FORM TWO
BUSINESS STUDIES
COMPLETE NOTES

"Let your light shine before others, that they may see your good deeds and glorify your Father in heaven."
— Matthew 5:16

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0762 587 248 / 0712 451 664

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TOPIC 1: PRODUCTION

OUTLINE OF THE TOPIC

1.1. THE CONCEPT OF PRODUCTION

Production is the process of creating goods and services to satisfy human needs and wants. It involves transforming raw materials into finished products or offering services that improve people's lives.

For example:

- Farmers in Mbeya and Iringa grow maize, which is processed into flour.
- Factories in Dar es Salaam produce textiles from cotton grown in Shinyanga and Mwanza.
- The tourism sector in Zanzibar and Arusha provides services to both local and international visitors.

1.2. TYPES OF PRODUCTION

Production can be classified into direct production and indirect production based on how goods and services are created and used.

1. DIRECT PRODUCTION

Direct production refers to a situation where an individual or a family produces goods and services for personal consumption rather than for sale or trade. It is also called **subsistence production** because the producer consumes what they produce.

CHARACTERISTICS OF DIRECT PRODUCTION

1. **Goods and services are not for sale**
   The producer consumes what they produce. For examples, a farmer in Mwanza growing maize only for family consumption.
2. **It is usually a small-scale production**
   Usually involves small amounts of output, using limited resources. For example, a family in Tanga weaving baskets for home use.
3. **Use of traditional methods**
   Relies on simple tools and techniques, often passed down through generations. For example, a Maasai herder using traditional methods to rear cattle.
4. **Self-sufficiency**
   People depend on their own production for survival, reducing reliance on the market. For example, a fisherman in Zanzibar catching fish to feed his household.

5. **Limited specialization and division of labour**
   A person performs multiple tasks instead of focusing on one skill. For example, a farmer in Kigoma grows crops, rears animals, and builds their own shelter.

2. INDIRECT PRODUCTION

Indirect production refers to producing goods and services for exchange (trade or sale) rather than personal consumption. It involves specialization, use of modern technology, and production on a larger scale.

Examples of Indirect Production

- Commercial Farming
- Fishing for Sale
- Manufacturing Industries
- Tourism Services – Hotels and tour companies in Zanzibar
- Retail and Wholesale Trade

CHARACTERISTICS OF INDIRECT PRODUCTION

1. **Production is for sale or exchange**
   Goods and services are produced for trade, profit, or commercial use. For example, a factory in Dar es Salaam producing textiles for sale.
2. **It is usually a Larger scale production**
   Uses advanced tools, machinery, and modern techniques to produce large quantities. For example a Large-scale coffee farming in Arusha for export.
3. **It involves specialization and division of labour**
   Workers focus on specific tasks, improving efficiency. For example, in a bakery in Dodoma, one worker mixes flour while another bakes the bread.
4. **Use of modern methods**
   This involves using machines, tools, and technology to produce goods or services rather than doing everything by hand. For example, at Bakhresa Food Products, wheat is processed into flour using modern milling machines instead of grinding it manually.
5. **Helps the country to develop**
   When people produce goods and sell them, they create jobs and bring money into the country. This helps businesses grow and improves people's lives. For example, the Tanzanite mining industry in Manyara provides jobs and brings money to Tanzania when the gemstones are sold in other countries.

1.3. LEVELS OF PRODUCTION

Production is classified into three levels: Primary, Secondary, and Tertiary. Each level plays a crucial role in transforming raw materials into finished goods and services.

1. PRIMARY PRODUCTION

This is the first stage of production, where natural resources are extracted or harvested from the environment. It involves activities that provide raw materials for further processing.

Examples:

- Agriculture: Farmers grow crops like maize, rice, and coffee
- Fishing: Fishermen catch fish from lakes, rivers, and oceans
- Mining: Extraction of minerals like gold, coal, and diamonds.
- Forestry: Cutting down trees for timber and paper production.

2. SECONDARY PRODUCTION

This level involves processing raw materials from the primary sector into finished or semi-finished products. It includes manufacturing and construction industries.

Examples:

- Manufacturing:
  - Cotton from farms is processed into fabric and used to make clothes.
  - Timber from forests is turned into furniture.
  - Iron ore from mines is refined into steel for making buildings and cars.
- Construction:
  - Building houses, roads, bridges, and other infrastructure.

3. TERTIARY PRODUCTION

This level involves the provision of services that support primary and secondary production, as well as direct services to consumers.

Examples:

- Transport: Trucks transport farm produce to markets.
- Banking: Banks provide loans to farmers and businesses.
- Retailing: Shops sell finished goods like clothes, electronics, and food items.
- Education: Teachers provide knowledge and skills.
- Tourism: Hotels, tour guides, and airlines serve tourists.

1.4. IMPORTANCE OF PRODUCTION

Production is very important because it helps people, businesses, and the country grow. Here are some reasons why production matters:

1. **Satisfies human wants and needs**
   Production helps create the goods and services people need and use every day, such as food, clothes, houses, and transport services. Without production, these things would not be available, and life would be very difficult.

2. **Creates employment opportunities**
   Production activities generate jobs in various sectors, reducing unemployment and poverty. For example, the tea plantations in Iringa employ thousands of workers in farming, processing, and distribution.

3. **Increases government income**
   When businesses produce goods and services, they pay taxes to the government. The government collects taxes from factories, farms, companies, and workers. This money is used to provide important public services such as building schools, roads, hospitals, and supplying clean water.

4. **Facilitates trade and foreign exchange earnings**
   If a country produces more goods than it needs, it can sell them to other countries and earn foreign money. This is called exporting. For example: Tanzania exports cashew nuts, coffee, and cloves from Zanzibar, earning income from international markets.

5. **Improves living standards**
   When businesses produce more goods and services, they become cheaper and more available. This helps people afford the things they need, improving their quality of life.

6. **Promotes technological advancement**
   Businesses invest in technology and innovation to improve production efficiency and product quality. For example, the use of modern irrigation systems in Kilimanjaro improves agricultural output.

7. **Supports government revenue through taxes**
Businesses and individuals engaged in production pay taxes, which fund public services like education and healthcare. For example, companies like Tanzania Breweries Ltd (TBL) contribute to government revenue through corporate taxes.

8. **Reduces dependence on imports**
A country that produces more can rely less on imports, saving foreign exchange and promoting self-sufficiency. For example, the production of textiles in Mwanza reduces the need to import clothes from abroad.

9. **Enhances resource utilization**
Production ensures efficient use of land, labour, and capital, preventing waste of natural resources. For example, the fishing industry in Lake Victoria utilizes water resources to supply fish to local and export markets.

1.5. FACTORS OF PRODUCTION

Factors of production are the resources used to produce goods and services. They are the basic inputs required for economic activities. Without these resources, production would not be possible.

There are four main factors of production:
1. **Land** – Natural resources used in production.
2. **Labour** – Human effort (physical and mental) used in production.
3. **Capital** – Man-made tools, machines, and money used to produce goods and services.
4. **Entrepreneurship** – The ability to organize the other three factors to start and manage a business.

1.6. LAND AS A FACTOR OF PRODUCTION

Land refers to all natural resources that are used in the production of goods and services. It includes soil, minerals, forests, rivers, and climate—everything provided by nature that is useful in production. Unlike other factors, land is a free gift of nature.

FEATURES OF LAND AS A FACTOR OF PRODUCTION

1. **Free gift of nature**
Land is not created by human effort; it is naturally available. For example, Tanzania's fertile land, rivers, and minerals were not made by humans but exist naturally.

2. **Fixed supply**
The quantity of land is limited—it cannot be increased or decreased. Although its use can change (e.g., farmland turning into urban areas), the total land available remains the same.

3. **Variation in quality**
Different regions have different land qualities. Some areas have fertile soil (e.g., Ruvuma and Mbeya for maize farming), while others are dry and less productive (e.g., Dodoma).

4. **Passive factor of production**
Land alone cannot produce anything—it needs labour, capital, and entrepreneurship to be useful. For example, a gold mine in Geita requires miners, machines, and investors to extract gold.

5. **Can be used for different purposes**
The same piece of land can be used for farming, construction, tourism, or mining, depending on economic needs.

6. **Value depends on location and use**
   Land in Dar es Salaam city center is more valuable than land in a remote rural area. Also, land used for commercial purposes has more value than idle land.

7. **Subject to diminishing returns**
   If land is overused without proper management, its productivity declines. For example, continuous farming without fertilization leads to soil exhaustion.

8. **It is immobile**
   Immobility of land refers to the inability of land to move from one place to another. Unlike other factors of production such as labor or capital, land is fixed in location and cannot be transported or relocated.

1.7. LABOUR AS A FACTOR OF PRODUCTION

Labour refers to human effort—physical or mental—used in the production of goods and services. It includes workers, employees, and professionals who contribute their skills, energy, and time to economic activities. Unlike land, which is a natural resource, labour depends on human effort and skills.

For example,

— a farmer in Morogoro cultivating maize,
— a teacher in Dar es Salaam educating students, and a
— fisherman in Zanzibar catching fish are all engaged in labour.

TYPES OF LABOUR

Labour is classified into three main types:

A. Skilled labour
B. Unskilled labour
C. Semi-skilled labour

A. SKILLED LABOUR

This type of labour requires special training, education, or experience. Skilled workers perform complex tasks that demand expertise. Examples of skilled labour includes, doctors and nurses, engineers, teachers and lecturers and pilots.

B. UNSKILLED LABOUR

This involves workers who perform manual or physical work without requiring special training. They rely on physical effort rather than specialized skills. Examples unskilled labour includes farm workers, fishermen, construction workers and porters.

C. SEMI-SKILLED LABOUR

Semi-skilled labour refers to workers who have some training or experience but do not require advanced education or expertise. They perform tasks that need basic technical skills, often gained through short-term training or on-the-job experience.

Examples of semi-skilled labour includes,

— factory workers,
— construction workers,
— drivers,
— food service workers,
— machine operators,
— retail assistants,
— warehouse workers and
— security guards.

FEATURES OF LABOUR AS A FACTOR OF PRODUCTION

1. **Labour is the most mobile factor of production**
   Mobility of labour refers to the ability of workers to move from one job, industry, or location to another in search of better opportunities or improved working conditions. Labour mobility can be either
   a) **Geographical mobility,** where workers move from one place to another, or
   b) **Occupational mobility**, where workers change their profession or skillset.

2. **Labour cannot be stored**
   Unlike capital (machines, money), labour cannot be stored for future use. A day lost at work cannot be recovered, making effective time management crucial.

3. **Labour cannot be separated from the labourer**
   A labourer is the one who contributes their energy, skills, and time to any productive activity, making it impossible to separate the concept of labour from the person who performs it (Labourer). For example, a teacher provides labour through their teaching effort, and that effort is inseparable from him/her.

4. **Labour Productivity Varies**
   Some workers are more productive than others due to skills, training, and motivation. A highly trained engineer at TAZARA Railway is more productive than an unskilled road construction worker.

5. **Labour Requires Motivation**
   Workers perform better when given good wages, job security, and a comfortable working environment. For instance, companies in Tanzania offer housing, transport, and bonuses to increase worker productivity.

6. **Labour can be technologically dependent**
   This is because the efficiency and productivity of workers often rely on the tools, machines, and technology they use. For example, farmers in Tanzania using modern tractors and irrigation systems can produce more crops than those relying on traditional farming methods.

SPECIALIZATION AND DIVISION OF LABOUR

SPECIALIZATION
Specialization occurs when individuals, businesses, or countries focus on producing a specific good or service rather than making everything themselves. This improves efficiency, quality, and productivity.

For example:
— In a bakery, one worker specializes in baking cakes, another in decorating them, and another in handling sales. This ensures better quality and faster service.
— Tanzania specializes in producing coffee and exports it to other countries, while importing cars from Japan, which specializes in automobile manufacturing.

DIVISION OF LABOUR
Division of labour happens when a production process is broken down into smaller tasks, and each worker focuses on a specific task. It increases efficiency, reduces errors, and speeds up production.

For example:
— In a restaurant, the chef cooks, waiters serve customers, and cashiers handle payments. This allows smoother operations and better customer service.

Specialization leads to division of labour. When people or businesses specialize in a specific skill, the production process is divided into tasks, with each person handling a specific role.

ADVANTAGES OF SPECIALIZATION AND DIVISION OF LABOUR

1. **Increased productivity**
   Workers become skilled in a specific task, leading to faster and more efficient production. For example, in a textile factory, one worker specializing in cutting fabric and another in stitching speeds up production.
2. **Improved quality**
   Specialization allows workers to perfect their skills, resulting in higher-quality products. For instance, a tailor who specializes in suit-making produces better suits than a general tailor.
3. **Efficient use of resources**
   Countries and businesses can focus on what they do best, reducing waste and maximizing output. For example, Tanzania focuses on coffee production while importing electronics from China.
4. **Lower production costs**
   Mass production through division of labour reduces costs, making goods more affordable. For instance car manufacturers produce vehicles more cheaply using assembly lines.
5. **Encourages innovation**
   Experts in a field develop new techniques and better methods to improve efficiency. For instance, software developers specializing in AI create better applications.

DISADVANTAGES OF SPECIALIZATION AND DIVISION OF LABOUR

1. **Monotony and boredom**
   Repeating the same task daily can make work dull and reduce motivation. For example, a worker in a shoe factory stitching only soles may lose interest over time.
2. **Overdependence on others**
   If one specialist fails, the whole process may slow down or stop. For example, if a mechanic in a car assembly plant goes on strike, production delays occur.
3. **Job Insecurity**
   Workers with highly specialized skills may struggle to find jobs if their industry declines. For example, a typewriter repair specialist may become jobless due to the rise of computers.
4. **Lack of flexibility**
   Specialized workers may find it difficult to adapt to new tasks. For example example, a worker trained only in welding may struggle to switch to electrical work.
5. **Unequal economic development**
   Some regions may develop faster than others due to specialization, creating economic imbalance. For example, cities with industries grow rapidly, while rural areas may lag behind.

1.8. CAPITAL AS A FACTOR OF PRODUCTION

Capital refers to man-made resources used in the production of goods and services. Unlike land, which is a natural resource, capital is created by humans to assist in production. It includes money, tools, machinery, buildings, and equipment used to produce goods and services.

FEATURES OF CAPITAL AS A FACTOR OF PRODUCTION

1. **Man-Made Resource**
   Unlike land, which is a natural resource, capital consists of human-made tools, machines, buildings, and equipment used in production.
2. **Used to produce other goods**
   Unlike land, which exists naturally, capital is used to create more goods and services (e.g., a printing machine is used to produce books).

3. **Can be increased or decreased**
   Unlike land, capital can grow through investment. Businesses can buy more machines to expand production.

4. **Depreciates over time**
   Capital goods wear out or become obsolete with time (e.g., old machines need repairs or replacement).

5. **Requires initial investment**
   Capital is created through investment in machinery, tools, and infrastructure, requiring financial resources to accumulate. For example, buying buses for public transport.

6. **Improves Productivity**
   Capital increases efficiency in production. For example, a farming tractor allows farmers to cultivate more land than using traditional hand tools.

7. **Mobile and Transferable**
   Capital can be moved from one location or use to another, such as transferring machinery from one factory to another.

1.9. INTERPRENEURSHIP AS A FACTOR OF PRODUCTION

Entrepreneurship refers to the ability to organize and manage the other factors of production (land, labour, and capital) to create goods and services while taking financial risks. Entrepreneur is a person who organizes the other factors of production.

