



New Secondary

Entrepreneurship

FOR RWANDAN SCHOOLS

Student's Book
S2

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Roles, benefits and challenges of an entrepreneur

Key unit competence: To be able to analyse the role, benefits and challenges of being an entrepreneur

Learning objectives		
Knowledge and understanding	Skills	Attitudes and values
At the end of this unit, you should be able to:		
<ul style="list-style-type: none">• Recognise the role of an entrepreneur in socio-economic development.• Describe the benefits and challenges of being an entrepreneur.• Identify the benefits and challenges of being an entrepreneur.	<ul style="list-style-type: none">• Assess the role of an entrepreneur in socio-economic development.• Analyse the benefits and challenges associated with being an entrepreneur.	<ul style="list-style-type: none">• Appreciate the role of an entrepreneur in socio-economic development.• Develop a positive attitude towards being an entrepreneur.• Start entrepreneurial activities in the community.



An entrepreneur selling her beautiful baskets (*uduseke*).

Welcome to Entrepreneurship in Senior 2! This year, you will build on the skills that you gained in Senior 1. This is where entrepreneurial **attitudes** and skills will help you make valuable choices for your future.

Review activity

Do you recall your entrepreneurship studies from Senior 1?

1. Explain the following concepts: Entrepreneurship, an entrepreneur, enterprising person and intrapreneur.
2. What are the characteristics of a good entrepreneur?
3. What is the role of the entrepreneur in entrepreneurship?

Introductory activity

When new businesses open, there are new job opportunities for many different people. As people gain new skills and earn more money, life changes for their families. They can afford to give their children a better education and live in a better home.



Figure 1.1 Entrepreneurs play an important role in the community.

Entrepreneurs have an interest in the future of their communities. They often play a role in keeping the environment clean, improving education or reducing crime.

There are still many poor people in Rwanda. Entrepreneurship can provide job opportunities and is therefore important for improving the future for many Rwandans.

Entrepreneurs fill an important role in their communities. Can you imagine what your community would be like without them?

1. Discuss the role of entrepreneurs in your community.
2. What goods or services do they produce?
3. What would happen if they were not there?

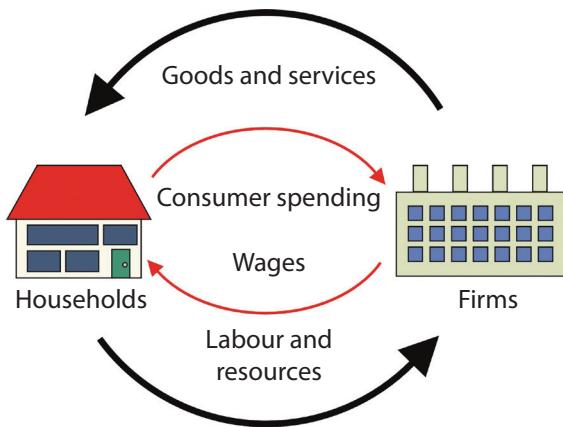


Figure 1.2 A circular flow model showing the relationship between businesses and households

Pre-learning activity

Look at Figure 1.2 and use it to answer the following questions. What is the relationship between households and firms?

1.1 Role of an entrepreneur in the socio-economic development

Entrepreneurs play a very important role in the success of a modern society. **Economists** use a model to show the role of entrepreneurs in society. The **circular flow model** shows the relationship between businesses and **households**. Households are people, like you and I, who buy goods and services. The inside path on the model shows that businesses provide goods and services to households. In turn, households provide labour and entrepreneurs. The outside path shows the flow of money. Businesses sell their products. Households receive wages for their labour.

Entrepreneurs play an important role in this model. Without entrepreneurs, there would be no businesses. Entrepreneurs are therefore vital for a healthy **socio-economic** development.

Exercise 1.1

1. What do entrepreneurs do?
2. Explain the difference between goods and services.
3. What are resources?
4. Refer to the model, what is the role of an entrepreneur?



Figure 1.3 Products that people use every day

1.2 Entrepreneurs and jobs

Entrepreneurs create jobs in their communities. These jobs can be for people who are hired to work in a business. The jobs can also be an **indirect** result of the business. A tour operator, for example, brings tourists to Rwanda. The tour operator hires a tour guide to show the tourists around Rwanda. During their visit, the tourists buy crafts and visit restaurants. These businesses need craftspeople, cooks and waiters, so tourists visiting Rwanda create many indirect jobs.

In Rwanda, entrepreneurs also participate in different government communal activities like Umuganda, Mituelle de santé (Mutual Health Insurance).



Figure 1.4 Jeannette Ishimwe guides tourists in the Virunga Mountains. Tourism creates many direct and indirect jobs.

Case study 1.1

Read the case study and answer the questions that follow.

Entrepreneurs for a better tomorrow

Studies at University of Rwanda identified entrepreneurship as key to improving employment opportunities. The university now offers classes in entrepreneurship. The classes teach skills such as managing relationships, **negotiation** and **contracting**. Students come from many different backgrounds, from social work to sports science and law. The university's **strategy** is to give students skills that can help them develop business ideas related to their fields of study.

The new businesses can, in turn, provide jobs to many skilled Rwandans.

The government also urges students to be **innovative** and create their own jobs. Musanze Institute of Higher Education (INES) educates engineers. The school opened an incubation centre. When a bird incubates its eggs, it keeps them at favourable conditions so that they can hatch. An incubation centre is similar. It assists graduates with developing their entrepreneurial ideas. They also assist graduates to apply for funding from the banks.

Questions

- At an entrepreneurship centre, students receive help with researching the market, looking for funds and finding mentors. Explain how students can combine these skills with their field of study to create new jobs.
- At the University of Rwanda, new entrepreneurs are asked to bring five students along to learn with them. Explain how this strategy helps to develop new entrepreneurs.
- Prepare a presentation where you assess the role of an entrepreneur in the socio-economic environment of Rwanda.



Figure 1.5 University of Rwanda College of Business and Economics (CBE)

Case study 1.2

Read the case study and answer the questions that follow.

Azeda finds hope in Rwandan theatre

Hope Azeda is the founder and artistic director of Mashirika Theatre Company in Kigali. She has a passion for the performing arts.

Azeda feels that art creates a space where people can talk about issues. Her first play was inspired by the 1994 **genocide** and by the **social makeup** of Rwanda. It tells the story of an old man who used three stones to cook a meal. A stone on its own cannot support the pot, so to avoid spilling the meal, the pot needed the support of all three stones.

Through Mashirika Theatre, Azeda has produced and directed powerful plays covering topics from sexism to HIV/Aids awareness. Her biggest challenge came when she was asked to produce a play for the **commemoration** of the 1994 genocide. The play, Africa's Hope, saw the genocide through the eyes of a child. It was a huge success and brought out many emotions in the audience. The play toured Europe and the United States.

Source: <http://allafrica.com/stories/201405010383.html>

Questions

1. Is Azeda an entrepreneur? Explain your answer.
2. Does the theatre provide a good or service?
3. Explain which employment opportunities are offered by the theatre.
4. Azeda is passionate about the emotional power of theatre. How does Mashirika Theatre Company aim to change the future of Rwanda?
5. Which role can entrepreneurs play in ensuring that genocide does not happen again?



Figure 1.6 Theatres give opportunities to performing artists.

1.3 Summary of the roles of the entrepreneur

Entrepreneurs find solutions to problems or new ideas for products and services to develop enterprises. The Enterprises provide goods and services to households. In turn, households provide labour. Entrepreneurs therefore have an important role in social economic development.

Entrepreneurs also participate in government communal activities such as Umuganda and contribute to Mutual Health Insurance (Mituelle de sante).

1.4 Entrepreneurs and socio-economic development

Entrepreneurs contribute to socio-economic development by providing jobs and growing the economy in a community. When an entrepreneur develops a business from a new idea, they ensure that Rwanda's economy is growing. Businesses pay taxes to the government. These taxes are used to provide a better life for all Rwandans as the government builds roads and schools. Entrepreneurs therefore have a very important role in the socio-economic development in a country.

Activity 1.1

In S1 you learnt the roles of an entrepreneur. Identify who the entrepreneurs are in your community. Describe their roles in the socio-economic development of your area.

