

SOCIAL ENTREPRENEURSHIP

This is the creation of innovative enterprises to make positive and sustainable impact on society

Social entrepreneurs recognize social problems / social concerns and use entrepreneurial principles to organize, create and manage a venture to make a social change/ impact.

Examples of social problems / social concerns upon social entrepreneurs emerge.

- ✓ Deforestation and bush burning
- ✓ Diseases like Malaria and HIV/AIDS
- ✓ Illiteracy and disempowerment
- ✓ High levels of unemployment
- ✓ Poverty
- ✓ Social discrimination
- ✓ Improper waste disposal
- ✓ Poor hygiene / poor sanitation
- ✓ Insecurity etc

ADVOCACY SKILLS

Advocacy is the verbal, written or symbolic actions to promote a mission or cause. Social entrepreneurs are skilled advocates of their vision and social innovations. They aim to maximize the positive impact of their work. Advocacy is about speaking and writing to others to spread ideas, innovative strategies and recruit support.

THE GEPIC STRUCTURE FOR ADVOCACY

- ❖ **Greet:** who are you? Recognize of give thanks and state your purpose of speaking or writing
- ❖ **Engage:** get the audience's attention with a "quote" statistics, say a story with shocking facts. This should make the topic interesting to the audience
- ❖ **Problem / opportunity:** express the problem / opportunity in clear facts without your opinion. Explain how seriously or wide spread the problem is, the nature of the opportunity, or details about the current reality
- ❖ **Inform:** explain your perspective on the opportunity and purpose your innovation / vision. Tell what you think should be done
- ❖ **Call to action:** call the audience to take action to support you. Make the action something specific so that you will be able to follow up with them and find out whether or not they have done it

GEPIC structure for advocacy, highlighting the problems of deforestation in the community should show the following

- Title including the Business Name and address and statement **GEPIC STRUCTURE FOR ADVOCACY, HIGHLIGHTING THE PROBLEMS OF DEFORESTATION IN THE COMMUNITY.**
- **Greet;** A candidate(s) should show the action by greeting the audience, bringing out self-introduction, background information, etc.
- **Engage;** the candidate(s) gives statistics, story, shocking fact on acres of forests cut, etc.
- **Problem statement;** the candidate(s) highlights the problems of deforestation such as
 - Results into global warming.

- Results into soil erosion.
- Leads to loss of construction materials.
- Leads to loss of plant and animal life/species.
- Leads to water pollution.
- Leads to desertification, etc.
- **Inform;** the candidate(s) informs the community of the innovative solution the enterprise has come up with to address the problem of deforestation.
- **Call for action;** the candidate(s) writes a specific action statement calling upon community members to get involved in implementing the project to address the challenge of deforestation by
 - Planting trees.
 - Giving seedlings to the community members.
 - Carrying out afforestation and or re-afforestation.
 - Practicing sustainable agriculture, e.t.c.

Example one of GEPIC structure

You have decided to establish a social enterprise aimed at reducing unemployment in your locality. Draft a GEPIC structure for advocacy for promoting your social mission.

FFENA TUKOLE ENTERPRISE
P.O BOX 30, KATWE, KAMPALA UGANDA
TEL: +2567554433

GEPIC STRUCTURE FOR ADVOCACY

Greet: thank you every one for coming to listen to me today. As a student in our community, I care deeply about our collective future and the problem of severe unemployment which affects not only you and me, but also affects your children, my friends, brothers and sisters and every one's opportunities.

Engage: last year, my dad showed me a story in the newspaper of man who died by falling out of a cargo air plane. When I asked Dad why this man sneaked onto the plane, he said "he was a man looking for work in another country"

Problem: today, Uganda graduates about 36,000 men and women a year from different universities. Of these 36,000, only 20% find employment. Near 40% are the first in their families or entire village to go to university. Yet all those jobless graduates return home like a man who died in the aero-plane, with no hope.

Inform: many people talk about the need for more job creators rather than job seekers. But they stop at talking what we need is more action and for youth like me and your children to start creating projects and jobs now.

Call to action / challenge: I am here today to challenge you to become part of the solution to this major problem. I want you to stop talking and join us by investing in our poultry project, by supporting us, you helping to change Uganda.

Example 2

You have decided to establish a social enterprise aimed at promoting environmental forum. Draft a GEPIC structure for advocacy for promoting your social mission.

KWAGALANA ENVIRONMENTAL PROTECTION FORUM
P.O BOX 333, KAMPALA UGANDA
TEL: 0753818204

GEPIC STRUCTURE FOR ADVOCACY FOR INSPIRED ENVIRONMENT FORUM

Greet: thank you everyone for coming to listen to me today. Good morning to you all in the name of almighty GOD

Engage: last week, my dad showed me a picture of a man who was cutting a tree near a lake which had a crocodile, a lion was at the lake shores, a snake on the tree. When I asked what it meant, he replied that all others trees were cleared now all animals have hope in this remaining one which the man is cutting too. So they are waiting to eat him up

Problem: today, the changes in seasons are a result of deforestation, the wild animals that have encroached people's homestead are as a result of deforestation, famine, poverty and the drop in our country's tourism industry all also attributed to deforestation and environmental abuse

Inform: many people talk about the need for protecting environment but they only stop on mentioning the statement, we need more actions than words to solve the problem of environmental degradation

Challenge / call to action: so, I am here today to challenge you to become part of the solution to this major problem. Let us go-green by planting down trees and stop cutting the existing ones. By so doing we would have support agriculture, tourism and the bio diversity and thus have made this world a better place to live in

Assignment.

Your electronic shop is experiencing declining sales due to a greater decrease in number of customers

- a) Develop a root cause analysis for the declining sales
- b) Develop an environmental impact assessment policy for the business

You have noticed a challenge of poor disposal wastes in your home area and you have come up with a project to overcome that. Prepare a GEPIC structure

Draft a GEPIC structure for advocacy for promoting your mission

Business name and address

GEPIC STRUCTURE FOR ADVOCACY FOR PROMOTING HEALTH

Greeting: our chief guest, invited guests and community members I greet you all

Engage: last week I went to Mulago Hospital and I was informed that roughly five people per week have been dying of poor hygiene and sanitation related diseases such as dysentery, diarrhea, among others. This shows that our hygiene and sanitation are still lacking but remember health is wealth

Problem: from the analysis, we have come to realize that poor health is as a result of poor garbage disposal

Inform: as concerned community members, we have come up with a project to fight the poor health in our community. We have put up public rubbish pits in the community to eradicate the disposal of rubbish everywhere.

Call for action: we kindly request for your co-operation as we work towards saving the lives of people thank you.

You own a waste recycling factory that recycles plastics and other waste, as a social enterprise to keep the environment and also create jobs. Develop a GEPIC structure for the advocacy for promoting your own mission

UNIQUE WASTE RECYCLING FACTORY

P.O BOX 22, MBALE

TEL: 0756-88-88-88

GEPIC STRUCTURE FOR ADVOCACY FOR PROMOTING BUSINESS MISSION

Greet: The chief guest, invited guests and community members present, I greet you all in the name of the almighty God. I am called Ssenoga Moses, the owner of Unique waste recyclers factory in Mbale.

Engage: last year (2016) the statistics at the municipal council offices showed that 10 died in various parts of the district due to disease related to dirty environments.

Problem: from the analysis made, it is clear that the people health/ disease outbreak especially cholera is as a result of poor waste disposal

Inform: As concerned community members, we have come up with a project to fight against poor waste disposal e.g sensitizing community members to use the dustbins appropriately, gazetting rubbish collection centres etc.

Call for action: We kindly request for your co-operation as we work towards savings the lives of people in Mbale district. Thank you.

