c

Investing in business i.e starting a business so as to get profits.

Trading in currencies like buying foreign currencies with hope to benefit from gains out of its rise in its value.

Forced savings. i.e where one borrows money for investment and has to save so as to pay for the loan, or money borrowed and its related interests or charges.

TOPIC NINE

9.0 BUSINESS IN UGANDA

9.1.1 Introduction and meaning

A business refers to any economic activity undertaken by an individual with a view to make profits. It involves exchanging goods / services for money or for goods / services.

Profits in business are realized after selling commodities at higher prices than the cost of producing or providing them.

9.1.2 Types of Business

Businesses can be categorized into the following types.

Agribusinesses: These are businesses that produce agricultural products like crops, animals, poultry farms, etc.

Manufacturing businesses: These are businesses that transform raw materials to produce different products or add value to the products. For example carpentry workshops, car making businesses, those that process agricultural products like food processing, milling factories etc.

Trading Businesses: Such businesses deal in buying and selling of goods / merchants e.g Kiosks, hawking businesses etc.

Service Business: These provide services to customers. They use special skills of their owners and workers e.g hair salon business, restaurants, health clinic, schools etc.

9.1.3 Size of Businesses

Businesses vary in size and they can be categorized according to how they measure against some indicators.

Such indicators used in determining the size of businesses include;

- Amount of capital invested in the business
- The number of paid employees
- The level of technology used
- Volume of sales realized over a given period

Basing on the factors above, businesses can be divided into the following sizes: micro, small, medium and large, they are further discussed below:

- a. **Micro Businesses:** These are very small and require very little capital / money to be started, simple technology used, usually employ their owners and family members, have very low sales, may not need fixed premises to operate from, may not require registration by the authorities for them to operate. They include Kiosks, hawking, road side selling, etc.
- b. **Small Businesses:** These have fixed / permanent premises, they may also employ family labour, require little capital to start, have relatively higher periodical sales than micro, may use simple and basic technology, may not need formal registration to start, majority of them produce for local markets and little for export. They include shops, bakeries, milling businesses, etc.
- c. **Medium, sized Businesses:** These are well established businesses, they employ up to 100 people, have well established premises, use advanced technology, produce on relatively large scale, need a lot of capital, they are formally registered as limited liability companies, may produce for both local and foreign markets. They include, Big packing businesses, big bakeries, milk processing businesses, mattress manufacturing businesses, etc.

- d. Large sized Businesses: There are very large, employ over 100 people, have specialized methods of production (like automated methods), need too much capital, normally emanate from medium sized businesses as they grow and expand, have very big and well established premises, produce Eastern Uganda, Lweza clays limited, Roofings limited e.t.c.

9.1.4 Importance of Businesses

Businesses play an important role to the owners, families, communities in which they are located, the government and to other businesses. The major importances include;

- They are a source of income to their owners
- They provide employment opportunities to people.
- They produce goods and services needed by people.
- They bring goods and services nearer to people
- They provide market for people's produce
- They make use of the local resources, which would be idle.
- they add value to the local produce and resources.
- They contribute to the community social and economic development programmes.
- They pay taxes to the government, which can be used to provide social services to the people.
- They use items that would be useless or harmful to the man and environment like recycling firms.

9.1.5 Business associations in Uganda

There are formed by businesses which voluntarily come together and agree to work towards achieving a common objectives, like an objective of meeting their needs and protecting their interests which cannot be achieved by one business unless they unite.

Examples of such Associations include:

- Uganda Manufacturers Association (U.M.A)
- Northern Uganda Manufacturers Association (N.U.M.A)
- Uganda National chamber of Commerce and Industry (U.N.C.C.I)
- Uganda Women Entrepreneurs association (U.N.F.A)
- Uganda National Farmers Association (U.N.F.A)
- Uganda small scale Industries Association (U.S.S.I.A) e.t.c

9.1.6 Objectives of business associations

These vary from one association to another, however the common ones to most business Associations include:

- a. securing or accessing local and foreign markets for their members produce.
- b. Sourcing or accessing raw materials for their businesses.
- c. Accessing better production technology for their businesses.
- d. Accessing and providing training facilities and programmes for their members.
- e. Accessing financial and technical support from different financial institutions
- f. Supporting individual members in times of need.
- g. Developing and transmitting improved and better production and management systems to members.
- h. Advocating on behalf of their members to the government for better environment and favourable policies like favourable taxes, economic and political stability, e.t.c.

9.1.7 Membership of business associations

Business Associations tend to attract membership from businesses which are in the same line, for instance

- a) U.N.F.A. draws membership from:
 - Farmers dealing in crop and livestock production
 - Agro-processing businesses like millers, food processors, e.t.c
 - Agricultural inputs and service providers like produce buyers, transporters, drugs suppliers, e.t.c
- b) U.N.C.C.I. draws membership from:
 - Traders and industrialists
 - Importers, e.t.c
- c) U.S.S.I.A draws membership from:
 - Carpenters
 - Metal fabricators
 - electricians, e.t.c
- d) U.M.A draws its membership from:
 - large industries like Mukwano Group of Companies, Wava Group of Companies, e.t.c
 - Large coffee processors like Zigoti coffee, Kyagalanyi Coffee processors, e.t.c
 - Service providers to big companies like M.T.N, Warid telecom, Banks, clearing Agents, e.t.c
 - Other business association like Uganda small scale Industries Association, e.t.c

9.1.8 Services rendered by business associations

Business associations render services which help their members to achieve their goals and also achieve the objectives for which they were formed. Examples of services rendered include:

- Providing information on market opportunities and changes
- Negotiating and securing local foreign markets for the members produce.
- Sourcing or accessing raw materials for their business.
- Identifying appropriate and better production techniques for their businesses.
- Developing and provision of training programmes for member staff.
- Negotiating and securing financial and technical support from financial institutions and the government.
- Providing moral and maternal support to members.
- Carrying out advocacy campaigns on behalf of the members with the government for better investment incentives, tax policies, monetary policies, e.t.c.

9.1.9 Agribusiness in Uganda

9.20 Introduction

Uganda's population depends on agribusiness, with over 80% of the population getting their livelihood from agriculture.

Agri businesses are those whose operations involved production and selling of agricultural products for profits. They include crops, livestock, poultry farms, those that provide support services like agricultural extension services, e.t.c

N.B: For any agricultural activity to be termed as an agro-business, it producing with an aim of selling and making profits.

9.22 Types of agribusinesses

- a) Crop production : Businesses engaged in production and selling of crops like bananas, tomatoes, coffee, cabbages, e.t.c They may be carried out on both micro and large scale.
- b) Livestock production: In this type, businesses are engaged in rearing and selling of different animals for their meat or their products like milk, hides, and skins, e.t.c. Animals reared by such businesses include cattle , goats, sheep, pigs e.t.c.
- c) Poultry keeping: Here businesses concentrated on rearing and selling different types of birds for their meat, eggs, skins and feathers, Birds commonly kept include, turkeys, chicken, ducks, striches e.t.c.
- d) Agricultural support services: Here businesses provide support services to agribusinesses, like providing extension services, inputs like drugged, fertilizers e.t.c. However, businesses falling under this category may also fall into other categories of businesses like trading manufacturing e.t.c.
- e) Other types of agribusinesses: On top of the above, there are some other fast growing businesses in Uganda, they include agriculture (keeping of bees for honey), mushroom growing, horticulture (growing of flowers). fish farming, crocodiles farming e.t.c.s

9.23 Common features of agribusinesses

Production for sale: For activity to qualify to be a businesses, it must be aimed at producing for sale and make profits. Thus activities done for family consumption do not constitute businesses.

Improved methods of production: with a view to increase sales and profits , they use improved methods of production in order to increase their output, like changing from local breeds of cattle of Fresians, use of fertilizers, drugs , irrigation methods, e.t.c

9.24 Requirements of agribusiness

An entrepreneur wishing to start and operate an agribusiness successfully require the following:

- a. Land: This is used for crop production, livestock, apiculture, livestock require grass to feed and sheds to live in. This makes land an important requirement for most agribusinesses.
- b. Capital: This is used to acquire the various requirements for business, like land , fertilizers, drugs, seeds, e..tc An entrepreneur may be capital required for agribusinesses from the following sources:
 - His /her personal savings or selling personal properties
 - Parents, friends and relatives, community (for instance if land is communally owned) e.t.c.
 - Borrowing from friends, relatives or financial institutions like Banks e.t.c
- c. Human resources: This used to do work like tilling the land, planting and weeding crops. Harvesting, feeding chicken, grazing cattle, keeping business records, marketing the business produce e.t.c

An entrepreneur may be unskilled where work to be done is more of physical than mental like land tilling, or may also be skilled like in case of driving the farm vehicles, record keeping, marketing the produce, e.t.c

An entrepreneur may hire resources to provide technical skills which he does not have, and also if the work load is much, he can hire human resource to help him out.

9.25 Importance of Agribusinesses

- They produce food which is required for the people's survival.
- They provide employment opportunities to people, entrepreneur, their family members and other employees. This improves on the standards of living of all these people and their families.
- They pay taxes to the government that is used to develop other essential sectors to the community like the health sector.
- They contribute towards the community development programmes by making voluntary contributions to them or providing some services and facilitates to the community like infrastructural development.
- They provide markets to products of other businesses like trade businesses.
- They make use of some wastes like coffee husks, rubbish, animal dropping, e.t.c during the production process, which pollute the environment.

9.26 Who can do agribusinesses?

- Any one who has access to land
- Any one who has capital and can therefore get the requirements for the business.
- Any one who is physically fit
- Any one who needs to work with a view to earn some income.
- Any one who is already engaged in substance agriculture as a way of living or a hobby.

For instance the following groups of people can do either of the following agribusiness:

- children and youths can keep rabbits, poultry, which does not require a lot of money, also growing of vegetables e.t.c.
- Adults can grow food and cash crops, keep livestock, keep bees for honey e.t.c
- Institutions / large companies can do horticulture, ranching, tea and sugar growing e.t.c
- Professionals like agriculturalists, veterinary specialists, e.t.c can provide agricultural extension services, supply the required drugs and chemicals to farmers e.t.c.

9.27 Challenges to agribusinesses and how to overcome them

- a. Natural hazards like unreliable rainfall, storms and other weather vagaries, these affect animals and crops and hence reduced productivity.
- b. Pests and diseases which attack crops and animals, hence causing damage and are expensive to control.
- c. Lack of market for their products which in most cases leaves entrepreneurs stuck with their produce, leading to losses.
- d. Low and unprofitable prices for the products, which keep on fluctuating over time, this in the end leads to constant losses.
- e. Infertile and poor soils which lead to poor yields and make entrepreneurs incur a lot of costs, in an effort to make them productive.
- f. Competition from other producers and related products which reduces markets and lowering the prices of the farmers.
- g. Inadequate support services like transport, extension services which make an entrepreneur fail to market the products well.
- h. Season factors, this leaves entrepreneurs out of business for a number of months in a year, this causes unstable incomes due to seasonal unemployment.
- i. Communal ownership of land in some area which is at times not conducive for an individual's efforts and progress i.e it is hard for one to have a lot of concern and care for and which is communally owned.

The measures employed to check on or minimize the effects of challenges on the businesses include the followings:

Undertaking thorough market surveys to ensure that their products will have a good market at profitable prices.

- a. Employing modern farming techniques that help them increase output, maintain soil fertility and control pests and diseases.
- b. Through studying weather patterns and act accordingly to avoid losses.
- c. Employing agricultural extension services to get up- date information on production, marketing and post harvest handling techniques.
- d. Getting information on market behaviour and trends to ensure that they produce products that are on demand.
- e. Practicing irrigation or planting fast maturing crop varieties, which do not need a lot of water to grow and mature before the rains run out.
- f. Keeping good relationship with farm in out suppliers, workers and financiers to ensure that their businesses are not interrupted unnecessarily.
- g. Being active members of their business associations like U.N.F.A so as to access relevant support where ever necessary.
- h. Studying the competitors' characters and learn from their experiences in order not to run out of market due to competition.

9.28 Manufacturing businesses

These are businesses that transform or process raw materials and make products that are different from the inputs, by transforming these raw materials or adding value to them. For instance a business that may use papyrus to produce mats, tomatoes fruit to tomatoes sauce or soup, e.t.c. Therefore entrepreneurs in this business are termed as manufactures.

9.29 Types of manufacturing business

- a. Agro-processing business: These use agricultural products to produce different items like foods, juice drinks, cooking oil e.t.c. Examples of such businesses are Delight Uganda Ltd, e.t.c
- b. Beverage manufacturing businesses in Uganda include; Crown Bottlers, Wava water Company, Uganda Breweries Ltd, Nile Breweries , e.t.c
- c. Metal fabricating businesses: These are different types of metals to produce products like windows and doors, tables, beds e.t.c Examples of such businesses include; Ssembule Stel mills , roofings Ltd, Tumpeco Uganda Limited e.t.c.
- d. Chemical manufacturing businesses: These produce human and animal drugs, industrial chemicals, fuels, e.t.c. Examples of such businesses include; Uganda oxygen Ltd, Nakasero soap works, quality chemicals Ltd which of recent has started manufacturing ARVs for HIV patients, Uganda Pharmaceuticals Ltd, e.t.c
- e. Plastic manufacturing businesses: These produce plastic products like cups, plates , chairs, e.t.c Examples of such businesses include Mukwano Industries Ltd, Nice House of plastics Ltd , e.t.c
- f. Textile manufacturing businesses: These deals in making clothes like southern Range Group of companies (former NYTIL) , e.t.c
- g. Extractive manufacturing businesses like quarrying , brick making timber manufacturing businesses (which use timber to produce different products like art piece , furniture, e.t.c)s

N.B Since Uganda's economy is agro- based, the common type of manufacturing businesses are agro- processing business in order to make inputs for agribusinesses as well as those that use the inputs as their raw materials to make different products.

9.30 Importance of manufacturing business

- a. Such businesses are a source of income to their families, if they realize profits from their operations.
- b. They provide goods that are required by the people, hence earning income which improves on their standards of living.
- c. They help to produce goods that are required by the people and other business.
- d. They use or add value to local raw materials and the manufactured products.
- e. They provide markets for the local produce and the materials.
- f. They help in cycling products (wastes) that would have been thrown away and polluted the environment.
- g. They contribute to community development programmes like improving on infrastructure like roads, health services e.t.c.
- h. These businesses pay taxes to the government, which revenue is used to develop other sectors and improve on the social services like schools, hospitals, e.t.c.
- i. Some businesses sell off the excess produce, this is a source of foreign exchange to the community.

9.31 Challenges to manufacturing businesses and how to overcome them

- a. Inadequate capital to access necessary technology to improve on their operations
- b. Inadequate credit facilities / services to provide entrepreneurs with facilities to enable them finance their business operations.
- c. Inadequate support services like roads, water, electricity ,e,tc which make it difficult and expensive to operate their business.
- d. Inadequate skilled man power to operate some production techniques, this forces them to hire foreign experts who are costly and others end up using local man power which leads to poor quality products and machine damages.
- e. Lack of appropriate technology suitable for the local situations, This compels them to use that which does not optimize productivity and profitability.
- f. Competition from imported manufactured products, which are produced by already set up businesses that use modern technology and produce on large scale.
- g. Inadequate markets to absorb the little output that is produced. This is due to low incomes of people, competition from imported goods.
- h. Unfavourable government policies like high taxes which increases the cost of production hence low profits realized at the end.
- i. Lack of reliable sources of constant supply of raw materials, which force them to operate seasonally, hence low productivity and profits.

9.32 Ways of overcoming the above challenges

Making a market survey before starting a business so as to go into a business with competitive output, fair market and profitable market prices.

Ensuring a fair relationship with customers to ensure that they are always contented with the products and can not be easily attracted by competitors.

Acquisition of up to date information concerning suppliers, consumer tastes , their buying habits so as not to be left out of the market trends that are existing.

Ensuring savings and ploughing back profits in the business to ensure and maintain adequate working capital to run the business operations.

Ensuring proper location of the business in areas where they can easily access support services, like markets and raw materials.

Carrying out constant research and development in order to come up with new products that meet customer demands to avoid being left out of market (out competed).

Through forming and joining relevant business association like U.M.A, N.U.M.A, U.S.S.I.A, etc so as to enjoy the services provided by these associations to boost the business operations.

Monitoring and devising means of out competing them basing on their operations so as to learn from their experiences and devising means of out competing them basing on their operations.

Through massive advertising and use of affordable sales promotion techniques in order to attract new customers and retain the existing ones.

Through regular training of staff / employees, so as ensure that are equipped with the necessary skills that can improve productivity and profitability.

9.33 Service business

Services are invisible and intangible products that satisfy customer's needs or that provide benefits enjoyed by customers.

Some entrepreneurs start such businesses basing on the technical skills they possess, like a Doctor starting a clinic, while others may not possess the skills but decide to set up such business and employ personnel to work in them so as to achieve profits.

9.34 Services needed in the community and businesses that can provide them

There are a number of services that the community may require and various businesses can be set up in order to provide such services, some of them may include;

1. Education service: Businesses that can provide such a service include;
 - Nursery, Primary and secondary schools
 - Polytechnical, vocational training institutions
 - Commercial colleges like U.M.I
 - Universities and other institutions of higher learning.
2. Medical / Health service: Businesses that can provide such a service include;
 - Clinic
 - Pharmacies
 - Laboratories
 - Hospitals and nursing homes, e.t.c
3. Transport service: Under this, businesses may include;
 - Bodaboda
 - Taxis, Bus service,
 - Marine transporters, air transport, e.t.c
4. Entertainment: Here businesses may include;
 - Disco theques, Theaters, Cinema Halls, sports, travel agencies, swimming e.t.c
5. Technical service: Here we find motor vehicle garages, electrical repairing e.t.c
6. Security: Here we find security services like security organs like Saracen, Securiko companies e.t.c.
7. Food and drink; Here we find bars, restaurants, Kiosks, e..tc
8. Utilities : Here we find electricity, water and telecommunication forms like MTN, Warid Telecom, Zain, e t.c
9. Tourism : Here we find tours and travel agencies, hotels, lodges, campaign sites e.t.c
10. Financial services: Here we find Banks, Micro financial institutions e.t.c
11. Beauty services: Here we may find Salon, barber shops, Bridal farms, e.t.c

9.35 Benefits from service business

Service businesses also play a great role to the owners, families and community, the benefits are almost similar to those of agribusinesses and manufacturing businesses. However, the following are unique to service businesses;

- a. They support the operations of other businesses and help to improve productivity, through provision of communication facilities, finance, transport, power, e.t.c
- b. Service businesses like transport and communication help to open up different parts of the country and also other businesses can be set up in those areas hence more opportunities and community development.
- c. The government and communities use some services businesses to promote their development programmes like communication businesses, for instance over the radios, televisions, newspapers, e.t.c.
- d. They provide financial assistance to other businesses like giving them loans, safeguarding their deposits, e.t.c all this is done by financial institutions.
- e. Through health services, people's health is improved and this leads to increased productivity and profitability of various businesses.
- f. security services promote a conducive and secure working environment for other businesses, this maintains confidence in entrepreneurs and attracts other businesses hence development.
- g. Education services instill knowledge and skills, this helps manpower to be equipped with the necessary skills and improved productivity and economies of scale.

9.36 Challenges in service business and how to over come them

Some of the challenges to agribusinesses and manufacturing businesses do also affect service businesses, however, the following are unique to them.

- a. Since the quality of the service rendered depends on the skills of the entrepreneur and workers, ensuring that workers are motivated and equipped with the necessary skills so as to provide quality service is still a challenge , e.g how to ensure that a Teacher provides what exactly he is supposed to provide.
- b. Retaining the staff is a still a challenge as those who are experienced normally are taken by competing and emerging firms like Warid Telecom took a big number of experts from MTN and UTL as MTN did so to Zain (former Celtel Uganda) when it was starting.
- c. There are associated with high costs of inputs, this is due to the stiff competition , entrepreneurs need to incur higher costs so as to provide quality services like high salaries to employees, this leads to reduced profitability.
- d. Most businesses face debts from their clients who fail to meet their obligations, this is a big threat to the profitability of the business.

9.37 Ways of overcoming the above challenges

- a. Provision of favourable working conditions in order to maintain the works in business like good salaries and allowances.
- b. Conducting a market survey so as to deal in a business where they have sufficient and affordable technical expertise and ability to face competition.
- c. Avoiding or minimizing credit facilities in order to reduce bad debts and setting up stick rules for those who fail to pay, like signing contracts of sale of goods which are enforceable by law.
- d. Ensuring that staff is equipped with all the necessary facilities that would maintain the quality of the services rendered, for instance providing constant training and workshops to equip them with modern operational skills and techniques, e.t.c.

9.38 Trading business

These are businesses that buy goods at lower prices and sell them at relatively higher price. These may include shops, butchers, Kiosks, supermarkets, e.t.c.

9.39 Types of trading businesses

We shall look at two types of trading businesses, i.e retail and whole sale trading businesses.

9.40 Retail trading businesses

These businesses buy products from either manufacturers or wholesalers in relatively large affordable quantities and sell them in small manageable quantities to final users.

Such businesses may include those without fixed premises like hawking, roads side vending, peddling (those who use motorcycles), wheel barrow pushing e.t.c plus those with premises like single shops market trading, tied shops, e.t.c.

9.41 Functions of a retailer in trade

A retailer is that person engaged in retail trade business, his /her functions include the followings;

- a. A retailer buys in relative large quantities from wholesalers or producers hence providing them with working capital.
- b. A retailer breaks the bulk through selling to consumers in smaller manageable quantities.
- c. He keeps goods for the consumers until they are needed and hence satisfying customer's needs, for instance seasonal goods are stored until the season comes like Christmas cards.
- d. He /she transports goods from the wholesalers or producers to their house and some times provide free transport to consumers who buy in big quantities hence reducing the costs of the consumers and producers.
- e. He gives advice to consumers on the different goods sold, for instance how to use them, maintain them e.t.c.
- f. He helps wholesalers in stocking the right goods that are on demand, since he directly deals with consumers and knows their tastes and preferences.
- g. He provides consumers with a variety of goods and hence helps them to make a choice from the different varieties available, hence satisfying their needs.
- h. He sometimes provides credit facilities to those customers that are credit worthy, this leads to continuous consumption by the consumers (i.e consumers can access the desired goods even when cash is not available).

9.42 Wholesale trading business

These are businesses that buy goods from manufacturers and sell them to retail businesses or institutions in relatively large quantities.

Unlike retail trade businesses, which stock different goods, most wholesalers tend to specialize in particular goods.

However, in Uganda it is common to find trading business doing both retail trade and wholesale trade, this is done with a view to capture a wider market from both retailers and consumers. Examples include those in different Arcades In Kampala like Mikwano arcade, Mutaasa Kafeero, Kikuubo, Kamukamu plaza, e.t.c.

There are different types of wholesalers in Uganda and among which are;

1. General wholesalers: They deal in a wide range of goods and hence provide retailers with a variety, for instance those businesses found in Kikuubo Lane etc.
2. Specialized wholesalers: These ones concentrate on dealing in one field or particular goods, for instance most traders along Nasser road and Nkurumah road deal in stationery, while those in Kisekka market deal in spare parts of different machinery, etc.
3. Nation wide wholesalers: These operate on a large scale and have different branches throughout the major parts of the country for instance Bata shoe shops are spread in different parts of the country.
4. Regional wholesalers: These specialize or operate in specific regions or parts of the country or district.
5. Cash and carry wholesalers: Such traders do not offer credit facilities nor delivery the goods for retailers but sell to retailers at relatively lower prices than other wholesalers.
6. Mobile wholesalers: These sell goods on moving vans, lorries and trucks, and normally visit different regions in specific days like confectionery vans e.g Ntake bakery, Kiddawalime vans etc.

9.43 Functions of wholesaler in trade

- a. He provides a link between the producer and retailers, hence facilitating communication between the two.
- b. He provides warehousing facilities for both producers and consumers and thus reducing their costs of storage and therefore increased profits.
- c. He breaks the bulk by buying in large quantities from the producers and sell to retailers and consumers in desired quantities.
- d. He maintains a constant demand and supply for goods, for instance by storing seasonal goods during surplus periods and sell them during off seasons.
- e. He acts as a financial to both manufacturers and retailers through paying them promptly and offering credit facilities or retailers.
- f. He provides transport facilities for the goods from the producers' premises to the warehouse and sometimes from his warehouse to the retailers shops mainly those buy in large quantities.
- g. He maintains stability of market prices through stocking goods during plenty seasons in order to sell them during scarcity periods.
- h. He sometimes reduce the costs of production for the producer, like advertising, transport, since advertise goods in stock for the producer.

9.44 Benefits of trading business

Trading businesses have similar benefits to those of agribusinesses, manufacturing and service businesses, however, on top of that, the following benefits are unique.

- ❖ All other categories of businesses benefit from the trading businesses as their products are distributed and sold by the trading businesses.
- ❖ They make goods available and affordable to customers through breaking the bulk and bringing them close to them. (Manageable quantities and prices.)

They also provide markets to the products of other businesses.

9.45 Challenges of trading businesses and how to overcome them

The challenges of trading businesses are similar to those of agribusinesses, manufacturing and services businesses, and hence ways to overcome them are similar.

Maybe, we can add on a challenge of goods getting expired or spoilt in shelves before being sold. This can be overcome by estimating correct quantities of goods that can be sold in a given period and stocking only goods with longer shelf life.

TOPIC TEN

10.0 EXPLORING THE ENVIRONMENT FOR BUSINESS OPPORTUNITIES.

10.1 Business opportunities

A business opportunity is an identified situation or chance that changed into a real and profitable business. It is brought about by the identified needs in the market that are not being satisfied by the existing business(es).

Before an entrepreneur starts a business, he thinks of various business ideas that can be turned out into opportunities; there are different factors that an entrepreneur considers when selecting an idea that can be turned into a business opportunity.

Some of the indicators of a good or a viable business include:

- a) The rate of return on investment; the expected profits from the business should be acceptable for the level of investment by the entrepreneur.
- b) Availability of market i.e. the number of willing buyers should be large enough to ensure that the produced goods will be easily sold to achieve the desired profits.
- c) Availability of resources to set up the business, like raw materials, capital etc. if they exist and satisfy the entrepreneur.
- d) The relevant technology and skilled manpower to start and operate the business, it should not only be available, but also affordable by the entrepreneur.
- e) The business should be legal and compatible with the social norms of the community in which it is to be located, for instance one would not be advised to set up a bar near a born-again church community.
- f) The intended business should also be acceptable in the community, for instance, however, profitable a video hall may be if set near a secondary school, it may not be liked and welcomed by the community as it may affect the students' studies.

10.2 Sources of business ideas

Business ideas are generated by an entrepreneur and out of which, a business opportunity may be selected. Such ideas are generated from any of the following;

- a) Technical skills and experience that they possess, these give them an opportunity to think deeply about the identified situations like finding out better ways of doing things.
- b) Through carrying out personal contacts with different people and this exposes them to numerous ideas.
- c) Through observation of the developments and changes taking place in and around them, the challenges coming up and the needs that are becoming important, this helps them generate ideas based on the changing needs.
- d) Through the press, like from news papers, Business magazines, over the radios where most developments, policies and consumers' priorities are communicated and publicized.
- e) Through conducting research to find out what is happening and the latest tastes and preferences of customers, this leads to generation of different business ideas.
- f) Through carrying out a market survey to identify the products being sold, those that are needed but do not exist, those that need improvement, etc.

- g) Through discussions with other existing entrepreneurs on issues concerning business and through this, one gets to learn different views, comments and advice on different situations, e.t.c.
- h) Through looking at the trends in the market, like population shifts, people's income, the buying patterns e.t.c this helps them to generate ideas basing on these market trends.

N.B creativity: This refers to an entrepreneurs' power and ability to come up with various business ideas even in situations that may seem hopeless. For instance, setting up an opportunity in a refugees camp.

10.3 Area that provide a base for business opportunities

An entrepreneur can generate business ideas for different types of business like agribusinesses which he /she can develop into profitable business. This can be done through;

- a. Observing the available raw materials and finding out what products can be made out of them, be sold for profits.
- b. Identifying the available human resources, i.e whether skilled enough to carry out the desirable businesses or what can be done basing on the available human resources.
- c. Finding out people's needs and problems and determining how best they could be met through provision of the required goods and services at profitable prices.
- d. Identifying those items that the community or institutions consider useless and finding out what businesses could be generated out of the like farm wastes that can be used to make biogas and manure.
- e. Examining the existing businesses and finding out those that do not satisfy people's needs and determine how he/she can come up with a businesses that would satisfy these needs of the customers.
- f. Carrying out research to identify those opportunities that people would wish to have but are un available and try to generate ideas onto how to come up with one of those businesses.
- g. Through creativity and innovative skills, one may identify a new opportunity that can be introduced in the market. For instance an entrepreneur who came up with energy saving stoves, which businesses has achieved a very big market within short period of time.

10.4 Market, potential market and market assessment

A market refers to all buyers (people, institutions) with in a specific geographical area, who are in need business products, willing and able to buy them. These constitute A Real market.

This means that people or institutions, to constitute a market for any business (Like trading business) should exhibit the following:

- Need or want the products being sold by the business
- Able to buy the products
- Are willing to buy the product

A potential market for a business is composed of people or institutions in need and are able but are not yet willing to buy its products.

Market assessment is the process of determining the market of the products of the business.

Basing on the above concepts, an entrepreneur can clearly identify that a real market, potential market, and market assessment are three distinctive terms (they have different meanings)

10.5 Importance of market assessment

Before an entrepreneur generates a business opportunity, he/she may carry out market assessment in order to find out the real and potential market of the different products that would be generated from different business ideas. Through this one would make the best selection from the many and hence faster yields from the business.

So when a given business opportunity is started, entrepreneurs also carry out market assessment to determine the size of the market for the products, their needs and what to be done to maintain and expand the market.

It helps in identification customer complaints or needs or problems for a particular product and hence one can advise ways of improving, expanding and fulfilling the customers' needs or desires.

Market assessment provides information concerning many various aspects of the business, for instance one may determine the market share, effectiveness of his/her marketing strategies like advertising, promotion programmes and for the case of a new product being introduced to the market, one may get customers response to this new product.

It also helps an entrepreneur to make decisions like whether to set up and maintain or expand the business, whether to increase on the distribution channels or not, e.t.c.

10.6 Factors for assessing market potential for a business

There are factors which one should consider when determining customers who are in need and able to have his products and among which are;

1. **Demand:** This is the amount of the product that people are willing and able to buy at given price, if the demand is high the market potential will also be high and hence the better prospectus of the business.
2. **Competition:** This is all about a business struggling to maintain its customers as well attracting those of other business, mainly those who sell the same or related products. A business which faces high competitions will automatically experience a low market potential as it will keep on losing customers to other business/competitors.
3. **Price;** There might be many people who would be willing to have a business product but the ability to buy them is restricted by the prices at which it is being offered, however, this one depends on the nature of the market, for instance, the potential market for expensive shoes in rural areas is very low as if people will not afford them and thus second hand clothes will have a high potential market.
4. Availability of substitutes; these are alternative products which customers can go for in order to satisfy the same need, e.g beans and peas, kiwi and dragon shoe polish. Thus a commodity without close substitutes will have a high potential market compared to the one with close substitutes e.g salt as the customer will be having no alternative apart from the product.
5. Income levels; The ability of the target people or institutions to buy a business product at profitable price will influence the potential market, i.e the higher the income level, the higher potential market will be.
6. The location of the business also affects the potential market, a business which is strategically located in relation to its target customers will have a higher potential market than the one which was not planned for, that is why a business plan is a very important management tool as far as a business is concerned.

7. The number of people , business and institutions that operate from a target area will also determine the potential market, the bigger number of people, the higher the potential market.
8. Government policies, These may affect the business operations e.g the opening hours for business the location of the business, the nature of customers to serve etc for instance trading business which were located near the bus park in Kampala were having a high market potential, however , when concerned authorities decides to demolish, the park and set up the Bus terminal building all those businesses lost their markets.

10.7 Factors considered when conducting a market assessment

For an entrepreneur to conduct a market assessment for his or her products, he or should consider number of factors which may include;

1. The target markets for the products i.e the people, business or institutions the business intends to serve. This provides a boundary within which the assessment is to be done, e.g with the target group one may look at the age, sex, income levels, education etc.
2. The nature of the product to be produced and the market needs ; Under this, one looks at the variety of products, quality, design, brand name, packaging etc and all these are checked against what the market or customers would wish to have.
3. The competition and substitute products facing the business and this affects the market, most business have competitors and their products can be substituted for the ones entrepreneur wishes to make. This therefore necessitates an entrepreneur to check on the level of competition his or her products are likely to face. e.g if the level of competition is too high, he or she would rather give up with the business and goes back to crosscheck on the list of his ideas and get another one and checks if it can be an opportunity that can be turned into business.
4. The target market trends and their implications on the business market , an entrepreneur would wish to know the market he hope to join has been behaving in the recent past since it will affect the products he is to sell now and in the future.

Among the trend issue that one would wish to may to may include the following;

- Is the market expanding or contracting?
- Is the market stable or unstable?
- How are new entrants treated in the market?

10.8 Conducting market assessment for a business opportunity.

There are various guidelines that may be used when assessing an opportunity or a service. They include;

1. Customer's identify: Under this, you will determine the category of customers in your market
2. and the information you will look for will involve;
 - Who are your customers are, age and sex
 - Their occupation
 - Their family size and materials status
 - Where they live, their interest and hobbies.
 - Their level of income
3. Customers needs or wants : Again here you will receive information which will answer questions like
 - What particular products do your customers need?
 - What special features are they looking for in products ie size. colour, packaging e.t.c

With all the above collected information ,you will be able to identify your market share as compared your competitors. If you find out that your share is saturated with more

capable competitors, then your show get rid of the business and try to identify other opportunities from a list of the available ideas you have.

10.9 Using S.W.O.T analysis to determine the competitive advantage of a business

SWOT analysis is a tool which enables an entrepreneur to check the chances of success of his / her business in the market. This will enable him / her to decide whether he/she should continue with the business or not.

SWOT analysis enables an entrepreneur to check his business strengths, weaknesses, opportunities are threats, compares them with those of his competitors so as to determine whether his business is in a better position to compete favourably with those of this competitors.

Some of the issues that an entrepreneur will consider when carrying out self assessment using SWOT analysis to determine his competitive advantage are;

1. **Strength:** These are things/ features or qualities that put an entrepreneur's business products and advantage compared to those the competitors, they include:
 - High quality products
 - Ability to produce a product that meet customer needs.
 - Customer friendly who can but at profitable prices
 - Efficiency and effectiveness when handling customers.
 - Ability to attract customers
 - Good location of the business
 - Well trained marketing staff.
2. **Weaknesses:** These are constraints or limitations that the business products may face in the market, they include:
 - Being new in the market hence low market / weak market image.
 - Weak distribution image.
 - Low marketing skills
 - Higher costs compared to the competitors.
 - Poor and inaccessible location of the business.
 - Inability of finance the needed marketing changes.
3. **Opportunities:** These are externals chances or possibilities and benefits to the business. However, the business has no control over them, i.e may happen or not happen. They include:
 - Sudden changes in customer's tastes and fashions, in favour of an entrepreneur's product.
 - Possibility of big orders for the products, say from the government, may be due to certain changes in government policies.
 - Changes in the market trends due to new developments like a large institutions being set up near the business.
 - Falling trade barriers in attractive foreign markets like the COMESA that removed some duties on imports and exports for traders who come from countries under COMESA.
 - Increased market growth.
 - Complacency among rival firms / enterprises i.e where rivals feel that they are satisfied with the market they have and the kind of services they produce and can not make more improvement or expansion of their works.
4. **Threats:** These are undesirable happenings that may occur in the market to the disadvantage of the business. They include;
 - Entry of new lower cost foreign companies in the market
 - Increase in sales of substitute goods.
 - Costly regulatory requirements
 - Increasing bargaining power of customers and suppliers
 - Changing customer tastes and needs

- Sudden negative changes in government policies.
- Competitors reducing their prices for the goods.

When an entrepreneur analyses his position, he then compares it using all the above against those of his competitors.

If the comparison / outcome is unfavourable i.e. when competitors are in a better position than him, this means that he has a competitive disadvantage.

This would imply that if the products are put on market, they will not compete favourably with those of competitors.

And if the comparison is / outcome is favourable, i.e. he is stronger than that of his competitors, then it means he has a competitive advantage over them and thus if the products are put on market, they would attract more buyers.

The outcome of the analysis will enable an entrepreneur to find out whether his / her position can be improved or not. If it cannot be improved, then he / she should leave the business and cross check back in his business ideas to find out the second best alternative and make a similar analysis over it. This is done continuously until an entrepreneur finds out a business that portrays a better or the competitive position in the market.

TOPIC ELEVEN

Relationship between business, society and natural environment

11.1 Introduction

Natural environment involves things that we can see and those we can not see which surround the businesses and the society.

Such things include: Land, water, plants, animals and birds.

11.2 Dependency of business on natural environment

Businesses greatly depend on the natural environment in different ways; these include:

a) Raw materials: These are used in production of goods and services from the natural environment they include;

- Wood got from forests to produce furniture and other wood products.
- Animals that the environment meat in beef factory, skins and hides, e.t.c used in leather tanning industries
- Water from the environment used in many factories and to manufacture drinks.
- Oil from which petroleum products are got, which products are used in running machines and automobiles in business.
- Limestone from which cement and lime are got and used in building and construction industries.
- Copper ore from which copper is obtained and used in the manufacture of coins, electric wires.

b) Transport: The environment provides business with transport network like water, roads, which facilitate business operations.

c) Disposal facilities for business: The natural environment provides most business with grounds for disposing their wastes, like land, even water and air, such wastes include rubbish, smoke, etc.

d) A home to business: The natural environment provides grounds on which businesses are set up / built i.e. land also provides a home for operations of businesses like farming.

11.3 Benefits of businesses to the society

A society is a ground of people living together with in a given geographical area, brought together by, culture, beliefs and values. The society benefits from the business in the following ways:

- a. They provide goods and services which satisfy the needs of the people in the society like a bakery business provides bread to the people for consumption.
- b. They provide employment opportunities to the community where they are located, like if it is a bakery business, it will require people to work in the factory and those who distribute the bread to market areas.
- c. Businesses play a vital role in community development programmes, like building houses for the poor, promoting sports in the community like MTN normally sponsors football leagues, etc.
- d. Businesses pay taxes to the government, which tax is used to provide social services to the community, like infrastructural development, security etc.
- e. Businesses usually participate in activities that preserve the environment, for instance usually schools and universities clean public parks and streets, they even plant trees and hence protect and maintain the environment.
- f. The businesses provide market for other services in the community, for instance establishment of Uganda Breweries Limited Luzira created market for food vending, car washer, clinics etc.
- g. Some businesses use wastes like papers, plastic containers, etc as raw materials, which are recycled, such wastes could harm the environment in form of pollution.
- h. When businesses are established in a particular location, they extend infrastructure and other amenities to the society like power, water supply, petrol stations, which supply fuel and paraffin to the community, etc.

11.4 Benefits of the society to the business

They provide market to the business through buying goods or services that are provided by the business in order to meet their needs.

Businesses acquire labour from the society, which is used to perform tasks required in production of goods / services.

Societies provide capital to the businesses in form of grants and loans, which is used to acquire the required items like fixed assets and for the day to day operations of the business.

The society provides security to the businesses which helps them to operate effectively, this is provided through the local defence units, special police constables, etc.

The society provides cheap raw materials to the businesses, for instance agribusinesses would collect raw materials from the surrounding communities at lower prices which increases profitability of the business.

For some businesses to be set up, there must be an approval or acceptance from the society officials where it is to be set up, like a savings and credit society institution to be established, the members of the society have to sign and acknowledge its existence, so they contribute to the setting up and survival of some businesses.

11.5 Effects of different businesses on the natural environment

Since different businesses require different raw materials and different production processes, produce different products and by-products, this means that they have different effects on the natural environment. The following are the effects of basing a particular business type.

1. Agribusinesses may pose the following effects to the natural environment:
 - Soil erosion with all its effects which leads to soil infertility
 - Over utilization of soil which leads to soil exhaustion and infertility
 - Constant cutting down of trees for land which leads to deforestation, low rainfall and consequently drought.
 - Drainage of swamps and destruction of water catchment areas due to expansion for agriculture
2. Manufacturing businesses may pose the following effects to the natural environment
 - Production of toxic gases like sulphur dioxide, which makes the air smell badly and affects people's health.
 - Emitting gases which are harmful to the environment (vegetation) and the ozonal layer.
 - Production of smoke or dust causing air pollution with all its effects.
 - Deforestation as the area is cleared for construction of firms and acquisition of energy from firewood.
 - Vibrations caused by running machines and equipment that may lead to poor health of the people like, development of heart diseases and others.
 - Production of by-products that harm the natural environment.
 - Production of industrial effluents and chemical wastes which pollute the water.
3. Service businesses pose the following effects to the natural environment.
 - Production of exhaust fumes which pollute the air
 - destruction of delicate plants and animals in the area where there are too many tourists.
 - littering or protected areas with plastic bags and other rubbish by the tourists.
4. Trading businesses may pose the following effects to the natural environment
 - Destruction of the environment by providing market areas for goods whose production harm it, like used plastic bottles that are from firms that manufacture mineral water.
 - Use of plastic and polythene carry bags which are littered and destroy the environment.
 - Noise pollution from the numerous traders, like those along streets who shout to attract the attention of customers.
 - Through trading in outdated and expired goods that are harmful to the health of the people.
 - Increased population in trading centre, which leads to over utilization and destruction of the natural environment like the increased population in Kampala has led to destruction of the catchment area like Kisenyi for accommodation.
 - Most of the natural environment has been cleared with a view to set up structures for carrying out businesses, like the swamp that was cleared to set up shoprite hyper market and the new taxi park in Kampala city. e.t.c.