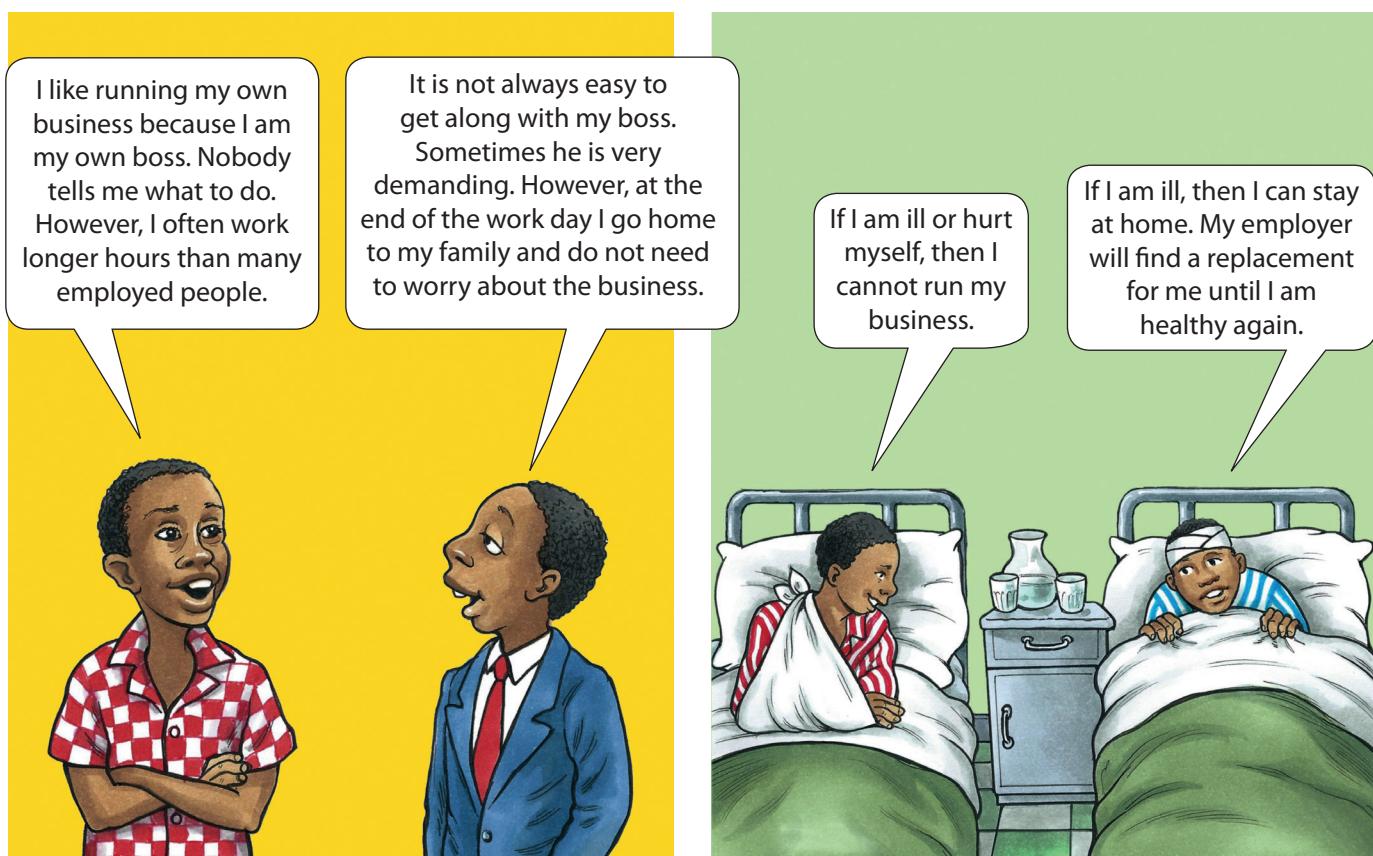
Activity 1.2

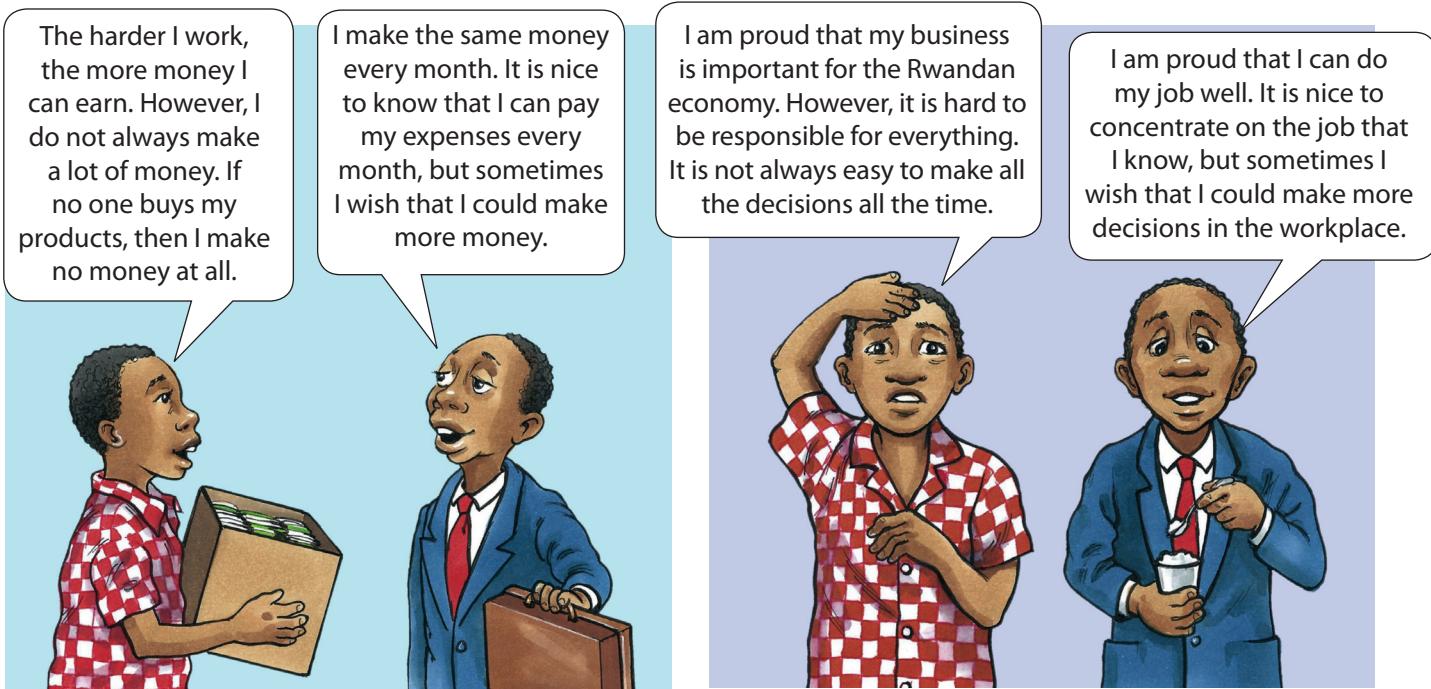
Read through the stories in the four cartoons on page 7 and 8.

1. Describe the benefits of being an entrepreneur in each cartoon.
2. Describe the challenges of being an entrepreneur in each cartoon.
3. Create your own cartoon. Show the other benefits of being an entrepreneur.

Cross-cutting issue

Genocide studies:
The 1994 genocide had devastating effects on our country. Entrepreneurs have an important role in healing and developing our communities.





1.5 Benefits and challenges of being an entrepreneur

An entrepreneur is a person who starts a new business. The entrepreneur aims to make a profit and grow the business. The entrepreneur is also responsible for the risks involved with running the business.

1.5.1 Benefits of being an entrepreneur

Many entrepreneurs are successful people. They make a difference in their communities by employing people and growing their businesses. They also help support and grow the economy.

Some of the benefits of being an entrepreneur include:

- increased income – the more work you put into your business, the more money you receive
- **self-reliance** – relies on one's own judgement and capabilities
- independent decision making – making a sound/decision on your own
- improved status – improved social or professional standing.

Successful entrepreneurs make a good living. They can earn more money than an employee in a business. This means that they can buy a better home, provide better education for their children and have more savings for retirement.

An entrepreneur makes their own decisions. As the entrepreneur grows the business, they gain a **reputation** as a successful business person. The improved status of being a successful entrepreneur also increases your self-esteem.

1.5.2 Challenges of being an entrepreneur

Entrepreneurs often work very hard to become successful. Sometimes, even though they work hard, their new business can fail.

Some of the challenges of being an entrepreneur include:

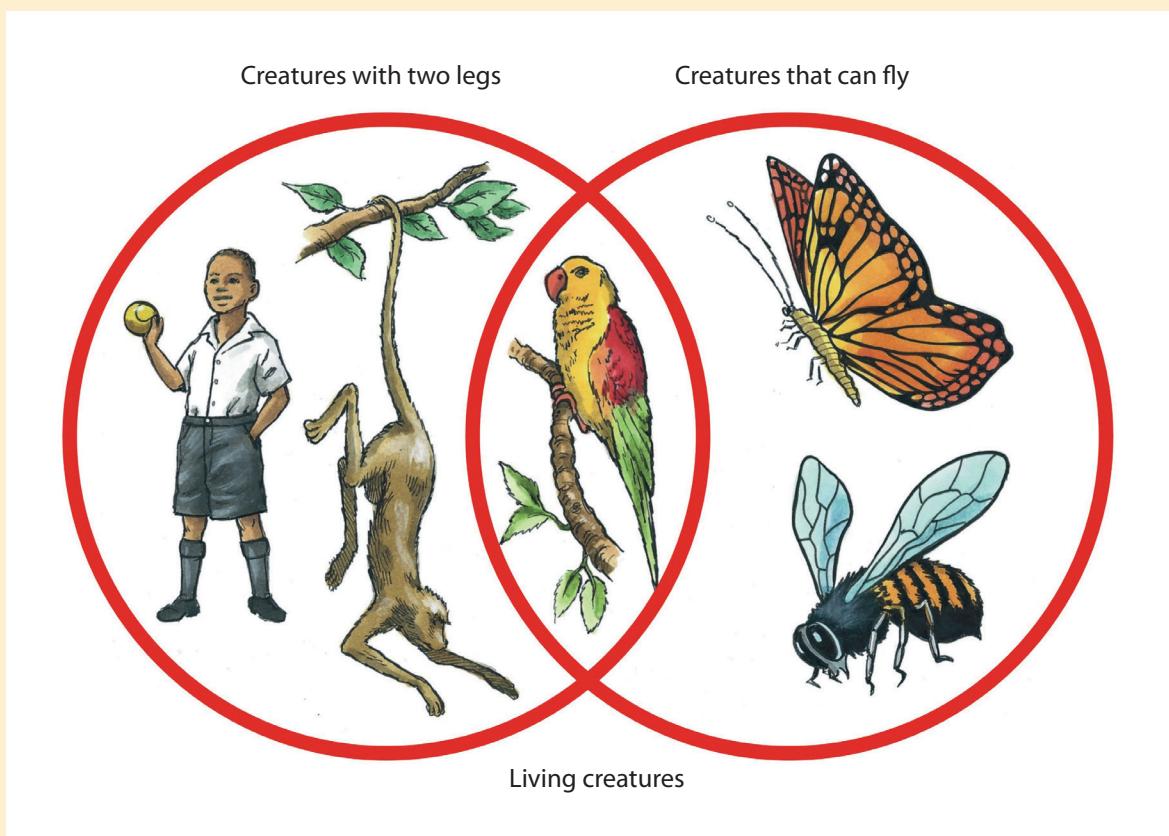
- long and **irregular** working-hours when you work outside normal daytime hours on weekdays
- high risk –high level of uncertainty or danger
- uncertain income – you are unable to predict your future business profits
- no **fringe benefits** – benefits like pension, leave pay and medical insurance.

Exercise 1.2

Compare the risks and benefits of entrepreneurs and employees

A Venn diagram shows the relationship between two different groups of things. This diagram is useful when you want to contrast and compare items.

To create a Venn diagram, draw two overlapping circles.



Let us say that you want to compare living creatures. Add creatures with two legs in the one circle and creatures that can fly in the other. Some creatures have two legs and can fly (for example, birds). Add these in the overlap.

1. Use a Venn diagram to compare challenges faced by entrepreneurs and employees. Add the challenges of entrepreneurs to one circle and the challenges of employees to the other. Write common challenges in the overlap.
2. Draw a second Venn diagram to compare the benefits of entrepreneurs and employees.
3. Present your findings to the class.

Activity 1.3

1. Arrange an interview with a local entrepreneur. Discuss how he or she overcomes challenges faced by the business. Ask what his or her future plans and goals are.
2. Prepare a presentation to your class about your chosen entrepreneur.
3. Invite the entrepreneur to the presentation and remember to say thank you after the presentation.

Case study 1.3

Read the case study and answer the questions that follow.

We hear you. Hear us too.

Kigali Global Shapers (KGS) hub, a group that works with young Rwandan entrepreneurs, presents ‘Twumve-Twumve’ entrepreneurship evenings. Loosely translated, the event means ‘We hear you. Hear us too.’ The events aim to find solutions for problems faced by Rwandan business people, such as the high **failure rate** of start-up businesses.

Questions

1. What is the aim of the Twumve-Twumve entrepreneurship evenings?
2. Copy and complete the table. Describe the risks and benefits of being an entrepreneur.

Benefits and challenges of an entrepreneur	Risk	Benefits
Financial		
Professional		
Personal		



Exercise 1.3

Your community 'before and after'

Many fashion magazines invite people to apply for a makeover. In a makeover, stylists and makeup artists use their skills and knowledge to transform a person. The 'new look' often includes new fashionable clothes, makeup and a new hairstyle. The article will include a 'before' and 'after' picture to show the difference that the makeover made.

1. Look around in your community. How can you give it a makeover?
2. Identify entrepreneurial activities that you can start in your community.
3. Describe the impact that your entrepreneurial activities will have on yourself and your community.
4. Draw a picture that shows the 'before' and 'after' of your community makeover.

Unit summary

The role of an entrepreneur

- Entrepreneurs create jobs within their communities.
- Jobs can be direct where an entrepreneur employs a person or indirect where the entrepreneur's business brings customers to a community and this will in turn create other jobs.
- The main aim of an entrepreneur is to create a business and then to make a profit.
- Households provide their labour to businesses.
- Entrepreneurs play an important role in the economy.

The benefits and challenges of being an entrepreneur

- The benefits of being an entrepreneur include self-reliance, increased income, independent decision making, and improved status.
- The challenges of an entrepreneur include long and irregular working hours, uncertainty of income, no fringe benefits and high risks.
- Households give their labour to businesses.
- Businesses provide services and products to households.

Self-assessment

Read the article and answer the questions that follow.

A passion for art translates into positive change

Haute Baso is a Rwandan success story. The business is one of the youngest companies chosen to exhibit its handmade items at the annual meeting of the African Development Bank.

The two young founders, Linda Mukangoga and Candy Basomingera, believe that it is Rwanda's unique designs that are the strength of their company. Haute Baso works with locally trained artisans at cooperatives. Here they produce handmade items using raw materials sourced from within Africa.

Design businesses in Rwanda face many different problems. Two such problems are finding reliable tailors and sourcing raw materials. When the founders met to discuss solutions they realised that 'two heads are better than one'. The result was a successful partnership that allows both women to realise their dreams.

Source: <http://haiafrika.com/haute-baso-two-heads-better-one/>



Figure 1.7 Bright fabric at a market

1. Describe how the two entrepreneurs addressed challenges faced by the business.
2. What are the benefits of starting Haute Baso for the two entrepreneurs?
3. Haute Baso employs many female artisans. Research has shown that women spend most of their income on their children's education, health and nutrition. Explain how employing women can make a long-term positive change to Rwanda.
4. Haute Baso was featured in the *East African Weekly* for their participation in the biannual Kigali Pop Up. How do you think that an invitation to exhibit and feature in a magazine affects the status of entrepreneurs in their community?
5. What are the likely challenges faced by Haute Baso?

Cross-cutting issue

Gender:

Men and women play an equally important role in the socio-economic development of a society.

Key unit competence: To be able to create SMART goals and plan to achieve them

Learning objectives		
Knowledge and understanding	Skills	Attitudes and values
At the end of this unit, you should be able to:		
<ul style="list-style-type: none">Explain the meaning of goal setting and SMART goals.Identify ways of achieving SMART goals.Distinguish between short-term and long-term goals.	<ul style="list-style-type: none">Classify goals into short-term and long-term goals.Set SMART goals.Take steps to achieving set goals.	<ul style="list-style-type: none">Appreciate the need for setting SMART goals.Set personal goals in life and strategies to achieve them.

Review activity

Reflecting on unit 2 in Senior 1, discuss the following questions.

1. What personal qualities do you have?
2. How could your personal qualities help you become an entrepreneur?

Introductory activity

Imagine that you are dreaming of standing at the top of Mount Karisimbi, Rwanda's highest mountain. Do you think that this dream could become a reality one day? How should you go about achieving this dream?

Answer the following with the class.

1. What is a goal?
2. What does it mean to set a goal?
3. Why are goals important?



Figure 2.1 We all want to reach our personal goals.

2.1 Setting goals

You have goals and dreams of things that you would like to do, places that you would like to visit and jobs that you would like to do.

- What qualities do you think help you to achieve your goals?
- Which person, or persons, can assist you to reach your goals?

Exercise 2.1

Compare your own growth and development to that of a tree.