Develop an environmental impact assessment policy for the business

UNIQUE WASTE RECYCLES FACTORY

P.O BOX 22, MBALE

TEL: 0756-88-88-88


ENVIRONMENTAL IMPACT ASSESSMENT POLICY

- ✓ Proper waste treatment and disposal shall be ensured
- ✓ Business operations shall be supervised to ensure that they comply with the set standards / regulations
- ✓ Protective Equipments shall be provided to the workers
- ✓ Appropriate warning signs / labels shall be put near harmful / dangerous items/area/zones
- ✓ The already used products shall be recycled to avoid wastes
- ✓ Proper packaging materials (e.g Bio- degradable packaging materials) shall be used.
- ✓ Alternative source of energy shall be used
- ✓ Silencers on noisy machines / tools / equipment shall be used

- ✓ Environmental educational shall be promoted or emphasized
- ✓ The business shall contribute funds towards the environmental protection programme

PROGRAMME FOR BECOMING A SOCIAL ENTREPRENEUR.

This is composed of the steps for one to become a social entrepreneur. Design a programme for becoming a social entrepreneur

KWAGALANA ENVIRONMENTAL PROTECTION FORUM P.O BOX 333, KAMPALA UGANDA TEL: 0753818204 Programme for becoming a social entrepreneur			
Date	Activity	Persons responsible	Remarks
3/4/20	Developing an idea for becoming a social entrepreneur	Malunda peter	
6/4/20	Discovering the vision, mission and skills	Malunda peter	
9/4/20	Identifying opportunities in the community	Malunda peter	
10/4/20	Matching the vision with the community opportunities	Tracy K	
11/4/20	Acting and spreading change	Kato C	
18/4/20	Mobilizing resources	Tom Ellyn	
20/4/20	Constructing needed buildings	Tracy C	
22/4/20	Recruiting workers	Kudu Fred	
23/4/20	Launching the enterprise	Ali Tom	
25/4/20	Starting operation of the enterprise	Ali tom	
Designed by		Approved by	
Signature 		
Name : Malunda peter		
Title : Operational manager		

HOW IS YOUR BUSINESS SOCIALLY RESPONSIBLE?

The business is socially responsible in the following ways

- Creating sustainable impact on society, social entrepreneurs try to address the root cause of the problems in the community and generating solutions to them instead of providing short term sales.
- Generating government revenue, some activities undertaken by social entrepreneurs are taxed by the government hence contributing towards the government revenue.
- Providing sustainability, social entrepreneurs tend to prevent the end or expiry of some things/ goods which create positive impact in society.
- Increasing opportunities to the disadvantaged, social entrepreneurs ensure provision of opportunities for the marginalized that include understanding, disadvantaged etc especially by providing information that enable them access such opportunities.
- Encouraging people to identify business opportunities, social entrepreneur encourage members of the society to identify attractive investment ideas that provide a possibility of realizing profit
- Utilizing the would be idle resource, social entrepreneurs make use of the would be idle resources in the society by creating business opportunities hence minimizing resource wastage
- Promoting innovation and creativity, social entrepreneurs educate or teach the community to transform the available resources into new resources.

- Providing market, social entrepreneurs ensure provision of market for the local products provided by the members of the community.
- Empowering people, social entrepreneurs ensure training of the community members to equip them with survival skills.
- Encouraging unity and harmony, social entrepreneurs promote projects which ensure joint participation of the community members.
- Improving infrastructure, social entrepreneurs promote activities in the community that facilitate the development of infrastructure such as roads, communication networks etc.
- Creating employment, social entrepreneurs especially through establishment of profit making social enterprises provide job opportunities to different groups of people which solves the problem of unemployment.
- Reducing harmful effects, social entrepreneurs tend to establish or carry out activities that are environmentally friendly hence avoiding negative impact on the environment.
- Improving the quality of life of the people, this is done through provision of access to educational facilities, health services etc.

Strategies put in place for the sustainability of the tree planting project should include;

Title: i.e NAME AND ADDRESS OF THE BUSINESS STRATEGIES FOR THE SUSTAINABILITY OF THE PROEJCT

- ✓ Adapting reforestation i.e cutting one tree and planting two or more trees.
- ✓ Irrigating the trees especially during dry season.
- ✓ Pruning the trees seasonally so as to improve their quality or growth
- ✓ Insuring the trees/forests against common risks that trees face fire outbreaks
- ✓ Registering the tree planting project to ensure that it operates legally and avoid closure.
- ✓ Training the community members to become part or participate in proper management promotion of tree planting.
- ✓ Carrying out continuous research aimed at improving the tree planting project e.g on developing drought resistant tree varieties.
- ✓ Ploughing back or re - investigating part of the profits to expand the tree planting project.
- ✓ Sensitizing the community about the benefits of trees/ collaborating with the local community to ensure acceptance of the tree planting project in the area.
- ✓ Employing forest rangers /workers to help protect the trees against encroachers.
- ✓ Sourcing/lobbying for financial support like from the government for financing the activities of the tree project.
- ✓ Carrying out continuous advertising to create market for the tree project.
- ✓ Selling of goods and services of the tree project like wood at affordable prices to generate income for operating the project.
- ✓ Budgeting well for proper allocation of resources like funds to finance the activities of the tree project.
- ✓ Adapting good saving culture to accumulate funds for maintaining and expanding the trees.

Strategies for management plastic waste of the project should include;
INCOMPLETE NOTES

COMMUNICATION SKILLS

Communication refers to the process of exchanging information between the sender and receiver. It is how we transmit thoughts, feelings, knowledge and ideas from one person to another

NAME AND ADDRESS OF THE BUSINESS

GUIDELINES FOR ENHANCING EFFECTIVE COMMUNICATION IN THE BUSINESS.

1. Communication shall be made at the right time ie before mid-night / during working hours.
2. Complete messages shall be sent to direct the listeners or to make it understood by including all facts to be known.
3. Messages shall be sent from a noise free environment that allows the targeted receiver to get the full message as required.
4. Concise message shall be sent to the receiver to enable effective communication.
5. Appropriate channel or medium shall be used to reach the target group.
6. Right and appropriate language shall be used to enable effective communication ie use of English.
7. Clear messages shall be sent to receiver to understand it.
8. Simple messages shall be sent to facilitate effective communication ie avoid using jargons and slangs.
9. Consideration of receivers shall be encouraged to avoid hurting the receiver ie by first thinking about the receivers needs., feelings, knowledge and others including positive words in the message.
10. Feedback shall be obtained to ensure effective communication.
11. Ensuring that message is sent to the right person so as to ensure effective communication.
12. Ensuring correctness of the message by making the message specific / definite and to the point and not vague, to enable the receiver understand the message.

Communication documents

These are basically used when the business communicates with its customers and they are very important in any business.

Business letter. This is a main form of communication with people outside the business. It is commonly used for external communication.

They are different examples of business letters such as

- ✓ Appointment letter
- ✓ Letter of complaint
- ✓ Termination letter
- ✓ Letter seeking for a trading license
- ✓ Warning letter
- ✓ Application letter
- ✓ An apology letter etc

However it should be noted that all the letters carry the following major features and they include the following.

Major features of a business letter

- i. **Return address.** This is the address of the writer of the letter (sender of the letter). In the modern way of writing letters, return address must be centered.

- ii. **Reference.** This is used to assist in identification of the subject matter and to whom the letter is being written. It makes it easy to identify the file when a copy of the letter is kept.
- iii. **Date.** This shows when the letter was written.
- iv. **Inside address.** This shows the name of the person or business receiving the letter.
- v. **Salutation.** This is the greeting used to commence the letter. E.g Dear sir, Madam, Miss etc.
- vi. **Subject heading.** This gives a brief indication of the content of the letter. Capital letters may be used.
- vii. **Body.** This gives main reason and details as to why the letter is written.
- viii. **Complimentary closing.** This is a respectful goodbye general closing to the letter. Commonly used closings for formal letters includes, yours faithfully, yours truly etc. NB yours sincerely is commonly used for friendly letters.
- ix. **Signature.** This is handwritten name of the writer (sender). A signature should be followed by a name and the title of the sender.