FEATURES OF ENTREPRENEURSHIP AS A FACTOR OF PRODUCTION

1. **Innovation and Creativity**
   Entrepreneurs develop new products, services, or business models to stay competitive. For example, The Zanzibar spice tourism industry attracts tourists through innovative cultural experiences.

2. **Risk-Taking**
   Entrepreneurs invest their own money and time, accepting the possibility of loss. For example, a person starting a coffee export business in Kilimanjaro risks financial loss if prices drop.

3. **Decision-Making Ability**
   Entrepreneurs make key business decisions regarding production, marketing, and investment. For example, a Dar es Salaam supermarket owner decides which suppliers to buy from and which products to stock.

4. **Resource Organization**
   Entrepreneurs combine land, labour, and capital efficiently to run a business. For example a fishing business in Zanzibar needs boats (capital), fishermen (labour), and the ocean (land).

5. **Profit Motivation**
   Entrepreneurs aim to maximize profits by producing efficiently and meeting market demands. For example, a sunflower oil producer in Dodoma looks for ways to reduce production costs and increase sales.

6. **Flexibility and Adaptability**
   Entrepreneurs adjust to market trends and economic changes. For instance, during the COVID-19 pandemic, many entrepreneurs in Tanzania shifted to online businesses.

7. **Contribution to Economic Growth**
   Entrepreneurship creates jobs, increases tax revenues, and boosts industrial development. For example: The growth of small businesses in Kariakoo Market provides employment to many Tanzanians.

1.10. THE REWARDS OF FACTOR OF PRODUCTION

The rewards of factors of production refers to the income or payment received by each factor for its contribution to the production process. Since production requires land, labor, capital, and entrepreneurship, each factor earns a specific type of income as compensation for its role.

1. **Reward for Land is Rent**
   Land earns **rent**, which is the payment made for using natural resources such as land, forests, and minerals. For example, businesses pay rent for office spaces or farmland.

2. **Reward for Labour is wages or salaries**
   Labor receives **wages or salaries**, which compensate workers for their physical or mental efforts. Skilled professionals, factory workers, and service providers all earn wages based on their work.

3. **Reward for Capital is Interest**
   Capital generates **interest**, which is the return earned by those who invest in tools, machines, or money used in production. Banks and investors, for instance, earn interest when they lend money to businesses

4. **Reward for Entrepreneurship is Profit**
   Entrepreneurship earns **profit**, which is the financial gain after covering all production costs. Business owners take risks, organize resources, and manage operations to generate profit.

TOPIC 2: FINANCING SMALL-SIZED BUSINESSES

OUTLINE OF THE TOPIC

2.1. The concept of Small-sized Business
- ✓ **Meaning of Small-sized Business**
- ✓ **Classfication of Business According to SME Policy of 2003**
- ✓ **Characteristics of Small-sized Business**
- ✓ **Importance of Small Business**

2.2. Sources of Finance For Small Business
- ✓ **Loans**
- ✓ **Personal Savings**
- ✓ **Funds from Family and Friends**
- ✓ **Differred Payments**

2.3. Microfinance and Cooperatives

2.1. THE CONCEPT OF SMALL-SIZED BUSINESS

SMALL BUSINESS

A small business is a privately owned and operated business that has a limited number of employees and a relatively low volume of sales or revenue compared to large businesses. Small business examples in Tanzania includes

— Retail shops (*duka la rejareja*)
— Food vendors (*Mama Lishe/Baba Lishe*)
— Tailoring and sewing services
— Poultry keeping
— Bodaboda or Bajaj transport services

CLASSIFICATION OF BUSINESS ACCORDING TO SME DEVELOPMENT POLICY OF TANZANIA OF 2003

According to the Small and Medium Enterprise (SME) Development Policy of Tanzania (2003), a small business (or small enterprise) is defined based on the number of employees and capital investment. The classification is as follows:

Category	No. of Employees	Capital Investment in Machinery (TZS)
Micro enterprise	1 – 4	Up to 5 million
Small enterprise	5 – 49	Above 5 million to 200 million
Medium enterprise	50 – 99	Above 200 million to 800 million
Large enterprise	100+	Above 800 million

Therefore, in context of this topic, the small business, means both micro and small enterprises.

CHARACTERISTICS OF A SMALL BUSINESS

1. **Small number of employees**
   A small business typically has a limited number of workers, usually fewer than 50. This makes it easier to manage operations and maintain close contact with employees. For example, a tailoring shop with 10 employees.

2. **Small capital investment**
   Small businesses require relatively little money to start and operate. Their machinery, tools, or stock are not as expensive as those of larger firms. For example, a local food vendor operating with a capital of TZS 3 million.

3. **Owner-managed**
   In most small businesses, the owner plays an active role in daily operations and decision-making. This allows for direct supervision and personalized service. For example, a small retail shop where the owner manages sales and stock.

4. **Localized market**
   Small businesses tend to serve customers in nearby or local areas rather than operating on a national or international scale. For instance, a bakery selling bread within the neighborhood.

5. **Simple organizational structure**
   Due to their size, small businesses have a simple structure with few departments. This makes communication and coordination more efficient. For example, a printing shop where one person handles customer service and production.

6. **Flexibility and quick decision-making**
   Small businesses can adapt quickly to changes because the decision-making process is not delayed by many layers of management. For instance, a small boutique adjusting clothing styles based on customer feedback.

7. **Limited access to finance**
   Small businesses often face challenges in obtaining loans or large investments from banks and financial institutions. This can limit their growth. For example, a carpenter struggling to get a loan to buy new tools.

IMPORTANCE OF SMALL BUSINESSES

Small businesses play a vital role in the economic and social development of a country. Their contributions go beyond just profits — they support communities, create jobs, and drive innovation.

1. **Employment creation**
   Small businesses provide jobs to a large number of people, especially in developing countries. They help reduce unemployment and offer income to families. For example, a local carpentry workshop employing five young people.

2. **Income generation**
   By offering self-employment and profits, small businesses help individuals earn a living and improve their standard of living. For example, a food vendor earns daily income to support her family.

3. **Poverty reduction**
   Through job opportunities and income generation, small businesses contribute to reducing poverty in both rural and urban areas. For instance, women's craft groups selling handmade products to support their homes.

4. **Promotion of entrepreneurship**
   Small businesses encourage creativity, self-reliance, and the spirit of starting something new. They give people a chance to use their skills and talents. For example, a youth using digital skills to run a small online marketing business.

5. **Contribute to economic Growth**
   They contribute to national income through taxes, local production, and services, helping the economy grow. For example, a small-scale maize mill that contributes to food processing and local trade.

6. **Utilization of Local Resources**
   Small businesses often use locally available materials, which helps reduce imports and supports the local economy. For example, a brick-making business using local clay.

7. **Development of Rural Areas**
   They bring goods, services, and jobs to areas that are often ignored by big businesses, helping balance national development. For instance, a motorcycle repair shop in a village.

8. **Supplier to large businesses**
   Most of small business supply raw materials to large businesses at low cost. This reduces production costs of large industries. For example, local cotton farmers supplying cotton to the textile industries.

2.2. SOURCES OF FINANCE FOR SMALL BUSINESS

There are different ways in which a small-sized business can finance its operation. Such sources include, loans, personal savings, deferred payments and funds from family and friends.

A. LOAN

A loan is a sum of money borrowed from a lender (bank, financial institution, or individual), with the agreement to repay it at an agreed time with interest. An interest refers to the monetary cost of borrowed money. It is usually expressed as a percentage rate of the borrowed funds.

ADVANTAGES OF LOANS FOR FINANCING SMALL BUSINESSES

1. **Access to capital**
   Loans provide small businesses with the money they need to start or grow their businesses when internal funds are not enough. For example, a small grocery store borrows money to restock products during high-demand seasons.

2. **Business ownership is maintained**
   Unlike investors who may ask for shares or control, loans do not take away any ownership from the business owner. For instance, a tailor borrows money to expand but remains the sole owner of the business.

3. **Fixed repayment schedule**
   Loans usually come with a clear repayment plan, making it easier for business owners to manage their finances and plan ahead. For example, a shop owner repays TZS 300,000 every month for one year.

4. **Helps build credit history**
   Regular and timely repayment of loans builds a positive credit history, which can help the small businesses qualify for bigger loans in the future. For example, a farmer who repays a small loan successfully gets a larger loan the next season.

5. **Supports business expansion**
   Loans can help small businesses increase their production, open new branches, or enter new markets. For example, a poultry farmer uses a loan to build more chicken houses and expand operations.

6. **Flexibility of use**
   The business owner usually decides how to use the loan – whether for buying stock, paying salaries, or investing in equipment. For example, a mechanic uses a loan partly to buy tools and partly to improve the workshop.

7. **Promotes economic growth and employment**
   Loans enable small businesses to grow, which leads to more job opportunities and contributes to national economic development. For example, a small textile factory borrows money, expands production, and hires more workers.

DISADVANTAGES OF LOANS FOR FINANCING SMALL BUSINESSES

1. **Repayment pressure**
   Loans must be repaid within a fixed time, whether the business makes a profit or not. This can create financial pressure. For example, a small shop struggles to repay the loan during a slow sales season.

2. **Interest costs**
   Loans come with interest, which increases the total amount the business must repay. This reduces profits. For example, a loan of TZS 5 million may require a total repayment of TZS 6 million.

3. **Collateral requirement**
   Banks often ask for security (collateral) like land or buildings, which small businesses may not have. For instance, a young entrepreneur is denied a loan because they don't own property.

4. **Risk of losing assets**
   If the business fails to repay the loan, the lender may seize the collateral. For example, a furniture maker loses his workshop because he couldn't repay the loan.

5. **Limited loan amount**
   Small businesses often get smaller loans than they need due to lack of credit history or collateral. For instance, a business requests TZS 10 million but receives only TZS 4 million.

6. **Strict qualification requirements**
   To get a loan, SMEs must meet several requirements such as a business plan, financial records, and bank statements, which can be challenging for informal businesses. For example, a street food vendor may be rejected because they lack formal registration and records.

7. **Discourages risk-taking**
   Loan repayment obligations may make business owners afraid to take new or innovative risks. For example, a boutique owner avoids trying new designs for fear of losing customers and being unable to repay the loan.

B. PERSONAL SAVING

Personal saving refers to the money that an individual sets aside from their own income, rather than spending all of it. It is often the first and most accessible form of financing for many small business owners. For example, a person who works as a doctor saves part of his/her salary every month and uses that money to open a small pharmacy.

ADVANTAGES OF USING PERSONAL SAVING

1. **No interest to pay**
   Money from personal savings does not come with interest, unlike loans, making it cost-effective. For example, a tailor uses her own money to buy a sewing machine without worrying about extra costs.

2. **Full ownership and control**
   The owner retains complete control over the business, as there are no external investors. For example, a farmer starts poultry keeping without sharing profits with anyone else.

3. **No collateral needed**
   Since the money comes from the owner, there is no need to provide security or assets as collateral. For instance, a young graduate starts a mobile money business using her own saved funds.

4. **Quick access to funds**
   Personal savings can be accessed easily without long processes or paperwork. For example, a vendor uses her savings to restock her kiosk immediately after selling out the stocks.

5. **Encourages financial discipline**
   Saving money for business teaches discipline and proper money management. For example, a student learns to cut unnecessary expenses in order to grow future business capital.

6. **Less financial risk**
   There is no pressure from lenders or investors, reducing the stress of repayment or meeting investor expectations. For example, a shoe maker experiments with new designs using her own capital without fear of losing someone else's money.

7. **Supports long-term planning**
   Personal savings are usually set aside with a goal in mind, making them useful for planned and

purposeful business decisions. For example, a carpenter saves for 6 months to open a small furniture workshop.

DISADVANTAGES OF USING PERSONAL SAVING

1. **Limited capital**
   Personal savings may not be enough to meet all business needs, especially for larger investments. For example, a person wants to start a car repair garage but only has enough savings to buy a few tools.

2. **Slow business growth**
   Since the capital is limited, it may take longer for the business to grow or expand. For example, a clothes vendor cannot afford to open a second shop due to low savings.

3. **High personal financial risk**
   If the business fails, the owner may lose all their personal savings, affecting their financial security. For example, a woman uses her life savings to start a salon, but the business does not succeed.

4. **No financial backup (emergency fund)**
   Using all personal savings can leave the owner without emergency funds for personal or family needs. For example, a man spends all his savings on a business, but has no money left when his child falls sick.

5. **May delay business start-up**
   It takes time to save enough money, which can delay the launch of the business. For example, a youth who wants to start a printing business has to wait two years to save enough capital.

6. **Lack of financial advice or support**
   When using personal savings, the owner might not get professional guidance that comes with funding from financial institutions or investors. For instance, a first-time entrepreneur uses savings but lacks a mentor or advisor to guide business planning.

7. **Discourages seeking other opportunities**
   Over-reliance on personal savings might prevent the business owner from exploring better funding options that could boost the business faster. For example, a baker refuses to apply for a grant or loan, even though it could help buy a bigger oven.

8. **Behavioural biases**
   Some business individuals may struggle with spending habits that my either hinder them form saving, or depleting the saved money on impulse purchases. For example, a Food vendor may use her business savings to pay for friend's wedding contributions, instead of expanding her business.

C. FUNDS FROM FAMILY AND FRIENDS

Funds from family and friends refer to the financial support that a small business owner receives from close relatives or trusted friends. This support can come in the form of a loan, a gift, or even a partnership investment to help start or grow the business. It is usually based on trust and personal relationships, and it often comes with little or no interest.

ADVANTAGES OF FUNDS FROM FAMILY AND FRIENDS

1. **Easier access to capital**
   Getting funds from family and friends is usually quicker and less complicated than applying for bank loans. For example, a young entrepreneur borrows TZS 500,000 from her uncle to buy raw materials for her homemade soap business.

2. **Flexible repayment terms**
   Family and friends often allow more flexible or informal repayment schedules. For example, a friend lends money to a small business owner and agrees to be repaid after six months, once the business starts making profit.

3. **Low or no interest**
Unlike banks, family and friends may offer loans without charging any interest. For instance, a brother supports his sister's poultry business by giving her TZS 300,000 as an interest-free loan.

4. **Trust-based support**
Since there is trust and personal relationship, the borrower may not need to provide collateral. For example, a father gives his son capital to start a mobile money kiosk, trusting his son's honesty and commitment.

5. **Boosts confidence and encouragement**
Support from loved ones motivates the entrepreneur and builds self-belief. For example, a cousin invests in a friend's tailoring business and also encourages them to market their services on social media.

6. **Faster business start-up**
Immediate access to funds helps the entrepreneur launch the business faster. For example, a young graduate receives startup funds from her aunt and is able to open a food vending business right after school.

7. **No formal requirements**
Funds from family and friends usually don't require formal procedures like credit checks or business plans. For example, a mother gives her daughter money to start selling secondhand clothes without asking for any written agreement.

8. **Shared risk in case of joint venture**
Sometimes family or friends become business partners, sharing in both risks and profits. For example, two friends contribute money equally to start a small retail shop and run it together.

DISADVANTAGES OF FUNDS FROM FAMILY AND FRIENDS

1. **Risk of damaging relationships**
If the business fails or the money is not repaid on time, it can lead to conflict or loss of trust. For example, a man borrows money from his sister to open a shop, but when the shop fails, they stop speaking to each other.