11.6 Environmental degradation and its effects.

Degrading the environment means making the environment to become of less quality or value to those who depend or use it for their survival or operations.

They may depend on it by way of habitat, feeding zones, breeding grounds, protection etc.

Environmental degradation may cause harmful effects on the living and non -living things, businesses and the environment itself. some of the harmful effects of degraded natural environment include;

It affects the health of people , animals, plants, etc, like people are affected by malaria (due to over population), destruction of the animal habitat, which affects them , plant life is affected by emitting passes , etc.

It causes drought and famine, due to increased population, the soils become infertile as they are over cultivated, hence low food production and when trees are cut down to get more land , the amount of rainfall reduces hence causing drought.

Inadequate raw materials, for instance if trees are constantly cut down without re- afforestation, they will get finished and thus will lead to business closure due to over population.

Extinction of some species, this is due to the destruction of their habitats and feeding grounds, for instance fish, insects, reptiles, etc. as the forests are cleared, swamps and waters are cleared for expansion of land to carry out agriculture businesses and accommodation, this destroys or kills such species in the end.

11.7 Business requirements that affect the natural environment

These requirements vary depending on the nature, size and type of the business. The most common ones the need to be planned include;

- a) Land for business site, construction of premises for operations and storage, and extraction of raw materials.
- b) Machinery and equipment used in productive –operations. Some of these normally destroy the physical environment e.g graders which are used in mining and oil extraction.
- c) Resources. Raw materials or stocks for sale whose extraction or production affect the natural environment.
- d) Packaging materials like paper bags, polythene bags used for packaging products for sale and they affect soil texture and drainage system.
- e) Disposal grounds for rubbish or waste materials produced through consumption and productive operations, and some firms use rivers as disposal ground and they create toxic chemical which affect the air ,soil and aquatic life.
- f) Human resources for labour to manage businesses, these use environment in from of shelter, food production, raw materials extraction, medicine e.t.c.
- g) Agro-chemical usage in chemicals and artificial fertilizers used in agricultural businesses, these affect human life, and they are even carried by erosion to the open water bodies where people get water for home consumption.
- h) Livestock mainly in those areas where it is practical on large scale, use poor grazing methods leading to climatic changes desertification etc.
- i) Transport which is needed to move materials, human resource e.t.c , they are moved by vehicles which emit gases which are dangerous to the environment, construction and repair of roads , railways etc also affect the environment.

11.8 Effects of business requirements on the natural environment

1. Pollution, this involves water and air pollution, where business emit smoke, sulphur dioxide, CO₂ which is dangerous to people's breathing system, plants and animals, water pollution by most manufacturing business by powering their wastes into water ways etc. Soils erosion and the use of pesticides and fertilizers pollute the water manufacturing businesses also produce a lot of noise that affects people's health.
2. Land degradation i.e spoiling soil fertility, its nutrients arising from different land usage like over grazing, over cultivation quarrying, disposal of harmful wastes etc.
3. Deforestation businesses need timber for construction, furniture, wood (energy), and so these trees are cut down and this results into climatic changes and loss of soil coverage and fertility.
4. Displacement of people through establishing of businesses e.g by constructing various commercial premises in Kampala, many people have been displaced, this affects the balance of ecosystem and end up affecting the natural environment.
5. Reclamation of wetlands so as to create sites for business, for instance most of the wetland areas in Kampala have been cleared for site construction. This causes wetland reclamation.
6. Over exploitation of minerals, the existence of numerous manufacturing businesses has led to over exploitation of minerals which leads to depletion for instance copper in Kirembe is getting extinct.
7. Over harvesting or over fishing without due regard for preservation for future consumption. Fishermen have reached an extent of trapping young fish, this does not only reduce the quantity but also the loss of various fish species in the water bodies.
8. The clearing of areas for settlement and construction in forested and wetland areas has scared away animals and bird species, this has led to death and loss of such species, which in turn affects tourism industry.
9. Trading and service businesses have affected the social environment as a number of goods have been imported which affect the norms and culture of the society, for instance western films, and fashions of clothes which pollute most of the body parts e.g women tops and mini-skirts, all these expose bad behaviours to the society.

11.9 Measures and methods to reduce the negative effects of business on natural environment

- a) Choice of raw materials or other inputs to be used that have less or no degradation effect on the environment.
- b) Agro-businesses should avoid the use of harmful chemicals, they should adopt other control methods like natural fertilizers, farm yard manure etc.
- c) A need to treat wastes and adoption of a proper waste disposal group that does not affect the health of animals, people and other.
- d) Selection of proper packing materials that are not harmful to the environment like replacing paper bags with polythene bags that do not affect the soil structure.
- e) Adopting other forms of energy to reduce on wood fuel usage e.g use of solar energy, hydroelectric power etc.
- f) The government should set up or maintain laws that protect the natural resources e.g land, water, minerals etc.
- g) Promoting re-forestation so as to reduce on the effects of deforestation on soil fertility and other resources.
- h) Adopting policies to educate the citizens in order to make them aware on the importance of protecting the natural environment e.g through the protection bodies like NEMA.

TOPIC TWELVE

BUSINESS START UP PROCESS

12.0 Introduction

An entrepreneur's work mainly starts with selecting an opportunity from the numerous business ideas he /she may be having as we saw in the previous topic.

After selecting a business to do, an entrepreneur proceeds to start and operate it in order for him / her to realize his / her business goals.

However, this necessitates an entrepreneur to get prepared and organized so as to get started. In this topic, we shall look at the steps to be taken when starting a business.

12.1 Steps followed in starting a business

An entrepreneur may take the following steps when preparing or organizing to start a selected business.

- A. Spotting a business opportunity: This involves developing business goals, scan the environment so as to generate different business ideas, there after one analyses and ranks them in order of their ability to meet one's set goals.
- B. Market survey: This can be done through determining whether the business ideas can be developed into a profitable business and whether it will have competitive advantage over the competitors. The market survey will help an entrepreneur to:
 - Determine the target market, its needs and the capacity of the business that it will meet.
 - Analyze the competitive advantage of his business over other businesses that are already in operation, or those that are likely to start.
 - Select the specific or part of the market the business can best serve like targeting students through starting a kiosk.
 - Determine how to satisfy the customers' need, i.e what, where, how and when they would wish to have the product.
- C. Preparing a business plan: This is a written summary of the proposed business venture including its operational and financial details. It helps an entrepreneur to think through the business before starting it.
 - When preparing a business plan, an entrepreneur does the following:
 - Examines the goals and objectives to be satisfied by the business.
 - Assesses his / her strengths and weaknesses in the market in comparison with the competitors.
 - Reflects on the conditions in the market, decide on what to do in order to market his products, selects a market to be served, etc i.e develops a marketing plan.
 - Decides on how the business will be organized i.e develops an organizational plan.
 - Decides on how the business will produce the products to be sold i.e develops a production plan.
 - Establishes the required funds to start and operate the business, sources of funds, forecasts the profits margin, etc. develops a financial plan.
 - Develops an action plan that shows him / her the various activities in the actual starting up of the business will be done, i.e sequence of steps to be followed when carrying on with the business.

It is very vital for an entrepreneur to prepare a business plan because:

- It helps him to select the most feasible business opportunity from the many alternatives.
- It guides him in forecasting the challenges before they happen or destruct the operations of the business.

- It helps him to acquire the necessary financiers, as they will use this drafts business plan to determine whether to inject in funds or not.
- Partners and investors use the business plan for carrying out decisions regarding investment in any given business.

D. Assessing the technology and machinery required by the business. here an entrepreneur assesses the production systems required to produce the desired outputs, checks n the required machinery to carry out production, etc this is important part of the business start up process because;

- It determines the type , quality and quantity of raw materials that will be needed by the business for the planned marketing and production designs made.
- It establishes the nature and skills of labour required to successfully produce the intended out put their availability and cost.
- Helps to know the availability of the required machinery, its sources and costs , other associated costs etc.
- Helps to know the machinery running and maintenance requirement and their implications on the successful operations of the business.

E. Selecting a legal form of business ownership, here an entrepreneur determines the types of business he would wish to operate, this will be based on a form that suits his enterprises because different legal form of business ownership have different implications.

These are different types of legal forms of business ownership and some of them are;

- Sole proprietorship business
- Partnership business
- Joint stock companies
- Co-operative societies e.t.c

These can further be discussed in the next sub-topic

12.2 Legal forms of business ownership

Another important decision which an entrepreneur has to make is legal structure of his enterprise. it is important because the choice of ownership form affect the rights, duties and obligations of owners as well as the tax liability.

The main forms of ownership may be briefly discussed below

1. SOLE PROPRIETORSHIP

Sole proprietorship or individual entrepreneurship is a business concern owned and operated by one person. The sole proprietor is person who carries on business exclusively for himself. He alone contributes the capital and skills and is solely responsible for the results of the enterprises.

The characteristics of sole proprietorship are as follows:

- a. Single ownership
- b. One man's control
- c. Un divided risks
- d. Unlimited liability
- e. No separate entity of the business from the owner
- f. No government regulations.

Advantages of sole proprietorship business

- a. Simplicity i.e It is easy to establish and dissolve the business, no documents are needed and no legal formalities are involved.
- b. Quick decision making, i.e an entrepreneur need not consult any body in deciding his business affairs, hence he can take on spot decisions to exploit opportunities from time to time.
- c. An entrepreneur is his / her own boss, he /she is not controlled by any one as he is the owner.
- d. High secrecy; he / she has not to polish his /her accounts and the business secrets are known to him / her alone. This reduces on costs and also guards him / her from competitors.
- e. In an event of success, he /she enjoys all the profits alone, since he is alone with out co-workers who would share profits.
- f. Direct motivation, there is a direct relationship between efforts and rewards, since no body share the profits of the business , the entrepreneur has sufficient incentives to work hard.
- g. He has full control over his business as there is no outside interference, thus business operations may be carried out well and easily.
- h. Personal touch ; an entrepreneur can maintain personal contacts with his clients / employees this helps him in growth of the enterprise through good relations with his customers.
- i. Flexibility, In the absence of government control, there is complete freedom for action, there is no scope for difference in opinions and no problem of coordination.

2. PARTNERSHIP FIRMS

As a business enterprise expands beyond the capacity of a single person, a group of persons have to join hands together and supply the necessary capital and skills.

According to section 4 of the partnership Act, 1932, partnership is the relation between persons who have agreed to share the profits of the business carried on by all or any one of them acting for all.

In other words, it is an arrangement between two or more persons to carry on jointly a lawful business and to share the profits arising there from.

Characteristics of partnership

- Association of two or more persons - maximum of 10 in banking business and 20 in non banking business.
- Contractual relationship written or oral agreement among the partners.
- existence of a lawful business
- Sharing of profits and losses
- Mutual agency among partners.
- No separate legal entity of the firm
- Unlimited liability

FORMATION OF PARTNERSHIP FIRMS

These firms can be formed through an agreement between or among persons. The agreement may be oral or in writing, but more desirable in writing. such a written agreement among partners is known as a **partnership deed**. It usually contains the following:

- ❖ Name of the firm
- ❖ Name and address of all the partners
- ❖ Date of the agreement
- ❖ Principle place of the firm's business
- ❖ Duration of partnership, if any.
- ❖ Amount of capital contributed by each partner
- ❖ The proportion in which the profits and losses are to be shared.
- ❖ Loans and advances by partners and interest payable on them.
- ❖ Duties, powers and obligations of all partners
- ❖ amount of salary or commission payable to any partner
- ❖ Procedure for dissolution of the firm and settlement of accounts
- ❖ Arrangements in case a partner becomes insolvent.
- ❖ Arbitration for settlement of disputes among the partners.

Advantages / merits of partnership business

- a. Ease of formation; it is easy to form as no cumbersome legal formalities are involved.
- b. Large financial resources, as a number of partners contribute to the capital of the firm, it is easy to collect large financial resources than that of a sole trader.
- c. Specialization and balanced approach, it enables the pooling of abilities and judgment of several persons, which results into more efficient management of the business, partners with complementary skills may be chosen to avail the benefits of specialization.
- d. Flexibility of operations, though not as versatile as sole proprietorship, it enjoys sufficient flexibility units day to day operations. The nature of business can be changed wherever the partners desire.
- e. Protection of minority interest, no basic changes in the rights and obligations of partners can be made without the unanimous consent of all the partners.
- f. Capacity of survival, the capacity for a firm to survive is higher than that of a sole proprietorship i.e it can continue after the death of one partner.
- g. Partners share losses and risks, hence no great burden being shifted to one person as in sole trade.
- h. Better human and public relations, due to number of representatives (partners of the firm), it is possible to develop personal touch with employees, customers government and the general public.
- i. Business secrecy, it is not compulsory for a partnership firm to publish and files its accounts and reports. thus important secrets of business remain confidential to the partners and are unknown to the outside world.

Disadvantages / demerits of a partnership business

Un limited liability i.e every partner is jointly and severally liable for the entire debts of the firm.

Limited resources, the amount of financial resources is limited to the contributions made by the partners due to inadequate access to loans. There fore it is not suited to undertake business involving huge investment of capital.

Lack of harmony, the success of partnership business depends upon mutual understanding among partners, any disagreement may paralyze the business hence its death.

Lack of continuity, a partnership may come to end with the retirement, incapacity, insolvency or death of an active partner.

Non- transparency of interest, no partner can transfer his shares in the firm to an outsider without the consent of all partners, hence an individual's capital is blocked.

Joint responsibility may lead to delays in making decisions

Partners will have to share profits of the business yet some not equally contributing to its operations.

Decisions made by one partner are binding to all partners through they may not be agreeable to them.

3. JOINT STOCK COMPANY

With the growing needs of modern business, collection of vast financial and managerial resources become necessary. Proprietorship and partnership firms failed to meet these needs due to their limitations like; unlimited liability, limited resources and lack of continuity e.t.c.

The company form of business was formed to overcome these limitations.

A joint stock company is an incorporated and voluntary association of individuals to carry out business together under the Companies, Act. They usually have joint capital divided into transferable shares of a fixed value.

There are two types of companies i.e private and public limited companies

By law, a Private limited company's membership ranges from 2 to 50 members, before it can exist, it must present to the Registrar of companies a memorandum of association, a statement of share capital, details of directors, address of the companies registered office e.t.c

By laws, a public Ltd Company's membership ranges from seven to no maximum limit, members can transfer their shares freely, they have limited liability, it must also present the above documents (as in private) before it can exist and it can not start operating unless it has acquired certificate of trading. However, with private company it can commence once it receive a certificate of incorporation.

Advantages of forming a company

- a) Limited liability i.e share holders of a company are liable only to the extent of the value of shares held by them
- b) Large financial resources, it facilitates the collection of huge financial resources due to a big number of shareholders.
- c) Continuity, a company enjoys an uninterrupted business and life. As a body corporate, it continues to exist even if all its members die or desert it.
- d) Transferability of shares, a member of a public limited company can freely transfer his shares without the consent of other members.
- e) Professional management, due to its large financial resources, it avails of the services of expert managers with the required skills which leads to profitability and efficiency.
- f) Scope of growth and expansion, there is a considerable scope of growth and expansion due to vast financial and managerial resources and limited liability, this can help it to reap various economic benefits of large scale which improves efficiency and reduces costs.
- g) Public confidence, a company can acquire public confidence since its activities are regulated by the government under the company's act.
- h) It is a separate legal entity i.e it is separate from the owners, and hence can sue and be sued on its own. This is advantageous in that in case of a loss made by the business, the owners are not affected.

Disadvantages of a company

- a) Difficulty of formation, it is so expensive and difficult to form as a number of documents have to be prepared and presented to the Registrar of companies.
- b) Excessive government control in form of rules and regulations, submission of periodic reports, which reduces efficiency and flexibility of the business operations.
- c) Lack of motivation and personnel touch as there is a divorce between ownership and management in public companies.
- d) Delay in decision making, there are many levels in management, which result in the red tape and bureaucracy.
- e) Conflicting interests, since there are many, there is a possibility of having conflicting interests, for instance between shareholders and management, this retards growth.
- f) It is accompanied with corruption, fraud and embezzlement of companies' funds
- g) Lack of secrecy as it is required to disclose and publish a variety of information on its working operations.
- h) Such companies are usually interfered with by political situation, for instance as in electing the management it may be influenced by the ruling government for their own benefits that could be contrary to those of the members.

4. CO-OPERATIVES

A co-operative is a group of producers or consumers who voluntarily join together to achieve a common social or economic objective, by pooling their resources and working together.

A co-operative society is an association of members who come together and contribute to its capital with an aim of carrying out an activity to realize mutual benefits like profits.

Types of Co-operative societies

There are mainly four types and they include;

- a. Consumer co-operative societies; these are owned and operated by a group of final consumers who purchase and distribute goods and services to themselves at a fair price.

- b. Producer co-operate societies; these are owned and operated by producers who collect, process market and transport their produces, they deal in products like coffee, tea, cotton, e.t.c they normally do this to avoid being exploited by individual buyers.
- c. Wholesale co-operative societies; these are almost the same as consumer co-operatives, having the same principles, but these normally operate on large scale with huge capital investments.
- d. Savings and credit co-operatives, these are set up to encourage producers, consumers and other groups to carry out savings and also offer them assistance in form of loans and other facilities to carry out profitable businesses.
- e. Transport co-operatives; these are formed to provide transport services to the public and members at affordable prices / fares.

Principles of co-operative societies

- a. All members are entitled to a fixed rate of interest on their capital contributed.
- b. Members get dividends according to their participation, like in consumers co-operatives, member who buys more, gets more dividends.
- c. Co-operatives are expected to be politically neutral with no religious or political bias.
- d. Members have equal voice because each member has one vote (democratic principle).
- e. In case one wants to leave the society, he /she can only sell his shares to another willing person but cannot be refunded.
- f. Directors are elected by members themselves, but not appointed.
- g. There is free and voluntary membership, i.e who ever feels he abide by the rules and regulations of the society can join.
- h. Management and decision making is in the hands of the members since they follow a “one man one vote” principle.

Functions of co-operatives societies

- a. They help in the marketing of farmers produce at fair prices
- b. They provide training facilities to the farmers, like the modern farming methods at lower cost.
- c. They provide storage facilities for the farmers produce.
- d. They offer transport facilities for the farmers' produce to the market centres.
- e. They carry out research on behalf of farmers and hence extend quality and modern farming techniques.
- f. They provide agricultural raw materials and farming tools to farmers at low costs.
- g. They mobilize funds from the members, which can be extended to other members in form of credit facilities / loans hence increasing productivity.
- h. They may also access credit facilities from financial institutions on behalf of their members, which can be used to boost their business.

Problems faced by co-operatives in Uganda

Inadequate capital as members may fail to pay their contributions, this limits the progress of the societies.

Lack of business experts in management, most societies are run by illiterate members since they lack funds to hire experts, this also hinders the operations of the society.

Corruption and embezzlement of members fund by top managers, this is so common among societies and leads to its collapse.

Most societies offer little or low interest on capital which is contributed by members, this discourages them and other members from injecting in their money limited growth.

Most of the area where such societies operate from remote, coupled with poor infrastructure development like roads, this makes transportation of their produce expensive and difficult.

Illiteracy of the people, most of the people are illiterate and hence difficult to convince them the importance of joining such societies, they think it's a form of taking their funds, this also hinders growth of such societies.

Since most of them deal in agricultural produce, they face a problem of price fluctuations in the market, this also leads to fluctuations in profits and incomes of the members.

N.B. it should be noted that co-operative societies are set up to help members access certain products supply their products at reasonable prices, but not make profits, however, where profits are realized, they are shared among them basing on their capital contribution.

It is also important for an entrepreneur to take the legal form of business ownership as part of his / her business start-up process. This is because either of the legal forms has its own ownership is detected several factors which may include:

12.3 Factors considered when choosing a legal form of business ownership.

- (i) Nature of business; i.e service, trading, manufacturing e.g manufacturing businesses are more commonly set up by companies since most of them operate on large scale.
- (ii) Size and area of operation e.g large scale enterprises catering to national and international market can be organized more successfully as private or public companies.
- (iii) Degree of control desired, a person who desires direct control of business prefers sole proprietorship.
- (iv) Amount of capital required, e.g organizations, which require heavy investment, should be organized as joint stock companies.
- (v) Degree of risk and liability e.g a single individual may have enough financial resources enough for medium or large scale enterprises, but due to unlimited personal liability, he may not organize it as proprietorship business.
- (vi) Division of surplus, i.e a sole trader receives all the profits but bears all the risks alone, so if person desires or deserves maximum share of profits, proprietorship is preferred.
- (vii) Duration of business, temporary ventures can be organized as proprietorship as they are easy form and dissolve however they lack continuity and proprietorship are subject to little regulation and control by the government.
- (viii) Flexibility of operations, businesses which need a high degree of administrative flexibility should better be organized as sole proprietorships.
- (ix) Tax burden, various forms of ownership are taxed differently under the income tax, proprietorship and partnership share a little or no tax burden as compared to companies.

N.B Identify the location of the business, this should also be highly considered because the location should be favourable in terms of easy reach of the market and minimizing operating costs like transport costs from the raw material source and to market centres e.t.c..

Starting business operations. Since the above start up process is accomplished an entrepreneur now ready to start business operations. Assuming it was a trading business, one may commence operations in the following format.

- Mobilizing and setting up the required business funds.
- Preparing and cleaning the business premises.
- Procuring the necessary business stocks / merchandise / goods to be sold.
- Displaying the stocks / goods in their shelves properly, ready to open the premises.
- Acquiring bank accounts and arranging for books to be used in recording business transactions.

TOPIC THIRTEEN

13.0 MANAGEMENT IN SMALL ENTERPRISES

13.1 Introduction

Management can be simply defined as the art of getting things done through people and proper utilization of resources of the business so as to achieve its objectives and goals.

13.2 The role of entrepreneur in managing a small enterprise

1. An entrepreneur carries out decision making on various business issues, like initiating and identifying business opportunities, accessing the necessary resources like capital, labour etc organizing meetings with other managers, arrangement for expanding or improving the business products, e.t.c.
2. He resolves conflicts that may arise with other businesses in the course of competing for the market share, even resolving conflicts among the employees due to mis understandings. His aim is to make sure that he / she solves all these differences that could affect the operations of the business.
3. He plays an important role in allocation of business resources. Such resources include finance, machinery and equipment, time etc to different activities of the business. This proper allocation of resources will lead to efficiency.
4. An entrepreneur also plays a role of carrying out negotiations with numerous business partners, for instance negotiating for contracts with suppliers of raw materials and machinery. This helps in bargaining for favourable price charged, also negotiates with prime customers for favourable conditions in the market like prices e.t.c.
5. He carries out constant monitoring of the business environment, collects information relating to the enterprises and its surroundings that would affect the enterprises like customers tastes and fashions.

Such information could be got through personal touch with customers, over the various forms of media, attending business conferences and seminars. e.t.c.

6. After getting the necessary information, he/she conveys or disseminates it to the concerned parties like employees, this helps them to be aware of the changing market needs and hence to carry out operations basing on the existing needs. This is done through distributing memos, through phone calls, conductive meetings and workshops, e.t.c.
7. An entrepreneur plays a role of leadership, though guiding and directing others with respect, encouraging them to be committed and dedicated to the work, however, he/she should lead

by example which encourages employees to perform the assigned activities well and better.

8. An entrepreneur acts not as a network officer i.e. he/she coordinates with the outside environment, this is done through regular communication and cooperation. It helps him to assess the competitors' performance, market changes, changes in government policies. Such coordination can be achieved through attending conferences, meeting, via the internet, etc.
9. He plays a figure head role, for instance internally, he attends employees' gatherings like wedding graduations ceremonies etc and externally he receives visitors warmly, signs legal documents, give speeches in public places, etc. This promotes a good image of the enterprise and unity both with and outside the enterprise.

13.3 Importance of management in small enterprises

1. Management enables an entrepreneur to make maximum use of the business resources, this leads efficiency due to increased profits and reduced costs.
2. Management helps an entrepreneur to recognize the value of a customer in an enterprise, and he/she maintaining the quality of products to satisfy the customers, this retains and attracts more customers which increases the firm's sales and profits.
3. Proper management enhances the image of the business which creates a good will for the business and through this, it becomes easier to access funds from outsiders, and obtain credit facilities from suppliers, which leads to expansion of the enterprises.
4. It provides a good relationship and open communication with all employees, this promotes work, dedication and commitment to work hence increased productivity and efficiency (thus enterprises achieving its set goals).
5. Good management also promotes a stable working atmosphere through its operations that fall the laws and regulations of the government, like prompt tax payment, respect of the environment laws and those concerning pollution. This stable environment with the state facilitates smooth operations of the enterprise.

13.4 Functions of management in small enterprises

Apart from the management, management also carries out special activities that are designed for practical purposes, these are termed as functions, they include planning, controlling, staffing, communication leading, organizing and budgeting. They can be discussed as below;

- (i) Planning: This involves establishing goals and objectives of the business and identifying ways in which they be achieved. Planning involves; setting goals and objectives of the business, determining alternative courses of action to achieve the goals and objectives, selecting the best alternative and formulate strategies to translate the chose alternative action.
- (ii) Organizing: This refers to identification of the different activities to be done, grouping them into sections delegating them to particular individuals to carry them out. In order to carry out efficient organized an entrepreneur should;
 - Identify the tasks that must be performed and grouped sections / departments like selling and distribution under marketing, buying raw materials under purchasing department, etc
 - Assigning these tasks to individuals and defining their responsibilities and authority e.g assignment sales manager to carry out marketing task.
 - Delegate this authority to chosen employees like heads of departments, managers etc
 - Coordinating these activities to ensure that they are carried out as earlier planned.
- (iii) Staffing: This involves the process of recruiting training, developing and evaluating employees who carryout the identified tasks. It also involves maintaining these employees with proper and favourable incentives like good payments, so as to encourage them remain committed to their work.

- (iv) **Leading:** This involves motivating and guiding employees / subordinates about the procedure and methods to use, an entrepreneur does this through open communication to employees and receiving feedbacks from them, should also lead by example, should also motivate and appreciate work done by the employees, through giving rewards, word of mouth, promotion etc.
- (v) **Controlling:** This involves those activities that are undertaken to ensure that activities done conform with the predetermined plans like looking at the set goals to find out whether they have been achieved as per the plan or not, and in case there is a change from those predetermined ones, corrective measures should be undertaken to restore them.
- (vi) **Communication:** This is process of passing or transmitting information, ideas, facts or understandings from one person to another, for instance an entrepreneur passing ideas to his employees, suppliers, customers, etc so as to carry out successful operations.
It should be noted that communication is a two- form i.e it involves an entrepreneur transmitting information to such parties and gets feedback from them. (open communication).
- (vii) **Motivation:** This is a process of enticing / encouraging employees to do their best towards achieving the desired goals of an enterprises.
An entrepreneur does this in a desired manner, like favourable working conditions, job security , promotions, etc.
- (viii) **Budgeting :** This is a process of preparing a budget. A budget is a detailed plan that shows the use of funds and other resources over a given period of time. It represents a plan for the future expressed in quantitative / monetary terms.

Below is an example of a Budget for a fruit canning business for months of January and February 2007.

Item	Shs.	Shs.
Machinery	XXX	
Mixers	XXX	
Building materials	XXX	
Distribution truck	XXX	
Sub-total		XXXX
Labour	XXX	
Electricity	XXX	
Ingredients / chemicals	XXX	
Fruits cans / bottles	XXX	
Fruits (fresh)	XXX	
Sub total		XXXX
Grand Total		XXXXX

13.5 Importance of budgeting

- a. It provides managers with a way to formalize their planning effort, since each planned activity documented and the associated costs to be incurred are determined, hence proper planning.
- b. It avails definite / stated goals and objectives that serves as a bench mark for evaluating the performance of the business during the course of operating.
- c. It shows / reveals potential hindrances of problems prior their occurrence i.e before they occur.
- d. It coordinates various activities in the entire business by intergrating the plans and objectives to various departments, i.e management ensures that plans of different sections like production, finance, etc are consistent with the general goals of the business.

- e. Budgeting helps in daily supervision of cash receipts and expenditure / payments made
- f. Budgeting facilities banking of the cash surplus or balance that can be used for further business activities like expansion of the business.
- g. It helps in prompt settlement of business debts like paying business creditors on due dates
- h. The daily recording and production of routine reports like cash books, income statements, balance sheet, ect helps in proper decision making.
- i. Budgeting facilities proper and timely payment of taxes, rent and other related expenses.
- j. Budgeting facilities proper and timely payment of taxes, rent other related expenses.

N.B: There are various management tasks that an entrepreneur executes while performing the above functions these tasks are briefly disused below;

13.6 Management tasks

A task refers to specific activity organized and carried out to meet a given purpose or particular purpose. In small enterprises, management tasks include production, marketing, personnel and financial management as discussed below;

Production management

This involves planning and controlling production activities , it includes, acquiring inputs (factors of production) and transforming them into output i.e semi- finished or finished goods.

Marketing management

This deals with marketing the produced output (from the production management) in order to satisfy the customers as well as making profits. The various aspects involves are;

- Providing / selling goods / services that customers needs.
- Setting prices for goods that are favourable to customers but profitable to the business.
- Accessing the goods / services with in easy reach of customers.
- Informing and persuading customers to buy the products.

Personnel management / Human resource management

This involves managing the people who carry out the business activities, this is important because human resources are the people who acquire the in and outs, manages them, processes them into out put, markets them and collects the money. This makes it an important part in management since it determines the survivals of the business.

Financial management

This involves routine functions that are performed with in enterprise to ensure efficient use of funds. This may involve the following tasks.

- Supervising daily cash receipts and expenditures
- Banking of the surplus cash balance
- Debt settlement i.e suppliers, funders etc
- Proper record- keeping etc.

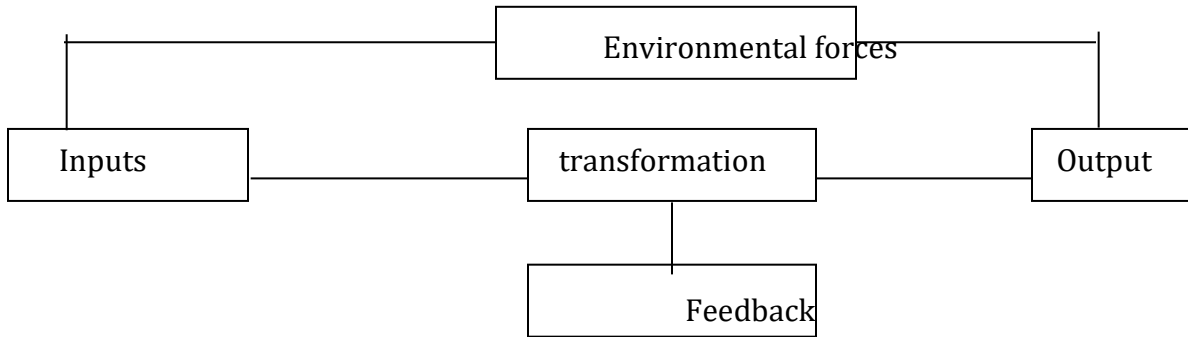
TOPIC FOURTEEN

14.0 Production aspects in planning for a business

The various production aspects we shall look at in this topic will include, production processes , selection of machinery and equipment, tools and their capacity, employees, business location and premises, selection of raw materials, packaging , utilities and transport.

14.1 Production process

Production process refers to steps involved in producing a good or service. The steps involved in the production process include acquisition of inputs and processing these inputs into outputs. The production process can be best illustrated by the use of a production process flow diagram as shown below.



1. **INPUTS:** These are items or things that should exist if production is to take place, e.g. land, capital, human resources, information, entrepreneurship, etc. They are explained further below;
 - Land is a source of raw materials like agricultural products, fish, minerals, etc. It also includes water, air, etc. Most land products act as raw materials in many manufacturing businesses.
 - Capital: These are already produced goods that are used in producing other goods / services, like tools, money, equipment, etc.
 - Human resource: this is human effort used in the production process; this is valued in terms of size, skills needed in the production process, etc.
 - information: this is feedback about the inputs, transformation process, and out to ensure quality products and cost effectiveness at all stages for competitive advantage in the market.
 - Time frame; any given job / activity requires time within which it can be done, so it is an entrepreneur's duty to ensure that time frames for the jobs are adequate and observed. Such inputs may be acquired internally by producing them or buying them from outside. If they are to be got from outside, one should consider the following factors.
 - Cost of inputs i.e. should get them from a cheaper cost
 - Availability of inputs i.e. should be from a reliable source for continuous production.
 - Quality of inputs should be considered since the quality of inputs affects the quality of outputs.
2. **TRANSFORMATION:** This refers to processing or changing materials or inputs to produce goods and services that are valuable than the inputs. For instance, transforming timber into furniture. To carry out proper transformation, the production management should do the following;

- Control integrated activities in the in the process i.e machinery human resources, raw materials i.e they should be acquired in their right quality ,skills and appropriate technology like machines.
 - Control the organization of the production process, like placement and usage of machines and equipment.
 - Acquire physical assets like machinery and equipment to be used in production process.
 - Plan and control the production of output to meet customers' needs and avoid excess production
3. **FEEDBACK:** This refers to information the business gets about its production process, such information involve;
- The quality of inputs and outputs as a basis of competition for customers.
 - Flexibility of the production process to meet the customers' changing needs.
 - Reliability in terms of delivery of inputs to the firm and output to customers.
 - Costs, i.e whether the costs of production facilitates the prices of the products at a favourable rate to customers.

Thus in case the above factors or priorities can be realized , i.e quality , flexibility, reliability and effective costs, this shows that the business will have a competitive advantage over its competitors.

4. **ENVIRONMENTAL FORCES:** These are external factors that affect the decisions and business in its production process operations. such factors include;
- Competitors, i.e businesses producing similar or related goods and services for the same customers if there are many competitors, this implies a threat of losing customers.
 - financial services: If such services are available , it means that the business has the opportunity access funds and vice versa.
 - Change of customer tastes, this means tat the business must change in order to produce goods services needed by the customers. This means that the business must carry out constant market research to monitor the customer needs.

N.B It is important for an entrepreneur to know the process of production in order:

- a. To make profits: This requires an entrepreneur to produce quality products purposely to retained customers, attract new ones and beat off competition.
- b. To satisfy customers, this can be done by making the products that are needed in respect to the quality , reliability, affordability, availability, etc.

If an entrepreneur fails to maintain quality, sell the products at affordable prices and make them reliable and attractive, this will result into losses by the business.

An entrepreneur should also ensure the quality of the products in the production process. quality is an important aspect in production as it assures the business a competitive advantage over its competitors.

Quality refers to the performance of a product a s per the needs or expectations of a customer.

Or

The ability of a product to meet customers needs and expectations.

Such needs include;

- Colour
- Design and fashion
- Durability
- Purpose , etc

Quality control refers to the process of carrying out regular checks through inspections to ensure that the product quality matches with the laid down standards of performance.

In order to maintain quality of a product, an entrepreneur should;

- Make sure that he checks all the raw materials and other inputs like machinery and equipment plus relevant skilled man power to ensure that they are of right quality.
- Regularly check the quality of goods before sending them to customers.
- Endeavour to make some checks in person, i.e should always carry out personal monitoring and checks where possible.

It is important to observe the steps in the production process because;

- It helps to ensure the quality of the products produced by the business, i.e through buying or producing quality raw materials, machinery, recruiting skilled personnel, etc
- It controls the production capacity to ensure that what is produced meets the demands of customers, i.e avoiding surplus (which causes unnecessary costs) and shortage etc.

14.2.1 Selection of machinery , equipment and tools

Machinery refers to a group of machines in general that gets work done. A machine is a device in which each part works together with the other to perform some functions like a washing machine.

Equipment are items that are needed to do some work, they are used for specific functions like office computers, calculators, etc.

Machinery and equipment are used interchangeably , however equipment can be for general or specific purpose. The general purpose machines are flexible and can be modified for many different purposes, whereas special machines are designed for a specific operations and thus not flexible.

Tools are instruments or apparatus which are held in hands for doing some work like spade, hammer, etc however, tools can be equipment though not all tools are equipment.

14.2.2 Factors considered when selecting machinery, equipment and tools

- a. Capacity of machines i.e how many units it can produce with in a given time, this is compared with the demand it has got to be met. Leaving other factors constant, an entrepreneur would select machinery with higher production capacity in order to meet his / her demand.
- b. The initial cost of machinery and equipment , an entrepreneur would consider machinery whose costs are relatively low and affordable in order to reduce the costs, i.e to be cost effective.
- c. Ease of maintenance and repair; this involves spare parts and repair services, one would select machinery whose spare parts and repair services are available and cheaper, with a view to reduce the operating costs and facilitate continuous production due to the existence of the spare parts.

- d. Flexibility for adjustment in relation to the customers changing tastes and preferences , an entrepreneur would select machinery that can be easily adjusted to the changing needs of customers.
- e. Availability of other complementary machines and equipment , an entrepreneur would select machinery that is easily compatible or that can easily complement with the existing or other machines in order to increase productivity and profitability of the business.
- f. Useful life of machinery and equipment , an entrepreneur should select machinery/ equipment is long lasting or durable in order to reduce unnecessary costs of buying or replacing other machines.
- g. Guarantee given by the manufacturers, this should be considered in terms of efficiency , duration maintenance and safety device. An entrepreneur should select machinery / equipment with approved guarantee in order to reduce the anticipated costs of operation.
- h. An entrepreneur should select machinery / equipment which are user friendly i.e easy and simple use and this will reduce the costs of hiring experts and costs of training the personnel to acquire new skills of using them which is costly / expensive.
- i. Source of machinery and equipment , an entrepreneur should select machinery/ equipment that purchased from a reliable manufacturer, for instance there are some manufacturers that are known for producing high quality products than others, like machines from Japan manufacturers, so should select machinery from renowned sources.

14.3 EMPLOYEES

An employee is a person who provides skilled semi-skilled or unskilled labour to the business in return a wage or salary.

14.3.1 Factors to be considered when selecting employees in business

Among the factors that are considered by an entrepreneur when deciding on the number and type of employees to work in a planned business include:

- a. Type of skills required for a particular business and the work they do in relation to the production process should be considered. Different businesses require different communication skills like sales persons require good negotiations and communications skills.
- b. Number of available jobs: This will depend on the size of the business, it is a big organization, the more the jobs , however if there are many available jobs , the more the number of employees that will be needed.
- c. Availability of family members; if the family has a good number of members who can support the business, then the fewer the number of employees that will be required and the reverse is true.
- d. Cost of hiring labour in relation to the business output and profits should be considered, this is because such costs affect the profitability of the business. If the costs are high. The business profits will be low and thus few people will be employed.
- e. The size of the business will also be considered , The bigger the business, the more the number of employees that will be required to run it and the reverse is true.
- f. The nature of the business will determine the type of employees, for instance there are some businesses that require a bigger percentage of skilled employees than unskilled ones, like telecommunication companies (Warid Telecom, Uganda- Telecom, etc), and vice versa.
- g. The terms and conditions of work, this is mainly in relation to payment and other fringe benefits, where such conditions are favourable, then more employees are likely to be attracted for the job.

- h. The Job hazards involved, where the job is involved with many hazards like long working hours, higher risk of losing life, etc then fewer people will be attracted to the job and the reverse is true, thus an entrepreneur should take note of the factor when deciding the number and type of employees to use.

On top of the above factors, can entrepreneur should decide on the number of employees to be recruited basing on the following:

- Qualification of the employees
- Working experience of the employees
- Age of the employee
- Source of employee; i.e where to get it from like from universities or employment agencies , etc
- Use of interpersonal relations how the employee interact with others.
- The health condition of the prospective employee etc.

14.4 BUSINESS LOCATION AND PREMISES

Businesses location: This refers to setting up a particular business in a given area. A number of entrepreneurs consider the areas where costs of production are low and easy access to customers when determining a business location.

Business premises: These are composed of buildings, workshops or ware houses from which the business operations are carried out.

14.4.1 Factors considered when choosing a business site and premises

- a. Market factor: A business should be located nearer to the market or customers so as to save transport costs for both the business and customers. This is also important in a case where products are bulky and costly to transport or where competitors are nearer to market and in a situation where goods are perishable and there are no means of preserving them before they reach the market.
- b. Raw material source: A business should be located nearer to the source of raw materials, this is so when raw materials are bulky and perishable. The costs of transport are hence reduced and reduces the risk of the raw materials getting spoilt.
- c. Accessibility to transport and communication network, a business should be set up in an area where there are good roads in order to facilitate a smooth flow of its raw materials, products and customers, the area should also be equipped with communication services like telephone, internet which also facilitates communication with customers, suppliers, bankers, etc.
- d. Availability of premises to be purchased or leased, premises required by the business to operate from should be available in terms of renting , purchasing or leasing the premises, this should be highly considered as it affects the overall capital of the business, so the associated costs should be in line with the planned costs to avoid problems of insufficient working capital.
- e. Availability of human resource, A business should be located in an area where the required labour is available, for instance if there is a need for skilled labour, its supply should be at reasonable wage rates or salary scale.
- f. Availability of power, this should be highly considered when choosing where to locate a business, this is because some businesses require a lot of power like an industry, so they should be located near the power source to reduce the costs of extending it up to the premises and to reduce the costs of using other sources of power like generators which is expensive.

