**FINANCIAL MANAGEMENT**

This refers to the management of financial funds in order to achieve financial objectives.

The key objectives of financial management include:

1. To create wealth for the business
2. To generate cash
3. To provide adequate returns (profits) or investment

**Elements of Financial Management**

There are 3 key elements to the process of financial management and these include:

1. **Financial Planning:** This involves laying strategies to ensure that enough funds are available at the right time to meet the needs of a business both short term and long term needs.
2. **Financial Control:** This involves regulating expenditures in order to attain the objectives of the business.
3. **Financial decision making:** This involves making decisions regarding investments, sources of funds and dividends.

**BOOK KEEPING AND ACCOUNTING**

**Introduction**

Businesses whether large or small carry on numerous transactions everyday and it is responsible to remember all of them. Hence there is need to keep a proper record of all transactions for various reasons

**Meaning of Book-Keeping**

Is the art or process of recording, classifying and summarizing business transactions in form of money in the books of accounts .

Book-keeping can also be defined as the process of recording financial transactions in an accurate and systematic way. It involves writing down in monetary terms transactions that have taken place in business.

Book-keeping is part of accounting.

**Accounting**

Is the art of recording, classifying, summarizing, interpreting and analyzing business transactions for decision making processes.

**Reasons/ Importance of Book-keeping**

1. To ascertain net profit/loss made by the business.
2. To provide information of credit transactions
3. To act as a tool for control i.e. can use its records to maximize the profits by widening the gap between income and expenditure, proper control of unnecessary expenditure and misappropriation of funds is very helpful for proper decision making
4. To determine the financial position of the enterprise
5. To be used as basis for planning i.e. proper and complete accounting records present enough information for expansion and diversification of business.
6. To help when applying of r loans or not applying for a loan
7. Used as a basis for tax assessment
8. To help in inviting, directing and guiding investors who would wish to invest in business by buying shares
9. To act as evidence of business transactions that take place in the enterprise hence helps in solving disputes for future reference

**Users of Accounting Information**

Different people/entities use book keeping information/ records and these include:

1. **Owners and Managers:** These use the book keeping records for various purposes like to keep track of all debtors, keep track of other business transactions/operations and planning for the success of the business.
2. **Perspective Investors:** An individual or a firm who may want to invest in a particular enterprise will first want to look at the account’s records of that business before making a decision whether to join it or not.
3. **Trade Creditors (suppliers of goods to the business on credit):** The suppliers usually are interested in the book keeping records of a business to determine whether it is credit worth or not.
4. **Banks and other money lenders:** They study the accounting records of a potential borrower and use it to take the best decisions on whether to give out any loan/credit or not
5. **Government Agencies like tax authorities e.**g. URA: They use the book keeping records for calculating the right amount of tax an enterprise should pay
6. **Workers or Employees of a business:** They use the accounting records to determine their job security, taking decision on whether to demand for more pay or not basing on the profit level of the firm.
7. **The competitors:** These always want to study the accounting records of other competitors/rival businesses so as to compare their own performances with those of other rivals.

**Common Commercial Terms and Source Documents**

1. **Debtors:** This is a person(or firm) who owes money to the business for goods or services received on credit i.e. a person to whom good or services have been sold on credit
2. **Creditors:** This is a person to whom money is owed for goods or services sold on credit to a business.
3. **Transactions:** This is a dealing between two or more people which involves the exchange of goods and services. The exchange of goods and services are usually equated in form of money. Transactions are divided into two groups i.e. Cash and Credit transactions
4. **Purchases:** These refer to goods bought by a business for the purpose of selling them for a profit. It can also be defined as the amount of money spent to buy goods for resale. Similarly, the word purchases should only be restricted to mean goods bought for resale
5. **Sales:** These refer to goods which have been sold by a business. The term “sales” is used to strictly mean the sale of those goods the business has bought with a main purpose of selling for a profit. Any other item not traded in once sold should not be called sales. Sales can be cash or credit sales
6. **Accounts:** An account is a statement in the ledger where transactions of a similar nature are recorded in the order of the dates. Hence a business keeps summaries of all business transactions in form of accounts in the ledger.
7. **Drawings:** These are takings from a business by the owner for his own personal use. Drawings therefore reduce the capital of the business.
8. **The Voucher:** A voucher refers to any document which provides evidence or proof for any transaction or entry recorded in the accounts.
9. **Invoice:** This is a document issued when goods are sold or bought on credit. It contains the following details, descriptions of the goods purchased, names and addresses of the buyer and sellers, dates of purchase, price per unit, quantity of goods sold on credit, total value of goods, discount allowed, credit period e.t.c

**Sample of an Invoice unused:**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| BUYINZA STATIONERS LTD  P.0 BOX 220 JINJA  DATE: \_\_\_\_\_\_\_\_\_\_\_\_\_\_  Purchase order number….  INVOICE  Invoice no 210  M/s\_\_\_\_\_\_   |  |  |  |  |  | | --- | --- | --- | --- | --- | | S/no. | Particulars | Quantity | Rate(shs) | Amount(shs) | |  |  |  |  |  | | E&0E | Total |  |  |  |   Accounts are due on demand.  Terms of delivery \_\_\_\_\_\_\_\_\_\_  Terms of payment\_\_\_\_\_\_\_\_\_\_  Issued by\_\_\_\_\_\_\_ sign\_\_\_\_\_\_\_\_\_  Goods received by\_\_\_\_\_\_\_\_\_\_ sign\_\_\_\_\_\_\_\_\_ |

b) **Debit note**. This is a document sent by the seller to the buyer to correct an under charge in the original invoice. It can also be issued to the buyer when he fails to return packaging materials or containers that were not initially charged in the original price in the invoice

**Sample of debit note**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| DEBIT NOTE  No. 029 Date:5/6/2016  SHIMUK INVESTMENTS LTD  P.0 BOX 201, JINJA  Tel:…..  To: BUSOGA GROWERS LTD  P.0 BOX 111 KAMULI  We have today debited your account with us in the following amounts and details | | | | | |
| ITEM | OUR REF | DETAILS | PRICE | | |
| INVOICIED | CORRECT | DR |
| 1 | INVOICE 2393 | 30 medium  crocodile brand  Shoes @ shs 6000  Wrongly priced | Shs  120,000 | Shs  180,000 | Shs  60,000 |
| Error regretted **sign**  Accountant | | | Total | Shs | 60,000 |

**NB:** it is rarely used and in normal practice a new invoice is issued

**c) CREDIT NOTE**

This is a document used to reduce on the amount owed to the business by the buyers. In other words, it is issued to correct an overcharge in the invoice. It can also be given when part of the goods purchased are returned

**Sample of credit Note**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| CREDIT NOTE  No. 2089 Date:5/6/2016  SHIMUK INVESTMENTS LTD  P.0 BOX 201, JINJA  Tel:…..  To: BUSOGA GROWERS LTD  P.0 BOX 111 KAMULI  We have today credited your account with us as under:- | | | | | |
| ITEM | OUR REF | DETAILS | PRICE | | |
| INVOICED | CORRECT | CREDITED |
| 1 | INVOICE 220 | 12x6” baati saucepans @ shs 9000 | Shs  168,000 | Shs  108,000 | Shs  60,000 |
| Error regretted **sign**  Accountant | | | Total | shs | 60,000 |

d) **Delivery Note**

This is a document given by the seller/supplier to the buyer and proves that goods that were purchased have been delivered to the buyer. In other words , it acknowledges receipts of goods

**Sample of a delivery Note**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| NTAKE BAKERY LTD  P.O BOX 120 KAMPALA  DELIVERY NOTE  Delivery note no. 218 Date\_\_\_\_\_\_\_  Purchase order no\_\_\_\_  M/s\_\_\_\_\_\_\_ | | | | |
| No. | Particulars | Quantity | Rate(shs) | Amount |
|  | Total |  |  |  |
| Terms and conditions of supply\_\_\_\_\_\_\_\_\_\_\_\_\_\_  Delivered by \_\_\_\_\_\_ sign\_\_\_\_\_\_\_\_\_\_\_\_  All goods are received in good order and condition  Received by\_\_\_\_\_\_\_\_\_\_\_ sign\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ | | | | |

**Payment Voucher.**

This is the document that shows the amount of money paid out by the firm on a given date the name of the payee, purpose of payment, who authorized the payment etc

**Sample of payment Voucher**

|  |  |
| --- | --- |
| No. 112  GREEN SUMMER HARDWARE LTD  P.O BOX 11 JINJA  Tel\_\_\_\_\_\_\_\_  PAYMENT VOUCHER Date\_\_\_\_\_\_\_  Credit to M/s\_\_\_\_\_\_\_\_\_\_\_\_  Account No.\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ Invoice No.\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ | |
| Particulars | Amount (shs) |
|  |  |
| Cash/cheque No.\_\_\_\_\_\_\_\_  Amount in words\_\_\_\_\_\_\_\_\_\_  Prepared by\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ Received by \_\_\_\_\_\_\_\_\_\_\_\_  Authorized by\_\_\_\_\_\_\_\_\_\_\_ | |

**Receipt:**

Is a document issued by the seller to buyers when payments are made for goods and services sold. It acknowledges payment

**Sample of a Receipt**

|  |
| --- |
| GREEN SUMMER HARDWARE LTD  P.O BOX 11, JINJA.  TEL\_\_\_\_\_\_\_  RECIEPT Date\_\_  No. 212  Received from\_\_\_\_\_\_\_\_\_\_\_\_\_\_  Shillings (words)\_\_\_\_\_\_\_\_\_\_\_\_\_\_  Being payment for \_\_\_\_\_\_\_\_\_\_\_\_\_\_  Cash  Shs/Cheque No. \_\_\_\_\_\_\_\_\_\_ Balance\_\_\_\_\_\_\_\_  Signed by \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ |

**Sample of a quotation**

|  |  |  |  |
| --- | --- | --- | --- |
| Roofings Limited  P.o Box 111 Kampala  Quotation no. 201 Date:28/9/2016  Quotation  M/s Mubiru Hardware  P.o Box 20, Mukono  Dear Sir  In response to your letter of inquiring 002 dated 1/9/2016 we are glad to send you the following particulars: | | | |
| Particulars | Quantity | Rate(shs) | Amount (shs) |
| **-**Hollow section( 40x40x1.2 mm  -Twisted iron bars (12mmx40ft) | 200 pieces  500 pieces | 20,000 | 4,000,000  10,000,000 |
| E&OE | Total |  | 14,000,000 |
| The quoted prices exclude VAT. Delivery: 2 days from date of receipt of LPO  Quoted by\_\_\_\_\_\_\_\_\_\_\_\_\_\_ sign\_\_\_\_\_\_\_\_ Title\_\_\_\_\_\_\_\_\_ | | | |

**Sample of goods returned Note**

|  |  |  |
| --- | --- | --- |
| **JB**  Jambo book store  P.o Box 11 Jinja  Goods Returned Note Date:28-10-2017  No. 1009.  To: Kitabo Wholesalers Ltd  P.o Box 4781, Iganga  Please accept the following goods as retuned | | |
| Details | Reasons | Quantity |
| Elements of Accounts  Modern Accounting | Not required  Damaged | 20 copies  1 copy |
| Please issue us with a credit note  Signed\_\_\_\_\_\_\_\_\_\_\_\_ Name\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ Title\_\_\_\_\_\_\_\_\_\_\_\_ | | |

**Sample of local purchase order form (unused)**

|  |  |  |  |
| --- | --- | --- | --- |
| Mubiru Hardware  P. Box 2025, Kampala  Tel: 041424590  LOCAL PURCHASE ORDER  No. 2010 Date\_\_\_\_\_\_\_  To\_\_\_\_\_\_\_\_\_\_\_\_\_\_  Please supply the following goods | | | |
| Particulars | Quantity | Rate(shs) | Amount (shs) |
|  |  |  |  |
| Total |  |  |  |
| Enclosed is a cheque/cash of\_\_\_\_\_\_\_  Issued by\_\_\_\_\_\_\_\_ | | | |

**Sample of a package sheet**

|  |  |  |  |
| --- | --- | --- | --- |
| **KW** Kitabu Wholesalers Ltd  P.oBox 201 Jinja  PACKAGE SHEET NO. 2002  TO\_\_\_\_\_\_\_\_\_\_\_ Date\_\_\_\_\_\_\_\_\_\_\_\_  Those package contains the following: | | | |
| Particulars | | Quantity | |
|  | |  | |
| Packaged by \_\_\_\_\_\_ | Ledger folio 7/2 | | Checked by\_\_\_\_\_\_\_\_\_\_\_ |

**Sample of stock requisition form**

|  |  |
| --- | --- |
| **MF** Mukono Metal Fabricators  P.OBox 11, Mukono  Tel 0438492049  STOCK REQUISITION FORM  NO 212  DATE\_\_\_\_\_\_\_\_\_ | |
| Items | Quantity |
|  |  |
| Purpose\_\_\_\_\_\_\_\_\_\_\_\_\_  Requested by: sign \_\_\_\_\_\_\_\_\_\_ Name\_\_\_\_\_\_\_\_\_\_\_ Date\_\_\_\_\_\_\_\_  Authorized by: sign \_\_\_\_\_\_\_\_\_\_ Name\_\_\_\_\_\_\_\_\_\_\_ Date\_\_\_\_\_\_\_\_  Received by: sign \_\_\_\_\_\_\_\_\_\_ Name\_\_\_\_\_\_\_\_\_\_\_ Date\_\_\_\_\_\_\_\_ | |

**Sample of a funds requisition form**

|  |  |  |  |
| --- | --- | --- | --- |
| **MF** Mukono Metal Fabricators  P.O Box 11, Mukono  Tel 0438492049  Funds Requisition Form/ Claim form  No. 208 Date:\_\_\_\_\_\_  Department \_\_\_\_\_\_\_\_\_\_\_\_\_ Head of department | | | |
| Items | Quantity | Rate(shs) | Amount (shs) |
|  |  |  |  |
| Total |  |  |  |
| Amount in words\_\_\_\_\_\_\_\_\_\_\_\_\_\_  Amount approved\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  Requisition by\_\_\_\_\_\_\_\_\_\_ Name \_\_\_\_\_\_\_\_ Title\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  Authorized by\_\_\_\_\_\_\_\_\_\_ Name \_\_\_\_\_\_\_\_ Title\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  Received by\_\_\_\_\_\_\_\_\_\_ Name \_\_\_\_\_\_\_\_ Title\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ | | | |

**CAPITAL**

**Meaning:** Refers to money or property that is used to start/invested in a business venture for profit gains.

**Sources of Business Finance/Capital**

1. Equity capital/Personal Savings/Funds
2. Sale of old fixed assets that are not being used/ no longer required e.g. old motor vehicles/machinery etc. that are not productive
3. Sale of shares in case of companies
4. Retained profits. This involves putting aside a certain percentage of the profits, which can be invested in another business or can be reinvested (ploughed back) in the same business.
5. Grants/gifts and offers. Some people start business using gifts and offers from well-wishers friends, and relatives
6. Supplier’s credit. Some people start business-using goods that have been supplied on credit. After they have sold them, they use the sales to pay suppliers but remain with the profits realized on sale

**Advantages of Suppliers’ credit**

1. It is a sure way of obtaining business suppliers.
2. It may not involve interest charges on the goods got on credit
3. Reduces operating costs by doing away with things like sourcing, ordering of the goods

**Disadvantages of Suppliers’ credit**

1. It may be associated with higher cost prices when the entrepreneur has no chances of changing to another supplier
2. It may lead to inferior products being supplied since there is no competition
3. It leads to inflexibility in planning the sources of supplies
4. Membership fees for cooperatives and other organizations especially clubs
5. Sale of debentures by the company to the public especially public companies
6. Inheritance of money and property from the people who died and it helps them start their own businesses
7. Loans: A loan is money in cash or kind that is sourced from outside the business with a view of repaying it back at a later date with interest. Loans may be obtained from financial institutions, friends e.t.c.

**Advantages of Loans**

1. Make extra resources available to the entrepreneur.
2. Enforces hard work and discipline of the borrower due to the external monitoring and added interest.
3. More money is raised in a short period of time
4. The burden is pushed to the future.

**Disadvantages of Loans**

1. Operational costs increase because of paying interests on loan fees and other charges
2. The loan funds may not be available at the time when wanted.
3. The repayment obligations maybe tight and cause cash flow problems to the borrower.’
4. The borrower is subjected to external control over his business.
5. In case of failure to pay back the loan, the borrower may lose the security pledged in addition to collapse of the business.

**Reasons of Obtaining a Bank Loan**

1. To undertake a profitable opportunity. Business men obtain bank loans to undertake urgent business ventures that come their way.
2. To fulfill financial gap in the financial plan. When the money is not enough to finance the budget, loans are obtained to fill the deficit in the budget.
3. To attract technical and expert knowledge. Business men get loans for paying skilled labor in their enterprises
4. To beat off competition. A bank loan is obtained to raise funds for improving performance and outcompete rival firms by using better methods
5. To pay debts. Businesses obtain loans to finance the paying off old debts and other business liabilities accumulated during the course of business.
6. To expand business. A loan is used to obtain funds for new outlets/branches and expand the business scale of operation
7. To acquire more stock. Businessmen obtain loans to get more fixed assets, inventory or working capital to run the business ventures
8. To provide startup capital. Businessmen obtain loans to get money for implementing their business ideas and starting viable business ventures.
9. To fill the market gap. It helps to provide money for making customer needs that are not currently being provided in the market
10. To overcome uncertainties encountered by the firm. Business risks like theft, fire are overcome by obtaining a loan to finance their effects.
11. To benefit from government programmes like youth fund operation wealth creation, youth entrepreneurship schemes.

**PROCEDURES OF BORROWING**

These procedures vary from one lender to another but borrowing procedures involve the following

1. Identifying the business opportunity to be started.
2. Carrying out a market survey on the identified opportunity/carrying out a feasibility study to determine the viability of the business
3. Developing a business plan for the prospective business and establishing total funding required.
4. Developing a plan showing how the business would be financed (i.e. own contributions and funding gap) and the possible funding resources
5. Identifying and approaching possible financers,
6. Obtaining the terms and conditions for the loans to be availed from financers
7. Comparing the terms and conditions with those of other financers in similar business sector.
8. Checking the business plan in number (3) above to establish the implication of the loan to be acquired( in view of the cost associated in borrowing e.g. interest, loan fees and charges ) to the business
9. Initiating the discussions with the chosen or preferred financers.
10. Obtaining and using the loan for the intended purposes and according to the lending terms and conditions agreed upon

QN: P230/2 You intend to start a small bakery in your town and using partly borrowed funds,

1. Draw a program for obtaining loanable funds from pride microfinance
2. Prepare policy guidelines to be followed in managing cash in the business

**BORROWING TERMS AND CONDITIONS**

These are guidelines agreed upon by the lender and borrower for accessing, using and repaying a loan. Lending terms and conditions cover:

1. **Loan size:** This is the amount of money (loan) to be given by the lender to the borrower
2. **Interest rate:** This is the interest/cost the borrower has to pay to the lender for taking and using the loan
3. **Sectorial bias:**These are loans that maybe given with a view of promoting certain sectors , activities, group of people e.t.c, therefore borrowers who fall in certain activity will be given priority by lenders.
4. **Loan fees and services charged:** In addition to interest charges, the lender may require the borrower to pay some fees or charges like loan application fees, loan processing fees, commitment fees, insurance fees, e.t.c
5. **Loan installments:** These are the small parts of the loan which will be paid at a time either on weekly, monthly, quarterly, half yearly or annually basis.
6. **Security:** Most lending institutions ask the borrower to provide them with some assets or property which they could sell to recover the loan incase the borrower fails to repay the loan. Such assets/property are referred to as security
7. **The period the customer has spent dealing with the bank:** like 6month, 12 months e.t.c

**NB: 1. Lending terms and conditions may be determined using the following factors:**

* Level of demand for credit or estimated number of borrowers
* Nature and type of lender
* Nature and type of borrower
* Nature of the type of business to be funded
* Sources of funds being lent
* Availability of loan facilities
* Rate of competition
* Amount of loan
* Prevailing government policy

**2. Loans are good sources of business funds. However, it is important that we get to know when to borrow or use the other forms of credit facilities.**

Borrowing should be done when an entrepreneur has any of the following circumstances:

1. When there is justifiable financing gap in one’s business financial plan.
2. When there is need to take on urgent profitable opportunity i.e. business to be funded has a capacity to generate sufficient incomes to recover its operating costs as well as loans repayment obligations

**Rev QN 5, UNEB 2008**

1. **You have obtained sufficient funds to start a savings and credit society**
2. **Prepare a mission statement for the project**
3. **Develop a credit policy for the project**
4. **Prepare a job description for the loans officer**
5. **Design a deposit slip for customer’s use**

**Answer**

1. The mission statement should indicate what needs the SACCO is satisfying and how e.g. To improve household incomes through provision of loan products at lower costs for undertaking income generating projects
2. The SACCO credit policy should state the following:

* Types of loan products offered i.e. loans maybe secured or unsecured
* The maximum amount that an individual may borrow in aggregate should not exceed 10% of the total assets pledged or 25% in case of an institution.
* The maximum amount a SACCO may lend to its staff in aggregate and procedure to be followed
* The interest rate and other fees charged on loans. This should not exceed 17% P.A
* Actions that are taken to enforce loan recovery e.g. penalty fee for late payment, position of individual collateral e.t.c and time period for action as missed payment
* Who is responsible for loan appraisal, loan utilization, reviews and approval of business plans e.t.c.
* How staff members and directors shall access loans/who to approve all loans to them e.g. all loans to staff and the director should be reported to full board of directors and Auditors for compliance with SACCO policy.
* Mode of application of loans i.e. loans must be applied for in writing upon a designed application form approved by the loan committee and shall be endorsed by an appropriate legal document such as a loan agreement.
* The loan applicant shall neither be present nor participate in consideration of loan application in order to prevent conflict of interest.
* Eligible guarantors. The SACCO shall not permit members or employees to act as guarantors or endorsers of loans to fellow members.
* Loans shall be given out to a borrower who presents a credible guarantor or member of society shoes integrity is proven.
* How interest shall be computed i.e. on the basis of the actual number of days elapsed since the last date interest was previously paid or if it is the first time payment since the date the loan was granted.
* Ownership of shares shall not be used as collateral to secure a loan
* SACCO shall only accept movable or real estate property for a loan collateral for which it holds the first lien
* All collateral used as security for a loan shall be located within the geographical boundary of the SACCO field of membership.
* The effective loan interest rate to be paid by the borrower(s) shall be disclosed to them prior to the granting of the loan
* Identification of the applicant i.e. the applicant should produce proper identification e.g. valid ID/passport/Driving Permit and a letter of introduction from the local council or employer.
* The loan applicant shall open/have an account with the SACCO.

1. Job Description for a loan officer should include the following

* Job title: loan officer
* Job summary/overview of the job
* Duties and responsibilities to be performed e.g.

1. Participate in preparation of loan agreements
2. Appraise loan applications
3. Keep accurate records of loan disbursements and loan recovery
4. Make loan recovery options
5. Make reports on loan disbursements and loan recovery e.t.c.

* Nature of supervision within the SACCO i.e. reporting line e.g. answerable to the finance manager
* Working conditions: riding motorcycle and moving into the field
* Office equipment to be used e.g. computers and photocopier
* Terms of employment: contract, permanent and remuneration

1. A well drawn/design deposit slip for customers should include:

* Name of the SACCO
* Identify of the slip i.e. deposit slip
* Name of depositor
* Currency denomination breakdown
* Total cash deposited in figures
* Total cash deposited in words
* Account number
* Cheque number (in case of a cheque deposit slip)
* Depositors name and contact
* Date
* Signature of the depositor
* Account title

QN2

UNEB 2010 Qn 5

You are a general manager of a motor garage that offers credit facilities to customers as a sales promotion strategy:

1. Prepare a credit recovery program for the business
2. Develop credit terms and conditions for the business
3. Prepare a brochure to be issued to the potential customers
4. Due to increased number of clients, you have decided to recruit an accounts assistant. Write an appointment letter to the newly recruited accounts assistant
5. Mukono Motor Garage

P.o Box 20 Jinja

CREDIT RECOVERY PROGRAM FOR THE GARAGE

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| STEP | Time Frame | Activity | Person in charge | Remarks |
| 1 | xx | Identification of debtors and collection of all records on debtors |  |  |
| 2 |  | Arranging the debtors’ records according to credit period and assessment, allocation of responsible persons to credit customers |  |  |
| 3 |  | Preparing and dispatching debt reminders to debtors |  |  |
| 4 |  | Collection of payment and updating debtors records |  |  |
| 5 |  | Issuing last reminders to debtors who have defaulted |  |  |
| 6 |  | Sending last reminders to debtors who have defaulted |  |  |
| 7 |  | Compiling and publishing defaulters giving them the final date to clear their debts |  |  |
| 8 |  | Taking legal action on defaulters eg Auctioning the collateral security |  |  |
| Prepared by :- Approved by  Sign\_\_\_\_\_\_\_\_\_\_\_  Name\_\_\_\_\_\_\_\_\_\_\_  Title\_\_\_\_\_\_\_\_\_\_\_\_  Sign\_\_\_\_\_\_\_  Name\_\_\_\_\_  Title\_\_\_\_ | | | | |

b) Mukono Motor garage.

P.O Box 20, Jinja

Credit terms and conditions

1. Credit period shall not exceed…………
2. Payments within ……….(period of time) shall at least attract a cash deposit of …….
3. The maximum amount of credit offered shall be………………………..
4. Credit facilities exceeding …………….(value) shall be offered to customers who offer collateral security
5. Credit facilities shall be given to customers who are well known and credit worthy
6. Services rendered on credit shall attract higher prices than the services on cash
7. Customers shall be allowed to pay in ………………….installments
8. Payment for credit facilities shall be made by customers at any collection centres/branch
9. Customers who fail to pay within the granted credit period shall be…………..