2. **Limited amount of capital**
Family and friends may not have enough money to fully support the business needs. For example, a woman wants TZS 3 million to open a small restaurant but can only raise TZS 1 million from relatives.

3. **Lack of formal agreements**
Many times, these funds are given without written agreements, which can cause confusion or disagreements later. For example, a friend gives money expecting to be a partner, but the business owner considers it a loan.

4. **Creates dependency**
Relying too much on family and friends may stop the entrepreneur from seeking independent solutions or learning how to secure formal funding. For example, a youth keeps asking for money from relatives instead of learning to apply for small business grants.

5. **No business guidance or mentorship**
Family and friends may not have business knowledge, so while they offer money, they may not provide useful advice. For example, a cousin funds a boutique but cannot help with marketing or pricing strategies.

6. **Not a long-term funding solution**
This source is usually one-time or short-term, and may not be reliable for business growth or future expansion. For example, after starting the business with help from friends, the owner struggles to raise funds for expansion later.

D. DEFERRED PAYMENT

Deferred payment is a payment arrangement where a buyer receives goods or services immediately but agrees to pay for them at a later date, either in one lump sum or through installments.

For example, a shopkeeper buys 100 bags of cement from a supplier in March and agrees to pay the full amount after 60 days. The supplier delivers the cement immediately, and the shopkeeper starts selling it. He uses the money earned from selling the cement to pay the supplier in May.

ADVANTAGES OF DEFERRED PAYMENT

TO THE BUYER:

1. **Improved cash flow**
   The buyer can use the product or service immediately without paying upfront, allowing them to use available cash for other needs. For example, a small business gets inventory on credit and uses sales revenue to pay later.
2. **Business continuity**
   Deferred payment helps businesses operate smoothly even when they face temporary cash shortages. For instance, a retailer continues operating during a slow sales season by deferring payments to suppliers.
3. **Convenient for budgeting**
   Buyers can plan their finances and make payments over time. For example, a farmer buys fertilizers and agrees to pay after harvest, when cash is available.
4. **Access to better equipment or goods**
   Buyers can afford higher-quality goods or larger quantities through credit. For example, a shopkeeper acquires a large freezer through deferred payment.
5. **Opportunity to generate revenue before paying**
   Buyers can sell products and earn revenue before settling the payment. For example, a boutique sells clothes bought on credit before the due payment date.

TO THE SELLER:

1. **Increased sales volume**
   Offering deferred payment attracts more customers, increasing sales. For example, a supplier sells more items to small shops by offering 30-day payment terms.
2. **Competitive advantage**
   Sellers gain an edge over competitors who don't offer credit terms. For example, a furniture seller attracts more customers by allowing payment in three installments.
3. **Stronger customer relationships**
   Building trust by offering deferred payment can lead to long-term business relationships. For example, a distributor offers credit to regular customers, encouraging loyalty.
4. **Potential to charge interest or fees**
   Sellers may include interest or service charges, increasing their revenue. For example, a seller adds a 5% fee on goods sold under a deferred payment agreement.
5. **Faster movement of inventory**
   Credit sales can help clear stock quickly. For example, a wholesaler sells more goods to retailers when payments are deferred.

DISADVANTAGES OF DEFERRED PAYMENT

TO THE BUYER:

1. **Debt accumulation**
   Relying too much on deferred payments can lead to piling debts that are hard to manage. For example, a small shopkeeper buys goods on credit from multiple suppliers and later struggles to repay all of them at once.

2. **Interest or penalties**
   Some sellers add interest or late payment penalties, increasing the total cost of the item. For example, a buyer who delays payment on a deferred agreement pays an additional 10% penalty.
3. **Loss of discounts**
   Cash buyers often receive discounts, which deferred payment buyers may miss. For example, a retailer who pays immediately gets a 5% discount, while the credit buyer pays the full price.

4. **Risk of legal action**
   Failure to meet payment deadlines may lead to legal action or bad credit records. For instance, a business that defaults on a deferred payment contract may be sued by the supplier.

5. **Overdependence on credit**
   Relying on credit may discourage financial discipline and saving. For example, a small business continually buys goods on credit and struggles with cash flow due to constant repayments.

TO THE SELLER:

1. **Delayed cash inflow**
   The seller does not receive payment immediately, which may affect their own operations. For example, a supplier waits 60 days to receive payment, while needing cash to restock.

2. **Risk of default**
   Some buyers may fail to pay, leading to financial loss. For instance, a seller supplies goods on credit to a customer who later disappears or refuses to pay.

3. **Increased administrative work**
   Managing deferred payment accounts requires extra record-keeping and follow-up. A business must hire staff to track credit accounts and remind customers of due dates.

4. **Bad Debts**
   If buyers don't pay, the seller may write off the amount as a bad debt. A seller loses TZS 300,000 after a customer fails to repay a deferred amount.

5. **Limited capital for reinvestment**
   Tied-up funds reduce the ability to invest in new stock or expand the business. For example, a seller cannot buy new products because too much money is tied in unpaid invoices.

2.3. MICROFINANCE AND COOPERATIVES

MICROFINANCING

Microfinancing refers to the provision of small loans, savings, and other financial services to individuals or small businesses who do not have access to traditional banking services. These services are typically targeted at low-income people or those living in poverty, often in developing countries.

Microfinancing is usually offered by microfinance institutions (MFIs), and the loans are typically small, with relatively low or no interest rates. Additionally, these loans often come with flexible repayment terms. Examples of the most common microfinance institutions in Tanzania, include the following:
- PRIDE Tanzania
- FINCA Microfinance Bank (T) Limited

- VisionFund Tanzania Microfinance Bank
- Enabel (through local programs)
- Selfina (Sero Lease and Finance Ltd) Tujijenge Tanzania
- ECLOF Tanzania
- AccessBank Tanzania
- Bayport Financial Services
- Maendeleo Bank
- Yetu Microfinance Bank PLC
- Umoja Microfinance
- Village Community Banks (VICOBA)
- BRAC Tanzania Finance Limited
- Wazalendo Savings and Credit Cooperative Society (SACCOS)
- National Microfinance Bank (NMB) – through micro-loan products

ADVANTAGES OF MICROFINANCING:

1. **Financial Inclusion**
   Microfinancing provides access to financial services for individuals who are typically excluded from traditional banking systems, such as low-income earners, rural populations, and women.

2. **Empowerment of women**
   Microfinance programs often target women, helping them become financially independent, start businesses, and improve their families' living standards.

3. **Promotion of entrepreneurship**
   By providing small loans, microfinancing encourages entrepreneurship, allowing individuals to start or grow their own businesses. For example, a young entrepreneur starts a small shop selling groceries with a microloan, leading to a sustainable source of income.

4. **Poverty reduction**
   Microfinancing helps to break the cycle of poverty by providing low-income individuals with the financial resources needed to improve their livelihoods. For example, a small business owner can use a microloan to buy more inventory, increasing their income and improving their living conditions.

5. **Job creation**
   Microfinance fosters the growth of small businesses, which in turn can create jobs for others, helping to reduce unemployment in low-income areas. For example, a small tailoring business that received a microloan hires additional workers to meet the demand for its services.

6. **Flexible loan terms**
   Microfinance institutions often provide flexible repayment schedules and smaller loan amounts, making it easier for borrowers to manage their payments based on their income or business cycle.

7. **Improved access to education and healthcare**
   With increased income from microloans, individuals may be able to afford education for their children or access healthcare services that would otherwise be out of reach. For example, a woman running a small business uses part of her earnings to pay for her children's school fees, improving their future prospects.

8. **Promotion of local economies**
   Microfinance stimulates local economies by supporting small businesses, which then contribute to local development and the overall economic growth of the region.

DISADVANTAGES OF MICROFINANCING

1. **High-Interest Rates**
   Some microfinance institutions charge high-interest rates on loans, which can be difficult for borrowers to repay, especially if their businesses don't perform as expected.

2. **Risk of over-indebtedness**
   Borrowers may take out multiple microloans from different institutions to meet their needs, leading to the risk of accumulating excessive debt that is difficult to manage.
3. **Limited loan size**
   The small size of microloans may not be sufficient for borrowers looking to significantly grow or expand their businesses, especially in sectors that require large capital investments.
4. **Pressure to repay**
   The pressure to repay loans, sometimes with rigid schedules, can strain borrowers who may face challenges in generating steady income, especially in the early stages of their businesses.
5. **Lack of financial literacy**
   Some borrowers may not fully understand the terms and conditions of the loan, leading to poor financial decisions or defaults.
6. **Dependency on microloans**
   Repeated reliance on microloans can create dependency, rather than encouraging the development of sustainable, self-sufficient businesses.
7. **Limited support beyond loans**
   Microfinance institutions often provide loans but may not offer additional support, such as business training or financial counseling, leaving borrowers to manage the challenges of business growth on their own.

COOPERATIVES

Cooperatives are voluntary associations or organizations formed by individuals or businesses with common interests or goals. These organizations are typically owned and operated by their members, who share in the profits, decision-making, and risks.

Cooperatives can operate in various sectors, including agriculture, retail, finance, housing, and healthcare. Examples of cooperatives in Tanzania includes:

- Tanzania Farmers Association (TFA)
- Tanzania Coffee Growers Association (TCGA)
- Tanzania Dairy Cooperative Societies
- Tanzania Sugar Cane Growers Association (TASGA)
- Tanzania Co-operative Bank (TCB)
- Tanzania Cashew Nut Cooperative Union (TCNCU)
- Mbozi District Cooperative Union
- Sumbawanga Co-operative Union
- Kilimanjaro Co-operative Union (KCU)
- Mwanga District Cooperative Union
- Central Zone Coffee Cooperative Union (CEZCO)
- Mtwara Cashew Nut Cooperative Union (MCCU)
- Savings and Credit Cooperative Societies (SACCOS)

ADVANTAGES OF COOPERATIVES FOR SMALL BUSINESSES:

1. **Access to credit and financial services**
   Cooperatives often provide loans or credit facilities to members, helping them finance their businesses. For example, a farmer can access a loan from a cooperative to buy seeds or tools.
2. **Bulk purchasing power**
   Members of a cooperative can pool their resources to purchase goods in bulk, reducing costs and increasing their bargaining power. For example, a group of small shopkeepers buys wholesale goods through their cooperative to get better prices.

3. **Risk sharing**
   By being part of a cooperative, members can share risks, reducing individual exposure to financial loss. For example, several farmers in a cooperative share the financial risk of crop failure, reducing the burden on any one individual.

4. **Market access and networking**
   Cooperatives can help small businesses access larger markets through collective branding and distribution. For example, a group of local artisans sells their products collectively under the cooperative's brand, gaining access to wider markets.

5. **Training and capacity building**
   Cooperatives often provide business training, skills development, and education to members, helping them improve their business practices.

6. **Profit sharing**
   Members of a cooperative share in the profits based on their contribution, which provides a financial incentive to be part of the cooperative.

7. **Legal and political support**
   Cooperatives often advocate for their members at local or national levels, providing legal and political support.

8. **Enhanced social capital**
   Cooperatives promote a sense of community and social solidarity among members, helping them to build stronger relationships and collaborate effectively. s.

DISADVANTAGES OF COOPERATIVES FOR SMALL BUSINESSES

1. **Limited access to capital**
   Cooperatives may face challenges in raising large amounts of capital, as they rely mostly on members' contributions.

2. **Slow decision-making process**
   In cooperatives, decisions are often made collectively, which can lead to delays and inefficiencies. For example, a cooperative might take longer to decide on new business opportunities because of the need for consensus among all members.

3. **Risk of Conflicts Among Members**
   Differing opinions, interests, and business practices among members can lead to conflicts, which can disrupt operations. For example, farmers in a cooperative might disagree on how to divide profits, causing tension within the group.

4. **Limited Management Expertise**
   Cooperatives may lack professional management or experience in handling business operations, affecting their efficiency. For example, a cooperative may struggle to scale its business effectively due to a lack of experienced managers or strategic planning.

5. **Unequal benefits**
   Members with more resources or expertise might benefit more than others, leading to inequality in the distribution of profits and resources.

6. **Potential for Mismanagement**
   Cooperatives often depend on elected members for leadership, which can lead to mismanagement if those in charge lack experience. For example, poor decision-making by cooperative leaders can result in financial losses or a decline in the cooperative's performance.

7. **Limited flexibility**
   Cooperatives are often more rigid due to their rules, regulations, and collective decision-making processes, which can limit business adaptability. For example, a cooperative may not be able to quickly adapt to market changes or opportunities because of its slow decision-making process.

TOPIC 3: SMALL BUSINESS MANAGEMENT

OUTLINE OF THE TOPIC

3.1. The concept of Small Business Management
- ✓ **Meaning Management**
- ✓ **Functions of Management**

3.2. Financial Record Keeping for Small Business
- ✓ **Cash book**
- ✓ **Sales Day Book**
- ✓ **Purchases Day Book**

3.3. Financial Statement for Small Business
- ✓ **Income Statement**
- ✓ **Statement of Financial Position (Balance Sheet)**

3.4. Budgetary Control and Administration

3.1. THE CONCEPT OF SMALL BUSINESS MANAGEMENT

MANAGEMENT

Management is the process of planning, organizing, leading, and controlling the efforts of people and resources to achieve specific goals effectively and efficiently. It involves making decisions, setting objectives, coordinating activities, and ensuring resources are used wisely.

FUNCTIONS OF MANAGEMENT IN SMALL BUSINESSES

Managing a small business requires applying key management functions to ensure smooth operations and growth. These functions are further explained bellow:

1. **Planning:**
   Planning is the process of setting goals and determining the best way to achieve them. In a small business, the owner must plan carefully due to limited resources, focusing on realistic short-term and long-term objectives.

2. **Organizing:**
   Organizing involves arranging resources such as people, time, and equipment to implement the plan. In a small business, this means assigning tasks among a few employees and making sure everything is in place to run smoothly.

3. **Leading (Directing):**
   Leading is the act of guiding, motivating, and supervising employees to achieve business goals. In small businesses, the owner often takes a hands-on role in inspiring staff, solving conflicts, and ensuring teamwork.

4. **Controlling:**
   Controlling means monitoring progress, comparing it with planned goals, and making adjustments as needed. In small businesses, the owner closely observes daily activities, checks financial performance, and corrects any issues quickly.

5. **Staffing:**
   Staffing refers to hiring, training, and managing employees to ensure the business has the right people. In a small business, the owner is often responsible for recruiting and training workers personally, which helps build a loyal and efficient team.

3.2. FINANCIAL RECORD KEEPING FOR SMALL BUSINESS

Financial record keeping is a vital part of managing a small business. Key financial records commonly used by small businesses, including:

A. Cash Book,
B. Sales Day Book,
C. Purchases Day Book,
D. Financial Statements:
   I. Income Statement, and
   II. Balance Sheet.

Understanding these records helps ensure transparency, accountability, and financial success.

A. CASH BOOK

A cash book is a book of account used for recording daily cash transactions of the business. It records money received and money paid out in cash on a daily basis. The book usually has two sides:

- **Debit side** for recording **receipts** (cash coming in)
- **Credit side** for recording **payments** (cash going out)

THE FORMAT OF CASH BOOK

BUSINESS NAME

Dr CASH BOOK Cr

Date	Particular	F	Amount	Date	Particular	F	Amount

USES OF EACH COLUMN OF CASH BOOK

1. **Date Column:** To record the exact date when the transaction occurred.
2. **Particulars Column:** To describe the details of the transaction, such as the name of the person or business involved and the purpose of payment or receipt.
3. **Folio Column:** To record a reference number or code that links the transaction to another book or ledger (like the General Ledger or Subsidiary Book).
4. **Amount Column:** To enter the value of the transaction—either on the debit side (for money received) or the credit side (for money paid out).