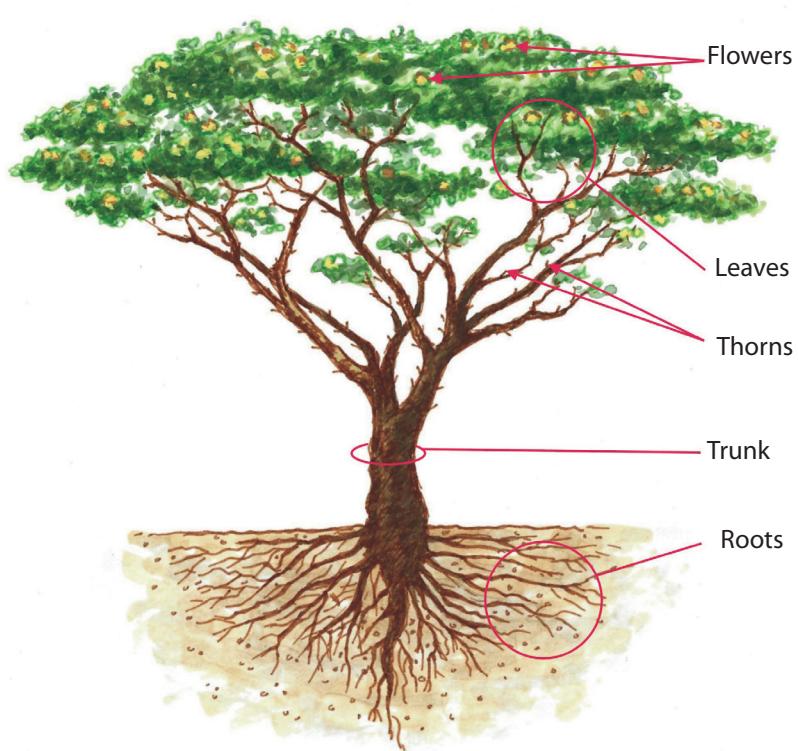
A tree needs roots, a trunk, major branches, leaves, flowers and thorns. Draw the tree in the image below. Compare each part of the tree to values, people and places that help with your growth and development.

Cross-cutting issue

Inclusive education:
With the correct support, we can all reach our full potential.

Remember

An analogy is a comparison between two things that have something in common. For example 'the girl was as pretty as a flower' or 'the night was as dark as coal.'



Prepare and present a poster to the class. Include the following in your presentation:

1. Explain how you can relate the growth and development of a person to the different parts of the tree.
2. Which people and places give you strength like the trunk of a tree?
3. Which people or places give you protection like the thorns?
4. How can you use this **analogy** to work towards your goals?

2.2 SMART goals

Sometimes a goal feels like it is just a dream. You may wish to do something one day, but it never seems to happen.

A useful tool for setting goals that you can reach is a SMART goal. When we set a SMART goal, we can direct our actions into achieving the goal.

Activity 2.1

1. Can all goals be achieved? Explain your answer.
2. What do you think the acronym SMART means.

How to create SMART goals

Follow the guidelines to ensure that your goal is SMART.



To make a goal specific, answer the six 'W' questions:

- What do I want to do?
- Why do I want to reach this goal?
- Who is involved?
- Where is the location?
- When will I finish what I want to do?
- What do I need to overcome?



It is easy to know if you are on track if your goal can be measured. To make a goal measurable, you need to ask questions such as:

- How much?
- How many?
- How will I know that my goal has been achieved?



An achievable goal is a goal that is realistic and can be reached. Set goals that are important to you and then work on the skills, abilities and attitudes that you need to reach your goal.



A realistic goal is a goal that matters to you. You must be both able and willing to work towards your goal.



A goal must have a timeframe with a target date. When a goal is timebound, then you avoid using the words 'one day' or 'some day'.

Activity 2.2

1. Study the table below and make the goals SMART.

Not specific	Specific
I want to get good grades.	
Not measurable	Measurable
I want to score lots of goals in soccer.	
Not achievable	Achievable
I want to have a million francs in my bank account.	
Not realistic	Realistic
I want to play professional soccer.	
Not timebound	Timebound
I want to learn to play the piano.	

Exercise 2.2

Study the cartoon. Then answer the questions that follow.



1. Does the entrepreneur have a SMART goal?

2. Fill in the goal in the table.

Specific	
Measurable	
Achievable	
Realistic	
Timebound	

3. Translate the goals in the table below into SMART goals.

Goal	SMART goal
I want to climb a mountain.	
I want to save to buy a bicycle.	
I want to increase my sales of ice cream.	
I want to be fit.	

4. Write your own personal SMART goals.

Pre-learning activity

- From your own life, give an example of a:
 - goal that you have achieved in a short period of time
 - goal that you achieved over a long period of time.
- What do you call these two types of goals?

2.3 Long-term and short-term goals

Some goals take a long time to reach. For example, completing an education or starting a new business.

2.3.1 Long-term goals and milestones

When long-term goals are far in the future you should set milestones. A milestone marks the completion of an event. For example, completing Entrepreneurship Senior 2 is a milestone towards completing your education.

You should always celebrate reaching a milestone.

2.3.2 Short-term goals

A short-term goal is a goal that you can reach within a short time. Often short-term goals can lead to long-term goals. For example, selling your first product is a short-term goal towards the long-term goal of being a business owner.

You can compare short-term goals to low-hanging fruit. When the fruit on a tree ripens, it is easy to pick the fruit at the bottom. By picking the low-hanging fruit, you will not harvest all the fruit on the tree. However, it is a good step on the way.



Figure 2.2 Reaching a short-term goal can be like picking the low-hanging fruit on a tree.

Pre-learning activity

Choose one goal from the previous activity.

1. Show the steps you will take to achieve this goal.
2. Why is it important to make these plans?

2.3.3 Action plan

An action plan is a useful tool that can help you to reach your goal.

A plan helps you determine:

- what needs to be done
- when the tasks must be done
- who will do the tasks
- when the tasks need to be done by.

Remember

A task is an action that you can describe with a verb.

How to draw up an action plan

Step 1

Create a list of the tasks that need to be done. Start each task with a verb (doing word) because a task is something that you can do.

Step 2

Break down the tasks into short-term and long-term actions. To identify short-term actions, ask yourself 'What can I do right now that will bring me closer to my goal?'

Step 3

Write a to-do list of actions and include guidelines (describe how to do each task).

Step 4

Create a timeline for your actions and include milestones.

Learning activity 1

Design an action plan for the goals set on the previous page.

Learning activity 2

Create a timeline for the action plan created above.

2.4 Creating a timeline

A timeline is a tool that shows the progress of a task. It shows how much time a project will take and how each task fits into the overall project. The most common type of timeline is the bar chart or Gantt chart. The chart shows the activities that need to be done. The chart also shows the start and finish date of each activity. It shows how the activities relate to each other. For example, if you build a house, you cannot fit the roof before you build the walls.

How to create a timeline

Step 1

Draw a graph where the X-axis (horizontal line) represents the time period for your project. You can use days, weeks or months as the time units.

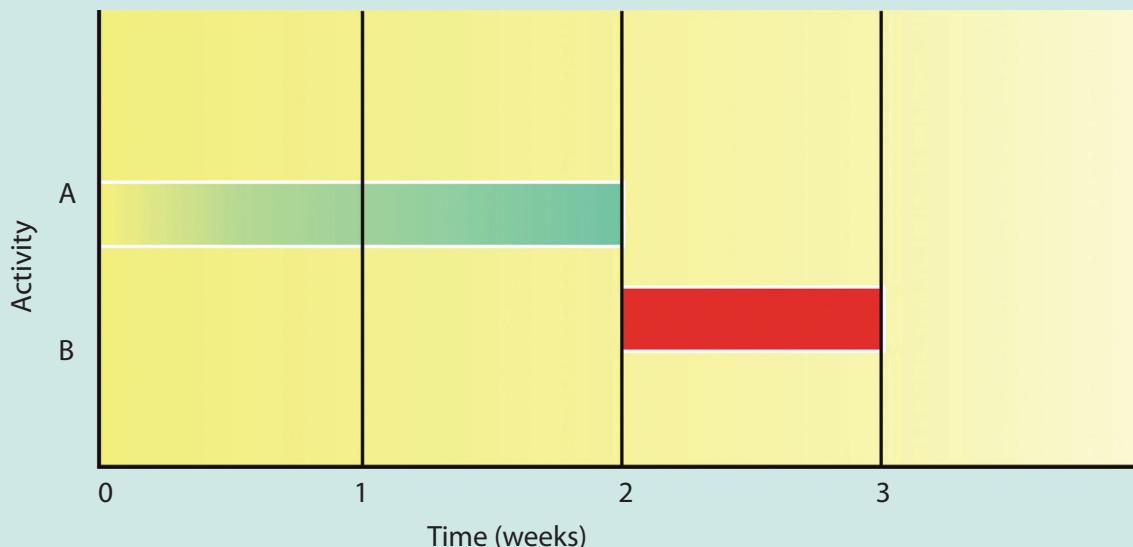
The Y-axis (vertical line) represents activities or tasks. The activities can be practical such as designing, constructing or installing. They can also include periods where there are no tasks, such as holidays or waiting for approval for your plans. Waiting time also influences how long it will take you to complete the project.

Step 2

Add tasks to your graph. If the first task (A) will take two weeks, then fill in a bar across two weeks on the X-axis. The next task (B) will take one week and can only start when task A is complete.

Did you know?

H.L. Gantt was an American engineer. He used his charts on important projects like the Hoover Dam. This dam was constructed during the Great Depression in the 1930s to help reduce unemployment.



Step 3

Identify start and end points for your project. Write the date that you can start the project. When you have added all the tasks, you can also see the date when your project will be complete.

Resources

To reach your goals you also need resources. These can be:

- money
- materials
- people.

The resources must also be included in an action plan.

Learning activity 3

Identify the resources needed to achieve the goal set on page 18.

Cross-cutting issue

Peace and values education:

Celebrating Umuganura is a great way to promote Rwandan cultural values that we can use to build, unite and reconcile Rwanda as a nation.



Figure 2.3 An Umuganura festival celebrates the harvest.

Activity 2.3

Your class has been appointed as festival coordinators for the annual Umuganura celebrations. Every year the harvest is celebrated as a day to give thanks. The event occurs on the first day of August. This year, you have been asked to plan a festival with decorated trucks and musical processions. You are given the following list of responsibilities:

- Create a route for the procession through your community.
- Ask the cell council for permission if you need to close roads.
- Arrange a theme for your truck to celebrate the harvest and the importance of agriculture for Rwanda.
- Arrange bands and musicians and other forms of entertainment.
- Allocate spaces for stalls that offer food and drinks.
- Advertise the event to attract as many visitors as possible.

To plan the festival you need to:

- Draw up an action plan where you identify the tasks and resources needed.
- Develop a timeline that shows start and end points.

Discuss the following:

1. What are the obstacles (things in the way) that you need to overcome to plan the festival?
2. Which skills do you need to run the festival?
3. Which opportunities do this festival give your community?

Make suggestions for SMART goals that the farmer can set to reach his goals of growing his farm.



Case study 2.1

Read the case study. Then answer the questions that follow.

The future is bright for Haguminshuti's chicken empire

Dieudonne Haguminshuti discovered farming opportunities in 2003, while working on a project in Kanombe. Here he developed poultry farming projects for people living with HIV. The work gave him an idea to start a business in agriculture. However, it would take him several years to make his dream a reality.

After learning about poultry farming in the United States, Dieudonne Haguminshuti returned to Rwanda. His first application for a bank loan was rejected. He did not have **collateral** (property or other wealth) for the loan. Dieudonne also faced other difficulties such as an irregular supply of birds. He also had problems with the quality of the birds. However, he did not give up on his dream.

He continued applying for funds and eventually the Rwanda Development Bank agreed to fund the project. There were many conditions for the loan. Dieudonne had to invest all his savings to get the project going.

Today, he runs a successful poultry farm in the Bugesera district in the Eastern Province. The farm contains four chicken houses that each house 25 000 birds. Haguminshuti's customers include supermarkets such as Nakumatt and Simba.

Dieudonne is an **ambitious** business man and he has further plans (goals) for his chicken empire. He is currently looking for investors who can assist him with his plans to increase production. He estimates that he can increase meat production to 70 000 kilograms in nine months. Then he will spend the next six months increasing production at the chicken hatchery from 60 000 to 300 000 chicks per week.

Sources: www.newtimes.co.rw/section/article/2014-10-12/181864/ and www.cndpoultryfarm.blogspot.co.za/2013/07/c-n-d-ltd-poultry-form.html

Questions

1. What was the goal that Dieudonne Haguminshuti had in 2003?
2. Describe some of the obstacles that he had to overcome to reach his goal.
3. The chicken business is still growing. List his goals for growth as SMART goals.
4. Create a timeline to assist Haguminshuti with planning.

Unit summary

The concept of a SMART goal

- The **SMART** tool will help you to reach and attain your goals.
- Goals must be: Specific, Measureable, Achievable, Relevant, Timebound.

Achieving SMART goals

- An action plan is a tool that you can use to break up a large goal into smaller actions.
- The action plan uses the four Ws (What, When, Who and Whenever) to reach the goal.
- A timeline is a tool that shows the chronological progress of a task.
- It has a start date, end date, all the activities that must be completed and how activities relate to one another.
- To reach a goal, you need to allocate the correct resources.

Setting long and short term goals

- Goals can be long-term or short-term, depending on how long it will take to achieve.