C) A brochure to be issued to a potential customer should include the following:

* Name and addresses of the business
* Telephone and other contacts
* Location
* Business logo
* Background information
* Vision statement
* Products offered
* Illustrations
* Appealing words/uniqueness of the product
* Current product prices
* Promotion offers in place
* Frame

D)﷒ An appointment letter must have the following:

* Name and address of the business
* Date
* Reference number
* Name and address of the newly recruited accounts assistant
* Salutation
* Subject line
* The body: this should include
  + 1. The post/title
    2. Date of appointment
    3. Minute number
    4. Appointing authority
    5. Date of assumption of duty
    6. Terms of employment
    7. Salary and other benefits
    8. Duty station
    9. Hours of work
* Complementary clause i.e.

Yours faithfully/sincerely

Signature

Name

Title

* Carbon copy i.e. CC
* Enclosure i.e. Enc/attachment

**REQUIREMENTS FOR ACCESSING A LOAN FROM A LENDER**

1. The borrower must be an account holder in the same bank or financial institution
2. Collateral security to be presented like land title to be pledged against the loan which must be of a higher value than the loan amount
3. He/she must have operated an account in that bank or other bank for the some time
4. Purpose/objective for which borrowing is being made must fall under the transactions funded by the lender
5. Whether the lender has already lent other business or not
6. Amount being borrowed falling within the lenders limit
7. Borrower meeting the gender bias of the lender
8. Borrower providing accurate information about one’s self
9. Proposed loan payment terms e.g. duration of the loan, Amount of loan repayment installments, number of installments etc
10. Customer trustworthiness/ integrity evidenced by ones prior dealings with the bank
11. Economic integrity/ ability to repay the loan for example the borrower must have a stable source of income
12. The government policy on lending and this depends on the economic situation in the country
13. Competition from other applicants or financial institutions giving credit

**LOAN MANAGEMENT**

When the loan has been received, the borrower should ensure that the loan is managed well to generate enough funds to repay. Thus the borrower needs to ensure that:

1. The loan is properly documented in terms of commencement date, principal instalments and interest due and due dates as per repayment schedule
2. The agreed method of loan repayment is observed
3. The loan funds are used for the intended purposes only. In other words there should be no diversion of funds
4. The business is carefully managed to ensure that it is profitable through supervision and monitoring to be able to pay the loan
5. A cordial and healthy relationship is always maintained with the lender and that they are always informed about developments that may affect the business capacity to repay the loan on time
6. Communicating to the lender about major changes taking place in the business
7. Employing skilled labour for proper record keeping and accountability
8. Insuring the bank loan and business by taking out insurance policy against risks
9. Training in financial management skills by attending seminars and workshops

**The Loan Repayment Schedule**

This shows how the loan will be repaid in terms of when, interest, principal partial payment and amount due

**Question UNEB 2012**

**Qn5. You are operating a micro finance institution offering short-term loans to farmers and retailers in your locality**

1. **Design a deposit slip to be used by your clients**
2. **Design a loan repayment schedule to be followed by your clients**
3. **Prepare terms and conditions for lending**
4. **Advertise the sale of a motor vehicle which was used by a client as security but has defaulted**
5. The designed deposit slip to be used by clients should show the following:

* Name and address for the branch
* Institution logo
* Provision for the branch name
* Document name/ identity i.e. cash/cheque deposit slip
* Document number/ serial number
* Provision for date
* Provision for the Account name/ customer’s name/ account title
* Provision of account number
* Provision for the type of account held e.g. savings, fixed deposit account etc
* Table showing currency denominations breaking down (notes and coins)
* Provision for amount in figures
* Provision for amount in words
* Depositors details i.e. signature, name, telephone number
* Provision for verification i.e. verified by…..
* Frame
* Purpose of the deposit

1. A designed loan repayment schedule to be followed by clients should have:-

* Title reflecting the name and address of the business a statement “Loan Repayment schedule
* Loan size/ Loan amount..
* Loan repayment period..
* Interest rate
* Loan rate
* Loan account number:
* Name of the customer/borrower

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Period/ Repayment date | Principal instalment | Interest payable | Total Installment payable (shs) | Outstanding Balance shs |
|  |  |  |  |  |
| Borrowers: Loan officer/Lender  Signature\_\_\_\_ Signature\_\_\_\_\_\_\_  Name\_\_\_\_\_\_\_ Name\_\_\_\_\_\_  Date\_\_\_\_\_\_ Date\_\_\_\_\_\_\_ | | | | |

1. The terms and conditions for lending should include: -
2. A complete title showing the name of the micro finance institution and the statement: Terms and conditions for lending
3. Type of loan/ loan package eg agricultural loan, school fees etc
4. Loan size ie the maximum amount
5. Interest charged in terms of percentage and period
6. Loan repayment period
7. Loan grace period
8. Associated loan charges eg commitment fees, loan application fees, insurance fees, monitoring fees etc
9. Maximum number of installments payable
10. Method of loan repayment acceptable eg cash/ cheque, periodic deductions
11. Application procedure followed to obtain the loan eg having an account, LC letter, guarantor/ surety, valid identification, application form etc
12. Sectorial bias eg priority sector- youth, gender
13. Penalties to defaulters
14. Secured/ unsecured loan ie collateral requirement
15. Method of recovering the loan incase of failure
16. Loan approve/ loan committee/ person in charge
17. Location value and marketability of the collateral security

**NB**Use full sentences and rectifiable

Use shall/ is/are

1. The advert for sale of a motor vehicle should include:-
2. Name and address of the financial institution/ Auctioneers on behalf of the institution
3. Contact ie telephone number, email, website
4. Subject of public notice eg sale of motor vehicle
5. Pronouncement(background) of the intention to seel the vehicle or of the organization
6. Description of the motor vehicle eg make, model, type, vehicle registration number etc
7. Terms and conditions of sale
8. Date of sale
9. Time of sale
10. Time of viewing
11. Venue of sale
12. Terms of payment eg cash, cheque, bank draft
13. Time frame of effecting payment
14. Method of scale eg sale by public auction, buying through private treaty

**FINANCIAL NEEDS OF A POTENTIAL BUSINESS**

Before one starts a business has to identify the business financial needs and these can be categorized as follows: -

1. **Fixed capital requirements.** Such as land acquisition, construction of business premises/ buildings, purchase/ acquisition of machinery and equipment, purchase of furniture, acquisition of motor vehicles, computers, installation of utilities ie water pipes and electricity cables etc
2. **Working capital requirements.** These comprise funds needed to finance the day to day operations of a business over a period of time such as salaries and wages of workers/ labour costs, advertising, stationery, transport, insurance, utilities(water and electricity bills), raw materials etc that are needed in the day to day running of a business
3. **Start up expenses/Pre-operating expenses**. These are expenses incurred by the business before the actual operation of the business. They include business name registration, trade license fees, market research, training and recruitment of workers, advertisement

**NB:** The above requirements are revealed in a budget.

**Budget** refers to a statement of income and expenditure projections for a given period of time. A budget maybe: -

1. Fixed capital budget/ capital expenditure budget or development expenses budget
2. Working capital budget
3. Pre-operating expenses budget
4. Marketing budget
5. Operational budget
6. Financial budget

Questions for illustration purposes.

UNEB 2009 QN.3

You are a farmer and have won a shs 10 million contract to supply poultry products to Uhuru hotel.

1. Prepare a marketing budget of shs 4,000,000 for one month
2. Prepare a delivery note for the initial supply for the products
3. Develop terms and conditions to be included in the contract with Uhuru hotel
4. Thieves have broken into your farm and made off with more than half of your chicken

Solution

1. NAKIGANDA POULTRY FARM

P.O BOX 20 Mukono

MARKETING BUDGET FOR POULTRY

PRODUCTS FOR ONE MONTH

|  |  |  |  |
| --- | --- | --- | --- |
| ITEM | QUANTITY | RATE | AMOUNT |
| Dressing/processing chicken  Packaging materials  Communication for correspondence  Wages for sales persons  Transport  Utilities  Refrigerator |  | Shs | Shs  Xxx |
| TOTAL |  |  | 4,000,000 |

1. a well drawn delivery note should have the following

* Name and address of the business
* The date of preparation
* Name and address of the customer
* Reference order number
* Document identity ie delivery note
* Document number
* Breakdown of quantity and descriptions of items supplied eg

|  |  |
| --- | --- |
| Quantity | Description |
| 30  100 | Trays of eggs  Broilers |

* Statement concerning terms and conditions of supplied items

Received by:- Delivered by:-

Sign Sign

Name Name

Title Title

Date Date

* Frame for the document

1. **Terms and conditions to be included in the contract**

* Poultry products to be supplied
* Price of the products
* Methods of payment
* Schedules of supplies
* Quantity supplied
* Quantity of products to be supplied ie weight, packaging, free from contamination or diseases or as per sample
* Contractual obligations for the parties
* Means of settling disputes
* Limitations of liabilities
* Provisions of terminating the contract
* Place of delivery

1. **Sustaining the contract.**

* Sub contracting other supplies
* Buying from other suppliers/Loan/Re-stocking
* Renegotiating the contract
* Claiming for compensation incase of an insured poultry farm

You have set aside Uganda shs 15 million to start a micro finance business in your town

1. Write an application letter to the town authorities for a trading license
2. Prepare budget of shs 5 million to cater for the pre-operating expenses
3. Using the fixed installment method, design a loan repayment schedule for a customer who borrowed shs. 1 million at an interest rate of 2% per month payable in 5 equal monthly installments.
4. Prepare a payment voucher to record the debtors payments to the business.

ANSWERS

1. The application letter to the town authorities for a trading license should have the following:

* Business name (microfinance and address and telephone numbers)
* Reference number
* Date when it was written
* Address of the person to whom the letter is addressed.
* Salutation i.e. dear sir/madam
* Subject heading i.e. RE:APPLICATION FOR A TRADING LINCENSE
* Body of the letter
* Complementary clause i.e. yours faithfully/sincerely  
   signatory

Name

Title

MUKISA MICRO-FINANCE LTD

P.BOX 100, KAYUNGA

BUDGET FOR PRE-OPERATING EXPENSES

**Item Costs shs**

Business name and registration xxx

Trading license xxx

Personal training expenses xxx

Advertising xxx

Market research xxx

5,000,000

c) MUKISA MICOR-FINACE LTD

P.O BOX 100 KAYUNGA

LOAN REPYMENT SCHEDULE

LOAN AMOUNT: shs 1,000,000

LOAN INSTALMENTS shs 5 equal monthly instalments

INSTEREST RATE: 2% per month

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Month | Principle instalment | Interest | Total Instalment | Balance due |
| 1st month  2nd month  3rd month  4th month  5th month | Shs  200,000  200,000  200,000  200,000  200,000 | Shs  20,000  20,000  20,000  20,000  20,000 | Shs  220,000  220,000  220,000  220,000  220,000 | 800,000  600,000  400,000  200,000  \_\_\_\_\_\_\_ |

UNEB 2011 P230/1

You have secured a loan 100Million to establish a partnership business dealing in rice processing

1. Prepare a partnership deed for the business
2. Draft a capital expenditure budget for your business
3. Write a notice inviting prospective partners for a meeting
4. Prepare a purchase order for a milling machine

SOLUTION

1. A partnership deed for a business should contain the following
2. The title i.e. name and address of the business and statement “partnership deed”
3. The name registered address and location of the business shall be…
4. The purpose/ objective of the business shall be / is rice processing
5. The name, addresses and occupations of the partners shall be/ are …
6. The types / nature of partners shall be as follows… dormant… active… etc
7. The duties and responsibilities of partners shall be …
8. The capital contributions by partners shall be as follows… or capital shall be contributed equally
9. Profit and losses shall be shared equally or in the following ratios….
10. The duration of partnership shall be …

* Goodwill shall be calculated basing on … eg age, length of service etc
* The partnership business shall commence on …(date)
* Partners shall be entitled to drawings not exceeding…. Per year/ month
* The salary/ allowances to active partners shall be shs… per month/year
* There shall be no interest on capital contributed by partners or the rate of interest payable on capital contributed by partners shall be … % per year/month
* The rate of interest charged on drawings by partners shall be … per year/ month
* Loans from partners shall attract an interest rate of … per year/ month
* Disputes among partners shall be settled by… e.g. arbitration
* The partnership shall be dissolved in case/ when … eg when one of the partners dies and the procedure of dissolving shall be… eg notice, by courts of law
* The procedure of admitting new partners shall be … or no new partners shall be admitted without consent from all partners
* Meetings shall be called by… and conducted In a way that …
* The management committee shall be elected …. Eg democratically by all members and shall serve for … terms of office
* Declaration by partners   
  signature witnessed by  
  name lawyer/advocate  
  Date

1. The capital expenditure budget  
   XX rice processing enterprises P.oBox…..

CAPITAL EXPENDITURE BUDGET

|  |  |  |  |
| --- | --- | --- | --- |
| DETAILS/ITEM/DESCRIPTION | QUANTITY | UNIT PRICE | AMOUNT |
| Acquisition of land  Building and construction  Purchase of office furniture  Purchase of fixtures and fittings  Purchase and installation of machinery eg rice huller  Purchase of computers and accessories  Installation of utilities  Purchase of tools and equipment  Total |  | Shs | Shs  Xx  Xx  Xx  Xx  Xx  Xx  Xx  Xx  xx |

A notice inviting prospective partners for a meeting should include the following:-

* Name and address of the business
* Identify of the firm of communication ie Notice
* Target group
* Date of writing the notice
* Day and date of the meeting
* Time of the meeting
* Venue of the meeting
* Catch work eg urgent, important, new, attention etc
* Signature, name and title of the person writing
* Cc eg Notice board
* Purpose of the Notice eg meeting

A purchase order for a milling machine should contain the following: -

* Name and address of the business
* Document identify/ Name ie Purchase order or local purchase order
* Document number or reference No. in case of a letter
* Business logo
* Date of writing/Placing the order
* Name and address of the supplier
* A table with the following contents/columns

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| S/N | Particulars | Quantity | Rate(shs) | Amount |
| 001 | Milling machine |  |  |  |

* Suggested mode of packaging
* Suggested date of delivery
* Mode of delivery/ transport
* Delivery van
* Enclosure eg enclosed is a cheque of shs\_\_\_\_\_
* Signature, name and title of the officer/ person ordering for the machine
* Frame

**MANAGING CASH IN BUSINESS**

Cash received in business should be properly managed to avoid losses. This can be done in the following ways

1. Banking all the cash received and leaving just little for daily expenditure
2. Documenting all cash received and paid out and accounting for it by physically balancing physical cash and cash records at the end of each day
3. Receiving and payment of cash should be done by only authorized persons
4. Keeping cash at the business premises under lock and key/ in lockable safes/ drawers
5. Proper counting and checking of cash received and paid out to ensure accuracy
6. Avoid spending business cash on personal or private matters (drawings)
7. Keeping safely receipts and other documents related to accountability of cash
8. Receiving bank statements regularly and comparing them with the cash book to trace for disagreements and incase of any a bank reconciliation statement should be prepared t reconcile the records
9. Employing auditors surprisingly to check for errors and fraud made by workers in the financial department/ carrying out of regular auditing

**FINAL ACCOUNTS**

These are accounts that are prepared after ruling out a trial balance. They are called final accounts because they are the ones that close or summaries the financial information relating to a given business and give a report theorem

Final accounts include: trading accounts, profit and loss account, income and expenditure accounts, and the manufacturing accounts

However the balance sheet is as well considered to be part of the final accounts since it goes hand in hand with those mentioned above

**TRADING ACCOUNT**

This account is derived from the word trade which by definition refers to the buying and selling of goods and services

This account shows the revenue from sales, the cost of those sales and the gross profit arising during a given accounting period. This statement is prepared to find gross profit made by the business

Gross profit is an excess of selling price of goods over there cost price. It represents the difference between sales, revenue and the purchase price of goods sold

**FORMAT OF THE TRADING ACCOUNT**

BUSOGA ENTERPRISES LIMITED

Trading A/c

DR FOR THE YEAR ENDED 31.5 2015 CR

|  |  |
| --- | --- |
| Shs  Opening stock xx  Add:- Purchases xx  Carriage inwards xx  Wages xx  Xxx  Less: Returns outwards xx  Net purchases xxx  Good available for sale xxx  Less closing stock xx  Cost of sale xxx  Gross Profit e/d xx  xxx | Shs  Sales xx  Less sales Returns xx  Net sales xxx  xxx |

Busoga Enterprises Ltd

Trading A/c for the year ended 31.12.2015

|  |  |  |  |
| --- | --- | --- | --- |
| Sales  Less Returns inwards  LESS COST OF SALES  Opening stock  Add: - Purchases  Less Purchases Returns  Goods available for sale  Less closing sales  Cost of sales/cost of goods sold  Gross profit | Shs  Xx  Xx | Shs  Xx  Xx  Xx  Xx  Xxx  Xx | Shs  Xxx  Xxx  Xxx |

From the above, we can derive that:-

1. Opening stock= Goods Available for sale – Purchases/Net purchases
2. Closing Stock= Goods available for sale – Cost of sales
3. Goods available for sale = Opening stock + Net Purchases

Or = Cost of sales+ closing stock

1. Cost of sales = Goods available for sale -Closing stock

Or = Average stock x Rate of stock turn

Or = Net sales- Gross profit

1. Rate of stock turn/ Rate of turnover

=

1. Net sales/Turnover= Year’s sales-Sales returns

Or = Cost of sales+ Gross profit

1. Gross profit = turnover/Net sales – cost of sales
2. Net purchases= Years’ purchases – Reforms outcomes

Or = Goods available for sale- Opening stock

1. Average stock =

Or =

1. Net Profit= Gross Profit - Total expenses

NB: If a business also earns supplementary incomes, its net profit is determined as

Net Profit= Gross Income – Total expenses

OR Gross Profit + supplementary income – Expenses

Question

The following information was extracted from the books of Makito;s shop for the year ended 31.12.2016

shs

Opening stock 15000

Purchases 180,000

Sales 250,000

Returns outwards 4,000

Closing Stock 6,000

Required:-

Prepare the shop’s trading account for the year ended 31.12.2016

**THE PROFIT AND LOSS ACCOUNT**

The profit and loss account is a mere continuation of the trading account. This statement is prepared by a business at the end of the trading period is used to determine the net profit or net loss. It begins with the gross profit or gross loss transferred from the trading account. Items that are included in the profit and loss account include the following

1. Gross profit/gross loss transferred from the trading account
2. Supplementary incomes: these are incomes or revenues that a business earns from other sources other than sales. All such incomes are added to gross profit/ loss in the profit and loss account and the result(sum) is described as gross income is described as gross income. Such incomes may include:

* Discount received
* Rent received/ rent income
* Commission received
* Decrease in provision for bad and doubtful debts
* Bad debts recovered
* Interest received
* Dividends received

1. **Operating expenses.** These are the costs incurred by the businesses on services that help in the normal operation and running of the business. These include:

**Distribution and selling expenses, advertising**

* Bad debts
* Carriage outwards
* Packaging expenses
* Commission allowed to sales persons

**Office and administrative expenses**

* Salaries and wages
* Postage and telephone bills
* Stationary expenses
* Rent and rates
* Insurance
* Taxes
* Legal expenses

**Financial expenses**

These are expenses incurred in arranging the finance for functioning of business. They include:

* Discounts allowed
* Interest on capital
* Interest on loans
* Repairs
* Electricity bills
* Depreciation of fixed assets
* Interest payable

1. **Net profit/net loss**

This is the excess of gross profit over expenses of the business.

Example 1

The following information was contained in the trial balance of Kibinda a sole trader

Trial balance as at 31st/12/2015

|  |  |  |
| --- | --- | --- |
| Particulars | DR(shs) | CR(shs) |
| Purchases  Stock (1.1.2015)  Carriage on sales  Discount allowed  Interest Received  Sales  Returns outwards  Bank Overdraft  Rent and rates  Sundry Debtors  Capital  Sundry creditors  Cash in hand  Salaries  Land  Furniture and fittings  Returns inwards  Drawings  Motor Vans | 72,000  12,000  3,000  800  4,960  1,800  3,000  15,600  13,000  16,200  10,000  1,000  117,000 | 260  130,000  1,500  12,000  123,100  3,500 |
| TOTAL | 270,360 | 270,360 |

The stock on hand at 31st Dec 2015 was valued at shs 7,500

You are required to prepare

1. Trading, profit and loss account
2. The balance sheet as at 31st Dec 2015

Example 2

The following particulars were extracted from the books of KAROBWA ENTERPRISES LTD as at 31.12.2011

Shs

Stock on January 1St 32,000,000

Creditors 60,000,000

Capital 200,000,000

Loan to firm(short term) 50,000,000

Purchases 116,000,000

Closing stock 40,000,000

Cash 8,000,000

Motor vehicle 100,000,000

Bank 34,000,000

Debtors 38,000,000

Expenses 7,000,000

Questions

1. Calculate the :
2. Cost of sale
3. Average stock
4. Rate of turnover
5. Working Capital
6. If the markup is 25%, determine the:-
7. Turnover
8. Gross profit margin
9. Net profit
10. Calculate the:-
11. Current ratio
12. Capital employed

Ex**ample 3**

The following trial balance was extracted from the books of Kyakabuti at the end of trading period 30/06/2013

|  |  |  |
| --- | --- | --- |
| Particulars | DR  Shs(00) | CR  Shs(000) |
| Capital  Stock 01-07-2012  Plant and machinery  Motor vehicle at cost  Purchases and sales  Returns  Wages and salaries  Discounts  Carriage inwards  Transport  Water and electricity  Provision for bad debts  Bad debts written off  General expenses  Rent and rates  Debtors and creditors  Cash  Bank | 250,000  2,500,000  800,000  3,600,000  400,000  600,000  50,000  25,000  105,000  86,000  15,000  85,000  150,000  550,000  60,000  300,000 | 2,700,000  7,160,000  200,000  40,000  10,000  466,000 |
| Total | 9,576,0000 | 9,576,000 |

Additional Information:

1. Stock on 30/06/2013 was valued at shs 225,000,000
2. Depreciation was charged at 10% and 20% on plant and machinery and motor vehicle respectively
3. Prepaid rent amounted to shs 50,000,000
4. Provision for bad debts was increased to shs 10,300,000

Required:-

1. Prepare KYAKABUTI’S income statement(14)
2. compute and interpret:
3. Working capital ratio (5mrks)
4. Rate of return on capital (3mrks)
5. Debt collection period in days (3mrks)

Example 4 UNEB 2009 P230/1

The following balances were obtained from the books of GIFTLAD Holdings on 31st Dec 2008

Shs

Sales 3,600,000

Purchases 5,000,000

Stock(01.01.2008) 600,000

Carriage on sales 600,000

Return outwards 700,000

Return inwards 800,000

General expenses 300,000

Debtors 900,000

Insurance 120,000

Cash at bank 760,000

Creditors 600,000

Machinery 1,200,000

Stock (31.12.2008) 980,000

Furniture and fittings 480,000

Advertising 100,000

Salaries and wages 1,000,000

Drawings 400,000

Cash in hand 240,000

Required to:

1. Prepare a trading profit and loss account for GIFTLAND Holdings for the period ending 31st December 2008 (10mrks)
2. Prepare a balance sheet as at 31st Dec 2008 (9mrks)
3. Compute the:
4. Stock turn over (03 mrks)
5. Average number of days the stock was held before selling (03 mrks)

Example 5 UNEB 2010 P230/1

The following balances were extracted from the records of Katungi’s business as at 31st Dec 2009

Shs

Sales 40,000,000

Purchases 35,000,000

Sales return 500,000

Stock(1.1.2009) 10,000,000

Provision for doubtful debts (1.1.2009) 80,000

Salaries and wages 3,000,000

Rates 600,000

Telephone 100,000

Shop fittings at cost 4,000,000

Motor can at cost 3,000,000

Debtors 980,000

Creditors 700,000

Bad debts 20,000

Capital 17,900,000

Cash at bank 300,000

Drawings 1,800,00

Purchases returns 620,000

Additional information:

1. Salaries and wages outstanding shs 500,000
2. Stock as at 31.12.2009 shs 12,000,000
3. Prepaid rates shs 50,000
4. The provision for doubtful debts to be increased to 10% of debtors
5. Telephone bill outstanding shs 22,000
6. Depreciation shop fittings at 10% per annum and motor van at 20% per annum on cost

Required :

1. Prepared the income statement for Katung’s busines for the period ended 31st Dec 2009
2. Determine the value of the following items as at 31.12.2009
3. Fixed assets (2marks)
4. Owners Equity (2marks)
5. Current assets (2marks)
6. Compute and interpret the
7. Profit margin (3marks)
8. Average credit period for purchases (assume 365 days in a year) 03 marks

**THE BALANCE SHEET**

A balance sheet is defined as a statement which shows the financial position of a person or business at a given date. The financial position is expressed in terms of assets, liabilities and capital.

A balance sheet has got two sides. On left hand side, the liabilities of the business are shown while on the right hand side the assets of the business appear.