- g. Government policy on location of business, the government may direct the location of some enterprises in a particular region, this is done for different reasons like balanced industrial growth, in the country, like to day they are promoting industrial growth in Northern Uganda, So any business to be set up should ensure that it does so in line with the government policies.
- h. Availability of water, this is an important factor as a component and a raw material in the production of some goods like soda, brick making etc, so if a business is to use water as a raw material, it should be located where it can be cheaply sourced and reliable.
- i. Availability of security, all entrepreneurs would wish to set up their businesses in areas which are secure in order to avoid losses. That's
- j. why most business men fear to set up enterprises in northern parts of Uganda due to the political instabilities in the area.
- k. Availability of business support services, there are some business support services that are very important in business like banks that provide extra funds to facilitate smooth operations, like insurance companies that protect the business against risks, etc. So such support services should be highly considered i.e if they are existing in a given locality (area) before one chooses a given site.

14.5 SELECTION OF RAW MATERIALS

Raw materials are basic items or materials from which products are made through a transformation process. Natural raw materials include cotton, timber, clay, etc where as artificial raw materials include plastics, nylon etc.

14.5.1 Factors to be considered when selecting raw materials for a manufacturing firm.

- a. Source of raw materials, i.e from where the raw materials for the business can be acquired, it should be a reliable and cost effective source so as not to affect the profitability of the firm.
- b. Cost of raw materials, i.e the raw materials should be relatively cheap and affordable since high cost materials will reduce the profits of the business.
- c. Quality of raw materials, i.e the raw materials to be selected should be of good quality in order to produce quality products that are needed by customers.
- d. Terms of purchase i.e such terms should be favourable to the business, like whether they involve cash or credit, for instance most entrepreneurs would wish to select raw materials from in the shortest time possible.
- e. Lead time, i.e how long it takes for the supplier to deliver the raw materials ordered for, manufacturers tends to select reliable suppliers who can deliver raw materials within the shortest time possible.
- f. The amount of raw materials needed or used per production cycle, i.e the amount of raw materials should correspond with the amount of goods to be produced per production cycle.
- g. The amount of raw materials to be maintained in inventory, this depends on the business policy and the rate at which goods produced are bought. If the goods are to be sold off immediately, an entrepreneur may store more raw materials for continuous production to meet customer demands and the reverse is true, i.e when the rate of sales is low.
- h. Availability and reliability, one should check to ensure that materials to be selected are available when he/she needs them.

14.6 PACKAGING

Packaging refers to the process of wrapping , crafting o compressing goods to protect them from spoilage, breakage, theft, contamination, etc during the process of transit, storage and use.

14.6.1 Importance of packaging

- a. Protection, packaging protects the contents there in from rough handling and external conditions like poor weather.
- b. Portability, it facilitates easy handling and transporting of the goods to the markets especially liquids , cereals etc.
- c. Preservation, though packaging , goods can be easily preserved like food products, chemicals that can be protected against external conditions and germs like through putting them in tins.
- d. Promotion, well packed goods may attract a number of customers and facilitates easy selling as a customer can easily identify the product through its appearance and they end up buying .
- e. Proportion, products are normally packed in relatively small sizes, which are easy to display in retail stores, easy to price and hence being affordable to different / many customers.
- f. Distribution, it is easy to distribute / deliver packed products to the markets, it can even facilitate mail order services which are convenient, fast and hence increasing profitability through increased sales of the products.
- g. Packed goods are usually accompanied with instruction labels which serve as a guide to inform / teach customers about the content and usage of the products there in.
- h. Without packaging , self service would not be possible, like the supper markets where one can easily move around the premises and selects what ever he /she wants, this saves time, attracts more customers and increases the sales of the business.

14.6.2 Types of packaging

The common types include;

- Bottling / caning
- Bagging /putting in bags
- putting in plastic containers
- Baling / typing in bales
- Tinning / putting in tins
- Putting in boxes.

The different types of packaging materials include;

- Metals – aluminum, steel etc.
- Plastic polythene papers, jerry cans, bottles etc
- wood –wood, packaging cases, etc
- Paper- paper, board, etc
- Glass – bottles
- Laminators - aluminum foils, films, etc
- Polysters

14.6.3 Factors considered when choosing the type of packaging to be used for a product.

- a. Sources of packaging materials and suppliers, the source where the materials are got should be reliable in terms of quality and suppliers must be willing and able to supply when ever a need arises in order to avoid changing the materials for the products over and again.

- b. Availability of the packaging materials in the required amounts, one should choose materials that is available or that can be got in the required quantities to allow constant production and distribution of the goods.
- c. The unit cost of packaging materials required per production cycle and inventory levels to be maintained, the unit cost should be relatively low and one should only acquire those materials that are needed depending on the volume and types of materials in stores. (inventory).
- d. The cost of packaging in relation to the value of the goods being packaged, should be considered, for instance one should not choose an expensive material to package cheap and lowery priced commodities, as it affect the profitability of the business.
- e. Types of goods to be packaged, like liquids, gases, solids, should be considered, or instance one is not expected to choose wood boxes to package oil or petroleum products, instead plastic jerry cans are preferable.
- f. The purpose of packaging, there are some goods that are packaged purposely to store them for a long period of time in such a case, one should choose along lasting materials like wooden boxes instead of glasses that are delicate, then other like food stuffs that are to be consumed in a short period of time, might be packaged in polythene bags, or paper bags.
- g. Means of transport to be used, this greatly affect the packaging material, for instance products that are to be moved via the roads(using trucks) should use strong packaging material for proper protection, like wooden boxes, where as those that are to use aero planes, can even be packaged in glasses, since it is more secure than other modes.
- h. The nature of goods to be packaged determines the materials like oils, wine and other liquid products are put in bottles or tin, cotton and other bulky products can be inbales, while fragile goods like fruits, glasses are packaked in paper boxes etc.
- i. The government policies may also be considered, the government may decide to ban certain materials for packaging, so one is not expected to use such materials, for example the government of Uganda recently banned the importation and use of certain types of polythene bags.

14.7 UTILITIES

These are goods and services that needed to support the productive and business operations. If such facilities exists, the business operates efficiently and the customers needs are effectively meet as the required goods/ services are produce. Examples of Utilities include; Electricity, transport, communication, insurance, banking, security, water etc.

14.7.1 Importance of Utilities and other services in business

- a. Communication services helps entrepreneurs to transmit information to their employees, suppliers, customers, bankers, etc, through telephone, e-mail, faxes, radio, television, etc.
- b. Banking services assist the business financial services like giving out loans, safe guarding their deposits, paying suppliers through cheques, etc.
- c. Insurance services protect the business from the effects of the insured risks i.e if they happen to occur, as they under take to composite business in case it suffers the loss from the risks that was insured against.
- d. Transport s services help to move people like customers / clients, goods / services, from one place to another, like from the business firms to the market places.
- e. Electricity services provides power to the business to run machinery and other processes used in production of goods.
- f. ware houses help the business in storing and protecting raw materials and finished products plus other forms of inventory against atmospheric conditions and theft.
- g. Security services protect the business properties against theft hence reducing loss.

- h. Advertising services help in promoting the business goods or services by informing the public about the availability, purpose and use.
- i. Repairing services (like those provided by garages) help to restore the productive capacity of machinery and other equipment of the business.

14.8 TRANSPORT IN PLANNING A BUSINESS

Transport refers to the physical movement of people or goods from one place to another. In business, transport helps in moving goods to the customers or getting raw materials from their source up to the business premises.

14.8.1 Modes of transport used by different business

Road transport: This consists of lorries, pick-ups, cars, buses etc that move on roads

Railway transport: This involves the use of a train, it is usually to carry heavy loads/ bulky goods.

Water transport: This involves movement of people and goods over water bodies like rivers, lakes and oceans. Water vessels include boats, ships, ferries, etc.

Air transport: With this, aircrafts are used to carry goods and people from one place to another. It is very expensive and it is used to carry valuable, light and perishable goods.

Pipeline transport: This one uses pipes to carry liquids and gaseous products like fuel, water and gaseous materials from one place to another.

14.8.2 Factors considered when choosing a mode of transport

- a. Nature of goods: This determines the mode to be used, like perishable and urgently needed commodities like newspapers require a fast mode of transport, like air or road transport could be chosen.
- b. Distance to be covered: If the distance to be covered is long, rail and air modes would be preferred, as road transport would be best for shorter distances.
- c. Size of the load to be moved; Bulky goods may be transported by rail or lorries and air transport is more preferable for light goods.
- d. Value of goods. It is advised to use air transport if one is to move valuable goods like precious minerals like gold, mercury, computers, etc and less valuable commodities may be transported through road transport.
- e. Availability and safety of the mode: One should choose a mode that is easily available to be used whenever a need arises, for instance one would not afford to use water transport if there are no water bodies.
- f. Cost of transport should be considered; this should be relatively cheap compared to the value of goods to be carried in order to avoid pricing the goods highly with a view to cover the high transport costs.
- g. Speed and urgency; if the goods to be carried are urgently needed, a faster mode should be chosen, like air transport should be used to move newspapers and perishable products like flowers to distant places.
- h. Flexibility, i.e the ability of a mode of transport to reach any destination, should be considered, road transport is more flexible than other modes as it can reach various destinations and diversions can easily be made.
- i. Terminal; the appropriate terminal for both loading and offloading should be near, this is true if goods are to be sent by railway, air or water transport.

14.8.3 Importance of transport in planning for a business

- a. It bridges the gap between a producer and a customer as customers can easily access the goods.
- b. It facilitates that movement of raw materials from their sources to the manufacturing firms, to be processed into finished goods.
- c. It helps in transporting employees to their places of work in time, this also facilitates continuous production without any delay, as employees are available in time.
- d. Through transport, goods can easily be moved from areas where there is surplus to where they are scarce, this reduces “black market” and exploitation of consumers through over charging.
- e. Transport helps entrepreneurs to identify different markets as they can easily move the products to any place where customers may be identified.
- f. The movement of goods from various places avails customers with a choice to make due to the varieties available. This creates customers loyalty as they are able to buy all they need at one stopping / shop.
- g. It helps entrepreneurs to get rid of the surplus stock as it can easily be moved to areas where the demand is highly / where there is scarcity.
- h. It helps or encourages entrepreneurs to set up or develop certain enterprises in different areas as they are motivated by the good transport system that facilitates easy movement of customers, suppliers and other business beneficiaries.

TOPIC FIFTEEN

15.0 MARKETING IN SMALL ENTERPRISES

15.1 Introduction

Most business men have been misled by the fact that the major purpose of setting up a business is to make profits. However an entrepreneur should be aware that it is not true.

The major purpose of setting up a business is “to create a customer”, because it is through the creation or identification of a customer that the business realizes profits through (increased) sales. This means that one should first create a customer before he /she thinks of making profits.

This topic is very important to an entrepreneur because it will show / teach us how we identify customers and their needs in order to produce goods according to their needs which in turn could be sold to them to acquire profits.

Marketing refers to a series of activities undertaken by an entrepreneur in order to find out who his / her customers are and what they need or want. It consists of activities that involve the flow of goods and services from the producer to the consumer.

The major objectives of marketing is to ensure that the needs of customers are satisfied as an entrepreneur makes profits through satisfying these needs (sales).

Some of the marketing activities undertaken include;

- a. Finding out what people or customers need or want
- b. Developing or providing the goods or services that meet the identified needs or wants of customers.
- c. Setting affordable prices; i.e what customers are willing to pay and will enable the entrepreneur to make some profits.
- d. Making products available at place where the customers can access them easily.
- e. Promoting the products by informing and attracting customers to buy them and retain their interests in buying the products.

In marketing, an entrepreneur mainly focuses on the buyer / customer . A customer becomes the boss since he /she has a choice of whether to buy or not to buy a given product from the business.

This means that an entrepreneur should provide a customer with what he/she wants, at an affordable price, or else they will shift to other businesses for the products (substitutes) and this will eventually lead to the collapse / closure of the business.

An entrepreneur must note that once a customer is satisfied with the product, he/ she will have to come back for more from the business, will even inform friends and other people about the products and the business, therefore satisfied customers will lead to repeated and increased sales and thus increased profits.

15.2 The selecting function

Selling a two –way communication between the buyer and the seller. The purpose of this personal contact between the two people is to enable the entrepreneur (or his sales person) persuade the buyer to accept a product at a stated price.

In selling , a customer may be told how the product will help in meeting his / her needs, its price , how to use it and the reason as to why it would be good to buy it other than other products.

15.3 The creative selling process (salesmanship)

The creative selling process involves the following steps

Prospecting i.e locating the customers, prospects are people of firms that are likely to buy the products, so in prospecting, an entrepreneur finds where to go, who to see, what to do and say.

- a. Pre-approach; with this, an entrepreneur gathers information about his /her own products , that of the competitors and his prospects, i.e personnel information about age, interests, income, etc of the customers, which helps him to sell products that meet his / her customers needs / wants.
- b. Approach; this is the first face- to-face meeting with the customer. The first ten words used at this stage are more important than the next five hundred words.
- c. Sales presentation. This involves attracting and retaining the buyer's attention, an entrepreneur works hard to create interest in the customer's mind.

Creative selling can be achieved by;

- Making a strong point about a product right from the beginning of the presentation.
 - Talk more about other benefits of the product than its features, like this type of shoe is
 - Durable and comfortable instead of saying this is leather shoe.
 - Give the customer / buyer complete attention
 - Involve the buyer in the discussion / conversation
 - Listen to the customer to make him /her feel important and to understand his /her needs.
- d. Handling objections; objections arise when a buyer says" no to the price or design of the product. This is the beginning of selling and it means the buyer has interest in the product. The following methods may be used to handle objections.
 - Listen to the customer and do not interrupt him / her.
 - Use a " yes, but " method. For instance if a buyer says" your price is too high" say" yes but you will benefit more as it is more durable and elegant compared to others...,"
 - Ask the customer what he /she does not like about the product and given an alternative to meet his /her need.
 - Turn to the buyers' attention from objection to another benefit of more appeal.

- e. Closing a sale ; this involves finding away of making a customer act or buy the product. here an entrepreneur may use the following methods;
 - Shall reserve one for you?
 - If you place an order now, you get 1% discount or packaging is free for you.
 - What size, quantity, shape, colour, etc do you prefer?
- f. Follow –up i.e the support an entrepreneur gives his /her customers after the sale of the goods. This created repeated purchase. It can be done through sending an e-mail, phone calls ,etc thanking him for the previous purchase and in case a customer needs more, you can get to know through this follow up step.

15.4 How to become a successful sales person?

One should improve the skills of selling and sales, i.e should know the needs of his / her customers, the needs can be identified through listening to them and allow them to ask questions , giving them advice and offering suitable goods or services. A sales person should also know how to treat the customers, they should be treated in the same way or better way to sales person would like to be treated when he/she is a customer.

The following ways are helpful in customer treatment;

- Greeting the customers and where possible, call them by their names.
- When a customer comes and finds you working on another on, greet him /her that you are to attend to them soon.
- Be polite and friendly, this makes the customers feel welcome and enjoy visiting the business regularly.
- Should look clean and tidy.
- Listen carefully to what the customers say and ask questions to find out what they need.
- Be patient and give them time to ask questions and decide what they want to buy. Do not confuse them with products or things they do not need.
- Should be honest and trust worthy.
- Do not urge with the customers, allow them to say no if they do not want the product and ask them what they want. If you do not have what they want, continue directing them where they can get it so that you retain your reputation towards the, this will attract them to come again.
- Thank the customers for coming to the business even if they have not bought your products.

A Sales person should also be well conversant with the product he/she is selling, customers will ask you very many questions concerning the products ,like how they work, then the usage, etc, you should be ready to give the technical information that is needed, demonstrate how the product can be used and how it operates.

15.5 Differences between selling and marketing

- a. Marketing focuses on customers needs while selling focuses on sellers' needs
- b. In marketing, there is an integrated approach to achieve long term goals, while there is a fragmented approach of achieving immediate gains.
- c. In marketing, a customer enjoys supreme importance, while in selling, a product enjoys supreme importance.
- d. In marketing, an entrepreneur converts customer's needs into a product, while in selling, he/she converts products into cash.
- e. In marketing , there is a caveat venditor (let the seller be aware), while in selling , there is caveat emptor (let the buyer be aware).
- f. In marketing, profits are realized through customer satisfaction while in selling profits are realized through the volume of sales.

- g. In marketing, much emphasis is put on planning and development to match products with market needs, while in selling, pressure is on selling goods already produced.

15.5.0 Marketing mix

Marketing mix is the term used to describe a combination of various elements (marketing activities) which constitute the core of a company's marketing system. These elements include product, price, promotion, place and positioning. They are normally termed as 5 Ps as further discussed below;

1. Product

This refers to anything offered by a business to satisfy the needs / wants of customers. It can be a good or a service, like shoes, vehicles, medical services etc.

Customers always buy goods and services that satisfy their needs and wants and such needs keep on changing over time.

This requires an entrepreneur to regularly carry out market research to establish such changes in tastes so as to produce the desired products.

An entrepreneur should also produce good quality, unique in design, etc so that consumers would always prefer taking them to those of the competitors.

Factors considered when developing a product

- Develop a product in response to the needs of customers.
- decide on shape, colour, packaging material, brand name, quality and quantity basing on the needs of customers.
- Determine whether to make your products similar to other or unique as compared to those of other sellers.
- Determine the availability of raw materials necessary for the making of the product.
- Government policy, i.e. should produce a product that meet the set standards of the government policies, as in quality, quantity, etc.

15.5.1 Elements of a product

There are majorly four elements of a product i.e

- ❖ Description i.e the product name, how it be referred to, like French cut, marine cut, etc it should be a unique description and appealing / attractive to customers.
- ❖ Product attributes, these are features or characteristics that make a product different from others it can be in terms of taste, colour, texture, etc all these features enables a product to stand out from the rest.
- ❖ quality, this is the extent to which the product meets the needs of customers, expectations or requirements, so quality should be in response to the needs of customers.
- ❖ Branding, this makes the product distinct or different from others, either through its description, attributes or quality.
- ❖ Branding creates customer loyalty about a particular product like chairman extra strong Brew, Royal Vodka, Guinness the power, Bell lager the archivers' drinks etc.

N.B: There are two product value methods of promoting a product, i.e

- a. Non productive value method, which refers to any value or incentive an entrepreneur gives to his customers but are not specifically related to the value of his product like good customer care, secure parking space, etc.
- b. Product value method, These include improving the quality of the product, improve on the packaging facilities, colour, shape and size of the product.

2. Price

This is the monetary value of a product. An entrepreneur should sell his products at prices that will attract customers, however, prices should be favourable to enable an entrepreneur make a profit.

15.5.2 Factors considered when determining price

- a. The cost of the product, the price determined should be able to cover the incurred cost and remained with some profit.
- b. The quality to be bought and how much are willing to pay, those who are willing to have bulk purchases should be charged lower than those who buy in small quantities.
- c. The price of competitors product, i.e if a product has close or related substitutes, an entrepreneur should ensure that the prices are in line with those of the competitors or even lower.
- d. One should also consider the need to make prices more attractive to customers, like offering discounts, special offers, etc.
- e. The profit margin that an entrepreneur want, one should determine a price which covered the costs and remain with a profit margin that he /she wishes.
- f. Whether the product is seasonally demanded or not, i.e seasonal product like rainy coats, Christmas cards etc are usually sold at higher prices than those are not seasonal.

15.5.3 Common methods of pricing

- a. Cost oriented pricing ; here the price is based on the product cost, it should cover the costs of production and some profits is estimated and a final price of the product is estimated.
 - b. Demand oriented pricing; with this method, price is normally based on the desire to attract customers and increase the demand for the products, e.g a high price is charged where demand is strong and vice versa, that is why always new ladies' fashions on the market (cloths) are highly priced due to high demand.
 - c. Competition oriented pricing, i.e here the prices are determined by the prices of competitors, it should always not be the same, i.e it may be higher or lower than those of competitors, preferably should be lower as customers would need a product that is lower charged.
 - d. Value pricing. i.e where pricing is based on the value of the product, the higher the value, the higher the price, thus why gold watches and rings are highly priced than the normal one. A normal necklace is worth 3,000/= whereas a gold necklace is worth 300,000/=.
 - e. Haggling / bargaining this involves a discussion between the buyers and seller until they come to an agreement on the final price, this normally happens in market like St. Balikuddembe (former Owino market), Kibuye market in Kamapla and other markets.
 - f. Forces of demand and supply i.e where supply for the goods equates to the demand for the goods, then the price is determined at that point and termed as equilibrium price.
 - g. Supply oriented pricing; where pricing is based on the volume of products supplied on the market, the higher the supply, the lower the price charged and the reverse is true.
 - h. Fashion oriented pricing; where pricing depends on the fashion of the products, new fashions on the market tend to attract many customers and hence charged highly, that is why fashions of ladies jeans and tops' are highly priced.
 - i. Government pricing i.e where the government sets up both minimum and maximum prices for the goods sellers may be prohibited from selling above or below the set price. This protects both buyers and sellers. Such method used to apply in marketing boards that dealt in agricultural products.
3. Place : This is concerned with various methods of marketing products available to the customers. Getting the right product at the right place and time involve transporting, storing and stocking the products to make them available for the customers all the time.

This means that place include;

- The process of moving goods and services to the places where they are wanted by customers.
- The channels through which the products are made available to customers like shops, whole salers, retailers, etc

15.5.4 Factors that an entrepreneur considers when choosing a place

- a. Transport network; an entrepreneur should locate a business in a area where there is efficient and effective transport network which will enable him/her make products available to customers all the time.
- b. Storage facilities i.e where goods will be kept safely till they are needed by the customers, good storage facilities protect the goods from damage by too much heat, moisture, theft, etc.
- c. Security i.e the place where the business products are being made available should be secure. This will minimize the risks of stock loses through thefts and break .
- d. Ease of access to sell to customers, customers prefer goods and services which they can easily access any time they need them in order minimize transport costs and time wastage.
- e. Delivery facilities and costs incurred when transporting the product, i.e the business products should be placed in such a way they are easy to deliver to customers, which would help to reduce the delivery costs.

Promotion

This involves different ways of informing and attracting customers to buy products either for the first time or buy more of them. It involves activities which influence people to buy the products and the quantities they will buy.

Some of the various methods that an entrepreneur may adopt in order to promote his /her products include;

- Using window displays or putting the products outside the shop so that they can be seen easily by the passers.
- Proper arrangement of the products inside the shop, which might attract customers to buy, that is why most people tend to move to super market with an intention of looking at the well displayed goods and they end up buying some.
- Giving out free samples, gifts, etc this will attract many customers to come and enjoy these free samples and hence end up buying more goods.
- Use of attractive sign posts, neon signs where people can easily read and get to know your products.
- Carrying out door-to door advertising, where sales man move from house to house making them aware of the existence of the products.
- Attending or through trade fares and exhibitions which normally attract a bigger population of different income levels, for instance the UMA trade show that is organized annually promotes a lot of business men.
- Publicity, like use of public address system which also attracts and makes people aware of the products.

Positioning

This refers (in marketing) to targeting a small segment of customers for whom an entrepreneur aims to sell his /her products.

It reflects the emphasis an entrepreneur puts on a product for a particular segment of customers purposely to attract them, like putting tags and sweets near the shop entrance where children can easily identify them.

An entrepreneur may be guided by the following when carrying out product positioning;

- What products do I offer / serve?
- What emphasis do I attach to each of them?
- Who are my target buyers?
- Where do they want to find the product?
- Who are my direct competitors?
- What unique attributes do I have compared to those of my competitors?
- How do customers want to be served?

15.6 PLANNING PROMOTIONAL PROGRAMMES

These are steps that an entrepreneur may follow when he/she tries to communicate to his target customers about the product he /she is selling, they include;

- a. Determine the target customers, i.e this can be done through analyzing their consumption habits, sex, age, income, ect. All this can be done through carrying out a market research or survey. This will help him / her to identify an appropriate promotional method to reach the identified customers.
- b. Determine the unique features of the product, here an entrepreneur decides on the unique features that the product will be having in order to meet the identified customer needs, such features may be in quality, size, shape, price, package etc.
- c. Constructing a business positioning strategy, this strategy will seek to address the issues raised in the positioning check list seen above (in 3 above).
- d. Determine the message to communicate to the target customers about the product, should involve the benefits to the target consumers, this communication should aim at informing (emphasizing) the customers that failure to buy the product, they stand to lose a lot.
- e. Determine the production and advertising options and their associated costs, the option to be adopted should be cost effective but should be the one that will reach the target market.

15.7 DISTRIBUTION CHANNELS FOR GOODS AND SERVICES

Definition:

Channels of distribution refers to the ways in which products are made available to the customer. An entrepreneur would require a channel that can distribute his /her products to the right customers at the right place, time and cost. These channels will consist of different middlemen that participate in the distribution of products and bridge a gap between the manufacturer and the consumers.

15.7.1 Types of distribution channels

1. Direct distribution / Manufacturer- consumer channel

This channel is also known as direct -selling or short channel distribution.

It is a method where an entrepreneur makes and sells his products directly to customers. There are no middlemen involved.

With this channel, a producer or trader may sell directly or through his or her own retail stores e.g Bata shoe company through mail or door to door selling. This channel is common in the distribution of industrial heavy equipment like tractors and expensive items.

It is important for some business because customers can express directly what they like and enables an entrepreneur to work accordingly (satisfy their needs), However, it can be expensive and time consuming in terms of reaching and serving customers.

2. Retail distribution / Manufacturer to retailer to customers

This is also known as the medium channel. In this channel, the producer sells to big retailers like multiple shops or departmental stores who in turn sell to consumers. It is common in the distribution of consumer goods hence increasing the firm's total sales and profitability.

However, an entrepreneur who uses this channel may also contact with the customers who use his products and this may lead to failure to notice their complaints and needs, and again may lose some money by selling to these retailers at a lower price to allow them also sell a price.

3. Wholesale distribution / manufacturer to wholesalers to Retailers to customers.

This channel involves an entrepreneur selling in large quantities to wholesalers who in turn sell to retailers in small quantities to retailers in relatively smaller quantities who finally sell them to customers.

This is a traditional channel and widely used in the distribution of consumer goods like groceries, cosmetics etc.

This is also advantageous as it captures a bigger market, however it reduces an entrepreneur's profits due to a number of agents involved who also work for profits and may lose contact with his customers.

4. Marketing and selling agents

These are commonly known as marketers or sales representatives. They are agents who sell products on behalf of entrepreneurs. They are paid a commission, which is based on the value and volume of sales.

15.7.2 Factors considered when choosing a distribution channel for goods and services.

It is very important for an entrepreneur to make the right distribution channel for his / her goods, in so doing one should compare the sales volume, costs and profits expected from various distribution channels. The common factors considered include the following;

1. Nature of product, i.e the make of the product to be distributed, for instance perishable and expensive products require a direct distribution channel e.g milk, fruits, gold, etc and also heavy products like machinery needs a short channel so as to minimize the transportation costs.
2. Reliability of the channel and its image, A reliable channel is the one that is able to provide and avail goods to customers where needed, for instance house hold goods need a longer channel which can reach customers at any time. This encourages customers to make repeated purchases.

3. Nature of market; The area when the goods are to be sold can influence the channel of distribution for instance when the market is small and located within a narrow area, direct selling would be preferable and vice versa for a bigger market and geographically scattered market.
4. Nature of customers; customers have different habits and requirements, for instance those who need credit purchases and home delivery services would need a short channel and hence may get direct contact with suppliers in order to reduce costs.
5. Cost effectiveness; As an entrepreneur looks forward to minimize costs as much as possible, as well as maximizing profits, one should choose a channel that is less costly or is likely to reduce the operating costs in order to maximize profits.
6. Location of target customers, where customers are near and within the reach of your business, a direct or short channel will be preferred. This helps an entrepreneur in identifying customer needs easily and reducing the distribution costs and the reverse is true where customers are far from your business.
7. Availability of storage facilities; these ensure the safety and stock of adequate quantities of goods needed by customers. If the producer, wholesaler and retailer have good storage facilities, one can buy from any depending on his/her convenience.
8. Nature of business being operated determines the channel of distribution, for instance a financially strong firm may practice direct selling as it will have the ability to use necessary market techniques, which may provide customers easy access to the goods. However, a single product firm will use a longer channel so as to reduce the cost of delivering goods directly to customers.
9. In case producer desires control over the distribution of his/her goods, direct selling is preferable, but in case of control over the distribution then other agents could be used so as to supply goods to various customers in different regions.
10. Availability of middlemen, if the desired type of middlemen is not available or when the available middlemen are not able or willing to provide transportation, after sales services, then a direct channel could be adopted and the reverse is true.
11. Degree of competition; if an entrepreneur works in a highly competitive environment, he/she needs to use a longer channel which can distribute goods to a wider market/ in different areas so as to increase the market share and vice versa.
12. Cost of distribution; if the cost of distribution in terms of transport and market are high, this will affect the overall profits of the firm, so an entrepreneur could reduce this through using a longer channel where such costs would be shared among these middlemen.

In summary, an effective distribution channel is the one that;

- Maximizes sales
- Maximizes profits
- Minimizes costs
- Captures a big market share
- Is convenient to operate by both the entrepreneur, seller and to the customer.

15.8.0 ADVERTISING

Advertising refers to a process / an activity that involves the spreading information to the prospective buyers about a product, and increasing its awareness so as to increase sales.

It involves giving information about a product to the prospective buyers / customers to make them more informed and pick interest in buying the product.

Advertising may be informal i.e. where potential customers are informed about a product that they are not aware of or an additional feature or use of the existing product.

It may also be persuasive which attempts to entice customers that the commodity in hand (being advertised) is better than other competing commodity. This is aimed at creating an inclination in the mind of the consumer towards a particular product.

15.8.1 Ways of advertising

The various ways of advertising for different businesses include;

- a. Print media: This involves advertising in news papers, magazines, mails and posters.
- b. Broadcast media: This involves advertising over the television, radio stations etc.
- c. Out of home media: This form involves the use of billboards, sign posts, neon signs, banners, transit delivery etc.
- d. Other advertising media include use of brochures, directory, price lists, exhibitions, trade fairs,
- e. Direct marketing activities: This form can be done through telephone, direct contracts between the seller and the buyers, etc.

15.8.2 Importance of advertising to an entrepreneur

- a. It increases the demand for the product(s) being advertised and hence increased sales and eventually more profits to the entrepreneur (business)
- b. It helps entrepreneurs to create awareness to customer about the existence of particular products or new features in the products.
- c. It increases the market share which leads to expansion and business economies of scale.
- d. It reminds the customers about the existence of certain goods and this may boost the sales in such areas or markets where the demand was declining due to lack of knowledge.
- e. It encourages the frequent use of a product and this enables an entrepreneur to retain his market share for the product.
- f. It also bridges the gap between the entrepreneur and his customers like through the press, phone calls, etc., an entrepreneur establishes good contacts with his ultimate customers.

15.9 Factors considered when choosing an advertising medium in an enterprise.

Among the factors that an entrepreneur would consider when choosing a mode of advertising include;

- a. The cost of the medium, the cost should be cheap and affordable in order not to affect the business anticipated profits for entrepreneur, the cheap and affordable in order not to affect the business that is why expensive products are advertised over the television and magazines, whereas cheaper ones over the radio and posters.
- b. Target consumers have to be considered, it will be useless to advertise a product in news papers and magazines when your target group is composed of illiterate and local people who can not even read nor access the magazines and news papers, you rather use radios, then if you are targeting rich people and literates, you can use televisions and newspapers.

- c. Age group of the target market has to be considered, Different age groups have different media like if you are targeting youths, better use televisions, magazines, where as if you are targeting adults, use radios and newspapers since they listen to radios more than television.
- d. Speed and urgency of the information should be considered, if an entrepreneur needs to access his market fast, he should media like over the radio, television, etc than magazines that are out weekly, monthly, etc then if one wishes his information to reach the market in less than 24 hours, should rather use a radio and television than news papers as they are out every after 24 hours.
- e. Geographical area to be covered, one should use an appropriate medium that can reach the geographical area he /she is targeting, for instance there are some areas where news papers and magazines cannot reach, so in order to reach such markets, one should use a media types like radios, televisions, posters, etc.
- f. Consider the media used by competitors, one is expected to use a medium that is better off than the competitors' in terms of market coverage, urgency, reliability, etc but this should be done in consideration of the cost of the medium in comparison with the expected returns (Sales).
- g. Availability of the medium, for instance however, much one would wish to use neon signs as a medium of advertising in areas where there is no electricity / power, it would not be possible, like in remote areas, thus one should consider media forms that are available and affordable.
- h. Nature of the commodity to be advertised should be considered, like there are some commodities that can such items can not be advertised over the radios instead a television is appropriate as it will portray all the necessary features to the potential market. Additionally, such items are always bought by rich people who do not listen to radios, but rather watch televisions.

TOPIC SIXTEEN

16.0 BUSINESS PLAN PREPARATION

16.1 INTRODUCTION

Definition

A business plan preparation is a management tool that acts as a control device against which the management can measure its achievements. It focuses on the nature of the business in a logical and organized manner.

The business plan answers questions on whether the business will be able to support itself through sales and earn some profits to give the entrepreneur enough return for re-investing in the business and in supporting his or her other financial needs.

An idea does not become a business opportunity until it looks as if it will meet a set of tests, which will give it the potential to be a profitable business, e.g

- a. Marketing i.e can help the products of such an idea be successful in the market place.
- b. Production i.e Are the productive factors available, and it produce the required volume and quality of the products at a profitable margin.
- c. Financial i.e can the financial goals be satisfied like the rate to return on investment and target profitability etc.
- d. Others may be; does it satisfy your personal desires, interests? etc

16.2 Uses of business plan to different stake holders.

A business plan may be useful to entrepreneur, financiers, employees and the government may also be interested as it would like to know the impact of such a business to the country' employment taxation and environmental protection policies.

TO ENTREPRENEURS

1. Adequate preparation for business; ie a business plan encourages an entrepreneur to think through his or her business thoroughly in order to prepare for areas that will have identified as being sensitive attention.
2. Helps to define specific goals and objectives which services as bench mark to measure the progress of the business in implanting the plan.
3. Facilitates monitoring of the business performance based on the set goals and objectives as a standing of measurement such that they deviation from the plan can be detected and corrected in time.
4. Focus, i.e encourages an entrepreneur to be focused by thinking about the business. He or she is in now and what business he or she wants to be in future.
This requires entrepreneur to be focused and answer questions like , what would you want to be in 49 years from now? i.e state the type of business questions, state your short and long term goals etc.
5. Time table for implementation i.e it is action plan and timetable for implementing business activities in a logical manner.

TO FINANCIERS

Helps financiers' e.g financial institutions e.g commercial Banks to decide whether to give the business a loan or not.

A good business plan will help them to develop assurance that the business has capacity to repay the loan, and that the owner has adequate experience and competence to manage the business successfully profits.

TO EMPLOYEES

- It helps employees to know their expected product targets
- It shows them how will be engaged with the business and gives them a sense of job security.
- It is also useful to government in that it is a basis determining government revenue or tax from business profits.

16.3 Consistency of a business plan

A business plan is made up of many components which should make up a full business and these components should be consistent with each other, i.e

- a) The proposed business activities should be consistent with its stated objectives and goals i.e they should be seen as leading to the attainment of its objectives and goals.
- b) The marketing plan should be consistent with the production plan i.e the business should have the capacity to produce and meet its marketing programmes.
- c) The business should also have sufficient resources e.g labour and finance to support its production plans and undertake its marketing programmes.
- d) The organization structure being proposed for the business must be capable of enabling it to implement its production, marketing and financing plans efficiency and effectively.

16.4 Completeness of a business plan

In order to have a meaningful and consistent business plan, it must be complete as regards to its contents and data contained in the different components.

The data contained in the different components should be correctly researched and estimated i.e as regards to posting and summations of various items contained there in.

16.5 Elements of a business plan

A business plan includes a study and plans on various aspects of a business plan. these elements include;

- The general description of a business
- Statement of the mission, goals and objectives
- marketing plan
- Production plan
- Organization or management plan and finance plan.

1. GENERAL DESCRIPTION OF THE BUSINESS

This is summary statement of your business which shows the following;

- The type of business he /she is planning
- Which needs of the market it will seek to fulfill
- What makes the business different from other business
- The principle strengths and opportunities of the business and threats and weakness that will face (SWOT) analysis)

N.B: Example of SWOT analysis may be seen in previous topics.

2. STATEMENT OF MISSION, GOALS AND OBJECTIVES.

A mission statement is a brief statement that indicates the purpose of the business, that requires one to answer the following questions;

- What business are we in or what business do we want to be in? (Core business) e.g Business of providing high quality secure windows and doors.
- Our primary goal is to provide customers with (Show what need you are satisfying and how you intend to satisfy it)
- While ensuring that our employees are .. (show the type of work environment you want to provide for your employees)
- Our share holds i.e show what they or you can expect in terms of returns on investments.
- Our community is (show what you expect your contribution to the external community to be)

GOALS

There are medium and long-term aspirations that an entrepreneur wants the business to achieve based on the mission statement or are things that you intend or want to achieve in the medium or long term. e.g from the mission statement, " providing high quality furniture to customers, the goal may be : to maximize profits in 5-10 years.

OBJECTIVES

These are specific targets that you set; which will move you to the direction of achieving your goals and ultimately your mission e.g

- To increase sales by 20% per annum over a period of 5 years.
- To improve productivity by 30% in one year.

N.B Like one mission may have more than goal, also to achieve one goal, you may have more than one objectives in order to satisfy it.

3. MARKETING PLAN

This is an analysis of the possible position and opportunities of the business being planned in the present market situation. Such information is gathered by an entrepreneur through conducting a market survey. The marketing plan covers the following areas.

- a. The on-going trends and opportunities in the markets, which the business will target, i.e market segment, customer needs, buying patterns etc.
- b. Qualified statements of the market size, growth and expected market share
- c. The position of competitors.
- d. The analysis of the product and its value, to the customers, i.e what needs are being satisfied by the product?
- e. Analysis of the various ways communicating with and influencing the customers through advertising and sales promotion.
- f. General statements of the current prices of similar products, possible prices that the market can afford etc.
- g. expected sales
- h. Plan for recruiting sales forces so as to achieve the sales targets.

In this plan, you will to explain the following

- a. Target market, i.e here you talk about your customers, where they are located, their needs that are satisfied by your products, whether your market will grow or decline and whether it is large enough for business's profitable operations.
- b. Product or services offered, i.e what your product are, how they are packaged, the unique features about your product, etc.
- c. Competition, i.e your nearest direct and indirect competitor, their strengths and weaknesses, etc.
- d. Pricing and sales, i.e your prices, compare them with your competitors in terms of sales you are use, what you expect to sell daily, monthly etc.
- e. Promotion and advertising i.e your objectives in promotion and advertising the promotional to you are going to pay them etc.
- f. Distribution strategy, i.e how to distribute, in case of sales representatives, how many and how you going to pay them etc.
- g. Projected marketing expenses, this is very important as it will show the expenses you are to incur e.g on advertising, sales commission, signs posts, business cards, etc.

4. PRODUCTION PLAN

This is analysis of the projected needs for producing or buying the proposed goods or services. Under this plan, think about and provide for the following, i.e If they are relevant to your business.

- (i) Business premises and location, i.e where to locate your business, does it require any land and building (e.g pottery), are you going to put a building or renting, what are the estimated costs each, size of your workshop, and the cost of renting, i.e if you are to rent etc.
- (ii) Manufacturing processes i.e the processes to be followed, whether you considered quality contract, procedures, your expected production per day, weekly, monthly etc.
- (iii) machinery and equipment needed, i.e the machines needed, who are the suppliers of these machines and the costs, whether you need spare parts, talk of any other machinery or equipment you may need e.g a generator, etc.
- (iv) Labour requirements, i.e what type of workers needed, skilled, semi, or unskilled, their payment and all their allowances if they are there. This can be tabulated as below:
- (v) Raw materials needed, where to buy them, and terms of purchasing and quantity needed at a particular time, cost of raw materials, etc.

- (vi) Packaging requirements, where to buy t packaging materials (incase they are needed), what quantity of materials do you need and their costs.
- (vii) Power and utilities i.e if the business will require electric power , what is the estimated consumption per month? Will it need a generator and if yes- how much is its consumption? Does it need water and costs involved?
- (viii) Other facilities needed e.g office equipments cost, furniture and fixtures and costs? (Tabulate if possible) you can also talk about the means of delivering your materials of finished products, if a vehicle is needed what are costs involved.

5. ORGANISATION/ MANAGEMENT / ADMINISTRATION PLAN

This is a flame around which the people , machines equipments and other parts of the plan are put together to have an operating business. This component includes;

People or superiors who are to work in your business, their qualifications and tasks , how much you will pay them, if it is to manage it yourself, allocate a salary for your self.

You can talk about administrative expenses which the business (check in the next topics for more) Under this plan an entrepreneur will need to ask him/ her self questions like.

- (i) Who will be managing the business?
 - (ii) What are his /her responsibilities
 - (iii) How much will be paid?
 - (iv) Depending on their qualifications and needs, do you think your business will afford them?
- This can be summarized in the table below.