Self-assessment

Traffic congestion in Kigali during rush hour is not as severe as in other East African capitals. However, an increase in private vehicles has seen an increase in traffic jams during recent years. Improving public transport is key to reducing traffic jams. In addition, public transport is better for the environment.

Kigali City Council has approached you to help them develop a solution. They need you to do the following:

1. Develop SMART goals for reducing traffic jams in Kigali.
2. Draw up an action plan with short-term and long-term goals.
3. Write a timeline for the tasks that you need to complete.



Key unit competence: To be able to evaluate the role of work in socio-economic development

Learning objectives		
Knowledge and understanding	Skills	Attitudes and values
At the end of this unit, you should be able to:		
<ul style="list-style-type: none"> Identify the various activities done in the community. Explain the types of work done in the community. Give examples of activities that hinder socio-economic development. 	<ul style="list-style-type: none"> Analyse the different activities according to the types of work. Assess the contribution of work to socio-economic development. Describe activities that hinder socio-economic development. 	<ul style="list-style-type: none"> Take part in work that contributes to socio-economic development. Show concern about activities that hinder socio-economic development.

Review activity

Do you recall learning about work in Senior 1?

Discuss the following:

1. What is work?
2. Describe the type of work that people do in your community.
3. Discuss myth and beliefs about work that exist in your community.
4. How does work ensure human dignity?

Introductory activity

Let us investigate your lunch. Discuss the following:

1. What work did it take to produce your lunch?
2. How many different jobs are involved in making baked cake or amandazi?
3. How are these jobs related to each other?



Figure 3.1 It takes many different types of work to make the products and services that we need every day.

Pre-learning activity 1

Describe how an entrepreneur can stimulate economic development and create jobs.

Pre-learning activity 2

List five jobs that people do in the following fields:

1. agriculture
2. manufacturing
3. trading
4. service provision

3.1 Socio-economic development and work

Socio-economic development means the social welfare and economy of a society develops. The type of work that we do influences how our societies develop. We can classify work as agriculture, manufacture, trade and service provision.

3.1.1 Agriculture

Agriculture is an important part of Rwanda's economy. Farmers grow and sell **cash crops** such as pyrethrum, tea and coffee. Many farmers work with cooperatives that sell their products for export. Other important crops include bananas, beans, maize and sweet potatoes. Farmers also raise **livestock**. On the shores of Lake Kivu, fishermen earn a living by catching tilapia or the tiny sardine (*isambaza*).



Figure 3.2 Tea plantations provide employment for many people.

Case study 3.1

Read the case study and answer the questions that follow.

Farming coffee in Rwanda

The first cup of coffee was brewed in the Arabian peninsula as early as the 10th century. This popular bean found its way to Europe in the 16th century and since then its popularity has risen all around the world. Today, people around the world drink more than 2 billion cups of coffee per day!

Rwanda has an ideal climate for growing excellent coffee beans. Farmers grow and harvest beans for export. Many beans are rated 'speciality' and some even win international awards.

Cooperatives have recently set up washing stations where farmers can wash and dry the beans. These washing stations have created many new jobs.

Cross-cutting issue

Environment and sustainability:

We are responsible for ensuring that our economic activities are sustainable and environmentally friendly.

Questions

1. Farming is an important economic activity in Rwanda. List three different farming jobs.
2. Why do you think farmers want to grow beans that win awards?
3. How do washing stations provide new job opportunities?



Figure 3.4 Coffee beans

3.1.2 Manufacture

To manufacture means to make something on a large scale using machinery. When we manufacture, we therefore transform **raw materials** into goods. For example, we use steel to make cars, timber to make furniture or textiles to make clothes. Workers in this sector include for example, carpenters, builders and dressmakers.

Rwanda's manufacturing sector

Manufacture in Rwanda includes making agricultural products, beer, furniture, textiles and farming tools. Many small businesses make crafts from metals, wood and fabric.

3.1.3 Trading

Trading means buying and selling goods and services. Shopkeepers and sales assistants work in this sector. Trading can be wholesale (selling in large quantities from a manufacturer to a shop). It can be retail (selling products from shops to customers). It can also be online (selling products through websites on the Internet).

3.1.4 Service provision

We can import products from other countries and sell these in Rwanda. We can also sell products made in Rwanda to other countries. This is called export.

Service provision means selling services such as transport, banking, teaching, repairs and health care to customers or other businesses. **Accountants**, mechanics, computer service technicians and tour guides work in this sector.



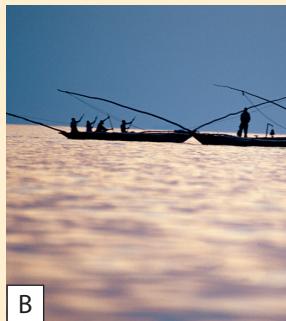
Figure 3.4 Making crafts is part of the manufacturing sector.

Exercise 3.1

Look at the pictures in Figure 3.5. What type of work do these pictures represent?



A Baby sitter



B Fisherman



C Bookkeeper



D Craftsperson



E Plumber

Figure 3.5 Different kinds of jobs

Learning activity

Give an example of the relationship between different types of work.

3.1.5 The relationship between the different types of work

In many cases, the types of work we do is **interdependent**. This means that they depend on each other.

The raw materials that are produced in agriculture are used in the manufacturing to make goods. Traders sells the goods and service providers support all sectors.

Exercise 3.2

Classify the different activities shown in Figure 3.6 that it takes to make a loaf of bread according to the type of work.



Figure 3.6 Bread in the shop involves work in the agriculture, manufacturing and service sectors.

Activity 3.1

Research and identify the different types of work done in your community.

Prepare a presentation where you classify the work as agriculture, manufacture, trading or service businesses.

3.2 How work contributes to socio-economic development

Work in the different sectors contributes to socio-economic development in many different ways. The following activity and case studies illustrate examples of how different types of work creates jobs and develops society.

Activity 3.2

A farmer that harvests coffee beans provides many different employment opportunities. The coffee beans are transported from the farm. Next they are roasted, dried and packaged. Ground beans are sold in shops and served in restaurants.

1. Identify the different jobs involved in getting a coffee bean from the farm to the end consumer.
2. Explain how coffee farms improve the standard of living for many different people in Rwanda.
3. How does coffee farming contribute to the socio-economic development of Rwanda?



Figure 3.7 A simple coffee bean can create many jobs.

Case study 3.2

Read the case study and answer the questions that follow.

A thousand grey hills of granite

The discovery of natural granite changed the life of a little village in Nyagatare district in the Eastern Province. Today, East African Granite Industries operates a modern granite-processing factory in the region. This provides work for many local people. The products include granite tops for kitchen tables, tiles for walls and floors, and cobble stones for road production. The granite mined, called 'a thousand grey hills', is very hardy. It is polished to make it into a very desirable stone for both the local and the export market. It is sold through the company's sales department in a showroom in Kigali.

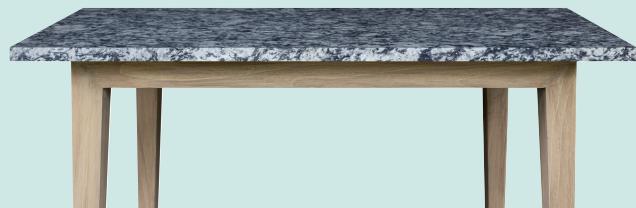


Figure 3.8 Manufacturing companies turn raw materials into finished goods.

Questions

1. Explain how East African Granite Industries changed the life of the village.
2. What type of work does the company do in Nyagatare district?
3. What type of work does the company do in Kigali?
4. East African Granite Industries also invest in a power line, road network and water treatment plant. Explain the benefits of this investment to the company and to the community in the Nyagatare district.

Case study 3.3

Read the case study and answer the questions that follow.

A passion for entertainment in Rubavu

Gisenyi Acrobats is a professional acrobat group from Rubavu district. The young people involved in the group all have a love for the performing arts. The artists perform in Rwanda and abroad. They also run youth programmes for children who are vulnerable (at risk of abuse or neglect). Acrobatics is used as a tool to teach trust and how to overcome fears.

Questions

1. Describe the work that Gisenyi Acrobats do.
2. Do you think that Gisenyi Acrobats is in the service industry?
3. How could teaching vulnerable children performing arts create trust and overcome fear?
4. The artists perform abroad. Does this mean that Gisenyi Acrobats export their services? Explain your answer.



Figure 3.9 A human pyramid

Activity 3.3

Take part in work that contributes to socio-economic development. Then prepare a presentation to show how the work that you took part in contributes to the life of the person doing it and also to those around him or her.

Activity 3.4

Discuss the following questions:

- Does work contribute to an increased standard of living for all Rwandans?
- Does socio-economic development always create employment opportunities?

3.3 Activities that hinder socio-economic development

Not all activities benefit socio-economic development. Some activities harm or prevent development.

3.3.1 Poor construction of infrastructure

Infrastructure are structures and facilities such as schools, hospitals, internet facilities and airports. We need infrastructure to transport goods, to communicate with each other and for our society to function properly. When infrastructure is constructed poorly, socio-economic development is therefore prevented. For example, we can only drive slowly on poorly constructed roads. Schools that do not have the correct facilities are not useful for learning and if we do not have telephone lines of Internet access then it is hard to communicate with others.

3.3.2 Over-exploitation of natural sources

Natural resources are things in nature that we use, such as wood, land and water. We use many natural resources every day.

There are two types of natural resources, namely renewable and non-renewable. A non-renewable resource, for example coal, does not grow or come back.

Renewable resources, such as trees, grow and come back. However, if we cut down too many trees, we can also use up (deplete) a renewable resource.

When we **overexploit** our natural resources, they may run out in the future. An example of exploiting resources is **overfishing**. If fishermen catch too many fish in Lake Kivu, then there are not enough adult fish left to breed. The next generation of fish will be smaller. If we continue to fish, then we will soon deplete all the fish.

When you want to assess if you are using a resource responsibly, ask yourself 'can I do this forever?'

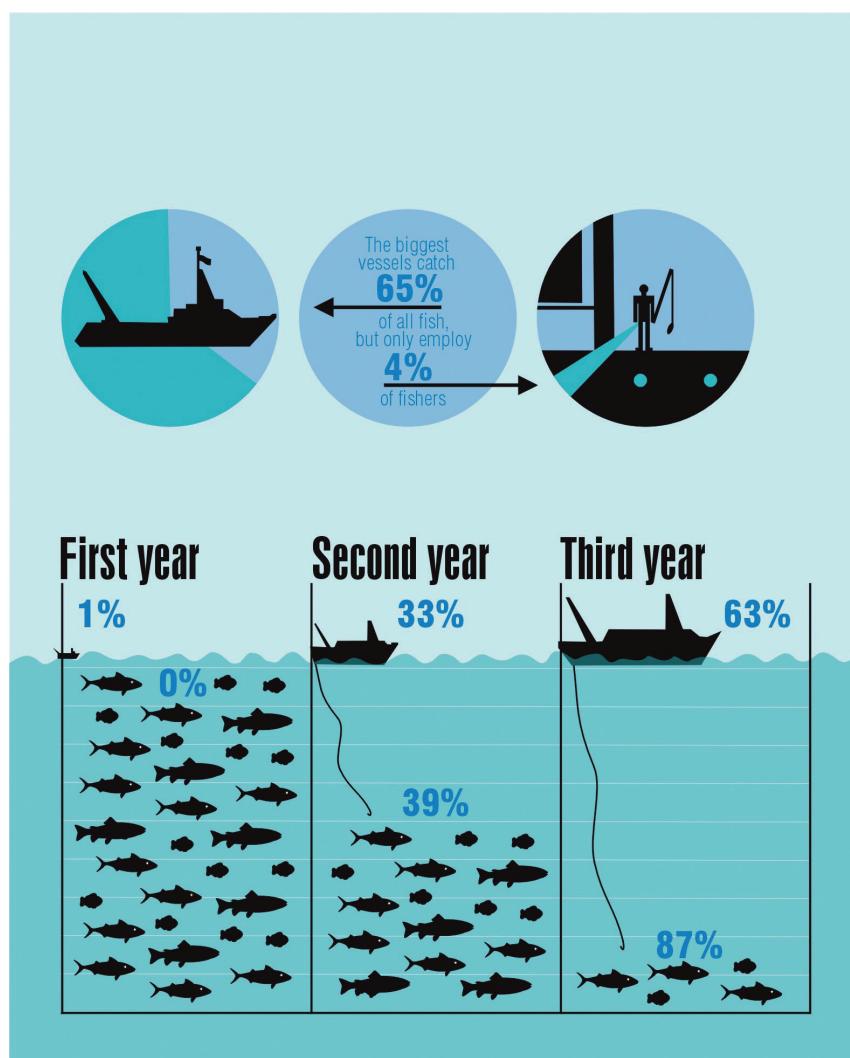


Figure 3.11 With overfishing, the population of fish continues to decrease every year.

3.3.3 Poor farming methods

More than 70% of Rwanda's population rely on farming. It is therefore important that we use sustainable farming methods so that we ensure that we have healthy farmlands for future generations.

Poor farming methods include over-cultivation. For farmlands to be healthy, we need to allow the soil to rest. When farmers over-cultivate, they keep preparing the soil and raising crops. This eventually results in the soil losing its fertility and crops can no longer grow.