Note.

The following features are also very important to appear on a letter.

- ✓ Frame. A complete letter should be framed
- ✓ A title is also important
- ✓ A business logo
- ✓ C.C (this means someone else has a copy of the letter) E.g. C.C L.C I chairman.

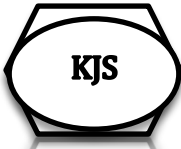
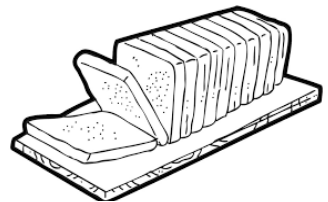
Format of a business letter

There are two format used that is

- ➔ Fully blocked style
- ➔ Indented block style

Fully blocked style, all parts of the letter begin from the left margin

You are running a bakery / confectionery business, however due to increased demand for the products, you have decided to seek for funds from financial institutions, draft an application letter that will accompany your business proposal

 <p>KJS</p> <p><i>Our ref:</i> <i>Your ref:</i></p>	<p>KJS BAKERS LIMITED P.O BOX 333, KAMAPAL (U) TEL: 0772123456 <i>"For quality bakery products"</i></p>	
<p>March, 15, 2023</p>		
<p>THE LOAN MANAGER PRIDE MOCRO FINANCE (U) LTD P.O BOX 12, KAMPALA</p> <p>Dear Sir/ Madam,</p> <p>RE: APPLICATION FOR LOAN FOR BUSINESS EXPANSION</p> <p>I humbly submit my request for a business loan to be used in expanding my business. The business deals in confectionery products including cakes, bread, doughnuts and others. It has been in existence for four years</p>		

The project is estimated to take five million shillings only (5,000,000) and will take several years. The repayment period is two years. A business proposal and other relevant documents are attached on this letter for more information.

I will be glad if my request is responded to positively.

Yours faithfully,



Nakimuli Patricia
MANAGING DIRECTOR

Indented blocked style.



GREENLAND GENERAL HARD WARE
P.o Box 2461
NAIROBI, KENYA
TEL: +2446226266

GGHW

23rd/03/2023

PURCHASING MANAGER
VIVA GENERAL MACHANDISE
HARD WARE UG, LTD
P.O BOX 21
KAMPALA, UGANDA

**RE: APOLOGY AND REQUEST FOR EXTENSION OF TIME TO
DELIVER GOODS**

Dear Sir / Madam,

This is to acknowledge that we are in receipt of your notice whereby you informed us that the goods shipped to you on 18th/ 03/2022 did not conform to our agreement dated (13th/03/2023)

We regret this unintentional mistake on our part, the reason for which were (explained) while we recognize that the time for performing under this agreement has expired, we are requesting that you extend the time to 30th/03/2020 in order that we may cure the defect by replacing the shipment with goods that conform to our agreement

Please accept our apology for this inconvenience. We shall be looking forward to your response

Yours faithfully



MURUNGI ANNIE
SALES MANAGER

NB. Many people may choose to use an indented block style business letter because like the way that it looks. The definition of an indented block style business letter is a letter that is justified at the left margin except for few elements, these elements include the return address, the reference line, closing, signature and printed name




QUESTION.

You are operating a restaurant in a very congested and unhygienic location and you intend to shift your location to a better place.

- (a) Write an invitation letter to the district environmental officer to inspect your new location.
- (b) Write a notice to your esteemed customers informing them that you are going to shift your location to another location to a new one due to the congestion and unhygienic condition in the present location.
- (c) Design a menu card to be used in your restaurant.

Solution

AN INVITATION LETTER TO THE DISTRICT ENVIRONMENTAL OFFICER

	<p>FAST FOOD RESTAURANT P.O BOX 19 BAKULI-NANKULABYE TEL: 0731663314 FastFoodrestaurant@yahoo.com</p>	
<p>Our Ref; FFR/ADM/2024 Your Ref:</p> <p>To: THE DISTRICT ENVIRONMENTAL OFFICER KAMPALA DISTRICT 19TH/JULY/2024.</p> <p>RE: <u>INVITATION FOR THE INSPECTION OF MY RESTAURANT</u></p> <p>I hereby humbly request you to come and inspect my new place where I am going to shift my restaurant to due to unhygienic and congestion condition where I have been operating from. It is found at Bakuli-Nankulabye opposite city oil petrol station in Kampala. The function will begin at 1:00pm on the 28th July 2020.</p> <p>We shall be warmly waiting to receive you on that day.</p> <p>Yours faithfully,</p> <p></p> <p>MPAGI EMMANUEL MANAGING DIRECTOR c.c To the mayor of Kampala c.c To the L.CV of Kampala c.c To the Bishop of Kampala</p> <p style="text-align: right;"><i>"A customer is our Boss"</i></p>		

A NOTICE TO MY ESTEEMED CUSTOMER



FAST FOOD RESTAURANT

P.O BOX 19

BAKULI-NANKULABYE

TEL: 0731663314

FastFoodrestaurant@yahoo.com



Our Ref: FFR/ADM/2024

Your Ref:

20TH/JULY/2024.

NOTICE

TO: All our esteemed customers

RE: RE-LOCAION OF FAST FOOD RESTAURANT.

This is to inform you that all our esteemed customers that the FAST FOOD restaurant is going to be shifted due to the congestion in Nankulabye whereby you have even always been lacking a convenient parking yard to a vast land with a convenient parking yard and it is also due to the unhygienic conditions which may be a threat to your lives. It is going to be shifted to Bulange-Mengo opposite the Kings Palace at Kabaka-njagala road. Sorry for the inconveniences.

Please our continued support is highly considered.

Yours faithfully,


MPAGI EMMANUEL
MANAGING DIRECTOR

c.c To the administration


c.c To the Marketers

c.c To the Suppliers

"A customer is our Boss"



FAST FOOD RESTAURANT
P.O BOX 19
BAKULI-NANKULABYE
TEL: 0731663314
FastFoodrestaurant@yahoo.com


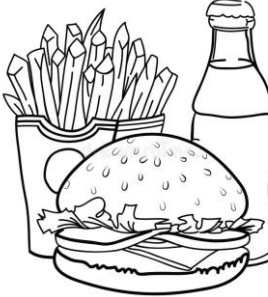


Our Ref: FFR/ADM/2024

Your Ref:

MENU

We offer all types of food and drinks at relatively affordable prices at all convenient prices and times. We offer breakfast, lunch and supper. We have local and international dishes.

<u>Breakfast</u>	<u>Prices</u>	
Bread with margarine + coffee	8,000=	
Chapati + coffee	5,000=	
Milk	3,000=	
Dry tea	1,000	
<u>Lunch</u>		
Fish + Matooke	10,000=	
Meat + Posho and Matooke	8,000=	
Rice + meat	9,000=	
Matooke + beans	7,000=	
Rice + G. nuts	6,000=	
<u>Supper</u>		
Chips + chicken	7,000=	
Beef + chips	6,000=	
Liver + chips	1,000=	
<u>Drinks</u>		
Mineral water	3,000=	
Soda	1,800=	
Juice	1,500=	

"A customer is our Boss"

Example

You are the general manager Tukole carpentry workshop in Kyengera

- Write a letter to be forwarded to the town clerk Kyengera town council seeking for a trading license.
- Write a warning letter to an employee with poor performance.
- Write a termination letter to an incompetent employee whose services are no longer needed at the workshop.
- Write an appointment letter to a newly recruited security officer at the workshop.
- You have decided to resign from your work due to some reasons, write a resignation letter.