RULES FOR RECORDING TRANSACTIONS IN CASH BOOK

◊ CASH RECEIVED - record on **Debit Side**
◊ CASH PAID - record on **Credit Side**

STEPS OF BALANCING A SIMPLE CASH BOOK

1. **Add up both sides:** Start by totaling all the amounts on the debit side (receipts) and the credit side (payments).
2. **Compare the Totals:** The debit side (money received) is usually greater than the credit side (money paid), because you cannot spend more than you receive in cash.
3. **Find the Difference:** Subtract the total of the credit side from the debit side:

   Cash Balance = Total Receipts – Total Payments

   This difference is the closing balance (Balance c/d), also called cash in hand.

4. **Record the balance:** Write the difference on the credit side as "Balance c/d" (carried down) to make both sides equal.

5. **Bring the balance forward**
   On the next period's debit side, write the same amount as "Balance b/d" (brought down). This shows the amount of cash you have at the beginning of the new period.

EXAMPLE 1

You are provided with the following transactions of Bright Future Stationery Shop for the first week of April 2025. Use the information below to prepare a Simple Cash Book and balance it as at the end of the month. Transactions:

April 1: The owner started the business with TZS 350,000 in cash
April 2: Bought goods for cash TZS 40,000.
April 3: Sold goods for cash TZS 25,000.
April 4: Paid rent by cash TZS 30,000.
April 5: Received TZS 200,000 cash from a debtor
April 6: Received a cash from a customer TZS 50,000 for goods sold.
April 7: Paid electricity bill in cash TZS 5,000.
April 8: Withdrew TZS 10,000 from the business for personal use.
April 9: Purchased furniture and paid by cash TZS 35,000.
April 10: Paid TZS 15,000 in cash to a supplier.

Answers

BRIGHT FUTURE STATIONERY SHOP

Dr **CASH BOOK** **Cr**

Date	Particular	F	Amount	Date	Particular	F	Amount
April				April			
1	Capital		350,000	2	Purchases		40,000
3	Sales		25,000	4	Rent		30,000
5	Debtor		200,000	7	Electricity bill		5,000
6	Sales		50,000	8	Drawings		10,000
				9	Furniture		35,000
				10	Supplier		15,000
				30	Balance	c/d	490,000
			625,000				625,000
May							
1	Balance	b/d	490,000				

EXAMPLE 2

You are given the following cash transactions for the business "Upendo Mini Shop" during the month of March 2025. Prepare a Single Column Cash Book to record the cash receipts and payments.

Transactions:

March 1: Started business with TZS 100,000 in cash.
March 2: Bought stock for cash TZS 30,000.
March 3: Paid for shop cleaning TZS 5,000.
March 3: Sold goods for cash TZS 20,000.
March 5: Paid wages to employee TZS 10,000.
March 6: Received TZS 12,000 from a customer.
March 7: Purchased packaging materials for TZS 3,000 in cash.
March 8: Paid electricity bill TZS 6,000.
March 9: Cash sales amounted to TZS 18,000.
March 10: Withdrew TZS 8,000 from the business for personal use.

ANSWERS

UPENDO MINI SHOP

CASH BOOK

Dr **Cr**

Date	Particular	F	Amount	Date	Particular	F	Amount
March				March			
1	Capital		100,000	2	Purchases		30,000
3	Sales		20,000	3	Shop cleaning		5,000
6	Customer		12,000	5	Wages		10,000
9	Sales		18,000	7	Packing materials		3,000
				8	Electricity bills		6,000
				10	Drawings		8,000
				31	Balance	c/d	88,000
			150,000				150,000
April							
1	Balance	b/d	88,000				

B. SALES DAY BOOK

A Sales Day Book, also known as the Sales Journal or Sales Book, is a book of original entry used to record credit sales of goods made by a business. It does not include cash sales or sales of assets—only goods **sold on credit** (*kwa mkopo*) as part of the normal business operations.

THE FORMAT OF SALES DAY BOOK

BUSINESS NAME

SALES DAY BOOK

DATE	PARTICULARS	INVOICE NO.	FOLIO	INVOICE DETAILS	INVOICE TOTAL

USES OF EACH COLUMN IN THE SALES JOURNAL

1. **Date Column.**
   This is the column special for recording dates on which a transaction took place in a chronological order

2. **Particulars Column.**
   This is the column for recording short descriptions of the particular transaction occurred. The symbol @ is often used to describe the word "each".

3. **Invoice Number Column.**
   This is the column special for recording specific invoice numbers of different invoices received sent to the customer at a given trading period. Note that in most of questions invoice numbers are not provided, hence its column is ignored.

4. **Folio Column**
   This is the column for recording folio number or page number in which a particular account will be found in a particular ledger book.

5. **Invoice Details Column**
   This is the column for recording details of amount of money per each transaction on a particular debtor on specific date.

6. **Invoice Total Column**
   This is the column for recording total amount of money for each transaction of a particular creditor on a specific date. See examples that follows.

EXAMPLE 1

Shufa made the following sales on credit during the month of January 2021

JAN	DETAILS
2nd	Sold on credit to Annastazia
	10 boxes of biscuits @ TZS 10,000
	5 bottles of Juice @ TZS 5,000
	10 bottles of Soda @ TZS 500
3rd	Sold on credit to Faustine
	15 crates of Soda @ TZS 6,000
	10 tomato sauce cases @ TZS 3,000
	15 packets of biscuits @ TZS 5,100
	4 boxes of biscuits @ TZS 5,000
10th	Credit sales to Flora
	12 trays of eggs @ TZS 6,500
	13 kg of wheat flour @ TZS 3,500
	15 kg of sorghum @ TZS 2,500
26th	Sold goods to Justine
	2 bags of maize @ TZS 35,000
	30 kg of sugar @ TZS 2,000
	5 Juice bottles @ TZS 5,000 a bottle

Required: Prepare Sales Journal and record the above transactions
Answer

SHUFA'S BUSINESS
SALES JOURNAL

Date	Particulars	Folio	Invoice details	Invoice total
Jan.				
2nd	Annastazia			
	10 boxes of biscuits @ TZS 10,000		100,000	
	05 bottles of Juice @ TZS 5,000		25,000	
	10 bottles of Soda @ TZS 500		5,000	130,000
3rd	Faustine			
	15 crates of Soda @ TZS 6,000		90,000	
	10 cases of tomato sauce @ TZS 3,000		30,000	
	15 packets of biscuits @ TZS 5,100		76,500	
	04 boxes of biscuits @ TZS 5,000		20,000	216,500
10th	Flora			
	12 trays of eggs @ TZS 6,500		78,000	
	13 kg of wheat flour @ TZS 3,500		45,500	
	15 kg of sorghum @ TZS 2,500		37,500	161,000

26th	Justine			
	2 bags of maize @ TZS 35,000		70,000	
	30 kg of sugar @ TZS 2,000		60,000	
	5 Juice bottles @ TZS 5,000 a bottle		25,000	155,000
	Transferred to Sales Account			662,500

EXAMPLE 2

The following transactions were extracted from the books of Christina's Shop during the month of December 2020. Prepare Sales Journal to record the given transactions.

DEC	DETAILS
2nd	Credit sales to Saraphina: 5 crates of soda @ TZS 12,000; 3 trays of eggs @ TZS 5,000 and 10 cartons of drinking water @ TZS 3,500. All goods were subject to 5% trade discounts.
11th	Sold goods on credit to Rozalia: 10 boxes of Pen @ TZS 5,000; 15 boxes of table salts @ TZS 250 and 10 boxes of biscuits @ TZS 3,000.
26th	Sold goods to Saraphina: 5 litres of milk @ TZS 500; and 13 kg of White flour @ TZS 1,400. All were subject to 10% trade discounts.

ANSWER

CHRISTINA'S SHOP
SALES DAY BOOK

Date	Particulars	Folio	Invoice details	Invoice total
Dec				
2nd	Saraphina	SL01		
	5 crates of soda @ TZS 12,000		60,000	
	3 trays of eggs @ TZS 5,000		15,000	
	10 cartons of drinking water @ TZS 3,500		35,000	
			110,000	
	Less 5% trade discount		5,500	104,500
11th	Rozalia	SL02		
	10 boxes of Pen @ TZS 5,000		50,000	
	15 boxes of table salts @ TZS 250		3,750	
	10 boxes of biscuits @ TZS 3,000.		30,000	83,750
26th	Saraphina			
	5 litres of milk @ TZS 500		2,500	
	13 kg of White flour @ TZS 1,400.		18,200	
			20,700	
	Less 10% trade discount		2,070	18,630
31st	Transferred to Sales Account			206,880

C. PURCHASES DAY BOOK

A Purchases Day Book, also known as a Purchases Journal, is a book of original entry used to record credit purchases of goods made by a business. This book is used specifically to record the purchase of goods for resale or materials for manufacturing purposes, but it does not include cash purchases. Like the Sales Day Book, the Purchases Day Book only records credit transactions, as cash purchases are recorded directly in the cash book.

THE FORMAT OF PURCHASES DAY BOOK

The format of the purchases day book is the same like that of Sales day book. The only difference is that, Sales day book contains details of credit sales and respective customers, while purchases day book contains details of credit purchases and respective suppliers.

BUSINESS NAME
PURCHASES DAY BOOK

DATE	PARTICULARS	INVOICE NO.	FOLIO	INVOICE DETAILS	INVOICE TOTAL

EXAMPLE 1

Chiku Enterprise made the following credit purchases during the month of June 2020. You are required to prepare Purchases Day book and record the information therein.

DATE	DETAILS
4th	Bought from Glory Classic Fashion Shop: 150 baby napkins @ TZS 1,500 and 150 pairs of baby shoes @ TZS 3,500
16th	Bought from Charity Fashion Store: 10 pairs of shoes @ TZS 5,500; 12 pairs of bed sheets @ TZS 6,000 and 10 pairs of Vitenge @ TZS15,000.
25th	Bought goods from Khalid Enterprise TZS 200,000.

ANSWER:

CHIKU ENTERPRISE
PURCHASES DAY BOOK

Date	Particulars	Folio	Invoice details	Invoice total
June				
4th	Glory Classic Fashion Shop			
	150 baby napkins @ TZS 1,500.		225,000	
	150 pairs of baby shoes @ TZS 3,500		525,000	750,000
16th	Charity Fashion Store			
	10 pairs of shoes @ TZS 5,500.		55,000	
	12 pairs of bed sheets @ TZS 6,000.		72,000	
	10 pairs of Vitenge @ 15,000.		150,000	277,000
25th	Khalid Enterprise			
	Goods worth TZS 200,000.		200,000	200,000
30th	Transferred to Purchases Account			1,227,000

EXAMPLE 2

Mkilindi Enterprise made the following credit purchases in the month of June, 2020.

June	DETAILS
2nd	Purchased goods from Jacob: 10 pieces of timber, @ TZS 20,000; 5 chairs @ TZS 50,000 and 2 tables @ TZS 150,000
10th	Purchased goods from Jeremiah: 15 exercise books @ TZS 4,000; 20 writing pens @ TZS 500 and 10 rulers @ TZS 300
15th	Credit purchases from Jacob: 2 Sofa set @ TZS 1,500,000 and 2 Tables @ TZS 150,000
20th	Purchased goods from Jeremiah: 5 ream paper @ TZS 20,000 and 10 exercise books, each costing TZS 4,000
30th	Purchased from Joseph: 3 staplers, each costing TZS 6,500

Required: Prepare a purchases journal and post transactions to the respective ledgers

Answer:

MKILINDI ENTERPRISE
PURCHASES JOURNAL

Date	Particulars	Folio	Invoice details	Invoice total
2nd	Jacob			
	10 pieces of timber @ TZS 20,000		200,000	
	5 chairs @ TZS 50,000		250,000	
	2 tables@ TZS 150,000		300,000	750,000
10th	Jeremiah			
	15 exercise books @ TZS 4,000		60,000	
	20 writing pens @ TZS 500		10,000	
	10 rulers @ TZS 300		3,000	73,000
15th	Jacob			
	2 Sofa set, @ TZS 1,500,000		3,000,000	
	2 Tables, @ TZS 150,000		300,000	3,300,000
20th	Jeremiah			
	5 ream paper, @ TZS 20,000		100,000	
	10 exercise books, @ TZS 4,000		40,000	140,000
30th	Joseph			
	3 staplers, @ TZS 6,500		19,500	19,500
	Transferred to Purchases Account			4,282,500

3.3. FINANCIAL STATEMENT FOR SMALL BUSINESS

Financial statements are essential tools for understanding the financial performance and position of a small business. They provide a clear picture of how a business earns and spends its money, as well as what it owns and owes at a specific point in time.

MAIN TYPES OF FINANCIAL STATEMENTS

Two of the most important financial statements for any small business are the

1. **Income Statement**
   The Income Statement shows the business's revenues, expenses, and profit or loss over a given period, helping owners assess profitability and operational efficiency.
2. **The Statement of Financial Position (also known as the Balance Sheet).**
   The Statement of Financial Position provides a picture of the business's assets, liabilities, and owner's equity, helping stakeholders understand its financial health.

1. INCOME STATEMENT

An Income Statement, also known as a Profit and Loss Statement, is a financial report that summarizes a business's revenues, costs, and expenses over a specific period—usually monthly, quarterly, or annually. Its main purpose is to show whether the business made a profit or incurred a loss during that period

MAIN COMPONENTS OF AN INCOME STATEMENT

1. **Revenue (Sales or Income)**
   This is the total amount of money earned from selling goods or providing services before any expenses are deducted.
2. **Cost of Goods Sold (COGS)**
   These are the direct costs of producing the goods sold by the business. It includes costs like raw materials, packaging, and direct labor.
3. **Gross Profit**
   This is calculated as Revenue – COGS. It shows the profit made before operating expenses are deducted.
4. **Operating Expenses**
   These include all other business expenses like rent, salaries, utilities, advertising, and transport. These are not directly linked to the production of goods.
5. **Net Profit (or Net Loss)**
   This is the final profit after subtracting all expenses from the gross profit.
   Formula: **Net Profit = Gross Profit – Operating Expenses**

THE FORMAT OF SIMPLE INCOME STATEMENT

BUSINESS NAME
INCOME STATEMENT FOR THE YEAR ENDED __________

DETAILS	AMOUNT (TZS)	
Sale revenue		xxxxx
Less: Cost of Goods Sold		(xxxxx)
Gross Profit		xxxxx
Less: Operating Expenses:		
Rent	xxxx	
Salaries and wages	xxxx	
Electricity bills	xxxx	
Meals	xxxx	
Stationary expenses	xxxx	(xxxxx)
Net profit / Loss		xxxxx

THE EXTENDED (FULL) FORMAT OF INCOME STATEMENT

BUSINESS NAME
INCOME STATEMENT FOR THE YEAR ENDED __________

DETAILS	AMOUNT (TZS)	
Sale revenue		xxxxx
Less: Sales returns		xxxxx
Net Sales		xxxxx
Less: Cost of Goods Sold		
Opening Inventory	xxxxx	
Add: Purchases	xxxxx	
Carriage Inwards	xxxxx	
	xxxxx	
Less: Purchases Returns	xxxxx	
Cost of Goods Available for Sale	xxxxx	
Less: Closing Inventory	xxxxx	xxxxx
Gross Profit		xxxxx
Add: Other Incomes		
Discount received		xxxxx
Interest recevide		xxxxx
Total Income		xxxxx
Less: Operating Expenses:		
Rent	xxxx	
Salaries and wages	xxxx	
Electricity bills	xxxx	
Meals	xxxx	
Stationary expenses	xxxx	(xxxxx)
Net profit / Loss		xxxxx

EXAMPLE 1

Upendo Mini Shop is a small retail business operating in Mwanza. The owner wants to assess the shop's financial performance for the month of March 2025. Using the account balances provided below, prepare an Income Statement for Upendo Mini Shop for the month ended 31st March 2025.