POSITION	NO	WAGES /SALARY	TOTAL PAYMENT

AN ORGANISATION STRUCTURE / CHART

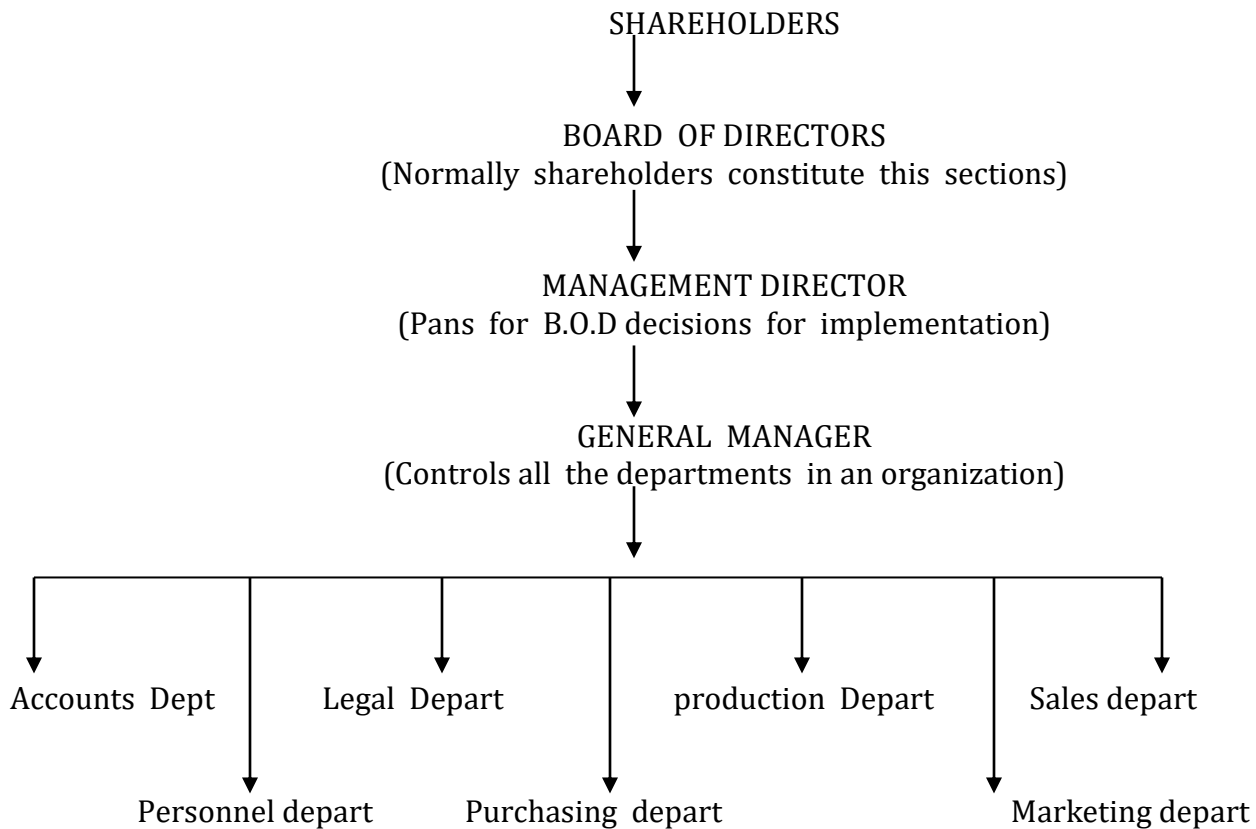
An organization chart is a layout or a representation of the structure with in an enterprise that shows the number of departments or sections and their relationship. It is therefore concerned with arrangement of work, division of activities and allocation of duties, flow of authority and delegation of responsibilities.

PURPOSE OF AN ORGANISATION CHART

- It portrays the type of an organization and defines the spheres of authority for the supervising staff.
- It is helpful when explaining to new staff members the type of an organization they are to work in and their part or role in it.
- It shows the chain of command and delegation of authority.
- It portrays the span of control i.e based on the quality of staff, variety of work and capabilities of the supervisors.

NOTE: These charts vary depending on the nature and size of an organization , for instance, a small organization like a retail shop may have a small chart as you may find most of the business activities are run one person, might execute a number of duties due to the size of the business.

However, the general or a full chart for a large organization would appear as below;



N.B In each department (As listed above), there is a departmental manger, an Assistant, skilled workers and un skilled workers (casual employees). This means that the chart ends with the lower subordinates. You can find the departmental duties from respective topics as discussed in the entire books.

6. FINANCIAL PLAN

This covers the financial requirements of the proposed business. It includes projections of income or profit balance sheet and flow of the proposed business. This component must include answer to questions like.

- What is the total cost to set up and operate the proposed business?
- How will the proposed business be financed ? or
- Which source of funds will be tapped and water will be the associated costs?
- What is the break-even sale of the business?
- Is the proposed business profitable?
- What is the rate of return on investment?
- How will the income be used?

The financial plan can be tabulated as below;

TOTAL PROJECT COSTS ESTIMATE FORM

Item	Cost
------	------

1. FIXED CAPITAL

- Acquisition of land
- Construction of labour
- Purchase of machinery equipment
- Total fixed capital

2. START-UP EXPENSES

3. WORKING CAPITAL REQUISITION

- Raw materials
- Direct / over head
- Administration Expenses
- Marketing expenses etc
- Total working expenses

FINANCE OF THE BUSINESS

Source of finance	Amount	Cost implications
Own funds		e.g fees, interest etc.
From family friend etc		
Grants		
Short term loans		
Trade credit facilities		
Long-term loans etc		

Total

PROFITABILITY OF THE BUSINESS

Details	1 st period	2 nd period
Sales revenue		
1. Other operational income		
2. Less estimated production expenses		
3. Total income		
4. Gross profit		
5. Administration overheads		
6. Profit before tax		
7. Less tax to be paid		
8. Net profit		
9. % of net profit on sales i.e $\frac{9}{1} \times 100$		
10. Break-even point i.e $= \frac{\text{Fixed expenses}}{\text{expected contribution}} \times 100$		

N.B: Expected contributions = Income from sales – Direct or variable costs.

CASH FLOW STATEMENT

Details	1 st period	2 nd period
---------	------------------------	------------------------

Inflows

Balance brought forward (from the previous year period)		
Profit (before tax)		
Other income (if any)		
Own funds		
From family / friend		
Trade credit facilities		
Short term loans		
Long term loans etc		

Total inflow

Outflow

Pre-operating expenses		
Fixed capital required		
Credit / loan principle repayment		
Interest		
Tax payment etc.		
Total payments		

Balance carried forward (i.e inflows – Outflows) (Refer to financial management topic)

16.6 STEPS IN PREPARING A BUSINESS PLAN

The following steps are important when preparing a business plan;

- a. Select type of business, eg trading manufacturing etc.
 - b. Carry out a market survey.
 - c. Collect relevant data e.g concerning the costs of machinery, fixtures etc environmental regulations, raw materials, legal respects of the business, administrative and selling requirements.
 - d. Draft A business plan.
 - e. Discuss the drafted business plan with knowledgeable and experienced persons in a similar or related business.
 - f. Finalise the business plan
 - g. Prepare an action for the implementation of a business plan.
- A. The aim of carrying out a market survey is;
- To find out whether there are similar business in the market, the likely customers, their needs where and when they need them.
 - To find out whether there are any problem with the current products.
 - To find areas of expansion of current products to fulfill customers demands
 - To identify trends that may affect the sales and profits levels of the business being planned.
 - To get information that will enable the entrepreneur to determine the market share of the planned business, advertising and sales promotion strategies to be used etc.
- B. The information got from the market survey should involves issues like;
Customers i.e identify their age, sex, income, occupation, family size, residence, special interests etc.

Customers needs, i.e when is the product needed, how often are the products needed, do customers need guarantees, what kind of service they need? which distribution mode is convenient to them? etc.

Competition, i.e who are the competitors to their sales volume, market share, their number their special attributes that attract customers, their advertising methods, strength etc

The existing trends, i.e population shifts, legal and regulatory developments, changes in economic situation like the rate of employment, life style changes in people's disposable income etc.

- C. When conducting a market survey, an entrepreneur may get the derived information from any of the following sources
- Through telephone survey
 - Questionnaires
 - Interviewing
 - Observation
 - Visiting shops, factories, markets etc

There are some of the ways an entrepreneur may use to collect information. These are the cheapest sources and they include;

- Employees, usually employees work directly with the customers and know the needs, complaints, the products that need, that are not affected, etc. This helps to know the customers likes and dislikes.
- Customers, when an entrepreneur talks to customers and know how they feel about the business and products and ask them where improvements can be made. This form or research creates customer confidence in the product.
- Competitors i.e looking at the activities, market that have those products that they do not offer, then design package size, quality etc. This gives an entrepreneur a room for improvement so as to provide the desired products that meet the market needs.
- Business records and files, here an entrepreneur looks at the sales records, receipts, customer complaints, their location and occupation, how and what they buy? Through this an entrepreneur may also check on the effectiveness of his or her advertising method used.

The market survey guide may involve;

Target market, the personal information, needs, competition, choosing the right price, right promotion strategies, trends in the market etc.

16.7 AN ACTION PLAN FOR IMPLEMENTING THE BUSINESS PLAN

An action plan is a carefully laying out of the sequenced steps towards achieving the business goal.

Once the business plan has been prepared, an entrepreneur needs to think about when he or she is going to implement the business activities laid in the plan and draw up a time table or any action plan for them.

The main purpose for the action plan is to guide and help him become and remain focused in the implementation of his or her business. The action plan will in particular help him or her.

FORMAT OF THE ACTION PLAN

ACTIVITY	TIME FLAME
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Preliminary survey of products/ service	
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Market research and finalization of business plan	
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Loan or trade credit application	
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Selection of business site	
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Ordering of fixed assets	
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Construction of factory	
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Installation of machines and equipment	
--	--

Selection of personnel	
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Application for utilities - power, water	
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Production trial	
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Commercial production	
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Necessary training	
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Publicity	
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Inauguration of factory.	
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N.B A systematic format has the following main features

- Activity
- Timeframe
- Person responsible for the activity
- Expectations from the activity
- Remarks or comments.

16.8 PRESENTATION OF A BUSINESS PLAN

An entrepreneur should well conversant with his business plan. He should critically analyse the following factors;

- a) Should know the assumptions underlying the figures given and totals in the plan.
- b) Should be well conversant with his target market
- c) Should know how is needed to finance the business, the possible sources, when implication, of such a source and how to repay.
- d) Should know all possible alternatives to adopt in the case any of the planned targets fail.
- e) When discussing with his prospective financiers, one should assume that financiers intelligent but not informed about the planned business.
- f) He should straight forward to the point when presenting it to the financiers i.e should know what required from them.
- g) Should be able to analyse the possible challenges, abilities, and how to use and merge them so as to implement his plans.
- h) He should be confident that he is to set up a business which will be successful.

TOPIC SEVENTEEN

17.0 PERSONNEL MANAGEMENT AND ADMINISTRATIVE EXPENSES IN A BUSINESS ENTERPRISES.

17.1 Introduction

The people who are involved in the day-to-day handling of the business operations are referred to as personnel. and these are mainly the employees in an organization.

It is very important for an enterprise to handle and work well the employees, this is because the success of the business depends on these, their conduct reflects the image of the business as they are the ones that serve the customers needs.

Personnel management is concerned with the effective use of the skills of people like salesmen, store keepers, office messengers, clerks, Technicians, etc. Personnel management begins with the determination of the need for staff, recruiting of the qualified people and direct their performance and encouraging their growth within the business set up.

17.2 Roles of an entrepreneur as personnel manager and a manager of other personnel

a) Roles as a personnel Manager

- He plays a role of recruitment, i.e locating and identifying suitable candidates for a job, he looks at different ways of obtaining the right personnel like looking through the current employees, advertising, tertiary colleges, etc.
- Selection, this involves receiving an application forms, interviewing, testing, personnel references and physical examination to find out whether a candidate is suitable for the job. An entrepreneur may use the employment agencies to help him do this work like in Uganda, we have Dama Consultants, Pila consults etc.
- Induction and training, i.e selected candidates are organized an induction or orientation programme where the employment meets and talks to other employees, gets to know the work terms of reference, conditions of employment, etc. It is also this point that an entrepreneur determines whether there is a need to change tasks or to take the employees for further training.

b) Role as the manager of personnel:

- Interaction i.e where an entrepreneur continuously interacts with the person during the first few weeks to make him / her feel comfortable, welcome and adjust to the job much faster.
- Plan and supervise training here an entrepreneur finds out and decides on which courses are relevant in developing skills and performance of employees, this helps workers to cope up with changes in the work environment, habits and demands.
- Classifying jobs and preparing wage / salary scales, here an entrepreneur determines these levels which match with employees work and performance, should also compare or look at the wage / salary levels of the employees so as not to discourage his workers which may force them to run away to competition for better packages (salary / wages).
- Solves conflicts among employees, with this, an entrepreneur maintains discipline among them, he /she has to look at the problem and its cause, listens, understands and assesses it and solves it accordingly.

An entrepreneur should not be with bias in problem / conflict solving in order to avoid more conflicts

- Negotiates with labour unions and service unions, i.e in case employees are under a trade union, an entrepreneur should represent them and negotiates with the union on issues of concern, like compensation, employees benefits and working conditions , etc should make sure that the conditions set by such unions are commonly understood and are acceptable to the employees.
- He/she work hard to influence and manage the benefit programmes of the employees like group insurance , transport and earth plans etc.
- He/she provides a periodic review of performance for each employee and for recognition of his / her strengths and needs for further development.
- Work organization i.e an entrepreneur organizes work in such away that employees enjoy it so that can do it efficiently and effectively.

Family members also play an important role in supporting the business, for instance;

- They can give financial support in terms of capital for starting and operating the business.
- They may also allow an entrepreneur to use the family assets like furniture, land, buildings etc to run the business.
- They may also assist in managing the business.

In conclusion, family members are also part of the personnel and should be given clear responsibilities, they are expected to perform in running the business.

However family affairs should be treated separately from business affairs as if they are combines, the business might fail due to mis management to finds, assets etc, so an entrepreneur should take note of this in case the family is involved in business operations and management.

Other personnel in business include;

- a. Marketing and selling personnel whose work is to market the products of the business.
- b. Production personnel , who are responsible for producing the business goods and services.
- c. Transport management personnel, who deal in transporting the business raw materials, products ad employees.

- d. Security personnel who deals in safeguarding the business premises and ensure the safety of the staff, premises, stock assets, etc.
- e. Finance personnel, that deals in keeping and maintaining the financial records and management of business funds, etc.

N.B The role of these personnel are always stated in their job descriptions, plus their terms and conditions of service which are well defined.

JOB DESCRIPTION

This is a written record which describe the major duties and responsibilities of a worker. it focuses on what, how are tasks are to be performed, why and where etc Job description contains the following;

- Title of the job
- The major and minor duties to be performed.
- Responsibilities of the worker, like proper book keeping.
- Defines task requirements, like physical activities, working conditions, like hot, cold, noisy, etc.
- The amount of time to be spent on each activity
- Required qualifications like education, experience, physical abilities etc. t
- The reporting point like your immediate supervisors, manager etc.

17.3 Pre- operating expenses in establishing a business

These are expenses that a business incurs prior its operations or before it starts operations. The major operating expenses include;

- a. Business license and registration: This is an operating license obtained from the local authorities enable a business to commence operations. However where a business wishes to operate as a company or with names other than the owners, then it will have to register itself with the Registrar of companies before operations commence.
- b. Installation of machinery and equipment, in case the business is to deal with production of goods it has to acquire the necessary machinery and equipment, this means it has to buy and install them before the business starts operations.
- c. Construction or hiring of a building , a building has to be first constructed or hired in order for machines to be installed or stocking the merchandise to be ready before the business starts. this means incurring either construction or hiring costs before commencing operations.
- d. Technical training expenses, here an entrepreneur will have to train the personnel needed in the management of his / her business in order for them to acquire the relevant skills prior to its operations . Thus training costs have to be incurred prior operations.
- e. Utilities , These include facilities like water, electricity, telephone etc. All these requirements have to be paid for (at least some money) before the business commence its operations.
- f. Market Research expenses, this will involve finding the best ways of marketing his / her products in order to attract customers to the new product those from other competitors.
- g. Advertising expenses; these have to be incurred prior so as to create awareness among the prospective or customers.

17.4 Daily business administration expenses

These expenses are incurred by the business on a daily business so as to support the production and marketing activities. Such administration expenses include:

- Rent.
- Established staff.
- Salaries. (for skilled workers like Managers)
- Wages for unskilled employees.
- Stationary like papers, pens, ink, e.t.c.
- Communication like telephone, postage, e-mail, e.t.c.
- Staffs transport.
- Security.
- News paper.
- Water, electricity, cleaning, e.t.c.

TOPIC EIGHTEEN

18.0 FINANCIAL PLANING FOR SMALL BUSINESS

Financial planning for a business is concerned with establishing the business operations in monetary terms. It is clear that all the business operations discussed before like the production, marketing, personnel and administration involve the use of money in one way or another. So in this topic, an entrepreneur will learn the skills of how to estimate the capital requirements of starting a business.

18.1 Types of capital

- Working capital; This is the short term capacity of the business to use its fixed assets and personnel on a day – to-day basis to operate and generate its outputs and sales. Working capital helps the business to meet its customers, needs and attain its objective of maximizing profits.

It includes resources like raw materials, fuel, labour, spare parts, stocks etc and cash to meet unforeseen developments like machinery break downs, failure of electricity systems, etc.

Working capital may be obtained from its own sources i.e share capital contributed by its owners and profits got from its operations etc and credit facilities from financial institutions, credit supplies from suppliers, workers who provide services without being paid for sometimes, etc.

The formula for calculating working capital is;

Current assets - current liabilities

Current assets include cash at hand and in bank, debtors, stocks short term investments like treasury bills, bills receivable etc.

While current liabilities may include short term loans, bills payables, bank overdraft, etc

Fixed capital. This is money held in fixed or permanent assets of the business. It consists of items used continuously for a long period usually for more than a year. Examples of such assets include land, buildings, machinery and equipment etc.

Therefore money raised by entrepreneurs to buy these fixed capital. It can be obtained from personnel savings, family contributions, borrowings from banks or suppliers etc.

18.2 Estimating working capital requirements of a given business

In most business, working capital requirements will involve raw materials, labour costs, stock, fuel, stationery, spare parts, etc.

When estimating the working capital requirements of a business, an entrepreneur needs to ask him /her self how much capital is needed to keep the business running all the time.

An entrepreneur should ensure that this working capital is neither too much nor too little by assessing each of the working capital items with respect to sales, production, profits and competition in the business.

Working capital is very important in business operations since the entrepreneur must have it in order to produce the goods / services i.e its the capital used to produce the goods to be sold to attains revenue profits through the sales made.

Thus when an entrepreneur starts selling the goods or services, the sales made become the major source of the business working capital, this means that in case the business realizes profits and all sales revenue is being put back into the business, the working will be increasing overtime.

An example of estimates for one month, working capital requirements of a small carpentry workshop business is illustrated below.

No.	Item	Cost (shs)
1.	Costs of timber	500,000
2,	Wages of staff in production	150,000
3.	Glue, varnish , nails	100,000
4.	Manager's salary	150,000
5.	Stationery and postage	10,000
6.	Fuel and transport	40,000
7	Cash for uncertainties (e.g repair)	50,000
	Total working capital	1,000,000

18.3 Estimating fixed capital requirements of a business

When estimating the fixed capital requirements of a business, an entrepreneur will depend on;

- Size of the business
- Nature of the business
- Ability of a firm to meet fixed capital requirements
- Cost of hiring the required fixed assets like land, building, etc.

It is important for an entrepreneur to compare the cost of buying and hiring some assets like building in order to find the cheaper alternative.

Fixed Capital enables a business to acquire productive assets which determine the ability to meet customer needs

For instance if we are to take our example of a carpentry workshop, the fixed capitals requirements will involve the following;

No.	Item	Cost (shs)
1.	Land (hiring)	100,000
2.	Building (hiring)	200,000
3.	Machinery and equipment	1,500,000
4.	Furniture	500,000
5.	Vehicle	3,000,000
	Total fixed capital required	5,300,000

18.4 Estimating total capital requirements of a given business

This is estimated by getting the sum of the fixed capital and working capital i.e

Total capital requirement = Fixed capital + working capital

So basing on the above example, the total capital requirements for a carpentry workshop will be;

No.	Item	Cost (shs)
1.	Working capital requirements	1,000,000
2.	Fixed capital requirements	5,300,000
	Total capital requirements	6,300,000

18.5 Source of capital

Capital can be got from either a combination of the following sources;

- Personal source; This maybe from a person's own savings or sale of personal property. This is more applicable to businesses like sole proprietorship, partnerships. etc.
- Family contributions; here the family can contribute towards the business in form of money, fixed assets like buildings, furniture, etc or rendering free service to the business.
- Borrowing; This involves borrowing from friends, relatives, financial institutions like commercial banks, this money is used for a specified period and returned and normally accompanied by some interest depending on the duration or nature of the lender.
- Trade credit; This is when a supplier offers goods to the business on credit, payment for them to be effected at a later date by which the time of goods that were acquired on credit and this so an entrepreneur gets a profit from the sale of these goods that were acquired on credit and this gives him/her an opportunity to accumulate his/her capital to start, run a business independently afterwards.
- Fundraising / grants / donors ; An entrepreneur may get capital from grants, donors etc Like there are some institutions like N.G.O which give out donations, or grants to specific individuals, like TASO gives out free items and money to HIV + clients, so such donations received may be used as a source of capital for many businesses.

18.6 Costs of a business

A cost is an expense incurred by an entrepreneur to produce goods / services for the business . If it was to produce a table, the costs would include; buying timber, glue, nails, varnish, paying workers, rent, electricity, etc. If an entrepreneur is dealing in groceries, his /her costs would involve buying merchandise, transport, rent, electricity , license etc. The costs of a business are broadly categorized into two groups, i.e direct costs and indirect costs (overhead).

a. Direct costs

These are costs that vary with the level of production of goods/ services (output) i.e when the level of production rises, the total direct costs incurred also rises and vice versa. Direct costs are composed of direct materials costs, direct labour costs and other direct expenses.

- Direct material costs; these are materials that can be physically identified and traced to a particular product as part of the finished product. Examples include timber (to make

furniture), cotton (to make clothes), etc so the cost incurred to acquire these materials are the direct material costs and they take a large portion of the business working capital.

- Direct labour costs (direct wages); These consist of the labour that is specifically identified in production of a particular product, like those people who are directly involved in machine operations engaged in the production process, like carpenters and finishers in a carpentry workshop. So payment to such labour is direct labour cost.
- Direct expenses; These are expenses that are directly linked to the production of a particular product, for instance the cost of hiring a machine to produce a particular good, fuel costs to run the machines, etc.

N.B The total of direct costs of a product are termed as prime costs or implicit costs, so if we are to use our example of a carpentry workshop, the prime costs would be;

No.	Item	Cost (shs)
1.	Direct material cost of timber	500,000
2.	Direct labour (wage for machine & joinery staff)	150,000
3.	Direct fuel/ transport costs (direct expenses)	40,000
	Total Direct / prime costs	690,000

b. Indirect costs

These are also termed as over head / explicit costs, they are costs that do not vary with the levels of output i.e they can not easily be traced to a particular product. In other words they are always incurred whether production is realized or not. They include indirect material costs, indirect labour costs and other indirect expenses.

- Indirect material cost; such costs are attached to materials that are not traceable to a particular product, like cotton waste, lubricant, etc however they get used up in course of production, like in a carpentry workshop, indirect materials may include nails, glue, varnish, etc.
- Indirect labour costs; such costs are attached to supportive labour of a product like supervision managers, secretaries etc. Their services cannot be traced to a particular product and hence their cost does not vary with the volume of output, like a secretary will continue working regardless of the volume of production (output).
- Indirect expenses; (overhead expenses) such expenses are not linked to specific product and hence do not vary with the production level. Such expenses include factory rent, insurances, repair of machinery, telephone, electricity, etc.

Basing On our previous example of a carpentry workshop, the total over head or indirect costs would include;

No.	Item	Cost (shs)
1.	Glue, varnish, nails	100,000
2.	Indirect labour (e.g salary of a manager)	150,000
3.	Stationery and postage	60,000
	Total production overheads	310,000

Note: The total prime costs and production overheads is referred to as total production costs, i.e the total cost of producing in business is a combination of its total direct / prime costs and total indirect / overhead costs.

However, in the course of running the business, some other costs (in addition to the above) may be incurred and such costs include;

- Advertising costs
- Sales promotion costs
- Delivery expenses
- Cost of samples to potential buyers
- Free gifts
- Display and exhibition materials expenses
- Printing and stationary costs (price lists, brochures, invoices, receipts etc)
- Packaging material costs
- Delivery van costs etc

N.B: Administrative overheads are indirect costs incurred by the business during the formation of policy, management and supervision of its affairs, etc they may include;

- Printing and stationery of administration
- Administrative salaries and allowances
- Telephone expenses
- Depreciation of office equipment
- General expenses, etc

Therefore Administrative and selling and selling distribution expenses are added on to production costs in order to arrive at the Total costs.

18.7 Calculating the total costs of a business

The format below will be followed when calculating the total of the business.

Item	shs	shs
Direct materials	Xxx	
Direct labour	Xxx	
Direct expenses	Xxx	xxxx
Total prime / direct costs		
Add indirect costs / over heads		
Indirect materials	Xxx	
Indirect labour	Xxx	
Indirect expenses	Xxx	xxxx
Total indirect / overhead costs		
Total production costs		
Add selling and administration overheads	xxx	
Add administration overheads	xxx	
Total administration, selling & distribution costs		xxxx
Total business costs		xxxxxxx

If we are to consider the previous example of a carpentry workshop, the total costs could be summarized as below;

Item	shs	shs
Direct materials	500,000	
Direct labour	150,000	
Direct expenses	40,000	
Direct prime costs		690,000
Indirect materials	100,000	
Indirect labour	150,000	
Indirect expenses	60,000	
Total production costs		310,000
Selling and distribution overheads	150,000	
Administration expenses	200,000	
Total administration and distribution expenses		350,000
Total business costs		1,350,000

TOPIC NINETEEN

19.0 FINANCIAL INSTITUTIONS IN UGANDA

19.1 Definition

Financial institutions are those institutions that deal with facilitating entrepreneurs and other institutions by availing them both short term and long term finance for their business operations.

Examples of such institutions include the Central Bank, Commercial Banks like Stanbic, Standard Chartered, Crane Bank, Post Bank, etc as they will be discussed later.

19.2 Types of financial institutions

Among the different financial institutions are;

- a. Central banks; There Are institutions which are established to control, guide and assist other commercial banks, it is normally a government bank. An example is the Bank of Uganda which is the central bank in Uganda.
- b. Commercial bank; There are profit making institutions whose major work is to provide financial services to the public through accepting their deposits, safeguarding their money deposited, provision of loans to the clients, etc Examples of such Banks include Crane Bank, Post Bank, Stanbic bank, Diamond Trust Bank etc.
- c. Development Banks; These provide loans for long term developments to other clients, like building houses, buying land and other valuable assets, etc Examples of such banks in Uganda is Uganda development Banks, D.F.C.U Bank, East African Development Bank etc i.e they usually provide loans for long term projects.
- d. Merchant banks; These banks specialize in financing and facilitating trading businesses like those involved in imports and exports businesses, they also offer discounting of trade bills for merchants where they are provided with cash before the bills become due for payment.
- e. Micro finance institutions, such institutions mobilize people's savings and provide credit facilities to micro and small savers they usually deal with low income earners and give them loans. Examples of such institutions include Faulu Uganda Ltd, Uganda Micro finance Uganda Ltd and other small credit co-operatives found in remote villages.
- f. Specialized banks. These banks serve as special type of customers and provide special type of services, for instance Agricultural Development Bank that provides services to farmers, East Mengo Teachers' Union (bank) that Provides loan to teachers, etc.

19.3 Functions of the central bank

The Central Bank in Uganda is the Bank of Uganda, having its headquarters in Kampala (on Kampala road, opposite Diamond Trust building Green land building). It also operates its currency centres in other regions like Mbale, Jinja, Masaka, Mbarara etc

The main functions of the central Bank include;

- It issues the country currency in form of notes and coins, this makes it easy to control the volume of money in circulation and makes replacement.
- It is the Banker to the government, i.e. it acts in the same way the commercial banks act of their customers, it gets deposits on behalf of the government like taxes, it also arranged loans to the government i.e. both long and short term loans.
- It is a Bank to all other commercial banks i.e. it acts as a banker and controller of commercial banks for easing the settlement of financial obligations between them and controlling their bank deposits.
- It licenses, controls and supervises all the banking activities of commercial banks like how they will give out loans, how much they should keep with them (savings), etc.
- It acts as a lender of last resort, i.e. it gives out loans to commercial banks i.e. in case they fall short of money, they can easily access loans from the central bank.
- It controls the stability of the country's currency in circulation through the use of the various money policies like open market operations, selective credit control, etc.
- It acts as an advisor to the government, i.e. on issues regarding the economic situations like issues of how to raise short term finance for the government projects, how to control inflation in the country etc.
- It manages the government debts i.e. it undertakes to pay the internal and external loans together with the interest on behalf of the government.

19.4 Tools of monetary policies

Open market operation (O.M.O); This is where the central Bank participates in selling and buying of treasury bills (Securities) from the public. During inflation, the central bank sells these securities thus reducing money supply in circulation and during deflation the bank buys these securities and hence increasing the money supply in circulation.

Bank rate; This is the rate at which the central bank advances loans to commercial banks, which money is lent out of the public by these commercial banks, if this rate is increased, commercial banks will also increase the interest when lending to customers which will reduce money in circulation and the reverse is true if it wants to put more money in circulation.

Variable reserve requirements ; This policy requests commercial banks to deposit (reserve) a certain percentage of their funds with the central bank and deposits a certain percentage of all customers' deposits with it. Thus in case the central bank wishes to reduce money in circulation will increase this reserve ratio and it will be reduced if it wants to increase money in circulation.

Cash ratio: This is a percentage of the deposits that is not lent out by commercial banks i.e. it is left or kept by the commercial banks in cash form. If the central bank wishes to reduce money in circulation, it will inform the commercial banks to increase this cash ratio and the reverse is true if it wishes to increase money in circulation.

Special deposits: This is where the central bank requires commercial banks to make special deposits on top of the reserve requirement. This is usually done when it wants to reduce money from commercial banks available for loans and in case it wants to increase money supply, these deposits will be paid back to the commercial banks or part of them will be paid back.

Selective credit control: This is where the central bank instructs commercial banks and other financial institutions to only give out loans to selected sections or groups of people for instance it will determine a percentage of loans given out to certain sections, like today this prosperity for all fund (Bonna Bagaggawala) is being given out by Post Bank and other micro finance institutions, however it is targeting more agriculturalists than industrialists or business men.

19.1 Services rendered by commercial banks

- a. They accept and safeguard people's deposits of any form, be it cash or cheques deposits.
- b. Commercial banks provide a variety of options or accounts to be used when depositing or withdrawing their money, each with varying benefits, for instance saving accounts, current accounts, fixed deposits accounts etc.
- c. They extend credit facilities to their clients and the general public in form of short, medium or long term loans which could be used to set up different business opportunities.
- d. Some banks provide over draft facility to their trust worthy clients, ie where one is allowed to withdraw money which is in excess of what is remaining on his / her account.
- e. They provide or allow rediscount bills and other securities for those who may wish to have the money the bills mature
- f. Commercial banks act as referees or trustees where one can entrust them to safeguard valuable items like land titles, car log books, will and other properties for safe custody.
- g. They facilitates business operations through offering a standing order facility to their clients, where they are allowed to make regular payments to specific creditors on behalf of their customers like payment for water bills, electricity bills every after a month.
- h. They provide convenient means for customers to easily access or deposit their money, like the use of Automatic Teller Machines (ATM) where one can get or deposit money at any time (even after midnight), like Cente Point for Centenary Bank, Crane Access for Crane Bank, MAP NET for Post Bank etc.
- i. They provide easy and convenient means of transferring money internationally, for instance through monogram and western Union, Telegraphic transfer services, etc
- j. They also provides foreign exchange services where one can easily exchange money to other currencies, like from Uganda shillings to Euros, Dollars, pounds etc.
- k. Most commercial banks provide training and guidance to their clients who may wish to start up different business like drawing Business plans and constant monitoring of the clients. enterprises for advice.
- l. They have played a big role in facilitating and promoting those who may wish to become entrepreneurs through offering training, provision of loans, like Business loans, salary loans, etc and hence promoting entrepreneurship development in the country.
- m. Commercial Banks facilitates international trade, through offering / selling travelers cheques, Bank drafts, letters of credit etc.
- n. They facilitate easy transfer of money from one account to another, for instance through issuing bank drafts, credit transfer, direct debits, cheques, standing orders, etc.

19.5 Types of accounts maintained by financial institutions

An account is a relationship or a record of financial dealings between a client / customer and his /her financial institution. There are different types of accounts that be opened up in various financial institutions, however, the common ones include; savings account, fixed deposit account, Current account, collection account, etc. They are further discussed below;

1. SAVINGS ACCOUNT

This type of account has the following characteristics

- a. A minimum initial deposits is required at the time of opening it, like in most institutions, it is 10,000= and 20,000= in some few institutions.
- b. The account holder is expected to maintain a required minimum balance on the account all the time and one can not withdraw money if the account balance is below the required minimum level.
- c. Money can be deposited on the account any time, so long as it with in the working hours.
- d. Withdrawing may be limited amount of money can be withdrawn at a time, for instance in some institutions.
- e. To some institutions, a limited amount of money can be withdrawn at a time, for instance in some institutions, one cannot withdraw more 500,000= at a time.
- f. Notice for large withdraws is required (for some institutions) ie in case one wishes to withdraw huge amount of money.
- g. A pass book is issued to record deposits and withdraws, however, for commercial banks, they have resorted to issuing ATM cards i.e they no longer use these pass books like post banks , Crane bank, Centenary Bank etc.
- h. Interest is paid to the account holder based on the balance on account at the end of a given period like monthly, quarterly, annually, etc.

2. CURRENT ACCOUNT

- a. A minimum initial deposit is required fro account opening, most financial institutions require 100,000= as the initial deposit
- b. There is no minimum balance required, however for some banks , this s a minimum balance below which a client is charged.
- c. One can deposit any amount he/she wants
- d. There is no restriction on the amount to be withdrawn at anytime or the number of withdraws made with in a given time.
- e. They use cheques for payment withdraws instead of passbooks
- f. Bank statements are always issued out to clients at a specified period like ends of a month, or at any time a client would wish to have it.
- g. There is no interest paid on deposits, however, due to competition, today some banks offer interest depending on the balance on the account every month.
- h. The account holder can issue out cheques to any person for settlement of debts or payment without consulting the banks.
- i. A ledger fee is charged for maintaining records, issuing cheques books, cheques collection from far distant places, etc.
- j. On special arrangement with the bank, overdrafts may be issued to such (current) account holders.

3. FIXED DEPOSIT ACCOUNT

This type of account posses the following features ;

- a. A minimum amount of deposits is required for a specified period of time
- b. No more deposits or withdraws are allowed to be made on this account until the expiry of the agreed time, if it made, a charge is made which is usually high.
- c. It is accompanied by high interest paid to the account holder compared to other Account types this is due to the stated time of withdraws made like once n a year or fixed deposit period.
- d. A receipt is usually issued out to the Account holder at the time of placing the deposits.
- e. When the Account holder withdraws his/her money before the expiry of the fixed deposit period, he /she foregoes the interest expected on the Account.

In Uganda, this account has very few customers, because the majority are poor and thus cannot afford the fixed deposit amount, yet the rich use the current account as they wish to use their money anytime they wish for business.

This Account can be used as a security to obtain a loan on other accounts like current Accounts by the customer with in the same Bank.

4. COLLECTION ACCOUNT

This account is opened by a client in a financial institution so that he/she can receive payments through it from other individuals parties. Like schools open up an account where students or parents can pay their school fees, URA also has such accounts in numerous financial institutions the country where people can directly pay their taxes, UMEME, N.W.S.C etc have such accounts in different banks where clients pay their bills from.

19.6 MAJOR TRANSACTIONS WITH FINANCIAL INSTITUTIONS

A. Account opening

The general requirements of most financial institutions for accounts opening are;

- a. A minimum amount for the initial deposit
- b. Passport photographs
- c. Referees (two or three)
- d. Proof of identity, like current / valid identify card / voters card, LCI recommendation letter, employees recommendation letter etc.
- e. Filled application forms issued by the chosen bank
- f. There after the applicant is given an account number
- g. The applicant makes an initial deposit and a receipt is issued out.
- h. After some time like a week, a passbook, cheques book, ATM card, etc is given to the account holder, depending on the type of the account opened.

N.B However, due to massive competition among these financial institutions, these requirements are becoming minimal so as attract more clients, like in Crane Bank, one needs an identity card, one needs not to have initial deposit, passport photos are taken from the bank when opening to ease the processes, fills the form and after three working days, one goes back for an ATM card with an initial deposit of 10,000= i.e in case its a savings account.

B. Depositing money on the account

For depositing money on savings or current account, a client fills a deposit slip form which is in duplicate and presents it to the Cashier with the passbook or card, however, one may deposit the money even without possessing the card as long as one remember the account name and account number to be filled on the deposit slip.

When the cashier receives the money and pay slip, checks the information, to see whether it is well written like correct date, amount account number and name, thereafter stamps it and a copy is issued back to the client with the passbook or card.

One should note that cash deposit slips are different from cheques deposit slips in most banks, however in some banks like Housing finance bank, they use the same slip having provisions for both cash and cheques deposits.

For those banks with separate cheques deposit slips, they have a provision where a depositor writes the details of the cheques and the details of the account where the cheques is being deposited such details include the account number, account name, bank name(indicated on the cheques),e tc.

The depositor is required to write at the back of the cheques, the account number, amount, contacts and counter signs it and then gives them (slips and cheques) to the cashier who in turn signs and stamps on both and a copy of the deposit slip is given to the depositor.

C. Withdrawing money from a bank account

The account holder is free to withdraw money from his or her account as long as it is available on the account, this can be made any time when banks are open or when the ATM is working.

In case one wishes to withdraw an amount that is exceeding a certain limit, or a number of times exceeding the maximum per week, a prior notice has to be given to the bank (this works on savings account holders and to some banks not all banks do it)

To withdraw from a savings account, a withdrawal form is filled, handed over to the cashier together with the pass book or card and identification form (like a current identify card, or passport).

A Person can not withdraw money on behalf of another person unless otherwise, i.e if approved as a second person indicated on the application from when opening an account.

To withdraw money from a current, the holder has to write out a cheque and presents it together with his/ her identification document to the Teller (Cashier) and if they are approved, the cashier effects payment to the client (account holder).

19.6.1 Cheques

A cheque is a written document / order from an account holder to his bank, requesting it to pay a specified sum of money to the order of a named person, or to the bearer.

FEATURES OF A CHEQUE

A cheque must be officially issued by the bank and its design should be easily distinguished from the ordinary paper, it should have a cheque number, account number from which money should be withdrawn, the bank name where the account is operated, the space where the payee is named, etc.

An example of a cheque from Crane bank account holder (Aristoc Booklex) is shown below;

19.6.2 Parties to a cheque

- a. Drawer: This is the person who writes / makes the cheque and signs it (the account holder) using the above example, ARISTOC BOOKLEX Ltd is the drawer.
- b. Drawee: This is the place where the cheque has to be presented for payment i.e where the account holder (drawer) keeps his /her money. In our example Crane Bank is the Drawee.
- c. Payee: This is the person or institution to whom the cheque is made payable, i.e Ssempijja Mark in this case is the Payee.

The named payee may as well endorse the cheque to another person who will be paid. This requires a named payee to send his/ her identifications and a document authorizing the new payee to receive the money on top of endorsing it at the back. (signing the cheque at the back).

19.6.3 Types of cheques

1. Bearer cheques: This is a cheque where the payee is not named. This who ever presents it to the drawee is paid the amount on the cheque. It is normally written as "pay or bearer". Such a cheque is risky as in case one lands on it accidentally, can get the money written on it.
2. Order cheques: Cheque is paid to a named person on its face value or to his (payer's) order, i.e if the payee endorses it (signing his name at the back of the cheque). The previous examples we used is an order cheque.

3. Open cheque; This is a cheque that is not crossed, thus it can be presented and paid across the counter by the bearer or order. Such a cheque is also not secure as once it gets lost, whoever picks it can easily obtain cash (in case he/she accesses or forges the identification of the named payee).

N.B the central bank instructed commercial banks not to issue open cheques and hence all cheques to a third party must be cleared through the clearing House which is controlled by the central Bank before one receives payment. This means that one cannot receive cash from a cheque at the counter.

4. Crossed cheque: This is a cheque paid only to the account of the payee, i.e. the payee can not receive cash when he presents a crossed cheque, such cheques bear two parallel lines called "crossings" (as seen in our example). The crossing is an instruction by the drawer to transfer the stated amount of money to the account of the named payee which may be that bank or another bank or in a different branch of the same bank.

Other categories of cheques

5. Post dated cheques: These are written having a future date and such a cheque can not be presented before that date of maturity specified on it.
6. Stale cheque: This is an expired cheque, a cheque becomes expired when it is presented for payment after six months, i.e. if it was dated six months back, it cannot be accepted by the bank.
7. Forged cheque: Such a cheque has some features that are missing (features of a valid cheque) like if the signature of the drawer differs from the specimen signature in the bank.
8. Travelers cheques: these are issued by the banks and payable to the bearer or order at other commercial banks or branches, travelers use such cheques to avoid moving with a lot of cash for security purposes.
9. Bank draft. This is the best type of a cheque issued, it is issued by the bank against itself. It is issued to the customer on request and the full value on the cheque must be available on the account before it is written or issued.
10. Bank cheque; such a cheque is issued, but does not bear the date, the amount in figures and words, the name of the payee and signature of the drawer may be there or not. This is a risky cheque as it can be presented to the bank by any person, having indicated any amount he/she wishes.
11. Counter cheque: This is given out by the drawer to the client when he/she is missing his cheque book or when he has left his cheque book behind.
12. Dishonoured cheque: This is a cheque presented for payment and the bank refuses to effect payment to the payee and thus returned to the payee.