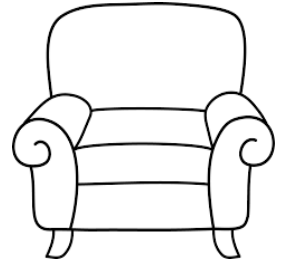
a) **A LETTER SEEKING FOR A TRADING LICENSE FROM THE TOWN CLERK**

TCWS

TUKOLE CARPENTRY WORKSHOP
P.O BOX 216 KYENGERA
TEL: 0774380388

ICM2

Dealers in quality furniture like tables, chairs, beds etc.



Our ref: TCW/MD/2020

Your ref:

THE TOWN CLERK
WAKISO DISTRICT
Dear Sir,

RE: APPLICATION FOR A TRADING LICENSE

I humbly submit in my request to your esteemed office seeking for a trading license for TUKOLE carpentry workshop. The workshop is located in Kyengera trading center behind Equity bank.

Waiting for your positive response

Yours faithfully

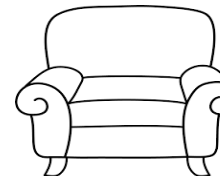
MAGEZI TOM
General Manager
C.C L.C.I chairman

WARNING LETTER TO AN EMPLOYEE WITH POOR PERFORMANCE

TCWS

TUKOLE CARPENTRY WORKSHOP
PO BOX 216 KYENGERA
TEL: 0774380388

Dealers in quality furniture like tables, chairs, beds etc.



Date:

3/02/2020

To: MR. NJUKI MATAYO

Dear Sir,

RE: WARNING LETTER

I write to inform you that management is for so long not satisfied with the way you perform your duties, you are therefore warned to improve your performance and create a chance for the success of our workshop otherwise we shall be forced to do away with you.

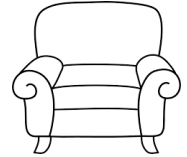
Yours faithfully

NSENENE MARK
GENERAL MANAGER
C.C personal file
C.C chairman Board of directors

TERMINATION LETTER TO AN INCOMPETENT EMPLOYEE.

TCWS

TUKOLE CARPENTRY WORKSHOP
PO BOX 216 KYENGERA
TEL: 0774380388



Dealers in quality furniture like tables, chairs, beds etc.

Date: 03/03/2024

Our ref TCW/03/2024

TO: Mr. Kiwuka

Dear Sir:

RE: TERMINATION LETTER

I would like to recommend your good services you have been rendering to our firm as a cashier since we employed you. However we are not able to continue with your incompetence and I would like to bring it to your notice that effective to April 1st 2024 you are no longer our business cashier and your services has been terminated.

Your termination package of shs 100,000 has been arranged collect it from the general manager's office.

Yours faithfully

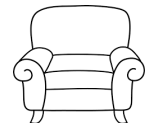
NSENE MARK
GENERAL MANAGER

Note. When writing a termination letter, the date when an employee has been stopped from work must be mentioned and the termination package. It is also important to mention the cause why the employee's services has been terminated.

TERMINATION LETTER

TCWS

TUKOLE CARPERNTRY WORKSHOP
P.O.BOX 216, KYENGERA
TEL: 0774380388



Dealers in quality furniture like tables, chairs, beds etc.

Our ref: DBS/INV/2024

Your ref:

25th/June/2024

To: Nabunje Josephine (CASHIER)

Dear Madam

RE: TERMINATION OF YOUR SERVICES.

In reference to the above subject, I would like to thank you for the Services you have been rendering to Tukole Carpentry Workshop since 2020 to date. However, due to your continued response to work, theft and Embezzlement, your services have been terminated. Your termination benefits of Uganda shillings 800,000= . I would like to wish you the best in the next endeavours wherever you will be after here.

Yours faithfully,

MPAGI EMMANUEL
Managing Director

- Reason for termination.
- Evidence to support the cause
- Clarification on payments and benefits.

An appointment letter must contain:

The job/ position appointed to.

Date of appointment.

Terms and conditions of employment.

Salary to be offered.

Any other benefits that may be offered.

INCOMPLETE NOTES

FINANCIAL RATIOS AND ANALYSIS

A ratio is a mathematical expression of one figure to another. Ratios enable comparison of one figure to another

Ratio Analysis. This is a technique used to come up with an opinion about the results of a business as reflected in the final accounts i.e in the trading profit and loss account (income statement) and the balance sheet.

THE PURPOSE OF FINANCIAL RATIOS

- ☞ To compare business performance over several financial periods
- ☞ To compare business performance with that of other businesses within the same industry
- ☞ To guide management in formulating /making future financial or investment plans and policies

IMPORTANCE OF FINANCIAL RATIOS

- ☞ They help in comparison of a firm's performance over time i.e current and past accounting periods to tell whether the business is declining or doing well
- ☞ Ratios help to compare the growth and relative efficiency of a business with competitors in the same industry
- ☞ They provide a basis for making future business policies and plans to achieve the set goals
- ☞ Financial ratios also help investors in evaluating a business and its shares especially those selling shares to the public through stock exchange
- ☞ They are used by tax authorities to assess the amount of tax to be paid by different businesses
- ☞ They can be used by businesses to access credit facilities from lenders or by lenders to extend credits to clients or business

USERS OF FINANCIAL RATIOS

1. **Bankers and Lenders:** Use profitability, liquidity and investment because they want to know the ability of the borrowing business in regular scheduled interest payments and repayments of principal loan amount.
2. **Investors:** Use profitability and investment because they are more interested in profitability performance of business and safety & security of their investment and growth potential of their investment.
3. **Government:** Use profitability because government may use profit as a basis for taxation, grants and subsidies.
4. **Employees:** Use profitability, liquidity and activity because employees will be concerned with job security, bonus and continuance of business and wage bargaining.
5. **Customers:** Use liquidity because customers will seek reassurance that the business can survive in the short term and continue to supply.

6. **Suppliers:** Use liquidity because suppliers are more interested in knowing the ability of the business to settle its short-term obligations as and when they are due.
7. **Management:** Use all ratios because management is interested in all aspects i.e., both financial performance and financial condition of the business.

RATIOS AND RATIO ANALYSIS

There are several types of ratios and each is designed to satisfy a particular aim of analysis. These include

- ✓ Profitability ratios
- ✓ Efficiency ratios
- ✓ Liquidity ratios
- ✓ Leverage / solvency ratios
- ✓ investment ratios

They are explained as below:

1. Profitability ratios

Measure the company's ability to generate profits from its resources (assets). i.e. they determine if the business was able to generate sufficient profits to justify its continuity in operation or not. They include.

- ✓ Gross profit margin
- ✓ Mark up
- ✓ Net profit margin
- ✓ Rate of return on capital

- i) **Gross profit margin/ ratio.** This refers to the Gross profit expressed as a percentage of the selling price or net sales / turn over i.e. percentage of gross profit to net sales.
Or

The **gross profit margin** is the ratio of gross income or profit to sales. This ratio indicates how much of every shilling of sales is left after costs of goods sold.

Gross profit margin indicates the percentage of revenue available to cover operating and other expenses and to generate profit.

$$\text{Gross profit Margin} = \frac{\text{Gross Profit}}{\text{Net Sales/ Turnover}} \times 100$$

Interpretation

A high Gross Profit Margin is a favourable sign of good management. Higher ratios mean the company is selling their inventory at a higher profit percentage.

Example:

Calculate gross profit ratio (GP Ratio) from the following particulars.