Another poor farming method is over-grazing. This happens when farmers allow animals to graze on land for too long. The plants cannot grow fast enough and the soil erodes. The animals will not have enough nutrition and will produce less milk or lower quality meat.

Deforestation

Deforestation means cutting down large areas of forest, leaving an open, exposed landscape.

These large areas are exposed to heavy rainfall or wind erosion. Without the roots of the trees to keep the soil structure in place, the soil is loose and easier to erode.

Cross-cutting issue

Environment and sustainability:

We need to care for natural heritage of Rwanda and pass down a healthy environment to the next generation.

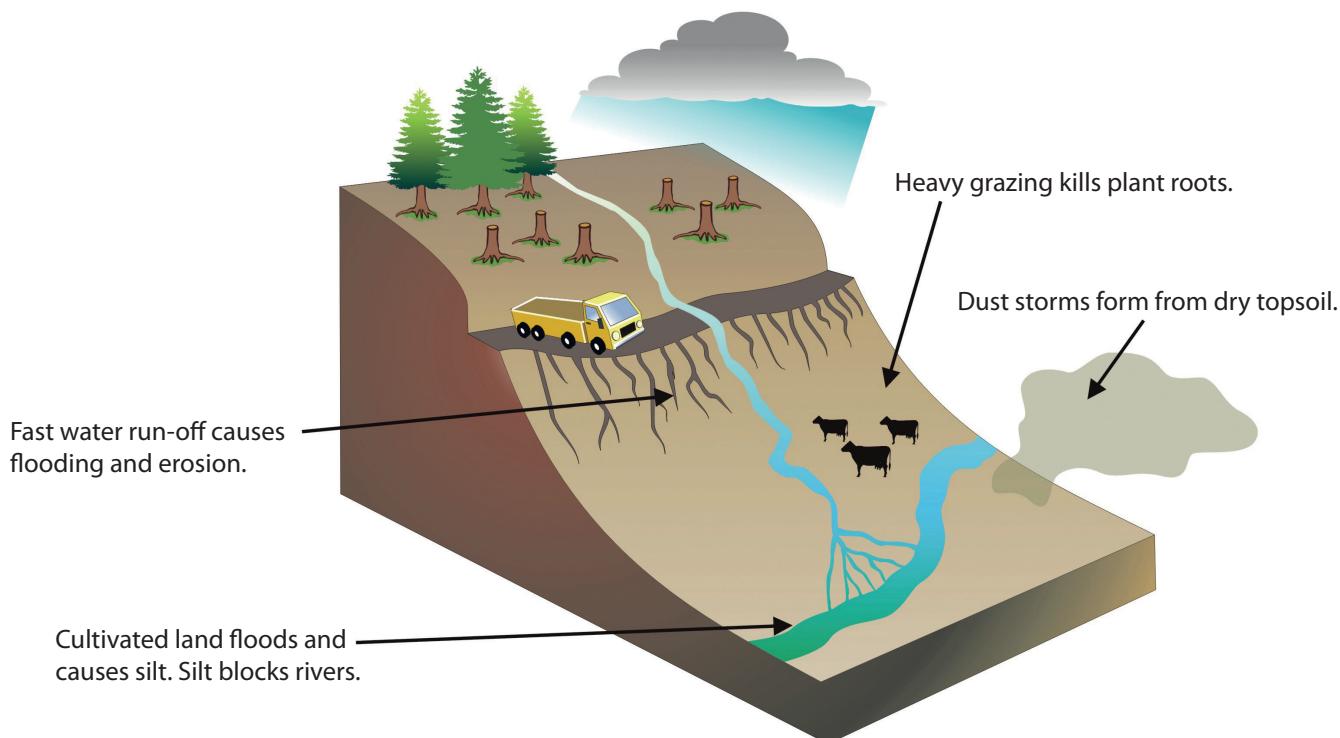


Figure 3.12 Deforestation and overgrazing causes many problems.



Exercise 3.3

Identify and describe activities that hinder socio-economic development in your community.

Unit summary

Types of work

Work is classified into four types:

- Agriculture: farmers grow and sell cash crops and products for export
- Manufacture: making products on a large scale using machines
- Trading: buying and selling goods and services. It can be wholesale, retail and online
- Service provision: selling services such as transport, banking, health care, teaching and repairs

Work and socio-economic development

- Work can contribute to socio-economic development by providing work and increasing the standard of living in a community.
- Some activities prevent socio-economic development, e.g. depleting natural resources, poor farming methods, deforestation, overgrazing.

Self-assessment

1. Make a poster where you show the journey of a piece of cheese. Start by showing how farmers grow food for the milking cows. Then show how a piece of cheese is produced by farming, manufacturing and trading businesses.
2. Describe how each part of the journey contributes to socio-economic development for the person that does the work and for the community.
3. Explain the following activities: Agriculture, manufacturing, trading and service provision.
4. Describe three activities that hinder socio-economic development.



Topic area: Summative assessment (Units 1–3)

Section A

Read the article. Then answer the questions that follow.

New fashion talent in Rwanda

Rwanda's fashion scene has an increasing number of new talent. Two new designers, determined to put Rwanda on the fashion map, are Matthew Rugamba and Sonia Mugabo. Rugamba came up with his brand, House of Tayo, while he was travelling abroad. He felt that he often had to explain what life was like growing up in Africa. He decided that he wanted to share his appreciation of Rwandan culture and history through his clothing.

Mugabo has a similar story. She returned to Rwanda in 2013 and saw that Rwanda's rich culture meant an opportunity for the Rwandan fashion scene to grow. Her brand 'Sonia Mugabo', or SM, offers a mix of African trends and contemporary fashion.

She hopes that her brand will inspire others to share their stories with the world.

Source: <https://theculturetrip.com/africa/rwanda/articles/the-6-rwandan-fashion-designers-you-should-know/>

1. Suggest at least three benefits and three challenges of being a fashion designer. (6)
2. Matthew Rugamba wanted to share his feelings of what it meant to grow up in Africa. He says 'I wanted to capture that African style and elegance that you could spot from a mile away.'
 - a) How do you think his fashion is influencing what people abroad feel about growing up in Africa? (4)
 - b) Do you think that this benefits other Rwandan designers? Explain your answer. (4)
3. Sonia Mugabo feels that today is the perfect time to enter the Rwandan fashion industry. What do you think are the benefits of starting a business in a new industry? What are the challenges? (6)

[20]

Section B

Read the text. Then answer the questions that follow.

The story of a T-shirt

This is the journey from a cotton plant to a T-shirt.

First, the farmer plants and waters his cotton plants. The plants also need fertilisers and pesticides (poison for pests) that can pollute our soil and water sources.

Next, the farmer harvests and transports the cotton to a factory where machines spin and weave the cotton into cloth. The machines use electricity.

We use dyes to make different colours. Dyeing uses many chemicals that pollute our water. The cloth is sewn into T-shirts with machines that use electricity.

Lastly, the T-shirts are transported to shops with trucks that use fuel. They pollute the air with carbon dioxide.

1. Looking at the journey from a cotton plant to a T-shirt.
 - a) Identify different activities carried out in each stage. (3)
 - b) Classify these activities into: Agriculture, Manufacturing, and Trading and Service provision. (3)
 2. Which resources do we use to produce a T-shirt? (4)
 3. Explain what is meant by 'overexploiting natural resources'. (4)
 4. Give suggestions for how Rwanda's fashion designers can ensure that they can produce their fashion and at the same time preserve natural resources. (6)
- [20]

Section C

Imagine that you have decided to join the growing number of Rwandan designers. One of your goals is to present your new fashion at fashion shows in Rwanda and East Africa.

Write SMART goals where you describe how you will reach this goal. (10)

Total marks: 50

TOPIC AREA

Business activity

Sub-topic area Concept of business activities

Unit 4 The market

Sub-topic area Taxation

Unit 5 Taxes in Rwanda



Key unit competence: To be able to analyse the impact of the different types of markets

Learning objectives		
Knowledge and understanding	Skills	Attitudes and values
At the end of this unit, you should be able to:		
<ul style="list-style-type: none">Explain the meaning of 'Market, Product, Demand and Supply'.Identify various types of markets.Explain the advantages and the disadvantages of each type of market.Explain the concept of economic integration.Give the advantages and disadvantages of economic integration.Identify certain regional trading blocs.	<ul style="list-style-type: none">Explain the relationship that exists between demand and supply.Explain the process of shifting from a domestic market to a regional market.Assess the effects of economic integration to the economy.	<ul style="list-style-type: none">Show support for shifting from a domestic market to a regional market.



Beautiful hand-woven crafts on display at a market.

Review activity

Do you recall learning about needs and wants in Senior 1?

1. What is the difference between primary and secondary needs?
2. List three different types of goods needed in society.
3. Identify the factors that influence the consumption of goods and services.
4. Where do you get the goods and services to satisfy your needs and wants?

Introductory activity



Figure 4.1 Entrepreneurs make intricate baskets and trays from natural fibres

Yolande Kagire makes and sells Peace Baskets (Agaseke k' Amahoro) at a market. Her customers are mainly foreign tourists. Discuss the following:

1. What is a market? Write a definition using your own words.
2. What do you call Yolande's baskets in entrepreneurship?
3. When do you think Yolande sells most baskets? Explain your answer.
4. Yolande's baskets are popular so Gakuru decides to open another basket stall at the same market. How do you think that this will affect Yolande's business? Explain your answer.

4.1 What is a market?

In entrepreneurship, we often talk about markets. You also know about markets from buying goods and services for your family.

When we study markets in **economics**, the word market has a specific meaning. A market is any environment that exists when buyers and sellers come together to exchange goods and services. You will therefore find a market in a shop. However, a market can also be on the Internet, where buyers buy goods online.



Figure 4.2 Online shopping means buying items via the Internet.



Figure 4.3 A market is any environment where buyers and sellers can exchange goods and services.

Products

In economics, a product can be an object like a banana or a book. It can also refer to a service such as a carwash, a haircut or a lesson by an entrepreneurship teacher. When we talk about products in economics we mean both goods and services that consumers want or need.



Figure 4.4 A product in economics is any good or service that a consumer wants or needs.

4.2 What is demand and supply?

Have you ever wondered why products in the shop cost a certain amount?

In economics, we explain the costs of products by using a model called supply and demand.

Activity 4.1

When Yolande sells her baskets at 1 000 Frw she has many customers.

When she sells her baskets for 2 000 Frw, she only sells 10 baskets.

1. In Mathematics, when two variables are related so that as one becomes larger the other becomes smaller, we say that they are inversely proportional. Consult your Mathematics teacher and write a definition for this term using your own words.



Figure 4.5 Have you ever wondered why things cost what they do?



Figure 4.6 When the price of a product is low, consumers will buy more.

4.2.1 Demand

Demand means the amount of products or services that a consumer can and wants to buy at a given price at a given time. The demand for a product is not always the same. We use the Law of Demand to explain how many products customers want to buy.

The Law of Demand states that as the price of a product rises, consumers will demand less. As the price of the product decreases, consumers will demand more.

If the price increases ↑, quantity demanded goes down.

If the price decreases ↓, quantity demanded goes up.

Price ↑ Quantity demanded ↓

Price ↓ Quantity demanded ↑

4.2.2 A demand curve

In Entrepreneurship and economics, we make use of a graph called a **demand curve** to show the relationship between the price of a product and how many people are willing to buy it. This curve shows the price on the vertical axis (Y-axis) and how much the quantity demanded on the horizontal axis (X-axis).

Let us look at an example. Shema wants to investigate the demand for bananas. He determines the demand of bananas at different prices. If a banana costs 180 Frw then he will only sell one. As the price of the bananas decreases, he will sell more. The table shows how many bananas people will buy at different prices.

Price (Frw)	Quantity demanded
100	5
120	4
140	3
160	2
180	1

Shema plots the values on a graph and draws up a demand curve.

A demand curve slopes downwards from top left to bottom right. It has a negative slope. The curve shows the **inverse** relationship between price and quantity demanded.

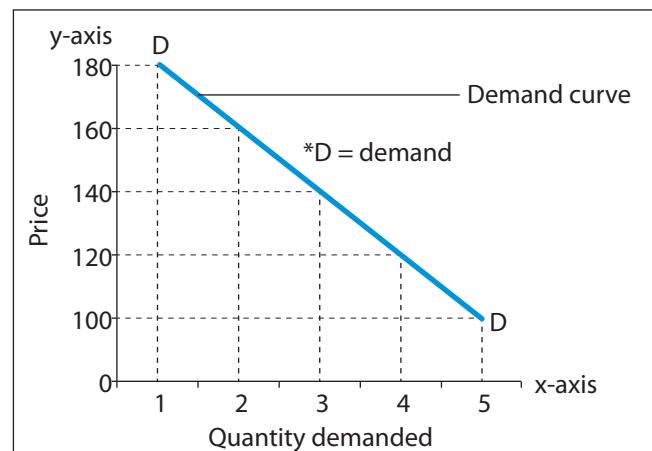


Figure 4.7 A demand curve

4.2.3 Supply

In economics, **supply** means the amount of products that producers will sell at a certain price in a given period of time. If consumers are willing to pay a lot for a product, then there will be many producers that want to sell the products. However, if the consumers will only pay a little for a product, then only a few producers will sell the product. This is called the Law of Supply.