19.6.4 Factors that may lead to the bank dishonouring a cheque

A cheque may be dishonored / rejected by the bank if the following conditions prevail;

- If the drawer notifies the bank not to effect payment
- When the account of the drawer was closed in the drawer's bank
- If it is a post dated cheque
- If the drawer has less money on his account than the stated amount on the cheque.
- If the amount written on the cheques in words differs from that written in figures
- If the banker has been informed about the death of his client (account holder)
- If it is a stale cheque, i.e. an expired cheque.
- If the signature on the cheque is different from the specimen signature on the account of the drawer.
- If some words or figures on the cheque are not clear, e.g. if they are crossed out or cancelled.
- If a cheque is written in pencil, it then has to be dishonored, it should be written in ink.

19.6.5 Advantages of using a cheques in payment

- a. It enables transfer of money from one person to another without any risk like theft
- b. It is faster and convenient i.e writing a cheque is quicker than physical counting of bank notes and coins.
- c. It is safer than cash, like a crossed cheque is safer i.e even if a stranger accesses it, he /she can not present it for payment.
- d. It facilitates quick record keeping since every cheque issued out has a counter foil kept in a cheque book for reference purpose.
- e. It is higher and hence easy to transport compared to moving with huge sums of notes and coins.

19.6.6 Disadvantages of using a cheque in payment

- a. cheques are only applicable to literate people, so an entrepreneur with illiterate customers or suppliers may not use them, like when paying suppliers who prefer seeing physical cash.
- b. Most cheques are not reliable means of payment, like they be stale, postdated, no sufficient funds on account, etc and hence will be rejected by the bank which may retard business operations.
- c. Some cheques are risky and may cause loss to the business, for instance if one accesses a bearer cheque, or when one forges the drawer's signature, one can present it to the bank for payment without the entrepreneur's consent or authority hence losses to the business.
- d. It is not possible to receive cash immediately as you present the cheque, like crossed cheques since they need to be processed and cleared which takes less than four working days.
- e. Using cheques means incurring some other extra costs for instance cheques book fee, charges for bounced cheques, etc this means increased costs to the business.

19.7 APPLYING FOR AND SERVICING A LOAN OR AN OVERDRAFT.

Among the services provided by financial institutions is extending credit facilities form of both short term and long term loans. Different institutions have different requirements and procedures followed before giving out loans, however, the common ones include the following;

- a. The applicant for a loan must have an operating account at the financial institution, for some institutions, the account must have been operated for some time, like four to six months.
- b. The applicant then fills a loan application form, giving details of the loan amount needed, purpose for which the loan is required, security and referees available etc.
- c. If all these are checked and confirmed by the loans department, the bank accepts to give out the loan, the applicant signs a loan agreement with the officials of the institutions (loan officers).
- d. A loan is then given out, normally crediting/ depositing it on a count of the borrower, hence making it available for him / her to withdraw as / he she may wish.
- e. During loan repayment, the agreed installment payment is deducted from the outstanding loan amount, until all the amount is completely /fully paid.
- f. An overdraft allows the current account holder to withdraw money in excess of what he/she has on the account.

19.8 MONEY TRANSFER SERVICES

Money can be transferred from one account to another through standing orders, credit transfers, bank draft, travelers cheques and many others form. These are discussed more below.

- a. Standing order: This is where a client gives instructions to his / her bankers to pay a specified sum of money to a named or institution at specified regular intervals . For instance an entrepreneur may instruct his banker to pay a given amount of money on monthly basis to UMEME or NWSC, this saves him the tim he would take every month when personally moving to make payments to such institutions. This will e done by the bank regularly until the arrangement is cancelled by the account holder.
- b. Credit transfer: This is done an entrepreneur wishes to pay a number of persons at a go, like his employees. He can do so by writing one cheque and on it, attaches a list of the names of persons to be paid and the amount to be deposited and their corresponding account numbers. Thus the banker will have to transfer the money to the specified account numbers of the named individuals.
- c. Bank draft: As earlier noted, this is a cheque drawn by a bank to another bank, this cheque is only written if the person requesting for it has paid for it (thus he must have the specified sum of money already on the account). This is normally done to pay customers who fear to be offered bouncing cheques, for instance U.N.E.B requests for bank drafts from schools when they are paying for candidates' registration fees.
- d. Travelers cheques: These are used by travelers like Business men who travel up country and overseas, they buy these cheques to be used in home and outside the country, they would be in foreign currencies like U.S dollars, pound Sterling etc i.e if they are to be used in foreign countries .

These cheques are paid for in advance by the travelers / customer at the bank /institution issuing them, they can be used to settle transactions in shops, hotels, that may not be willing to accept personal cheques. This means that they can be issued in fixed denominations depending on what the traveler may need. they also save the traveler from moving long distances with huge sums of money.

N.B There is a recent development in money transfer services that also facilitates international trade and also home trade, i.e where money is transferred to distant places with in 10 minutes. These include monogram, western Union , Telegraphic transfer, etc and they are spread all over the world , they are both receiving and sending points found in banks , foreign exchange bureaus, post offices etc

This works in a way an entrepreneur may send money to Canada to a given supplier for the goods to be bought and the sender fills his details plus the details of the receiver and a unique control code number plus a test question are sent to the receiver which he/she presents to any of these money transfer points and if approved, he receives the money within few minutes . This means that an entrepreneur may carry out international trade without physically traveling outside so long as he know a specific supplier who can send the goods on receipt of the money through these services.

TOPIC TWENTY

20.0 BUSINESS LAWS AND TAXES

20.1 Introduction

In topic twelve, we identified the various forms of business ownership from which an entrepreneur could choose. It should be noted that each form of business has its legal aspects that an entrepreneur has to consider, among which include the registration procedures involved before commencing business operation, laws and taxes related to the selected business etc.

20.2 Registration of a business

When one is starting a business, and he is to use a name which is different from his names, it is a legal requirement to have that business name registered.

STEPS FOR REGISTERING A BUSINESS

- The entrepreneur willing to start a business approaches the Registrar of companies for registration.
- For sole proprietorship, a business name is registered after filling appropriate forms. For partnership, a deed must be produced. For a limited liability company, a memorandum of association, articles of associations, list of directors, Prospectus (for a public Ltd Company), etc must be produced.
- If the documents are well arranged, the Registrar registers the business and gives out a certificate of incorporation. This is a document that shows that a company has been registered, by which an artificial person or a legal entity, separate from the owners, has been created.

PRE- REGISTRATION CONSIDERATIONS

The entrepreneur will have to assess the need for registration before going to register i.e assess the benefits of registration before going to register.

Most micro businesses are advised to register themselves because of the need to access financial services and accessing contracts from government and other institutions using a business name. It is a legal requirement for any entrepreneur wishing to start and operate a business in its name getting registered. This gives the business legal recognition to sue or be sued by its members, outsiders or customers.

REGISTRATION PROCESS

The entrepreneur may personally register the business or use the service of an expert or lawyer. If he chooses to use a lawyer, he has to pay a fee for the service which ranges from 150,000 to 300,000 (2004)/ 2005)

A registration applications form is then filled and taken to the records Assistant in the office of the Registrar of companies and a thorough search is conducted to confirm that there is no similar name of the business already registered.

The forms are then passed on to the Registrar for endorsement and approval. A small fee is paid for registration through the bank and a Registration certificate is usually delivered within a week.

The table on the next page shows the process of registration that is followed presently, however its being reviewed to make some changes.

Step	Activity	Consideration	Time & cost
1.	Pre-registration decision	Benefits of registration	
	Need to register	Nature and type of business	
	Choice of the business name	Sufficient resources and time available to process the registration	
	Cost of registration		
	Mode of registration		
	Lawyer		
	Broker		
	Self		
2	Registration		
	By lawyer or broker ,i.e process the application forms with the registrars' office and deliver the registration certificate to the applicant.		

20.3 Business taxes in Uganda

A business tax may be defined as a compulsory and non -refundable payment made by the business to the tax authorities, (normally the central government or local government) directly or through their representatives.

Tax identification Number (T.I.N) this is a unique number which is allocated to any businesses or any individual wishing to deal with the central government or local government. This TIN identifies a particular business from another in Uganda it is issued by the tax authority (URA) for reference purposes like tax assessment and payment.

20.3.1 Forms of taxes

Among the various taxes paid by the businesses may include the following;

- Business / trading license: All businesses, regardless of their form should have a valid license before I starts operating. A business by law is not supposed to commence without this license.
- Graduated tax; this is charged on every individual who is above 18 yrs and is working, once it is paid, one is issued a ticket, it is normally paid annually. however today this tax was scrapped off in Uganda.
- National social security fund (NSSF). This is charged by the employers from his employees wages. The amount to be charged is based on a current rate as stated by law. It helps employees in their old age, employees who may develop disabilities as well as their families.
- Pay as you earn (Payee); this is charged on the wages of an individual, it is collected in a period when wages are paid.
- Income tax; it is also known as corporation tax, which is payable by individuals or companies from the earned profits, ie it is charged on the net income of a business over a given period. The tax payable is calculated and determined on the basis of one percent of the gross turn over or stated figure in each percent as shown in the in the table on the next page, what ever method is cheaper could be chosen.

No	Gross turnover bracket (shs)	Annual tax payable (shs)
1.	0-20,000,000	100,000
2.	20,000,001 -30,000,000	250,000
3.	30,000,001- 40,000,000	350,000
4.	40,000,001- 50,000,000	450,000

The income tax act defines a small business tax payer for income tax purposes as a resident tax payer whose gross turn over from all businesses owned by such a personal in a year is less than fifty millions shillings

At the end of each financial year, entrepreneur completes and files his/ her tax returns with Uganda Revenue Authority (Tax authority) which determines his / her tax liability.

- f. Property tax; this is charged on tangible fixed assets of a business or a person , e.g buildings, plant and machinery etc.
- g. Import & export duties these taxes are paid by individuals who are engaged in foreign trade, and these taxes are determined by the authorities, eg URA.
- h. Value added tax (V.A.T) this is levied on the value of goods transferred at each stage of the productive process.
- i. It is intended to be a tax on the final consumer as the burden is shifted on the price of the final product.

N.B (i) Taxable supplies (Standards rate) : VAT is payable if there are;

- Supplies made in Uganda
- Made in the taxable person
- Suppliers that are made in Uganda , which are not exempted are termed as taxable as supplies. A taxable person can be an individual , firm, company, as long as such a person is required to be registered fro VAT.

Supplies are said to be outside the scope of VAT if they are;

- o Made by some one who is a taxable person
- o Not made in the course of furtherance of business.

(ii) Exempted supplies; The VAT law gives a list of exempt suppliers , these include , financial services , insurance. medical, dental , nursing, passenger transportation services, etc (a list of these supplies is always available at URA offices)

(iii) Zero rates supplies ; the law also gives a list of zero- rated supplies, zero rated tax is charged at 0%, while exempt rate is where is no tax is charged at all

Rate of VAT: There are two rates of VAT i.e the standard rate which is 18% and the zero rate which is 0%.

Any person conducting a commercial enterprise or intending to conduct a commercial enterprise or intending to conduct a commercial enterprises may apply to be registered for VAT with U.RA. This is done if the taxable turnover (the gross income) for three consecutive calendar months exceeds 12.5 millions.

A commercial enterprises for purposes of VAT registration refers to any business of what ever nature such enterprises include;

- a. Ordinary businesses like shops, contractors, manufactures, wholesales , etc
- b. Traders and professionals, like builders, engineers, Accountants, Lawyers, etc
- c. Activities of non-profit making bodies like societies, associations, sporting clubs, etc

Calculating VAT

- We can use example of trader who takes delivery of goods after taxes from customers or local suppliers.
- The goods including taxes and VAT are worth 100,000 shs
- The trader then adds a mark up (profit) to cover all expenses, profits and VAT of 17% to arrive at the selling price, such expenses include electricity, rent, telephone, transport, etc
- VAT is charged at 17%.

The net VAT payable is the difference between the VAT calculated on sale and that on purchases. If VAT on sales exceeds that on purchases, then the entrepreneur pays URA the VAT on sales in excess of the VAT on purchases.

If the VAT on sales is less than the VAT on purchases, then URA pays or grants an offset to the trader equal to the excess of VAT on purchases over VAT on sales.

N.B For proper accountability and making use of the VAT system, an entrepreneur should properly keep records of both purchases and sales. VAT does not require a lot of complicated accounting system, it only relies on sales and purchases. This means that an entrepreneur should keep the following records;

- a. The purchases book / file where all purchases tax invoices are kept.
- b. The sales book / file where all sales tax invoices are kept.

A tax invoice is a document that gives the description of the goods supplied, their values, VAT charged and total value of goods to be supplied. They determine the amount collected by the supplier and VAT charged.

- c. cash book / receipts that show all goods bought or sold on a cash basis and charged on them.
- d. VAT returns should also be prepared on a monthly basis to show the VAT collections and remittances to URA

All these records are collected and checked by the VAT inspectors.

20.4 BUSINESS LAWS IN UGANDA

Different businesses laws have different applications / intent and purposes, they are normally set up to regulate the business operations, e.g protecting consumers, community, environment and the business themselves. The most common laws include;

- a) Trade licensing Act 1969; As already seen, this requires all businesses to obtain operating license before commencing operations.
- b) The business name registration Act: This states that every individual having a place of business in Uganda and carrying on business under a business name which does not consist the names of the owner, shall be registered under this act.
- c) Company law: This is the law that governs the information, registration, conduct and operations of businesses in Uganda.
- d) Public Health law: Under this, the ministry of Health needs to check standards and hygiene in bars, restaurants, hotels, etc. it has the powers to close any businesses which does not comply with the set / expected standards.
- e) Food and drug law: The ministry of Health further controls the business to ensure that expired drugs and bad foods are not sold to the consumers.
- f) Weights and measures: This is implemented through the National Bureau of standards where the government ensures that entrepreneurs use approved weight scales and measurements when selling goods to consumers.

- g) Environment law: This is implemented by National environment authority (NEMA) where the government ensures that entrepreneurs' operations do not lead to environmental degradation. It ensures that the business uses the National environment in a sustainable manner and that their operations do not inconvenience other business or the public.

20.5 IMPORTANCE OF BUSINESS LAWS TO ENTREPRENEURS AND CONSUMERS.

- a. The environmental law protects the environment from being misused and over exploited, i.e business should operate within the laid down rules set by the authorities to protect the environment.
- b. Consumers are protected from exploitation by business men, i.e with regard to weights and measures' laws through the use of right weights and measures.
- c. The trade license act is a form of revenue to the government which revenue may be used to develop other sectors like infrastructure that may facilitate smooth running of businesses.
- d. The environmental law protects the society from harmful effects that would result from the operation of some businesses on the environment, like pollution.
- e. The public health law ensures that there is a proper hygiene and sanitation in public places like hotels, schools, hospitals etc.
- f. The drugs law ensures that proper medical standards like qualified Doctors, protection from sale of expired drugs etc.
- g. The food law Act protects the customers from consuming expired and contaminated food stuffs, e.g imported canned food stuffs are highly tested and checked.
- h. The land Act helps people/ entrepreneurs in avoiding land conflicts and also facilitates proper land transfers.
- i. The company law protects the business names and helps in establishing strong brand image in the market which leads to increased profitability.
- j. The employees' Act protects employees from unfair treatment and dismissal from work (protects their rights at work).

20.6 LEGAL CONCEPTS OF BUSINESS CONTRACTS.

20.6.1 Introduction

A contract is an understanding between two or more persons to perform an agreed transaction based on agreed terms and conditions. Such terms include price, quantity, time of performance, place of delivery, etc.

A contract once made, becomes a legally binding agreement made on the contracting parties, it confers right and liabilities on the contracting parties which compel them to perform their part of bargain.

20.7 PARTIES AND TYPES OF CONTRACTS

For a contract to exist there must be legal persons or entities with common interests (who have interest in it) and such persons are referred to as parties to a contract.

These parties have the legal capacity to enter into a contract, for instance adult persons, registered business like co-operatives, limited liability companies.

However, some group of persons or business can not enter into legally binding contracts, for instance;

- a. A minor or person who is under the age of 18yrs cannot enter into a valid contract.
- b. A person of un sound mind can not enter into a valid contract while her or she is in that state of un soundness.
- c. A drunkard cannot enter into a legal contract while he or she is in that state of drunkard ness.
- d. Un incorporated / un registered businesses like partnerships, sole proprietorships, cannot enter into a valid contract (in their capacities as business entities), may be their owners can do it on their behalf.

TYPES OF CONTRACT

1. Oral contracts: These are also referred to as gentleman's agreement, where parties agree to deal with each other without writing down anything. The law doesn't easily enforce such a type of a contract as there is nowhere to refer to on what was agreed upon. This means that where either of the parties fails to perform his or her part of the bargain, the other party stands to lose and may not have enough protection from the law.
2. Written contracts; These are written down and signed by both parties and witnessed by a third party. Examples of such contracts may include, sales agreements, appointment letters, etc such a law is easily enforceable by law.

20.8 ESSENTIAL ELEMENTS OF VALID CONTRACT

1. OFFER: This is an expression of readiness to contract on terms specified by the offer which if accepted by the offeree will give rise to a binding contract. An offer is a proposal made by the offeror on certain terms together with a promises to be bound by the proposal if the offeree accepts the stated terms.
2. ACCEPTANCE: This is a positive response to an offer. This is the agreeing to the terms and conditions set by the other party to whom the offer was made.
3. CONSIDERATION: This is the price paid by one party for the promise of the other . An agreement is legally enforceable only when each of the parties to it gives some thing and gets something. That some thing given or obtained is the price for the promise, and it is called consideration, ie what each side promise to give in exchange
It may be interest, profit or benefit resulting to one party or some loss / responsibility given or undertaken by either parties to the contract.
It is normally the price, which is the monetary value at which parties agree to deal with each other rate of exchange, cost or benefit to either of the parties.
4. INTENTION TO CREATE LEGAL RELATIONS : There must be an intention among the parties that the agreement should be attaché by legal obligations. Agreements of a social or domestic nature do not contemplate legal relations. And as such, they do not give raise to a contract. For instance agreements between husbands and wife also lack the intention to create legal relations and hence do not result into legal contracts.
5. CAPACITY OF PARTIES: The capacity or parties to an agreement must be competent to contract, otherwise it can not be enforced by account of law, in order to be competent to contract, the parties must be of the age of majority and of sound mind.
If any of the parties to the agreement suffers from minority, lunacy, drunkenness, etc, the agreement, is not enforceable by law, except in some special cases.
6. FREE CONSENT: Free consent of all parties to an agreement is also another essential element, i.e parties must agree upon the same thing in the same sense.
7. LAWFUL OBJECT: For the formation of a valid contract, it is also necessary that the parties to an agreement must agree for a lawful object. The object for which the agreement has been

entered into must not be fraudulent or illegal or immoral or must not imply to the person or property of another.

If the object is unlawful or one or the other of the reasons mentioned above, the agreement is said to be void. For instance, when a land lord knowingly lets a house to a prostitute to carry on her business (prostitutions), he cannot recover the rent through a court of law.

8. Writing and registration; a contract may be oral in writing, however, in special cases, it lays down that the agreement, to be valid, must be in writing or and registered, e.g it is required that an agreement to pay a debt, to make a gift for natural love and affection, sales of immovable property, etc must be in writing and registered before they can be legal enforced.

20.9 DISCHARGE / TERMINATION OF A CONTRACT

This refers to the disagreement of the parties from their contractual obligations created by the contract. Its effect is to relive the parties of any further responsibility imposed on them on them by the contract. A contract may be discharged through any of the following ways;

- a) By performance: If the contract is fulfilled as per the agreed terms and conditions, A contract is discharged when each party to it performed to the full satisfaction of the other in accordance with the agreed terms and conditions.
- b) By agreement; since a contract is an agreement, it means that it arises in the first place through agreement by the parties themselves. If the concerned parties agree to discharge it, it can be discharged, i.e so long as they agree to do so.
- c) By frustration: This refers to the condition, that renders the performance of a contract impossible. For instance, war outbreak which creates a hostile environment, renders the performance of most contracts impossible, government intervention may also a contract an end, non- occurrence of an event i.e some contracts, may be base on certain events e.g if it rains, so failure of such an even to occur automatically terminates the contract.
- d) By breach of the contract, It occurs when one of the parties fails to perform his / her obligations in accordance with the contract. It Can be partial or total breach. Partial breach is when only part of the agreement has been fulfilled, while total breach means that no part of the agreement has been fulfilled.

The contract can hence be terminated by the parties involved or the aggrieved party can go to court to seek termination and remedy a s may be determined by court.

- e) Operation OF the law i.e if there is lapse of time, death, bankruptcy of one or both of the concerned parties, then a contract may come to an end or may be discharged.
- f) Destruction of the subject; when the subject matter of the contract is destroyed and ceases to exist, the contract is terminated since it has no basis e.g If agrees to sell his car to B in a week's time, and after a day, it catches fire, then the contract is terminated as the subject matter is destroyed by fire.

TOPIC TWENTY-ONE

21.0 BUSINESS COMMUNICATION SKILLS

21.1 Introduction and definition

Communication is an important aspect in business as an entrepreneur would deal with different parties both within the enterprise like employees and outside the enterprise like public, government, stakeholders, suppliers, institutions, etc.

In order to have dealing / access to such important parties to an organization, one needs to develop an effective communication with them.

Communication is a two way process that involves the transfer of information, ideas and knowledge from one person (Sender) to another (receiver).

21.2 Importance of communication to an entrepreneur / business.

1. helps an entrepreneur to pass on relevant information to his staff, customers, government and public which may be beneficial to the business, e.g informing the staff about the new changes in management and production.
2. Helps in recruiting and selecting workers for the business, e.g publishing advertisements, to those who can send application letters for selection of required staff.
3. Helps The entrepreneur to implement his / her policies by giving instructions to employees or their dealings.
4. Helps in keeping good relationship with his customers and new customers.
5. Helps an entrepreneur in making decisions basing on the informed basis.
6. Helps in creating good understanding between the entrepreneur and his / her employees, i.e through conducting meetings and discussion
7. Helps the entrepreneur to co-ordinate operations of his/ her business that are executed in the different departments.
8. It acts as a measure of managing credit sales and credit purchases in business, hence smooth running of the business.
9. Communication acts as a form of increasing the sale volume and widening the market share, e.g through advertising , printing brochures concerning the business, etc.
10. It is one of means that facilitates the establishment and starting a business, i.e through registering with the Registrar of businesses, one needs an Articles of Association, Memorandum of Association , Certificate of trading and Incorporation etc.
11. Helps an entrepreneur to know what, how much and when his customers need his commodities , i.e through letters of inquiring and purchase orders.
12. Helps the general public to get knowledge about the existence of the business, and its operations which improves on the public image of the organization.
13. It also helps the government and other regulatory bodies to monitor and direct the business operations.

21.3 Essentials of effective communication.

Communication is said to be effective if the message sent is understood in the sense by the receiver as communicated by the sender.

For communication to be effective, it should possess the followings; of effective communication.

- Complete i.e the message should include all facts the receiver needs to know about the subject matter on which communication is based.
- Concise i.e the sender should give the message in the fewest words possible, it should not be too wordy so as not to confuse the receiver.
- Courteous i.e the sender should be sincere when giving the information and should avoid hurting the receiver, however, he/she should not depart or shy away from addressing the issues under concern.
- Correctness i.e information being sent should be as correct as possible.
- Considerate the message should be concrete by being specific and not vague or too general.
- Clear i.e the message should be as clear as possible i.e the sender should choose words and language that is familiar to the receivers.

21.4 Barriers to effective communication

A barrier to communication is any hindrance that stops the receiver from getting the message the way it was sent by the sender. Some of the barriers to effective communication includes;

- a. If the message is not clear or if it is missing the target group, time, venue and purpose.
- b. If the channel of communication is not appropriate, e.g communicating through television media when your target group is blind people.
- c. If the receiver is not interested, e.g if the message is communicated at an inconvenient time, or a wrong target group.
- d. If the environment is not appropriate e.g where there is a lot of noise which obscures one from listening to verbal message properly.
- e. If the message is not attractive to the receiver or the message is not well packaged to attract the listener.
- f. Incompleteness of the message.
- g. If the sender is not considerate in his communication
- h. Using of funny or a language which is not clear to the receiver, e.g a kid saying "am Kawaa" to his parents.

21.5 Methods of communication

Oral communication

This is the use of word of mouth when communicating. either face to face or by telephone, it is a common form of communication in business.

It minimizes the chances of communication break down as parties involved deal with each other directly, by discussing and agreeing at the end there and then.

Visual communication

This is communication by presenting information through the use of diagrams and pictures without necessarily using words, e.g organizational charts, photographs, posters, graphs, pie-charts, etc which may depict different situations in business, e.g business growth, trend, sales and other business trends.

Written communication

This involves writing business letters, memorandum, circulars, reports, notices, bulletins, business manuals, journals minutes, etc.

FORMS OF WRITTEN COMMUNICATION

- a. A business letter: This is a correspondence from one organization to another, where one business may write to another inquiring about goods or services available for sale and their corresponding terms and conditions or another business may write to a customer reminding him of the payments due but not cleared etc.
- b. A memo; This is a written communication within an organization, i.e. it can move from one office to another but within the same organization, for instance the manager may use a memo to inform the employees about a staff meeting which is to take place on a stated date, etc.
- c. Circulars ; These are written documents given to different people but having the same information, this document is prepared and then duplicated, photocopied and copies are circulated to their specified designation, e.g. the head teacher of the school normally prepares circulars to be taken to the parents at the end of term.
- d. An action / circulation slip. This may be used by an entrepreneur to inform the named personnel, i.e. if one person receives the document, reads it and passes it on to another person names on the slip.
- e. Reports; These are used by an entrepreneur to give conclusion and recommendations based on investigated facts and situations, for instance the weekly report that shows the business operations and financial performance of the business in the stated week (It is prepared at the end of the week).
- f. Notices; these may be used by an entrepreneur when giving out short messages to concerned persons, for instance a notice maybe a reminder to the customer for payment, intention to sue etc.
- g. Bulletins, business manuals journals, etc these can be used by entrepreneurs to give information about the business operations, products, history/ background of the enterprise and such journals may be given to both customers and potential buyers.
- h. Minutes ; these are documents prepared so as to keep records of the resolutions of a meeting, such minutes could be used for future reference and implementation i.e. basing on what was resolved in the meeting.

FORMS OF VISUAL COMMUNICATION

- a) Organizational charts: These can be used to show the organization structure of the business showing different sections or departments in the business and how they relate or report to each other. This structure / chart is in a hierarchy as it normally moves from the top management up to the lower subordinates.
- b) Photographs: These can be used as illustration of some other information given so as to improve on appreciation and understanding, such photographs are used to advertise the goods and their needs to customers i.e. how they can effectively and efficiently satisfy the needs of customers.
- c) Films or documentaries: These can also be used by entrepreneurs to provide information about the business operations for instance films may show customer care activities, business latest products and their applications, they can also be used for training purposes, documentaries can be used by entrepreneurs to appeal to the target customers and the general public.
- d) Poster and wall charts. These can also be used to represent or illustrate certain information in the business and serve as an important method of advertising and giving awareness to the target groups.

- e) Graphs can be used by an entrepreneur to present information about the performance of the business, like one can use bar chart, graphs, pie charts, etc to compare the sales or profits of different periods and also to show the trend of business performance.

21.6 Techniques of communicating with customers

a) How to present a product?

When presenting a product to a customer, an entrepreneur should;

- Consider customers privacy, convenience, ability to use the product, etc
- Consider the needs of target customers.
- Consider the giving of samples, guarantee, etc to back up the product.
- Consider presentation aides like photographs, catalogues and charts to back up the product.

b) How to bargain with customers?

When bargaining, an entrepreneur should be a good communication, should avoid dominating the customer and should try to give the customer satisfying reasons why the product is being sold at the offer price, may also give counter offers like reduction in price, delivery services, etc.

c) How to give personal attention to customers?

In order to give personal attention, an entrepreneur should understand the needs of customers and come up with those products that satisfy them i.e the products need to be at the right price, right, quantity, should be given the right promotion and in the right place and at the right time in order to meet the need customers identified by the entrepreneur.

d) How to follow up orders from suppliers

The entrepreneur should make sure that he has the physical address and postal address, telephone numbers and all other contacts, you can make other methods of contacts as you follow up your order like writing a reminder letter.

e) How to collect overdue accounts?

Sending polite reminders to customers with over due accounts and suggesting the dates for settling the debt.

If no response is received within the specified time, a more strong worded reminder should be sent.

If recovery is not affected, employ courts of law for those debtors who stubbornly fail to pay.

f) How to handle difficult customers?

In order to handle difficult customers, an entrepreneur should;

- Acknowledge and evaluate customer objections fairly
- Listen carefully to the words being used and feelings being expressed.
- Leave the customer to be open such that you can understand the basis for his being difficult. The customer may raise some important points.
- As you to convince the customer from your point of view, hold your agreement until the customer agrees with you.
- Compensate customers by price reduction or refund or replacement of the goods in case the previous ones had a problem like being damaged or expired.

21.7 Writing business letters and memos

- a) Business letters: This is a correspondence used to send information from the business organization to an individual or another business organization.

Elements of a business letter

A business letter must be clear, complete, timely and be able to promote the image of the business organization.

Parts of a Business letter

A business letter should have the following parts

- A letter head: This is a paper having the heading of the organization, address, telephone contacts e-mail and any other relevant information about the organization like the nature of the business.
- Reference ; This is used to assist in identification of the subject matter and to whom the letter is being written, the way of referencing depends on the organization. It can be done either on the basis of address, department, the subject, month etc E.g HR / 08/08/1.2. This means that the letter comes from the Human Resource department, written in August 2008 and it is the second letter (L2)
- Date: This is an important part of a letter , it can be dated as 21st Jan 2008 or Jan 21st 2008 or 01-01-2008.
- Inside Address: This shows the name and address of the person / organization the letter is being addressed to.
- Salutation: This is a general greeting used to commence a letter e.g Dear Sir/ Madam (this is commonly used if the letter is addressed to an organization or to some one you do not know) or a personal name can also be used , e.g Dear Mark.
- Subject heading: This gives a brief indication of the content of the letter. It should be in capital letters or bold prints e.g “ APPLICATION FOR A JOB”
- Body of the letter: This gives information to the receiver, paragraphs are used to show different ideas in the letter.
- Complimentary close: This is a general closing to the letter, the common close is “ yours faithfully” if “ Dear sir/ Madam”
- Signatory: All businesses letters should be signed.
- Name of the sender and title; This is the person who has written the letter, it should be indicated at the bottom of the letter and his / her designation must be indicated like “ Human Resource Manager”.
- Enclosures ; If the letter has any other document enclosed or attached, it should be stated by using the abbreviation “ encl”.
- Copy; A copy of the letter should be kept in the file or to be distributed to different officers concerned, who may need to know about the information communicated.

Format of a Business Letter

There are two formats used i.e the blocked style and the indented style . Most organizations use the modern one which is the blocked style.

With the blocked style, all parts of the letter begin from the left margin as shown on the next page.

SHAMBOMBO STATIONERS LTD

P.O BOX 72970, KAMPALA

TEL:0712-871123

L2 /M /02/08

02nd Feb,2008

**The Purchasing Manager
Angelina Book Shop,
Mukwano Arcade**

DEAR Sir,

RE: QUOTATION

This is in response to the inquiry you made from my office dated 21-01-2008 about our supplies.

Enclosed is a list of all our supplies you requested for and their prices, plus all their related discounts.

I will be grateful to receive an order for the selected items from you.

Your faithfully,
Kakooza Humphrey
Marketing Manager

"Encl." stationery supplies list

An indented style is the traditional format where the date and reference are on line, the inside address and salutation are blocked, subject heading is centered, paragraphs are indented, the complimentary close, name of the sender are also centered as shown below.

SHAMBOMBO STATIONERS LTD
P.O BOX 72970, KAMPALA
TEL:0712-871123

L2 /M /02/08

The Purchasing Manager
Angelina Book Shop, Ltd
Mukwano Arcade

DEAR Sir,

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Your faithfully,
Kakooza Humphrey
Marketing Manager

b) Memorandum: This is always abbreviated as “memo”, It is an internal communication, a written message with in the same organization or branch of an organization.

(i) Parts of memo

- From: This shows where the memo is coming from;
- To: This shows where the memo is addressed.
- Date: This is the date on which the memo was written
- Reference: This is done depending on the convenience of the organization
- Subject: This shows the details of the content of the memo in paragraphs.

N.B Unlike the business letter, the memo has no salutation, nor a complementary close. Format of a memo is shown below.

MEMO

TO : All employees in all departments
DATE : 20th -Jan-2008
REF : DD / KB /08 / 03

I wish to inform you that there will be a staff meeting on 27th -Jan- 2008, Thursday at 2 pm. The issues to be discussed upon are very crucial and you are required to attend in person and please keep time.

- N. B** The memo can also be in blocked style where all parts are on the left margin or an indented style where paragraphs are indented and “From” and “Ref” are on one line while “To and Date” are also on one line as the case with business letters.

TOPIC TWENTY TWO

22.0 INSURANCE IN BUSINESS

22.1 Introduction and definition

All businesses (both small and big) face a lot of risks which cause losses to the business, however if all these risks are anticipated, an entrepreneur may safeguard his business by dealing with companies / institutions that give compensation in case an event that was agreed upon occurs.

Insurance is a form of a contract where one party (insured) agrees to pay a sum of money to another party (insurer) on the happening of a certain event and the latter agrees to pay (through compensation) the insured to indemnify them from the loss.

22.2 Some common insurance terms used

- a. Insured: This is an individual or a firm seeking insurance or that is promised to be compensated by the insurance company in case a loss arises.
- b. Insurer: This is a company granting the insurance policy, i.e. it accepts to manage the pool and compensate the insured in case a loss happens.
- c. Pooling of risks: This is where several individuals or businesses that are exposed to a particular risk pay a small amount and money paid by all the firms of individuals is collected pool (money which was collected by the businesses / individuals).
- d. Premium: This is the amount of money paid by the insured to the insurer as a consideration to the very small proportion of the total value that the insurer stands to lose.
- e. Risk: This is an anticipated occurrence in future or an event against which the insurance is taken out, but the time of occurrence is not known to both parties (i.e. the insurer and insured).
- f. Loss: This is the occurrence of an event against which insurance was taken out. Like if one insured his house against fire and the house is later destroyed by fire, then loss (of a house) is said to have occurred.
- g. Sum insured: This is the value of the property insured, as stated by the insured at the time of applying for insurance.
- h. Proposal form: This is a document issued by the insurer to the person intending to become insured, which he/she fills to show the details of the insurance policy needed and the property to be insured against.
- i. Cover note: This document is issued by the insurer to prove that the insured has paid the premium accepted. It acts as a proof of payment until the insured is issued a policy.
- j. The policy: This is a document that contains the terms and conditions that both parties agreed upon in the contract, it proves that premium has been paid and the insurer is ready to compensate in case an event happens.
- k. Claim form: This is a form that an insured fills and presents to the insurer in an event of a loss happening, it shows full details of the loss.
- l. An underwriter: This works on behalf of the insurer and his/her work is to assess and analyse the loss of the insured.

After assessing, he is responsible for either accepting or refusing the nature of the risky given to him so as either the insurer to compensate or not to do so.

N.B A risk is a possibility of undesirable event occurring. It is the event against which insurance is taken out.

Insurable risks are controllable risks and can be legally insured like fire, accident, theft, etc.

Non-insurable risks are risks that are illegally insured and in an event of happening, the insurer cannot be legally compelled to compensate (they are uncontrollable), e.g. acts of war, floods, lightning or thunder, drought, etc.

Therefore an entrepreneur is supposed to take out insurance against only those risks that can be legally insured.

22.3 Principles of insurance

a) Indemnity

An insurance contract is not aiming at making the insured benefit more nor making him lose. It is a contract of indemnity, i.e. an insurer only compensates for loss suffered and only that. It actually stresses that after compensation, the insured should be left in his / her original financial position (i.e. his / her position before the loss or before the risk happened).

However, this principle is inapplicable to death since life cannot be calculated in financial terms; thus life assurance is referred to as benefit policies since they cannot be indemnified, but only pay a certain benefit if the insured event occurred.

b) Insurable interest

This states that insurance can only be undertaken by the person / people who will suffer the financial loss if the event occurs against which he has insured. Thus one cannot insure a friend's property since in an event of risk occurring, he will not suffer the financial loss.

For instance, if Mukasa and Musoke are owning a car worth 5,000,000 Shs., each is said to have an insurable interest of 2,500,000 Shs.; thus in an event of a loss as a result of an insured risk, Musoke can only claim 2,500,000 Shs. but not 5,000,000 Shs.

c) Utmost good faith

This requires the person seeking for instance to give all the relevant information and material facts about the property being insured in order to help the insurer in assessing and calculating the premium accurately.

This means that if the insured hides some information, and the insurer discovers it later, he has the right not to pay the insured for the claim.

d) Proximate cause

This principle states that for one to be compensated, there must be a fairly close connection between the cause of a loss and the actual risk insured against. For instance, if one insures his building against destruction by floods and later the building gets destroyed by just heavy rains and hail storms, the person cannot be compensated.

Again, if one insures his car against fire, but the car gets involved in (an accident) is not directly related to the risk insured against (fire).

e) Subrogation

This states that in an event of a loss occurring and the insurer has fully settled an insured's claim, the insurer acquires the rights that the insured has in the property destroyed.

For instance, if a car is involved in an accident and the insured is fully compensated, the wreck (Scrap) of the car becomes the property of the insurer who may do anything he wants with it.

22.4 Insurance and gambling

Most of people have a misconception that insurance is similar to gambling, giving a view that in both cases, a big number of people contribute small amounts and at the end of it all, only a few or one person takes a bigger amount contributed by the many.

However, there are quite a number of features that differentiate gambling from insurance and these include;

- a. Insurance aims at helping the unfortunate / unlucky ones, but gambling makes the lucky ones improve their status.
- b. Insurance is legally practiced and accepted, but gambling practices are illegally accepted.
- c. In insurance, the event insured against may or may not happen, however in gambling the stipulated event must happen so as to decide the winner / lucky one.
- d. There are some formalities needed when undertaking an insurance policy, like documents that have to be filled and signed, this does not happen in gambling.
- e. In insurance, one must have an insurable interest in the property he is insuring, however, in gambling such a condition does not exist.
- f. In insurance, money (premium) is normally paid in installments until the whole premium is accomplished, however, in gambling it is paid once and taken once.
- g. In gambling, all contribute money to the game, but in insurance, one party (insured) contributes the money.
- h. In insurance, one never loses nor gains i.e. when a person pays the premium, he/she does not gain but only recovers his loss. (restored to his original position), however in gambling, one either loses or gains, i.e. money is taken without any service offered or one gets money without giving any service in return.
- i. Insurance is of great help to entrepreneur since it provides confidence of the property / business survival, whereas gambling is only a loss to the society.

22.5 Types of insurance policies

- a) Personal insurance / life assurance: This may involve whole life policy where one pays premium and in an event of death, the insurer pays the beneficiaries of the dead, also an entrepreneur may insure the life of his debtor, such that in the event of death, the insurer will pay him/ her the agreed amount owed by the customer.
- b) Fire insurance: This policy protects an entrepreneur's business against loss arising from fire outbreak, like compensation for the loss of business property and stock.
- c) Theft and burglary. This policy may be taken by an entrepreneur to protect from loss arising out of theft or burglary of the business merchandise, property, etc
- d) Loss of profits: This policy will insure an entrepreneur against losses arising from operational losses in business operations. In this, an entrepreneur will be compensated to an agreed percentage of the loss suffered.
- e) Motor Insurance: This will involve taking a comprehensive motor insurance which would cover the insured's car against fire, accidents, theft etc. This is more preferable, as it offers more protection and more chances of compensation but it is again expensive due to higher premiums paid.

There is also a compulsory policy in Uganda termed as Third party insurance which will compensate any other person who may be affected by the insured's vehicle, like if an insured vehicle gets an accident and pedestrians are also hurt, this policy will compensate the pedestrians (being the third in this case)

- f) Money in Transit: This is taken out to insure an entrepreneur from the risk of loss, when money is being moved from one place to another, like if one is moving huge sums of money abroad to buy some merchandise, this policy may be taken to protect it is its in transit.
- g) Employers; liability or workmen's compensation: This policy insures against workers who may get injured at the workplace, like if a machine breaks an employee's leg accidentally, here the insurer takes the responsibility of compensating the worker but not an entrepreneur / business.
- h) Machinery break down and consequential loss. This policy maybe taken by an entrepreneur to protect him against loss arising from machine break down and consequential loss, such loss will involve reduction in production and loss in time and such a loss will be covered by the entrepreneur.
- i) Marine insurance: This involve marine cargo insurance that protects goods being transported on water by a water vessel, it also includes marine hull insurance that covers the ship owner against loss or damage to the vessel and other legal liabilities incurred towards third party and passengers.
There is also a transit insurance cover that an entrepreneur may take when transporting his merchandise / goods by road to protect them against loss arising due to accidents, fire thefts, delays etc.
- j) Aviation insurance: This policy is taken out to protect an entrepreneur against loss arising from personal accidents and cargo damages due to aircraft (by air transport).