Particulars	Shs	Particulars	Shs
Sales	255,000	Purchases	80,000
Sales returns	55,000	Purchases returns	10,000
Opening stock	40,000	Closing stock	10,000

Solution:

Cost of goods sold = Opening stock + Net purchases - Closing stock

But Net purchases = purchases – purchases returns
= 80,000 – 10,000 = shs 70,000

Cost of goods sold = 40,000 + 70,000 - 10,000 = 120,000

Net sales = 255,000 - 55,000 = 200,000

Gross profit = 200,000 - 120,000 = 80,000

$$\text{Gross profit Margin} = \frac{\text{Gross Profit}}{\text{Net Sales/ Turnover}} \times 100$$

$$\text{Gross profit Margin} = \frac{\text{shs } 80,000}{\text{shs } 200,000} \times 100$$

$$\text{Gross profit Margin} = 40 \%$$

Interpretation

Gross profit	40
Net sales	100

For every shs 100 of Net sales made by the business, the business earns shs 40 as gross profit.

Or

The business realized a gross profit of shs 40 for every shs 100 of net sales made

- ii) **Mark up.** It refers to Gross profit expressed as percentage of Cost of the goods / cost of sales or cost of goods sold. It is also called **Gross profit markup or Gross profit ratio.** i.e. that percentage by which cost price is increased to get the selling price of the goods.

$$\text{Markup} = \frac{\text{Gross Profit}}{\text{Cost of sales}} \times 100$$

Note: The higher this ratio the better

Example

Particulars	Shs	Particulars	Shs
Sales	450,000	Purchases	160,000
Sales returns	120,000	Purchases returns	30,000
Opening stock	190,000	Closing stock	20,000

Solution:

Cost of goods sold = Opening stock + Net purchases - Closing stock

But Net purchases = Purchases – purchases returns
= 160,000 – 30,000 = shs 130,000

Cost of goods sold = 190,000 + 130,000 - 20,000 = 300,000

Net sales = 450,000 - 120,000 = 330,000

Gross profit = 330,000 - 300,000 = 30,000

$$\text{Markup} = \frac{\text{Gross Profit}}{\text{Cost of sales}} \times 100$$

$$\text{Markup} = \frac{\text{Shs } 30,000}{\text{shs } 300,000} \times 100$$

$$\text{Gross profit Markup} = 10 \%$$

Interpretation

Gross profit	10
Cost of sale	100

For every shs 100 of cost of sales, there is shs 10 gross profit.

Or

The business realized gross profit of shs 10, on every shs 100 cost of sale incurred.

- iii) **Net Profit Margin / ratio:** this is the expression of net profit as a percentage of net sales ie that percentage of net profit to net sales/turnover

$$\text{Net Profit Margin} = \frac{\text{Net Profit}}{\text{Net Sales}} \times 100$$

Note: the higher this ratio the better

Example:

From the following information calculate net profit ratio (NP ratio)

Total sales shs 520,000

Sales returns shs 20,000

Net profit shs 40,000

Net sales = (520,000 – 20,000) = 500,000

$$\text{Net Profit Margin} = \frac{\text{Net Profit}}{\text{Net Sales}} \times 100$$

$$\text{Net Profit Margin} = \frac{\text{shs } 40,000}{\text{shs } 500,000} \times 100$$

$$\text{Net Profit Margin} = 8\%$$

Interpretation

Net profit	8
Net sales	100

For every shs 100 of Net sales made by the business, there is shs 8 Net profit earned.

- iv) **Rate of Return on capital.** It is twofold ie rate of return on capital invested and rate of return on capital employed

- a) **Rate of return on capital invested.** This refers to net Profit expressed as a percentage of capital at the beginning of the period. It measures the profitability of the owner's investment in the business.

$$\text{Rate of return on capital employed} = \frac{\text{Net Profit}}{\text{Capital Invested}} \times 100$$

Example

Given that

Gross profit stands at shs 84,000,000

Expenses shs 34,000,000

Total assets shs 166,000,000

Total liabilities shs 66,000,000

Required

Determine the business Rate of return on capital invested.

$$\text{Rate of return on capital employed} = \frac{\text{Net Profit}}{\text{Capital Invested}} \times 100$$

But

Net profit = gross profit – total operating expenses.

Net profit = shs 84,000,000 – shs 34,000,000

Net profit = shs 50,000,000

But

Capital Invested = Total assets – Total Liabilities

Capital Invested = shs 166,000,000 – shs 66,000,000

Capital invested = shs 100,000,000

$$\text{Rate of return on capital employed} = \frac{\text{shs } 50,000,000}{\text{shs } 100,000,000} \times 100 = 50\%$$

Interpretation

Net profit	50
Capital invested	100

The business obtained net profits of shs 50 for every shs 100 worth of Capital Invested.

b) **Rate of return on capital employed.** This refers to net profit expressed as a percentage of capital employed.

ROCE ratio measures profit before interest and tax with the total capital employed in the business. It is, therefore, a measure of the success of the company in making use of its invested capital.

$$\text{Rate of return on capital employed} = \frac{\text{Profit Before Interest and Tax}}{\text{Capital Employed}} \times 100$$

Capital employed = Total assets – current liabilities.

Or

Capital Employed = Fixed Assets + Working Capital

Or capital employed = Total equity + Long term debt.

ROCE should always be higher than the rate at which the company borrows.

Intangible assets (assets which have no physical existence like goodwill, patents and trade-marks) should be included in the capital employed. But no fictitious asset should be included within capital employed. If information is available then average capital employed shall be taken.

PBIT means Net profit before interest and Tax.

The higher the rate of return the better the business

Note. For examination purposes, rate of Return on Capital will imply rate of Return on capital invested

Example

A business has the following information

Fixed assets	shs 200,000
Current assets	shs 100,000
Current liabilities	shs 50,000
Net profit	shs 80,000

Calculate the rate of return on capital employed.

$$\text{Rate of return on capital employed} = \frac{\text{Profit Before Interest and Tax}}{\text{Capital Employed}} \times 100$$

But

Capital employed = Fixed assets + Working capital

But

Working capital = Current assets – Current liabilities

Working capital = shs 100,000 – shs 50,000

Working capital = shs 50,000

Capital employed = shs 200,000 + shs 50,000

Capital employed = shs 250,000

Rate of return on capital employed = $\frac{\text{shs } 80,000}{\text{shs } 250,000} \times 100 = 32\%$

Interpretation

Net profit	32
Capital employed	100

The business obtained net profits of shs 32 for every shs 100 worth of capital employed.

- i) **Expense ratio** (expense to sales ratio) is computed to show the relationship between an individual expense or group of expenses and sales. It is computed by dividing a particular expense or group of expenses by net sales. Expense ratio is expressed in percentage.

$$\text{a) Expense ratio} = \frac{\text{Operating expenses}}{\text{Net sales}} \times 100$$

$$\text{b) Administrative Expense ratio} = \frac{\text{Total administrative expenses}}{\text{Net sales}} \times 100$$

$$\text{c) Selling and Distribution Expense ratio} = \frac{\text{Total selling and distribution expenses}}{\text{Net sales}} \times 100$$

$$\text{d) Cost of goods sales ratio} = \frac{\text{Cost of goods sold}}{\text{Net sales}} \times 100$$

$$\text{e) Salaries and wages ratio} = \frac{\text{Salaries and Wages}}{\text{Net sales}} \times 100$$

The numerator may be an individual expense or a group of expenses such as administrative expenses, sales expenses or cost of goods sold.

Expense ratio shows what percentage of sales is an individual expense or a group of expenses. A lower ratio means more profitability and a higher ratio means less profitability.