**Items in the balance sheet**

**Liabilities.**

The term liabilities means claims against the assets of the firm whether those of the owners of the business or of the creditors. Liabilities can be classified into two categories

1. **Long term liabilities/Fixed liabilities**

These are liabilities which do not become due for payment in one year and which do not require current assets for their payment. Examples include loans of 2 years and above, debentures

1. **Current Liabilities**These are liabilities which are payable in one year examples include accounts payable i.e bills payable and trade creditors, outstanding expenses ie expenses for which services have been received by the business but for which payment have not been made, bank overdrafts, short term loans

**Assets.** The term assets denotes the resources acquired by the business from the funds made available either by the owner of the business or others. In other words, they are property and possessions of business. Assets may be classified into the following categories:

1. **Current Assets.**

Are those assets which are acquired with the intention of converting them into cash during the normal business operations. OR

They are possessions of the business whose stay in the business is short lived. They include:- cash at hand, bank balance, stocks of raw materials, closing stock, work in progress and finished goods, debtors bills receivable/ Accounts receivable, short term investments, prepaid expenses etc

1. **Fixed Assets.**

Are those assets which are acquired for relatively long periods for carrying on the business of the enterprise. They are not meant for resale. Examples include land, buildings/premises, machinery, equipment, furniture and fittings, motor vehicles, computers etc

**Capital.**

Capital means the claim of the owner against business. It can also be defined as the amount of money invested in the business by the owner. It is calculated as the excess of assets over liabilities

**FORMS OF CAPITAL**

1. **Equity Capital/ Capital Owned/Owner’s Equity**. Is the capital that has been invested in the business by the owner ie calculated as

Assets-Liabilities.

1. **Loan capital/Borrowed capital**. This is the total of long term liabilities or the totals of financial assistance got from friends and financial institutes eg debentures, bank loans for more than a year etc
2. **Fixed capital.** Is that portion of the capital which is tied up in permanent fixed assets
3. **Circulating capital.**This is the total of current assets owned by the business.
4. **Capital employed.**Is the sum of fixed capital/ fixed assets plus working capital
5. **Working capital.** This refers to amount by which the total of current assets exceeds the total of current liabilities. It can also be defined as the amount of money required for the day to day running of the business.
6. **Liquid capital.** This is the total of current assets excluding stock

**Sources of Capital**

**(refer back)**

**BOOK-KEEPING EQUATION**

In the business organization where there is transfer of money or money’s worth to and from business it is very difficult to do away with book-keeping. Hence the record of business transactions also entails assets and liabilities (Balance sheet).

From that we derive the idea that the preparation of the balance sheet is arranged on the basic book-keeping equation. This very equation is interpreted as:

A=C+L

Where A stands for Assets

C stands for Capital

L stands for Liabilities

It therefore follows that if

A= C+L

Then C= A-L

L= A-C

The balance sheet sides must always agree/ equal if there is not technique behind because A=C+L meaning that the same property is recorded on either side but under different forms.

**The structure of a balance sheet**

**SAKWA’S**

**BALANCE SHEET**

**AS AT 31.12.-----**

**Horizontal format**

|  |  |
| --- | --- |
| Shs  Capital xx  Add Net xx  Xxx  Less drawings xx xxx  LONG TERM LIABILITIES  Debentures xx  Bank loan xx xxx  CURRENT ASSETS  Creditors xx  Bank overdraft xx  Accrued expenses xxxxx  xxx | Shs  FIXED ASSETS  Land xx  Buildings xx  Furniture xx xxx  CURRENT ASSETS  Stock xx  Debtors xx  Cash at hand xx  Cash at bank xx xxx    xxx |

**Vertical format**

**SAKWA’S SHEET**

**BALANCE SHEET**

**AS AT 3RD DEC---**

|  |  |  |  |
| --- | --- | --- | --- |
| FIXED ASSETS  Land  Furniture  CURRENT ASSETS  Stock  Debtors  Cash at hand  Cash at bank  Total current Assets  LESS CURRENT LIABILITIES  Creditors  Bank overdraft  Accrued salaries  Working capital  Capital employed  FANANCED BY:-  Capital  Add: Net Profit  Less drawing  LONG TERM LIABILITIES  Bank loan  Owners equity/Capital owned | Shs  Xx  Xx  xx | Shs  Xx  Xx  Xx  Xx  Xx  Xx  Xx  Xxx  Xxx  Xx  Xx  Xxx  Xx | Shs  Xxx  Xxx  Xxx  Xxx  xx  xxx |

**YEAR END ADJUSTMENTS**

At the end of each trading period you are likely to find amounts different from the exact ones before computation of profits or losses in the trading, profit and loss account and drawing up a balance sheet alternative changes/adjustment should be made in order to present a real picture of the financial documents at the end of the year.

These adjustments usually relate to the following:-

1. Closing stock
2. Outstanding expenses/accrued/unpaid/due
3. Prepaid expenses
4. Outstanding/accrued income
5. Income received in advance or unearned income
6. Depreciation
7. Bad debts
8. Provision for bad and doubtful debts
9. Provision for depreciation
10. Provision for depreciation
11. Provision for discount on creditors (Discount received)

**Accrued/Outstanding expenses**

These are the expenses which are outstanding and have not yet been paid during the accounting period for which the final accounts have been prepared. In order to ascertain the true profit or loss made during the accounting year ending 31st Dec, it is necessary that such outstanding expenses are taken into account.

**Example**

Salaries and wages paid during the year amounted to shs 6200 accrued/unpaid wages as at 31st Dec 2016 amounted to shs 250. Show the entries as are necessary to bring this sum into account

DR PROFIT AND LOSS A/C (EXTRACT) CR

|  |  |
| --- | --- |
| Shs  Salaries and wages 6,200  Add accrued wages 250 6,450 |  |

NB: Accrued expenses appear as current liabilities in the balance sheet

BALANCE SHEET

|  |  |
| --- | --- |
| Shs  CURRENT LIABILITIES  Accrued salaries and wages 250 |  |

**Prepayments/Pre-paid Expenses**

Prepaid expenses are those expenses which have been paid in advance. In other words these are the expenses which have been paid during the period for which the final accounts are being prepared but they relate to the next period

NB: Prepayments appear as current assets in the balance sheet.

**Example2**

Insurance paid during the year amounted to shs. 3,800. Prepaid insurance as at 31st Dec 2016 amounted to shs 1200. Show the entries as are necessary to bring this sum into account.

Solution

DR PROFIT AND LOSS A/C (EXTRACT) CR

|  |  |
| --- | --- |
| Shs  Insurance 3,800  Less prepaid insurance 1,2002600 |  |

BALANCE SHEET EXTRACT

|  |  |
| --- | --- |
|  | shs  CURRENT ASSETS  Prepaid insurance 1200 |

1. **Outstanding/Accrued income**

Outstanding income means income which has become due during the accounting year but which has not so far been received by the firm/business. In order to ascertain the profit or loss, adjustments for such income must be made in the final accounts of the business.

NB: Accrued income appears as current assets in the balance sheet.

**Example 3.**

Rent received during the year amounted to shs 6,500. Accrued or owed rent as at 31st Dec 2016 amounted to shs 700. Show the entries as are necessary to bring this sum into account

DR PROFIT AND LOSS A/C (EXTRACT) CR

|  |  |
| --- | --- |
|  | shs  Rent Receivable 6500  Add accrued rent 700 7200 |

BALANCE SHEET (EXTRACT)

|  |  |
| --- | --- |
|  | shs  CURRENT ASSETS  Accrued Rent 700 |

**Income Received in Advance**

Income received in advance means income which has been received by the business before it being earned by the business. This includes certain prepayments which the business may receive during the course of the accounting year. In order to ascertain the true profit or loss it is necessary that such income is not taken into account when preparing the profit and loss account for the year

NB: Income in advance appears as current liabilities in the balance sheet

**Example:**

Rent received during the year amounted to shs. 8000. Rent received in advance as at 31st Dec 2016 amounted to shs 800. Show the necessary entries as are necessary to bring this sum into account

Solution

DR PROFIT AND LOSS A/C (EXTRACT) CR

|  |  |
| --- | --- |
|  | Shs  Rent Receivable 8000  Less rent received in advance 800 7200 |

BALANCE SHEET (EXTRACT)

|  |  |
| --- | --- |
| Shs  CURRENT LIABITIES  Rent in advance 800 |  |

**Bad debts.**

Debts due from debtors are shown as an asset. When a debt becomes irrecoverable it must be written off as a bad debt, otherwise the balance sheet will not show a true and fair value of sundry debtors. This bad debt is regarded as a loss to the business. It is treated as under:-

BAD DEBT WRITTEN OFF

DR. Bad debts written off A/c

CR. The debtors Account

At the end of the year

DR: Profit and loss Account

CR: Bad debts written off Account

**Bad Debts Recovered**

Bad debts written off in the previous accounting periods may be recovered at a later stage in some cases. These recovered bad debts are regarded as gain and are treated as under final A/cs

DR: Bad debts recoverable A/c

CR: Profit and loss A/c

NB: Bad debts recovered is added to gross profit and loss account

F) **Provision for Bad and doubtful debts**

Is part of profit set aside to meet losses arising from failure for debtors to pay either part or the whole amount due from them

Most businesses take it as a culture to provide for bad and doubtful debts. This practice is based on the idea that if someone doesn’t pay the amount for net profit/loss will either be under or over stated in the profit and loss A/c. So to avoid this a certain percentage is charged against debtors. That very charge appears as an expenses in the profit and loss Account, and reduction from the sundry debtors in the balance sheet. The following entries are made in this case

**PROVISION FOR BAD DEBTS**

1. ON CREATION

DR: Profit and loss A/c

CR: Provision for bad and doubtful debts A/c

1. ON INCREASE

DR: profit and loss A/c with increase

CR: provision for bad debts A/c

1. ON DECREASE

DR: Provision for bad debts A/c

CR: Profit and loss A/c with decrease

**Treatment of provision of bad debts in the balance sheet**

1. On creation: Deduct the figure/amount from debtors in the balance sheet
2. On increase: Deduct the new higher figure from the debtors
3. On decrease: Deduct the new lower amount from the debtors
4. **DEPRECIATION OF FIXED ASSETS**

Depreciation means the estimated loss in money value of a fixed asset owing to use, obsolescence or the passage of time. It means depreciation is the cost of wear and tear the fixed assets

Thus depreciation is a gradual decrease in the value of an asset from any cause

**CAUSES OF DEPRECIATION**

1. **Wear and Tear.** Assets get worn or torn out on account of constant use as is the case with plant ad machinery, furniture and fixtures used in a factory
2. **Efflux of time/Passage of time.** Certain assets get decreased in their value with the passage of time. This is true in case of assets like lease hold properties patent or copyrights
3. **Accidents.** An asset may meet an accident and therefore it may et depreciated in its value
4. **Exhaustion.** An asset may get exhausted through working. This is the case with mineral mines, oil wells etc because of continuous extraction of minerals or oil a stage comes when the mines or well gets completely exhausted and nothing s left.
5. **Obsolescence (Being out of date) Change in technology.** Some assets are discarded before they are worn out because of changed conditions. For example, an old machine which is still workable may have to be replaced by a new machine because of the later being more efficient and economical such a loss on account of new inventions or changed fashions is termed as loss on account of obsolescence
6. **Physical factors.** Natural factors also encourage depreciation to occur eg rain, sunshine, dampness etc. these factors bring about decay and rusting to take place. In this case the real outlook or structure is made to change thereby lowering the value

**METHODS FRO CALCULATING/PROVISING DEPRECIATION**

1. **Fixed installment method/Straight line method**

According to this method depreciation is charged evenly every year throughout the effective life of the asset. The amount of depreciation is calculated as follows:-

Depreciation=

Scrap value means the estimated value of the asset at the close of the working life of the asset. If scrap value of an asset is nil then:

Depreciation=

**Example 1:**

A machine’s cost price is shs 10,000,000 and is estimated to last 10 years with shs 1,000,000 as its scrap value at the end. Show the amount of depreciation to be charged every year.

Depreciation=

=

=

Depr= shs. 900,000 per year

**Diminishing Balance method/Reducing Balance method**

A fixed percentage is written off the first cost of the asset and the similar percentage of the diminishing value of the asset for the following years

Depreciation for 1st year= Cost x Percentage

2nd year= Book value x Percentage.

Example 2

Charge 10% depreciation on an asset worth shs 10,000,000 by this method for 3 years and show the total depreciation for the period

Depreciation =

Cost value = 10,000,000

Yr1. Depreciation = 1,000,000

(10% of 10,000,000)

Yr2. Book value of asset = 9,000,000

Yr2 depreciation = 900,000

(10% of 9,000,000)

Yr3 Book value of assets = 8,100,000

Yr3 Depreciation = 810,000

(10% of 8,100,000)

∴ Total Depreciation = 1,000,000 + 900,000+810,000

= shs 2,710,00

1. **Revaluation method.**

In this method the asset is valued annually and the difference between the opening balance and closing balance represents the depreciation

Example

1st year the asset was valued at shs 1,000,000 and 2nd year it was shs 800,000. Calculate the depreciation.

Depreciation = Value of previous Yr- value of present Yr

= 1,000,000-800,000

=shs 200,000

Or Depreciation = Previous value

Add purchase during the year

Less present value

NB This method handles assets which the above 2 methods can not be used for like livestock, loose tools(nails, spanners, screw drivers, spoon etc) bottles, books etc

**FINANCIAL RATIOS/ANALYSIS AND INTERPRETATION OF FINAL ACCOUNTS**

After a business has prepared final accounts, it is important to analyze and interpret the information they contain to bring out relationships and information that cannot easily be detected from the statements.

Analysis and interpretation of final accounts refers to the process of careful examination of information in the final accounts to understand or explain the strengths and weaknesses of the business and its overall performances. This is done by use of financial ratios.

Accounting/financial ratios refer to the means of showing the relationship between different items in the financial statement in form of ratios or fractions or percentages.

**REASONS FOR INTERPRETING FINANCIAL STATEMENTS**

1. To compare the performance of the same business over different periods of time. The ratios for many years help to show the trend of the business whether it is improving or declining.
2. To compare the performance of two or more similar businesses dealing in similar products
3. To provide a basis to the entrepreneur or management of the business for making further plans aimed at improving performance.
4. To determine whether a business has enough cash to meet its financial requirements e.g. paying off short term loans/debts at the right time.

**TYPES OF ACCOUNTING RATIOS**

The commonly used accounting ratios can be broadly classified into the following types based on functional classification.

1. **Profitability Ratios.**These are ratios, which determine whether a business has been able to generate enough profits or not from the investments made. They compare profits with other items of the business. These include:  
   **a) Gross profit ratio:** This refers to gross profit expressed as a ratio or percentage of the sales/net sales/ turnover. It is also known as Gross profit margin.

Gross profit ratio/Gross profit margin=

It shows the percentage of gross profit on each item sold. The higher this percentage the higher the gross profit per unit of sales.

Example:

Given that an entrepreneur made a gross profit of shs. 2500 from sales earnings of shs. 100,000. Calculate the gross profit ratio

Gross profit ratio =

=

=25%

Interpretation: This means that out of every shs. 100 earned from a unit of sale a business gets shs. 25 as a gross profit

Sometimes a business may calculate its mark-up. A mark-up is a gross profit expressed as a percentage of the cost of goods sold.

Mark-up =

The bigger the percentage of mark up, the bigger the profit as a proportion of sales, mark up helps an entrepreneur to determine a reasonable selling price so that a gross profit earned can cover the expenses but still leave the business with a reasonable net profit.

**b) Net profit ratio/Net profit margin:** This shows the net profit as a percentage of sales. It measures the overall profitability of the firm.

Net Profit ratio =

The final answer calculated shows how much net profit a business earns from every shs.100 got from sales

Example

MK traders made a gross profit of shs.80,000 and their sales for the year were shs.300,000 total operating expenses amounted to shs.20,000. Calculate the net profit ratio.

Net profit ratio =

But Net Profit = Gross Profit – Expenses

= 80,000 – 20,000

= 60,000.

Therefore, Net profit ratio =

=20%

Interpretation: This implies that out of every shs.100 earned from sales, a business gets shs. 20 as net profit. The higher this ratio is the higher the performance of the business.

**c) Rate of return on Capital employed:**

This shows the net profit as a percentage of the total capital employed in the business.

Rate of return on capital employed =

This is the most important of all the profitability ratios because it shows how profitable a given business is. If this rate is very low, then the investment in a particular business is not profitable and the capital should be transferred to another use or business.

Example:

A business has the following information:

Fixed Assets Shs.200,000  
Current assets Shs.100,000

Current Liabilities Shs.50,000

Net Profit for the year ended shs.80,000

Calculate the rate of return on capital employed

Rate of return on capital employed =

But capital employed = Fixed Assets + Current Assts – Current Liabilities

OR = FA + WC

= 200,000 + 100,000 – 50,000

= 300,000 – 50,000

= Shs. 250,000.

Therefore rate of return on capital employed =

= 32%

Interpretation: This implies that a business obtained a net profit of shs. 32 out of every shs 100 worth of capital employed.

**NB:** However at times a business may calculate its rate of return on capital.

Rate of return on capital =

The result indicates how much net profit a business earns out of shs 100 invested as capital.

**d) Rate of return on equity.** This refers to net profit expressed as a percentage of equity.

Rate of return on equity =

**e) Administration ratio:** This is the percentage of expenses to sales.

Administration ratio =

LIQUIDITY RATIOS/ SOLVENT RATIOS/ SURVIVAL AND GROWTH RATIO

They show or determine the cash position of a business and hence its ability to pay its liabilities when they are due.

They show whether the business has sufficient funds to pay off its short term debts/ current liabilities as they become due for payment

Examples include:

1. **Current ratio/working capital ratio.**

This is the ratio of the current assets to the current liabilities of a business. It shows whether the business has enough cash to pay its short term debts/ creditors and thereafter remain with some funds for normal running of the business without having to sell more or reduce the volume of its operations

Current ratio =

Example:

A business had a value of current assets of Shs. 56,000 and current liabilities of shs 25,000. Calculate its current ratio.

Current ratio =

Current ratio =  
 =2.24:1  
 =2:1

**Interpretation:** The business had a stable financial position since its current assets were 2 times its current liabilities.  
**OR:** the ratio of 2:1 implies that the business was in position 2 times to pay its current liabilities.

1. **Acid Test ratio/Quick asset ratio/Liquid ratio**

This is the ratio of the most liquid assets/current liabilities.  
The most liquid assets (quick assets) are those current assets that are easily convertible to cash. Such assets exclude stock (closing stocks). Quick assets include cash at hand and bank, prepayments/payments in advance, accrued income/income due/not yet received and debtors/accounts receivable.

Acid Test ratio =

NB: The stock used in the above formula is usually closing stock or inventory of unsold goods. This ratio must be 1:1, it indicates that the business has some unutilized liquid assets while a ratio that is lower that 1:1 indicates insufficient liquid resources or assets to meet the current liabilities of the business or that the business may find problems when paying current liabilities.

Example:

The following information was obtained from the book of Guma enterprises as at 31st Dec, 2015

Stock/inventory Shs.400,000

Debtors shs.600,00

Cash at Bank shs200,000

Creditors shs.500,000

Required:-  
Calculate the business’ quick asset ratio.

Acid Test ratio =

=

=

=1.6:1

**Interpretation:** The business can pay its current liabilities using the quick assets two times.

1. **Cash ratio:** This shows the ability of the business to pay its current liabilities using the cash/absolute liquid assets. These include cash at hand and cash at the bank only.

Cash Ratio =

A cash ratio of 1:1,. 2:1, 3:1, 4:2 e.t.c. implies that the business is in position to pay off its current liability using cash. However, a cash ratio of 1:3, 2:5, 1:4 means that it is not in position to pay off its current liabilities using its cash

1. **Interest cover ratio:** This ratio assesses the ability of the business to expand and pay interest charged on borrowed capital out of profits.

**Interest cover ratio =**

1. Proprietary ratio: This is the ratio of the shareholders equity to total sources of finance or capital employed. It is expressed as

Proprietary ratio =

It analyses the financial stability of the business (extent to which business can resist the fall in value of its assets before the creditors interests are affected). The standard ratio is 1:1 or 50%

**3. EFFECIENCY RATIOS/ASSET RATIOS/ACTIVITY RATIOS (Productivity and efficiency of asset utilization Ratios)**

These ratios compare revenue figures with capital figures and may be used in addition to the return on capital percentage to measure management’s efficiency in using available assets. They asses the business’ ability to produce based on respective assets used in the business. In other words, they consider the way the business uses its assets to generate income in terms of sales. Examples include:

1. **Non-current asset turnover / Fixed assets Turnover ratio.**

This is the ratio of net sales to non-current assets. It measures the degree of non-current assets utilization by management to generate revenue and new resources. It shows whether the trading value of a company is large enough to justify its investment in fixed assets

Non-current asset turnover = or

1. **Total Asset turnover**

Total asset ratio analyses the extent to which management of the business utilizes all available financial resources to generate sales.

Total Asset turnover =

This ratio enables us to find out the value of sales generated by the assets employed in the business during the period. The higher the turnover, the higher the sales on the same investment.

1. **Rate of stock turnover / inventory turnover ratio**

This is the number of times stock is sold and replaced by a business during a particular trading period. It reveals the number of times finished stock is turnedover. Stock is said to have been turned off when it has been sold and replaced with a new one. The bigger the number of times the business sells off its stock, the more the profit the business is likely to make and the better its liquidity position.

Rate of stock turnover =

NB: The answer is given in the number of times/turns.

**Example:**

Biraro enterprises had the following records for the year 2015.

Particulars Shs  
Stock (1st Jan-2015) 50,000  
Stock(31st Dec-2015) 80,000  
Purchases 400,000

Calculate the enterprises’ rate of stock turnover.

Rate of Stock Turnover =

But average stock =

=

= =Shs. 65,000

But cost of sales = Opening stock + Purchases – Closing Stock

= 50,000 + 400,000 – 80,000

=Shs. 370,000

Rate of Stock Turnover =

=5.69 Times/turns  
 6 Times.

**Interpretation:** This means that the average stock worth shs. 65,000 was replaced approximately 6 times during the year 2015.

1. **Ratio of debtors to sale.** This determines the percentage or ratio of credit sales out of the total sales made.

Ratio of debtors to sales =

Or =

1. **Debtor’s turnover period /Average collection period for debts/Trade receivable days.** This shows how long it takes a firm to collect its cash from debtors. Along average collection period means that a lot of working capital is tied up in debts instead of being in business to generate more profits

**Average collection period for debtors =**

Or =

Or =

**NB take note of the year used in the questions Ie leap year 366 days and ordinary year 356 days**

1. **Rate of debtors turnover.** This shows the number of times cash collections are made in a given period. The higher the number of times , the better the cash positions of the business

**Rate of debtors turnover =**

1. **Stock turnover period/ Inventory turnover period/stock holding period.**  This measures the average number of days the stock is held before selling it during a given trading period. It shows the length of time it takes to convert stock into sales

Stock turnover period=

1. **Ratio of creditors to purchases.** This shows the percentage or fraction of credit purchases out of the total purchases made.

Ratio of creditors to purchases=

Or =

1. **Average payment period to creditors/creditors turnover period/Average credit period.** It shows how long the business takes to pay its creditors.

Creditors turnover period =

1. **Rate of creditor’s turnover.** This measures the number of times a firm can pay its suppliers in a given period of time

=

4. **LEVERAGE /GEARING RATIOS.**

Leverage ratios asses the business ability to meet its long-term obligations. It asses the business survival in the long run. They measure the extent to which the firm finances it using debt and equity. Examples

Include:-

1. **Debt to equity ratio.** This shows the extent to which borrowed funds can be covered by the owners funds

Or. It shows out of every shs 100 total equity are borrowed funds

Debt to equity ratio =

**Or x** 100

Note: Long term debt represents long term liabilities

1. **Debt to total assets ratio/Debt ratio.**

This measures the extent to which the firm’s assets have been financed using borrowed funds.