22.6 Importance of insurance to an entrepreneur

- a. In case of a loss that may arise during the business operation, the insurer will help an entrepreneur to restore him/her to his original position hence continuous production is facilitated.
- b. It encourages an entrepreneur to take on highly risky ventures, since he /she is assured of protection and such ventures lead to increased profits since the higher the risk, the higher the profits.
- c. Insurance encourages / promotes an entrepreneur's savings since he has to save so as to pay the agreed premium and thus promotes future investments, like if one takes on an endowment policy.
- d. Insurance companies provides employment opportunities to numerous people like assessors , brokers hence increasing their incomes that could be saved and used after wards to set up other business opportunities , or to buy an entrepreneur's products for consumption and improving status.
- e. Revenue / profits collected by these insurance companies could be used to provide social services to the public as a way of marketing their service, like infrastructural development and such developments could be a benefit to an entrepreneur's activities like facilitating trade.
- f. An entrepreneur is assured of his business continuity, since he will be compensated in a n even of loss , this gives him/her confidence, provides him with stable income leading to growth and expansion of the business.
- g. Money that is being collected in a pool by the insurers sometimes given out to potential entrepreneurs to start or set up business ventures in form of loans, so insurers could work as a source of capital to entrepreneurs which may be given out at relatively low interest charges compared to banks.

22.7 Steps taken when taking out an insurance policy

An insurance policy is a document that shows the relationship(contract)between the insurer and the insured. After identifying the insurable risk an entrepreneur is wishing to be covered against, he/she then looks for a reputable insurance company to cover the risk and there after the following steps are taken;

- a. Filling a proposal form: Here an entrepreneur approaches a selected insurer and fills a form, the form contains personal details of the entrepreneur, policy required and any their relevant information , however, an entrepreneur should follow the insurance principles when filling it to avoid problems.
- b. Calculation of the premium: This will depend on the nature of the risk to be insured, the value of the insured property, duration of the insurance cover and the company policies. There after the premiums are calculated to be paid either in lumpsum or installments.
- c. Cover Note: After paying the assessed premiums or installment, an entrepreneur is issued a cover note to indicate that the first premium has been paid and in case of loss arising out of the insured risk, the insurer will be compensated.
- d. Issuing an insurance policy: Depending on the company policies, after stated period like a month, an entrepreneur will be issued an insurance policy, this document represents a contract between the two and confirms that an entrepreneur has paid or agreed to pay premiums at specific period and the company has agreed to compensate him/ her in case of a loss arising out of the insured risk.
- e. Compensation: In case a loss arises, the basic requirements are filled like police report, the insured presents it along with a copy of the completed claim form, plus evidence of ownership. There after the insurer assesses the extent of the loss and thereafter a survey is made to confirm the loss, however all this done basing on the insurance principles like proximate cause and others, after that the insurer assesses the extent of the loss and thereafter a survey is made to confirm after that the insurer pays due compensation to the insured.
- f. Termination of policy: After paying the compensation , this implies the end of the contract and hence leading to termination and may be a fresh contract may be entered into again, i.e between the insurance company and the insured to protect the property being compensated again.

TOPIC TWENTY THREE

23.0 CASH AND CREDIT TRANSACTIONS IN BUSINESS

23.1 Introduction

A business transaction refers to any business dealing that involves that involves the exchange of goods for money, exchange of goods or goods for services and may also involve lending money with promise to pay back with or without an interest, etc .

There are Marjory two forms of transactions;

- a. Cash transaction: This Involves two parties where one party exchanges the goods with another in return for immediate payment, i.e payment for the goods or services is doe at the time when the goods / services are given out.
- b. Credit transaction: This transaction occurs when one party exchanges the goods with another party but payment for these goods/ services is effected at a later date i.e the recipient of the goods / services promises to pay for them at a later date which is usually specified. More details will be seen in the next topic (Financial management)

23.2 Selling on cash or credit

Cash sales: This is when goods or services are sold and payment for them is effected there and then, i.e the sale of goods correspond with immediate payment for them.

Credit sales: This occurs when goods or services are sold off but payment for them is expected at a later/ future date i.e both parties (buyer and seller agrees on when payment will be made) (see next topic for details).

REASONS FOR SELLING ON CASH BASIS

It would be much better for an entrepreneur to sell the goods / services on cash basis due to the following reasons;

- a. It helps an entrepreneur to get cash to be used in meeting immediate cash requirements, like buying the required raw materials.
- b. Items with low or less value need to be sold off on cash basis since such items are always attached with little profits, so one will only accumulate such profits if he makes cash sales.
- c. If The business is running short of cash, it is advisable to sell its products on cash basis so as to make cash available to the business again.
- d. It is better to sell on cash basis where buyers are from unknown places or are not so common to the business like foreigners, travelers who may be difficult to trace in case they take goods on credit.
- e. It reduces costs involved in credit sales, like time taken to recover the money, documents involved when recovering the cash like invoice, statement of account, proforma invoice, etc.
- f. It helps to reduce losses in business that commonly arise out of bad debts and irregular debt repayment.
- g. It reduces administrative expenses that are associated with credit sales and debt management like hiring credit officers to locate and collect these debts.

REASONS FOR SELLING ON CREDIT

An entrepreneur would also carry out credit sales basing on the following arguments;

- a. It leads to repeated purchases by the customers, i.e credit sales encourage customers to come back always and buy a business that offers credit facilities.
- b. When the value of sales is high, a business will attract more customers to buy the products through credit selling as it may be difficult for some to make cash payments for such high valued goods.
This is why big companies like Spear motors allow hire purchase system so as to sell high valued mercedes Benz .
- c. It increases the volume of sales since customers will be encouraged to buy more of the products on credit and hence increased sales volume.
- d. This system attracts a lot of new customers who may be willing to enjoy the credit facility, this also leads to more sales and consequently increased profits.
- e. It is a form of out competing the business rivals, it has been analysed that businesses that offer credit facilities to their customers have a competitive advantage over those which do not have such a facility.

DISADVANTAGES OF SELLING ON CREDIT

However, good credit selling also has a number of disadvantages to the businesses and among which are;

- ❖ Some debtors may take long to pay and this may lead to shortage of cash in business.
- ❖ Some debtors may completely not pay at all and this causes a big loss to the business due to the emergency of bad debtors.
- ❖ In case a customer who bought on credit dies, it may be difficult to recover money owed and taking out an insurance to cover such the debtors means an additional cost to the business.
- ❖ Credit sales reduces the working capital of a business as it tied up in credit sales and this may cause cash flow shot falls.
- ❖ It increases the administrative costs of the business through collecting payments from these debtors it is costly and time consuming when collecting these debts.
- ❖ In case of inflationary periods, credit sales lead to loss in value of money since debtors spend time with money and buy the time they pay it, it will have lost some values.

23.3 Management of cash and credit transactions

a. Management of cash sales.

In order to properly manage the cash sales of the business, an entrepreneur should ensure that;

- Cash paid in business should be properly counted and checked to ensure that it is correct i.e that it is the required amount.
- All cash sales should be recorded in the necessary books , as we shall see in the next topics.
- Cash should be properly kept in locked in drawer / safe all the time for security reasons.
- In case of installment payment, cash balances outstanding should be properly recorded.
- The records of cash sales and physical cash should be reconciled at the end of each business day.
- All records of cash sales should be banked intact and no daily basis.
- Cash receipts, cash sales slips, cash vouchers, etc should be regularly used.

b. Management of credit sales

credit sales in business should be highly taken care of and there should be proper accountability and management of such transaction in business if they are poorly managed, they may cause a big loss to the business.

In order to carry out proper credit selling, an entrepreneur should make sure that the following management measures have been put in place.

- a. There should be a expert to approve credit sales ands the specific amounts to be sold out must be made known to all business staff.
- b. There should be proper documentation of credit sales and evidences to prove the sales must be in place like invoice , delivery notes to show that goods have been sold on credit and delivered as received by the customer.
- c. All credit sales must be properly recorded, totaled and well posted in the debtors ledgers or sales ledgers at the end of the day to show details of the customers who have taken goods on credit for proper follow-up at a later stage.
- d. All debtors should be followed up to ensure that they pay the entire amount they owe to the business on time.

- e. In case a debtor pays, cash received should be properly recorded in the cash book, the access of debtors should also be adjusted for the amount paid to avoid the risk of billing for the amount already paid.

N. B All these measures will be dealt with practically in the next topic of book keeping.

CREDIT PURCHASES

This is situation where an entrepreneur obtains goods or services and pays for them at a later or future date, for instance getting . buying raw materials from a supplier on credit.

ADVANTAGES OF CREDIT PURCHASES

- a. It is a source of funding (working capital) for the business (buyer) as a business can access and use the goods and services it has not paid for.
- b. It encourages an entrepreneur to save and pay for the goods or services bought, i.e he will have to work hard so as to pay the creditors in an agreed time to maintain a good image.
- c. It maintains a good relationship between the entrepreneur (purchases) and the supplier

DISADVANTAGES OF CREDIT PURCHASES

Normally goods or services bought on credit are charged highly compared to those bought for cash.

An entrepreneur may be taken on credit, due to the great desire for taking credit purchase, one may fail to have quality goods from suppliers who do not allow credit facilities.

An entrepreneur maybe limited to having a choice of goods from different suppliers, due to the desire to take advantage of credit facilities from a few suppliers.

CREDIT TERMS AND CONDITIONS

credit is usually given out after a greeting on certain terms and conditions, among such conditions are;

- a. Credit period: This is the time allowed / agreed upon within which the debtor has to fully repay the amount owed. This period is always stated on the invoice for reference purposes.
- b. Cash discount: This is a reduction given in the amount owed to the debtor to clear the amount owed promptly or within an agreed period.
- c. Trade discount / quantity discount: This is the reduction made on goods bought on credit to entice or encourage a debtor to take goods in large quantity, for instance a supplier may say if you take one carton of salt you pay 10,000 shs, but if you take 5 cartons , you pay 9,700 shs, so the difference of 3,000 shs is the trade discount.

23.4 Obligations of a Debtor and a creditor

a. Obligations of a debtor

A debtor is a person who buys on credit from an entrepreneur, i.e takes / obtains the goods / services and promises to pay for them at future date; he may also be defined as a person who owes money to the business. The obligations of the debtor include;

- He/she should pay within the time stated in the terms and conditions of the agreement of sale.
- He/she should maintain good business relationship with the supplier like making repeated purchase.

- He/she should relate well with the seller even during the time the credit period is still running.

b. Obligations of a creditor

A credit is a person who sells his goods / services without receiving immediate payment, i.e the buyer has to pay him/her for the goods at a later date.

The obligations of a creditor include;

He/She should always send polite but firm reminders to his / her customers, to pay up the outstanding amounts due.

He/she should show patience and understanding of his/ her customers, for instance in case a customer informs him of the loss of goods in transit, they should come to an agreement and may be extend the credit period.

23.5 Negotiating business transactions

Negotiation refers to the process of exchange views, options and information between parties with a view to reach a mutually acceptable position. Negotiation takes place in different business avenues, like when bargaining over terms and conditions of employment, selling or buying, pricing of goods/ services, acquiring loan, winning a tender etc.

In order to carry out or achieve proper results from negotiations among parties, an entrepreneur should observe the followings.

- Before you enter negotiations, define your goals which will assist you to know what you want and to approach the negotiations with information to support your position.
- Before you start negotiations, try to get information from other suppliers like if you are to negotiate with a supplier, try to get information from other suppliers like their prices, quality and quantity and other terms.
- You should know your strength and weaknesses in business negotiations, e.g determining future trends, quick calculations, convincing language, etc. This will help you to minimize your weakness and make more use of your strong points (strength).
- Negotiating is like acting, so one should make practice or rehearsal in what he will say you plan prior how to respond to various tactics or questions, but this doesn't call for cramming, it is all about understanding well the subject matter to be discussed upon.
- Assuming that you are to approach a given supplier of the raw materials needed by your business.
- Clearly point out the key areas where you need to put much emphasis during your negotiation.

TOPIC TWENTY FOUR

24.0 BOOK KEEPING AND FINANCIAL MANAGEMENT IN BUSINESS

24.0 PART A

24.1 Introduction and definitions

An entrepreneur may be do good in all aspects of business operations, however if he/she cannot keep track of all the dealings of transactions that happen in his business, the business will not survive proper tracking could only be done if the entrepreneur is having the skills of how to record these transactions in their proper order, process them well so that they can portray the right financial position of business which in turn will help him or the concerned parties to make proper decisions.

It is a part of a accounting in that accounting goes beyond and analyses, interprets these summarized transaction in order to carry out decision making: This means that book keeping is a sub set of accounting.

24.2 Importance of book keeping

- It acts as tool of management and control, from the information provided by the books, entrepreneur can make good decisions concerned with the development of the business.
- It acts as a ready reference wherever information is required.
- It provides information on which one can determine whether the business is making profits or not.
- It helps the government in assessing taxes, as the tax to be charged will depend on the performance the business (profitability).
- It also acts as a ready reference whenever sales or purchases are made in business.
- It helps in easy dealing with creditors and debtors, these can be handled and cleared in time if they well recorded in.
- It helps potential investors in analyzing the financial position of the business so as to make decision whether to join or invest in it.
- Facilitates Easy access to loans from financial institutions, as they will insist on looking at the record to verify the performance of the business.

24.3 Users of accounting information

(A) INTERNAL USERS

Management ; these need accounting information in order to make decisions and controlled decisions.

Internal Auditors; These require accounting information so as to ascertain whether the book of accounts have been well prepared and detect fraud or errors.

Employees; These require information in relation to profit sharing for a better pay, job secure i.e knowing whether the business it still strong enough to continue existing.

(B) EXTERNAL USERS

Creditors; they need it to know the credit worthiness of the business i.e whether it is capable paying its debts and to determine the amount of credit that can be given to the business and credit period it can allow.

Investor; These may wish to know the position of the shares in the firm and see whether it is making profits or not.

Government: The government requires evidence of the business transactions in terms of sales, investment and liquidity for purposes of taxation.

Donors: Donors would be very much willing to know the financial position of the business before giving any assistance.

Banks or Lenders: These would wish to know whether the business will be capable of catering for debt obligations in an agreed period of time. E.g interest repayment, principle repayment as the debt matures etc.

The general public: The community would wish to know the financial position of the business and to know the extent to which the business is concerned about their welfare, provision of employment opportunities etc.

N.B Book keeping information is very important to both entrepreneur and management in decision making so as to manage the business property. Such information could be used to determine;

- Whether to expand the business or introduce a new product so as to get new customers and increase the market share.
- Whether to apply for a bank loan in order to acquire more capital assets or working capital.
- Whether to increase or reduce the price of the products in order to increase profits.
- Helps in keeping track of business creditors and pay them as per the agreed terms and conditions, and if possible to enjoy the discount offered.
- The amount of tax payable is based on the performance of the business and this can be determined by the information in business records.

24.4 TYPES / METHODS OF BOOK KEEPING

1. Single entry book keeping

This is a system of book keeping where the recording of transaction (entries) is done only when cash is received or paid out by the business. This payment may be cash or by cheques.

This system is outdated and common in small businesses especially retail businesses where most transactions are on cash basis and in small amounts. This means that it is unsuitable for large businesses who transactions are not necessarily effected on a cash basis.

2. Double entry book keeping system

This system is based on the fact that every business transaction has two effect ,i.e one of giving value and another of receiving value.

This means that, for every business transaction, there must be two parties or accounts that are being affected where one party or account is receiving while the other is giving.

The principle of double entry system is based on dual concept of recording each transaction twice in the books of accounts. It states that "for every debit entry, there must be a corresponding credit entry and vice versa where the receiver is debited where as the giver is credited.

So in recording business transactions in books of accounts using this principle we;

- Debit the receiver or giver of value
- Credit the giver or receiver of value.

Due to this duality concept of recording business transactions , at the end of it all, the total debit entries must be equal to the credit entries as both sides have similar transactions.

N.B To "debit" is to record the transaction on the left hand side of an account, and to credit is to record the transaction on the right hand side of an account see sub topic 4

24.4.1 Advantages of double entry book keeping over single entry book keeping

1. It facilitates reference to the details of any account if information is needed on any set of transactions
2. It provides reliable information concerning all transactions as it records even amount owing to and by the trader which is not done in single entry
3. It is easy check the arithmetical accuracy of entries through the extractions of a trail balance though it does not show a conclusive evidence of accuracy.
4. It is also easy to prepare the trading profits and loss account in order to ascertain profits or losses as it provides all information concerning the business transactions.
5. It helps in ascertaining the financial position of the business through the preparation of a balance sheet, as it provides information concerning all assets and liabilities of the business.
6. It hinders or reduces fraud as it becomes difficult to make alteration in all accounts.

24.5 AN ACCOUNT

An account refers to a record of where transactions which are similar in nature are kept. It is statement in the ledger, which indicates the dealings with a particular person or item. Business transactions are recorded in an account. It is divided into two equal sides, one side is the debt (DR) and the other is the credit side (CR).

N.B Abbreviations “Dr” and Cr” are commonly used to signify the debit and credit side respectively.

FEATURES OF AN ACCOUNT

- Date column - record the date when the transaction took place
- Details column - records the details of the transactions
- Folio column- records the reference page
- Amount column-records the amount shown in the transaction
- Debit side- records the receiver of value
- Credit side – records the giver of value
- Heading of the account / title of an account.(see below for a format)

With the “T” Account format, both the debits and credits are presented on opposite sides of the same page as shown in table 1 below.

Fig. I “T” format of an account

Dr. (debit)				Cr. (Credit)			
Date	Details	Folio	Amount (shs)	Date	Details	Folio	Amount (shs)
	Receiver of value				Giver of value		

The double entry system has accounts categorized as Assets (like machinery, motor vehicle, furniture etc), liabilities (like creditors), capital, income, and expenses Accounts.

24.5.1 Ledgers

Books of account are kept in the ledger. All creditors for purchases are kept in the purchases ledger, all debtors for sales are kept in the sales ledger, the general (normal ledger) records all other accounts; account for purchases, sales returns, capital etc.

N.B In all assets accounts like cash account, a debit entry goes into the left hand side of the page, any entries on the left-hand side indicate the receiving of value, which leads to the increase in the overall account balance. A credit entry, which goes into the right hand side of an asset account, indicates giving out of the value and therefore a decrease in the overall account balance.

In the case of a liability of capital accounts, the credit side indicates giving of value to the business while the debit side indicates giving of value by the business i.e the business gives out to the holder of the capital or liability account.

Example of recording business transactions in a T-account

- On 1st April 2005, Shambombo commenced business with cash amount to 18,000
- On 5th April 2005 he paid for rent in cash for shs, 2000
- On 8th April 2005, he bought a motor van for cash 4,500
- On 12th April 2005 he sold goods in cash worth 5,000

Following the double entry system of record keeping, the accounts would appear as below

- a) Transaction (a) The capital account gave out shs, 18,000, while the cash account received shs. 18,000.

CAPITAL ACCOUNT

Dr. (debit)				Cr. (Credit)			
Date	Details	Folio	Amount (shs)	Date	Details	Folio	Amount (shs)
				1.04.05	Cash		18,000

CASH ACCOUNT

Dr. (debit)				Cr. (Credit)			
Date	Details	Folio	Amount (shs)	Date	Details	Folio	Amount (shs)
1.04.05	Capital	18,000					

- b) Transaction (b) the cash account gave out shs, 2,000 while the rent account received shs. 2,000

CASH ACCOUNT

Dr. (debit)				Cr. (Credit)			
Date	Details	Folio	Amount (shs)	Date	Details	Folio	Amount (shs)
				5.04.2005	Rent		2,000

RENT ACCOUNT

Date	Details	Folio	Debit (shs)	Credit (shs)	Balance
5.04.2005	Cash				

- c) Transaction © the cash account gave out shs. 4,500 while the motor van account received shs 4,500.
- d) Transaction (d) the account of sales gave out Shs. 5,000 while the cash account received shS. 5,000.

N.B Complete by drawing up of accounts for transactions (c) and (d)

However, if similar transactions appear several times in a business for a stated period of time, only one account should be drawn so that all transactions involving cash are recorded in these. For instance shambombo's cash account could appear as below;

CASH ACCOUNT

Dr. (debit)				Cr. (Credit)			
Date	Details	Folio	Amount (shs)	Date	Details	Folio	Amount (shs)
1.04.05	Capital		18,000	5.05.05	Rent		2,000
12.04.05	Sales		5,000	8.04.05	Motor van		4,500

24.5.2 Balancing of an account

The following steps are followed when balancing off an account

- Find the totals of both debit and credit sides
- Subtract the small total from the bigger one and find out the difference.
- The difference (balance) is recorded on the smaller side so that both sides have the same totals.
- The balance recorded on the small side is known as " balance carried down (c/d) and the same balance is posted on the opposite side as balance brought down (b/d), which will acts as balance carried forward (c/f) to the next period.

N.B If the amount on the debit side of an asset e.g cash is greater than the amount on the credit side it means that the business is receiving more cash than it spends and vice versa.

Example one

Record the following transactions in Kakooza's cash book and balance it off at the end of the month 2008 January

1st started business with cash 10,000

3rd bought goods for cash 3,000

6th cash sales to date shs, 4,500

11th bought land for cash shs, 4,000

14th paid for office expenses in cash shs 1,800

15th paid for stationery in cash shs,2,000

23rd sold goods for cash shs, 4,800

28th paid general expenses in cash shs 2,200

31st cash purchases for shs. 1,500

SOLUTIONS

DR. KAKOOZA'S CASH BOOK FOR THE MONTH OF JANUARY 2008

CR

Date	Details	Folio	Amount (shs)	Date	Details	Folio	Amount (shs)
2008 Jan				2008 Jan			
1 st	Capital		10,000	3 rd	Purchase		3,000
10 th	Sales		4,500	11 th	Land		4,000
23 rd	Sales		4,800	14 th	Off exp		1,800
				18 th	Stationery		2,000
				25 th	Gen. expenses		2,200
				31 st	Purchases		1,500
				31 st July	Balance		4,800
			19,300				19,300
31 st	Balance	b/d	4,800				

N.B: In order to fulfill the double entry principle, these transactions are further shown or posted into the ledger book where the corresponding accounts being affected in each transaction is shown. This would appear as below.

DR Capital Account CR

2008.01.01 cash 10,000

DR Purchases Account CR

2008.01.03 cash 3,000
2008.01.31 cash 1,500

DR Sales Account CR

2008.01.06 cash 4,000
2008.01.23 cash 4,800

DR Land Account CR

2008.01.11 cash 4,000

DR Office expenses Account CR

2008.01.04 cash 1,800

DR Stationery Account CR

2008.01.18 cash 2,000

DR		General Expenses	Account	CR
	2008.01.25	cash	2,200	

24.5.3 Revision questions

Qn.1 Record the following information in Kasodde's cash book and balance off at the end of month 2004,07

1 st commenced business with cash	20,000
3 rd bought goods for cash	8,000
5 th sold goods for cash	5,000
10 th paid for salaries in cash	2,500
15 th paid for rent in cash	1,000
22 nd paid for rates in cash	2,200
30 th cash purchases	5,400

Qn. 2 Record the following transactions in Dorah's cash Account and there after balance off at the end of the month.

2001	Shs.
June 1 st commenced business with cash	13,2000
June 4 th Bought motor van for cash	3,300
June 6 th Bought goods for cash	3,400
June 10 th cash sales to date	5,800
June 13 th paid salary in cash	2,500
June 16 th paid rates in cash	1,600
June 23 rd Bought stationery in cash	2,000
June 28 th cash purchases	3,600
June 31 st Sold goods for cash	6,000

Qn.3. Enter the following transactions in Sylvia's cash book and show the balance's at the end of the month.

2002	Shs.
Jan 1 st balance brought forward	22,000
Jan 4 th bought machinery for cash	6,000
Jan 6 th bought goods for cash	5,300
Jan 10 th cash sales to date	8,000
Jan 15 th paid peter Collins in cash	4,500
Jan 22 nd Received a loan from "Nigiina" in cash	10,000
Jan 30 th cash purchases	3,600
Jan 31 st sold goods for cash	5,000

24.6 SOURCE DOCUMENTS

These are written documents that provide documentary evidence that transaction has taken place or took place. In other wards, they are a proof that a given transaction took place in a business. They include;

a) An invoice

This is a document sent by the seller to the buyer showing a description of goods sold, it shows the quantity, quality, unit price, total price, discounts if any and the latest date when settlement of debts should be effected.

b) Delivery note

This is a document sent by the seller to the buyer, to verify that goods or services have been delivered and the customer (buyer) has received them.

c) Bank statement

This is a document issued by the to a customer for a specified period, showing the details of deposits and withdraws made by the account holder. It also shows interest paid or earned, ledger fees (if any)etc

d) Credit note

This is a document sent by the supplier to the customer to show that there is a reduction in the amount that is owed , it normally happens when some of the goods purchased are returned.

Credit notes can be "incoming credit notes" which are sent by creditors or "outgoing credit notes" which are sent to debtors.

e) Cash receipts

These show how much cash was received by the business and from whom

f) Sales receipts

These show a record of sales made in a given period of time for instance a day.

g) Debit note

This is a document sent by a seller to the buyer to correct an undercharge on an original invoice. It is also called a supplementary invoice. For instance, it can be sent to the buyer who failed to return the packing materials which were not accounted for an original invoice.

h) Purchase order

This is sent by the buyer to show a proof that commitments have been made to buy from a named supplier.

i) Bank deposit slip

It IS a document that confirms that cash or a cheques has been deposited into the named bank account.

j) Payment voucher

It is a document that confirms that payment has been made by the business, amount , purpose of payment, and date of payment, who received and who authorized the payment.

k) Staff files

This shows details on personnel in a business, names, when they were recruited, their obligations, qualification and how much they are to be paid.

24.6.1 Books of accounts kept a business

The common books of accounts used in business include;

1. Cash book
2. ledger
3. petty cash book
4. Purchases day book (purchasing journal)
5. Sales day book (sales journal)
6. Purchases return book (returns outwards journal)
7. Sales returns book (Returns inwards journals)

a) Cash Book

This is a book in which cash receipts and cash payments are recorded. Using the principle of double entry, if a debit entry is made in the cash book, a corresponding credit entry is made in the respective ledger account that has been affected by the transaction and vice versa. As seen already, a cash book has the following parts / columns.

- Date which indicates the date when the business transaction took place.
- Particulars/ details which show from where cash was earned or on what cash was spent.
- Ref/folio which shows the page or account where the corresponding double entry is completed.
- Debit side (Dr), which records the receiving of value.
- Credit (Cr) which records the giving away of value.

A cash book may appear as below;

DR				CR			
CASH BOOK							
Date	Particulars	Folio / Ref	Amount (Shs)	Date	Particulars	Folio / Ref	Amount (Shs)

24.6.2 The two column cash book

When the business expands in size, it needs to adopt a banking system to handle a number of transactions. for instance, receiving of cheques from customers and paying out by cheques , instead of cash, this reduces too much cash at source which could lead to theft, fraud and misuse.

Thus instead of keeping two different cash and bank accounts, it is better to record both the cash and bank account into a single account called a two column cash book.

It is named so because it has got two amount column on each side, the cash column and bank column.

The format of a two- column cash book is as below;

Date	Details	F	Cash	Bank	Date	Details	F	Cash	Bank

Example 1

Enter the following transactions in a two column cash book of Muganga enterprises Ltd for the month of January 2001 and balance off at the end of the month.

1st Jan Sham started business with cash in hand worth 100,000 and cash at bank 850,000

5th received a cheques from Kasozi worth 150,000

7th cash purchases 150,000

10th cash sales 200,000

11th paid Nakatoo by cheques 95,000

15th bought stationery for use in cash 20,000

15th paid rent by cheques 100,000

20th received payment from Agie by cheques 300,000

30th paid Kato by cheques 50,000

SOLUTION

MUGANGA ENTERPRISES LTD CASH BOOK FOR THE MONTH OF JANUARY 2001 DR CR

Date	Details	F	Cash	Bank	Date	Details	F	Cash	Bank
Jan					Jan				
1 st	Capital		100,000	850,000	7 th	Purchase		150,000	
5 th	Kasozzi			150,000	11 th	Nakato			95,000
10 th	Sales		200,000		15 th	Rent			100,000
20 th	Agie			300,000	15 th	Stationery		20,000	
					30 th	Kato			50,000
					30 th	Balance	c/d	130,000	1,055,000
			300,000	1,300,000				300,000	1,300,000
30 th	Balance	b/d	130,000	1,055,000					

b) Ledger

This is a book where all accounts of a business are kept, it is actually the book where the double entry principle is fulfilled. The accounts kept in this book are categorized into the following;

I. Asset Account – those may include (sub- accounts)

- Cash at hand and bank
- Stocks (raw materials , finished goods etc)
- Debtors
- Machines, Equipment
- Motor vehicles, land and buildings etc

II. Liabilities Account

This may include creditors (e.g. suppliers of materials on credit), short and long term loans, arrears due but not yet paid (accruals), payments received in advance (e.g received from customers but not yet supplied the goods)etc.

III. Capital Account

This includes the share capital accumulated profits etc

IV. Income Account

This entails all income received in its operation e.g cash and credit sales, commission, grants etc

V. Expenses account

These include all pre -operating and operating costs incurred in business, they include

- Cost of goods sold (direct labour, raw materials etc)
- Administrative expenses like salaries , rent etc
- Selling expenses like salaries , advertising etc

N.B In order to fulfill the double entry principle, we shall use Muganga's two column cash book to show all the different accounts that are to be posted in the ledger book.

Note the category where each account falls)

DR Capital Account				CR			
Date	Details	Folio	Amount	Date	Details	Folio	Amount
				Jan 1 st	Cash		100,000
				Jan 1 st	Bank		850,000
30 th jan	Bal	c/d	950,000				
			950,000				950,000
				30 th jan	Bal	b/d	950,000

DR Kasoozi Account				CR			
Date	Details	Folio	Amount	Date	Details	Folio	Amount
				Jan 5 th	Bank		150,000
30 th jan	Bal	c/d	150,000				
			150,000				150,000
				30 th jan	Bal	b/d	150,000

DR Purchase Account				CR			
Date	Details	Folio	Amount	Date	Details	Folio	Amount
7 th Jan	Cash		150,000				150,000
				30 th Jan	Bal	c/d	150,000
			150,000				150,000
30 th Jan	Bal	b/d	150,000				

DR Sales Account				CR			
Date	Details	Folio	Amount	Date	Details	Folio	Amount
				30 th Jan	Cash		200,000
30 th Jan	Bal	c/d	200,000				
			200,000				200,000
				30 th Jan	Bal	b/d	200,000

DR Nakato's Account				CR			
Date	Details	Folio	Amount	Date	Details	Folio	Amount
	Bank		95,000				
				Jan 30 th	Bal	c/d	95,000
			95,000				95,000
30 th Jan	Bal	b/d	95,000				

DR Stationery Account				CR			
Date	Details	Folio	Amount	Date	Details	Folio	Amount
Jan 15 th	Bank		20,000				
				Jan 30 th	Bal	c/d	20,000
			20,000				20,000
30 th Jan	Bal	b/d	20,000				

DR Rent Account				CR			
Date	Details	Folio	Amount	Date	Details	Folio	Amount
15 th Jan	Bank		100,000				
				Jan 30 th	Bal	c/d	100,000
			100,000				100,000
30 th Jan	Bal	b/d	100,000				

DR Kato 's Account				CR			
Date	Details	Folio	Amount	Date	Details	Folio	Amount
30 th Jan	Bank		50,000				
				Jan 30 th	Bal	c/d	50,000
			50,000				50,000
30 th Jan	Bal	b/d	50,000				

DR

Agie 's Account

CR

Date	Details	Folio	Amount	Date	Details	Folio	Amount
				Jan 20 th	Bank		300,000
30 th Jan	Bal	c/d	300,000				
			300,000				300,000
				Jan 30 th	Bal	b/d	300,000

24.6.3 Credit transactions

All transactions made in business are not on cash basis, some or most of them are on credit basis. A credit transaction is a transaction where payment for goods and services is affected in future. Such transactions bring into business debtors and creditors.

- Debtors -persons or organizations to whom goods are sold on credit or persons who owe money to the business.
- Creditors- persons or organizations from whom goods are bought on credit. or persons who to whom money is owed in the business.

N.B: Credit transactions do not appear in the cash book but their double entry has to be affected in the ledger accounts as below.

1a) Goods purchased on credit

DR Purchases A/C

CR creditors A/C

b) Cash paid to creditors

DR Creditors A/C

CR Cash A/C

2a) Goods sold on credit

DR debtors A/C

CR Creditor A/C

b) Cash received from debtors

DR cash A/C

CR Debtors A/C

Example 1

The business sell goods for shs. 10,000 to Emmah on credit. The entries will be to Debit Emmah's A/C and credit Sales A/C.

DR	Emmah's A/C	CR	DR	Sales A/C	CR
Sales	10,000			Emmah	10,000

Later if Emmah pays for the goods, the entries would be; debit cash A/C and credit Emmah's A/C

DR	Cash A/C	CR	DR	Emmah's A/C	CR
Emmah	10,000				Cash 10,000

24.6.4 Contra entries

In a two column cash book, the payment of cash into bank and withdrawal of cash from the bank are recorded on the same page but on the opposite sides. These are what we refer to as contra entries. These are what we refer to as contra entries. These entries are indicated by the letter "C" which is written in the reference (folio) column.

The completing of double entry in the same page of a two column cash book is called a "contra entry".

The entries are as follows;

- | | |
|-------------------------|-----------------------------------|
| (a) Cash paid into bank | (b) With drawal of cash from Bank |
| DR Bank account | DR. Cash account |
| CR Cash account | CR. Bank account |

N.B: Money got from business or bank for personal or own use is termed as drawings, and therefore such as transaction is not treated as a contract entry but as a drawing. And this affects capital invested in business.

24.6.5 Revision exercises

Qn1. Mr. Tembo had the following transactions for the month of February 2006

- 1st started a business with 88,000 shs in the bank
- 2nd bought goods on credit from Keneth 760 shs, May 270 shs and Tom 560 shs.
- 5th Cash sales worth shs, 8,700
- 6th paid wages in cash shs, 1,400
- 6th sold goods on credit to Samuel shs, 300
- 7th sold goods on credit to Elias shs 350
- 9th bought goods for cash worth shs 460
- 10th Samuel returned some goods worth shs 150
- 11th bought more goods on credit from May worth shs 570 and Tom Shs. 980
- 12th paid wages in cash for shs. 140
- 13th sold goods on credit to Elias worth shs 230
- 15th bought furniture on credit from supper furniture worth shs. 5,000
- 18th paid May by cheques worth shs. 840
- 21st paid Supper furniture a cheques for shs. 5,000
- 27th Elias paid by cheques for shs. 590
- 28th Patrick lent Mr. Tembo cash 6,000
- 30th Bought a vehicle and paid by cheques 4,000

Required : Prepare the relevant books of accounts using the double entry system, fully balanced

QN.2.

The following transactions relates to Kakaire's business, use them to prepare a cash book, post them in their relevant ledger accounts and then extract a trail balance.

2006 Jan. 1st started business with a cheque of shs. 1,500,000
 Jan. 4th bought goods by cheques with shs. 700,000
 Jan. 7th paid for rent by cheques shs. 120,000
 Jan. 10th cash sales to date 550,000 shs.
 Jan 12th bought goods on credit from Mukosa Shs. 450,000
 Jan. 15th sold goods worth 500,000 shs. and paid by cheques
 Jan. 18th cashed a cheque received on 15th January
 Jan 20th sold more goods for cash shs. 220,000
 Jan. 21st Paid for stationery worth 50,000 cash.
 Jan. 22nd withdrew cash from bank for official use worth Shs. 150,000
 Jan. 24th sold got money from the business for business for his son's birthday worth 200,000 shs.
 Jan. 26th paid Mukosa her credit worth 200,000 shs. in cash
 Jan. 27th sold goods on credit to Musana for shs. 110,000
 Jan. 28th Musana cleared debt in cash
 30th Bought fittings for cash worth shs. 100,000
 31st paid for water bills by cheques for shs. 70,000

QN.3

Enter the following transactions in Lwebuga's two column cash book for the month of July 2000. Post them into the relevant ledger accounts

July 2000

1 st Balances brought forward cash	6,500
	Bank 8,000
4 th bought machinery by cheque	3,900
5 th bought goods for cash	2,300
8 th paid wages by cheques	2,400
11 th cash sales paid direct into bank	2,000
14 th cash sales to date	5,300
18 th paid office expenses by cheques	1,500
22 nd paid lighting expenses by cheques	3,600
25 th withdrew cash from bank for office use	4,500
25 th made purchases by cheques	2,700
25 th paid for rent by cash	1,600
31 st banked cash	2,400
31 st cashed a cheque	3,000

QN. 4

Enter the following transactions in Peter Collins cash book for the month of January 2002, balance it off and post them to the ledger. 2002 Jan.

1 st started business with cash at bank	10,000
2 nd paid for fixtures by cheques	6,600
4 th cash sales	2,250
5 th paid rent by cash	1,400
6 th Mr. Muhindo paid him by cheque	1,880
8 th s purchases made by cheques	3,180

10 th Received cash from Mr. Ajwanga	3,000
12 th paid wages in cash	2,750
14 th Recived a cheques from Ms. Katongole	3,000
16 th withdrew cash from bank for office use	2,500
17 th got money from bank for personal use	5,000
20 th Bought stationery, paying cash	1,000
31 st paid cash into bank	1,050

QN.5

Record the transactions below in a cash book of Muwanga and necessary accounts on double entry system.

Feb. 2002

1 st started business with cash in hand	10,000
2 nd opened a bank account with Crane bank with a deposit of shs.	1,250
3 rd bought Motor van for cash	3,600
5 th Bought goods on credit from Musoke	5,400
8 th cash sales, paid directly into bank	3,300
10 th paid for stationery by cheques	2,800
13 th paid insurance in cash	2,000
16 th cash sales to date	3,500
18 th cash purchases	2,300
23 rd paid Museoke by cheques	3,000
25 th sold goods on credit Owino	2,400
26 th paid for heating expenses	1,000
28 th withdrew cash from bank for office use	2,100
29 th Received cash from Owino	2,400

QN.6.

Record the following transactions in the books of Masagazi and post them in their relevant ledgers, dully balanced off and extract a trail balance.

2003 April

1 st commenced business with cash a t bank	22,500
4 th cashed a cheques for	8,500
5 th Bought premises by cash	3,300
7 th Bought goods paying by cheques	4,000
10 th cash sales to sate	8,500
13 th Bought stationery by cheques	2,800
16 th paid for salary in cash	2,500
18 th sold goods on credit to Ouma	3,400
20 th banked cash	2,000
22 nd bought goods on credit from Musa	4,500
25 th paid for insurance in cash	1,400
26 th Received cash from Ouma	3,400
28 th Paid Musa by cheque	2,600
30 th sold more goods by cheques	6,000
31 st cash purchases	1,500
31 st withdrew cash from bank for private use	5,000
31 st Paid cash into bank worth 6,700 shs.	

QN.7

Enter the following transactions in Kasodde's cashbook, open up necessary accounts in the ledgers and balance them off at the end of the month and extract a trail balance.

March 2002.

1st Kasodde commenced business with cash of 1,300 and in bank 1,500

2nd he bought shop fittings for 160 in cash

3rd He bought goods for cash 300

5th He sold goods and received a cheque of 400

6th He sold goods for cash 150

10th he bought goods for 200 by cheques

15th cash sales 500

17th paid carriage inwards for 10 in cash

20th Hereceived a bank loan of 500 by cheques

22nd He paid wages in cash 20

23rd He paid for electricity by cheques 15

27th He paid for rent in cash 20.

24.7 The petty cash book

A petty cash book is a book in which small expenses in the business are recorded by a specific person (petty Cashier).

Since in businesses, most cash receipts are banked and payments are made by cheques, it needs a business to maintain a certain amount of cash in office to make the various small payments. Thus a separate book known as the petty cash book has to be maintained to record such small disbursements (Expenses).

The type of expenditure made through the petty cash include the following;

- Postage -like parcels, telegrams etc.
- Stationery -like ink, rubber, special envelopes etc
- Traveling -like bus fares, taxis etc
- Office expenses like office cleaning, office tea, news papers etc.
- Ledger -where details of personal accounts are recorded like payment to a c editor.

The imprest system: This is a system where the cashier is availed with a round sum at every start of an accounting period. The much is sometimes known as the cash float or imprest amount. It is a system where the petty cashier is reimbursed with exact amount spent so as to be restored to his original position.

ADVANTAGES OF THE IMPREST SYSTEM

1. Extravagance will be revealed by keeping a watch on the amount reimbursed to the petty cashier each period.
2. The money in hands of the petty cashier is limited to the imprest amount hence difficult to misappropriate it.
3. The imprest amount diminishes in amount as the month proceeds, hence the amount is held for a short period of time.
4. It provides an additional check as the petty cashier is not authorized to make payments without a voucher.
5. The amount of cash on hand plus expenses not re-imbursed must tally with the imprest amount.

FORMAT OF A PETTY CASHBOOK

Receipt	F	Date	Details	Voucher No.	Total payment	Postage	Stationery	Ledger

Example

Enter the following transactions in Tembo's petty cash book having analysis columns for postage, stationery, traveling expenses, office expenses and ledger A/C.