Example

Details	shs
Sales	48,000,000
Sales returns	500,000
Salaries and wages	2,000,000

Additional information

Prepaid salaries and wages shs 300,000

Required

Calculate and interpret Salaries and wages ratio

$$\text{Salaries and wages ratio} = \frac{\text{Salaries and Wages} - \text{Prepaid wages and salaries}}{\text{Net sales}} \times 100$$

But

Net sales = sales – Sales returns

Net sales = shs 48,000,000 – shs 500,000

Net sales = shs 47,500,000

$$\text{Salaries and wages ratio} = \frac{\text{shs } 2,000,000 - \text{shs } 300,000}{\text{shs } 47,500,000} \times 100$$

$$\text{Salaries and wages ratio} = \frac{\text{shs } 1,700,000}{\text{shs } 47,500,000} \times 100 = 3.57 \% \text{ approx. } 4 \%$$

Interpretation

Salaries and wages	4
Net sales	100

For every shs 100 of Net sales made by the business, shs 4 is spent on salaries and wages

ii) **Operating Profit Ratio:**

INCOMPLETE NOTES

TAXATION

Tax refers to a compulsory charge levied by the government or any other competent authority on persons (individuals, co-operation and other legal entities) in order to finance government activities.

Or

It is a legal compulsory transfer of funds from the public to the fiscal authority irrespective of the exact amount of benefits rendered to the tax payer by the government.

BASIC TERMS USED IN TAXATION

1. **Tax base.** This refers to any item or economic activity that is subject to tax.

The most common tax bases in Uganda

- ❖ Employment income
- ❖ Corporation tax/corporate income
- ❖ Sales tax (VAT, Exercise)
- ❖ Rental Income

2. **Tax liability.** Refers to the total amount of money that a tax paying unit is expected to pay within a given period of time.

Study the following table and answer the questions that follow;

Tax payer	Taxable income (shs)	Tax rate (%)
Saulo	9,000,000	15
Duncan	6,800,000	14
Prossy	5,700,000	13
Sanyu	10,000,000	16

Calculate the tax liability for each tax payer.

Tax liability = Tax rate x Taxable income

$$\text{Saulo; Tax liability} = \frac{15}{100} \times 9,000,000 = \text{shs } 1,350,000$$

$$\text{Duncan; Tax liability} = \frac{14}{100} \times 6,800,000 = \text{shs } 952,000$$

$$\text{Prossy; Tax liability} = \frac{13}{100} \times 5,700,000 = \text{shs } 741,000$$

$$\text{Sanyu; Tax liability} = \frac{16}{100} \times 10,000,000 = \text{shs } 1,600,000$$

3. **Tax rate.** This is applied on a tax base to derive a tax liability which is the obligation the tax payer meets. The rate is represented as either a percentage or a fixed or s specific value based on units

Use the information below to determine the tax rates for the following tax payers.

Tax payer	Taxable income (shs)	Tax liability (shs)
Besigye	1,000,000	150,000
Muntu	800,000	80,000
Bobi	600,000	48,000
Mao	400,000	20,000

$$\text{Tax rate} = \frac{\text{Tax liability}}{\text{Taxable income}} \times 100$$

$$\text{Besigye; Tax rate} = \frac{150,000}{1,000,000} \times 100 = 15\%$$

$$\text{Muntu; Tax rate} = \frac{80,000}{800,000} \times 100 = 10\%$$

$$\text{Bobi; Tax rate} = \frac{48,000}{600,000} \times 100 = 8\%$$

$$\text{Mao; Tax rate} = \frac{20,000}{400,000} \times 100 = 5\%$$

Example 2

Study the table below and answer questions that follow.

Tax Payer	Taxable income (shs)	Tax liability (shs)
Akello Joseph	25,000,000	3,500,000
Akena Moses	30,000,000	6,300,000
Odongo Charles	25,500,000	5,250,000

a) Calculate the tax rate for each payer.

Tax rate for each payer.

Akello Joseph

$$\text{Tax rate} = \frac{\text{Tax liability}}{\text{Taxable income}} \times 100$$

$$\text{Tax rate} = \frac{\text{shs } 3,500,000}{\text{shs } 25,000,000} \times 100 = \underline{14\%}$$

Akena Moses

$$\text{Tax rate} = \frac{\text{Tax liability}}{\text{Taxable income}} \times 100$$

$$\text{Tax rate} = \frac{\text{shs } 6,300,000}{\text{shs } 30,000,000} \times 100 = \underline{21\%}$$

Odongo Charles

$$\text{Tax rate} = \frac{\text{Tax liability}}{\text{Taxable income}} \times 100$$

$$\text{Tax rate} = \frac{\text{shs } 5,250,000}{\text{shs } 25,500,000} \times 100 = \underline{\underline{20.6\%}}$$

4. **Tax compliance.** This is the degree to which the tax paying community meets the tax obligation as set up in appropriate legal and regulatory provisions.
5. **Threshold of a tax.** Refers to the amount of money or level of income from which the tax liability begins.
6. **Tax evasion.** This is the deliberate refusal of a tax paying unit to pay its tax obligations in order to reduce its tax liability.
7. **Tax avoidance.** This is where a tax payer escapes paying tax or pay less by taking advantage of the Loopholes in the tax laws to reduce one's tax liability.
8. **Value Added Tax.** Tax levied on consumption of goods and services and imposed on value added at every stage in the chain of distribution and production of goods and services
9. **With Holding Tax.** These taxes are a form of income tax deducted at source by one entity upon making a payment to another entity
10. **Excise duty.** This is imposed on the importation of specific goods with a view of influencing their supply or consumption in the local market, it is normally charged on socially undesirable and luxurious goods
11. **Capitalization of a tax.** This is a situation where a tax paying unit usually a firm artificially increase the value of its capital employed so as to reduce its tax liability.
12. **Tax holiday.** This refers to the period of non – tax payment given by the government to reduce consumers spending and encourage investment spending.
13. **Average rate of tax.** This refers to the proportion of income that is paid out as tax.

$$\text{Average rate of tax} = \frac{(\text{Tax amount})}{\text{Total income}} \times 100$$
14. **Marginal rate of tax.** Refers to the proportion of additional income that is paid out.

$$\text{Marginal rate of tax} = \frac{(\text{Change in tax})}{\text{Change in income}} \times 100$$
15. **Tax rebate.** This refers to the tax reduction under special consideration
16. **Tax yield.** This refers to the amount of tax revenue collected from a given number of taxes
17. **Hidden tax.** This refers to the tax paid on purchase of goods and services and usually included in the prices of commodities being bought or taxed.
18. **Tax haven.** This refers to a situation where a country deliberately offers low tax rates or relaxed / liberal tax so as to attract as much foreign investment and trade as possible.
19. **Taxable income.** This refers to income subjected to taxation
20. **Taxable capacity.** Refers to the ability of individuals to pay taxes imposed on them without affecting his / her standard of living.
21. **Forward shifting of a tax.** This is when the money burden of the tax is shifted by the tax payer to another party who buys the output being taxed. For example a manufacturer may shift the burden to tax to the wholesaler who then shifts it to the retailer and the retailer then shifts it to the final consumer.

22. Back ward shifting of a tax. This is when the official tax payer shifts the money burden of a tax to the person from whom he buys. For instance a producer using a given raw material may shift the money burden to the supplier of such a raw material.