Debt to total assets ratio =

**Examples on Ratios**

**UNEB P230/1 2012**

**QN 4.**

Retail business had the following information in the year ended 30.06.2012

Particulars shs

Sales 3,600,000

Land and building 790,000

Capital 1,200,000

Plant and machinery 600,000

Bank loan 1,430,000

Motor cycle 320,000

Drawings 260,000

Furniture 400,000

Net profit for the year 600,000

Closing stock (30.06.2012) 600,000

Creditors 540,000

Debtors 500,000

Bank Overdraft(inland bank) 400,000

Bank balance (coastal bank) 360,000

Cash balance 350,000

Required :

1. Prepare the balance sheet as at 30.06.2012
2. Calculate :
3. Working capital ratio(3 marks)
4. Return on capital employed(3marks)
5. Average collection period (3marks)

A RETAIL BUSINESS

BALANCE SHEET

AS AT 30.06.2012

|  |  |  |  |
| --- | --- | --- | --- |
| FIXED ASSETS  Land and buildings  Plant and machinery  Motor cycle  Furniture  CURRENT ASSETS  Closing stock  Debtors  Bank balance (coastal bank)  Cash balance  Total balance  LESS CURRENT ASSETS  Creditors  Bank overdraft(inland bank)  Working capital  Capital employed  FINACED BY:-  Capital  Add: Net profit  Less drawings  LONG TERM LIABILITIES  Bank loans  Owner’s equality | SHS  540,000  400,000 | SHS  790,000  600,000  320,000  400,000  600,000  500,000  360,00  350,000  1,810,000  940,000  1,200,000  600,000  1,800,000  260,000 | SHS  2,110,000  870,000  2,980,000  1,540,000  1,430,000  2,970,000 |

b) Working capital ratio =

**=**

= 1.9255:1

≈2:1

ii) Return on capital employed

=

=

=20.134%

Average collection period =

**=**

**=** 50.833 days

**uneb p230/2 2014**

**qn5.**

The treasurer for the teacher; canteen in your school presented the following financial statements to the members at their meetings

Teachers canteen income statement foe the period, ended 31st Dec 2013

(Summary)

Net Sales 240,000,000

Less cost of goods sold 180,000,000

Gross profit 60,000,000

Less operating expenses 25,000,000

Net profit 35,000,000

Note. The opening stock as at start of 2013 was shs 23,000,000

Teachers; canteen Balance sheet

AS at 31-12-2013

|  |  |
| --- | --- |
| Shs  Capital 89,000,000  Add Net profit 35,000,000  124,000,000  Less drawings 10,0000,000 114,000,000  LONG TERM LIABILITIES  5 year loan from  Teacher’s SACCO 72,000,000  CURRENT LIABILITIES  Bank overdraft 34,000,000  Creditor 40,000,000  260,000,000 | FIXED ASSETS shs  Buildings 82,000,000  Furniture 50,000,000  CURRENT ASSETS  Stock 47,000,000  Debtors 38,000,000  Bank 25,000,000  Cash 18,000,000  260,000,000 |

Required:

1. Calculate the following ratios
2. Net profit to sale
3. Net profit to owner’s to sales
4. Net profit to owner’s to equity
5. Acid test
6. Stock turnover
7. Fixed assets turnover
8. Debt to owner’s equity (Gearing ratio)
9. Interpret the following ratios in relation to (a) above
10. Debt to owner’s equity
11. Net profit to sales

Solution

1. (i) Gross profit margin =

=

=25%

(ii) Net profit to sales ratio =

OR

=

or

= 14.58% Or 0.14:1

(iii) Net profit to owner’s equity

=

=

= 30.7% or 31%

(iv) Acid test ratio =

Quick assets = Debtors + Bank + Cash ie closing stock excluded

= 38,000,000 + 25,000,000 + 18,000,000

= shs 81,000,000

Current liabilities = Bank overdraft + Creditor

= 34,000,000 + 40,000,000

= shs 74,000,000

Acid Test ratio = =

= 1.09 : 1

≈1:1 or 1.1:1

(v) Stock Turnover =

But average stock =

=

= shs 35,000,000

Stock turnover =

=

= 5.14 times / 5 times

(vi) Fixed asset turnover =

or

= x 100 or

=181.8% or 1.81:1

≈ 182% or ≈ 2:1

(vii) Debt to owners equity (Gearing ratio)

= Or

= or

=63.15% or 0.63:1

≈63% or ≈1:1

1. (i) Debt to owner’s equity of 63% or 0.63:1 means that for every shs 100 of owner’s equity there is a claim of shs 63 of the long term loan

OR of shs 114,000,000 of owners equity there is a claim of shs 72,000,000 as long term loan

b) (ii) The business realized a net profit of approximately shs 15 out of every shs 100 of sales

UNEB P230/2 2015…. QN 5

The following balances were extracted from the financial statements of Moses Owori’s business at the end of 2014

Shs

|  |  |
| --- | --- |
| Sales | 288,000,000 |
| Total fixed assets | 65,500,000 |
| Average debtors | 90,000,000 |
| Opening stock 91/1/2014) | 40,200,000 |
| Closing stock(31/1/2014) | 50,400,000 |
| Cost of sales | 201,000,000 |
| Total current assets | 36,100,000 |
| Equity capital | 68,400,000 |
| Total current liabilities | 16,800,000 |
| Net profit before interest and tax | 40,600,000 |
| Long term liabilities | 38,500,000 |
| Interest expense for the year | 5,700,000 |

Required

1. Compute the following ratios for the business
2. Gross profit margin
3. Stock turnover
4. Debtors collection days
5. Leverage ratio
6. Interest cover
7. Working capital ratio
8. Net profit margin

b) Interpret the following ratios using your results in (a) above

1. Stock turnover
2. Interest cover

Solution.

1. Gross Profit Margin =

But gross profit = Net Sales – Cost of Sales

= 288,000,000 – 201,600,000

= Shs. 86,400,000

=

= 30%

1. Stock Turnover =

But average stock =

=

=shs 45,300,000

Stock turn over =

=4.45 times ≈4.5 times

1. Debtors collection days =

=

=114 days

1. Leverage ratios =

OR

=

=

= 56.3% OR 0.56:1

1. Interest cover =

= =

=7.12 times/ 7 times or 7:1

1. Working capital ratio =
2. Net profit margin =

=

=

= 12:11% ≈12%

1. (i) Stock turnovers of 4.5 times / 5 times means that stock was replaced 5 times in 2014. This is an indication of poor performance of the business because the higher the stock turnovers the better

(II) Interest cover of 7 times means that the net profit available for the year before interest and tax can settle interest payment 7 times

OR

It means that one seventh of the profits before interest and tax I paid out as interest

**Revision questions**

Qn 1.

The following balances were extracted from the records of BLESSED ENTEREPRISES for the period ended 31.12.2014

Shs(000)

Purchases 700,000

Sales 800,000

Sales return 10,000

Purchases return 12,400

Stock (0.1.01.2014) 200,000

Provision for bad debts 1,600

Wages and salaries 60,000

Rates 12,000

Telephone 2,000

Shop fittings at cost 80,000

Motor van at cost 60,000

Accounts payable 14,000

Bad debts 400

Capital 358,000

Bank 6000

Drawings 36,000

Account receivable 19,600

Additional information

1. Closing stock was valued at shs 240,000,000
2. Accrued wages and salaries amounted to shs 10,000,000
3. Rates prepaid was shs 1,000,000
4. Provision for bad debts to be increased to 10 % of debtors
5. Telephone bill unpaid was shs 440,000
6. Depreciated shop fitting at 10% p.a and motor van at 20% p.a on cost

Required:

1. Determine the :
2. Cost of sales
3. Gross profit
4. Net profit
5. Working capital
6. Calculate the:
7. Fixed assets turnover
8. Rate of return on capital employed
9. Current ratio
10. Average credit payment for purchases in days
11. Interpret the following ratios in relation to (b) above

(i) Current ratios

(ii)Average credit payment for purchases in days

Qn2.

The following information was extracted from the books of JIM STEVE Enterprises as at 31st Dec the year 2012

Particulars shs

Sales 40,000,000

Purchases 20,000,000

Purchases returns 1,620,000

Sales returns 500,000

Opening stock 10,000,000

Salaries and wages 3,000,000

Telephone 600,000

Debtors 980,000

Creditors 700,000

Cash at bank 300,000

Cash in hand 100,000

Motor vehicle 3,000,000

Shop fittings 4,000,000

Closing stock 980,000

Capital employed 18,010,000

Required

A) Compute and interpret

1. Cost of sales
2. Gross Profit
3. Margin
4. Net profit
5. Acid test ratio
6. Rate of return on capital employed
7. Rate of stock turn
8. Average collection period for debtors
9. Working capital

Qn3

The following balances were extracted from the books of Okwi for the year ended 31/Dec/2014

Particulars shs(000)

Sales 9,000,000

Returns outwards 500,000

Return inwards 100,000

Purchases 6,000,000

Accounts receivable 460,000

Stock(1/1/2014) 500,000

Stock(31/12/2014) 380,000

Drawings 300,000

Cash at hand 1,200,000

Cash at bank 4,800,000

Bad debts recovered 150,000

Premises 9,220,000

Equipment 3,220,000

Furniture 4,400,000

Motor vehicle 10,000,000

Electricity 100,000

Salaries 800,000

Bad debts 60,000

Carriage inwards 50,000

Carriage outwards 70,000

Commission received 600,000

Short term loan 600,000

Capital 30,160,000

Capital Accounts payable 250,000

Determine :-

1. Cost of sales
2. Turnover
3. Net profit
4. Working capital
5. Acid test ratio
6. Capital employed
7. Rate of return on capital employed and interpret it

Qn.4

Wakiso self Help SACCO Ltd is one of the fastest growing SACCOS in Uganda. It is currently facing a challenge with handling a huge volume of accounting data. Its cashier has presented the following information as 30th June 2015 for your assistance   
Particulars shs

Cash and book balances 139,600,000

Receivables 593,500,000

Inventory 1,400,000

Advanced salaries 10,000,000

Property, plant and equipment 78,900,000

Motor cycle 10,000,000

Investments 5,700,000

Payables 291,900,000

Unpaid corporation tax 4,600,000

Loans from UCCFS and MSC 130,800,000

Share capital 198,000,000

Capital reserves 168,300,000

Retained earnings (profits) 45,500,000

Sales (SACCO Revenue) 309,800,000

Assist the cashier to:

a) Prepare Wakiso Self help SACCO Ltd’s balance sheet as at 30/06/2015

b)Compute and interpret the:

1. Leverage ratios
2. Fixed asset turnover
3. Rate of return on capital employed
4. Acid test ratio
5. Debtor turnover

Qn 5.

The following balances were extracted from BAMU’S books of accounts on 31/12/2015

Detail shs(000)

Net sales 20,000

Net purchases 11,000

Goods available for sale 16,000

Stock 01-01-2015 5,000

Stock 31-12-2015 4,000

Total operating expenses 6,000

Total Fixed assets 8,000

Debtors 1,500

Creditors 3,000

Cash 900

Outstanding rent 1,000

Bank 1,600

Required

Compute and interpret

1. Inventory turnover ratio
2. Credit payment period
3. Rate of return on capital employed
4. Stock turnover period
5. Cash ratio
6. Profit markup

Qn6.

The following balances were extracted from the books of Mafabi Enterprise at the end of his trading period on 31st/12/201 shs(000)

Sales 6,160,000

Sales returns 400,000

Stock (01-01-2015) 250,000

Stock (31-12-2015) 225,000

Net purchases 3,425,000

Discount received 40,000

Total operating expenses 1,454,000

Machinery 2,500,000

Motor vehicles 800,000

Debtors 550,000

Provision for bad debts 13,000

Bank 110,000

Creditors 466,000

Depreciation on machinery and motor vehicles was 10% and 20% respectively

Calculate the value of :-

a) Calculate the value of :-

(i) Cost of sales

(ii) Profit markup

(iii) Total foxed capital

(b) Compute and interpret

(i) Working capital ratio

ii)Inventory turnover period

iii)Rate of return on capital employed

iv)Debt collection period

The following balances were extracted from the books of Mafabi enterprise at the end of his trading on 31st/12/2015.

(Shs in “000”)

|  |  |
| --- | --- |
| Sales | 6,160,000 |
| Sales return | 400,000 |
| Stock (o1-01-2015) | 250,000 |
| Stoppck (31-12-2015) | 225,000 |
| Net purchases | 3,425,000 |
| Discount received | 40,000 |
| Total operating expenses | 1,454,000 |
| Machinery | 2,500,000 |
| Motor vehicles | 800,000 |
| Debtors | 550,000 |
| Provision for bad debts | 13,000 |
| Bank | 110,000 |
| Creditors | 466,000 |

Depreciation on machinery and motor vehicles was 10% and 20% respectively.

a) Calculate the value of;

i) Cost of sales (3 marks)

ii) Profit mark up (3 marks)

iii) Total fixed capital (3 marks)

d) Compute and interpret.

i) Working capital ratio. (4 marks)

ii) Inventory turnover period (4 marks)

iii) Rate of return on capital employed (4 marks)

iv) Debt collection period. (4 marks)

UNEB 2017

QN2. The following financial statements relate to Kabo enterprises ltd.

Kabo enterprise ltd.

Income statement for the year ended 31st/Dec/2016.

|  |  |  |
| --- | --- | --- |
|  | Shs | Shs |
| Sales |  | 850,000,000 |
| Less cost of sales |  | 610,000,000 |
| Gross profit |  | 240,000,000 |
| Less operating costs |  |  |
| Administrative costs | 72,000,000 |  |
| Selling and distribution costs | 50,000,000 |  |
| Other costs | 18,000,000 |  |
|  |  | 140,000,000 |
| Profit before tax |  | 100,000,000 |
| Less taxation 30% |  | 30,000,000 |
| Profit after |  | 70,000,000 |

Kabo Enterprises ltd

Statement of financial position (balance sheet)

As at 31st/December/2016

|  |  |
| --- | --- |
| Fixed assets (Net) | Shs |
| Motor vehicles | 12,500,000 |
| Land and premises | 100,000,000 |
| Furniture and fittings | 80,400,000 |
| Equipment | 60,100,000 |
| Total fixed assets | 361,000,000 |
| Current assets |  |
| Inventory | 35,500,000 |
| Debtors | 64,900,000 |
| Bank | 6,200,000 |
| Total current assets | 45,400,000 |
| Total assets | 152,000,000 |
| Capital and liabilities | 513,000,000 |
| Capital | 200,500,000 |
| Owners equity | 30,000,000 |
| Liabilities |  |
| Five year (loan) | 130,000,000 |
| Creditors | 152,500,000 |
| Un paid tax | 30,000,000 |
| Total capital and liabilities | 513,000,000 |

a) Compute the following ratios.

i) Gross profit margin (3 marks)

ii) Net profit margin (3 marks)

iii) Profit on total assets ratio. (3 marks)

iv) Current ratio (3 marks)

v) Acid test ratio (3 marks)

vi) Fixed Assets turnover (3 marks)

vii) Debtors turnover (3 marks)

b) Kabo enterprises had applied for a short term bank loan of shs. 40,000,000 repayable within six months.

Required.

Give reasons why the bank should accept or reject the application basing on the current ratio in 2(a) (iv) above (4marks)

i) Gross profit margin =

=

= 28.34%

ii) Net profit margin =

=

= 8.24%

iii) Profit on total assets ratio:

=

=

= 14%

iv) Current ratio.

=

But current liabilities = creditors trafered tax

=

= 1:1:2

= 1:1

v) Acid test ratio =

=

vi) Fixed Assets trurn over =

=

= 2:35:1

= 2:1

Debtors turnover =

Or

=

= 130.7%

b) Candidates should take stand i.e the bank should reject the loan application.

Reasons inability of the business to clear current liabilities using current assets or current assets are less than current liabilities

**The CASH FLOW PLANS/STATEMENT**

A cash flow plan is a monitoring tool that shows an entrepreneur the amount of cash that will flow in and out of the business i.e. cash receipts and payment during a given period of time. The cash flow plan is prepared periodically either on annual or monthly basis.  
The cash flow statement is of particular interest to parties that include:

1. Management and accounting personnel: to establish the ability of the enterprise to cover the payroll(salaries of staff) and other immediate expenses.
2. Potential lender and creditors: to measure the ability of the enterprise to repay loans extended to it.
3. Potential investors: To judge whether the company or business is financially strong/sound before investing in it for instance, by the way of buying shares.
4. Potential employees and suppliers or contractors: to know whether the company will be able to afford their financial demands as far as their payments are concerned.

THE COMPONENTS OF A CASH FLOW PLAN.

A cash flow plan has four main components i.e

1. **The cash inflows:** That shows the sources from where cash will flow into the business
2. **The cash outflows:** that shows where the cash from the business will go
3. **The net cash position:** which shows the net effect of the business cash in and cash out i.e. the difference between total cash in flows and total cash outflows.
4. **Balance brought down/forward(Bal b/d or b/f):** i.e. this is the balance that remained in previous period and then forwarded to the following period e.g. the remaining balance in January will be brought forward in February.

SOURCES OF CASH INFLOWS.

1. **Cash at start of the plan period:** This is cash that was left in the business from the previous plan period, it maybe in the bank or in the business locus/safes (cash at hand) as the plan period begins. This cash is therefore carried over from the previous period to the current plan period.
2. **Cash from Sales:** This is the total cash realized by a business through the sale of goods or services that it is dealing in.  
   Total Sales = Quantity of items sold X Price of the Items Sold.
3. **Share capital:** Money that business receives from its owners by the way of their contribution towards its capital.
4. **Cash from debtors:** i.e. money received from customers or clients in settlement of what they owe to the business. Normally these will be cash payments for credit sales made to customers at an earlier date.
5. **Cash from loans:** i.e. cash received by the business from loans or credit facilities granted by its partners.
6. **Cash grants:** i.e money a business may receive through donations from its well wishers or partners. Grants can be received by a business from the government, politicians, business partners e.t.c.
7. **Other Cash inflows.** i.e. any other money received which does not fall into any of the above categories e.g. from the sale of fixed assets, dividends, debentures, e.t.c

**CASH OUTFLOWS.**

These items lead to flowing of cash out of the business.  
Cash outflows are mainly cash payments made by the business and they include:

1. **Direct costs.** These include purchases of raw materials or stock, cash payments on wages and other labor related expenses e.t.c  
   Total Direct Costs = Quantity of raw materials X Cost per unit of materials used OR = Labor Per unit X Cost of Labor used.
2. **Cash payment on other labor related expenses.** These will be in respect of business workers who help in its productive and administrative process. These include: welfare, transport, insurance, training e.t.c
3. **Cash payment for indirect/overhead cost.** A business normally makes other payments other than labor and raw materials. This can include rent, electricity, salaries of workers who don’t directly engage in production of goods and services or in business transactions such as managers and secretaries, office costs like stationery and supplies, interest on loans, taxes e.t.c
4. **Cash payments for Equipment and other fixed assets.** i.e. expenses incurred when buying machinery, equipment, furniture, buildings, motor vehicles, and other fixed assets.
5. **Cash payments to shareholders.** This refers to cash a business pays to owners or shareholders, normally a percentage of profit is allocated to them as a rate fo return of investment.
6. **Loan interest repayment.** The interest that the business will pay cash each month to an individual or institutions that lent it money.
7. Any other cash paid out but does not fall in any of the above

**NET CASH POSITION.**

This is the difference between the planned inflows and outflows. It portrays the residue cash position of the business at a given period.  
Net cash position = Cash at the beginning of the planned period +Total cash inflows – Total cash outflows

The net cash position indicates whether a business has a enough cash to cover the expected cash payments or not.

The negative (deficit) balance for a monthly net cash position indicates a serious problem for the business. It indicates that the total cash inflows will not be enough to meet the expected cash payments. The entrepreneur reducing cash outflows or increasing cash inflows can solve this situation.

CASH SURPLUS OR DEFICIT (SHORTFALL)

In business, sometimes the entrepreneur can get surpluses or deficits and this requires special attention.

**HOW TO DEAL WITH SURPLUS**

1. Pay creditors and all outstanding bills early to benefit from discounts received.
2. Increase sales by increasing manageable debtors and expanding customer base.
3. Make short term and long-term investments for short term and long-term surpluses respectively.
4. Diversify or expand business operations.
5. Replace or rehabilitate fixed assets with the excess cash available

**HOW TO DEAL WITH DEFICIT / SHORT FALL IN CASH**

1. **Sales related measures.**

* Increase sales particularly those involving cash payments through sales promotion
* Reduce the amount/ time of credit given to customers.
* Become more selective when granting credit.
* Seek multiple stage payments.
* Charge late payments charges/fees where possible.
* Bill as soon as work has been done or order fulfilled.

1. **Purchasing Measures**

* Increase credit taken from suppliers.
* Negotiate extended credit from suppliers.
* Make prompt payments only when worthwhile discounts apply.

1. **Investment measures.**

* Defer/postpone capital expenditure
* Sale of surplus assets or make them productive.
* Use leasing to gain access to the use of productive assets instead of purchasing them.

1. **Financing measures**

* Give discounts to accelerate receipts from sales.
* Renegotiate bank credit facilities to reduce charges
* Raise additional capital/borrow some money to re-inject into the business.
* Defer dividends payment
* Seek to extend debt repayment period.

**IMPORTANCE OF THE CASH FLOW STATEMENT**

* It enables the company to foresee cash deficits/shortfalls or cash surplus and where need be make arrangements to overcome challenge before its too late
* It enables management to compare actual with the projections where there are big differences investigations are made before it is too late
* It portrays the ability of the business to repay loans acquired and the best time for repayment.
* It shows the changes in the cash position of the business from one period to another
* It enables the company to identify the various needs and to provide sources of funding.
* It facilitates proper planning for the company regarding decision-making.
* It is a monitoring tool for the performance of the company

**CONTROL TO MANAGE THE FLOW OF FUNDS IN A BUSINESS**

The business can ensure availability of cash by keeping cash outflows low whole at the same time increasing cash inflows. This can be done through the following ways.

1. By reducing or increasing inventory to match sales requirements. It is usually considered waste to keep or maintain inventory that is far above the sales requirements yet the business may lack working capital. Therefore it is important to make sure inventory matches with sales requirements to avoid cash deficits due to unnecessary excess inventory.
2. Through not using cash from the business for personal use. This helps to ensure availability of cash in the business to meet expenditure
3. By negotiating with suppliers for extension of payment debts so as to pay debts conveniently without going short of cash for immediate cash requirements.
4. Through learning to use forecasts to develop useful cash budgets. Cash budgets help to program cash outflows according to the cash inflows which helps to avoid cash deficits in business.
5. By shopping for favorable interest rates and availability of funds to borrow. Borrowing at high interest rates puts the business in tight cash positions whereby loan interest repayments obligations cause shortage of cash in the business to meet immediate cash requirements. The business should therefore seek for low interest loans.
6. By analyzing expenses to reduce costs and eliminate waste.
7. Through controlling receivables to collect money as soon as possible. Efficiency in getting payment from debtors increases cash inflow hence ensuring availability of cash to meet immediate cash requirements.
8. By raising prices to increase, gross profit or lower them to increase sales. This increases amount of money into the business.
9. By developing good purchasing practices for example; buying in large quantities to enjoy trading discounts hence reducing outflow of cash.
10. Through minimizing the wage bill. This can be laying off of unnecessary workers thereby reducing outflows of cash in form of salaries and wages.

**ILLUSTRATION QUESTIONS**

**UNEB 2007**

The following show EKANYA ENTERPRISES’ TRANSACTIONS FOR THE MONTHS OF June and July, 2006.

|  |  |  |
| --- | --- | --- |
| TRANSACTIONS | JUNE (SHS) | JULY (SHS) |
| Purchase of assets  Payment of wages  Receipts from sales  Loan  Repayment of loan installments  Payment of rent  Purchase of raw materials  Sale of refreshments  Tax  Debtors  Creditors  Acquisition of furniture  Grants from friends  Disco dance collections  Sale of old furniture receipts  Rates  Transport expenses  Installation of new machinery  Cinema collections  Electricity bills | 2,000,0000  90,000  1,000,000  3,000,000  500,000  60,000  1,000,000  2,650,000  100,000  300,000  160,000  180,000  200,000  4,000,000  120,000  150,000  100,000  250,000  160,000  70,000 | 2,500,000  1,000,000  1,500,000  2,000,000  450,000  70,000  1,500,000  3,000,000  120,000  350,000  150,000  170,000  140,000  4,500,000  100,000  160,000  90,000  200,000  200,000  72,000 |

Required:

1. Prepare EKANYA ENTERPRISES’ cash flow (22 Marks)
2. State the cash position of EKANYA ENTERPRISES for two months (03 marks)

QN 2.

UNEB 2013  
The following information relates to Umoja investments for the months of May, June, July, and August, 2012

1. Opening balance as at 1st May, 2012 was shs 320,000
2. Output of 800,900,700 and 100 units were sold at Shs.500 each during the month of May, July and August respectively.
3. Loans of shs. 500,000 and shs. 300,00 were obtained from inland bank ltd in June and August
4. Receipts from debtors of shs 100,000, shs. 80,000 and shs. 30,000 were registered for the months of June, July and August respectively.
5. Purchases of 700, 800, 900, and 1,000 units of raw materials were made in the months of May, June, July, and August respectively at a cost of shs 200 per unit.
6. Labor costs for the month of May, June, July and August were shs. 150,000, shs. 120,000, and shs.100, 000 and shs.140,000 respectively.
7. A machine was bought and paid for in July for shs. 1,000,000
8. Monthly fixed costs of shs. 20,000 per month were paid.
9. Monthly rent receivable from a shoe-shiner shs.50,000

**Required:**

1. Prepare a statement showing cash inflows and cash outflows for the months of May to August 2012
2. Comment on the cash position of Umoja investments Ltd for the four months.

**UMOJA INVESTMENTS CASH FLOW STATEMENT FOR MAY, JUNE, JULY AND AUGUST 2012**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| TRANSACTIONS/DETAILS | MAY (SHS) | JUNE (SHS) | JULY (SHS) | AUG (SHS) |
| **CASH INFLOWS:**  Cash balance b/d  Cash sales  Loans  Collection from debtors  Rent receivable  TOTAL CASH INFLOWS (A):  **CASH OUTFLOWS:**  Purchase of raw materials  Labour costs  Purchase of machine  Fixed costs  TOTAL CASH OUTFLOWS (B)  **NET CASH POSITION (A-B)** | 320,000  400,000  -  -  50,000  770,000  140,000  150,000  -  20,000  310,000  **460,000** | 460,000  450,000  500,000  100,000  50,000  1,560,000  160,000  120,000  -  20,000  300,000  **1,260,000** | 1,260,000  350,000  -  80,000  50,000  1,740,000  180,000  100,000  1,000,000  20,000  1,300,000  **440,000** | 440,000  50,000  300,000  30,000  50,000  870,000  200,000  140,000  -  20,000  360,000  **510,000** |

b) The net cash position of the business is/was a surplus for the four months. However, it is/was not stable/ there was fluctuations as seen by improving from shs. 460,000 in May to shs. 1,260,000 in June and then declining to shs. 440,000 and to shs. 510,000.

QN3 UNEB 2014

Tell enterprises has availed you with the following projections for the months of July, August, September and October, 2014.

1. On July 1st 2014 cash balance shs. 26,000,000
2. The sales manager expects to sell goods on credit worth 40,000,000 monthly. Payment from credit customers is expected as follows: 60% credit sales in the month of sale and the balance in the month following the sale.
3. The finance manager expects to obtain two loans of shs 20,000,000 in each of the months of August and October 2014.
4. Monthly cash purchases worth shs 40,500,000 are expected to be made
5. Monthly cash sales are expected to be shs 60,000,000. A commission of 10% is paid to sales clerks each time cash is received.
6. A delivery van is to be bought in the month of August 2014 at a cost of 35,000,000
7. Monthly wage bill is estimated to be shs.12, 500,000. An increase of 10% is expected in the month of October 2014
8. A loan interest of 5% per month is payable in the month following acquisition of the loan
9. Expansion of business buildings expected cost shs 6,200,000 in the month of July 2014 and shs. 30,000,000 in the month of August
10. General expenses are expected to amount to shs7,100,000 per month. All expenses are paid in the month in which they are incurred.
11. Income tax for the 1st quarter of the year shs 12,000,000 to be paid in September 2014.