2006 May;

1 st received cash float of	20,000
3 rd paid for bus fares	2,000
5 th bought stamps	1,500
10 th paid for stationery	2,200
15 th paid office messenger	2,300
17 th paid Micheal	3,400
18 th paid for telegrams	1,200
22 nd paid for train fares	1,800
25 th Bought carbon paper	1,000
30 th paid for office expenses	1,500

TEMBO'S PETTY CASHBOOK FOR MAY 2006

Receipt	F	Date May 06	Details	V/ N	Total paymen t	Postage	Stationer y	Office	Travel	Ledger s
20,000		1 st	Cash float							
		3 rd	Bus fares		2,000				2,000	
		5 th	Stamps		1,500	1,500				
		10 th	Stationery		2,200		1,200			
		15 th	Off massage		2,300			2,300		
		17 th	Michael		3,400					3,400
		18 th	Telegram		1,200	1,200				
		22 nd	Train		1,800				1,800	
		25 th	Carbon paper		1,000		1,000			
		30 th	Office expenses		1,500		1,500			
			Total		16,900	2,700	3,200	3,800	3,800	3,400
	c/ d	30 th	Balance		3,100					
20,000					20,000					
3,100	b / d	30 th	balance							
16,900		1 st June	Reimbursemen t							
20,000			Cash float							

The corresponding accounts in the general ledgers would appear as below:

DR	postage a/c	CR
May 30 th		
Petty cash	2,700	

DR	Stationery a/c	CR
May 30 th		
Petty cash	3,200	

DR	office expenses a/c	CR
May 30 th		
Petty cash	3,800	

DR	Traveling a/c	CR
May 30 th		
Petty cash	3,800	

24.7.1 REVISION QUESTIONS

Qn.1 TWINCOH Beauty Salon prepares its petty cashbook monthly with an imprest amount of shs 150,000. By 31st May 2008, the petty cashier had a cash balance of Shs. 28,000 and a cheque was prepared on 1st June to restore the imprest, a summary of petty cash vouchers for the month of June 2008 was as follows;

2008	June	1 st Received cash for the re-imbursement	6,000
		1 st postage stamps and envelopes	2,500
		3 rd Glue and cellotape	12,800
		8 th News paper vendor	25,000
		11 th manager's fuel bills	4,700
		14 th shop cleaning for two weeks	1,800
		17 th Fax to London	10,000
		19 th taxi hire for out door services	50,000
		20 th creams and lotions	15,000
		21 st Barber's wages	27,500
		23 rd Telephone cards	21,000
		25 th Receipt books and invoices	18,000
		26 th cleaning materials	27,300
		29 th detergents (omo and Jik)	3,400
		30 th Telegrams	

Required;

Prepare TWINCOH Beauty Salon's petty cash book with analysis column using the following headings

- Post services
- Stationery
- Shop expenses
- Traveling and Ledger

QN2. Enter the following transactions in Katongole's petty cash book having analysis columns for postage traveling, stationery, office expenses and ledger A/C. A petty cash has a monthly imprest of shs. 25,000. The following transactions took place during the month of June 2005.

2005 June	Shs.
1 st Petty cash balance b/f	8,800
1 st Received re-imbursement to restore imprest	
5 th bought postage stamps	2,200
8 th Bought stationery	1,200
10 th paid for office news papers	1,500
12 th paid telegram	1,800
16 th paid taxi fares	2,000
18 th paid office expenses	1,600
20 th paid for stationery	2,500
25 th paid bus fares	1,000
28 th paid for stamps	1,400
29 th paid for train fares	1,500
30 th paid his supplier Kasodde	2,300

24.8 THE THREE COLUMN CASH BOOK

It is common (for in most) business to reduce a certain percentage from the selling price of an article. A three column cash book is the same as the two column cash book, however it has discount column on both sides i.e debit and credit side called discount allowed and discount received respectively.

A discount is a reduction in the original price of an item or commodity. It is an allowance given to traders on the goods purchased.

(i) Discount Allowed

This is an allowance given by the business to its customers (Debtors) on goods sold to them, it is normally allowed and in order to encourage debtors to pay their obligations in time. Therefore it is a loss to the business.

(ii) Discount received

This is an allowance received by the business from its suppliers in order to encourage prompt payment. This allowance is therefore regarded as an income to the firm.

RULING OF A THREE COLUMN CASH BOOK

Date	Details	F	Discount allowed	Cash	Bank	Date	Details	F	Discount received	Cash	Bank

Example 1

From the following transactions, draw up a three column cash book for the month of February 2006 and balance off at the end of the month

Jan. 2002

1 st Started business with cash at bank	100,000
2 nd Bought goods for cash from Musa 50,000 less 125 discount	
4 th sold goods for cash 60,000 less 2,000 discount	
8 th cash sales to date	30,000
12 th paid Musa Shs. 50,000 by cheques 5% discount	
14 th paid rent in cash	4,000
22 nd withdrew Shs. 30,000 for business use	
24 th sold goods by cheques	50,000
26 th Banked cash	10,000
28 th Bought stationery by cheques	40,000
29 th received cash from were 40,000 less 10% discount	

THREE COLUMN CASH BOOK FOR FEBRUARY 2002.

Date	Details	F	Discount allowed	Cash	Bank	Date	Details	F	Discount received	Cash	Bank
Jan 02						Jan 02					
1 st	Capital				100,000	2 nd	Purchase		1,250	48,750	
4 th	Sales		2,000	58,000		12 th	Musa		2,500		47,500
8 th	Sales			30,000		14 th	Rent			4,000	
22 nd	Bank	C		30,000		22 nd	Cash	C			30,000
24 th	Sales				50,000	26 th	Bank	C		10,000	
26 th	Cash	C			10,000	28 th	Station				40,000
29 th	Were		4,000	36,000							
						30 th	Bal	c/d		154,550	42,500
			6,000	254,800	160,000				3,750	254,800	160,000
30 th	Bal	b/d		154,550	42,500						

24.8.1 Revision questions

QN.1 From the details below, write up a three column cash book, dully balanced as at the end of the month 2007 May

1 st cash in hand	1,000,000
1 st cash at bank	3,000,000
2 nd cash sales	2,000,000
3 rd banked cash received from sales on May 2 nd	
4 th withdrew cash from bank for office use	1,000,000
6 th paid for wages by cash	100,000
7 th paid rent by cash amounting to Shs.	200,000
10 th received a cheques worth 500,000 shs from Kato , less 100% discount	
12 th Paid Okello by cheques worth 400,000 shs less 12 ½ % cash discount	
15 th bought stationery by cheques for Shs.	400,000
18 th paid Umeme bills by cheques for shs.	800,000
20 th cash sales of shs.	1,200,000
27 th banked worth shs.	1,000,000

QN.2 Luwere Peter Collins cash book showed the following balances on 31st September 2003

- Cash column Shs. 22,000 (DR)
- Bank column Shs. 427,000 (CR)

The following transactions took place in the month of October 2003

October 2nd received a cheques from Dembe in full settlement of her bill of Shs. 450,000 less 3% cash discount.

3rd cash sales of shs 180,000

6th received cash from Alice less 5% cash discount in settlement of her debt of shs. 650,000.

8th Banked cash worth shs. 700,000

11th bought stationery by cash shs 12,000

14th paid Dorah enterprises shs. 710,000 by cheques in full settlement of her bill of shs.750,000 as he qualified for a cash discount

15th paid Stellah, an office cleaner half-monthly salary in cash Shs. 45,000

20th Cash sales amounted to shs. 112,000

25th cash purchases were shs. 68,000

26th made personal drawings by cheques Shs. 30,000

27th received a cheques from Nakatooke high school worth Shs. 25,000 as a share of dividends

29th drew a cheques for Shs. 40,000 for office use

Required;

- (i) A three column cash book duly balanced
- (ii) The discount accounts I the ledger

24.9 THE PURCHASES DAY BOOK

This is also known as the purchases journal. It is a book that records day to day credit purchases. It records the names of suppliers and the value of goods that the value of goods that have been bought on credit. It is also gives the details of trade discounts given by suppliers (if any).

The information written in this book is obtained from the purchases invoices and the totals are transferred to the purchases A/C in the general ledger at a specified period usually once a month.

FORMAT OF PURCHASES DAY BOOK

Date	Particular	Invoice No	Folio	Amount (Shs.)

Example

Enter the following transactions in the purchases journal 2005 May.

1st Credit purchases from Musana 4,800
6th Credit purchases from Okello 3,600
16th Credit purchases from Musoke 2,500

SOLUTION

PURCHASES JOURNAL DAY BOOK

Date	Particular	Invoice No	Folio	Amount (Shs.)
2005 may	Musana			4,800
1 st	Okello			3,600
6 th	Musoke			2,500
Totals to be transferred to purchases A/C				10,900

RETURNS OUT WARD BOOK

This is a subsidiary book which records details and amounts of goods returned to the creditors or suppliers. This journal is written up from incoming credit notes. The format is as below.

Date	Details	Credit Note No.	Folio	Amount (Shs.)
Totals to be transferred to returns outward A/C				

24.9.1 Returns outwards book / journal

This is a subsidiary book which records details and amounts of goods returned to the creditors or suppliers.

This journal is written up from incoming credit notes.

Its format is shown below.

Date	Details	Credit Note No.	Folio	Amount (Shs.)
Totals to be transferred to returns outward A/C				

In the general ledger, we record the total of all creditors from the purchases journal. we also record the total of all returns to creditors.

Example

Record the following transactions in Kityo's purchases journal and returns outward journal. Show the individual accounts in the general ledger.

2002 may	Details	Amount (Shs)
1 st	Credit purchases from John	4,800
	Credit purchase from Tom	5,000
10 th	Credit purchases from Fred	3,600
	Credit purchase from Tom	3,000
13 th	Goods returned to John	2,800
	Goods returned to Tom	3,400
17 th	Credit purchases from Chris	4,500
17 th	Credit purchase from Fred	2,400
26 th	Goods returned to Tom	2,000
	Goods returned to Fred	2,600
30 th	Credit purchases from Chris	2,500
	Credit purchase from Tom	3,800

KITYO'S PURCHASE JOURNAL / DAY BOOK FOR THE MONTH OF MAY 2002

Date	Details	Invoice No & Details	Folio	Amount (Shs.)
2004 May				
1 st	John			4,800
	Tom			5,000
10 th	Fred			3,600
	Tom			3,000
17 th	Chris			4,500
	Fred			2,400
30 th	Chris			2,500
	Tom			3,800
Totals to be transferred to purchase Account General Ledger				29,600

KITYO'S RETURNS OUT WARDS JOURNAL / PURCHASES RETURNS JOURNAL

Date	Particulars	Invoice No & Details	Folio	Amount (Shs.)
2004 May				
13 th	John			2,800
	Tom			3,400
26 th	Tom			2,000
	Fred			2,600
Totals to be transferred to returns outward Account				10,800

Purchases ledger (Individual creditor's Account)

DR	JOHN'S A/C	CR
May 13 th Returns out 2,800		May 1 st purchases 4,800
may 31 st Balance c/d 2,000		
<u>4,800</u>		<u>4,800</u>
	June 1 st balance b/d 2,000	

DR	TOM'S A/C	CR
May 13 th Returns out 3,400		May 1 st purchases 5,000
May 26 th Returns 2,000		10 th purchases 3,000
may 31 st Balance c/d 6,400		30 th purchases 3,800
<u>11,800</u>		<u>11,800</u>
	June 1 st balance b/d 6,400	

DR	FRED'S A/C	CR
May 26 th Returns out 2,600		May 10 th purchases 3,600
may 31 st Balance c/d 3,400		MAY 17 th purchases 2,400
<u>46,000</u>		<u>6,000</u>
	June 1 st balance b/d 3,400	

DR	CHRIS'S A/C	CR
May 31 st Balance c/d 7,000		May 17 th purchases 4,500
		May 30 th purchases 2,500
<u>7,000</u>		<u>7,000</u>
	June 1 st balance b/d 7,000	

THE GENERAL LEDGER

DR	PURCHASES A/C	CR
May 31 st total creditors 29,600		May 31 st balance c/d 29,600
<u>29,600</u>		<u>29,600</u>
June 1 st Balance b/d 29,600		

DR <u>RETURNS OUT WARDS A/C</u>	CR
May 3 1 st balance c/d 10,800	May 31 st total credit notes 10,800
<u>10,800</u>	<u>10,800</u>
	June 1 st Balance b/d 10,800

24.9.2 THE SALES DAY BOOK / THE SALES JOURNAL

This is also known as the sales journal. It is a book that records day to day credit sales. It records the names of customers and the values of goods that have been sold on credit. It also shows records of trade discounts (if any) that have been offered to customers.

Information written in this book is obtained from the sales invoices and the totals from the sales journal are transferred to the sales account at a specified period, usually once in a month.

FORMAT OF THE SALES JOURNAL

Date	Particulars	Invoice No. & Details	Folio	Amount (Shs.)
Totals to be transferred to sales A/C				

24.9.3 The returns inward book (sales returns book)

Goods previously sold on credit may be returned in business, this may be due to defectiveness, being the ones not ordered for, goods not being of the correct size, quality and ordered.

So a book where details of goods that were previously sold to customers and later returned in the business is termed as the returns inwards book or sales returns book or returns inwards journal.

Information concerning such details is obtained from copies of credit notes sent to customers who returned the goods.

FORMAT OF THE SALES RETURNS JOURNAL

Date	Particulars	Credit No. & Details	Folio	Amount (Shs.)
Totals to be transferred Returns inwards A/C				

Example 1

Record the following transactions in Gorret's sales day book and returns inwards journal transfer the total to their respective accounts in the general ledger and then open up individual debtors accounts in the sales ledger.

2005 May	Details	Amount (Shs)
1 st	Credit sales to Frank	4,800
1 st	Credit sales to Alex	5,200
7 th	Credit sales to Vianney	3,300
7 th	Credit sales to Mark Junior	2,800
12 th	Goods returned to business by Frank	2,200
12 th	Goods returned to business by Vianney	1,600
17 th	Credit sales to Vianney	2,500
17 th	Credit sales to Alex	3,000
25 th	Goods returned to business by Vianney	1,800
26 th	Goods returned to business by Alex	2,500
28 th	Credit sales to Mark Junior	4,000
28 th	Goods returned to business by Mark Junior	3,300

GORRET'S SALES DAY BOOK FOR THE MONTH OF FEBRUARY 2005.

Date	Particulars	Invoice No. & Details	Folio	Amount (Shs.)
1 ST	Frank			4,800
1 ST	Alex			5,200
7 th	Vianney			3,300
7 th	Mark Junior			2,800
17 th	Vianney			2,500
17 th	Alex			3,000
28 th	Mark Junior			4,000
Totals to be transferred to sales Account				25,600

SALES RETURNS BOOK / RETURNS INWARDS IN WARDS JOURNAL

Date	Particulars	Invoice No. & Details	Folio	Amount (Shs.)
2005 Feb				
12 th	Frank			2,200
12 th	Vianney			1,600
25 th	Vianney			1,800
26 th	Alex			2,500
29 th	Mark junior			3,300
Totals to be transferred to returns inwards Account				11,400

GENERAL LEDGER

<u>DR</u>	<u>SALES A/C</u>	<u>CR</u>
Feb 29 th balance c/d 25,600		Feb 29 th Total debtors 25,600
	<u>25,600</u>	<u>25,600</u>
		March 1 st balance b/d 25,600

<u>DR</u>	<u>RETURN INWARDS A/C</u>	<u>CR</u>
Feb 29 th Total Creditor notes 11,400		Feb 29 th balance c/d 11,400
	<u>11,400</u>	<u>11,400</u>
March 1 st balance b/d 11,400		

SALES LEDGER / INDIVIDUAL DEBTORS' ACCOUNT

<u>DR</u>	<u>FRANK'S A/C</u>	<u>CR</u>
Feb 1 ST sales 4,800		Feb 12 th returns 2,200
		Feb 29 th balance c/d 2,600
	<u>4,800</u>	<u>4,800</u>
Feb. 29 th sales b/d 2,600		

<u>DR</u>	<u>ALEX'S A/C</u>	<u>CR</u>
Feb 1 ST sales 5,200		Feb 26 th returns 2,500
Feb. 17 th sales 3,200		Feb 29 th balance c/d 5,900
	<u>8,400</u>	<u>8,400</u>
Feb. 29 th sales b/d 5,900		

DR	VIANNEY'S A/C	CR
Feb 7 th sales 3,300		Feb 12 th returns 1,600
Feb. 17 th sales 2,500		Feb. 25 th returns 1,800
		Feb 29 th balance c/d 2,400
	<u>5,800</u>	<u>5,800</u>
March 1s sales b/d 2,400		

DR	MARK JUNIOR 'S A/C	CR
Feb. 17 th sales 2,800		Feb 12 th returns 3,300
Feb 28 th sales 4,000		Feb 29 th balance c/d 3,500
	<u>6,800</u>	<u>6,800</u>
March 1s sales b/d 3,500		

24.9.4 Revision questions

QN.1

SEEDS (U) Ltd has the following credit purchases and sales for the month of June 2005

- June 1st Bought 5 sacks of beans at shs. 100,000 each from Okello and Brothers.
 3rd Bought from Isabirye & sons, 10 sacks of maize at shs. 70,000 each
 4th sold to Care Ltd, 2 sacks of beans at shs. 120,000 each and 4 sacks of maize at shs. 80,000 each
 5th Bought from Okello & Brothers, 10 sacks of beans at shs. 90,000 each.
 6th sold to Mbogo Traders, 4 sacks of maize at shs. 80,000 each
 7th Bought from Joy & sons, 5 sacks of Maize at shs. 90,000 each and 4 sacks of beans at shs. 95,000 each.
 10th Bought from Isabirye & Sons, sacks of maize at shs. 65,000 each
 14th Sold to Care Ltd 6 sacks of maize at shs. 80,000 each and to Black Boys, 4 sacks of beans at shs. 125,000 each.
 18th Sold to the following;
 - Mbogo Traders, 10 sacks of maize at shs. 85,000 each.
 - Good day Ltd, 7 sacks of millet at shs 120,000 each
 22nd Bought from the following
 - City Traders, 10 sacks of maize at shs 200,000 each,
 - Joy and sons, 6 sacks of millet at shs. 65,000 each.
 25th Sold to Malibu, 4 sacks of rice at shs 250,000 each.
 26th Bought from Come all Ltd, 2 sacks of beans At shs. 120,000 each and 2 sacks of rice at shs 200,000 each.
 28th sold to black Boys Ltd, 6 sacks of millet at shs. 75,000 each.

REQUIRED

- a) Prepare a purchases Day Book and a sales Day book
- b) Open a purchases and sales account in the general Ledger
- c) Post the transactions in the sales and purchases ledger (draw up individual creditors and debtors accounts).

QN.2

Use the following information that relates to NILE TRADERS LTD for the month of December 2007 to prepare the sales journal, purchases journal, the sales and purchases ledgers and the general ledger.

1 st Credit purchases from Agaba on invoice No. 36.	300,000
2 nd credit purchases from Mamba on invoice No. 37	450,000
3 rd credit sales to Sarah on invoice No. S23	270,000
4 th Credit purchases from Robert on invoice No.38	350,000
5 th Returned goods to Agaba	60,000
6 th Credit sales to Brain on invoice No. S24	210,000
8 th Credit purchases from Jane on invoice No.39	550,000
10 th Goods returned by Sarah	40,000
11 th Credit purchases from Dan on invoice No. 40	600,000
12 th Credit sales to Julius on invoice No. S25	370,000
13 th Credit purchases from Jimmy on invoice No.41	370,000
15 th Goods Returned to Robert	50,000
17 th Goods returned by Julius	30,000
18 th Credit purchases from	
- Dick on invoice No. 42	400,000
- Okello on invoice No. 43	500,000
24 th Credit sales to Ogwanga on invoice No. S26	650,000
25 TH Credit sales to Betty on invoice No. S27	530,000
29 TH Goods returned to Okello	60,000
30 th Goods returned by Betty	30,000

QN.3

Enter the following transactions in Shambombo 's sales, journal, sale returns journal, then post the item to their relevant accounts in the sales ledger and general ledger.

Feb 1st Credit sales to peter Shs. 5800, John shs. 6,700, Kairaki Shs. 2500

Feb 3rd credit sales to Andrew Shs. 7,500, John Shs. 4,500

Feb 9th Goods returned by Peter Shs. 1700, Kairaki Shs. 2,300

Feb 17th Credit sales to Andrew shs. 2,700, Peter Shs. 2100

Feb 20th goods returned inbusiness by John shs. 300, by Peter shs. 400

Feb. 31st credit sales to Kairaki Shs. 3,500, Joshua Shs. 3,000.

QN.4

Enter the following transactions in Anjoga's purchases day book, purchases returns book, transfer the totals to the general ledger and open un individual creditors account in the purchases ledger.

2000 October	Details	Amount (Shs)
2 nd	Credit purchases from Muhindo	3,800
2 nd	Credit purchases from Kiyaga	4,900
7 th	Credit purchases from Musanje	3,200
7 th	Credit purchases from Mukoda	5,300
12 th	Goods returned to Kiyaga	2,200
12 th	Good returned to Mukoda	2,300
18 th	Credit purchase from Muhindo	3,200
19 th	Credit purchase from Musanje	4,500
25 th	Goods returned to Muhindo	1,900
29 th	Goods returned by us to Mukoda	2,000
29 th	Credit purchase from Kiyaga	3,100
30 th	Goods returned to Musanje	2,500

QN.5

Open up the sales day book, purchases day book. Returns inward journal returns outward journal. Post them to their relevant accounts in the sales and purchases ledger and transfer the totals to the relevant accounts in the general ledger.

2003 July;

1st Credit purchases from Burton 25,000, Mathew 14,500, Andrew 35,000

4th Credit sales to David shs. 41,000, white 34,000, black 27,000.

10th credit purchases from Thomas 14,700, Burton 10,000, Mathew 8,000

20th Credit purchases from Thomas 18,600, Burton 25,000, Mathew, 8,000

22nd credit sales to white 15,000, David 22,000.

25th Goods returned by business to Thomas 2,000, Mathew 1,500

24.9.5 The genera journal / journal proper

This is a book in which we can record the details of any transaction that cannot be recorded in any other subsidiary books. It contains private records of events as they occur day to day.

24.9.6 Functions of the journal proper

- It Acts as a airy in which events (business transactions) are recorded as they occur.
- It acts as a book of explanations since after each entry is recorded, a brief explanatory note called “ a narration” follows.
- It acts a book of instructions since it states which account in the ledger is to be debited and which one to be credited.

24.9.7 Uses / importance of the journal proper

- It is used to record purchase of fixed assets on credit
- It IS used to record credit sales of fixed assets
- It is used to correct or rectify errors made in books
- It is used to record opening entries
- It is to record closing entries
- It is used to record adjustments made in the ledgers to be transferred to trading, profit and loss accounts.

FORMAT OF A JOURNAL PROPER

Date	Narration		Debit	Credit

N.B: All credit transactions are first recorded in the journals before passed on to the ledgers, that's why cash transactions are recorded in the cash book before posted in to the ledgers i.e a cash book is also a subsidiary book.

Example

Record the following transactions in the Journal / journalise the following transactions

3rd Jan 2008 A Purchase of land from Musoke on Credit worth shs. 2,000,000

10th Jan 2008 A sale of furniture on credit worth Shs. 2,200,000 from Mucomo

Solution

Journal entries

Date	Narration	Debit	Credit
03 -01/2008	Land	2,000,000	2,000,000
	Musoke		
	Being a purchase of land on credit		
10- 01 2008	Mucomo old furniture	2,200,000	2,200,000
	Being a sale of old furniture on credit		

25.0 THE TRIAL BALANCE

This is a list of both debit and credit balances extracted from different accounts in the ledger including and bank balances from the cash book.

25.1 Purpose of the balance

- To prove the arithmetical accuracy of accounts in the ledger
- It acts as a summary of the ledger which is helpful in preparation of final accounts.

N.B To record items in the trial balance, the debit balance from the ledger will be listed in the debit column (Dr side) while the credit balance will be tested in the credit column (Cr side)

25.2 Preparation of a trial balance

The steps followed when preparing a trial balance include;

- Check to ensure that all accounts are correctly posted to their respective accounts.
- Determine the balance of each account in the ledger i.e by balancing them off.
- List or record the accounts titles and their balances i.e debtors or credits.
- Get the sum of the debit and credit balance and prove the arithmetical accuracy (they have to be equal)

N.B Cash balance and Bank balance brought down in the cash book should also be recorded in the trial balance in their respective sides.

- Is in their respective accounts i.e if it is on the credit side, then it should be recorded on the debit side of the trial balance and vice versa

If we are to use the previous example (Muganga's two column cash book), his trial balance would appear as below.

MUGANGA'S TRAIL BALANCE AS AT JANUARY 2004

DETAILS	DR	CR
Capital		950,000
Kasozi		150,000
Purchases	150,000	
Sales		200,000
Nakato	95,000	
Stationery	20,000	
Rent	100,000	
Agie		300,000
Kato	50,000	
Cash balance	130,000	
Bank balance	1,055,000	
Total	1,600,000	1,600,000

25.3 Errors in the trail balance

When drafting a trail balance, we normally follow the double entry book keeping system and this means that both sides of the trail balance have to agree i.e they have to be equal.

However, the balance may not always balance due to the errors made and sometimes there may be errors but still the trial balance agrees or balances. There are commonly two types of errors in the trial balance.

1. Errors that will affect the trail balance totals

These are errors that will make the trail balance fail to agree, such errors include;

- Errors of addition: These may be as a result of poor adding figures both in the trail balance and in the balances of different accounts in the ledgers. These figures could be either overcastted (over added) or under castted (under added).
- Errors OF misleading figures: for instance one may write 210 or 102 instead of 201, this will lead to the trail balance fail agree.
- Errors of recording given transaction once instead of double entry recording , for instance where one records a cash sales transaction in the cash book and does not record the corresponding entry in the sales account.
- Omission of a balance from books, for instance where one omits or skips an account balance (figure) in the ledgers, i.e forgets to record it in the trail balance. This will make the trail balance fail to agree.
- Entry of different figures in the different accounts being affected by the transaction, for instance recording 100,000 shs as capital I the cash book and then record 1,000,000shs. as cash in the capital account.

In order to correct such errors that affect the trail balance, one needs to use an account termed as the suspense Account. This account will be opened with the difference in totals identified in the trail balance.

In the debit side total (of the trail balance) is more than the credit side total, the difference is recorded on the credit side of the suspense account and if the credit side total is bigger than the debit total, then the difference is recorded on the debit side of the suspense account.

After the correction of the identified errors, both sides of the suspense account totals should be equal.

Example

After checking the books of Maama Ciara and Co. Ltd, It was found out that the debit side of the trail balance as at February 2008 was bigger by 550,000 shs. therefore a thorough check was made and the following errors were discovered, use them to open the suspense account to correct them.

- The discount received was not posted in to the ledger book, worth 70,000shs
- Rose's account was debited with shs. 240,000 instead of 190,000 shs.
- The sales account was undercasted by shs. 130,000
- The purchases account was over added by 300,000 shs.

If we draw up the suspense account to correct these errors, the entries would be

- Debits suspense account, Credit Discount received account with shs. 70,000
- Debit suspense account, Credit Rose'S account with shs. 50,000
- Debit suspense account, Credit sales account with shs. 130,000
- Debit Suspense account, credit purchases account with shs. 300,000

If we are to correct those errors, the suspense account would appear as below

DR		SUSPENSE ACCOUNT				CR	
Date	Particulars	F	Amount	Date	Particulars	F	Amount
2008 Feb				2008 Feb			
	Discount Received		70,000		Difference in books		550,000
	Rose		50,000				
	Sales		130,000				
	Purchase		300,000				
			550,000				550,000

2. Errors that will affect the trial balance totals

These are the errors that will not allow the totals of the trial balance to agree i.e to be equal. They include;

- Errors of omission: This is where a transaction is completely not recorded in the books of accounts, for instance if an invoice for a transaction gets misplaced and its not recorded anywhere in the books. Such an error will not affect the agreement of a trial balance.

E.g A credit sale of goods worth shs. 15,000 to Mitchell Humphrey was neither recorded in the sales Account nor in the Debtor's Account. To correct this error.

Debit Mitchell Humphrey A/C

Credit Sales A/C

The Journal entries would appear as below;

Date	Account Tittles and Narration	Debit	Credit
	Mitchell Humphrey A/C	15,000	
	Sales A/C		15,000
	Being an entry not recorded in any book and now recorded.		

- b. Errors of Principle: This is an entry of a transaction in a wrong class or type of accounts. Such an error will not affect the agreement of a trail balance.

E.g A purchase of a motor vehicle on credit worth shs. 2,000,000 from Michelle heather was entered in purchases Account instead of Motor vehicle Account. To correct this error;

Debit Motor Vehicle A/C

Credit purchases A/C

The journal entries would appear as below

Date	Account Tittles and Narration	Debit	Credit
	Motor Vehicle A/C	2,000,000	
	Purchases A/C		2,000,000
	Being a correction of an entry made in a wrong A/C		

- c. Errors of Commission: This is where an entry of a transaction is in a wrong account but still in the same class of account. So this cannot affect the agreement of a trail balance.

E.g Goods bought on credit from Mervin Harrison worth shs. 10,000 was entered in Mildred Harrison's account, but both of them are creditors. To correct this error

Debit Mild Harrison A/C

Credit Mervin Harrison A/C

The journal entries would appear as below;

Date	Account Tittles and Narration	Debit	Credit
	Mildred Harrison A/C	10,000	
	Mervin Harrison A/C		10,000
	Being a correction of an entry made in a wrong personal account		

- d. Errors of original entry: This is where a wrong entry is done in the journals (or books of original entry) and incorrectly entered in the ledgers, however, such an error cannot affect the totals of the trail balance.

E.g Goods sold to Marlene Henrietta on credit worth 25,000shs. was wrongly transferred from the sales day book and debited to Marlene Henrietta account as 52,000 shs. and credited in the sales account as shs. 52,000 to correct this error.

Debit Slaes A/C with an overcastted amount

Credit Marlene Henrietta A/C with an overcastted amount

The journal entries would appear as below;

Date	Account Tittles and Narration	Debit	Credit
	Sales A/C	27,000	
	Marlene Henrietta A/C		27,000
	Being a correction of an overcast made in the books		

- e. Errors of complete reversal of entries: This is where the account to be debited is credited and the account to be credited is debited with the same amount, this automatically can not affect the totals of the trail balance as the error has been made on both sides and with the same amount.

E.g Payment of rent in cash of Shs. 50,000 is entered on the debit side of cash account and credited on the credit side of rent account instead of debiting rent account and crediting cash account. To correct this error.

Debit Rent A/C

Credit Cash A/C

The Journal entries would appear as below

Date	Account Tittles and Narration	Debit	Credit
	Rent A/C	50,000	
	Cash A/C		50,000
	Being a correction of an error of compete reversal of entries.		

f. Errors of compensation / compensating errors: This is where a mistake made in one account on the debit side of any account is the same mistake made on the credit side of another account by coincidence and there fore the figures cancel each other hence the trail balance agrees “ prima facie”

E.g An overcast in the account of Yajo Winfred (Debtor) of shs. 12,000 is calculated by an overcast in the account of Bojo Gladys (creditor) to correct this error

Debit Bojo Gladys's A/C with an overcastted amount

Credit Yajo Winfred's A/C with an overcastted amount

The Journal entries would appear as below ;

Date	Account Tittles and Narration	Debit	Credit
	Bojo Gladys's A/C	12,000	
	Yajo Winfred's A/C		12,000
	Being a correction of an overcast made on both accounts and now corrected		

25.4 Revision exercise

Journalise the information below, clearly showing their narrations

- A credit purchase of goods worth 100,00 shs. from Jonah was not recorded in nay book.
- A receipt of cash from sales worth 58,000 shs. was debited in sales account instead of debiting it.
- A sale of an old machine worth 450,000 shs. to Musa Body on credit was credited in the sales Account instead of machine account.
- A Credit purchase of goods from Peter Collins worth 2,700 shs was poorly recorded in both books as 7,200 shs.
- Mukasa a debtor has his account overcastted by shs. 100,000 and Musoke a creditor has his account overcastted by shs. 100,000.

25.5 The journal proper / general journal

This is a day book in which we can record the details of any transaction that cannot be recorded in nay other subsidiary books. It contains private records of events as they occur day to day.

FUNCTIONS OF THE GENERAL JOURNAL

- It acts a diary in which events / business transactions are recorded as they occur.
- It acts as a book of explanations since after each entry is recorded, a brief explanatory note called “a narration” follows .
- It acts as a book of instruction since it states which accounts in the ledger are to be detailed and which ones are to be credited.

N.B The journal tells your what to put / record in the ledger. Entries s to be debited appear first and then followed by entries to be credited and then a narration is given prefaced by the word “ Being “.

USES / IMPORTANCE OF THE JOURNAL PROPER

- It is used to record credit purchases of fixed assets
- It used to record credit sales of fixed assets
- It is used to correct errors
- It is used to record opening entries
- It is used to record closing entries
- It is sued to record adjustments of entries like depreciation , end of year adjustments, etc

FORMAT OF A GENERAL JOURNAL

Date	Details	Debit	Credit

N.B

All credit transactions are first recorded in the journal before passed on to the ledgers, that is why cash transactions are recorded in the cash book before posted into the ledgers, i.e a cash book is also a subsidiary book.

Example

Record the following transactions in the general journal

- A purchase of land on credit from Musoke for shs. 2,000,000
- A purchase of furniture on credit from Kagodo worth shs. 1,000,000
- A sale of an old vehicle on credit worth 2,200,000 shs. to Mucomo.

Date	Details / Particulars	Debit	Credit
	Land A/C	2,000,000	
	Musoke A/C		2,000,000
	Being a purchase of land on credit		
	Furniture A/C	1,000,000	
	Kagodo A/C		1,000,000
	Being a purchase of furniture on credit		
	Mucomo A/C	2,200,000	
	Furniture A/C		2,200,000
	Being a Sale of old furniture on credit		

25.6 THE FINAL ACCOUNTS

After extracting a trail balance, the entrepreneur goes on to prepare final accounts. The performance of any business is measured by finding out whether it is running at a profit or loss. The profit or loss made by business is calculated by means of extracting final accounts.

Final accounts are composed two parts, i.e

- The income statements
- The balance sheet

25.7 Income statement

This is also composed to ascertain of two parts, i.e the trading account and profit and loss account.

a) Trading account

This is prepared to ascertain whether the business has got gross profit or gross loss in a given period. This is got through deducting all the costs of goods sold from the Net sales –cost of sales).

- The cost of goods sold refers to expenses incurred or the costs at which the goods which have been sold were bought.
- Net sales refers to the exact amount of money received in business after selling goods in a given period of time (Net sales = Total sales - Returns inwards)
- Cost of sales = opening stock + Net purchases - closing stock
- Amount Of goods available for sale = opening stock + net purchases
- Net purchases = Total purchases - Returns outwards
- Cost of sales = Goods available for sale + carriage inwards - closing stock
- Carriage inwards are transport costs incurred on goods that have bought , i.e they are added on the amount of net purchases.
- Carriage outwards are transport costs incurred on goods that have been sold i.e they are added on operating expenses in the profit and loss account.

N.B: If the Net sales are exceeding the cost of goods sold (cost of sales), it implies a gross profit and if the cost of sales are exceeding the net sales, it implies a gross loss.

b) The profit and loss account

This is mainly a summary of gross income made by the business and operating expenses incurred in the business in a given trading period.

- It is prepared to ascertain whether the business has attained either a net profit or net loss
- Gross incomes include the amount of gross profit made by the business (which is calculated in the trading account) plus any other income from other sources apart from the sale of goods , e.g commission received , rent income , discount received, etc (if any).
- Operating expenses refer to money spent on services rendered in running the business, they normally do not vary with the level of sales made or output, i.e they have to be incurred irrespective of the level of put or volume of sales (whether profits have been realized or not. They include distribution expenses, salaries and wages, stationery, transport allowances, bad debts, discount allowed, telephone expenses, rates and rent , electricity and water bills etc.

N.B: Net Profit is realized when gross income is exceeding operating expenses and a net loss is realized is realized when operating expenses are exceeding gross income.

Salaries / wages are treated as operating expenses in the profit and loss account, however, if the amount of wages is given as a separate figure from salaries, this should be created for in the trading account, i.e it is added on the amount of net purchases, this is because it

will be assumed that such as expenses was incurred on the goods that were bought for reselling and it was incurred before selling the goods, like loading and off loading charges.

25.8 Format of an income statement

There are two formats of drawing up an income statement i.e the “T” format and vertical format. However, the “T” format is becoming traditional and not commonly used. The two formats are shown below;

25.9 T- FORMAT OF AN INCOME STATEMENT

Details	Amount	Details	Amount
Opening stock	XXX	Total sale	XXX
Add Net purchases	XXX	Less returns inwards	XXX
Goods available	XXX	Net sales	XXX
Less returns outwards	XXX		
Less closing stock	XXX		
Cost of sales	XXX		
Gross profit	XXX		
	XXX		XXX
Less operating expenses		Gross profit	XXX
Rent	XXX	Add discount received	XX
Salaries	XXX	Add rent income	XX
Electricity	XXX	Gross income	XXX
Net profit	XXX		
Total	XXX		XXX

25.9.1 Vertical format of an income statement

Details	Amount	Amount
Total sales		XXX
Less returns inwards		XX
Net sales		XXX
Less cost of sales		
Opening stock	XXX	
Add purchases	XXX	
Less returns outwards	XXX	
Add carriage inwards	XXX	
Goods available for sale	XXX	
Less closing stock	XXX	
Cost of sales		(XXX)
Gross profit / Loss		XXX
Gross profit		
Add discount received		
Add rent income		
Gross income		
Less operating expenses		
Rent	XX	
Insurance	XX	
Discount allowed	XX	
Accrued salaries	XX	
Depreciation	XX	
Carriage outwards	XX	
Electricity	XX	
Advertising	XX	
Total operating expenses		(XXX)
Net profit / loss		XXX

Example

From the following information which related to the trail balance Viviane and company as a 31st December 2003, prepare an income statement.

Details	Amount	Amount
Purchases	22,050	
Stock (1 st Jan 2003)	10,000	
Sales		62,000
Insurance	1,000	
Capital		59,400
Advertising	1750	
Drawings	7,500	
Salaries	5450	
Debtors	10,000	
Creditors		6250
Commission received		1350
Furniture	15,000	
Bank	6250	
Buildings	50,000	
	129,000	129,000

N.B: Closing stock was valued at Shs. 13,000

Solution

VIVIANNE AND COMPANY 'S INCOME STATEMENT FOR THE YEAR ENDING 31ST DECEMBER 2003 (Vertical format)

Details	Amount	Amount
Sales		62,000
Less cost of sales		
Opening stock	10,000	
Add purchases	22,050	
Goods available for sale	32,050	
Less closing stock	(13,000)	
cost of sales		(19,050)
Gross profit		42,950
Gross profit	42,950	
Add commission received	11,350	
Gross income		54,200
Less operating expenses		
Insurance	1,000	
Advertising	1,700	
Salaries	5,450	
Total expenses		(8,150)
Net profit		46,050

25.9.3 The balance sheet

This is the second part of final accounts, it is prepared after extracting income statement.

It is the financial statement that shows the financial position of the business at a given time. It consists of Assets, Liabilities and capital of the business at a particular period of time.

- the balance once it has been invested in a business by the owner, it is supposed to remain in the business for as long as the business continues.
- Current liabilities or short-term liabilities: These are liabilities which are accrued or outstanding one-year i.e from the balance sheet date. E Assets: These are valuable items or things which a business possesses. They can classify in to two; i.e fixed assets and current assets.
- Fixed assets: These are assets which are kept by a business for its use for a long period E.G Plant and machinery, motor Vehicles, furniture, buildings, land etc.
- Current assets: these are assets which are in form of cash or can be easily changed into cash in the shortest time possible. e.g cash in the hand, cash at bank, stock, debtors, prepaid expenses etc.
- Liabilities: These are financial obligations or commitments, they can be classified into two i.e long term and short term liabilities.
- Long term liabilities: These are financial obligations of a business which are payable at a date which is more than one year, i.e from creditors, tax payable, accrued or outstanding expenses etc.
- Capital: This is money invested in the business to either start or sustain it. It can be used to buy fixed assets or current assets.

25.9.4 Types of capital

- Equity capital: This is capital invested by the owner of a business and any profit made by the business.
- Loan capital: This is the amount borrowed by the business, and has to be repaid at a later date.
- Working capital: This is the excess of current assets over current liabilities. It involves cash resources available to meet its daily or immediate obligations.
- Capital employed: This is a combination of total fixed assets and working capital of a business.

- Net worth of a business: This is the owner 's claim on the business. It is obtained when all assets of the business have been sold and finance have been cleared. It is also known as owner's equity.

25.9.5 Format of drawing up a balance sheet

It can also be drawn in two ways i.e the "T" format and the vertical format as shown below.

"T" FORMAT OF DRAWING SHEET

Details	Amount	Details	Amount
Capital	XXX	Fixed assets	
Add net profit	XXX	Furniture	XXX
Less drawings	XX	Fittings	XXX
Add long term liabilities	XXXX	Land	XXX
Bank loan	XXX	Current assets	
Add short term liabilities		Debtors	XX
Creditors	XX	Cash in hand	XX
Overdraft	XX	Cash at bank	XX
Accruals / outstanding	XX	Stock at close	XX
	XXXXX		XXXXX

N.B: Both sides have to be equal, following the accounting equation i.e

Capital + liabilities = assets

One should not forget the heading and the date when the balance sheet was extracted.