TYPES OF TAXES

There are two broad categories of taxes ie direct and indirect taxes

DIRECT TAXES

These are taxes levied on the incomes and property of individuals and business entities, the burden of which is directly borne by the person paying it. Direct taxes include the following

- ✓ **Income tax.** This is the tax levied on profits or income earned by an individual or a business entity. It takes two forms ie personal income tax and corporation tax
 - i) **Personal income tax.** Is a tax that is levied on the income of an individual and it's normally a progressive tax
 - ii) **Corporation tax** is a tax levied on corporation or company premises and its normally proportional tax based on the net income of the company. The tax base for income tax include profits from business, rent and royalties (money paid for using one's patent right or assets like land) from selling assets and income from investments like shares, debentures and other securities and income from employment
- ✓ **Wealth tax.** It is a tax levied on the accumulated wealth and savings of an individual or business entity. It may be levied on shares, land and other investment
- ✓ **Capital gain tax.** This is tax levied on profits received from the sale of capital assets like sale of property, investment stock etc
- ✓ **Estate duty.** This is a duty levied on estates of deceased persons. It is levied before or after the property in the estate is shared out to the different beneficiaries as based on market value of the estate
- ✓ **Gift tax.** This is the tax directly imposed on gifts among the living. This tax was meant to stop people from passing over their property to others when they are still alive and therefore avoid paying tax.

Merits/advantages/positive effects or impact of direct taxes

- **Direct taxes are used to reduce income inequalities/they help to redistribute income.** This is because they are progressive in nature hence high income earners are taxed at a higher rate compared to the low income earners e.g. PAYE.
- **They are used to control inflation.** This is because direct taxes reduce the people's disposable income and thereby reducing aggregate demand for goods and services.
- **Direct taxes are certain.** This is because the tax payers are well informed regarding the amount to pay, the time and method of payment.
- **They are economical.** This is because the cost of collecting direct taxes is generally low especially when deducted from the income or salary of an individual.
- **They are flexible.** This is because the government is able to increase or decrease the tax rates according to the prevailing economic conditions or requirements in the country.
- **They are simple and easy to understand.** This is because there no complicated calculations involved.
- **Direct taxes are convenient.** This is because they are collected at the time when income has been earned/realized.

Demerits/disadvantages/costs/positive effects or impact of direct taxes

- Direct taxes discourage saving and investment. This is because high direct taxes reduce people's disposable income hence reducing the amount of money available for saving which limits investment.
- They make the government unpopular. This is because they impose a heavy burden on the tax payers hence creating resentment and negative attitude towards government.
- They are easy to evade. This is by the tax payers under declaring their incomes.
- They cause inconvenience to the tax payers. This is because some direct taxes are payable in advance and lump sum.
- They are a burden to the tax payers. This is because they are paid directly out of the income of the tax payers.
- They are not economical/they are costly. This is because of the need to employ many people to assess, collect and administer taxes where the population is scattered and the informal sector is big.
- They discourage hard work and effort. This is because they are progressive in nature implying that when people work harder and realise higher incomes, they are taxed at higher rates.
- They are discriminative in nature. This is because some income groups especially low income earners are exempted from paying some of the direct taxes like PAYE.

INDIRECT TAXES

These are taxes that are levied on goods and services paid by an individual or business entity and shifted to the final consumer. These taxes are voluntary in that sense you can only pay them if you opt to buy the goods or consume services which are levied. The common types of indirect tax include

- ✓ Customs duty. This is levied on goods that cross national boarder point either as imports into the country or exports leaving the country. The tax on imports is referred to as import duty while tax on exports is referred to as export duty.
- ✓ Excise duty. This is a duty levied on the production or importation of specific goods with a view to influence their consumption or supply in the market.
- ✓ Specific tax. This is a fixed monetary tax per physical unit of good imported for example shs 100,000 per tonne of maize flour.
- ✓ Octroi tax. This is a tax imposed on goods in transit through a given country.
- ✓ Sales tax. It is a tax levied as a percentage on goods or service sold.
- ✓ Value Added Tax (VAT). This is a tax levied on consumption of goods and services. It is levied on the value added at very stage in a chain of production or distribution of goods and services.

Or

It is abroad based indirect tax on consumption, charged on value added to "taxable" goods and services, at different stages on the chain of distribution ie the more you buy, the more you pay. It is charged on both local products and imports.

It is not a cost to a producer or the distributor chain member and its full impact is borne by the end consumer. It was first introduced in the European Union in the 1970's

It was introduced in Uganda with effect from 1st July 1996. It replaced sales tax and commercial transaction levy (CTL)

The governing law is the VAT Act (Cap 349)

KEY TERMS USED IN VAT

Taxable person. A person who is registered or is required to be registered under provisions of the law to pay VAT. In other words, for one to qualify as a taxable person the turnover should exceed Ugx150 Million per annum whether registered or not.

VAT Threshold This is the turnover above which one is required to register for VAT. For example, in Uganda the current VAT threshold is Ug Shs 150 Million of taxable supplies.

Taxable Supply This is supply of goods or services other than an exempt supply made by a taxable person for consideration as part of his/her business activities.

Goods These include all kinds of movable and immovable property, but does not include money.

Movable Property This includes stock in trade and the capital goods of a business.

Immovable Property This includes land with developments on it and any real right to such property.

Services These are intangible assets. They include intellectual and industrial property rights for
Example copyrights, trademarks, among others.

Taxable Value. Is the price of a taxable good or supply excluding VAT. It is also known as the tax base.

VAT Rate This is the percentage used to calculate VAT for example; Standard rate at 18% and Zero rate at 0%.

Output Tax This is the VAT a taxable person charges on selling taxable supplies i.e. tax charged upon selling taxable goods and services.

Input Tax This is the VAT a taxable person is charged on taxable purchases and expenses incurred for business purposes. The purchases could be from local sources or imported.

Main Features of VAT

- ✓ Is abroad – based tax charged and collected at all stages in the chain of distribution. I.e. its multi stage
- ✓ Is an indirect form of tax i.e. the one paying is the one who incurs the tax burden
- ✓ It charged on expenditure (consumption) and not income
- ✓ Is charged on valued added
- ✓ It is ultimately borne by the final consumer
- ✓ Credit mechanism (VAT on inputs credited against taxes on output)

Advantages of VAT Registration

- * The tax payer is entitled to input tax paid on purchases
- * The burden may be shifted to another person (buyer)
- * The tax payer is at business advantage since other tax payers prefer VAT registered persons
- * Payments may be differed by use of accrual method of accounting.

Limitations of VAT

- Most business people in Uganda rarely keep business records
- The tax is difficult to understand
- Lack of co-operation by tax payers which results into tax evasions
- VAT rates are still high yet the country has a low tax base.

Demerits of VAT

1. It's complicated to understand by the traders
2. It's difficult to assess
3. It based on evidence inform of records, this is very difficult to maintain
4. It increases costs of production e.g. VAT on inputs
5. A high Vat rate makes government in power unpopular
6. It's easily evaded as traders tend to different records

VAT records Kept by the business.

- ❖ Delivery note
- ❖ Appointment and job books / cards
- ❖ Annual accounts including trading accounts, profit or loss and balance sheet.
- ❖ Bank statements and Paying records.
- ❖ Original tax invoice including simplified invoice.
- ❖ Customs exports and import entries
- ❖ Transit documents
- ❖ Computer Generated records
- ❖ Contracts
- ❖ Receipts
- ❖ Payment vouchers
- ❖ Order note.

Circumstances for deregistration of VAT tax payer(s)

- i) Tax payer ceases to make supply of goods/services for consideration as part of their business activity
- ii) Tax payer no longer meets the registration threshold of 37,500,000 supply VAT exclusive in three consecutive months.
- iii) Tax payer has no fixed place of business
- iv) Tax payer is not keeping proper books accounts
- v) Not submitting regular and reliable tax returns
- vi) In the opinion of commissioner general, the tax payer is not fit and proper to be registered.

Illustration 1

Assuming that there are levels in the chain of production as follows

- (a) Stage 1. Importation of goods with a taxable value of 10,000 shillings
- (b) Stage II. Sale of goods by the importer to a retailer at shs 15,000
- (c) Stage III. Sale of goods to a final consumer by the retailer at shs 25,000

Calculate the total VAT payable

Solution

Stage I. VAT will be charged on importation price

VAT Rate = 18%

VAT Payable = VAT Rate X initial cost

VAT Payable = 18% X 10,000 = shs 1,800

Stage II.