Required:

1. Prepare a cash flow statement (cash budget) for Tell enterprises for the period July to October 2014
2. Suggest telling Enterprises five ways of managing cash short falls in the cash flow statement.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| PARTICULARS  DETAILS | JULY  SHS | AUGUST  SHS | SEPTEMBER  SHS | OCTOBER  SHS |
| Balance b/f | 26,000,000 | 37,700,000 | 26,600,000 | 47,500,000 |
| Add: cash inflows |  |  |  |  |
| Receipts debtors | 24,000,000 | 40,000,000 | 40,000,000 | 40,000,000 |
| Loan |  | 20,000,000 |  | 20,000,000 |
| Cash sales | 60,000,000 | 60,000,000 | 60,000,000 | 60,000,000 |
| Total cash inflows (A) | 110,000,000 | 157,700,000 | 126,000,000 | 167,500,000 |
| CASH IN FLOWS |  |  |  |  |
| Commission on cash sales | 60,000,000 | 6,000,000 | 6,000,000 | 6,000,000 |
| Cash purchases | 40,500,000 | 40,500,000 | 40,500,000 | 40,500,000 |
| Purchase delivery van |  | 35,000,000 |  |  |
| Wage bill | 12500,000 | 12,500,000 | 12,500,000 | 13,750,000 |
| Interest on loan |  |  | 1,000,000 | 1,000,000 |
| Expansion of business | 6,200,000 | 30,000,000 |  |  |
| building general expanses | 7,100,000 | 71,000,000 | 7,100,000 | 7,100,000 |
| Income tax |  |  | 12,000,000 |  |
| TOTAL CASH OUTFLOWS | 72,300,000 | 131,100,000 | 79,100,000 | 67,350,000 |
| NET CASH POSITION (A-B) | 37,700,000 | 26,600,000 | 79,100,000 | 99,150,000 |

b) Ways of Managing cash short falls in the cash flow statement

* Delaying some cash payments/expenditures e.g. dividends
* Laying off some workers
* Improving cash collections e.g. giving out bills in time
* Raising prices of some items
* Getting cheaper sources of funding e.g. getting loans at cheaper interest rates.
* Adopting good purchasing practices to take advantage of discounts, negotiating for longer credit period
* Selling off old fixed assets that re not productive
* Reducing credit sales/increasing cash sales
* Ploughing back profits
* Carrying out intensive advertisement so as to increase sales
* Practicing proper budget controls
* Selling shares in the case of companies
* Admitting new partners so as to bring into the business more cash from new partners contributions
* Increasing cash sales.
* Minimizing cash drawings.

QN4 UNEB 2015

Nakawa trading co which plans to start a business has availed the following projected details for the first six months of the year 2016.

1. Cash at bank shs 4,000,000 as at 1st Jan 2016.
2. Cash sales for January 2016 shs. 5,550,000. The sales are expected to increase by shs. 500,000 every month   
   all sales will be by cash
3. Capitalization loan to be acquired from stanbic bank in February 2016, shs.5,000,000
4. Purchase of startup assets during the month of February 2016, shs 5,000,000.
5. Monthly payments starting with Jan 2016  
   salaries and wages shs. 1,500,000  
   rent shs. 500,000  
   advertising shs. 150,000
6. Preoperating expenses to be paid January 2016 shs 4,200,000
7. Monthly loan repayment shs 600,000 will begin June, 2016
8. Purchases occur in the month of sale and are expected to be 75% of each month’s projected sales. Purchases will be paid for after one month of purchase

Required

1. Prepare a cash flow statement for Nakawa trading Co, for the period Jan – June 2016.
2. Explain the importance of cash flow statement to Nakawa trading co.

**TABLE**

**NAKAWA TRADING COMPANY’S**

**CASH FLOW STATEMENT**

**FOR THE MONTH OF JAN, FEB,MAR,APRIL,MAY,JUNE**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| PARTICULARS | JAN  Shs (000) | FEB  Shs (000) | MARCH Shs (000) | APRIL Shs (000) | MAY Shs (000) | JUNE Shs (000) |
| Balance b/f |  | 3150 | 7,000 | 7225 | 7575 | 8050 |
| Add: CASH INFLOWS; |  |  |  |  |  |  |
| Share capital | 4,000 |  |  |  |  |  |
| Chas sales | 5,500 | 6,000 | 6,500 | 7000 | 7500 | 8000 |
| Capitalization loan |  | 5,000 |  |  |  |  |
| TOTAL CASH INFLOWS | 9500 | 14500 | 13,500 | 14225 | 15075 | 16050 |
| CASH OUT FLOWS |  |  |  |  |  |  |
| Purchase of start up assets |  | 5000 |  |  |  |  |
| Salary and wages | 1500 | 1500 | 1500 | 1500 | 1500 | 1500 |
| Payments of rent | 500 | 500 | 500 | 500 | 500 | 500 |
| Advertising | 150 | 150 | 150 | 150 | 150 | 150 |
| Pre-operating expenses | 4,200 |  |  |  |  |  |
| Loan repayment |  |  |  |  |  | 600 |
| Purchases |  |  | 4125 | 4500 | 4875 | 5250 |
| TOTAL CASH INFLOWS | 6350 | 7150 | 6275 | 6650 | 7025 | 8000 |
| NET CASH POSITION | 3150 | 7000 | 7225 | 7575 | 8050 | 8050 |

* It enables the company to foresee cash deficits/shortfalls or cash surplus and where need be make arrangements to overcome challenge before its too late
* It enables management to compare actual with the projections where there are big differences investigations are made before it is too late
* It portrays the ability of the business to repay loans acquired and the best time for repayment.
* It shows the changes in the cash position of the business from one period to another
* It enables the company to identify the various needs and to provide sources of funding.
* It facilitates proper planning for the company regarding decision-making.
* It is a monitoring tool for the performance of the company.

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The following information relates to the projections made by Zanda for the month of January, February, march and April 2016

1. Projected cash and bank balance as at Dec 31st 2016 shs 20,000,000
2. Sales will be both cash and credit sales. January cash sales are expected to be 800 units at a price of 10,000 each. Thereafter cash sales will increase at a rate of 5% per month. Credit sales for each month are expected to be shs. 5,500,000. Debtors will be expected to pay in the month of sale
3. The business plans to buy 15 computers at shs 650,000 each in march. An import duty of 5% on total cost will be paid in addition
4. Monthly expected expenses and payments include:

Shs

Salaries and wages 30,000,000

Machinery servicing 300,000

Depreciation 100,000

Salaries of April will be paid in the month of March

1. Zanda is paying back a loan of shs 10,000,000 previously obtained. Monthly installments amount to shs 2,000,000 starting February. The loan attracts interest of 100,000 per month also payable starting February.
2. The business will buy 900 units of raw materials at shs 6,000 each in January. The quantity of raw materials is expected to increase by 10% every month. Purchase of raw materials is strictly on cash basis.
3. Zanda expects to receive shs 10,000,000 as a donation in april and plans to sale off an old vehicle at shs 9,000,000 in March.

Required:

1. Prepare Zanda’s cash flow statement for the period of January to April 2017\
2. Comment on the cash balances for the period.

5a) Opira Enterprises operates a maize mill. The information below relates to the maize mill for the year 2017.

i) opening cash balance as at 1s January 2017 Shs 2,200,000.

ii) Sales in kg.

January 90,000

February 100,000

March 80,000

April 20,000

Each kg was sold at shs 500 on cash basis.

iii) obtained shs 10,000,000, 15% interest loan from ADC bank in two installments; shs 6,000,000 in February and shs 4,000,000 in april.

iv) receipts from debtors were shs 2,000,000, shs 900,000 and shs 400,000 for the months of February, march and April respectively.

v) Production of raw materials in kg were as follows;

January 6000

February 7000

March 8000

April 9000

The above raw materials cost shs 2000 per kg.

vi) Labor costs for; January were 2,000,000, February shs 1,800,000, march shs 1, 700,9000 and April shs 1,950,000.

vii) production expenses; January shs 500,000, February shs 400,000, march shs 3000,000 and April shs 450,000.

viii) Monthly administrative and marketing expenses shs 300,000.

ix) a generator was bought at shs 20,000,000 on credit in January half of the cost was paid in march and balance in April 2017, paid in two weeks time.

ix) Thieves broke into the office and stole shs 70,000,000.

**Required.**

1. Prepare Opira Enterprises cash flow statement (cash budget) for the months of January, February, March and April 2017. (20 marks)
2. Propose ways of minimizing cash deficits in the business. (5 marks)

**TAXATION**

**BUSINESS TAXATION**

**Meaning of a tax**

A tax is a compulsory charge levied by the government or any other competent authority on persons (individuals, corporations or other legal entities.)or on businesses in order to finance government activities. It is the amount of money paid by the business to the taxing central government or the local government.

Taxes are the general obligations and are not paid in exchange for specific benefits. There is no direct relationship between the tax paid and the benefits in terms of public services received by the persons who have paid tax. The amount of money paid by any business depends on the volume of its operation, profits, or nature of the business.

**Meaning of Taxation**

Is the process through which governments obtain money from eligible persons by application of the law. It is the legal compulsory transfer of funds from the public to the tax authority irrespective of the exact amount of benefits rendered to the taxpayer by the government. Taxes in Uganda are collected by URA for the central government revenue and local administration for local government taxes.

**Importance/role of taxation in economic development.**

**Positive roles.**

1. Taxes are major sources of government revenue to finance the provision of services and other development services/projects.
2. Taxes are used by the government to protect infant industries so that they can be able to compete with well established industries.
3. Taxes help improve on the balance of payment position e.g. the government can increase import duties on certain commodities to discourage their importation.
4. Taxes are used to discourage consumption of harmful products like drugs, spirits, cosmetics, e.t.c. this can be done by imposing high tariffs on such commodities.
5. Taxes are used to reduce income inequalities in an economy e.g. progressive taxes which help to reduce the income gap between the poor and rich.
6. They help to check on the rate on inflation in an economy thus ensuring economic stability through stable prices in the economy this is achieved through levying/imposing high taxes on people’s income.
7. Taxes guide the level and direction of both private and public economic activities in the country for instance the government can encourage or discourage an activity in the country by lowering or raising taxes respectively.
8. The government to control or regulate monopoly power uses taxes. This is done through imposing high lump sum and specific taxes, which increase the cost of production, and this forces a monopolist to run out of the business.
9. Taxes are used to combat unemployment i.e. a low tax rate maybe imposed on firms that use labor techniques of production and this guarantees employment, investment incentives like subsidies, tax holidays may increase investment level to increase employment opportunities.
10. Taxes are used by the government to promote individual responsibility andself-reliance i.e. individuals are compelled to work hard and pay taxes to avoid shame and embarrassment.
11. Taxes are used as a means of forced saving. e.g. the national social security fund contributions where individuals are encouraged to save for the future.
12. For charging those who use government facilities like roads, toilets, police and other social services.
13. Recovering the community wealth which individuals have obtained not as a result of their efforts but as a result of effort of other persons e.g. inheritance tax.
14. Reduction of dumping in the country.

**Negative roles**

1. Discouraging investment by reducing the marginal propensity to save
2. Discouraging saving
3. Reducing welfare due to reduced consumption
4. Discourages hard work especially progressive taxes
5. Encourages illegal activities like smuggling
6. Indirect taxes are inflationary
7. Resource diversion from highly taxed activities to sometimes non-productive ventures
8. Creates resentment that may erode popularity of the government.
9. Reduces the volume of trade and thus the benefit of trade.

**Reasons for imposing taxes.**

1. To raise government revenue
2. To discourage consumption of harmful goods to the society
3. To protect home/infant industries from foreign competing producers.
4. To regulate economic activities in the country
5. To improve on the country’s balance of payment position
6. To control inflation.
7. To control/regulate monopoly
8. To reduce dependence on foreign aid
9. To reduce/correct income inequalities.
10. To combat unemployment
11. To promote individual responsibility
12. To encourage forced savings.

**Principles/canons of taxation.**

Refers to the rules/guidelines followed/observed to achieve a good tax system. They are the rules that must be observed when assessing, collecting and administering taxes.

They include the following:

1. **Simplicity:** the tax should be simple and easy to understand and administer. It should be set in the clearest language understood by the people to whom it applies to avoid confusion, resistance and corruption i.e. the taxpayer must be able to know the exact amount to pay when and where to buy without any difficulty.
2. **Equity/fairness/proportionality:** the burden of taxation must be equitably distributed among the taxpayers. There should be horizontal equity and vertical equity. Horizontal equity means people who have the same taxable income must pay the same tax. Vertical equity means people with higher taxable income must pay higher taxes.
3. **Convenience:** This means that the place, time, period, and seasons in which taxes are collected should be convenient to the tax payer e.g. PAYE is deducted on employees employment income by the employer at the point of paying salary.
4. **Certainty:** the tax payer should know in advance how much tax/amount to be paid time, place and manner of payment (money/kind)
5. **Economy/efficiency/cheapness:** this principle aims at ensuring that the administrative cost of collecting taxes is kept as low as possible to the collecting agent and the tax payer. The cost of collection and the administration of taxes to the collection agent should not exceed 5% of the tax revenue. Likewise, the cost of compliance to the taxpayer should be as low as possible and must not be seen to hinder voluntary compliance.
6. **Ability to pay:** the taxpayer should be able to pay the tax without difficulty based on the financial resources to pay the tax. The payment of tax should not hinder the operations of business entity or affect the standard of the individual
7. **Elasticity/flexibility:** Taxes should be flexible so that they are easy to adjust according to the financial needs of the government for example: the tax system should be income elastic. It should change directly with the change in the tax base. If the tax base increases, the tax yield should also increase.
8. **Productivity:** the tax imposed should be productive i.e. bring in a high net yield of revenue to the government to justify its position. Productivity in this case requires a multiple type of tax where imposition of a tax on one commodity is likely to create other taxes in order to yield revenue to the government.
9. **Comprehensiveness/diversity:** the tax system should cover as many aspects of the economy as possible i.e. it should cover all people who earn income in different ways such as salaries, wages, profits, rent, accumulated income e.t.c.
10. **Neutrality/Impartiality:** taxes should not be good to a given group of people and exclude others. All people within the taxpaying group must pay the tax.

**CHARACTERISTICS/ATTRIBUTES OF A GOOD TAX SYSTEM**

From the above canons of taxation it can be concluded that characteristics of a good tax system among others include the following:

1. A good tax system should be comprehensive. It should cover as many aspects of the economy as possible.
2. It should be simple and straight to be understood by both the taxpayer and tax collector.
3. It should yield adequate revenue to the economy
4. It should promote equality of sacrifices i.e. it should ensure social and economic justice.
5. It should avoid double taxation i.e. avoiding taxing of items more than once.
6. It should direct resources to priority areas hence stimulating savings, investment and productivity.
7. It should recognize basic rights of taxpayer i.e. tax payer should not be harassed, inconvenienced and exploited by the taxing authority.
8. It should be convenient i.e. be collected at a time convenient to the taxpayer.
9. It should be certain. i.e. tax payer should know when and where to pay the taxes
10. It should be flexible i.e. easy to adjust depending on the changes in the income of the taxpayer.
11. It should ensure economic stability i.e. not cause instability in the economy like inflation.

**BASIC TERMS USED IN TAXATION**

1. **Tax base:** this refers to any item or economic activity that is subjected to a tax. It refers to the grounds on which taxes are imposed i.e. any property, income, profit or any economic activity on which a tax can be levied. The tax base may include:  
   i) income earned from economic activities like manufacturing and trade  
   ii) income earned from employment  
   iii) property/ assets like houses, land or other investment  
   iv) consumption of goods which are subjected to taxation.  
   A tax rate is applied on the tax base to derive tax liability, which is the obligation the taxpayer meets. The rate is represented as either percentage or a fixed or specific value based on units e.g. the income tax payable by companies is 30% whereas for hides and skins the export duty rate is $0.25 per KG **Tax liability:** refers to the total amount of money that a tax paying unit is expected to pay within a given period of time e.g. assume a company had a taxable income of shs 200,000 and the tax rate is 30%, its liability will be  **=shs 60,000**  
   Assume the company above is exporting 150KG of hides and skins to UAE, its tax liability will be **150 X 0.25 = $37.5**
2. **Taxable income:** refers to income liable to taxation.
3. **Taxable capacity:** refers to the extent to which an individual can pay taxes imposed on him or her without affecting his/her standard of living
4. **Threshold of a Tax:** this refers to the amount of money or level of income from which the tax liability begins.
5. **Tax avoidance:** this is where the taxpaying unit/tax payer exploits the weaknesses/loopholes within the tax system to either pay less than the tax levied or dodge paying the tax entirely i.e. producing a commodity that is not taxed
6. **Tax rebate:** refers to a tax refunded or repaid to a tax payer
7. **Tax exemption:** this is where a taxpayer is relieved from paying taxes due to certain reasons. Exemptions can also be made on commodities either produced locally or imported depending on the government’s intensions
8. **Tax capitalization:** this refers to a situation where a tax paying unit usually a firm artificially increases value of its capital employed so as to reduce its tax liability OR Is where a firm converts profits into capital by raising capital value in order to pay less tax
9. **Tax Evasion:** refers to deliberate refusal of taxpaying unit to pay taxes imposed on it.

**Examples of Tax Evasion:**

* Smuggling i.e. failure to declare entry or exit of goods into the country hence entering or leaving the country untaxed.
* Falsification or giving a lower value of goods and services imported or exported by the business.
* Under declaration of personal or business income.
* Overstating the expenses.
* Refusal to declare income/property
* Hiding from tax collectors
* Bribing tax collectors
* Refusal of the business to register for VAT (Value Added Tax)
* Capitalization of income so as to pay less on profits.

**Reasons why people evade taxes.**

* Unfair assessment characterized by high tax rates
* Discontent about provision of services by the government from taxes paid
* Low income levels/high levels of poverty
* Inadequate information about taxes
* Desire by the tax payers to retain all their earnings
* Weaknesses in the tax system
* Political sabotage

**Consequences of Tax evasion to the business.**

* Penalty for non-payment/non-remittance of taxes e.g. prosecution in courts of law, imprisonment, extra charges e.t.c.
* Forceful payment of arrears from entrepreneurs personal resources/business profits
* Temporary/permanent closure of the business hence loss of business income
* It exhibits a bad public image for the business.
* The business is denied public tenders (opportunities to supply/sell goods or offer services to the government at a fee) as the business maybe black listed by the tax authority.
* It leads to denial of government support where tax compliance is considered a prerequisite.
* It leads to loss of smuggled goods that are confiscated.

**TAX COMPLIANCE**

Tax compliance is the degree or extent to which the taxpaying community meets the tax obligation as set out in the appropriate legal and regulatory provisions. Compliant taxpayers among others make timely, proper and accurate declarations to the tax authority and voluntarily settle all the due tax liability.

Taxpayers who are not compliant either evade or avoid taxes. Tax avoidance entails taxpayer’s deliberate misrepresentation/concealment of the true state of their affairs to the tax authority in order to reduce their tax liability. It may take the following forms:

1. Dishonest tax reporting by under declaring income or over stating the expenses.
2. Engaging in smuggling
3. Falsification of declaration e.t.c

NB: Tax avoidance is illegal and constitutes a criminal offence.

**LEVELS OF TAX COMPLIANCE**

The level of tax compliance depends on the taxpayer’s attitude and knowledge and there are four levels:

1. Tax payers who are fully compliant and are willing to fulfill the obligations voluntarily
2. Tax payers who reluctantly feel obliged to be compliant. These are tax payers who know that non-compliance will be expensive and accordingly comply
3. Tax payers who show slight resistance to compliance and this more often arises from lack of knowledge. When such tax payers are advised and some pressure exerted on them, they simply comply.
4. Tax payers who are non-compliant and exhibit outright resistance to meeting their tax obligations. This category includes some taxpayers who pride in failing the tax authority.

**IMPORTANCE OF TAX COMPLIANCE TO AN ENTREPRENUER**

A tax compliant business enjoys the following benefits:

1. Earns goodwill and reputation. Customers and suppliers also want to deal with a business with assurance that it will continue surviving for a long period and not one that can be closed immediately after receiving money from customers for supply of goods. Tax compliance is a sign of assurance of business continuity
2. Attracts government support. Government support such as subsidization, tax rebate is usually given to only those businesses that are tax compliant
3. Easy access to resources and finances. Resources, providers and financers like banks always want to deal with tax compliant businesses whose chances of business continuity are high since there are no risks of being closed by the government which will put the lenders to the risks of losing their money.
4. Expands business contracts and chances of getting tenders. When tenders are being advertised by government and various non-governmental organization for supply of certain requirements, tax payment receipts are among the documents required and therefore tax compliance puts the business in a favorable position when competing for tenders.
5. Enjoying protection. Business assets and operations of a tax compliant business are freely protected by government security organs.

**FACTORS INFLUENCING TAX COMPLIANCE**

The factors that affect tax compliance include:

1. The extent to which the tax system is equitable. an inequitable tax system discourages tax compliance as tax payers tend to feel that the distribution of tax burden is unfair
2. Level of tax rates. High tax rates make taxation costly and compel taxpayers to avoid payment of tax and are also a disincentive. Low tax rates encourage compliance.
3. Extent to which tax laws and tax regulatory framework is simple and easy to understand. Complicated tax laws and long administrative processes make the compliance cost high, lead to disputes, delays, avoidance and hence non-compliance. On the other hand where the method of tax assessment and collection is simple enough to be understood by both the tax payers and collection tax compliance is encouraged.
4. The extent to which the tax burden is spread to all potential taxpayers. An un proportionally distribution of tax burden makes tax compliance difficult and vice versa. Most often tax incentives and holiday regimes restrict the spread of tax burden
5. Popularity of government and quality governance including honesty and accountability of public revenue. A government which is unpopular or corrupt discourages tax compliance on the other hand, a popular government characterized by absence of corruption encourages tax compliance
6. Quality of business management by taxpayers through record keeping and observance of business ethics. Where business managers are unethical, they are bound to be non-compliant to those who are ethical in their business operations.
7. Quality of tax administration. High level of professionalism, integrity and customer care exhibited by the tax collectors encourages a high level of tax compliance. This is because under such circumstances, taxpayers build trust and confidence in the tax authority.
8. Availability of funds. Firms with financial problems tend to have low tax compliance than businesses with adequate funds.

**FACTORS THAT LIMIT TAX COMPLIANCE.**

* High tax rate
* Inequitable tax system
* Complicated tax laws and tax regulatory framework
* Limited information about the importance of taxation
* Under developed infrastructure
* Un proportional distribution of tax burden among tax payers
* Unpopularity of the government and poor governance
* Poor business management through poor record keeping
* Poor tax administration and assessment
* Long procedures of paying taxes
* High rate of inflation
* Political instabilities
* Inconsistent tax laws and unfair implementation
* Low levels of income among tax payers.

**MEASURES FOR ENCOURAGING TAX COMPLIANCE**

1. Ensuring that the taxes are equitable or fair whereby the tax burden is equitably distributed to the tax payers
2. Sensitizing/educating the masses to show the importance of paying taxes and where the revenue collected is allocated.
3. Ensuring political stability to boost economic activities.
4. Reducing corruption and embezzlement of tax revenue
5. Publishing the name of the tax defaulters in the media/press.
6. Rewarding compliant tax payers e.g. with certificates of recognition
7. Imposing penalties on non-compliant taxpayers.
8. Charging lower tax rates that are enough to raise enough revenue for the government and at the same time help the tax payers remain with enough disposable income to support a decent standard of living

**TYPES OF TAXES**

There are two broad categories of taxes and these are direct and indirect taxes.

**DIRECT TAXES**

Direct taxes are the taxes imposed on the income and property of individuals and business entities. The burden of tax is directly borne by the individual or business entity. Direct taxes include:

1. **Income tax:** This is tax on profits or income earned by an individual or business entity. It takes two forms;  
   (i) Personal income tax: this is a tax charged on income of a person. The most common tax in Uganda is the PAYE. This tax is normally based on the ability to pay tax principle as its tax rates progressively increase as the income increases.  
   (ii) Corporation tax: this is a tax imposed on incomes or profits of a company. The tax base for income tax includes profits from business, rents and royalties from letting assets and income from investment like shares, debentures, and other securities
2. **Capital Gains tax:** this is a tax on profits received from the sale of fixed assets whose value has appreciated considerably at the time of sale.
3. **Property tax/Wealth tax:** this is the tax imposed on the property of an individual or past savings. It may be imposed on land, buildings, shares or other investment.
4. **Death Duty/Estate Duty:** this is imposed on the property of the deceased before being distributed to heirs. This tax is because nobody owns property rights beyond lifetime.
5. **Inheritance Duty:** this is a tax paid by a beneficiary from the estate of the deceased. The tax base is usually the market value of the property acquired by such beneficiary.
6. **Gift tax:** This is a tax on gifts or gratuitously acquired property. It covers assets given by living persons to another living person.