If the price goes up, quantity demanded goes down. If the price goes down, quantity supplied goes up.

Price ↑ Quantity supplied ↓
Price ↓ Quantity supplied ↑

4.2.4 A supply curve

In economics, we make use of a graph called a **supply curve** to show the relationship between the price of a product and how many products producers are willing to sell. This curve shows the price on the vertical axis (Y-axis) and the quantity supplied on the horizontal axis (X-axis).

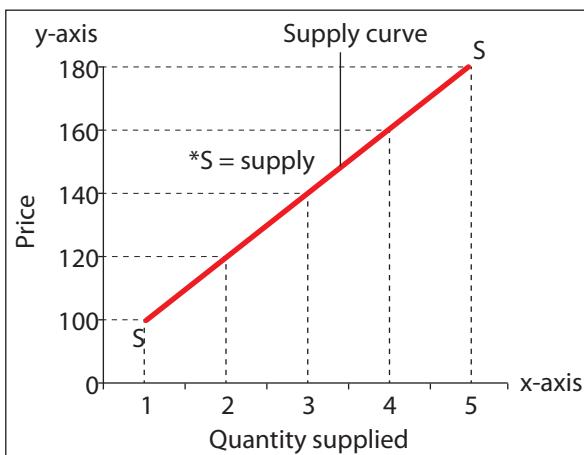
Note

When we draw graphs in Entrepreneurship, we indicate the price on the y-axis and the quantity on the x-axis.

Learning activity

Let's say that the price for cassava increases at the local market. What do you think the local farmers would do?

Let us look at an example: If the price is low, then only a few suppliers will sell bananas. As the price increases, more producers will want to grow and sell bananas. The table below shows how many bananas sellers are willing to sell at a certain price. The minimum price that a supplier is willing to sell bananas for is 100 Frw.



Price (Frw)	Quantity supplied
100	1
120	2
140	3
160	4
180	5

A supply curve slopes upwards from bottom left to top right. This slope illustrates the direct relationship between price and quantity supplied.

Figure 4.8 A supply curve

Exercise 4.1

1. Explain the following terms: market, products, demand, supply.
2. Explain the relationship between price and quantity demanded by consumers. Why is this relationship an inverse relationship?
3. Explain the relationship between price and quantity supplied by producers. Why is this relationship a direct relationship?
4. 100 Frw is the minimum price at which producers will supply a product. Why do you think that no one will sell units below this price? (Use your knowledge of accounting and costs and profit in your explanation.)

4.3 The relationship between demand and supply

Let us say that you want to buy a product. As a consumer you want to pay as low a price as possible. The producer, on the other hand, wants the price to be as high as possible. So which price will you end up paying for the product?

In a market, sellers and buyers exchange products. How many they exchange depend on how many products the consumer demands and how many products the producer wants to sell. When the demand is equal to the supply, we find the market price. We say that the market has reached **equilibrium**.

When you add the price and quantity from the example onto one table, you can see that as demand increases, supply decreases.

Price (Frw)	Quantity supplied (kg)	Quantity demanded (kg)
100	1	5
120	2	4
140	3	3
160	4	2
180	5	1

Let's draw a supply curve and a demand curve on the same set of axes. Where the two lines meet, you find the market price.

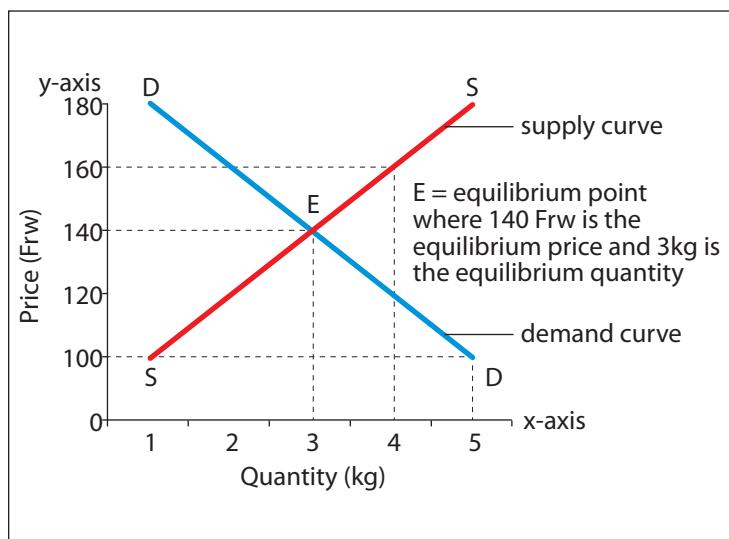


Figure 4.9 The graph shows a demand (D) and supply (S) curve and how market equilibrium is reached.

The market equilibrium price is 140 Frw. At this price, the quantity supplied and demanded are equal to each other (3 units).



Figure 4.10 A buyer and seller



Figure 4.11 Knowless Butera is a popular singer.

Exercise 4.2

Imagine that pop star Knowless Butera releases a new CD with her latest songs. She wants to set a price for her CD and asks you for advice.

1. Explain the relationship that will exist between the demand and supply of her CD's.

2. Next, you visit music stores in Kigali. Their managers tell you that they will order CDs depending on the costs given in the table alongside. Explain why the relationship between price and quantity is inverse.

Price (Frw)	Quantity demanded
10 000	1
8 000	2
6 000	3
4 000	4
2 000	5

3. The studio that produces pop music gives you the values in the table alongside. These values show how many CDs they will produce at different prices. Draw a graph that shows the relationship between demand and supply.

Price (Frw)	Quantity supplied
2 000	1
4 000	2
6 000	3
8 000	4
10 000	5

4. Determine the market price and explain to Knowless Butera how you got to this price.

Pre-learning activity

Investigate goods in your local store. How many of these are made in your local community?

Where do the other products come from?

4.4 Types of markets

We can classify markets as:

- Domestic (local) markets
- Regional markets
- International markets

4.5 Domestic markets

A domestic market is a market within the borders of a specific country. The people who sell the services and the customers come from that country.

In Rwanda, we buy and sell goods and services in our neighbourhoods. In the rural areas, we trade at markets and smaller shops. In the cities, we make products in factories. Here people can also buy goods at supermarkets.

In a market, we can divide trade into wholesale and retail trade.

Wholesale trade occurs when shops buy goods from manufacturers in bulk (large quantities). Shops then sell those goods in smaller amounts to customers. This is called **retail trade**.

4.5.1 Advantages of domestic market

A business owner who provides goods and services to a domestic market:

- understands the local culture and language when communicating with customers
- knows customers' tastes and preferences
- knows if the local economy is growing
- does not pay import costs and can therefore provide inexpensive goods and services to customers.

Investigate goods in your local store. How many of these are made in your local community? Where do the other products come from?

Advantages of making goods in your local community and selling them at your local store are:

- the money goes to the local business, which helps the local market to grow
- it creates employment because local businesses employ people from the local community
- the products do not need to be transported for long distances and pollution is therefore reduced
- food grown locally is fresher than food that has been transported from somewhere else.

4.5.2 Disadvantages of domestic market

There are also disadvantages for businesses that provide goods and services to the domestic market.

- A local market is small, so it can be difficult for the business to expand.
- If the local economy is not going well, customers may not buy many products.
- Businesses that import products or services may be able to offer these products cheaper.

The disadvantages to consumers are:

- locally made goods can be more expensive than mass produced goods
- local businesses may not have everything you may need or want to buy because they may not be able to produce or grow them in Rwanda.

4.6 Regional markets

A regional market is a market in a specific region. In a regional market, people from different countries in a region buy and sell from each other. A region could, for example, be East Africa or Southern Africa. If a business trades with countries all over the world, we say that it trades in the global market.

Cross-cutting issues

Environment and sustainability:

Business growth is good for the economy, but it is important that economic growth does not mean that we exploit and degrade the environment.

Table 4.1 Advantages and disadvantages of regional markets

Advantages	Disadvantages
The market is larger as there are many more people than in a domestic market.	There is more competition in a regional market than in a domestic market.
When a business grows it benefits the country.	If a business from another country grows, then it does not provide jobs in Rwanda.
A Rwandan business that exports products earns foreign currency (money from another country).	When a business trades in a regional market, goods must be transported to other countries.
Rwanda may enter into agreements with governments from other countries to make trade easier.	There may be tariffs and taxes on goods exported to other countries.
Consumers often have a wider variety of goods to choose from.	Sometimes low quality, cheap goods are imported.

Pre-learning activity

Why is it important for a Rwandan market to shift from a domestic to a regional market?

Table 4.1 shows the advantages and disadvantages of trading in a regional market.

4.7 Shifting from a domestic to a regional market

A regional market is much larger than a domestic market. Many businesses want to export goods and services so that the business can grow.

Some products are difficult to sell in a regional market. Think, for example, of cultural items that you only use in Rwanda or fresh produce that will not be fresh after a long journey.

It can also be difficult to sell items in a regional market because of competition.

Case study 4.1

Read the case study and answer the questions that follow.

Homegrown Rwandan success

Urwibutso ENT is a business in Nyirangarama that offers customers a wide variety of products at inexpensive prices. Customers can buy from the shop or on the online website. Owner, Sina Gérard, employs more than 2 000 people. The business had humble beginnings, but today it sells fruits, flowers, vegetables and meat to both the local market and abroad.

Source: <http://www.sinarwanda.com/index.php/en/products>

Questions

1. Does Urwibutso ENT sell to the local market or regional market? Explain your answer.
2. List the advantages of selling products to the local market.
3. Which challenges do you think that Sina Gérard needs to overcome to sell fresh flowers to other countries?



Figure 4.12 When we export products, we earn foreign currency.

4.8 Economic Integration

Sometimes different countries can agree to lower **tariffs** (tax or duty paid on imports) or even take away tariffs. This makes it easier for the countries to trade with each other. This type of co-operation is called economic integration.

There are many different stages of economic integration. Table 4.2 describes agreements that countries can agree on. There are advantages and disadvantages to each type of economic integration.

Pre-learning activity

In your own words, define 'economic integration'.

Table 4.2 Stages of economic integration

Economic integration type	Description
a) Preferential trade agreement	This is when members commit to a lower tariff on imports than the tariff charged to non-members.
b) Free-trade area	There are no tariffs between member countries. There is also no agreements on a common external tariff with non-member countries.
c) Customs union	Members commit to a free-trade area but also have a common external tariff for non-members. This means that no member country may charge lower or higher tariffs on goods imported from non-members.
d) Common market	Has all the features of customs union. Also free movement of labour and capital within the block.
e) Economic union	Members may use a single currency (for example the Euro in the European Union). All members can also use the same tax rates and interest rates.

Advantages and disadvantages of economic integration

Some advantages of economic integration are:

- **Increased trade:** More goods and services are sold between countries. This creates new business opportunities.
- **Increased employment:** When businesses sell more and grow, they also employ more people.
- **Political cooperation:** Countries that trade with each other have less political conflict.
- **Increased foreign investment:** More foreign currency enters the country.

There are also disadvantages to economic integration. If a country does not have a trade agreements with other countries, it can be difficult to sell goods and services in those countries. It leads to the creation of trade barriers to non-members, a decrease in foreign currency entering the country, and movement of skilled workforce out the country.

Exercise 4.3

Draw a mind map to show the advantages and disadvantages of economic integration.

Exercise 4.4

Discuss these questions.

1. Explain how economic integration leads to larger markets.
2. Explain why political cooperation is important for economic integration.

Learning activity

Conduct research and investigate three different trade bloc. What is the largest trade bloc in the world?

4.9 Regional trading blocs

Sometimes a government enters into agreements with other governments. For example, governments in a region can form a regional trade bloc. A trade bloc is an agreement that involves the removal of import tariffs. This makes it easier for the countries to trade with each other. Rwanda belongs to different regional trade blocs.



Figure 4.13 East African Community (EAC) states

4.9.1 The East African Community (EAC)

The East African Community (EAC) is a large regional trade organisation formed by six countries in Eastern Africa. The member countries are Burundi, Kenya, Rwanda, Tanzania, South Sudan and Uganda. These countries have agreed to duty-free trade and to add a common tariff to imports from other countries. A trade organisation has many advantages for Rwanda. For example, as a landlocked country, Rwanda needs access to a port (town with a harbour) so that it can export products and import products from abroad. With a trade agreement, it is easy to make use of East Africa's largest port in Mombasa, Kenya.

One of the goals of the EAC is to use a common currency in the region.

4.9.2 Common Market for Eastern and Southern Africa (COMESA)

The Common Market for Eastern and Southern Africa (COMESA) is a free-trade area for the 20 member states. It is Africa's largest economic organisation with members from Libya in the north to Swaziland in the south.