Account Balances for March 2025 were as follows:

	TZS		TZS
Sales Revenue	1,500,000	Electricity Expense	30,000
Purchases	800,000	Inventory at Beginning	100,000
Salaries Expense	200,000	Inventory at End	120,000
Rent Expense	150,000		

Answer

UPENDO MINI SHOP

INCOME STATEMENT FOR THE MONTH ENDED 31st MARCH 2025

DETAILS	AMOUNT (TZS)	
Sale revenue		1,500,000
Less: Cost of Goods Sold:		
Opening Inventory	100,000	
Add: Purchases	800,000	
Cost of Goods Available for Sale	900,000	
Less: Closing Inventory	120,000	780,000
Gross Profit		720,000
Less: Operating Expenses:		
Salaries Expense	200,000	
Rent Expense	150,000	
Electricity Expense	30,000	380,000
Net profit		340,000

EXAMPLE 2

Bright Electronics is a small business located in Dodoma, dealing with the sale of electronic appliances. The owner, Mr. Bright, has provided the following account balances. Using the data below, prepare an Income Statement for Bright Electronics for the year ended 31st December 2024.

	TZS		TZS
Sales Revenue	25,000,000	Transport and Delivery	900,000
Purchases	12,000,000	Advertising and Promotion	1,200,000
Opening Inventory	3,000,000	Repairs and Maintenance	600,000
Closing Inventory	2,500,000	Office Supplies Expense	350,000
Salaries and Wages	4,000,000	Depreciation on Equipment	750,000
Rent Expense	2,400,000	Miscellaneous Expenses	200,000
Insurance Expense	500,000	Utilities (Electricity & Water)	800,000
Telephone and Internet	300,000		

Answer

BRIGHT ELECTRONICS
INCOME STATEMENT FOR THE YEAR ENDED 31st DECEMBER 2024

DETAILS	AMOUNT (TZS)	
Sale revenue		25,000,000
Less: Cost of Goods Sold:		
Opening Inventory	3,000,000	
Add: Purchases	12,000,000	
Cost of Goods Available for Sale	15,000,000	
Less: Closing Inventory	2,500,000	12,500,000
Gross Profit		12,500,000
Less: Operating Expenses:		
Salaries and Wages	4,000,000	
Rent Expense	2,400,000	
Insurance Expense	500,000	
Telephone and Internet	300,000	
Transport and Delivery	900,000	
Advertising and Promotion	1,200,000	
Repairs and Maintenance	600,000	
Office Supplies Expense	350,000	
Depreciation on Equipment	750,000	
Miscellaneous Expenses	200,000	
Utilities (Electricity & Water)	800,000	12,000,000
Net profit		500,000

EXAMPLE 3

Miss Massawe had the following list of balance as at 31st December 2023. You are required to prepare income statement for the year ended 31st December 2023.

	TZS		TZS
Wages and Salaries	125,000	Stock 31/12/2022	260,000
Purchases	408,200	Stock 31/12/2023	150,000
Carriage outwards	20,300	Rent	60,000
Sales	1,860,500	Advertisement	31,600
Carriage inwards	211,000	Interest received	200,300
Sales returns	230,500	Commission received	35,200
Purchases returns	43,000	General expenses	182,400

Answer

MISS MASSAWE'S BUSINESS
INCOME STATEMENT FOR THE YEAR ENDED 31st AUGUST 2013.

DETAILS	AMOUNT (TZS)	
Sales		1,860,500
Less: Sales returns		(230,500)
Net Sales		1,630,000
Less: Cost of Goods Sold:		
Opening Stock	260,000	
Add: Purchases	408,000	

Carriage Inwards	211,000	
	879,000	
Less: Purchases returns	(43,000)	
Cost of Goods Available for Sale	836,000	
Less: Closing Stock	150,000	686,000
Gross Profit		944,000
Add: Other Income:		
Interest received	200,300	
Commission received	35,200	235,500
Total Income		1,179,500
Less: Operating Expenses:		
Carriage outwards	20,300	
Wages and salaries	125,000	
Rent	60,000	
Advertisement	31,600	
General expenses	182,400	419,300
Net profit		760,200

2. STATEMENT OF FINANCIAL POSITION OF A SMALL BUSINESS

The Statement of Financial Position, also known as the Balance Sheet, is a key financial statement that shows the financial status of a small business at a specific point in time. It presents what the business owns (assets), what it owes (liabilities), and the owner's investment in the business (equity).

COMPONENTS OF THE STATEMENT OF FINANCIAL POSITION

The Statement of Financial Position is made up of three main components:

1. **ASSETS**
   These are resources owned by the business that are expected to bring future economic benefits. Assets are usually divided into:
   - **Current Assets:** Items that can be converted into cash within one year (e.g., Bank balance, cash, closing inventory, accounts receivable).
   - **Non-Current Assets:** Long-term resources used in the business (e.g., buildings, equipment, vehicles, furniture).

2. **LIABILITIES**
   These represent the business's obligations or debts owed to others. They are also classified into:
   - **Current Liabilities:** Debts payable within one year (e.g., accounts payable, short-term loans, bank-overdraft).
   - **Non-Current Liabilities:** Long-term debts (e.g., bank loans, mortgage).
3. **OWNER'S EQUITY (CAPITAL)**
   This shows the owner's claim on the business after all liabilities are paid. It includes the initial capital invested, any additional contributions, and retained profits or losses.

THE FORMAT OF STATEMENT OF FINANCIAL POSITION

The statement of financial position consists of two parts. The arrangement of these parts is according to accounting equation. Both parts should be equal. Its format is as follows:

NAME OF THE BUSINESS
STATEMENT OF FINANCIAL POSITION AS AT DD/MM/YYYY

DETAILS	Amount (TZS)	
ASSETS		
Non-Current Assets:		
Land and Building		xxxxx
Machines		xxxxx
Furniture		xxxxx
		xxxxx
Add: Current Assets		
Closing stock	xxxxx	
Debtors	xxxxx	
Bank	xxxxx	
Cash	xxxxx	xxxxx
Total Assets		**XXXXX**
OWENER'S EQUITY & LIABILITIES		
OWENER'S EQUITY		
Capital: Opening balance		xxxxx
Add: Net profit for the year		xxxxx
		xxxxx
Less: Drawings		xxxxx
		xxxxx
LIABILITIES		
Long-Term Liabilities		
Loan from Bank	xxxxx	
Mortgages	xxxxx	xxxxx
Add: **Current Liabilities**		
Creditors	xxxxx	
Bank overdraft	xxxxx	xxxxx
Total Owener's Equity & Liabilities		**XXXXX**

EXAMPLE 1

Tumaini runs a grocery store in Tanga. At the end of the year, he wants to check the financial health of his business. Use the following balances to prepare a Statement of Financial Position for Tumaini Grocery Store as at 31st December 2024

	TZS		TZS
Cash in Hand	800,000	Accounts Payable	1,000,000
Bank Account	1,500,000	Loan from Family (Due in 3 years)	1,500,000
Inventory	3,200,000	Capital	5,000,000
Refrigerator	1,800,000	Net Profit for the year	800,000
Shelves and Racks	1,000,000		

Answer

TUMAINI GROCERY STORE
STATEMENT OF FINANCIAL POSITION AS AT 31ST DECEMBER 2024

DETAILS	AMOUNT (TZS)	
ASSETS		
Non-Current Assets:		
Refrigerator		1,800,000
Shelves and Racks		1,000,000
		2,800,000
Add: Current Assets		
Closing Inventory	3,200,000	
Bank Account	1,500,000	
Cash	800,000	5,500,000
Total Assets		**8,300,000**
OWENER'S EQUITY & LIABILITIES		
OWENER'S EQUITY		
Capital		5,000,000
Add: Net profit		800,000
		5,800,000
LIABILITIES		
Long-Term Liabilities		
Loan from Family	1,500,000	
Add: **Current Liabilities**		
Accounts Payable	1,000,000	2,500,000
Total Owener's Equity & Liabilities		**8,300,000**

EXAMPLE 2

Kazi IT Solutions is a small tech business based in Dar es Salaam offering computer repair and software services. The owner, Mr. Mushi, has provided the following information. Prepare a Statement of Financial Position for the business as at 31st December 2024.

	TZS		TZS
Cash at Bank	2,200,000	Prepaid Rent	600,000
Accounts Receivable	1,300,000	Accounts Payable	500,000
Office Computers	4,500,000	Long-term Bank Loan	3,000,000
Office Furniture	1,400,000	Net Profit for the Year	1,000,000
Capital	5,500,000		

Answer

Kazi IT Solutions
STATEMENT OF FINANCIAL POSITION AS AT 31ST DECEMBER 2024

DETAILS	AMOUNT (TZS)	
ASSETS		
Non-Current Assets:		
Office Computers		4,500,000
Office Furniture		1,400,000
		5,900,000
Add: Current Assets		

Accounts Receivable	1,300,000	
Prepaid Rent	600,000	
Cash at Bank	2,200,000	4,100,000
Total Assets		**10,000,000**
OWENER'S EQUITY & LIABILITIES		
OWENER'S EQUITY		
Capital		5,500,000
Add: Net profit		1,000,000
		6,500,000
LIABILITIES		
Long-Term Liabilities		
Long-term Bank Loan	3,000,000	
Add: **Current Liabilities**		
Accounts Payable	500,000	3,500,000
Total Owener's Equity & Liabilities		**10,000,000**

EXAMPLE 3

The following list of balances were found in the books of Mr. Mbwana as at 31st Dec 2014. You are required to prepare Statement of Financial Position as at 31st Dec 2014.

	TZS		TZS
Bank Overdraft	260,000	Account Payable	400,000
Cash in Hand	380,000	Long-term loan	2,500,000
Fixtures and Fittings	350,000	Mortgages	2,700,000
Stock at 31st December, 2014	260,000	Net profit	651,000
Account Receivable	411,000	Drawings	560,000
Capital as at 31st December, 2013	2,800,000	Premises	4,850,000
Motor van	2,500,000		

Answer:

MBWANA'S BUSINESS
A STATEMENT OF FINANCIAL POSITION AS AT 31st DECEMBER, 2014

DETAILS	**AMOUNT (TZS)**	
ASSETS		
Non-current Assets:		
Premises		4,850,000
Motor van		2,500,000
Fixtures and Fittings		350,000
Total Fixed Assets		7,700,000
Add: **Current Assets**		
Closing stock	260,000	
Account Receivable	411,000	
Cash in Hand	380,000	1,051,000
		8,751,000

OWENER'S EQUITY & LIABILITIES		
OWENER'S EQUITY		
Capital		2,800,000
Add: Net profit		651,000
		3,451,000
Less: Drawings		560,000
		2,891,000
LIABILITIES		
Long-term liabilities		
Mortgage	2,700,000	
Long-term loan	2,500,000	5,200,000
Add: **Current Liabilities**		
Account Payable	400,000	
Bank Overdraft	260,000	660,000
		8,751,000

3.4. BUDGETARY CONTROL AND ADMINISTRATION

BUDGET

A budget is a financial plan that outlines a business's expected income and expenses over a specific period—such as a week, month, or year. It helps estimate how much money the business will earn and how much it will spend, allowing for better control of finances. In simple terms, a budget acts like a roadmap that guides a business on how to allocate its resources wisely.

IMPORTANCE OF A BUDGET IN SMALL BUSINESS

1. **Helps in Planning and Forecasting**
   A budget helps small business owners plan for the future by estimating revenues and expenses. This allows them to set realistic goals and avoid surprises. For example, planning ahead for high-demand seasons like holidays or school openings.
2. **Controls Spending and Reduces Waste**
   Budgets help track and limit unnecessary spending. By knowing how much to spend in each area, business owners can avoid overspending and reduce waste. For example, Limiting advertising costs to a set monthly amount.
3. **Improves Financial Decision-Making**
   With a clear picture of available funds and planned expenses, small businesses can make smarter decisions about purchases, investments, or hiring staff. For example, deciding whether the business can afford to buy a new fridge for a small café.
4. **Enhances Profitability**
   Budgeting allows businesses to identify areas of high cost and low income. This helps them adjust operations to increase profit margins. For example, reducing stock of slow-moving goods and investing more in fast-selling items.
5. **Supports Monitoring and Evaluation**
   Budgets make it easier to compare actual performance with planned performance. This allows the business to monitor whether it is on track and adjust if necessary. For example, if sales are lower than expected, the owner might increase promotions or review pricing.

6. **Builds Financial Discipline**
Sticking to a budget encourages responsible financial habits, especially for small businesses with limited capital. It helps avoid debts and ensures smooth operations. For example, avoiding impulse purchases or non-essential spending.

7. **Facilitates Access to Loans or Investors**
Lenders and investors often require a clear budget to assess whether the business is being managed well and if it has potential for growth. For example, presenting a budget plan when applying for a small business loan.

8. **Supports Emergency Preparedness**
Budgeting helps small businesses prepare for unexpected expenses or downturns by setting aside emergency funds. For example, saving for equipment breakdowns or slow seasons.

THE FORMAT OF A BUDGET

Budget format can be of three types, depending on the need of the business / questions.

1. ONE PERIOD / MONTH BUDGET

This is the budget that covers only one month, or one week. It shows the expected imcome and expenditures for that particular month only.

BUSINESS NAME
BUDGET PERIOD: ______________________________

CATEGORY	AMOUNT (TZS)
EXPECTED INCOME	
Sales Revenue	xxxxx
Service Income	xxxxx
Other Income (if any)	xxxxx
Total Income (A)	xxxxx
EXPECTED EXPENSES	
Rent	xxxxx
Salaries and wages	xxxxx
Utilities (Electricity, Water)	xxxxx
Transport	xxxxx
Advertising	xxxxx
Supplies (Raw Materials)	xxxxx
Maintenance (Repairs)	xxxxx
Other expenses	xxxxx
Total Expenses (B)	xxxxx
Cash surplus / deficit (A-B)	xxxxx

EXAMPLE 1

Ushauri Women's Group is planning a one-day health awareness campaign in their village. They plan to receive funds from the following sources:

Expected Sources of Income:

Member contributions	TZS 100,000
Support from the village council	TZS 200,000
Grant from a health organization	TZS 300,000
Sale of snacks and water	TZS 50,000

Planned Expenditures:

Hiring a tent and chairs	TZS 150,000
Paying guest speakers	TZS 100,000
Printing educational materials	TZS 80,000
Sound system rental	TZS 60,000
Buying hand sanitizers and masks	TZS 90,000
Transport for health workers	TZS 70,000
Refreshments	TZS 50,000
Cleaning and waste disposal	TZS 30,000

Required: Prepare a budget for the campaign and determine the financial result (surplus or deficit).