**ADVANTAGES OF DIRECT TAXES(POSITIVE EFFECTS)**

1. Direct taxes are progressive and thus reduce income inequalities and promote income distribution. They affect the rich more than the poor hence equitably distributing the burden and ensuring vertical and horizontal equity.
2. Direct taxes are certain and clear to the tax payer as he knows what amount, when, where and how he is expected to pay.
3. Direct taxes are economical to pay i.e. have low costs of collection/administration especially with income tax which can be easily collected by the government using employers as collectors and also very easy with government workers whose income level is known to it.
4. Direct taxes are simple to understand by both the taxpayer and collector.
5. They are flexible in that the government can increase or decrease the rates of direct taxes according to the economic conditions and requirements of the economy.
6. The yield from direct taxes can easily be estimated before collection and therefore they can easily be relied on for proper planning or they are an assured source of government revenue.
7. Direct taxes are used to reduce inflation in the country. Increase in taxes on personal income reduces disposable income which leads to a reduction of inflationary pressure on the economy
8. They have a low level of tax avoidance.

**DEMERITS OF DIRECT TAXES.**

1. Direct taxes inconvenience the taxpayer as they are in most cases paid in advance and in lump sum except for salary persons.
2. The rate of tax evasion is higher with direct taxes as people can easily evade them by showing less income when filling tax returns.
3. They discourage savings and investment as people may be reluctant to save and invest to avoid paying more tax with higher income levels and wealth. Reduction in investment consequently results into low economic activities and unemployment in the economy.
4. Higher direct taxes burden the tax payer and reduces disposable income since they are paid directly out of people’s income hence may reduce people’s standards of living.
5. Direct taxes are discriminative in nature i.e. they are not imposed on all income groups as some groups are usually exempted.
6. They discourage people from working hard to avoid being taxed the more since they are progressive in nature.
7. Direct taxes are inflationary. As a result, they reduce disposable income making workers demand higher wages leading to increase in production cost and the general price level.

**INDIRECT TAXES**

These are taxes that are imposed on goods and services, paid by an individual or business entity and shifted to the final consumer. Those taxes are voluntary in the sense that you can only pay them if you opt to buy the good or consume services on which they are imposed. Examples include:

1. **Customs Duty:** This is a tax imposed on goods that cross the border of a country either as imports coming to the country or as exports leaving the country. It may either be an import duty or export duty.  
   (a)Import Duty/Tax: This is a tax imposed on goods entering the country from other countries and is usually paid at the entry points/borders.  
   (b) Export Duty/Tax: This is a tax imposed on goods being exported to outside countries and is usually paid at the exporting points.
2. **Excise Duty:** This is a tax imposed on domestically/locally produced goods and services whether meant for domestic consumption or export. Commodities in Uganda that attract excise duty include beer, cigarettes, e.t.c
3. **Sales tax:** this is imposed as a percentage on goods or services sold.
4. **VAT:** this is the tax imposed on the value added to the commodity at each stage in the process of production or sale of the commodity.
5. **Sumptuary Tax:** this is levied on specific consumer goods in order to discourage their consumption. Such goods in most cases are socially undesirable e.g. cigarettes e.t.c

**Advantages of Indirect Taxes.**

1. They are convenient to pay as they are paid together with the price of the commodity in instilments when buying the commodity instead of lump sum when consumers are buying the commodity hence the consumers don’t feel the direct burden
2. There is less tax evasion since they are included in the prices of the commodity and cover a wide range of commodities. They can only be avoided by abstaining from consumption of the taxed commodities which is not possible especially with necessities
3. They cover a wide range of taxable items and therefore raise more revenue for the government than direct taxes.
4. Indirect taxes can be used to check the production and consumption of harmful goods like cigarettes, alcohol e.t.c. by increasing indirect taxes like VAT on such goods
5. They are flexible i.e. can be adjusted either downwards or upwards depending on the economic conditions prevailing in the country.
6. Indirect taxes in particular import duties constitute a powerful tool of economic protection for domestic industries especially the infant industries against competition from foreign producers and dumping. This is possible when import duties are increased making imports more expensive than the locally produced goods.
7. Promote hard work among taxpayers because in an attempt to meet the increasing prices of commodities and maintain the standard of living, people are forced to work hard to sustain their economic welfare.
8. Reduce tax resentment i.e. they reduce ill will against taxation. This is because indirect taxes are built in prices of commodities and people do not notice that they are paying them.
9. Are used to achieve economic stability especially by imposing high taxes on imported goods to minimize import inflation.
10. Are economical to collect by the government since the government does not pay the traders who collect them.

**Disadvantages of Indirect Taxes**

1. They are regressive in nature and therefore do not satisfy the principle of equity since the rich and the poor pay the same amount of tax on the same essential goods consumed. The burden of tax/sacrifice is therefore heavier on the low-income groups.
2. They are inflationary in nature as they increase prices of goods and services hence increasing costs of production, costs of living thus leading to demand for higher wages.
3. Consumers may be exploited by charging excessively higher prices in the excuse of high production costs caused by indirect taxes.
4. Some indirect taxes are difficult to understand to both the sellers and the consumers for example VAT and hence can cause political unrest.
5. Indirect taxes reduce economic welfare of citizens. This is because the poor may not cope up with the increasing prices due to indirect taxes.
6. Protective tariffs to the local industries lead to higher domestic prices and poor quality goods.

**TAX ADMINISTRATION IN UGANDA**

The principle players in Uganda’s tax administration system are the ministry of Finance and the parliament of Uganda, Uganda Revenue Authority, The tax appeal Tribunal and the tax payers.

**ROLES OF UGANDA REVENUE AUTHORITY IN TAX ADMINISTRATION**

URA has the primary responsibility of providing the cornerstone for the development of Uganda. The roles of URA are as follows:

1. To access and collect taxes in accordance with the tax laws. This is attained through identifying and registering tax payers, providing tax payers with information necessary for them to know their rights and obligations, assessing the tax payers fairly, collecting taxes and enforcing tax collection and recovery where there is a defaulter.
2. To issue tax identification numbers (TIN) to the taxpayers.
3. To account for all the revenue collected to the ministry of Finance. All revenue collected is deposited into the consolidated fund account of the Bank of Uganda.
4. To facilitate trade and investment. This is attained through liaising with other government bodies like the ministry of trade and industry and Uganda Investment Authority to ensure that good investment climate exists in Uganda and providing quality services through fast tracking clearance of goods, prompt provision of tax clearance certificate and motor vehicle license.
5. To advice government on matters of policy related to tax and revenue administration. URA as the implementer of tax policy will easily note matters of consistency and loopholes in the tax and revenue laws, this advice is normally contained in the policy change proposals during Annual National Budget process that are forwarded to the ministry of finance.
6. Influencing resource allocation in the economy.
7. Reducing dumping in the country.
8. Protection of infant domestic firms against foreign and local competition.
9. Diversifying the tax system by introducing new taxes
10. Redistributing income and wealth among individuals/firms/sectors
11. To discourage production or consumption of harmful products like alcohol, cigarettes by imposing high taxes.

**CHALLENGES FACED BY TAX AUTHORITY (URA)**

* Narrow tax base
* High levels of tax evasion
* Shortage of skilled manpower to assist in management
* High levels of tax avoidance
* High rate of corruption and embezzlement among the tax authorities
* Low taxable capacity
* Frequent changes in employment.
* Under developed infrastructure to facilitate tax assessment, administration and collection
* Resistance from public against tax payment
* Conflicting government objectives or policies which sometimes conflict with taxation system
* Difficulty in identifying tax bases
* Political interference especially opposition politicians
* Political instability in some parts of the country

**Possible solutions to improve the tax system in Uganda**

* Fighting corruption
* Training more tax personnel
* Sensitizing the masses about the role of taxation
* Development of proper social economic infrastructure
* Proper and effective use of the taxes collected
* Improvement in the implementation of tax laws
* Diversification of the economy to widen the tax base
* Development of the tax payer friendly system of taxation
* Creation of stable political climate in different parts of the country to improve the level of economic activities
* Making the tax laws and regulatory framework simple for all tax payers to understand

**TAXES COLLECTD BY URA**

1. **International trade taxes.** These are collected on goods entering or leaving the country. In Uganda, the custom and excise department performs this role. They include the following

* Import duty
* Export duty
* Withholding tax
* Excise duty
* Environment levy
* VALUE ADDED TAX (VAT) on imports.
* It was introduced in Uganda on 1st July 1996 and is administered by VAT Act. It is charged and or collected on value added at each stage in the chain of production or distribution. It is ultimately borne by the consumer, currently the VAT rate is 18%

**Reasons for introducing VAT in Uganda**

1. To broaden the tax base. VAT alone collects revenue which is greater than the total of all direct taxes
2. To encourage exports. There is no VAT on exports and incase any VAT has been paid on transit export goods it is supposed to be refunded as soon as they leave Uganda
3. To fight tax evasion. VAT is difficult to evade. In case a firm understates its output it will be trapped by the disclosure of the firms buying imports from it
4. Naturally non distributionary provided there are few exemptions and zero ratings
5. To improve tax administration by reducing the costs associated with the collection of sales tax and C.T.L
6. To remove the cost of cascading effect associated with sales tax and C.T.L. Cascading arises when tax is charged both on inputs into some process and on the output of that same process
7. VAT is based on ability to pay approach
8. Efficiency is self policing
9. **Domestic taxes**

These are taxes collected by URA under the domestic taxes department. They include

* Income tax
* VAT
* Excise duty
* Hotel/lodge duty
* Rental tax
* Gaming tax

1. **Taxes collected by local authorities**

These include all local government, administration authorities that are responsible for collecting local government revenue. They include the district, town council, city council and municipalities. Local authorities collect revenues such as:

-Property tax in cities and town

-Sign post fees

-fees/ license

-Market dues

-Park fees

-Street parking fees

-Ground rent etc

**BASIC TAX COMPUTATIONS**

1. **Individual income tax**

This is the tax imposed on the chargeable income of an individual. Chargeable income is the gross income of a person for the year less deductions allowed i.e. less expenses and costs incurred in earning the income   
Gross income of a person for a year of income is the total amount of business income, employment and property income less exempt income

Example 1

Kasale earned income from different sources for the year 2016 as indicated below

Shs

Business income 1,000,000

Employment income 2,400,000

Property income 500,000

In addition incurred expenses and losses amounting to 1,200,000

In addition, incurred expenses and losses amounting to shs 1,200,000 to earn the income 150,000 out of the income is exempted for tax. Required

Determine Kasale’s gross income and chargeable income

Gross income = Business income + Employment income+ Property income – Except income

=(1,000,000+2,400,000+500,000) – 150,000

Gross income = shs 3,750,000

Chargeable income= Gross income – Expenses and losses

= 3,750,000 – 1,200,000

Chargeable income = 2,550,000

**Employees Relief ( Tax Exempt income)**

This refers to gains or incomes that is not included in the chargeable income of the employees and therefore not taxable on the employee. These include

1. Employee income that is below the taxable threshold currently at shs. 235,000
2. Pension
3. Discharge/ Reimbursement of medical bills incurred by the medical bills
4. Life insurance premiums paid by a taxable employer(company or individual) for the benefit of the employee
5. Expenses incurred by the employee ie discharge or reimbursement for the employee on official duty of the employer
6. Meals and refreshment or value of meals provided to all the employees at equal terms
7. Employers contributions to a retirement fund for the benefit of the employer
8. Any cash benefits whose value is less that shs 10,000 a month
9. Relief of 25% on terminal benefits to employees who have served the employer for at least 10 years
10. Official employment income of persons employed in the armed forces ie UPDF, police and prisons
11. Employment incomes of Ugandans posted to work in Ugandan diplomatic missions abroad
12. Employment incomes of persons employed by East African Developments Bank

**Employment income**

Most people pay individual income tax on earned income from employment and is recovered at source through a system called PAYE (pay as you earn)

Employment is deemed to exist where there is a legal master- servant relationship. Employment income includes among others

1. Any wages, salary , leave pay , gratuity , bonus
2. Allowances such as travelling, entertainment, housing and medical allowance
3. Value of any benefit advantage/Facility granted to the employee. These include items like cars
4. Compensations for terminations of a contract of employment

**PAY AS YOU EARN (PAYE)**

The employers who then remit it to URA collect PAYE. The employers are mandated / Authorized to withhold the appropriate amount from the employees monthly income and remit it to URA by the 15th day of the following month

**The Tax rate for PAYE (individual income tax on employment income)**

Income is usually taxed/charged in relation to a defined year of income. The tax rate for individual is therefore based on a year. However, in the case of PAYE, the rates are administratively reduced on monthly rates as showed in the table below

**Current Tax rates**

|  |  |
| --- | --- |
| Monthly Payment | Tax Rate |
| 1. Not exceeding shs 235,00 | Nil/ 0% |
| 1. Exceeding 235,000 but not exceeding shs 335,000 | 10% of the amount by which chargeable income exceed shs 235,000 |
| 1. Exceeding shs 335,000 but not exceeding 410,000 | Shs 10,000 + 20% of the amount by which chargeable income exceed shs. 335,000 |
| 1. Exceeding 410,000 | Shs 25,000 + 30% of the amount by which chargeable income exceeds shs. 410,000  b) where the chargeable income of an individual exceeds shs 10,000,000. An additional 10% is charged on the amount by which chargeable income exceeds shs 10,000,000 |

Example 1

Kato a Ugandan earns a monthly income of shs 650,000. Compute his tax payable using the PAYE monthly rate as shown in the table above

Kato’s income =shs 650,000

Kato falls in the forth bracket.

PAYE payable = shs 25,000 + 30% of the amount by which chargeable income exceeds shs 410,000

= 650,000 – 410,000

= shs 240,000

Therefore, PAYE = 25,000 +n 30% of 240,000

= 25,000 + 72,000

=shs 97,000

**PAYE annual tax rates**

|  |  |
| --- | --- |
| **Annual income** | **Tax rates** |
| 1. Not exceeding shs 2,820,000 | NIL/zero |
| 1. Exceeding shs 2,820,000 but not exceeding shs. 4,020,000 | 10% of the amount by which the chargeable income exceeds shs. 2,820,000 |
| 1. Exceeding shs 4,02,000 but not exceeding shs 4,920,000 | shs 120,000 + 20% amount by which chargeable income exceeds shs. 4,020,000 |
| 1. Exceeding shs 4,920,000 | 1. Shs 300,000 + 30% of the amount by which chargeable income exceeds shs 4,920,000 2. Where chargeable income of an individual exceeds shs 120,000,000 and additional 10% is charged to the amount by which chargeable income exceeds 120,000,000 |

Example 2

Mabirizi an Employee of Saracen Uganda Limited earns an annual income of shs 18,000,000. Calculate his

1. Monthly PAYE TAX
2. Annual PAYE tax.

Solution

1. Step1 Monthly income =

=

= shs 1,500,000  
step 2 monthly PAYE tax = shs 25,000 + (30% of 1,090,000)

= shs 25,000 + 327,000

Monthly PAYE Tax = shs. 352,000

1. Annual PAYE =shs 300,000 + (30% of 13,080,000)

=shs 300,000 +3,924,000

=shs. 4,224,000.

**Individual Rental Tax**

Tax under this state applies to resident individual persons. The law provides that the individual rental income is segregated and taxed separately as though it was the only source of income for the taxpayer.

Rental income is earned by an individual from letting out or hiring out immovable property in Uganda (land and buildings). For income tax purposes it does not matter whether the building is let out as a residence or for commercial usage

The rental incomes of a resident individual for a year of income are charged to tax at the rate of 20% of the chargeable income in excess of the tax free allowance/ threshold of shs 2,820,000 per annum. However, in determining the tax due fixed deductions of 20% per annum is allowed on the gross annual rent income of resident individuals

**Computations of rental tax for resident individuals**

In computing the tax the following are considered.

1. Gross on all rents earned during the year
2. Deduct 20% statutory expenses on the gross rent
3. Deduct tax free allowance of shs 2,820,000 to arrive at the chargeable rental income
4. Apply a rate of 20% on the chargeable income to get the tax

Example 1 Okello earns annual rent of shs. 2,500,000 from a house in Walukuba, shs 900,000 from a house in Mbiko and shs 600,000 from a house in Namulesa

Required:

Computer Okello’s Rental income tax to be paid to URA

Solution

1. Gross rental income= 2,500,000 + 900,000 + 600,000 = 4,000,000
2. Loss provision for expenses 20% of 4,000,000 = shs 800,000
3. Chargeable income = 4,000,000 – 800,000 = shs 3,200,000
4. Less rental tax free allowance = 2,820,000 = 380,000
5. Net rental charge = 380,000 x 20% = shs 76,000

**NON TAX REVENUE**

This refers to duties fees and levies that are charged by government for the provision of specific services and penalties for specific offences.

The non-tax revenue administered by URA includes stamp duty and motor vehicle transaction fees. These include registration fees, change of ownership fees, duplication fees, alteration fees, registration fees, etc

However, URA collects other non-tax revenues on behalf of ministries and other government departments. The most common are passport fees, work permit fees, court fees and fines, traffic express penalties, land transfer fees, royalties, business and company registration fees, tender fees and permit fees etc

**VALUE ADDED TAX (VAT)**

VAT is tax on the consumption of goods and services. It is charged and collected on values added at each stage in the chain of distribution or production. It is finally paid or borne by the consumer currently VAT rate is 18%.

Illustration 1 :

Chain of distribution

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Stages | **Activity** | **Purchase prices in shs** | **Selling prices (shs)** | **Value added (shs)** | **VAT at 18% (shs)** |
|  | Importer into the country | 10,000 | \_ | 10,000 | 1,800 |
|  | Importer (local distribution) | 10,000 | 12,000 | 2,000 | 360 |
|  | Wholesaler | 12,000 | 15,000 | 3,000 | 540 |
|  | Retailer | 15,000 | 20,000 | 5,000 | 900 |
|  | Final consumer | 20,000 | \_ | \_ | 3,600 |

From the above illustration, it is indicated that the final consumer pays VAT of shs 3,600. The total price he paid would be shs 23,600 inclusive of VAT. However this VAT would have been collected and paid in parts or installments by different persons in the chain of distribution as follows

STAGE VAT (shs)

1. Importer to Customer 1,800
2. Importer to local distributor 360
3. Wholesaler 540
4. Retailer 900

Total value added 3,600

**Value added tax computations**

VAT= Taxable value x VAT rate, where,

Taxable value: Is the price of taxable goods or supply excluding VAT. This is referred to as the tax base. VAT rate is the percentage used to compute VAT. The current rate is 18%.

**VAT MECHANISM**

The VAT mechanism involves 3 items

1. VAT on purchases and expenses. This is called input tax.
2. VAT on sales. This is called output Tax
3. VAT liability = output tax – input tax

NB Where output tax exceeds the in out tax the taxpayer pays the difference as VAT to URA. However where the input tax exceeds the output tax, the tax payer claims the difference as a VAT refund from URA

Sample Question. UNEB 2014 P230/2 Q6A

There Is a concern about tax evasion among Entrepreneurs in your district as a tax compliant entrepreneur the distinct trade office has requested you to address entrepreneurs

1. Give the meaning of tax evasion (1 mark)
2. Mention 3 examples of tax evasions practiced by entrepreneurs in your community( 3makr s)
3. Explain the consequences of tax evasion to the businesses (4 marks)
4. Suggest to the entrepreneurs the actions they should take to increase the level of tax compliance

Question 6b

The following VAT exclusive transactions were availed to you by VAT registered businesses in your community for the month of July 2014

1. Musa bought goods worth shs 40,000,000
2. Musa sold the same goods to Suba for shs 58,000,000
3. Suba sold the same goods to Mweso the retailer for shs 70,000,000
4. Mweso sold the goods to the final consumer for shs 84,000,000

Required

Using the VAT rate of 18%

1. Compute for the entrepreneurs for the VAT chargeable for the value added at each stage.
2. Advise Mweso on the gross sales value for his goods to the consumer

Solution

B) I) VAT chargeable

Stage 1 VAT payable

= 18% of purchase price of goods

=shs 7,200,000

Stage 2. =

=0.18x 18,000,000

=shs 324,000

**Or output tax – input tax**

Stage 3 =(

=0.18 x 12,000,000

=shs 2,160,000

Stage 4 = (

= 0.18 x 14,000,000

=shs 2,520,000

18% of sales value + sales value

b)ii) Gross value = (0.18 x 84,000,000) + 84,000,000

=15,120,000 + 84,000,000

= shs 99,120,000

or Gross value = Selling price + VAT at 4 stages

=84,000,000 + 7,200,000 + 3,240,000 + 2,160,000 + 2,520,000

= shs 99,120,000

Therefore, Mweso should be advised as follows:

Should include Vat chargeable in determining the selling price of the goods to the final consumer or Mweso should have sold his goods to the final consumer at shs 99,120,000 inclusive of VAT

Question 2 UNEB 845/1 2015

Question 5. You are an Entrepreneur trading in clothes. Your business is VAT registered

1. Name any 4 types of taxes other than Vat that are paid by your business
2. Explain 6 benefits your business enjoys by paying taxes
   1. In the month of August, 2014you sold clothes that cost shs 1,500,000 to Zed enterprises at shs 2,000,000. The transactions where VAT exclusive

REQUIRED:

Use 18% VAT rate to calculate

1. Vat on purchases (input tax)
2. VAT on sales (output tax)
3. VAT you paid to Uganda revenue authority

**COMPUTATION OF CUSTOMS DUTIES AND TAXES**

Customs duty is determined based on a custom value, which is the cost of goods insurance, and freight (cost of transport). This is referred to as the CIF value of the goods on which custom duty is charged.

Example 1:

Kipere a trader on Nkrumah road imports polyethylene-packing bags from India. The CIF value for the goods is $6,000. Polyethylene bags attract an import duty if 25% excise duty of 50%, VAT 18% and withholding tax of 6%.

Required:

What would be the tax payable for the polyethylene bags given that the exchange rate at the time of importation in UG shs 2,400 to $1

Solution

Customs value = CIF X exchange rate

= 6,000 X 2,400

=Shs. 14,400,000

Import Duty =Customs value X 25%

=14,400,000 X 25%

=Shs. 3,600,000

Excise Duty =(customs value + Import duty) X50%

= (14,400,000 + 3,600,000) X 50%

= 18,000,000 X 50%

= Shs. 9,000,000

VAT = (customs Value + Import Duty + Excise duty) X 18%

= 14,400,000 + 3,600,000 + 9,000,000 X 18%

= 27,000,000 X 18%

= Shs. 4,860,000

Withholding Tax = Customs value X 6%

= 14,400,000 X 6%

= Shs. 864,000

∴ Tax payable = Import duty + Excise duty + VAT + withholding Tax

= 3,600,000 + 9,000,000 + 4,860,000 + 864,000

= Shs. 18,324,000

**MANAGING PERSONNEL**

Is that part of management, which deals with the recruitment, training and development, effective control and use of workers to do all the activities, involved in enterprises.

It is also referred to as staffing. Effective management of human resource is one of the most crucial factors associated with the success of an enterprise.

In large enterprise, the responsibility of looking after workers is assigned to a person called a personnel manager. Adam Smith said that “ a happy worker is a more productive worker”. This implies that the success of a business partly depends on the people it employs, how they are handled and directed.

**Elements of human resource management**

1. **Man power planning/Human resource planning.** It concerns with assessing the man power requirements of an enterprise in terms of both quantity and quality, the strategies for developing, utilizing and preserving/ retention of required manpower.
2. **Recruitment/employee recruitment.** This refers to the process of attracting and identifying suitable workers for a given job. This can be done through advertisement, visiting training institution, head hunting
3. **Selection.** This is a process an entrepreneur or enterprise follows so as to pick out the most suitable candidate for a particular job. It involves various steps which may differ from one enterprise to another. For instance starting from application forms/ Letters, conducting interviews, asking referees etc and naming the most suitable person
4. **Employee placement.** This is attaching suitable employees to a department of signed duties
5. **Employee induction.** Ie briefing or giving special instructions to an employee on how better to carry out assigned duties in the department.
6. **Employee remuneration/payment.** This involves the determination of workers payments. This includes both monetary and none monetary rewards payable to workers. Proper payment procedures and terms of employment are also clearly handled
7. **Employee training/human resource development.** This is concerned with the improving the skills of workers like through further training, study tours, attending workshops/seminars etc
8. **Communication with employees.** This concerns putting in place formal and informal communication requirements and procedures for the enterprise between workers and employer
9. **Employee termination.** It concerns laying off a worker due to reasons such as inefficiency, indiscipline etc
10. **Employee performance appraisal.** Refers to the process of evaluating employee performance in various forms on the job

**Objectives/purpose/Rationale/need for personnel management**

1. To promote workers efficiency and effectiveness at work
2. To promote team work that lead to rapid enterprise development
3. To undertake proper man power development that is important for organizational development.
4. To develop workers talents, abilities, skills , competence through training
5. To appropriately and fairly reward workers for their contribution to the enterprise
6. To identify man power gaps in the company and make appropriate plans of filling them
7. To facilitate professional selection of workers for particular job tasks
8. To determine worker placement areas that make them more productive
9. To identity efficient workers for promotion, retention etc and inefficient ones for termination or demotion etc

**Importance of human resource management**

1. Helps in recruitment, selection and placement of workers. This enables the organization to employ the right staff with the required skills for effectively handling the business operations hence resulting in increased productivity.
2. Helps in staff training and development through planning/organizing various training programs (internal and external training), seminars and others in order to keep the employees knowledgeable hence improved skills and productivity
3. Improves working conditions and provides a good working environment and this motivates them to work to the best of their talents to the success of the enterprise
4. Helps the organization to minimize costs in the enterprise by optimal resource and time use. This is due to specialization
5. It facilitates quick, efficient and effective achievement of set targets of the organization. This is because it plays a very vital part in organizing the workers and in addition provides motivation that helps instill commitment in the workers
6. Promotes good staff relations which creates and develops cooperation between the employer and the staff
7. Promotes good image of a business to the public as workers talk of the business
8. It aids in evaluating the performance of workers in all departments of an enterprise. Employee appraisal helps the business in different ways like determining the efficiency of its workers and calculating remunerations, promotions, demotions and transfer of workers etc

**HUMAN RESOURCE REQUIREMENTS OF A BUSINESS**

This means the determination of the required staff, their skills, training and other specific qualities that a business needs for its successful operations. The human resource requirement of a business include the following

1. **MAN POWER PLANNING/HUMAN RESOURCE PLANNING**

This is the strategy of acquisition, utilization, improvement and preservation of enterprises’ human resources.