COMESA's members are: Burundi, Comoros, Democratic Republic of Congo, Djibouti, Egypt, Eritrea, Ethiopia, Kenya, Libya, Madagascar, Malawi, Mauritius, Rwanda, Seychelles, Sudan, Swaziland, Uganda, Zambia and Zimbabwe. Rwanda joined the bloc in 2004.



Figure 4.14 COMESA

https://upload.wikimedia.org/wikipedia/commons/4/46/COMESA_Members.svg

4.9.3 Economic Community of the Great Lakes Countries (CPEGL)

The Economic Community of the Great Lakes Countries is a regional organisation. The abbreviation CEPGL comes from its French name: Communauté Économique des Pays des Grand Lacs. It was founded in 1976 and has headquarters in Rwanda. The organisation has three members: Burundi, Democratic Republic of the Congo and Rwanda. Its purpose is to promote trade and economic cooperation in the region. The CEPGL controls several institutions including the Bank of Development of the States of the Great Lakes (BDEGL) and the Economic Community of the Great Lakes Countries Organization for Energy (EGL).

Exercise 4.5

1. List the members for the EAC, COMESA and CPEGL in a table.
2. How does Rwanda benefit from joining economic trade blocs like EAC, CPEGL and COMESA?
3. What are the disadvantages for Rwanda as an effect of joining economic unions?
4. **Debate** the role of economic integration to socio-economic development in Rwanda.

Unit summary

What is a market?

- A market can be the physical place you buy goods and services.
- When referring to markets within the economic sense, it means any environment that exists when buyers and sellers come together to exchange goods and services.
- Demand means the amount of products or services that customers can and want to buy at a given time for a specific price.
- Law of Demand states that the price of the product increases, consumers will demand less of that product (quantity decreases). As the price of the product decreases, consumers will demand more of that product (quantity increases).
- A Demand Curve is a graph used to show the relationship between a product's price and how many product units consumers are prepared to buy.
- Price is indicated on the y-axis and product unit indicated on the x-axis.
- The Demand Curve slopes downwards (top left to bottom right), has a negative slope and shows the inverse relationship between price and quantity demanded.
- Supply means the amount of products that producers will sell at a specific price at a given time.
- Law of Supply states that when consumers are prepared to pay high prices, there are lots of producers wanting to sell the same product. When consumers are not prepared to pay high prices, there are few producers who want to sell that product.
- The slope curves upwards from bottom left to top right and illustrates the direct relationship between price and quantity supplied.
- Price is shown on the y-axis and quantity products on the x-axis.
- The Supply Curve is a graph that shows the relationship between the price of a product and how many of a product producers are willing to sell.
- The equilibrium of a product is the price where the product supply and the product demand meet.
- When the Supply Curve and Demand Curve are drawn on the same graph the market price is where the two curves cross.

Types of markets

- Markets can be local, domestic, regional or international.

Advantages of domestic market

- A business owner
 - understands the local culture and language when communicating with customers
 - knows customers' tastes and preferences
 - knows if the local economy is growing
 - does not pay import costs and can provide inexpensive goods and services to customers
 - creates job opportunities for local communities in local markets.

Disadvantages of a local market

- Difficult for business to expand because local market is small.
- If local economy is not going well customers may not buy many products.
- Imported products and services may be offered at cheaper prices.
- A regional market is a market in a specific region. People from different countries in that region trade.

Regional market

- A regional market is a market in a specific region.
- People from different countries within that specific region trade with one another.

Advantages of a regional market:

- The market is larger as there are many more people than in a domestic market.
- When a business grows it benefits the country.
- A Rwandan business that exports products earns foreign currency (money from another country).
- Rwanda may enter into agreements with governments from other countries to make trade easier.

Disadvantages of a regional market:

- There is more competition in a regional market than in a domestic market.
- If a business from another country grows, then it does not provide jobs in Rwanda.
- When a business trades in a regional market, goods must be transported to other countries.

Economic integration

- Economic integration is when different countries agree to lower tariffs, making it easier to allow trade between these countries.
- Different types of economic integration are: Preferential trade agreement, Free-trade area, Customs union, Economic union.
- Advantages of economic integration:
 - Increased trade
 - Increased employment
 - Political cooperation
 - Increased foreign investment
- A disadvantage of economic integration is that it is difficult to trade with another country if there is no trade agreement between the two countries.

Disadvantage of economic integration

- Difficult to trade with another country if there is no trade agreement

Regional trading blocs

- A trade bloc is an agreement that involves the removal of import tariffs.
- East African Community (EAC) is a large regional trade agreement between Burundi, Kenya, Rwanda, Tanzania and Uganda.
- Common Market for Eastern and Southern Africa (COMESA) is a trade-free area between 20 African countries.
- Economic Community of the Great Lakes Countries (CPEGL) is a regional organisation established in 1976 with headquarters in Rwanda.

Self-assessment

- Write a definition for the terms demand and supply.
- Yves investigates the demand and supply for tomatoes. The tables below show quantity demanded and supplied at certain prices. Draw up a demand and supply curve for tomatoes and determine the equilibrium price.

Price (Frw)	Quantity demanded
1 000	10
800	20
600	30
400	40
200	50

Price (Frw)	Quantity supplied
1 000	50
800	40
600	30
400	20
200	10

- A farmer is looking for a market to sell her tomatoes. Explain the benefits and disadvantages of selling on a domestic market.

Key unit competence: To be able to analyse the roles of taxes in Rwanda

Learning objectives		
Knowledge and understanding	Skills	Attitudes and values
At the end of this unit, you should be able to:		
<ul style="list-style-type: none">Explain the meaning of taxation, taxes, tax avoidance and tax evasion.Explain the importance of paying taxes.Identify the sources of taxes.Identify the rights and obligations of taxpayers.Distinguish the types of taxes paid in Rwanda.Identify the conditions, documents advantages and sanctions of subscribing to the tax system.	<ul style="list-style-type: none">Assess the various types of taxes.Fill in documents required for subscribing to a tax system.	<ul style="list-style-type: none">Appreciate the role of taxes in an economy.Advocate for payment of taxes in the community.Show concern for non-tax payment.



An electronic billing machine (EBM)

Cross-cutting issue

Financial education:
By paying tax, we help
the government to
improve the lives of all
Rwandans.

Introductory activity

In Rwanda, the government is responsible for providing a wide range of services to the public.

1. Identify services that the government provides.
2. How does the government fund the services mentioned above?
3. What do you understand by the term tax and taxation?



Figure 5.1 Taxes help Rwanda's economy grow.

5.1 Taxation

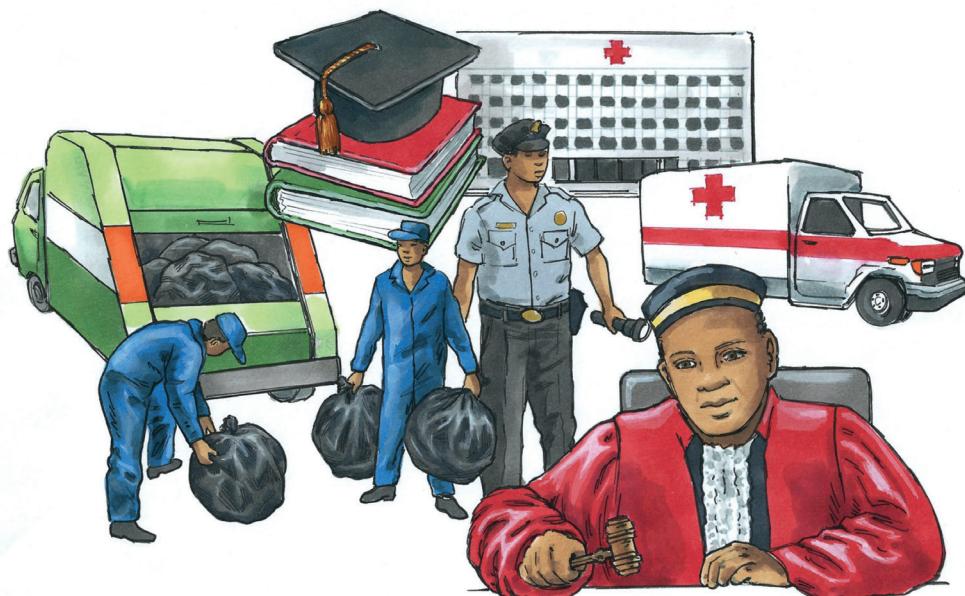
A **tax** is a **levy** that is obligatory (required by law). In Rwanda, taxes are collected by the Rwanda Revenue Authority (RRA). Tax can also be imposed by administrative divisions such as districts, sectors or cells. Taxation is the largest source of revenue for the government. The state uses the money raised from taxes to build and maintain roads, schools and hospitals. A person that earns an income must pay income tax. We also pay tax when we buy certain goods. If there was no income from tax, the government would not be able to provide public goods and services. Instead, the private sector would provide services to those who could afford it. The poor would not be able to afford services and would have to go without.

In Rwanda we pay a certain percentage of our income in tax. The amount of tax increases the more a person earns – this is called progressive tax system. Businesses pay tax on their profits. Do you recall that profit is income minus expenses?

Activity 5.1

Study the pictures and answer the questions.

1. List the types of services provided by the government in the below picture.
2. Do you think that the government can provide the services in the picture if individuals and businesses do not pay tax? Explain your answer.



5.2 Taxes in Rwanda

Taxation is the largest source of revenue for the government. The state uses the money raised from taxes to build and maintain roads, schools and hospitals. Taxes consist of **direct** or **indirect taxes**. A tax system should be simple, easy to understand and administer.

Activity 5.2

Mr Karimunda is an entrepreneur that sells shoes, bags and belts. He does not want to pay a lot of tax. He decides to add expenses to his business so that he can pay less tax. He:

- buys a new car for his son and states that it is a business expense. He uses the car once a week to drive to a business meeting.
- builds an extra room in his personal residence and places office equipment in the room. He says that building the room is a business expense. However, the room is mostly used by his son as a study room.



Read the scenario on the previous page. Then answer the questions.

1. Do you agree with Mr Karimunda's suggestions for reducing his tax bill? Explain your answer.
2. Explain the difference between tax avoidance and tax evasion.
3. Do you think Mr Karimunda is avoiding or evading tax? Explain your answer.

Tax avoidance

Sometimes people can avoid paying taxes because they find ways to reduce the amount of taxes that they must pay. This is called tax avoidance.

A person or a business can avoid paying taxes in different ways. For example, if you support a charity, the money that you pay may be deducted from your tax bill.

Tax avoidance is legal. Some people try hard to avoid paying taxes. If a tax system is not clear, people can find loopholes that allow them to avoid paying tax.

5.2.1 Tax evasion

You are allowed to avoid paying tax if you follow legal rules. However, tax evasion is illegal. Evasion means hiding your income so that you pay no tax or less tax than you owe. If you state that your income is lower than it is or do not declare it at all, you are committing a criminal offence. An example of tax evasion is when you claim that you have expenses that are fake.

A business can evade paying taxes by stating that expenses are higher than they really are or by claiming that it sells less goods or services than it really does. Tax evasion is punished by penalties and fines, or even prison.

Tax offences include:

- keeping more than one set of records and preparing two sets of final accounts
- using false names or false documents
- not filing tax returns
- not paying tax.

Activity 5.3

1. Write a definition of taxation in your own words.
2. Although tax avoidance is legal, explain why it is important to consult a tax expert before trying to save on a tax bill.

Pre-learning activity

Create a list of the services that the government provides in your community.

5.2.2 The importance of paying taxes

When individuals and businesses in Rwanda pay taxes, the government can develop the country. We need many important services for our citizens, and by paying taxes we can ensure that all Rwandans have access to essential (necessary) services such as education, health care, clean water and security.

5.2.3 Paying government workers

People who work for a government are called civil servants. They do important work. Civil servants include:

- teachers who educate children
- doctors and nurses who care for sick people
- policemen and women who ensure that we adhere to the laws of Rwanda
- prison wardens who ensure that prisons are well run
- judges who preside (are in charge) over trials
- district workers who work on roads and power stations.

Civil servants do important jobs. They are paid with the tax revenue that the government collects from businesses.



Figure 5.3 In Rwanda, many prisoners work in the fields. They are supervised by prison wardens. This system ensures that they can earn some money while they are serving their sentence. They also learn skills that they can use when they have completed their sentence.

5.2.4 Infrastructure

The main goal of Rwanda's 2020 vision is to improve the life of all Rwandans. This means providing quality public goods and services such as roads, schools, security, health care, national defence, law enforcement and a judiciary (legal) system. These expenses are called public expenditure.

The government sets a **budget** for each financial year (a year used for tax purposes). For example, in the year 2015, a large amount was set aside for development. A total of 298,1 Frw billion was set aside for:

- rehabilitating (restoring) hydro-electric power plants
- developing **peat** power plants
- creating access to electricity
- constructing roads and railways
- developing industrial parks
- ensuring access to clean water in Kigali and districts with low water access rates.

Note

In Rwanda, the tax or financial year follows from July to June.

5.2.5 Social contribution

Taxes collected can be used to create a society where people are more equal. The government of Rwanda has a target of reducing the poverty rate to 20% by 2020. To do this, different programs have been introduced. For example the program Gira inka (one cow per family) that aims to reduce rural poverty. The government uses taxes collected to fund these types of programs.