Answers

USHAURI WOMEN'S GROUP
ONE-DAY BUDGET FOR HEALTH AWARENESS CAMPAIGN

CATEGORY	AMOUNT (TZS)
EXPECTED INCOME	
Member contributions	100,000
Support from the village council	200,000
Grant from a health organization	300,000
Sale of snacks and water	50,000
Total Income (A)	650,000
EXPECTED EXPENSES	
Hiring a tent and chairs	150,000
Paying guest speakers	100,000
Printing educational materials	80,000
Sound system rental	60,000
Buying hand sanitizers and masks	90,000
Transport for health workers	70,000
Refreshments	50,000
Cleaning and waste disposal	30,000
Total Expenses (B)	630,000
Cash Surplus (A-B)	20,000

EXAMPLE 2

A student at college expects to receive income from three sources during the month of June. These include TZS 150,000 from monthly pocket money provided by parents, TZS 30,000 from selling mobile accessories on campus, and TZS 20,000 from weekend tuition classes offered to lower secondary students.

During the month, the student expects to spend TZS 80,000 on food, TZS 20,000 on mobile data and airtime, TZS 15,000 on transport, TZS 10,000 on academic materials, TZS 25,000 on hostel rent, TZS 10,000 for offering at church, and TZS 5,000 on personal care items.

Required: Help the student to prepare her monthly budget.

Answer

BUSINESS NAME
BUDGET PERIOD: ______________________________

CATEGORY	AMOUNT (TZS)
EXPECTED INCOME	
Pocket money	150,000
Sales of mobile accessories	30,000
Weekend tuition classes	20,000
Total Income (A)	200,000
EXPECTED EXPENSES	
Food	80,000
Mobile data and airtime	20,000
Academic materials	10,000
Hostel rent	25,000
Offering at church	10,000
Personal Care items	5,000
Total Expenses (B)	150,000
Cash surplus (A-B)	50,000

2. MORE THAN ONE PERIOD BUDGET

This is the budget that covers more than one month, or one week. It shows the expected imcome and expenditures for that particular periods. Note that Closing cash balance of one month is the opening balance of the next month

BUSINESS NAME

BUDGET PERIOD: ______________________________

CATEGORY	JANUARY	FEBRUARY	MARCH
Opening balance	-	xxxxx	xxxx
EXPECTED INCOME			
Sales Revenue	xxxxx	xxxxx	xxxxx
Service Income	xxxxx	xxxxx	xxxxx
Other Income (if any)	xxxxx	xxxxx	xxxxx
Total Income	xxxxx	xxxxx	xxxxx
Total Available Cash (A)	xxxxx	xxxxx	xxxxx
EXPECTED EXPENSES			
Rent	xxxxx	xxxxx	xxxxx
Salaries and wages	xxxxx	xxxxx	xxxxx
Utilities (Electricity, Water)	xxxxx	xxxxx	xxxxx
Transport	xxxxx	xxxxx	xxxxx
Advertising	xxxxx	xxxxx	xxxxx
Supplies (Raw Materials)	xxxxx	xxxxx	xxxxx
Maintenance (Repairs)	xxxxx	xxxxx	xxxxx
Other expenses	xxxxx	xxxxx	xxxxx
Total Expenses (B)	xxxxx	xxxxx	xxxxx
Closing Cash balance (A-B)	xxxxx	xxxxx	xxxxx

Total Available Cash (A) = Opening balance + Total Income

EXAMPLE 1

Daniel operates a cybercafé in town. He starts July with an opening balance of TZS 500,000 and expects to earn TZS 3,000,000 from computer services and TZS 500,000 from printing and photocopying. In August, these earnings will increase to TZS 3,500,000 and TZS 600,000, respectively.

His monthly expenses include TZS 700,000 for salaries, TZS 400,000 for rent, and TZS 300,000 for electricity and internet. In July, he plans to upgrade his computers, costing TZS 1,200,000. In August, he will spend TZS 200,000 for antivirus software and system backup. Other regular costs include TZS 100,000 for maintenance and TZS 150,000 for stationery each month.

Required: Prepare a 2-month budget for July and August showing monthly net cash.

DANIEL'S CYBERCAFÉ
BUDGET FOR JULY AND AUGUST

PARTICULARS	JULY (TZS)	AUGUST (TZS)
Opening Balance	500,000	1,150,000
EXPECTED INCOME		
Computer services	3,000,000	3,500,000
Printing & Photocopying	500,000	600,000
Total Income	**3,500,000**	**4,100,000**
Total Available Cash (A)	**4,000,000**	**5,250,000**
EXPECTED EXPENSES		
Salaries	700,000	700,000
Rent	400,000	400,000
Electricity & Internet	300,000	300,000
Computer upgrade	1,200,000	-
Antivirus & Backup	-	200,000
Maintenance	100,000	100,000
Stationery	150,000	150,000
Total Expenses (B)	**2,850,000**	**1,850,000**
Closing Balance (A) - (B)	**1,150,000**	**3,400,000**

EXAMPLE 2

Fatuma runs a small bakery business in her local town. She is preparing a budget for the months of April, May, and June to manage her finances properly. Her expected sources of income come from the sale of bread, cakes, snacks, and soft drinks. Fatuma starts April with an opening balance of TZS 200,000.

In April, she expects to earn TZS 800,000 from bread, TZS 600,000 from cakes, TZS 400,000 from snacks, and TZS 200,000 from soft drinks. In May, she projects an increase in sales, earning TZS 900,000 from bread, TZS 650,000 from cakes, TZS 500,000 from snacks, and TZS 300,000 from soft drinks. In June, she expects TZS 850,000 from bread, TZS 700,000 from cakes, TZS 450,000 from snacks, and TZS 250,000 from soft drinks.

Her monthly expenses include purchasing baking ingredients, paying workers' wages, utility bills (electricity and water), packaging materials, transport, equipment maintenance, and phone and internet costs.
In April, she expects to spend TZS 500,000 on ingredients, TZS 300,000 on wages, TZS 100,000 on utilities, TZS 70,000 on packaging, TZS 50,000 on transport, TZS 40,000 on maintenance, and TZS 30,000 on phone and internet. In May, expenses are projected at TZS 550,000 for ingredients, TZS 320,000 for wages, TZS 110,000 for utilities, TZS 80,000 for packaging, TZS 60,000 for transport, TZS 50,000 for maintenance, and TZS 35,000 for phone and internet. In June, she expects to spend TZS 530,000 on ingredients, TZS 310,000 on wages, TZS 120,000 on utilities, TZS 75,000 on packaging, TZS 55,000 on transport, TZS 45,000 on maintenance, and TZS 30,000 on phone and internet.

Required: Prepare a three-month budget for April, May, and June showing monthly columns for each income and expenditure item

FATUMA'S BAKERY
BUDGET FOR APRIL, MAY, AND JUNE

PARTICULARS	APRIL (TZS)	MAY (TZS)	JUNE (TZS)
Opening Balance	200,000	1,110,000	2,255,000
EXPECTED INCOME			
Sale of Bread	800,000	900,000	850,000
Sale of Cakes	600,000	650,000	700,000
Sale of Snacks	400,000	500,000	450,000
Sale of Soft Drinks	200,000	300,000	250,000
Total Income	**2,000,000**	**2,350,000**	**2,250,000**
Total Available Cash (A)	**2,200,000**	**3,460,000**	**4,505,000**
EXPECTED EXPENSES			
Baking Ingredients	500,000	550,000	530,000
Workers' Wages	300,000	320,000	310,000
Electricity & Water	100,000	110,000	120,000
Packaging Materials	70,000	80,000	75,000
Transport	50,000	60,000	55,000
Equipment Maintenance	40,000	50,000	45,000
Phone & Internet	30,000	35,000	30,000
Total Expenses (B)	**1,090,000**	**1,205,000**	**1,165,000**
Closing Balance (A - B)	**1,110,000**	**2,255,000**	**3,340,000**

3. BUDGET REPORT

A budget report is a financial document that summarizes the planned (budgeted) and actual income and expenditures over a specific period, and shows the differences (variances) between them. It helps individuals, businesses, or organizations monitor their financial performance, control spending, and make informed decisions.

COMPONENTS OF BUDGET REPORT

Components of a Budget Report are as follows:

1. **Item or Description**
   This is the name of the thing you are budgeting for — for example, "sales", "salaries", or "transport".
2. **Budgeted Amount**
   The amount of money you expected or planned to receive (if income) or to spend (if expense).
3. **Actual Amount**
   The real amount of money you actually received or spent.
4. **Variance**
   This is the difference between what you planned (budgeted) and what really happened (actual).
   Formula: Variance = Actual Amount – Budgeted Amount
5. **Variance Type (Comments)**
   This shows if the variance is good or bad.
   - **Favorable (F)**: You earned more or spent less than expected (a good thing).
   - **Unfavorable (U):** You earned less or spent more than expected (not good).

BUSINESS NAME

BUDGET PERIOD: ______________________________

CATEGORY	PLANNED AMOUNT	ACTUAL AMOUNT	BUDGET VARIANCE	NOTES
INCOME				
Sales Revenue	xxxxx	xxxxx	xxxxx	xxxxx
Service Income	xxxxx	xxxxx	xxxxx	xxxxx
Other Income (if any)	xxxxx	xxxxx	xxxxx	xxxxx
Total Income (A)	xxxxx	xxxxx	xxxxx	xxxxx
EXPENSES				
Rent	xxxxx	xxxxx	xxxxx	xxxxx
Salaries and wages	xxxxx	xxxxx	xxxxx	xxxxx
Utilities (Electricity, Water)	xxxxx	xxxxx	xxxxx	xxxxx
Transport	xxxxx	xxxxx	xxxxx	xxxxx
Advertising	xxxxx	xxxxx	xxxxx	xxxxx
Supplies (Raw Materials)	xxxxx	xxxxx	xxxxx	xxxxx
Maintenance (Repairs)	xxxxx	xxxxx	xxxxx	xxxxx
Other expenses	xxxxx	xxxxx	xxxxx	xxxxx
Total Expenses (B)	xxxxx	xxxxx	xxxxx	xxxxx
Net Cash (A-B)	xxxxx	xxxxx	xxxxx	xxxxx

EXAMPLE 1

Consider the following details
Business Name: Asha's Mini Mart
Period: Monthly Budget for May 2025

Asha owns a small retail shop in her local town. She wants to prepare a budget for the month of May 2025 to manage her income and expenses effectively. Based on her past records and plans for growth, she has estimated the following:

Planned Income:	**TZS**
Sales Revenue	3,000,000
Mobile Money Commission	150,000
Other Income (Plastic Bag Sales)	50,000
Planned Expenses:	
Rent	400,000
Salaries (for two assistants)	600,000
Utilities (Electricity and Water)	120,000
Transport	80,000
Advertising	50,000
Inventory Purchases	1,500,000
Repairs & Maintenance	70,000
Miscellaneous	30,000

At the end of the month, Asha recorded the actual amounts as follows:

Actual Income

Sales Revenue	2,800,000
Mobile Money Commission	170,000
Other Income	60,000

Actual Expenses

Rent	400,000
Salaries	600,000
Utilities	140,000
Transport	90,000
Advertising	30,000
Inventory Purchases	1,600,000
Repairs & Maintenance	100,000
Miscellaneous	40,000

Required: Prepare a budget report for the month of May 2025

Answer

ASHA'S MINI MART
A BUDGET REPORT FOR THE MONTH OF MAY 2025

CATEGORY	PLANNED AMOUNT	ACTUAL AMOUNT	BUDGET VARIANCE	NOTES
INCOME				
Sales Revenue	3,000,000	2,800,000	(200,000)	Unfavorable
Mobile Money Commission	150,000	170,000	20,000	Favorable
Other Income (Plastic bag sales)	50,000	60,000	10,000	Favorable
Total Income (A)	3,200,000	3,030,000	(170,000)	Unfavorable
EXPENSES				
Rent	400,000	400,000	0	Accurate
Salaries (for two assistants)	600,000	600,000	0	Accurate
Utilities (Electricity and Water)	120,000	140,000	20,000	Unfavorable
Transport	80,000	90,000	10,000	Unfavorable
Advertising	50,000	30,000	(20,000)	Favorable
Inventory Purchases	1,500,000	1,600,000	100,000	Unfavorable
Repairs & Maintenance	70,000	100,000	30,000	Unfavorable
Miscellaneous	30,000	40,000	10,000	Unfavorable
Total Expenses (B)	2,850,000	3,000,000	150,000	Unfavorable
Net Profit (A-B)	350,000	30,000	(320,000)	Unfavorable

EXAMPLE 2

Business Name: Emmanuel's Stationery and Printing Shop
Period: Monthly Budget for October 2024

Emmanuel operates a stationery and printing shop near a school. October is exam season, so he expects increased activity. His services include photocopying, printing, and selling academic materials.

Planned Income	TZS
Photocopy and printing	1,500,000
Stationery sales	1,000,000
Binding and lamination	500,000
Planned Expenses	
Rent	400,000
Salaries for 1 assistant	300,000
Paper and ink supplies	800,000
Electricity	180,000
Equipment maintenance	90,000
Internet and software	50,000
Miscellaneous	30,000
Actual Income	
Photocopy and printing	1,600,000
Stationery sales	950,000
Binding and lamination	600,000
Actual Expenses	
Rent	400,000
Salaries	320,000
Paper and ink supplies	850,000
Electricity	200,000
Equipment maintenance	110,000
Internet/software	60,000
Miscellaneous	40,000

Required: Prepare a budget report for the month of October 2024

Answer

EMMANUEL'S STATIONERY AND PRINTING SHOP
A BUDGET REPORT FOR THE MONTH OF OCTOBER 2024

CATEGORY	PLANNED AMOUNT	ACTUAL AMOUNT	BUDGET VARIANCE	NOTES
INCOME				
Photocopy and printing	1,500,000	1,600,000	100,000	Favorable
Stationery sales	1,000,000	950,000	(50,000)	Unfavorable
Binding and lamination	500,000	600,000	100,000	Favorable
Total Income (A)	3,000,000	3,150,000	150,000	Favorable
EXPENSES				
Rent	400,000	400,000	0	Accurate
Salaries for 1 assistant	300,000	320,000	20,000	Unfavorable
Paper and ink supplies	800,000	850,000	50,000	Unfavorable

Electricity	180,000	200,000	20,000	Unfavorable
Equipment maintenance	90,000	110,000	20,000	Unfavorable
Internet and software	50,000	60,000	10,000	Unfavorable
Miscellaneous	30,000	40,000	10,000	Unfavorable
Total Expenses (B)	1,850,000	1,980,000	130,000	Unfavorable
Net Profit/Loss (A-B)	1,150,000	1,170,000	20,000	Favorable

ADMINISTRATION AND CONTROL

Administration

Administration refers to the process of organizing, managing, and coordinating the daily activities of a business or organization. It involves planning, setting policies, maintaining records, and ensuring that operations run smoothly and efficiently.

Control

Control refers to the process of monitoring and evaluating business activities to ensure that they are being carried out according to plans, policies, and standards. It involves setting performance targets, comparing actual results with expected outcomes, and taking corrective actions where necessary.

TOPIC 4: WAREHOUSING AND INVENTORY MANAGEMENT

OUTLINE OF THE TOPIC

4.1. THE CONCEPT OF WAREHOUSING

MEANING OF WAREHOUSING

Warehouse is derived from two words "**Ware**" which means products and "**house**" which means a building. Thus, a warehouse is a building or place where goods are stored before they are sold, distributed, or used. It is an essential part of the distribution and supply chain in business. F

Warehousing refers to the process of storing goods in a warehouse until they are needed for distribution, sale, or use. It involves the management and organization of inventory, including the receiving, storing, and dispatching of goods.