VERTICAL FORMAT OF BALANCE SHEET

Details	Amount	Amount
Fixed assets		
Motor van	XXX	
Furniture	XXX	
Land	XXX	
Buildings	XXX	
Good will	XXX	
Total fixed assets		XXXXX
Current assets		
Debtors	XXX	
Cash at bank	XXX	
Closing stock	XXX	
Total current assets	XXXX	
Current liabilities		
Creditors	XXX	
Overdrafts	XXX	
Short term loan	XXX	
Total current liabilities		XXXX
Working capital		XXXXX
Capital employed		
Financed by		
Capital	XXXX	
Add net profit	XXX	
	XXXX	
Less drawings	(XXX)	
	XXXX	
Add long term liabilities		
5 year loan	XXX	
	XXXXX	XXXXX

N.B

To prove the mathematical and arithmetical accuracy, the capital employed section should be equal to the finance by section

In case of a net loss, it is deducted from capital instead. This is because a loss reduces some one's capital instead.

However, a student should not worry too much in case they fail to agree, what matters is the entries, so long as the entries are well posted in their respective positions. Therefore, a student should try to understand but not cram the order of the income statement and the balance sheet.

Try to use Viviane's trail balance to draw up a balance sheet.

25.9.5 Revision exercises

QN.1 The following trail balance was extracted from the books of Yajo Winfred, a sole trader in Kijura Masindi as at 31st December 2007.

DETAILS	DR (S)	CR(S)
Capital		183,360
Purchases & sales	456,000	
Repairs	9,500	
Motor vehicle	18,950	
Car expenses	3,480	
Building	100,000	
Bank	5,400	
Furniture	14,600	
Wages and salaries	86,100	
Discounts	10,610	
Drawings	24,000	
Provision for double ful debts		
Debtors and creditors	52,130	
Stock (1-01-2007)	63,000	
Total	852,770	852,770

N.B: Closing stock was valued at shs. 98,000

Required: Yajjo Winfred's Income statement and thereafter extract a balance sheet as the end of the year.

QN.2 Given below is a trail balance of Muhindo Emmanuel and Sons Ltd as at 31st December 2006.

DETAILS	DR (Shs)	CR(Shs)
Food purchases and sales	785,800	1,117,000
Accountant's salary	161,500	
Monthly Rent	31,800	
Carriage inwards	4,300	
Food stock (01-01-06)	165,300	
Shop equipment	263,600	
Discount allowed	12,800	
Insurance	4,500	
Advertising charges	6,500	
Market dues	22,500	
Lunch and tea expense	20,000	
Debtors and creditors	375,600	181,700
Loan from Faulu Uganda Ltd		186,000
Cash in hand	80,000	
Bank balance	700,000	
Capital		1,148,000
Totals	2,633,200	2,633,200

N.B: Un sold stock was valued at shs. 261, 700

- Prepare his trading, profit and loss account for the year ending 31st December 2006
- Extract a balance sheet as at the end of the year.

QN.3 Given below is Kasodde Richard's trail balance as at 31st June 2002

DETAILS	DR (Shs)	CR(Shs)
Debtors and creditors	200,000	200,000
Land and building	500,000	
Plant and machinery	400,000	
Furniture and fittings	3,000,000	
Equipment	2,000,000	
Motor vehicle	1,500,000	
Purchases	2,500,000	
Returns	500,000	600,000
Discounts	1,000,000	2,000,000
Stock (01-05-2001)	1,500,000	
Cash at hand	600,000	
Cash at bank	3,400,000	
Rent income		400,000
Sales		7,000,000
General expenses	1,000,000	
Capital		16,000,000
Total	28,000,000	28,000,000

N.B Stock at close was checked and valued at shs. 3,000,000

Required:

- Prepare Kasodde's income statement for the year ending 31-12-2002
- Extract Kasodde's balance sheet as at 31-12-2002

QN.4 The following information relates to the books of Mpuuga Paul, a trader in Busenya Nambeyya Village. Use it to prepare the trading, profit and loss account and a balance sheet as at the end of the year 2006.

DETAILS	DR (Shs)	CR(Shs)
Stock (1 st Jan 1996)	25,000	
Purchases and sales	360,000	600,000
Wages and salaries	60,000	
Returns inwards	40,000	
Returns outwards		30,000
Discounts	18,000	41,000
Telephone and postage	7,500	
Electricity	6,600	
Insurance	13,500	
carriage inwards	2,000	
Carriage outwards	8,500	
General expenses	18,500	
Plant and machinery	200,000	
Motor van	80,000	
Debtors	55,000	
Creditors		46,600
Cash in hand	36,000	
Bank overdraft	37,000	
Capital		250,000
Drawings	50,000	
Total	967,600	967,600

N.B: Closing stock was valued at Shs30,000/=

QN.5 From the trail balance given below, prepare Remmy's income statement for the year ended 31st December 1996 and a balance sheet as at that date.

DETAILS	DR (pounds)	CR (pounds)
Stock (1 st Jan 1997)	6,000	
Purchases	25,000	
Sales		30,000
Rent	1,600	
Salaries	2,000	
Electricity	2,500	
Carriage on sales	1,500	
Carriage on purchases	1,500	
Sales returns	1,500	
Purchases returns		1,000
Motor van	32,000	
Machinery	45,000	
Debtors	15,000	
Creditors		18,000
Discount received		2,000
Cash in hand	6,500	
Bank over draft		9,000
Drawings	8,000	
Capital		88,100

N. B Stock at close was valued at 6,600 pounds

Required:

- (i) An income statement for the year ending 31st December 1997
- (ii) A balance sheet as at 31st December 1997

QN.6 The following trail balance was prepared by Babirye Rebecca as at 31st December 1997.

DETAILS	DR (Dollars)	CR (dollars)
Rent	1,560	
Insurance	305	
Electricity	516	
Motor can expense	1,960	
Salaries and wages	4,850	
Sales		35,600
Purchase	30,970	
General expenses	806	
Motor van	3,500	
Creditors		3,250
Fixtures	3,960	
Debtors	6,810	
Premises	28,000	
Bank	1,143	
Drawings	6,278	
Capital		51,799
Total	90,649	90,649

N.B: Closing stock as at 30th June 1996 dollars

Required: Use it to prepare Babirye Rebecca's Final accounts at the end of the year.

QN.7 Extract an income statement and a balance sheet from the trail balance below, obtained from the books of Birungi Vivian Company Ltd for the year ending 30th June-1996

DETAILS	DR (pounds)	CR (pounds)
Cash in hand	4,200	
Cash at bank	8,000	
Stock -1 st Jan 2003	10,000	
Creditors		10,000
Returns inwards	1,500	
Sales		56,000
Purchases	31,500	
Salaries	4,000	
Water and electricity	600	
Postage	200	
Drawings	8,900	
Returns inwards		1,000
Furniture and fittings	75,000	
Motor van	35,000	
Loan		30,000
Rent income		1,200
Carriage inwards	700	
Carriage outwards	1,000	
Capital		82,400
Total	180,600	180,600

N.B Closing stock was valued at 1350 pounds

Required:

Prepare Birungi Viviane's income statement and a balance sheet as at end of the year.

QN.8 Enter the following transactions in Kakooza Humphrey's cash book that took place in the month of February 2003, balance of the cash book at the end of the month, post the transactions in their relevant accounts and then extract a trail balance.

Feb 1st started business with 1,500,000 as capital

3rd paid for welding machine 650,000=

5th bought raw materials of 550,000=

15th paid for rent in cash for 300,000=

17th sold goods for cash for 500,000=

18th paid for wages in cash 300,000=

30th received cash from Paul 400,000=

31st paid for electricity in cash 200,000=

QN.9. Enter the following transactions in the cashbook of Mwidu Prossy, post them to their relevant ledgers accounts and extract a trail balance thereafter.

2001 February.

1st Mwidu started business with cash in hand 100,000= and cash at bank 850,000=

5th Received a cheque from Kasozi worth 150,000=

7th cash purchases for 150,000=

10th cash sales to date for 200,000=

11th paid Nakato by cheques worth 95,000=

15th Bought stationery for use in cash for 200,000=

17th received payment from Agie by cheques for 300,000=

20th paid Kato by cheque for 500,000=

30th Withdrew cash from bank for office use worth 100,000=

30th Got money from the business in cash for her private use worth 50,000=

31st cashed a cheque for 100,000=

QN. 10 Enter the following transactions in Jovia's books of accounts on a double entry principle, balance them off thereafter extract a trail balance.

1983 April.

1st Commenced business with cash at bank 22,500=

4th cashed a cheque for 8,500=

5th Bought premises by cash 3,300=

7th Bought goods paying by cheques 4,000=

10th cash sales to date 8,500=

13th Bought stationery by cheques 2,800=

16th Paid for salary in cash 2,500=

18th sold goods on credit to Ouma 5,600=

20th banked cash 2,000=

22nd Bought goods on credit from Musa 4,500=

25th paid for insurance in cash 1,400=

26th cleared Ouma's debt in cash

28th Paid Musa by Cheque 2,500=

28th Sold more goods by cheques 6,000=

30th cash purchases 1,500=

QN.11 From the following transactions, prepare Nambasa Liz's two column cashbook. Open up the necessary accounts on the double entry thereafter extract a trial balance.

May 1 st	Bank balance b/f	6,000=
4 th	Bought machines by cheques	15,000=
5 th	Bought goods on credit from Mukiibi	25,000=
8 th	cash sales to date	20,000=
10 th	Bought stationery by cash	8,000=
12 th	paid for electricity by cheques	10,000=
15 th	Sold goods to Okello on credit	30,000=
18 th	paid for rent by cash	7,500=
20 th	banked cash	5,000=
22 nd	paid Mukiibi cash 6,000 and a cheques of 9,000=	
24 th	Cash purchases	100,000 =
26 th	Withdrew cash from bank for office use	12,000=
27 th	Got cash from bank for personal use	10,000=
28 th	received cash from Okello worth 18,000 and a cheques of 12,000=	
30 th	paid salary by cheques	15,000=

QN.12 The following transactions were extracted from Amod's and Ali's books of accounts for his business for the month of June 2002.

1 st	commenced business with cash	400,000=
2 nd	Bought goods for cash	300,000=
3 rd	sold goods for cash	250,000=
5 th	Paid for electricity in cash	300,000=
6 th	purchased goods worth 500,000 and paid cash	
15 th	sold goods on credit worth	200,000=
20 th	paid for workers shs 200,000 in cash	
30 th	Made cash sales worth	300,000=
31 st	Sold goods to Leticia on credit worth	300,000=

Required:

- Record the above transactions in his cashbook and show the balances at the end of the month.
- Transfer the entries to their respective accounts in the ledger
- Extract a trail balance as at the end of the month.

QN.13 The following details relate to Shamim, a sole trader in Kikuubo 2000 August.

1 st	obtained a loan from stanbic and deposited it on his account worth	85,000
3 rd	withdrew cash from bank for official use	16,000
4 th	purchased goods for cash	8,400
4 th	paid for carriage inwards	2,000
5 th	cash sales	10,000
6 th	Received 1250 in cash from Jamil	
7 th	sold goods for cash	9,000
8 th	paid for carriage outwards for	16200
10 th	sales to date were	14,800
10 th	Paid for customer's entertainment	1,000
14 th	sold goods for cash	8,200
15 th	deposited cash into bank	4,000
20 th	banked cash	1,000
22 nd	cashd a cheque worth	3,000
25 th	cash drawings amounting to	5,000
27 th	paid for rent by cheques worth	10,000

Required;

Prepare a two-column cash book from the above information and balance it off.

Transfer the entries to their corresponding accounts in ledgers.

Draw up a trail balance as at the end of the month.

QN. 14 From the following trail balance below, prepare Kemigisha's income statement, and balance sheet for the year ending 31st December 2003.

DETAILS	DR (SHS)	CR (SHS)
Purchases	72,000	
Stock at 1 st Jan 2005	12,000	
Carriage on sales	3,000	
Interest received		260
Discount allowed	800	
Sales		130,000
Returns outwards		1,500
Bank overdraft		12,000
Rent and rates	4,960	
Debtors	1,800	
Capital		123,100
Creditors		3,500
Cash	3,000	
Salaries	15,600	
Land	13,000	
Furniture	6,200	
Returns inwards	10,000	
Drawings	11,000	
Motor van	117,000	
Total	270,360	270,360

25.9.6 Financial end of year adjustments

At the time of preparing final accounts, some items or accounts may overlap the period or some may still be pending (not cleared), or there may be a necessity to provide for the probable bad debts or for the loss of value of the fixed assets and therefore there is a need for adjusting such items so as to portray a true financial image or position.

Accounts adjustment may be defined as calculating or apportionment of accounts to the actual value for that period or at a particular date.

Some of the items that may be adjusted at the end of the financial year may include (among the many)

- ❖ Depreciation
- ❖ Prepaid expenses
- ❖ unpaid / outstanding expenses
- ❖ income received in advance
- ❖ unpaid or income accrued (income due but not received).

Following the double entry principle or the dual concept, when treating these adjustments in the final accounts, they should have a dual effect on both the income statement and the balance sheet. More details are discussed below.

1. DEPRECIATION OF FIXED ASSETS

This refers to a constant reduction in the value of fixed assets (Details will be discussed in the next sub topic)

This loss in value is charged against profits made during the working life of the asset in place i.e the amount of depreciation is added on the operating expenses and in the income statement and very amount is deducted for the value of an asset to determine the its net book value at the end of the period.

2. REPAID EXPENSES / EXPENSES PAID IN ADVANCE

By the end of the accounting period, there are some expenses that have already been paid but relate to the following period (e.g rent). The accounting concept rules out that an entrepreneur should only record / charge the amount which relates to that period.

Thus, the amount prepaid (paid in advance) is deducted from the total amount paid (As shown in the trail balance) in the income statement and the very amount deducted is treated as a current asset in the balance (i.e added to current assets).

3. UNPAID EXPENSES / OUTSTANDING EXPENSES.

These are also termed as accrued expenses or Owings or expenses due. They are expenses due but not yet paid by the end of the accounting period. The accounting rules state that an entrepreneur should record all the expenses that are related to the accounting period, whether paid or not.

Thus, the amount due (unpaid expense) is added on the related expenses in the profit and loss account and that very amount is treated as a current liability (short term liability) in the balance sheet.

4. INCOME RECEIVED IN ADVANCE / PREPAID INCOME

This is money that has been received in business, but belongs to the following period. Since the rule says that an entrepreneur should ONLY record those incomes that relate to the very accounting period.

Thus the income received in advance is deducted off from the total income received in the income statement and it treated as a current liability in the balance sheet since by the end of an accounting period it does not belong to the business but an obligation instead.

5. UNPAID OR ACCRUED INCOME OR OUTSTANDING INCOME / DUE

This is also called outstanding income. It is income that relates to the accounting period but has not been received. (income due but not received by the end eg an accounting period, the accrual concept says that all incomes that relate to an accounting period should be recorded, whether received or not.

Thus, the accrued amount / income is added on total incomes received in the income statement (added on gross profit), and treated as a current asset in the balance sheet. This means that it has not been received by the end of the period but is acting as an asset the following period since it has to be received.

N.B. A bad debt is a debt that can no longer be recovered by the business i.e an irrecoverable debt at the end of an accounting period. For instance, if a business finds that a debtor is dead or has run mad, that one in business qualifies to be bad debtor since the business doesn't expect him/ her to pay (unless such a debtor was incurred against) check insurance topic.

6. PROVISIONS FRO BAD DEBITS

Due to the anticipation of such bad debts, a business makes a provision for those debtors who may fail to clear debts, this is termed as a provision for bad debts.

So a provision for bad debts is treated as an operating expenses I the income statement and thus subtracted off from the total amount of increase and then subtracted off from the total debtors in the balance sheet.

An increase in provision for bad debts is added on operating expenses with the amount of increase and then subtracted off from the total debtors in the balance sheet.

A bad debt recovered is a debt that had already been written off and later recovered, for instance if a debtor gains consciousness from madness and clears the debt which the business had already written off. This is a miscellaneous income to the business and therefore added on gross profits in the profit and loss account and subtracted off in the balance sheet from total debtors.

The table on the next page summarizes the treatment of the above explained adjustments.

No.	Item	Income statement	Balance sheet
1	Depreciation	Amount added on operating expenses	Amount subtracted from the total amount of fixed assets
2	Prepaid expenses	Amount is subtracted off from total expenses	A current asset
3	Unpaid expenses	Amount is added on operating expenses	A current liability
4.	Income received in advance	Subtracted off from the total incomes	
5.	Accrued income	Added on gross profit	A current asset
6.	Provision of bad debtors	Added to operating expenses	Subtracted off from total debtors.

Example

The following information was extracted from Shambombo's trial balance as at 31-12-2007. Use it to prepare an Income statement and a balance sheet as at that date.

DETAILS	DR (SHS)	CR (SHS)
Stock (1.1.07)	130,000	
Purchases	2,000,000	
Carriage on purchases	5,000	
Sales		2,850,000
Sales returns	50,000	
Purchases returns		55,000
Salaries and wages	420,000	
Transport	164,000	
Electricity	5,500	
Insurance	16,000	
Office repairs	3,500	
Rates and rent	14,700	
Discounts	8,000	12,100
Rent received		65,000
Carriage on sales	2,000	
General expenses	5,300	
Entertainment	2,900	
Motor vehicle	250,000	
Fittings	105,000	
Debtors	450,000	
Cash at bank	650,000	
Cash at hand	50,000	
Capital		600,000
Creditors		
Loan (5 yrs)		
bank over draft		
Total	4,331,900	4,331,900

Additional information

- Stock at close was valued at shs. 240,000
- electricity paid in advance was shs. 500
- Insurance expenses accrued were at as 1900
- depreciation motor vehicle and fittings by 24%
- Rent and rated prepaid were worth shs. 700

SOLUTION
SHAMBOMBO 'S INCOME STATEMENT FOR THE YEAR ENDED 31-12- 2007

Details	Amount	Amount	Amount
Sales		2,850,000	
Less returns		<u>50,000</u>	
Net sales			2,800,000
Less cost of sales			
Opening stock	2,000,000		
Add purchases	<u>5,000</u>		
Add carriage inwards	2,005,000		
Less returns outwards	<u>55,000</u>		
Net purchases		1,950,000	
Goods available for sale		2,080,000	
Less closing stock		240,000	
Cost of sales			1,850,000
Gross profit			960,000
Add discount Received			12,100
Add rent received			65,000
Gross income			1,037,100
Less operating expenses		420,000	
Salaries and wages		164,000	
Transport			
Electricity	5,500		
Less prepaid electricity	500	5,000	
Insurance	16,000		
Add accrued insurance	1,900	17,900	
Office repairs		3,500	
Rent and rates	14,700		
Less prepaid rates	700	14,000	
Entertainment		2,900	
Discount allowed		8,000	
Carriage on sales		2,000	
General expenses		5,300	
Depreciation – Motor vehicle		60,000	
Depreciation - fittings		<u>25,200</u>	
Total operating expenses			727,800
Net profit			309,300

SHAMBOMBO'S BALANCE SHEET AS AT 31-12-2007

Details	Amount	Amount
Fixed assets		
Motor vehicle	<u>250,000</u>	
Less depreciation	60,000	
Net book value		190,000
Fixtures and fittings	105,000	
Less depreciation	25,200	
Net book value		79,800
Current assets		
Stock	240,000	
Debtors	450,000	
Bank	650,000	
Cash	50,000	
Prepaid electricity	500	
Prepaid rent and rates	700	
Total current assets	1,391,200	
Current liabilities		
Creditors	367,200	
Overdraft	<u>42,600</u>	
Accrued Insurance	1,900	
Total current liabilities	411,700	
Working capital (current assets – current liabilities)		979,500
Capital employed (working capital + Fixed assets)		1,249,300
Financed by		
Capital	600,000	
Add net profit	309,300	
	909,300	
Less drawings	-	
Add long term liability -loan	340,000	
Total	1,249,300	

25.9.7 Revision questions

QN.1 Use the trail balance below which related to SAKUMUNA & Company Ltd for the year ending 31-12-2007 to prepare an income statement and a balance sheet.

Details	DR (shs)	CR(shs)
Capital		1,000,000
Purchases	400,000	
Fixtures	85,000	
Vehicle	250,000	
Sales		650,000
Discounts	500	450
Rent	15,500	
Rent income		550
Insurance	35,400	
Transport	28,100	
Electricity	2,500	
Debtors	250,000	
Creditors		84,450
Rates	1,500	
Stock (01-001-2007)	38,000	
Salaries	22,000	
Bad debts	4,400	
Drawings	1,500	
Bank balance	590,000	
Cash balance	11,050	
Totals	1,735,450	1,735,450

The following additional information was obtained

- Depreciation is provided at 2% p.a on fixtures and 5% on vehicles , but it had not been provided for.
- Un sold stock by the end of the year was valued at shs. 22,000
- Shs. 200 of electricity was paid for in advance and Shs. 100 for rates was prepaid.
- Shs. 1,600 in respect of insurance was owing.

QN. 2 The trial balance below relates to Mr.Kafeero Moses books as at 31st March 2007. Use it to prepare an income statement and a balance sheet.

Particulars	DR (shs)	CR(shs)
Post Bank loan (5 years)		1,000,000
Capital		400,000
Purchases / sales	240,000	490,000
Returns	11,000	14,000
Discounts	8,000	5,000
Office expenses	63,000	
Stock (01-04-2006)	37,000	
Debtors / creditors	102,000	68,000
Advertising	20,000	
Traveling expenses	8,500	
Salary	40,000	
Drawings	30,000	
Motor vehicle (at cost)	150,000	
Equipment	5000,000	
Fixtures and fittings	500,000	
Cash at hand	12,000	
Cash at bank	246,000	
Totals	1,977,000	1,977,000

Additional information

- Stock on 31st March 2007 was valued as shs. 70,000
- Office expenses include shs. 13,000 paid in advance for April 2007
- Salaries due on 31st March 2007 was amounting to Shs. 8,000
- A provision of 5% for doubtful debts is to be made
- Provide depreciation on fixtures and fittings 12% and motor vehicle at 10%.

Required:

Prepare his trading, profit and loss account for the year ended 31st March 2007

Extract a balance sheet at the end of the year.

QN. 3

The following information relates to Mr. Jagwe's business, use it to prepare a trading, profit and loss account for the year ending 31-12-2008 and a balance sheet as at that date.

Items	DR (shs)	CR(shs)
Capital		1,200,000
Drawings	500,000	
Buildings	700,000	
Creditors		1,500,000
Rent	45,000	
Salaries	240,000	
General expenses	65,000	
Insurance	56,000	
Stock(01-01-2008)	1,725,000	
Fixtures and fittings	120,000	
Debtors	1,808,000	
Bad debts written off	12,000	
Provision for bad debts (1 st jan 2008)		75,000
Delivery van	80,000	
Sales		6,000,000
Purchases	3,160,000	
Cash at hand	5,000	
Bank balance	349,000	
Totals	8,865,000	8,865,00

Make adjustments on the following transactions

- a. Depreciation
 - Building shs 50,000
 - Fixtures and fittings shs. 12,000
 - Delivery van Shs. 24,000
- b. Rent accrued was amounting to shs. 15,000
- c. Increase the bad debts provision to 5% of debtors
- d. Stock at close was valued at shs. 1,600,000

QN.4

- (a) Give two reasons why it is necessary to prepare final accounts for any business organization.
- (b) Given the trail balance below of Lay Irene investments Ltd as at 31st December 1996

Item	DR(SHS)	CR(SHS)
Food purchases /sales	785,400	1,117,000
Accountant's salary	161,500	
Rent	31,800	
Carriage inwards	4,300	
Food stock (1.1.96)	165,300	
Shop equipment	263,600	
Discount allowed	12,800	
Insurance	4,500	
Advertising charges	6,500	
Market dues	22,500	
Lunch and tea expenses	20,000	
Debtors / creditors	375,600	181,700
Loan from stanbic Bank		186,000
Cash	80,000	
Bank	700,000	
Capital		1,148,200
Total	2,633,200	2,633,200

Adjustments:

- Shs. 20,000 in respect of interest on loan was due.
- Stock on 31st December 96 was at shs. 261,700
- The owner had taken food worth shs. 50,000 for his own consumption but no records had been made.
- Rent amounting to 1,800 shs. was prepaid
- Depreciation shop equipment by 12 ½ % p.a

Required:

Prepare Lady Irene Investments Ltd's final accounts for the year ended 31st December 1996.

25.9.8 Depreciation of fixed assets

There are a number of fixed assets found / used in business, for instance machinery and plant, furniture and fittings, motor vehicles etc. These assets lose their value over a period of time as they are put into use in the business.

Such a decrease in value constitutes a loss to the constant fall or reduction in the value of a fixed asset. Depreciation is charged.

- In order to avoid over stating the value of assets in the final accounts (balance sheet)
- Because assets like plant and machinery are held for a purpose of earning income and the loss arising from those assets through wear and tear is undoubtedly an expense against such income.

25.9.9 Causes of depreciation

- Wear and tear:** This refers to the damage occurring to fixed assets that consequently diverts it from its normal use. E.g break down of an asset like machinery.
- Passage of time:** When assets are acquired, they lose value with time, under all conditions assets lose value according to age.

- **Obsolescence / outdated:** This is the charge in value of fixed assets caused by new innovations due to improved technology. For instance the introduction of new slim phones with numerous functions like Nokia 1100 Katorchi" rendered the former big sized" Nokia 3210" phones outdoes and hence loss of value.
- **Physical factors:** Natural factors also encourage or facilitate depreciation e.g rainfall, sunshine etc they can lead to rusting of machines (Due to floods or excessive heat)

N.B: Appreciation refers to the permanent increase in the value of fixed assets. land is more liable to appreciate than any other asset. However, appreciation is ignored or not considered until an asset is sold off and profits are realized.

25.9.10 Methods of calculating depreciation

There are various methods of calculating depreciation, however the major ones include;

- Fixed installment / straight line method
- Reducing balance method / fixed percentage method
- Revaluation method.

1. FIXED INSTALLMENT / STRAIGHT LINE METHOD

Under this, a fixed proportion or installment is written off annually from the original cost of the asset i.e fixed amounts or equal installments are charged annually from the asset in order to reduce the asset to residue value (scrap value) or to zero value at the end of the period.

- a. Annual depreciation charged from an asset reducing to scrap value. Under this, the original cost of an asset, the expected working life of the asset and the estimated value of the asset at the end of its working life should be notes in order to determine the amount of the depreciation to be charged.

$$\text{i.e Depreciation} = \frac{\text{Initial cost} - \text{Scrap value}}{\text{Life span / working life}}$$

Example :

A machine was bought for shs. 200,000, it is expected to have a working life of 6 years, leaving a residue value of shs. 20,000. Calculate the amount of depreciation to be charged annually.

$$\begin{aligned} \text{Solution: Annual depreciation} &= \frac{\text{Initial cost} - \text{Scrap value}}{\text{Life span / working life}} \\ &= \frac{200,000 - 20,000}{6} \\ &= 30,000 \text{ shs. So annual depreciation is shs. 30,000} \end{aligned}$$

- b. Annual depreciation charged from an asset reducing to zero i.e when the scrap value is nil

$$\text{Annual depreciation} = \frac{\text{Initial cost}}{\text{Life span}}$$

Example:

A motor van was bought for shs 120,000, it is expected to have a working life of 5 years. Calculate its annual depreciation.

$$\begin{aligned} \text{Solution: Annual depreciation} &= \frac{\text{Initial cost}}{\text{Life span}} \\ &= \frac{120,000}{5} \\ &= \text{shs 24,000} \end{aligned}$$

2. REDUCING BALANCE METHOD / FIXED PERCENTAGE METHOD

This is also known as diminishing balance. A percentage is written off on the diminishing value of the asset account each year to find the annual depreciation.

The depreciation calculated annually will gradually reduce as a fixed percentage is maintained on the reducing balance of an asset.

N.B: Some assets lose a larger proportion of their value during the first year (s) off the working life than in the second or following years. Therefore, this method is appropriate when calculating depreciation for such assets. This is because it tends to give a fairly even charge against revenue each year.

Example

A machine is bought for Shs. 100,000 and depreciation is to be charged at 20% p.a. Calculate the amount of depreciation for the first 3 years.

SOLUTION

Year 1:	Depreciation	=	20% x 100,000
		=	20,000shs
	So net book value	=	100,000 – 20,000
		=	80,000
Year 2:	Depreciation	=	20% x 80,000
		=	16,000shs.
	So net book value	=	80,000- 16,000
		=	64,000shs.
Year3:	Depreciation	=	20% x 64,000
		=	12,800 shs
	So net book value	=	64,000- 12,800
		=	52,200shs.

This means that the total amount of depreciation after 3 years is 100,000 -51,200 = 48,800shs.

N.B: In this case, the percentage remains the same but the amount of depreciating goes on decreasing in the following years

3. REVALUATION METHOD

This method is mainly used for items like livestock, furniture, etc under this, the asset is valued annually and the difference between the opening balance and the closing balance represents the amount of depreciation.

Example

A Motor van bought on 1st January 2007 was valued at shs. 220,000, but at the end the year, its valued at shs. 180,000.

Therefore, depreciation for the year would be;

Depreciation	=	220,000 – 180,000
	=	40,000shs.

26.9.5 Revision questions

The initial cost of a motor vehicle is Shs. 4,000,000, it estimated to last for 10 years and leave a scrap value of shs. 400,000

Using fixed installment method, compute

- The amount of depreciation per annum
- the total depreciation after 4 years
- The net book value of a motor vehicle after 4 years.

A machine was bought on 1st Jan 2003 at a cost of 2,000,00shs. Its working is estimated to be 6 years leaving a residue value of 200,000shs. Calculate the amount of depreciation for the first three years. (Using fixed installment method)

A motor vehicle was bought on 1st January 2008 for shs. 400,000 and depreciation is to be charged at a rate of 20% p.a on the remaining balance. Calculate the amount of depreciation for first three years (using reducing balance method).

A company purchased a grinding mill at shs. 30,000,000. The rate of depreciation is 25% . Using diminishing balance method ; Calculate;

- Total depreciation
- Book value
- after two years

26.9.6 Interpretation of financial statement

Final accounts / financial statements are prepared in business to portray the performance of the business. The performance of the business can be determined through analyzing and interpreting these financial statements.

One of the best and simplest way or method of interpreting these statements is through the use of financial ratios

Ratio analysis is a technique of interpreting the financial statements with the help of the accounting ratios derived from the financial statements.

26.9.7 Uses of financial ratios / ratio analysis

1. It is a technique for diagnosing the financial health of a business
2. It is easy to understand the financial position of a business enterprise in respect of short –term solvency, long-term solvency, capital structure position, etc with the help of ratios.
3. It pinpoints the deficiency of various department or branches of a business unit event though the overall performance is satisfactory.
4. Accounting ratios calculated and tabulated for a number of years enable the users of financial information to determine the figure results on the basis of past records.
5. They can be used to compare the results of the firm, not only with other firms in the same industry but also its own performance over a period of time.
6. They help in coordination of the activities for effective management and effective control of the business.
7. They help in communicating financial strengths and weaknesses of a firm in a more easy and understandable manner, hence enhancing the value of the financial statements.

26.9.8 Classification of ratios

A) LIQUIDITY RATIOS

The help to test the stability of the firm or short – term financial position of the firm. They include;

- i) Working capital / Current asset ratio: This provides a margin of safety to the creditors
Too little working capital means that there will be difficulty in paying creditors and meeting running expenses. The standard ratio is 2:1

$$= \frac{\text{Current assets}}{\text{Current liabilities}}$$

- (ii) Liquid ratio / quick asset / acid test ratio: This helps to discover the extent to which the business can meet its current liabilities from its liquid assets / resources. The standard ratio is 1:1

$$= \frac{\text{Liquid assets / quick assets}}{\text{Current liabilities}}$$

$$* \text{ Liquid assets} = \text{current assets - closing stock.}$$

(b) LONG TERM SOLVENCY RATIOS

Equity ratio / proprietary ratio: This shows the long-term solvency of the business.

$$\begin{aligned} &= \frac{\text{Share holders' funds}}{\text{Total assets}} \\ \text{Shareholders' funds} &= \text{share capital + resources (liquid assets) - accumulated losses} \\ \text{Total assets} &= \text{fixed assets + current assets} \end{aligned}$$

Fixed assets to proprietor's ratio: This indicates the percentage of owner's funds invested in fixed assets. If the ratio is greater than one, It means that creditor's funds were used to acquire part of the fixed assets.

$$= \frac{\text{Fixed assets (after depreciation)} \times 100}{\text{shareholders' funds}}$$

Solvency ratio / debt ratio: This shows the ability of the firm to meet its short term and long – term obligations. If total assets are more than total liabilities, the firm is treated as solvent, so a higher ratio is better.

$$= \frac{\text{Total liabilities (long term + short term)}}{\text{Total assets}}$$

Inventory (Stock) turnover ratio: This reveals the number of times finished stock is turned over, or the number of times new stock is acquired in the business. It is also referred to as a rate of stock turn.

$$\begin{aligned} &= \frac{\text{Cost of sales / cost of goods sold (on cost)}}{\text{Average inventory at cost}} \\ \text{Or} &= \frac{\text{Net sales / turn over}}{\text{Average inventory at selling price}} \end{aligned}$$

Average inventory at cost is also known as average stock

$$\text{Average stock} = \frac{\text{opening stock} + \text{closing stock}}{2}$$

$$\text{Cost of goods sold} = \text{Net sales - gross profit}$$

Shareholders ratio: This measures the returns on the shareholders' investment in the business

$$= \frac{\text{Gross dividends (ordinary shares)}}{\text{Market price of shares}}$$

PROFITABILITY RATIOS

Gross profit ratio: This shows the earning capacity of the business by taking the margin between the cost of goods and sales.

$$= \frac{\text{Gross profit}}{\text{net sales}} \times 100$$

A higher ratio indicates an increase in selling price and / or reduction in cost of goods sold.

$$\text{Net sales} = \text{total sales - returns inwards / sales returns.}$$

$$\text{Operating profit ratio} = \frac{\text{operating profit} \times 100}{\text{Net sales}}$$

$$\text{Operating profit} = \text{Gross profit - operating expenses}$$

$$\text{Administration ratio} = \frac{\text{Administration expenses} \times 100}{\text{Net sales}}$$

$$\text{Cost of goods sold ratio} = \frac{\text{Cost of goods} \times 100}{\text{Net sales}}$$

$$\text{Net profit ratio} = \frac{\text{Net profit} \times 100}{\text{Net sales}}$$

TOPIC TWENTY-SIX

25.0 BUSINESS ETHICS

25.1 INTRODUCTION

In topic twenty-five one, we clearly saw that for a business to be successful, there must be effective communication with its customers, employees, bankers, government and the entire society.

For an entrepreneur to properly communicate with these parties, he/ she should know and respect their interests and handles them in a manner that respects the business ethics.

Business ethics refers to those acceptable behaviours shown by or ways by which businesses should conduct themselves towards their customers, employees, government, society and fellow businesses.

Or

It may refer to behaviours that a business adheres to in its daily dealing with the world or one to one dealing with a single customer.

For instance, for a case of professional business like those set up by Doctors (clinics), lawyers (law firms), Teachers (Schools), etc. Ethics may be a way of observing the professional code of conduct. In other businesses, ethics may be those practices that have evolved/come up out of common practice over a long time and they have come to be generally accepted, or in other situations, they may be standards set by the regulations of the business.

The concerned parties to business ethics include;

- Clients or customers who deal with the business
- Employees who help in running business operations
- The government of the country in which the business activities take place
- Business that compete with the entrepreneur's business.
- The society with in which the business operates.

25.2 BUSINESS ETHICS TO WARDS CUSTOMERS

- a. Honesty; an entrepreneur is supposed to be honest to his /her customers, this will involve charging fair prices for the goods, good quality and affordable quantities, provision of delivery facilities to customers (if possible), etc.
- b. Endeavour to seek and analyze the needs of customers and making sure that goods / services provided conform to those identified needs of customers. An entrepreneur should always strive to fulfill the needs of the customers.
- c. Courtesy: This involves politeness, patience and sincerity when dealing with customers. An entrepreneur should always put him / her self in "customer's shoes", for instance one is not supposed to sell underweight and expired goods to his customers.
- d. An entrepreneur should ensure that the goods or services provided do not have any negative impact of the customers' for instance a professional Doctor or nurse should not sell expired drugs to patients or his clients since they will affect their lies instead of treating them.
- e. Genuine to customers; an entrepreneur should be kind, cheerful and should always try to control his / her tempers when dealing with clients/ customers, should not use abusive language or shout at customers, he/she should instead try to make them understand what he /she needs in case of any discrepancy.
- f. Provision of the required information to the clients or customers on the use of the products / services, installation, maintenance and other likely impacts of using the product or service.
- g. Responsibility; An entrepreneur should try to meet his obligations as agreed on, for instance he/she should fulfill his contractual obligations on agreed time, deliver on time and fulfill his / her part of the deal / bargain.

25.3 BUSINESS ETHICS TO WARDS EMPLOYEES

In order for an entrepreneur to treat the employees in an ethical manner, the following should be highly observed.

- a. Through giving them a fair pay; payment to employees should be fair, i.e in relation to his value in business and amount of work done. One should also consider the seniority, experience, responsibility, etc of the employee when determining the payment.
- b. Should provide clear and fair terms of employment; for instance employees should be given appointment letters so that they can know their job security i.e whether they are permanent, temporary or contractual employees, the letter will also specify the salary / wage projections, duties and responsibilities of an employee, all these protect the rights of an employee.
- c. Ethics determine the job security of an employee, as it is the right of an employee to know the terms of employment, for instance, it can be on permanent basis, temporary or contractual form of employment which helps an employee to plan accordingly, e.g if it a contract based, one should prepare to look for another job when the term of contract is ending.
- d. Provision of good working conditions; since employees spend most of their useful time at their work places, the work place should assure them a health life during and after staying at the business, such conditions may include protective working clothes, helmets, gloves, etc good transport, feeding, accommodation, medical care and other allowances etc.
- e. There should be constant arrangement for proper training and education of workers, this will improve on their skills in operating their business activities which improves performance.
- f. Listening to employees' personal problems and complaints, through thus, an entrepreneur can help in solving or assisting them where necessary through giving them affordable and relevant support to them.
- g. Politeness i.e workers should be treated in a polite way in all situations, this also involves those situations where employees go wrong for instance let a single mistake made by an employee not make an entrepreneur forget the good things made / he made.
- h. creating a room for creativity; employees should be treated as human beings who have the right to think and act i.e they should be given a chance to exercise their thinking when carrying out the business activities, this may lead to improve services and productivity to the business.
- i. Respect, the entrepreneur should respect the employees for the contribution they make to the business, for instance the entrepreneur should not publically abuse employees and the norms of the society of the area should be respected when handling employees.
- j. Provision of proper recognition appreciation and encouragement of special skills to capabilities of workers, this increases their morale and devotions to their work in business.

25.4 BUSINESS ETHICS TOWARDS THE SOCIETY

- a. Conserving the environment; the business should endeavor to take all the necessary steps needed to conserve the environment, for instance trying all the necessary ways of controlling pollution i.e in air water and swamps.
- b. The business should endeavour to protect people's health and lives during its operation like avoiding emitting poisonous and toxic substances, controlling machinery noise explosion etc.
- c. A business should have stick considerations for the norms, for instance during business activities in what is acceptable to the culture or religious beliefs of the society, like putting up a disco hall near a secondary school, selling port in a Muslim community.
- d. A business is also expected to get involves and contribute to the needs of the society, like contributing to community health services like setting up health centres, community development like cleaning or road construction etc.
- e. A Business is also expected to provide employment opportunities to the community members instead of giving them out to foreigners, i.e in case they fir in the existing opportunities in terms of qualification, experience and skills.
- f. A business should also come to the society's appeal in case of emergency situation, or health centre, building schools, etc.

25.5 BUSINESS ETHICS TOWARDS GOVERNMENT

Business operate in an environment that is controlled by both the central and local government thus a harmonious relationship should prevail between the two parties to ensure that the business is enabled to operate well, some of the acceptable business ethics towards the government include;

- a. Complying with the laws that govern the business-like registration law, licensing laws, labour laws, occupational hygiene etc.
- b. Observing and setting the tax obligation as required by law, it is a must for entrepreneurs to pay taxes and they should be paid on time and in full, an entrepreneur should avoid un ethical behaviors like under declaring, bribing, falsification of data, withholding information etc, if it comes to prepare documents for tax assessment.
- c. Business should follow the government policies in their operations, like selling products that are acceptable by the government, should avoid engaging in selling illegal commodities like fire arms, expired commodities, etc.
- d. The business should meet the production standards in terms of quality, weight etc Dishonesty acts like changing the weighing scales in order exploit consumers should be avoided.
- e. The business should also comply with occupational hygiene, environmental regulations etc as prescribed by the central and local governments.

25.6 BENEFITS OF THE BUSINESS FROM PRACTICING BUSINESS ETHICS.

Through observing business ethics towards customers, employees, society, government and stakeholders, the business benefits in the following ways;

- Through provision of good services to customers, the business is likely to expand its market by maintaining the existing customers and attracting new ones.
- Through practicing good relations with the society, it increases the market and gets protection of the business operations and its assets.
- The business easily accesses cheap labour and raw materials from the society or the surrounding environment, this leads to increased profitability due to reduced costs of raw materials.
- A business earns good reputation though practicing business ethics to the society, this will improve on its operations as well as future prospects.
- The business that observes ethics will run its activities without fear of being persecuted or closed down by the government.
- Honesty businesses will attract the government support and sympathy during times of need, like winning some local and foreign tenders.
- Through practicing ethics to employees, its facilities the achievement of the business goals and objectives as there is goods employee-employer relationship.

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