Through planning, an enterprise strives to have the right number and quality of workers at the right place, at the right time, to ensure success of both the business and the individual. Too many employees can financially drain the organization and yet too few employees hinder the achievement of the organization’s goals and objectives.

**Salient features of Manpower Planning.**

i) Manpower planning involves forecasting of the future man power needs so that adequate and timely arrangements can be made to meet the manpower needs of the business

ii) Is a continuous process since the demand and supply of labor changes frequently

iii) Determines the right number and type of workers required for effective accomplishment of tasks and goals of the enterprise

iv) leads to development of polices, programs and procedures for the acquisition, development, preservation and utilization of manpower employed by an enterprise.

**OBJECTIVES OF MANPOWER PLANNING**

1. To ensure that the right workers are available at the right time to perform different tasks efficiently.
2. To forecast or predict the type of skills required by the business in the future.
3. To promote the development of existing personnel for better performance
4. To ensure optimum utilization of existing manpower in the organization
5. To ensure constant availability of work force and control measures in an enterprise so that work force is available when needed.
6. To help in identifying work force gaps that need to be filled in the organization.

**IMPORTANCE OF MANPOWER PLANNING**

1. It ensures maximum use of available human resource.
2. It promotes development of human resource in the organization through training
3. It promotes personnel development of the existing work force through motivation facilitation.
4. It is a basis for setting good working conditions in an organization
5. It opens possibilities of workers’ future promotion.
6. It helps in identifying work force gaps in the organization.
7. It helps to minimize labor costs through taking on the right number of workers and optimum use of the available work force.
8. It brings about fast organizational development as competent workers are employed.
9. It helps an organization to keep up a right number of workers thus minimizing resource wastage inform of excess labor
10. It helps in reducing labor wastage as replacement is done at the right time
11. It reduces labor turnovers/employee turnovers.

**2. JOB DESCRIPTION**

A job description is the written summary of what a worker is supposed to do on a specific job. It summarizes the different tasks, duties and responsibilities of a jobholder in a particular enterprise. Job description “job” and not the jobholders. It defines the scope of the job activities, major responsibilities and positioning of the job in the organization.

**CONTENTS OF A JOB DESCRIPTION**

1. Job identification. This gives the job title/alternative title, department, division or workstation, job location and the grade number of the job
2. Job Summary. This gives a reader a brief explanation of what the job is all about.
3. Duties and responsibilities: they may also be called tasks performed. It may be as lengthy as necessary to fully describe every essential duty/responsibility which comprises the employees functions starting with major duties
4. Relation to other jobs/reporting line. This points out the connection of the main job with one that is below it such that a reader can have a picture about the vertical relationship and work flow.
5. Use of machines, equipment and tools. This gives the names of the machines, tools and equipment required to be used to complete a job stated.
6. Working conditions. This provides information about the environment in which the job holder’s work. These include heat, coldness, dust e.t.c
7. Terms of employment: these includes the duration and remuneration/payments.
8. Supervision: this gives the number of persons to be supervised along with other job titles and the extent of supervision

NB: It should be noted that an actual job description may not have all the above components due to a number of factors like size of firm, cost of advertising, e.t.c

**IMPORTANCE OF JOB DESRIPTION.**

1. Aids/helps in development of job specifications, which is necessary in recruiting and selecting workers in an enterprise.
2. It can be used in orientation/induction programs for newly recruited workers.
3. It provides a basic document in developing performance standards.
4. It helps in job evaluation, performance appraisal and salary administration.
5. It is used in meetings at executive level for improving the standards and productivity of the organizations.
6. Helps managers in taking disciplinary measures on workers who have not performed their jobs as required of them.
7. It is a useful tool for employee salary administration

Sample 1

NABIRYE SACCO

P. O BOX 10, JINJA

JOB DESCRIPTION FOR A LOANS OFFICER

Job title: Loan’s officer

Job overview/summary: he/she is responsible for loan disembursment and recovery.

Job duties and responsibility

1. To participate in preparation of loan agreements.
2. To appraise loan application
3. To keep accurate records of loan disembursment and loan recovery
4. Make loan recovery program.

Supervision/reporting line: He/she is answerable to the Finance manager.

Working conditions: Riding motorcycle and traveling into the field.

Equipment used: Computers, calculators, furniture and photocopiers.

Terms of Employment: The job is offered on permanent basis.

Remuneration: negotiable but attractive.

Sample2:

Job title: Clerical staff

Job summary: responsible for organizational filing department, typing pool and computer data record system including job evaluation.

Job duties:

1. Supervises members of the filing and typing pool department
2. Maintaining an up to date personnel data.
3. Filing of confidential annual reports of the organization

Working conditions: Normal working conditions. 8 hours per day.

Machines, equipment and tools used: paper punch, stapling machine, computer, e.t.c

**3. JOB SPECIFICATION/MAN SPECIFICATION**

Job specification or man specification is a detailed statement of the minimum acceptable human qualities (physical and mental) required for the successful performance of a job.

OR

Job specification is analysis of the kind of person it takes to do the job. E.g. it lists the qualification, experience, e.t.c Job specification is usually expressed in terms of human behavior, hence specifies the knowledge, skills, experience and attitude which an individual should have in order to perform the job effectively.

**CONTENTS OF JOB SPECIFICATION**

1. Physical characteristics of a person, which include health, strength, age, height, vision, voice, e.t.c.
2. Personal characteristics which include emotional stability, aggressiveness or submissiveness, leadership qualities, initiative and drive, pleasing manners and good appearance.
3. Responsibilities undertaken by an individual which include: supervision of others, responsibility for preventing monetary loss, responsibility for generating confidence and trusting the minds of employees e.t.c
4. Education and skills, which includes level of qualification and know how.
5. Experience desired for the job.
6. Other features like knowledge of special languages, sex e.t.c required to perform a given task.
7. Psychological characteristics which include decision making ability, judgment, resourcefulness, alertness and mental concentration e.t.c.

**SAMPLE OF A JOB SPECIFICATION**

Job: Elevator Operator

Physical requirements: Good health, muscular energy

Education: Must have minimum of form four education

Work Experience: No previous work experience necessary, however a history of work performed in any capacity would be desirable

Aptitude: Should be emotionally stable and have the ability to adapt himself to varying conditions and work, harmony with other individuals

Gender: Preferably male

Age: 25-35 years

**Advantages of Job Specification**

* It specifies the knowledge skills background, aptitude and experience which an individual should possess in order to perform the job efficiently
* Lays down the requirements sought in the person who is to hold the job
* Serves as a guide in the selection, training and development of employees

**JOB GRADING/JOB EVALUATION**

This refers to the process of determining the relative value or worth of every job in the organization so as to price the jobs in terms of wages and salaries

Job grading involves the following:-

1. Classifying into an existing category or grade structure or hierarchy
2. Assigning a description and associated job title to each level in the grade
3. Defining broad characteristics of each grade in terms of knowledge, experience, skills etc
4. Assigning/ attaching pay(salaries and wages) to each category

**Objectives of job Grading**

1. To have a standard procedure for determining the value of each job in the organization
2. To help in determining/ computing the wage to be paid for each job which is fair and equitable with relation to other jobs in the organization, society or industry
3. To promote a fair and accurate way of considering all workers for promotion, transfers, retentions, dismissal, training
4. To provide information for a work organization, workers selection, placement etc
5. To secure and maintain complete, accurate and impersonal description for each distinct job in the whole organization

**Benefits/importance of job grading**

1. Job grading enables people to understand the importance or the relative value of the jobs they perform in the enterprise
2. Job grading provides factual information that can be used in settling employee grievances arising out of salary and wages differentials since the different scales are known to every employee of the organization
3. It provides a basis for negotiating between labor unions and management regarding determination of equitable wage structure
4. It provides a useful basis when selecting staff to perform a given job
5. Ijob grading provides information that is useful in setting salary scales
6. The information collected in the process of job analysis and job description can be used to improve methods of selection, transfer and promotion procedures within the organization

**Disadvantages of job Grading**

1. There is a tendency to view the workers/employees as graded whereas it is the job which is graded
2. If the exercise is done too strictly, it may result into too few grades thereby reducing promotion and development scope for workers
3. Salary scales are solely based on job grading. It requires some reference to market conditions, agreements with trade unions, salary offered by other firms etc
4. It does not account for personal performance which must be assessed by merit rating

**Job performance standards**

This refers to acceptable competence aspects required for a given job. In other words, the minimum expected output from a given job. If a worker does not reach this minimum output, he/she has failed

**ORGANISATION CHART/ORGANIGRAM/ADMINISTRATIVE HEIRACHY**

This is a diagram that shows the organization structure of a firm ie showing the overall top management down to the different departments in the firm or enterprise.

Below is an example of an organization chart of a small business enterprise presented in the line organization type.

Board of Directors

Ass marketing mrg

Marketing Mgr

Assist. Prodn manager

**Other support staff**

Ass fin. mgr

Finance Mgr

Ass H. R mgr

H. R manager

Prodn Mangr

General Manager

Managing director /CEO

**IMPORTANCE OF AN ORGANISATIONAL CHART**

1. It facilitates the smooth flow of communication in enterprises
2. It motivates employees to work hard
3. It shows the reporting relations in an enterprise i.e. showing hierarchy of power
4. It helps an entrepreneur to identify vacant posts in an enterprise
5. It provides a platform for delegation of duties in an enterprise
6. It facilitates supervision of workers in an enterprise. i.e supervisor supervises subordinates
7. It enables an entrepreneur to maintain discipline in an enterprise because of the close supervision and flow of command i.e. who is above who?
8. It encourages team work in an enterprise

**JOB ANALYSIS**

A job refers to a collection of specific tasks/duties, which a person performs as regular assignment to earn a living.

Job analysis is therefore the process of collecting or getting information about jobs especially what the worker does, how he gets it done and why he gets done, skills, education and training required, relationship to other jobs, physical demands and environmental conditions

OR

Is a detailed and systematic study of information relating to the operations and responsibilities of a specific job component.

**CONTENTS OF JOB ANALYSIS.**

1. Job identification i.e. the title of the job and its code number.
2. Job characteristics i.e. the location, supervision, hazards e.t.c
3. What the actual worker does. This includes specific duties and tasks that make the assignment, the timing to perform the job, the nature of the job e.g. simple or complex e.t.c.
4. The material and equipment used to perform the tasks. E.g. metals, plastics, computers e.t.c
5. The personnel or worker’s attitude required like experience, training, physical strength, social skills e.t.c

**The Significance/importance of Job analysis.**

1. Job analysis by indicating the qualifications required for performing a specific job help a firm in salary and wage administration
2. It provides information that helps the employer i.e. planning, training, and development programs.
3. Job analysis provides a realistic base for living, recruiting, selecting, transfer and promoting personnels within the enterprise.
4. It helps the personnel manager in establishing performance standards, which maybe compared to the actual performance of workers and this is helpful in performance appraisal.

**RECRUITMENT OF WORKERS**

Recruiting means getting applicants for the present or future jobs in an enterprise OR it is a process of generating a sufficient large group of applicants for available jobs. If this process is not carried out, a business may not be able to select qualified staff. The success of an enterprise depends on its ability to get and retain suitable personnel. OR

Recruitment can be defined as the process of searching for prospective employees and stimulating them to apply for jobs in the organization.

The purpose of recruitment is to seek out or explore, to evaluate, to induce and to obtain commitment from the prospective employees so as to fill up positions required for successful operation of an enterprise.

**SOURCES AND METHODS OF HUMAN RESOURCE RECRUITMENT**

The sources of recruitment can be broadly classified as internal and external sources.

**INTERNAL SOURCES OF RECRUITMENT OF WORKERS.**

This involves getting the right personnels to fill the vacancy from within the enterprise either by transfer or promotion of present employees. Internal sources of recruitment include the following.

1. **TRANSFERS**

Transfer of a worker from one job to another within the same business can be used as a source of recruitment to meet personnel demand at a place where the worker is transferred.

Transfer of an employee from one workplace to another may be:

1. To avoid retrenchment at the place of excess and fresh recruitment at the place of scarcity of personnel.
2. To rotate employees between convenient and not so convenient workplaces.
3. To correct any faulty placement of workers at the time of selection
4. To provide varied experiences to employees with a view to their training and development.

**Merits of Transfers**

1. Develops workers for future promotions.
2. It improves the skills and training of the transferred employees.
3. It increases productivity and effectiveness of the organization
4. Ensures greater job satisfaction to the worker.
5. It improves the relationship between the subordinates (junior workers) and the superiors
6. It provides greater motivation to the employees and reduces monotony arising from working at the same place
7. **PROMOTIONS**

A promotion refers to appointing and employing to a position of greater/higher responsibility or authority. It is an internal source of recruitment. It brings about change in the nature of duties and authority of the worker involved as well as his or her pay. Promotions can be based on seniority or merit of workers.

**Merits of Promotion**

1. It is simple to implement i.e. seniority based promotion
2. Merit based promotion recognizes and rewards competence of a worker
3. Promotion based on merit motivates competent workers to even work harder
4. Seniority based promotion keeps workers satisfied due to recognition earned.
5. It enables an organization to retain competent employees who would otherwise leave the firm.
6. Seniority based promotion creates discipline and respect for senior workers
7. It increases earnings for workers

**Demerits of Promotion**

1. It creates uncertainty among workers as they become unsure of whom may be picked for promotion i.e. if it is merit based.
2. When promotion is based on seniority, the competent workers will not be motivated.
3. Merit based promotion may case frustration among senior workers who may become indiscipline.
4. Seniority based promotion does not recognize merit and competence and hence tends to discourage competent workers.
5. It is not easy to devise a system to use to determine competence in an impartial way for merit based promotion.
6. **PRESENT EMPLOYEES**

This is where the employer asks for the employees to recommend their friends and relatives to fill vacant posts. This method of recruitment helps to keep employees happy and in a high morale. The major demerit of this method is that it may promote favors and nepotism.

**EXTERNAL SOURCES.**

This involves getting people to fill up the vacant jobs in the enterprise from outside the organization. The external sources include:

**Advertisements:** this is the method of recruitment used by an enterprise when it wants the people to know about an existing vacancy. It involves making the job known to the public by use of media like newspapers, TV e.t.c. Advertisements should give as much factual information as possible stating in precise and accurate terms.

**Sample of A job advert,**

IGAR FUEL STATION

P.O BOX 930, JINJA

TEL: 0782 902 040

Employment opportunity/Job advert Vacancy announcement

Igar fuel station is a small sized business dealing in produce of petrol services of cars and parking yard for the car. It has been operational for five years. It is in the process of recruiting an accountant to improve its financial management.

Job title: Accountant

Job location: Jinja town

Job overview/summary: he/she shall be responsible for financial management in the business

Job duties and responsibilities:

1. Controlling cash in flows and out flows
2. Preparing workers payroll
3. Supervising daily expenditure
4. Filing source documents

Qualification: At least a university Degree in accounting and Finance

Age range: from 21 to 30 years

Experience: At least 2 years in the field of accounting.

Salary: Negotiable but attractive

Gender: All sexes are preferred.

Other competences: knowledge of special language such as Kiswahili, French, computer skills

Submission of Application: Qualified and interested Ugandans should submit their handwritten applications with copies of certified academic documents to the Human Resource Manager  
Igar Fuel Station,

P. O Box 930, Jinja

Not later than 30th March 2017.

II. **FIELD TRIPS/TALENT SPOTING/HEAD HUNTING**

This is a source and method of recruitment where an entrepreneur or his/her human resource manager goes out to different places spotting the right type of personnel needed for the existing job. Inquiries can be made from friends and institutions provided with job descriptions.

**III. WALK-INS/UNSOLICITED APPLICATIONS**

Some times an entrepreneur/employer can recruit like a casual worker from people who gather near the factory or business from persons who send applications or make telephone calls requesting for jobs. Though very common, this is not a reliable source of personnel.

**IV. EDUCATIONAL INSTITUTIONS.**

Colleges and universities are excellent sources of managerial technical and professional employees, such recruitment is called Campus recruitment. The business enterprise sends circulars to the educational institutions seeking applications for jobs from the students.

**V. EMPLOYMENT AGENCIES.**

These agencies are established to match job opening with listings of job applicants. These agencies classify and screen applicants. They are typically paid a fee for their services if they refer the candidate / applicant who is subsequently hired/taken.

**VI. COMPETING ORGANISATIONS**

Other organizations in the same industry can be the source of personnel. These are usually attracted by offering better pay packages.

**VII. WEB AND INTERNET SOURCES.**

Internet sources i.e. information about certain jobs is posted on the web and those seeking employment then place their applications for the posted job.

**STEPS OF EMPLOYEE RECRUITMENT AND SELECTION PROCESS.**

The recruitment process involves a systematic procedure from sourcing the candidate to arranging and conducting the interview and requires many resources and time. The general recruitment process is as follows:

1. Identifying the vacant post
2. Preparing the job description and person specification
3. Designing and placing the job advert
4. Receiving and short-listing and identifying the prospective employee with the required skills.
5. Conducting interviews
6. Communicating and informing the successful candidates of the interview results.
7. Issuing appointment letters
8. Conducting induction training
9. Placement of workers

QN 2012 recruitment program for employees.

You want to revive a meat packing industry by inviting shareholders, restocking the firm, installing new machinery and recruiting employees.

1. Write a notice inviting shareholders to a meeting to discuss the revival of the project
2. Develop a program for the recruitment of employees
3. Design a schedule for the routine maintenance of machines
4. Prepare an organizational plan for the factory

BUSGOGA MEAT PACKERS

P.O. BOX 11 JINJA

PROGRAMME FOR THERECRUITMENT OF WORKERS.

|  |  |  |  |
| --- | --- | --- | --- |
| DATE | ACTIVITY | PERSON IN-CHARGE | REMARKS |
|  | Establishing/determining the vacant posts and their value to the enterprise |  |  |
|  | Preparing the job description and job specification |  |  |
|  | Designing and placing the job adverts in the media |  |  |
|  | Receiving application letters and handling inquiries about the advertised job |  |  |
|  | Establishing the interview panels, rooms and developing questions |  |  |
|  | Sorting and short listing applicants for interviews |  |  |
|  | Sending invitation letters to shortlisted applicants |  |  |
|  | Conducting interviews/ interviewing applicants |  |  |
|  | Preparing appointment letters and issuing them to successful applicants |  |  |
|  | Designing the induction and orientation program for the new workers |  |  |
|  | Placement of workers |  |  |

PREPARED BY: Approved BY

Sign:\_\_\_\_\_\_\_\_\_\_\_\_

BASOGA PETER Name:\_\_\_\_\_\_\_\_\_\_\_\_\_\_  
Human Resource Manager Title:\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

QN. You are a general manager for a motor garage that offers credit facilities to customers as sales promotion strategy.

1. Prepare a credit recovery program for the business
2. Develop credit terms and conditions for your business.
3. Prepare a brochure to be issued to potential customers

Due to increased number of clients, you have decided to recruit an accounts assistant, write an appointment letter to the newly recruited accounts assistant.

b)An appointment letter must have the following:

* Name and address of the business.
* Date
* Reference number
* Name and address of the newly recruited accounts assistant
* Salutation
* Subject line
* The body. This should include:

1. The post/job title
2. Date of appointment
3. Minute number
4. Appointing authority
5. Date of assumption of duty
6. Terms of employment
7. Salary and other benefits.

* Carbon copy i.e. CC
* Enclosure i.e. ENC or attachment
* Statement concerning acceptance of the appointment

NB: At times during recruitment, instead of the job applicant writing out an application letter, the firm may issue a specially designed application form.

**SAMPLE OF A JOB APPLICATION FORM**

JINJA ELECTRONICS LTD

P.O BOX 255, JINJA

JOB APPLICATION FORM

Fill this form in triplicate and send it directly to the Human resource manager of Jinja Electronics Ltd P.O. Box 255, Jinja.

1. i) Post/appointment applied for:\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

ii) Job reference number:\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

2. APPLICANTS BIO DATA

I) First name:\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ Surname:\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

ii) Date of birth:\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_Gender:\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

iii) Home District:\_\_\_\_\_\_\_\_\_\_\_\_\_\_Permanet Address:\_\_\_\_\_\_\_\_\_\_\_\_\_

iv) Father/Guardian’s name:\_\_\_\_\_\_\_\_\_\_\_Nationality:\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

3. Schools/College/University’s Attended.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| School/College/univerity | YEAR | | QUALFICATIONS OBTAINED | GRADE |
| FROM | TO |
|  |  |  |  |  |
|  |  |  |  |  |
|  |  |  |  |  |

NB: Please attach certified copies of academic documents.

4. Employment Record.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| EMPLOYER | YEAR | | POST HELD | ACHIEVEMENTS | REASON FOR LEAVING |
| FROM | TO |
|  |  |  |  |  |  |
|  |  |  |  |  |
|  |  |  |  |  |  |

5. when would you be available for appointment if selected

6. Have you ever been convicted of a criminal offence, if so, give details

7. I hereby declare to the best of my knowledge that the particulars given in this application are true and complete in all aspects.

Signed:\_\_\_\_\_\_\_\_\_ Name:\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ Date:\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

8. Referees 1.\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ 2.\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

9. Assignment of the candidate’s suitability for appointment to the post applied for by the Employer/Head of Institution.

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Sign:\_\_\_\_\_\_\_\_\_\_\_

Official stamp

**EMPLOYEE SELECTION:**

This is the process of matching organizational requirements with the skills and qualifications, people and putting the right men in the right jobs. When selecting workers for business, the following elements should be considered.

1. Check the applicants track record of behavior and personality
2. Basic ability to perform given tasks of the job
3. Experience level

**INTERVIEWING**

An employer for prospective employment in the organization evaluates a potential employee through this process. During the process, the employer hopes to determine whether the applicant is suitable for the job applied for.

**Sample of interview program**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Date/day** | **Time** | **Activity** | **Person responsible** | **remarks** |
|  |  | Holding a recruitment and selection plan meeting |  |  |
|  |  | Screening each candidate letter and CV |  |  |
|  |  | Selecting candidates for interviews |  |  |
|  |  | Selecting the interviewing style and designing questions for interviews |  |  |
|  |  | Selecting the interview teams and informing panels to conduct in terviews |  |  |
|  |  | Selecting venues, dates for interviews and allocating them panelists and candidates for interviews |  |  |
|  |  | Sending invitation letters for candidates to sit for interviews |  |  |
|  |  | Conducting interviews and selecting the best candidate |  |  |
|  |  | Communicating to successful candidates to pick their appointment letters |  |  |

**Prepared by** APPROVED BY

SIGN:\_\_\_\_\_\_\_\_\_\_\_\_\_

KATO MARK NAME:\_\_\_\_\_\_\_\_\_\_\_\_\_\_  
HRM TITLE:\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

**INDUCTION**

This is the process by which a newly recruited employee is introduced to the various aspects of the organization in order to help him adjust and identify with the organization.

The process of induction begins when the worker arrives for the interview. At this stage he is informed with the basic terms of employment, hours of wok, wages and gains, his first impression of the organization.

**BENEFITS OF INDUCTION**

* Provides information about the organization i.e. policies, practices and rules that affect workers.
* Minimizes surprises and shocks to new employees
* Increases productivity as it imparts knowledge and skill resulting into better job performance
* Leads to job satisfaction as it builds self-confidence in a new employee thus enabling them achieve the required level of performance.
* Prevention of accidents. Induction is needed to prevent industrial accidents as workers are given instructions in the use of machines and safety devices.

SAMPLE OF AN INDUCTION PROGRAMME

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| DATE/DAY | TIME | ACTIVITY | PERSON IN CHARGE | REMARKS |
|  |  | Receiving of new employees and submission of personal data |  |  |
|  |  | Introducing new employees and giving general information about the business/touring premises |  |  |
|  |  | Explaining capacity development opportunities e.g. training, performance appraisal, promotion avenues e.t.c |  |  |
|  |  | Issuing written terms and conditions of employment and employee being guided through |  |  |
|  |  | Explaining organization policy about general behavior of employees e.g. dressing code e.t.c |  |  |
|  |  | Explaining to the new employees about health and safety i.e. awareness of safety hazards, safety rules |  |  |
|  |  | Explaining the employee welfare. |  |  |
|  |  | Explaining about the job itself i.e. immediate supervision, minimum expected standards |  |  |

**Prepared by** APPROVED BY

SIGN:\_\_\_\_\_\_\_\_\_\_\_\_\_

Katanga Joan NAME:\_\_\_\_\_\_\_\_\_\_\_\_\_\_  
HRM TITLE:\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

**FACTORS CONSIDERED WHEN RECRUITING EMPLOYEES IN AN ORGANISATION**

1. Nature of job. Some jobs are too physical and require very strong workers while others are not.
2. Skills and abilities required to do the job. Every job has specific skills and abilities required to perform it and employers always consider such skills and abilities when recruiting employees
3. Gender of the employee. Some employers prefer employing men to women and other women to men for different reasons. Some employers especially in the banking sector prefer employing women to men because of their honesty when dealing with cash issues.
4. Size of the organization. Some firms are small and need a few employees while others are big and need many employees.
5. Age of the employee. Different jobs have different age requirements.
6. Working experience. Employers are mostly interested in experienced people who are efficient and increase productivity in business and avoid losses/wastage of materials
7. Cost of the employee. Cheap labor is always preferred by the employers to minimize on the wage/salary bill of the employees and this leads to profit maximization.
8. Language spoken by the employee. Employers prefer workers who speak many languages or specific languages like English, French, Germany for easy communication at work.
9. Health conditions of the employees. Employers want workers with good health condition because they will be in position to work at all times and enhance increased productivity of the firm
10. Marital status of the employee. Some employers prefer worker who are single/unmarried because they will be committed to work and are easily flexible than married ones. While others require that you are properly married before joining them or if you are recruited before marriage you are given a period of grace and must become properly married.