FUNCTIONS OF WAREHOUSING

The functions of a warehouse go beyond simple storage; it serves multiple roles that help businesses streamline operations, reduce costs, and improve service delivery. .

1. **Storage of goods**
   A warehouse provides a safe place to keep raw materials, semi-finished goods, or finished products until they are needed. This helps businesses maintain a steady supply of goods and avoid shortages.
2. **Protection of goods**
   Warehouses protect goods from damage caused by weather, pests, theft, or fire by providing proper facilities such as shelves, temperature control, and security systems.
3. **Regular supply of goods**
   By storing goods in advance, warehouses ensure that products are available whenever customers need them, thus maintaining a regular flow in the market.
4. **Stabilization of prices**
   Warehousing helps balance supply and demand, which stabilizes prices. Goods are stored when supply is high and released when supply drops, avoiding drastic price changes.
5. **Risk bearing**
   Once goods are stored in a warehouse, the responsibility of protecting them from loss, damage, or theft often lies with the warehouse owner.
6. **Financing**
   Goods stored in a warehouse can be used as security to obtain loans from banks or financial institutions. Warehousing receipts are accepted as proof of ownership.
7. **Facilitating continuous production**
   Manufacturers can store raw materials in warehouses to ensure they don't run out of supplies during production.

8. **Enabling bulk purchasing**
Businesses can buy and store goods in large quantities, taking advantage of discounts and lower transport costs.

9. **Preparation of goods for sale**
Some warehouses also carry out packaging, grading, labeling, or assembling goods before they are sold or delivered.

TYPES OF WAREHOUSES

The main types of warehouses include private warehouses, public warehouses, bonded warehouses, distribution centres, climate-controlled warehouses, and smart warehouses.

1. PRIVATE WAREHOUSE

A private warehouse is a storage facility that is owned and operated by a single business or organization for its own use. It is not open to the general public and is usually built to meet the specific storage needs of that business.

For example, a big supermarket chain like Shoprite may have its own private warehouse where it stores all its products—like rice, sugar, and canned foods—before distributing them to its different branches.

2. PUBLIC WAREHOUSE

A public warehouse is a storage facility that is available for use by any individual or business for a fee. It is owned and operated by private companies or the government to provide storage services to multiple users. Public warehouses are useful for small businesses or seasonal traders who do not need permanent storage space.

3. BONDED WAREHOUSE

A bonded warehouse is a special type of warehouse where **imported goods are stored** before customs duties or taxes are paid. It is licensed and supervised by the government or customs authorities. Goods kept in a bonded warehouse are under customs control and cannot be released until the importer pays the required import duties.

4. DISTRIBUTION CENTRE

A distribution centre is a specialized warehouse where goods are not just stored but also sorted, packed, and quickly moved to their final destination—such as retail stores or customers. Unlike regular warehouses that mainly store goods for a long time, distribution centres focus on speed and efficiency.

5. CLIMATE-CONTROLLED WAREHOUSE

A climate-controlled warehouse is a special type of warehouse where temperature, humidity, and sometimes air quality is regulated to protect sensitive or perishable goods. These warehouses are designed to store goods that can be damaged by extreme heat, cold, or moisture. They maintain a stable internal environment using cooling or heating systems. This is essential for products like food, medicine, cosmetics, electronics, and artwork.

6. SMART WAREHOUSE

A smart warehouse is a high-tech facility that uses advanced technologies like automation, robotics, sensors, and artificial intelligence (AI) to manage the storage, sorting, and movement of goods efficiently.

4.2. WAREHOUSE MANAGEMENT

Warehouse management refers to the process of overseeing and controlling the day-to-day operations of a warehouse. It includes the proper handling, storage, movement, and tracking of goods within a warehouse to ensure that items are stored safely, accurately, and can be retrieved quickly when needed.

WAREHOUSE MANAGEMENT ACTIVITIES

Warehouse management activities refer to the daily tasks and operations carried out to ensure that goods are stored, handled, and distributed efficiently and safely. These activities involves the following.

1. **Arrangement of goods in a warehouse**
   This involves organizing items according to their type, size, or frequency of use. This practice helps improve accessibility, reduces handling time, prevents damage, and ensures efficient use of storage space.

2. **Cleaning a warehouse**
   This is the regular removal of dust, waste, and pests from the storage area. This activity maintains hygiene, protects goods from spoilage or contamination, and promotes a safe working environment for employees.

3. **Regulation of atmospheric conditions**
   This means controlling factors such as temperature, humidity, and airflow within the warehouse. This is important for preserving perishable or sensitive goods like food, chemicals, and electronic items.

4. **Use of modern facilities**
   This refers to applying technological tools such as barcode scanners, inventory software, and automated storage systems. These facilities improve the accuracy and speed of stock management and help monitor goods in real time.

5. **Enforcing safety regulations in a warehouse**
   This involves ensuring that staff follow safety procedures such as proper handling of goods, use of protective gear, and correct operation of machines. This helps prevent accidents and protects both people and property.

6. **Training warehouse staff**
   This means educating workers on warehouse operations, safety rules, and how to use inventory tools and equipment. Trained staff work more efficiently, make fewer errors, and improve the overall performance of the warehouse.

7. **Physical inventory counting**
   This is the process of manually checking and recording the actual number of goods in stock. This is done to confirm whether the physical stock matches the records and to identify any losses or errors.

8. **Regular equipment checks**
   This involve inspecting and maintaining warehouse tools and machines such as forklifts, weighing scales, and shelves. This practice helps prevent unexpected breakdowns, ensures safe operation, and prolongs the lifespan of the equipment.

MERITS OF WAREHOUSING FOR SMALL BUSINESSES

For small businesses, warehousing plays a vital role in supporting smooth operations and growth. Such merits are further explained as follows.

1. **Continuous Supply of Goods**
   Warehousing ensures that goods are available whenever needed, helping businesses meet customer demand without delays. This helps in maintaining a steady flow of products in the market, avoiding shortages that can affect business operations and customer satisfaction.

2. **Price stabilization**
   Warehousing plays a key role in stabilizing market prices by balancing supply and demand. When production exceeds demand, excess goods can be stored in warehouses instead of flooding the market, which would lower prices. Later, when demand increases, the stored goods are released, preventing sharp price increases.

3. **Protection of goods**
   Goods kept in warehouses are safe from risks such as theft, fire, rain, sunlight, or pests. Modern warehouses are equipped with security systems, fire extinguishers, insurance coverage, and climate-control equipment to protect the quality and safety of the goods.

4. **Helps in seasonal production**
   Many businesses produce goods only during certain seasons but sell them throughout the year. Warehousing makes this possible by providing space to store those goods until the right time for sale. This allows for smooth business operations even when production is not continuous.

5. **Better inventory management**
   Warehouses allow businesses to organize and monitor their inventory effectively. They can track stock levels, know which items are available or running out, and plan reorders accordingly. This reduces waste, avoids overstocking or understocking, and improves customer service.

6. **Financing opportunities**
   Goods stored in warehouses can serve as security for loans. A business can use a warehouse receipt to prove ownership of the stored goods and use it to borrow money from banks or financial institutions.

7. **Business Expansion**
   Warehousing supports business growth by enabling firms to store more goods and serve larger or distant markets. A business can establish warehouses in different locations to supply products more efficiently and reduce delivery time and transport costs.

DEMERITS OF WAREHOUSING FOR SMALL BUSINESSES

While warehousing offers many benefits, it also presents several challenges, especially for small businesses with limited resources.

1. **High cost of storage**
   Maintaining a warehouse can be expensive, especially when dealing with large volumes or special storage needs (e.g., refrigeration or security). These costs include rent, labor, insurance, equipment, and utilities, which may reduce profit margins.

2. **Risk of goods becoming obsolete or spoiled**
   When goods are stored for a long time, they can become outdated, spoiled, or expire, especially in the case of perishable or seasonal items. This leads to wastage and financial loss.

3. **Chances of theft or damage**
   Despite security measures, there is always a risk of theft, fire, pest attacks, or accidents within warehouses. This can result in loss of goods unless proper insurance or controls are in place.

4. **Tied-up Capital**
   Goods kept in warehouses represent money that is not currently in use. Capital tied up in stored inventory could have been used elsewhere in the business, such as in marketing, paying suppliers, or investing in growth.

5. **Risk of overdependence**
   Relying too much on warehousing may encourage businesses to produce or buy more than necessary, leading to overstocking. This can increase storage costs and create inefficiencies.

6. **Administrative burden**
   Managing a warehouse involves record-keeping, organizing, staff supervision, and regular inspections. This adds complexity to business operations and requires skilled personnel and time.

4.3. THE CONCEPT OF INVENTORYING

Inventory refers to the goods and materials that a business keeps in stock to use in production or to sell to customers.

TYPES OF INVENTORIES

Below are the main types of inventories, along with examples to make each type clear.

1. **Raw Materials Inventory**
   These are the basic materials and components that a business uses to produce finished goods. They have not yet been processed or used in production.
   Examples:
   - A bakery keeps bags of flour, sugar, and eggs as raw materials to bake bread and cakes.
   - A furniture factory stores timber, nails, and glue as raw materials to make chairs and tables.

2. **Work-in-Progress (WIP) Inventory**
   This includes goods that are still in the production process. They are no longer raw materials, but they are not yet finished products.
   Example:
   - A car manufacturing company has vehicles on the assembly line with the body completed but the engine not yet installed.
   - A tailor has clothes that are half-sewn and waiting for buttons or zippers to be attached.

3. **Finished Goods Inventory**
   These are fully manufactured or completed products that are ready for sale to customers.
   Examples:
   - Bottles of juice packed and labeled, sitting in a warehouse, ready to be delivered to shops.
   - Shoes that are polished, packed in boxes, and waiting to be sold in a store.

4. **Maintenance, Repair, and Operating (MRO) Inventory**
   These are items used in the operation and maintenance of machines or production processes, but they are not part of the final product.
   Examples:
   - Cleaning supplies, gloves, and machine oil used in a factory to keep machines running smoothly.
   - Light bulbs, wrenches, and safety gear used in a workshop for maintenance purposes.

5. **Packing Materials Inventory**
   These are materials used to package the finished goods for sale, transportation, or storage.
   Examples:
   - Cardboard boxes, plastic wrappers, and labels used to package electronics.
   - Bottles, caps, and cartons used to pack soft drinks or milk.

4. 4. INVENTORY MANAGEMENT

Inventory management is the process of ordering, storing, tracking, and controlling a company's inventory to ensure that the right amount of goods is available at the right time, in the right place. This helps the business continue serving customers without delays or waste.

FUNCTIONS OF INVENTORY MANAGEMENT

1. **Receiving stock:**
   This involves accepting, unloading and inspecting deliveries of goods from suppliers or other traders, notifying the purchasing department of the receipt, and keeping records of the goods received.

2. **Issuing stock:**
   This involves the whole process of releasing the goods from the warehouse. It includes verifying requisitions, releasing the goods, and recording the goods or stocks moved out of the warehouse.

3. **Care of stock:**
   This involve keeping stored goods in good condition within the warehouse, sorting out spoiled goods, and extraordinary maintenance of fragile goods.

4. **Placement of stock items:**
   Proper allocation or placement of goods allows convenient separation. Properly arranging goods inside the warehouse allows smooth inspection and ensures their safety.

5. **Stock control:**
   Stock conlfol involves checking and keeping proper records of the quantity and value of goods in a warehouse for a particular period. This ensures a reasonable stock level is always maintained to avoid over- or under stocking. Stock control involves stock taking, restocking, and stock valuation.
   - i) **Stock-taking**
     This is checking and keeping records of the quantity of stocks in a warehouse. It involves physical counting and recording of all the stock in business operations.
   - ii) **Re-stocking**
     This is ordering new goods against the replenished ones.
   - iii) **Stock valuation**
     This is the process of determining the stock's current value in a given period. Stock may be valued at cost or market (selling) price

4.5. ESSENTIAL DOCUMENTS FOR WAREHOUSING AND INVENTORY MANAGEMENT

In inventory and warehouse management, various documents are used to ensure the smooth flow of goods, accurate record-keeping, and effective communication between departments and with external suppliers or customers. These documents are:

1. **Goods Received Note (GRN)**
   A Goods Received Note is a document prepared by the warehouse to acknowledge and confirm the receipt of goods from a supplier. It serves the purpose of verifying that the correct items and quantities were delivered in acceptable condition, and it is used to update inventory records, match with purchase orders, and authorize payment to the supplier.

2. **Bin Cards**
   Bin Cards are records, often kept at the physical storage location (bin or shelf), that track the quantities of a specific item as they are received and issued. Their main purpose is to provide real-time information on stock levels, helping warehouse personnel monitor movement and availability without referring to central inventory systems.

3. **Delivery Note**
   A Delivery Note is a document sent by a supplier along with goods, listing all items being delivered to the buyer. Its purpose is to provide a checklist for the recipient to verify that the items and quantities received match what was ordered, and it also serves as proof of delivery for both the sender and the receiver.

4. **Inventory Ledger (Stores Ledger)**
   An Inventory Ledger is a detailed record of stock movements including receipts, issues, and balances for each inventory item. It is used to maintain a complete and accurate account of inventory activities, supporting financial reporting, audit trails, and inventory control.

5. **Purchase Order (PO)**
   A Purchase Order is a formal document issued by a buyer to a supplier that specifies the goods or services required, along with quantities and agreed prices. It serves as an official request to supply items and acts as a binding agreement used for order tracking, goods receipt, and payment processing.

6. **Stock-Take Sheets**
   Stock-Take Sheets are used during physical inventory counts to manually record the actual quantities of items available in storage. Their purpose is to compare physical counts against recorded figures to identify discrepancies, detect losses or damages, and ensure inventory records are accurate.

7. **Stock Valuation Reports**
   Stock Valuation Reports provide a summary of the total value of inventory held at a particular point in time, based on unit costs and quantities. They are important for determining the financial worth of inventory, supporting accounting processes, and aiding in decision-making related to stock management and purchasing.

4.6. INVENTORY MANAGEMENT METHODS

The following are the main inventory managment methods

1. **Manual Inventory Management**
   Manual inventory management is the traditional method of tracking stock levels using physical records such as notebooks, spreadsheets, or printed forms. It involves manually recording inventory movements such as receipts, issues, and balances. This method is simple and low-cost, making it suitable for small businesses, but it can be time-consuming and prone to human error if not properly controlled.

2. **Periodic Inventory Management**
   Periodic inventory management involves checking and updating inventory records at specific intervals—such as weekly, monthly, or quarterly—rather than continuously. During each stock count, the physical inventory is measured and compared to the recorded balances. This method is easier to implement but does not provide real-time data, which may lead to stockouts or overstocking between counts.

3. **Perpetual Inventory Management**
   Perpetual inventory management is a method where inventory records are updated automatically and continuously with every transaction—such as purchases, sales, or stock transfers. It typically requires the use of inventory management software or systems like barcode scanners. This approach provides real-time stock information, enhances accuracy, and helps in timely decision-making, although it requires investment in technology and training. It is also called Modern Inventory System.

4. ABC Analysis

ABC analysis is an inventory control technique that categorizes inventory items into three groups—A, B, and C—based on their value and importance. '

- A' items are high-value with low frequency of sales,
- 'B' items are moderate in value and sales frequency, and
- 'C' items are low-value with high sales volume.