VAT payable = Valued added X VAT rate

Valued added = 15,000 – 10,000 = 5,000

VAT payable = 5,000 X $\frac{18}{100}$ = shs 900

Stage III

VAT payable= Value Added X VAT Rate

Value added = 25,000 – 15,000

VAT payable = 10,000 X $\frac{18}{100}$ = shs 1,800

N.B total VAT payable from the 3 stages is 4,500 shillings

From the above, it is clear that though Vat is collected from the three stages, the one who bears the burden is the final consumer

Illustration 2

The following VAT exclusive transactions were availed to you by VAT registered business in your town for the month of December 2016

- i. Rachael bought goods worth shs 80,000,000
- ii. Rachael sold the same goods to Penrose for shs 90,000,000
- iii. Penrose sold the same goods to Deborah a retailer for shs 100,000,000
- iv. Deborah sold the same goods to the final consumer for shs 120,000,000

Required

Using the VAT Rate of 18%

- a) Compute for the entrepreneurs the VAT chargeable for the value added at each stage
- b) Advise Deborah on the gross value for her goods to the final consumer

Solution

Stage 1

VAT Payable = initial cost X VAT Rate

$$\text{Shs } 80,000,000 \times \frac{18}{100} = 14,400,000 \text{ shillings}$$

Stage 2

VAT Payable = Value Added X VAT Rate

Value added = (shs 90,000,000 – shs 80,000,000) = 10,000,000 shillings

VAT Payable = 10,000,000 X $\frac{18}{100}$ = shillings 1,800,000

Stage 3

VAT Payable = Value Added X VAT Rate

Value Added = (shs 100,000,000 – shs 90,000,000) = 10,000,000 shillings

VAT Payable = shs 10,000,000 X $\frac{18}{100}$ = 1,800,000 shillings

Stage 4

VAT Payable = value Added X VAT Rate

Value Added = (shs 120,000,000 – shs 100,000,000) = shs 20,000,000

VAT Payable = 20,000,000 X $\frac{18}{100}$ = 3,600,000 shillings

(ii) Gross sales Value = selling price X VAT chargeable

Gross sales value = Shs 120,000,000 + $\frac{18}{100}$ X 120,000,000

Gross sales value = shs 120,000,000 + shs 21,600,000 = shs 141,600,000

Deborah would be advised on the gross value as follows

- Deborah should include VAT chargeable in her selling price / determining her selling price

- Deborah should have sold her goods to the final consumer at shs 141,600,000 inclusive of VAT

Trial question

The following VAT exclusive transactions were availed to you by VAT registered businesses in your town for the month of May 2015,

- i. Masanso bought goods worth shs 60,000,000
- ii. Masanso sold the same goods to Kibooko for shs 88,000,000
- iii. Kibooko sold the same goods to Onzita a retailer for shs 96,000,000
- iv. Onzita sold goods to the final consumer for shs 120,000,000

Required

Assuming the VAT rate is 18%

(a) Compute for the entrepreneur VAT chargeable for value added at each stage and advice Onzita on the gross sales value for his goods to the final consumer

RENTAL TAX

This is tax levied on income earned by a person from letting out immovable property (land and buildings) in Uganda. For income tax purposes, it does not matter whether the building is let out as a residence or for commercial use. Property is let out by a landlord or landlady to another person also known as a tenant for a consideration.

Key definitions

Landlord or Landlady

This is any person who lets out immovable property to another person (the Tenant) for a consideration. A person (landlord or landlady) may take the form of: an individual e.g Robert Wamala, a corporate body e.g., RORA Properties Ltd, Government e.g Luwero District Administration, an institution e.g. Makerere University, or a listed institution such as Deposit Protection Fund of Uganda.

Tenant

This is the person who occupies another person's property on commercial terms and pays a consideration. Taxation of Rental Income is provided for under S. 5 of the Income Tax Act. This is rent earned by persons and is segregated and taxed separately.

Sources of rental income

- ✓ Commercial buildings
- ✓ Land (plots, gardens or swamps)
- ✓ Royalties (murram, minerals, stones, rocks, etc)

Note: Rent is classified under business income if it's derived by a person whose business is wholly or mainly the holding or letting of property. However, if rent is derived by the person whose business is not wholly or mainly the holding or letting of property, then it is classified under property income. For example if a company receives rent from its properties, then it is classified as property income because it is not in the business of holding or letting of property.

Taxation of Rental Income is provided for under S. 5 of the Income Tax Act. This is rent earned by persons and is segregated and taxed separately as though it were the only source of income for the taxpayer.

The rental income of a resident person for the year of income is charged to tax at the rate of 30% of the chargeable income after deducting the allowable expenses.

The rental income of a resident person for the year of income is charged to tax at the rate of 30% of the chargeable income after deducting the allowable expenses.

Computation of Rental Income Tax

BE EFFECTIVE 1ST / 07 RENTAL TAX: (TO / 2022) NEW RENTAL TAX PROVISIONS.

Tax Calculation:

Annual Rental Income: Determine the total rental income you earn from all your residential properties in a year.

Tax-Free Threshold: Subtract UGX 2,820,000 from your total annual rental income. This amount is exempt from tax.

Taxable Income: The remaining amount after subtracting the threshold is your taxable income.

Tax Rate: Apply the 12% tax rate to the taxable income to determine the amount of tax payable.

Example Calculation:

- Annual Rental Income: UGX 10,000,000
- Tax-Free Threshold: UGX 2,820,000
- Taxable Income: UGX 10,000,000 - UGX 2,820,000 = UGX 7,180,000
- Tax Payable: 12% of UGX 7,180,000 = UGX 861,600

Key Points:

The threshold means the first UGX 2,820,000 of your annual rental income is not taxed.

Only the amount above this threshold is taxed at 12%.

This applies specifically to residential rental income for individuals, not for companies or commercial properties.

Note:

Any individual earn rental income below 2,820,000 will pay Nil rental income tax.

Question 1

Ms. Nyaketcho Martin and Ms Logose Delilah own a building in Busega that belonged to their late brother Muganga Anthony; they earn 4,500,000 shs as rental income from this building.

The tax rate for rental tax is 12%

Threshold tax is 2,820,000

Calculate their rental tax payable

Solution

Rental income	shs 4,500,000
Less threshold	shs 2,820,000
Chargeable income = (4,500,000 – 2,820,000) =	shs 1,680,000
Rental tax payable (12 % X 1,680,000)	shs 201,600

$$\text{Effective rate} = \frac{201,600}{1,680,000} \times 100 = 12\%$$

Question 2

Musoke earned shs 6,500,000 as rental income from his house located in Kampala. Give the threshold shs 2,820,000 and rental tax rate 12%. Compute his rental tax

Rental income	shs 6,500,000
Less threshold	shs 2,820,000
Chargeable income (6,500,000 – 2,820,000)	shs 3,680,000
Rental tax (12% X 3,680,000)	shs 441,600

$$\text{Effective rate} = \frac{441,600}{3,680,000} \times 100 = 12\%$$

Question 3

Mukisa has various rental properties across Kampala and Wakiso districts. His income and expenses for the period ended 31. Dec.2021. were as bellow

Rental income	
Nakawa	150,000,000
Kiwatule	200,000,000

Expenses

Repainting	20,000,000
Security	8,000,000
Compound maintenance costs	34,000,000
Total expenses	62,000,000

Required

Computes the tax payable by Mr. Mukisa on his rental income for the year ended 31.dec.2021.

Solution

FOR COMPLETE BOOK CALL ON 0752818204 KIMULI FRED

OR

TONNY INNOCENT SSEKAMATE ON 0704- 911227