**METHODS OF RENUMERATION/PAY**

Remuneration consists of rewards that employee receive from their work. There are various ways of rewarding employees and these include the following.

1. **Basic Salary.** An employee works to a set contract e.g. a salary of shs 500,000 a month. This scheme alone does not provide an incentive to work harder but if the rewards are good in relation to those offered for similar work, then this will act as a motivation factor itself.
2. **Piece rate:** Piece rate reward system relates to paying employees according to their levels of output. Where such a scheme operates, it is essential that there is a good quality checking procedure to make sure that the pieces are of the required standards.

**Merits of Piece rate method.**

1. More output is produced since every worker involved tries hard to produce more so as to earn more
2. It does not require close supervision of workers and hence reduced cost of supervision.
3. It enables the employer to easily determine labor costs per unit of output.
4. It provides an incentive to fast and more efficient workers since they can earn more
5. It reduces the possibility of exploiting workers since reach worker is paid the exact reward for the work produced
6. Work is completed faster under the piece rate method of payment as workers try to out compete each other with the aim of earning more.
7. This method also encourages innovation and creativity since it drives workers to come up with better methods of increasing output hence more earnings for the entrepreneur

**Demerits of Piece rate method**

1. The workers can produce inferior or poor quality products to produce more output in a short time.
2. This method doesn’t ensure a steady monthly income for the workers
3. This method of payment cannot be used in service occupations like administration work as work output cannot be easily measured/divided into pieces
4. Working at a very high speed to produce more increases the possibility of accidents and over straining of workers.

**3. Time rate.**

This is the mode of payment where payment is given to an employee depending on the time spent doing the job e.g. per hour, per day, per week, per month. This system requires an entrepreneur to keep good record of arrival time and departure time for each worker and in addition, proper supervision of workers is important.

**SAMPLE OF AN ARRIVAL BOOK**

JB MEDICAL SERVICE LTD, P. O. BOX 11, JINJA

EMPLOYEE ARRIVAL BOOK

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| DAY | DATE | EMPLOYEE’S NAME | EMPLOYEE NUMBER | WORK DONE/TO BE DONE | ARRIVAL TIME | DEPARTURE | SIGN |
|  |  |  |  |  |  |  |  |

**MERITS OF TIME RATE METHOD OF PAYMENT**

1. Better quality work is achieved especially when proper supervision of workers is done.
2. It minimizes the risk of accidents and damages at work as workers take their time performing the tasks assigned to them
3. Workers are not over strained because the entrepreneur sets a standard time for work.
4. Workers can plan to spend their income as they are assured of regular and standard payment.
5. It is a convenient method and the employer can easily calculate the wage for each worker.
6. This method of payment gives time to the employer to organize for the payments to the workers.
7. This method eliminates the need to measure the performance of each worker and therefore less efficient workers can benefit especially where there is limited or no supervision.
8. This method of payment is more suitable for service occupations where work cannot be divided into smaller units e.g. work of a doctor, driver.

**DEMERITS OF TIME RATE METHOD OF PAYMENT**

1. This method requires close supervision of employees and this increases administrative costs to the employer
2. It discourages more efficient workers because they receive the same amount which is received by inefficient and lazy employees
3. It is difficult to estimate the output per individual under the time rate method meaning higher wages than necessary maybe paid to some workers, this is a loss to the business.
4. It encourages laziness, absenteeism and lateness because workers with the same qualifications are paid the same amount

4.  **OVER TIME PAY:** This is a method of payment where a worker is paid an extra amount of money or a higher rate when he works for a larger period beyond the normal working time. This method maybe used when work is required urgently. In this case, a worker has to be paid an extra amount for the extra time worked

**5.COMMISSION PAYMENT:** This is a method of payment where the amount paid to a worker(agent/sales personnel) of a business depends on the level of his performance. The greater the output, the higher the commission. The amount paid is calculated on agreed terms.

**6. BONUS PAYMENT:** This is a method of payment where an extra payment is given to a worker because of his exceptional/more than normal contribution to the success of an organization.

**7. PAYMENT IN KIND:**  This is where payment of employees is in terms of goods and services they have produced and not in cash. For example: there may be low sales revenue and no money to be paid to employees. However, the firm has to agree with the employees before paying them on that basis.

**8. PROFIT SHARE RATE/PROFIT RELATED PAY**: this refers to a fixed percentage of a specific amount of profit paid by the employer to each employee to motivate him or her. The business sets aside a certain percentage of the total annual net profit to be share among the employees. It is aimed at boosting workers morale and creating good relations between the employer and the workers

**9. FLAT RATE PAYMENT.** This is a method of payment where worker s are paid a fixed amount regardless of the amount of output produced or time spent at work.

**10. WAGE PAY:** Wage is an unfixed and irregular payment paid to non-permanent workers of the firm

**FACTORS CONSIDERED IN DETERMINING WORKERS PAYMENT/RENUMERATION**

1. Level of education/training. Workers with higher education and skills are normally paid higher wages and salaries compared to those with low levels of education
2. Working conditions/risks involved on the job. Workers who perform risky jobs and those in risky areas are paid more wages than those in less risky areas
3. Trade union’s bargaining power/level of trade union strength. A strong and more powerful trade union can secure higher wages for their are members and weak ones may only afford to negotiate the minimum wage for their members
4. Level of expertise/experience. Highly experienced workers tend to be paid higher wage rate. This is because of the view that through experience, employees become more efficient problem solvers and are more dependable
5. Production of labor. The amount of output produced or the amount of work done as under the piece rate system can be used to determine the wage payment. More productive employees in terms of output should be paid more higher wages than those whose productivity is low
6. Gender difference. Although great efforts have been made in ensuring equal pay for both genders, overall women continue to receive lower wages than men do. As a group women tend to hold lower paying, lower status jobs and experience a number of additional inequalities in the area of compassion.
7. Supply and demand of labor. Workers with special particular knowledge, skills and credentials create high demand, are normally paid high wages and salaries, and will usually receive premium wages. These employees are usually in low supply. Examples my include information technology professionals , doctors, engineers
8. Profitability of the business. Employees with higher profit margins usually pay higher wages
9. Employees tenure and employment terms. Ie how long the employee has served and employment stability i.e permanent, temporally and contact. Jobs offered on contract attract higher wages

**Sample payroll and pay slip**

**NILE AGRO LTD**

**P.O BOX 250 JINJA**

**TEL\_\_**

**PAYROLL FOR JUNE 2017**

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **EMPLOYEE NUMBER** | **EMPLOYEE NAME** | **BASIC PAY(SHS)** | **ALLOWANCES(SHS)** | | **GROSS PAY (SHS)** | **DEDUCTIONS** | | **NET PAY (SHS)** | **SIGN** |
|  |  |  | **MEDICAL** | **HOUSING** |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |
| **TOTAL** |  |  |  |  |  |  |  |  |  |

**Prepared by:-** APPROVED BY:-

SIGN SIGN:\_\_\_\_\_\_\_\_\_\_\_\_\_

NAME NAME:\_\_\_\_\_\_\_\_\_\_\_\_\_\_  
TITLE TITLE:\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

|  |
| --- |
| AN EMPLOYEE’S PAY SLIP |
| NILE AGRO LTD  P.O.BOX 200 JINJA  TEL:\_\_\_\_\_\_\_ PAY SLIP  Name of employee\_\_\_\_\_\_\_\_\_\_ Employee number  Run date\_\_\_\_\_\_\_\_\_\_ Department \_\_\_\_\_\_\_\_\_\_\_\_\_ Title\_\_\_\_\_\_\_\_\_\_\_  Bank code and name\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  Taxable amount free pay Gross pay  \_\_\_\_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_  PAYE NSSF TOTAL DEDUCTIONS NET PAY  \_\_\_\_ \_\_\_\_\_ \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_\_\_\_\_ |

**MOTIVATION OF EMPLOYEES**

The term motivation has been derived from the word motive. Motive is a need or driving force within a person that compels him/her to behave in a particular way. It can also be defined as something that activates and directs our behavior towards certain goals

Therefore motivation is the process that activates and directs our behavior towards certain goals.

Therefore, motivation is a process of encouraging or stimulating a person or group of people to work hard in order to achieve desired goals of an organization

**Need/rational/objectives/reasons for motivating employees**

1. To stimulate workers to perform their duties positively so as to contribute towards the achievement of desired objectives of an organization
2. To improve/enhance the productivity of workers through inducing them to work hard which increase output.
3. To reinforce the desired competence among the workers
4. To promote a good relationship between the employers and employees at a work place
5. To minimize labor strikes and other forms of unrest through regular and appropriate communication with workers and encouraging them to participate in decision making
6. To retain workers in the business through making them contented by promising promotion prospects and provision of financial incentives
7. To encourage the spirit of team work
8. To develop a positive attitude and a sense of belonging to the enterprise among workers
9. To improve the standard of living
10. To improve the skills of workers through provision of training programs
11. To enhance job satisfaction among workers

**IMPORTANCE OF EMPLOYEE MOTIVATION**

* It encourages hard work
* It improves \_\_\_
* It enhances \_\_\_\_
* It promotes\_\_\_\_

NB: importance is obtained from objectives

**Ways of motivating employees**

1. Ensuring job security. This is the assurance that an employee once employed permanently he/she will not be dismissed without any serious reasons. This can be done through issuing appointment letters
2. Ensuring pleasant and favorable working conditions. Employees can be motivated through creating the right working conditions for them to be productive eg by providing protective gadgets like gloves
3. Through timely and fair pay. Paying workers timely and adequate salaries on time for the services rendered acts as an incentive and stimulates them to work harder towards achieving the goals of the organization
4. Using open/ proper communication. This involves conveying information from one level of the firm to another at the right time. It helps to keep the workers informed of all activities and developments in the firm
5. Appraising and recognizing the contribution of the workers. This can be done by giving them financial incentives, certificates of merit and praising to encourage them work hard
6. Using on job training. Training a worker on the actual tasks being done like training how to use tools and machines is another way of motivation since it improves the worker’s efficiency
7. Promotion prospects. objectively assuring workers of available opportunities of promotion based on their performance in the business motivates them to work harder and better
8. Participation in decision making. Allowing workers especially the top level employees to participate in decision making for an enterprise encourages them to have interest in the performance of the business
9. Through transparence/open communication. Management of business funds plus explanation on how the profits are to be spent can motivate workers.
10. Use of job titles. Giving job titles taps self esteem of employee and this enhances morale
11. Giving fringe benefits. Like sickness allowances, medical allowances, lunch allowances. This improves conditions of living and motivates them to work harder
12. Showing genuine respect to individuals
13. Sharing concern or empathy towards employee’s problems
14. Handling employees grievances fairly and tactfully
15. Involving workers in profit sharing schemes

Sample of certificate of merit

|  |
| --- |
| BUYINZA STATIONERS LTD  P.BOX 112, JINJA  TEL:\_\_\_\_\_\_  CERTIFICATE OF MERIT  This is to certicify that \_\_\_\_\_\_\_\_ has been recognized as the employee of the year\_\_\_\_\_\_\_\_ for his/her excellent performance as \_\_\_\_\_\_\_\_\_\_\_in the \_\_\_\_\_\_ department  Sign\_\_\_\_\_\_\_ Sign\_\_\_\_\_\_\_\_\_  Name\_\_\_\_\_\_\_ Name\_\_\_\_\_\_\_  Title\_\_\_\_ Title\_\_\_\_\_\_\_\_  Date Date\_\_\_\_\_\_\_  We are a solution to learning challenges |

**TRAINING OF EMPLOYEES**

Employee training is the process of assisting a person to enhance his efficiency and effectiveness at work by improving and updating his professional knowledge by developing skills relevant to his work and cultivating appropriate behavior and attitude towards work and people

**Reasons/Purpose/Rationale/Objectives for training employees**

1. To enhance the ability of the enterprise and use advanced technology by creating a sufficiently knowledgeable staff
2. To ensure availability of adequate human resource for expansion into new programs
3. To create a pool of readily available personnel for placement in various departments of the enterprise
4. To build a more efficient, effective and highly motivated team which can enhance the enterprise’s competitiveness
5. To improve employee morale and commitment
6. To increase productivity/ encourage hard work
7. For improving on the quality of products produced
8. Need to reduce labor turn over
9. To help employees grown within the organization eg training

**Reasons why business owners do not provide training to the employees**

1. Limited time. Training needs time which most enterprises do not have usually because there is a lot to be done and limited delegation of work
2. Limited trust of employers. Many managers prefer to keep information to themselves not even giving it to their subordinates yet some information could be useful in training employees
3. Possession of broad expertise by managers rather than specialized skills needed for labor training and hence don’t have ability to train workers themselves
4. Skepticism/negativity thinking on value of training as some managers believe training is a waste of money and time
5. Desire for high profits by business owners. Training of employees is a costly venture that consumes a lot of financial resources that business owners are not willing to spend
6. Limited commitment on the side of trained as they do not attach a lot of importance to it
7. Fear of losing workers. Training makes workers improve skills and thus making them more demanded by other employers
8. Difficulty in identifying training needs
9. Limited skilled personnel.

**Factors that determine Employee training and professional development**

1. Future expectation. Employees who expect promotion go for further training /studies
2. Level of competition. Firms facing stiff competition encourage employee training
3. Employee work schedule. Fixed work schedules limit employee’s further training
4. Expertise of management. Knowledgeable and highly skilled managers do not support their employees to go for further training
5. Financial capacity of the organization. Organizations with strong financial base support their workers for training compared to those which are financially weak
6. Company objective. Companies which aim at maximizing productivity encourage employee training
7. Company human resource policy. A positive human resource policy aimed at developing human resource encourages employee training
8. Cost of training. High cost of training discourages employee training

**STEPS IN EMPLOYEE TRAINING PROCESS**

Training is not a single task but a kind of process, which involves several steps that include the following

1. I**dentification/Determining organization objectives**. The business must know where it wants to be in future. It is the basis for identification of training needs of workers and the organization as a whole
2. **Assessing/Identification of training needs.** A training need is where gaps are identified between the current level of performance and required level of performance in an organization. The needs assessment will help to answer question such as

* Where is the training needed?
* Who needs to be trained?
* What specifically must an employee learn in order to become more productive?

1. **Selective training objectives.** These should be directly related to the training needs identified. Training objectives should clearly state the skills change that should be expected at the end of the training and these should be directly related to the mission and strategic plan of the business
2. **Selecting the trainees.**  These should be a correct procedure to select the employees for training programs so that the person who really needs the training can be selected. The selection procedure should be merit based and non discriminative more so persons with disabilities should be well catered for
3. **Selecting the training methods mode and means of evaluation.** Ie on the job training, off the job training etc. Techniques used include lectures, specialty study, discussions, case studies, role playing and laboratory training
4. **Selecting competent trainers.** Basing on the kind of training. Trainers shape a company’s future competitiveness and market capabilities by providing knowledge, skills and self confidence into employees
5. **Administering the training.** Training must be administered as planned. The questions to consider before training include: location, facility, accessibility, timing and training equipment
6. **Evaluating the training.** Training evaluation should be systematically done both during the process of training and after. Evaluating during training helps to note any training failures or going a stray from intended goals during the course and then corrective measures are taken

**LABOUR/EMPLOYEE TURNOVER**

This refers to the movement of employees in and out of a business. However, the term is commonly used to refer to the number of employee leaving.

Labor turnover=

**CAUSES OF EMPLOYEE/LABOUR TURNOVER**

1. Inadequate wage levels leading to employee moving to competitor
2. Poor morale and low levels of motivation within the workforce
3. Recruiting and selecting the wrong employees in the first place, meaning they leave to seek more suitable employment
4. Abundant/large local labor market offering more opportunities to employees
5. Promotion prospects in other business or companies
6. Delayed payment of salaries and wages
7. Disrespect of employees by bosses
8. Job insecurity or lack of appointment letters
9. Lack of appreciation for worker’s effort or contribution towards organization development
10. Discrimination/segregation of workers in the organization
11. Ineffective communication/communication gaps in the organization
12. Excessive work load to employees

**Ways/solutions/techniques/measures of reducing or managing labor turn over**

1. Provision of training to workers at the company’s cost
2. Providing fringe benefits to workers eg medial care
3. Good retirement packages
4. Objectively promoting workers
5. Through open communication with and among workers
6. Ensuring prompt/timely and fair pay for the workers
7. Ensuring job security to workers problems/conflicts
8. Showing concern to workers problems/conflict
9. Carrying out objective employee performance appraisal
10. Appreciating worker’s efforts or performance
11. Involving workers in decision making
12. Sharing information with employees
13. Through workforce optimization eg through establishing work schedules, providing good working conditions and good accountability among others
14. Ensuring the recruitment of the result oriented experienced, competence and skilled workers
15. Through empowerment of employees ie managers should act like coaches by empowering employers and delegating more decision to their subordinates which increases employees responsibility and motivation to perform up to their bosses expectations

**Costs of labor Turnover**

High rates of labor turnover are expensive in terms of :-

1. Additional recruitment costs on employee to replace those who have left
2. Lost production costs. This means the enterprise has lost the resource that were invested in training labor that has left
3. Increased costs of training replacement employees
4. Loss of know-how. The enterprise loses the technical know-how of operating its production process especially in case of specialization where the only worker who was handling a given operation leaves.
5. Loss of customer goodwill. Customers who may have developed a permanent service relationship with the employee who leave the enterprise are also lost by the business
6. Potential loss of sales due to loss of customer’s goodwill and loyal customers
7. Damage that may be done to morale and production (as intangible cost). The morale of remaining workers goes low hence negatively affecting efficiency and productivity
8. Business planning becomes difficult especially at implementation stage
9. Loss of customer trust in the business

**PERFORMACE APPAISAL/EMPLOYEE APPRAISAL**

Is judgment of an employees’ performance on his/her job basing on certain attributes or terms of reference of the company. OR is a method where the job performance of an employee is evaluated generally in terms of quality, quantity, cost and time. Performance appraisal is part of career development

**Objectives/Rationale/Purpose/Reasons/Need for PA**

1. To determine the future use of an employee ie weather he/she should remain in the present job or be transferred promoted, demoted or dismissed
2. To help in deciding what increase in payments should be given to employees
3. To identify the training needs of employees ie areas of performance where improvements would occur if appropriate training was done
4. To motivate employees to do better in their present jobs by providing them with results, recognition of their merits and opportunities
5. To help the employees to determine whether employees have performed according to the required standards
6. To ensure/monitor efficiency and effectiveness of workers in the delivery of their duties
7. To validate/evaluate the selection techniques and human resource policies for equal opportunities of workers
8. To give a feedback on performance
9. To motivate employees to do better in their jobs
10. To reinforce desired competences or behaviors among other objectives and how to achieve them

**Reasons for poor performance of employees**

1. Limited ability/skills
2. Limited knowledge about the job
3. Stress about work
4. Emotional problems
5. Limited motivation
6. Negative group influence
7. Medical disorders
8. Poor working conditions
9. Poor inductions
10. Poor selection
11. Inadequate training

**METHODS USED TO APPRAISE EMPLOYEES**

1. **Ranking method.** This is where the manager ranks his subordinates in order of merit (ability on job), activities, quality and output. In this method, the appraiser ranks the employees from the best to the poorest on the basis of overall performance. It is quite useful for comparative evaluation. The most efficient employee is assigned the first rank and the poorest the last rank
2. **Rating scale method.** This is where the employer/manager selects a list of individual personal characteristics or facts against which a scale of certain marks or points are given and assessment of good or bad performance is based on these. The typical qualities are time management, quality and workmanship, knowledge of the job initiative, potential for development, leadership, dependency etc. The degrees or grades of quality are described on the scale of phrases ie poor, below average, average, above average, excellent or by numerical like 1,2,3,4,5
3. **Grading Method.** This is where employees are grouped into merit categories basing on their performances i.e grouped in predetermined merit categories
4. **Open Ended Method.** This method is where the manager emphasizes the way the job is performed and comments are made on certain aspects of the job being performed. I this, a manager writes a few sentences about the subordinates rather than ticks
5. **Behavior Expectations scales/Behaviorally Anchored Rating Scale(BARS).** This is a relatively new technique which looks at the behavior of the employee in aspects related to the job. It consists of pre-determined critical areas of job performance qualities as good or bad for example qualities like interpersonal relationship and reliability

In this method, an employee’s actual job behavior is judged against the desired behavior by recording and comparing the behavior with BARS

**MERITS/ADVATAGES/BENEFITS OF PERFORMANCE APPRAISAL**

1. Is helpful in testing the effectiveness of selection placement and inductions ie revels misfits who need to be trained or transferred to the right job
2. Provides a continuous record of performance, efficiency and potential of employees which helps to minimize favoritism and arbitrary judgment in the promotion and transfer of employees
3. Measurement of employee performance both in terms of quantity and quality provides a scientific basis for wage differentials and incentive plans of wage payment
4. Facilitates the training and development of employees in that every employee comes to know where he stands so that he can take steps to improve his capacities. Thus PA helps in ascertaining the deficiencies and training needs of employees
5. Helps to determine the future use of employees ie demotion, dismissal, transfer or promotion
6. It creates/puts a psychological pressure on workers to improve job performance when they know that they are being appraised and their future largely depends on such appraisals workers tend to adopt productive and acceptable behavior and hence appraising acts as control device
7. Motivates hardworking employees to work hard
8. Helps to develop health competition between workers
9. Provides a reliable feedback
10. Helps to determine the pay rise for workers
11. Performance appraisal promotes a desire for improvement among employees as their confidence and morale are increased when they are convinced that management evaluated them impartially and rewards individual performance

**DEMERITS OF PERFORMANCE APPRAISAL**

1. All the qualities reflecting the performance and potential of an employee are not quantified accurately /covers a narrow scope ie just to determine rewards and punishment for employees by measuring their past performance
2. Bias/hallo effect of the appraisers. This obstructs the genuine feedback as it includes subjectivity of the raters leading to incorrect and unreliable data regarding the performance of the employees
3. Most managers and superiors are not trained enough to carry out the process in the appropriate and structured manner
4. There exist discrepancies between theory and application of performance appraisal system
5. Performance appraisals and reviews are often time consuming with faulty methods to measure performances and generating false results and decisions taken can be politically influenced
6. It is an expensive/costly process in terms of stationery and payments to local and hired appraisers
7. It involves negative rewards like demotions, dismissed
8. It demotivates/demoralizes/creates bitterness as it leads to emotional pressure and stress among workers
9. It encourages accountability, approvals and discourages the spirit of creativity and initiative by employees
10. Performance appraisal increases the dependency of employees on their superiors
11. It leads to organizational conflict /misunderstandings/and relationships between the appraisers and appraises
12. Superiors end up exploiting their juniors eg corruption etc

**Elements of effective performance appraisal system**

1. Reflection of objectives of the appraisal system in a clear way/clarity of objectives/Relevancy of the PA
2. Training of employees and evaluators
3. Standards of performance/quality/quantity/output
4. Face to face interactions
5. Rewarding employees/incentives
6. Senior in position of appraiser
7. Communication and given feedback
8. Reviewable and revised periodically after a full discussion with employees
9. Objectivity of the appraiser/fairness
10. Facilitation of the employees to work to their best
11. Maintenance of performance rewards of all appraisal events
12. Involvements of all stakeholders
13. Cordial relationship between the employer/appraiser and employee/appraise
14. Monitoring of the appraisal system

**Employee Relations /Industrial Relations**

Refers to interaction between the employer and employees in a firm to enhance the functionality of the enterprise. There is need for harmonious interaction between the employers and the workers for smooth running of a business unit

**Causes of indiscipline among workers**

1. Indiscipline among supervisors /managers
2. Defective work habits like late coming, absenteeism, rudeness especially among bosses
3. Inadequate work rules and failure to publish them
4. Inconsistence enforcements of discipline
5. Communication gap between supervisors and employees
6. Favoritism, cliques and factionalism towards some workers fuelled by management
7. Excessive dictatorship on the side of managers
8. Delay in paying workers
9. Inadequate monitoring and supervision
10. Unfavorable working conditions eg allowing cash payments to be handled by employees
11. Lack of involvement of workers in decision making
12. Lack of concern r empathy for worker’s problems
13. Lack of effectiveness performance appraisal
14. Limited motivation of workers
15. Unfair punishments to workers
16. Not knowing all the employees at work

**Ways of maintaining good relationship with employees/ways of maintaining discipline**

1. Showing respect to individuals and dignity to workers
2. Praising/punishing where necessary
3. Minimizing/emptying situations to workers to workers eg handling cash, providing timely and fair payment to workers
4. Creating favorable working conditions eg providing good meals accommodation and other benefits
5. Conducting objectives performance appraisals
6. Promoting exemplary leadership that helps to inspire workers
7. Knowing workers very well say where they come from, their names etc
8. Promoting workers objectively/ on merit
9. Ensuring job security ie workers cam not be dismissed anytime
10. Being fair to all workers i.e avoiding favoritism
11. Showing concern and empathy to workers who have problems

**PROCEDURE FOR HANDLING INDISCIPLINE STAFF**

1. Documenting the details of indiscipline
2. Verbal discussions and counseling by the immediate supervisor
3. Written warning about indiscipline by the immediate supervisor
4. Failure to reform meet the disciplinary committee to enable the employee defend himself
5. Suspension for prescribed period eg one month
6. Failure to reform, demotion with reduction in salary and benefits
7. Termination of the employee service dismissal