This method helps businesses prioritize resources and attention on the most valuable items to improve inventory efficiency and reduce holding costs.

5. Stock Turnover Ratio

Stock Turnover Rate, also known as Inventory Turnover Ratio, measures how many times a business sells and replaces its stock within a specific period (usually a year). A high turnover rate indicates efficient stock management and strong sales, while a low turnover rate may suggest overstocking or weak sales. It helps in evaluating how well inventory is being managed and how quickly products are moving.

Formula

$$\textbf{Stock Turnover Rate} = \frac{\textbf{Cost of Goods Sold (COGS)}}{\textbf{Average Stock}}$$

Where:

COGS = Opening Stock + Purchases – Closing Stock

$$\text{Average Stock} = \frac{\text{Opeing Stock + Closing Stock}}{2}$$

EXAMPLE

Doreen runs a small boutique. During the year, her records show the following:

Opening Stock = TZS 800,000
Purchases = TZS 2,000,000
Closing Stock = TZS 600,000

Required: Calculate the Stock turnover rate
Solution:

First, calculate COGS:

COGS = 800,000 + 2,000,000 − 600,000 = 2,200,000

Next, calculate Average Stock:

$$\text{Average Stock} = \frac{\text{Opeing Stock + Closing Stock}}{2}$$

$$\text{Average Stock} = \frac{800{,}000 + 600{,}000}{2}$$

Average Stock = 700,000

Now, calculate the Stock Turnover Rate:

$$\text{Stock Turnover Rate} = \frac{\text{Cost of Goods Sold (COGS)}}{\text{Average Stock}}$$

$$\text{Stock Turnover Rate} = \frac{2{,}200{,}000}{700{,}000}$$

$$\text{Stock Turnover Rate} \approx 3.14 \text{ times}$$

Interpretation: Doreen's stock turned over approximately 3.14 times during the year. This means she sold and replece her stock a little over three times, which may suggest healthy movement of goods depending on the industry standards.

4.6. INVENTORY DISCREPANCIES AND LOSS

Inventory discrepancies refer to differences between the recorded inventory (in the system or books) and the actual physical stock available. **Inventory loss** means stock has been reduced due to known or unknown reasons such as theft, damage, or errors.

COMMON CAUSES OF INVENTORY DISCREPANCIES AND LOSSES

Inventory discrepancies and losses can result in lost revenue, poor customer service, and difficulty in decision-making. Below are the most common causes of inventory discrepancies and losses:

1. **Theft or Pilferage**
   One of the leading causes of inventory loss is theft—either by employees (internal theft) or outsiders (external theft). Theft often goes unnoticed if proper checks, security systems, and accountability measures are not in place.
2. **Human or Clerical Errors**
   Inventory records are often affected by simple mistakes during recording, counting, or data entry. These errors may include miscounting stock during physical stocktaking, entering the wrong item quantity in a system, or forgetting to update stock after a sale or purchase.
3. **Damaged, Expired, or Obsolete Goods**
   Inventory may be lost due to damage during transportation, handling, or storage. In addition, items that expire (like food, medicine, or chemicals) or become outdated (like seasonal items or technology gadgets) may no longer be sellable or usable. If such losses are not properly recorded, they will create discrepancies in inventory records.
4. **Supplier Errors or Fraud**
   Sometimes the supplier delivers fewer goods than invoiced, but the receiving staff fails to verify the delivery against the purchase order. This results in overstatements in inventory records. In rare cases, unethical suppliers may intentionally short-deliver goods, hoping the discrepancy is not noticed.
5. **Unrecorded Transactions**
   If goods are issued for internal use, sold, returned, or transferred to another location but not recorded in the inventory system, discrepancies will occur. This is often due to negligence, lack of training, or poor communication between departments.
6. **System or Software Errors**
   Sometimes inventory management software may fail to update correctly due to technical issues, bugs, or incorrect configuration. If the system does not reflect real-time changes or loses data, it will lead to discrepancies. In some cases, improper use of the system by untrained staff can also contribute to errors.
7. **Improper Stock Handling or Storage**
   Poor handling of goods can lead to losses through breakage or spoilage. In some environments, items that are not stored in the right conditions (temperature, moisture, lighting, etc.) can degrade quickly. If damaged goods are not removed from the records, they inflate the apparent stock levels.

8. **Mislabeling or Misplacement of Items**
   Inventory errors also occur when items are placed in the wrong location or labeled incorrectly. This can make them difficult to find during physical counts or lead to incorrect sales entries.

HOW TO AVOID INVENTORY DISCREPANCIES AND LOSSES

There are several strategies and practices that organizations can implement to reduce the risk of inventory errors and losses. These are explained below:

1. **Conduct Regular Stocktaking (Inventory Audits)**
   Regular physical stock counts help identify discrepancies early. By comparing the actual inventory with the records, businesses can detect theft, data entry errors, or damaged goods that were not recorded.

2. **Use a Perpetual Inventory System**
   A perpetual inventory system continuously updates inventory records with every sale, purchase, or stock movement. This system reduces manual errors and allows real-time monitoring of stock. It is most effective when integrated with barcode scanning and point-of-sale (POS) systems.

3. **Improve Security and Restrict Access**
   Security measures such as surveillance cameras, secure storage rooms, and restricted access reduce the chances of theft and unauthorized handling of inventory. Only authorized staff should be allowed to handle or move stock.

4. **Train Employees on Inventory Procedures**
   Well-trained employees are less likely to make errors in inventory recording, handling, and storage. Training should include how to receive goods, record transactions, use inventory systems, and follow safety procedures.

5. **Establish Clear Inventory Procedures**
   Having standardized processes for receiving, issuing, and recording inventory reduces confusion and ensures consistency. Standard Operating Procedures (SOPs) help in assigning responsibility and maintaining accountability.

6. **Use Barcode or RFID Technology**
   Technology such as barcodes and Radio-Frequency Identification (RFID) tags allow automatic tracking of stock as it moves through the supply chain. Scanning items reduces human error and speeds up stocktaking.

7. **Invest in Inventory Management Software**
   Inventory management software helps automate inventory control. It can track stock levels, issue alerts for low inventory, generate reports, and even integrate with accounting and sales systems. This helps reduce human errors and enables data-driven decisions.

8. **Maintain Safety Stock and Set Reorder Levels**
   Safety stock is the extra inventory kept to avoid running out due to delays, unexpected demand, or errors. Setting reorder levels ensures that new orders are placed before stock runs too low.

9. **Perform Surprise Checks and Audits**
   Unannounced checks discourage theft and reveal issues that may not be noticed during scheduled stocktakes. These checks keep staff alert and accountable for proper inventory handling.

10. **Keep Records of Damaged, Expired, or Returned Goods**
    All stock losses due to damage, expiry, or customer returns must be properly recorded and adjusted in the inventory system. Ignoring these adjustments leads to inaccurate stock levels.

TOPIC 5: IDENTIFICATION OF BUSINESS OPPORTUNITIES

OUTLINE OF THE TOPIC

5.1. The concept of Business Opportunities
- ✓ **Meaning of business opportunities**
- ✓ **Importance of business opportunities**

5.2. Identifying business opportunities

5.3. Conducting Market Research
- ✓ **Steps of Conducting Market Research**
- ✓ **Market Research Tools**

5.1. THE CONCEPT OF BUSINESS OPPORTUNITY

A business opportunity is a favorable condition or situation that allows an individual or organization to create and offer goods or services to meet the needs and wants of customers, with the aim of earning profit. It usually arises when there is a gap between what people need and what is currently available in the market.

Business opportunities may result from:
- — New consumer demands
- — Changes in technology
- — Gaps in the market
- — Problems that need solutions
- — Legal or environmental changes

For example, in a town where there is no bakery, the increasing demand for fresh bread presents a business opportunity for someone to open a bakery.

IMPORTANCE OF IDENTIFYING BUSINESS OPPORTUNITIES

1. **Creating employment opportunities**
   Identifying and acting on business opportunities often leads to the creation of new businesses, which in turn creates jobs for others. This helps reduce unemployment, especially among the youth.

2. **Encouraging innovation and creativity**
   When identifying opportunities, entrepreneurs often come up with new and improved ways of doing things. This creativity can lead to unique business ideas or better products.

3. **Meeting customer needs**
   Identifying business opportunities allows entrepreneurs to understand and meet the specific needs of customers. By observing what people lack or desire, a business can offer products or services that directly solve their problems. e.

4. **Enhancing use of resources**
   Through proper opportunity identification, business owners can make better decisions on how to use their money, time, and labor. It prevents wastage and directs resources to areas with higher potential.

5. **Promoting economic growth**
   When more people identify and invest in business opportunities, they contribute to the economy through production, sales, and taxes. This leads to improved living standards and local development.

6. **Improving competitive advantage**
   Identifying opportunities before others gives a business the first-mover advantage. It allows entrepreneurs to attract customers early, build loyalty, and establish a strong market presence.

7. **Adapting to changing market trends**
   Business opportunity identification helps entrepreneurs stay alert to changes in consumer behavior, technology, or regulations, and adapt quickly. This ensures that their businesses remain relevant.

8. **Reducing business risk**
   A business built on a well-identified opportunity is more likely to succeed because it is based on real market demand. Entrepreneurs can avoid launching products or services that no one wants.

5.2. IDENTIFICATION OF BUSINESS OPPORTUNITIES

Identification of business opportunities is the process of discovering and analyzing potential areas where a business can be started or expanded successfully. It involves observing the market, understanding customer needs, and recognizing problems that can be solved through products or services.

STEPS OF IDENTIFYING BUSINESS OPPORTUNITIES

Identifying a business opportunity involves a systematic process that begins with self-awareness and extends to market analysis. The following are the key steps:

1. **Self-Assessment and Passion Identification**
   The process begins with identifying areas of interest, personal strengths, skills, and talents. Understanding what one enjoys and excels at helps in choosing a business idea that is motivating and manageable.

   How to conduct self-assessment and passion Identification

   i) **Identify Personal Interests and Hobbies.**
   Think about activities that are enjoyable and fulfilling. Hobbies such as cooking, drawing, or repairing items can reveal business ideas based on what one loves to do.

   ii) **Assess Skills and Talents.**
   Make a list of skills gained through education, training, or experience. These could include practical skills like sewing or digital skills like graphic design.

   iii) **Review Past Experiences.**
   Analyze previous work, school projects, or volunteer tasks to find what was done well and enjoyed. These experiences help reveal natural strengths.

   iv) **Evaluate Strengths and Weaknesses.**
   Honestly assess what tasks come easily and which ones are challenging. Choosing a business that matches one's strengths increases the chance of success.

   v) **Seek Feedback and Set Personal Goals.**
   Ask others for input on what one does best and think about future goals. A business idea should match both personal values and long-term ambitions.

2. **Environmental Observation**
   Careful observation of the surrounding environment helps to discover problems, gaps, or changes that create business opportunities. This includes studying local communities, technological trends, government policies, and customer behaviors.

3. **Market Research and Needs Analysis**
   This step involves collecting and analyzing information about the target market, customer preferences, existing competitors, and pricing. Market research helps to confirm whether a business idea has real demand. For example, before opening a food kiosk, research on customer eating habits and competitors in the area is essential.

4. **Idea Generation and Evaluation**
   Based on observed needs and research, several business ideas can be developed. These ideas are then evaluated to determine which one is most viable in terms of cost, resources, profitability, and market demand.

5. **Selection and Testing of the Business Opportunity**
   The final step is selecting the most promising idea and testing it on a small scale. Testing helps to gather customer feedback and make improvements before full-scale investment.

5.3. MARKET RESEARCH AND NEEDS ANALYSIS

Market research is the process of collecting, analyzing, and interpreting data about a market, including information about the target audience, competitors, and industry trends. It helps businesses understand customer needs, preferences, and behaviors, and guides decision-making to ensure products or services meet market demand.

Needs analysis, on the other hand, focuses specifically on identifying gaps or problems in the market that a business can address. It allows businesses to tailor their offerings to meet the specific demands of their customers, ensuring that the products or services provided are relevant and valuable.

HOW TO CONDUCT MARKET RESEARCH AND NEEDS ANALYSIS

1. **Define the Target Market**
   Identify the group of people the business will serve. This involves understanding key characteristics such as demographics (age, gender, income) and psychographics (values, interests). For example, a business selling organic skincare products might target health-conscious consumers in urban areas.

2. **Study Customer Needs and Preferences**
   Research what customers want or need through surveys, interviews, focus groups, or observation. Understand their challenges, desires, and the benefits they seek. For instance, if customers prefer fast delivery, a delivery service business should focus on quick and reliable shipping.

3. **Analyze Competitors**
   Study existing businesses that offer similar products or services. Look at their strengths, weaknesses, pricing strategies, and customer reviews. Understanding competitors helps identify market gaps and areas for improvement. For example, a new fitness center can learn from local gyms by offering unique classes or pricing.

4. **Identify Market Gaps**
   Identify areas where customer needs are not being fully met by current offerings. A market gap might involve a lack of quality, affordability, or convenience. For instance, if most local restaurants offer limited vegetarian options, starting a vegetarian restaurant could fill a gap.

5. **Draw Conclusions and Make Decisions**
   Based on research, analyze the findings and decide whether the business idea is feasible. Use insights to refine product offerings, pricing, and marketing strategies. For example, after discovering a demand for eco-friendly products, a company might shift its focus to sustainable goods to cater to this audience.

METHODS OF COLLECTING DATA IN MARKET RESEARCH

In order to carry out market research effectively, it is necessary to collect accurate and reliable data. Data collection can be done using two main types: primary data (collected directly from people) and secondary data (collected from existing sources).

Below are common methods used to collect market research data:

1. **Surveys and Questionnaires**
   A survey or questionnaire is a tool used to gather information by asking a series of questions. These questions are given to a sample of people who represent the target market. Surveys can be conducted face-to-face, over the phone, online, or through written forms. For example: A bakery owner in Arusha may distribute a short questionnaire to local residents to find out their favorite types of snacks.

2. **Interviews**
   An interview is a method of data collection that involves direct communication between the researcher and the respondent. It allows for more detailed responses than a questionnaire. Interviews can be conducted in person, via phone calls, or through video calls. For example: A student entrepreneur may interview local shopkeepers to understand which school supplies are in high demand.

3. **Focus Groups**
   A focus group is a small group of selected individuals who are brought together to discuss a product, service, or idea under the guidance of a moderator. Participants are encouraged to express their opinions, experiences, and suggestions. For example: A cosmetics seller in Dar es Salaam might organize a discussion group of young women to explore their opinions on various beauty products.

4. **Observation**
   Observation involves watching people's behavior in a natural setting without asking them questions. It helps in understanding how customers behave when making buying decisions. The researcher watches customer actions and records useful information such as buying patterns or product preferences. For instance, a student may observe which products are most frequently chosen by customers in a local shop.

5. **Experimentation or Test Marketing**
   Experimentation is the process of trying a product or service in a limited area or with a small group before launching it widely. It helps determine whether the product meets customer expectations. A product is introduced on a small scale, and the response from customers is observed. For example, a food vendor in Mbeya might sell a new snack at one location before expanding to more areas if the response is positive.

6. **Use of Existing Data (Secondary Data)**
   Secondary data refers to information that has already been collected and recorded by others. This method saves time and money, especially when reliable sources are available. Sources of secondary data includes government publications, research reports, newspapers, business journals, and internet sources. For instance a student may use a report from the Tanzania Bureau of Statistics (TBS) to understand population trends in their region before deciding what products to sell.