Activity 5.4

1. Explain what is meant by public expenditure.
2. Discuss the importance of paying taxes in a country. Make a presentation of your findings to the class. In your presentation, you can use the Rwanda Revenue Authority statement: ‘Without taxes there is no peace, no roads, no hospitals, and no schools.’

5.3 Sources of taxes

The Rwandan government collects taxes from many different sources.

Pre-learning activity

What types of taxes do your family pay? Consult your parents and write a list of the different types of taxes.

5.3.1 Personal income tax

An individual must pay personal income tax on his or her income. People earn money from salaries, wages, personal businesses, interest and **dividends**.

When you work for a company, your employer will deduct tax called Pay-As-You-Earn (PAYE) tax. If you earn less than 30 000 Frw per month, you do not pay tax. If you earn more than 30 000 Frw per month, your employer will deduct tax. The more you earn, the greater the tax percentage that is due to the government. This system is called progressive taxation. The employer deducts this amount from your income and **declares** and pays the tax amount to the Rwanda Revenue Authority (RRA).

Table 5.1 Monthly PAYE rates

Monthly income (Frw)	Taxable income (Frw)	Tax rate
0 – 30 000	30 000	0%
30 001 – 100 000	70 000	20%
> 100 000	–	30%

Table 5.2 Annual PAYE rates

Annual income (Frw)	Tax rate
0 – 360 000	0%
360 001 – 1 200 000	20%
> 1 200 000	30%

Worked example 1

Calculate tax on an income of 80 000 Frw per month.

Solution:

Step 1: Calculate the 0% tax on the income.

$$30\ 000 \times 0\% = 0$$

Step 2: Subtract the 30 000 amount that pays 0% tax from the original income.

$$80\ 000 - 30\ 000 = 50\ 000\ \text{Frw}$$

Step 3: Calculate 20% of 50 000 Frw.

$$50\ 000 \times 20\% = 10\ 000\ \text{Frw}$$

Step 4: Add all the taxes calculated above

$$0 + 10\ 000 = 10\ 000\ \text{Frw}$$

Worked example 2

Calculate tax on a monthly income of 1 200 000 Frw.

Solution:

Step 1: Calculate the 0% tax on the income.

$$1\,200\,000 \times 0\% = 0 \text{ Frw}$$

Step 2: Subtract 30 000 that pays 0% from the original outcome.

$$1\,200\,000 - 30\,000 = 1\,170\,000 \text{ Frw}$$

Step 3: Calculate 20% of 70 000 Frw

$$70\,000 \times 20\% = 14\,000 \text{ Frw}$$

Step 4: Subtract 70 000 Frw (that pays 20%) from 1 170 000 Frw

$$1\,170\,000 - 70\,000 = 1\,100\,000 \text{ Frw}$$

Step 5: Calculate 30% of 1 100 000 Frw

$$1\,100\,000 \times 30\% = 330\,000 \text{ Frw}$$

Step 6: Add up all the taxes calculated to get to the total tax payable.

$$0 + 14\,000 + 330\,000 = 344\,000 \text{ Frw}$$

Worked example 3

Calculate tax on an annual income of 9 600 000 Frw.

Solution:

Step 1: Calculate the 0% of 360 000

$$360\,000 \times 0\% = 0 \text{ Frw}$$

Step 2: Subtract 360 000 from the original amount:

$$9\,600\,000 - 360\,000 = 9\,240\,000 \text{ Frw}$$

Step 3: Calculate 20% of 840 000 (Annual taxable amount on 20%):

$$840\,000 \times 20\% = 168\,000 \text{ Frw}$$

Step 4: Subtract 840 000 from 9 240 000

$$9\,240\,000 - 840\,000 = 8\,400\,000 \text{ Frw}$$

Step 5: Calculate 30% of 8 400 000

$$8\,400\,000 \times 30\% = 2\,520\,000 \text{ Frw}$$

Step 6: Add up all the calculated taxes to get the total tax to be paid.

$$0 + 168\,000 + 2\,520\,000 = 2\,688\,000 \text{ Frw}$$

Exercise 5.1

- An employee earns 4 000 000 Frw in one year. Calculate the tax that the employee must pay.
- An employer pays 74 000 Frw in tax for the above employee. Work out the balance that the employer must still pay.

5.3.2 Corporate income tax

Businesses pay tax on their profits. This tax is called **corporate income tax** (or company tax).

In Rwanda, a business generally pays 30% of its profit in tax. As the government wants to encourage business growth, many businesses receive tax discounts. For example, a business that exports goods and services receives a discount on their tax bill.

A small enterprise that sells goods and services to the value of up to 50 Frw million per year pays a flat tax. This tax is a percentage of the turnover (total sales) of the business. The business can also choose to be registered to pay regular company tax.

5.3.3 Personal and business property tax

An individual or a business that owns property must pay property tax. This tax is collected by Rwanda Revenue Authority on behalf of the district. The amount of tax payable depends on the value of the property.

5.3.4 Business sales

You pay a sales tax called Value-added Tax (VAT) when you buy goods and services. You do not pay this tax on all goods and services. Basic non-

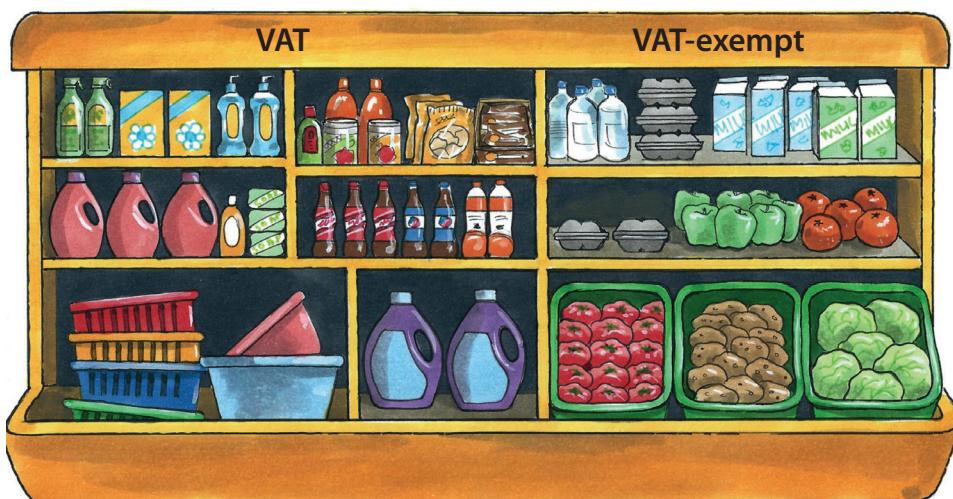


Figure 5.4 Shops add Value-added Tax (VAT) to goods except basic food items that are VAT-exempt.

processed food items and some equipment are exempt from VAT. This makes it easier for poor people to afford buying necessary items. In Rwanda, we pay 18% in VAT. The businesses that charge VAT on goods are also responsible for collecting the money using electronic billing machines (EBM). They pay the VAT to the Rwanda Revenue Authority every month.

Learning activity

Visit or invite a Sector Tax Official to find out the rights and obligations of a tax payer.

Exercise 5.2

Do research in a local shop or supermarket. Identify the following items:

- Five items that are VAT-exempt
- Five items on which you pay 18% VAT.

5.4 Rights of taxpayers

As a taxpayer you have many rights when paying tax. The Rwandan government states that it is the right of each taxpayer to always be treated fairly and to be informed of taxpayer services and obligations (duties). Taxpayers also have several other important rights.

5.4.1 Right to confidentiality

The information that you send to the Rwanda Revenue Authority is confidential (private and kept secret). The information can only be used if the information must be used to investigate criminal activities such as tax offences.

5.4.2 Right to legal representation

You can declare taxes yourself, but you also have the right to ask a legal representative, such as an accountant, to help with declaring taxes.

5.4.3 Right to tax refund

If you have paid more tax than you should, the Rwanda Revenue Authority will issue a tax refund. This means that they will pay back the excess money. Sometimes the excess tax paid is simply offset against the next tax payment.

Activity 5.5

Discuss the following questions.

1. Why are taxpayers' rights important?
2. Why is it in the government's best interests to uphold these rights?

5.5 Obligations of taxpayers

As a taxpayer you have many obligations.

5.5.1 Register with Rwanda Revenue Authority

Each taxpayer must apply for a unique Tax Identification Number (TIN). This number identifies the taxpayer.

When you start a business you also need to register the business with Rwanda Revenue Authority within 7 days.

5.5.2 Filing tax returns

Nowadays you fill out a tax return electronically, you indicate how much money you have made in a tax year and the system calculates how much money you must pay in tax. This is a legal document that must be an accurate and truthful statement.

5.5.3 Provide all the information and documents

When you submit a tax return, you must also add additional information called supporting documents where it is required. For example:

- medical expenses (not covered by the medical aid)
- proof of payments to a retirement fund
- proof of purchase or sale of assets.

You must state the following:

- Tax identification number (TIN)
- period of employment or activity
- amount earned
- type of tax
- correct postal address.

Activity 5.6

1. Why do taxpayers have certain obligations? What are they?
2. What information must taxpayers give to the tax authority when filling in tax forms?

5.6 Different types of taxes

Pre-learning activity

Research the types of taxes paid in Rwanda. Group them into two main categories.

The Rwandan tax system differentiates between direct and indirect taxes. A direct tax is a tax that is levied on income or profit. It is paid directly by the person or company that earned the income.

An indirect tax is levied on goods and services by a third party.

5.6.1 Direct taxes

A tax that is paid directly by an individual or an organisation is called a **direct tax**. A person who earns an income is called a tax payer. He or she pays income tax. This is also called **personal** tax.

An organisation pays tax on the profit that it makes. This is called corporate tax.

On page 56 you learnt about personal income tax (PAYE), this is also a direct tax.

If you rent out machinery, land, house or livestock the rental amount is an income. You must pay tax on this income, but can deduct your expenses such as interest paid on loans. **Rental tax** is therefore also a direct tax.

Property tax is also a direct tax. This tax is levied on the value of property such as land or buildings.

When a person dies, the relatives inherit his/her assets. To inherit means to receive money as an heir. In some countries, the heir pays inheritance tax. This tax is a percentage of the value of the money and properties that he or she received. Inheritance tax is a direct tax.

Worked example 1

Thumaine owns a successful braiding salon in Kigali.

Last year her business earned a profit of 1 000 000 Frw.

She calculated the tax that her business must pay as follows:

$$1\,000\,000 \times 30\% = 300\,000$$

Total tax = 300 000 Frw

5.6.2 Indirect taxes

An **indirect tax** is a tax that is collected by an intermediary, for example a retail store, from the person who pays the tax. The intermediary then files a tax declaration and forwards the tax to the government. Value-added Tax (VAT) is an example of an indirect tax. A business must register for VAT if its turnover is more than 20 Frw million in one year. This means that the business will charge VAT to its customers and pay over the amount to the RRA.

We do not pay VAT on all goods. Some goods are classified as exempt or zero-rated supplies. We pay a standard rate of 18% on all other goods.

Some items are considered luxuries. The government adds an additional tax called **consumption tax** to these goods. This tax is also known as **excise tax**. This tax is paid by those that can best afford it. The tax is also a deliberate attempt to encourage people to buy and use less of certain goods.

In Rwanda, we pay consumption tax on locally produced or imported beers, lemonades, mineral water, juices, liquors, wines, fuel, vehicles and powdered milk. It is also levied on cigarettes and telephone communication.

When we buy a product that is imported into Rwanda we pay customs duties. This duty is paid when the products enter the country. As the products arrive in Rwanda, the importer pays taxes and duties like VAT and consumption tax.

Case study 5.1

Read the case study. Then discuss the questions.

Duties and taxes for import into Rwanda

Some goods are not made in Rwanda. We must import them from other countries. Different stakeholders are involved in importing goods. First, there is the producer of the goods in the foreign country. Then we must **insure** the goods. The goods are then transported to Rwanda by road, boat or air. Here, the Rwanda Revenue Customs Service calculates duties and taxes on the value of the products.

If the import consists of goods produced in the East African Community (EAC) countries, then the Customs Services applies the duties and tariffs that have been agreed in the trading bloc. Imports from members of the COMESA trade bloc have preferential tariffs compared to imports from other countries.

Importers pay different levies depending on the product that is imported. For raw materials, there is no duty (0%). The duty for finished goods is 25%.

The importer must also add 18% VAT to the value of the goods. In addition, the importer must pay consumption tax if the import is an alcoholic beverage or tobacco. This tax ranges from 3% to 150% of the value of the products.

Questions

In each scenario described below, discuss which stakeholders are involved in the process. List the different types of taxes the entrepreneur must pay for the imports.

1. Marie Louise wants to start a business that provides fertilisers to farmers. She wants to import fertilisers from a factory in Kenya.
2. Theoneste travels to Germany. He wants to import kitchen utensils that he plans to sell to restaurants.
3. Cherise has just returned from visiting a supplier of beauty products in Namibia. She wants to open beauty salons all around Rwanda.

Learning activity

Invite or visit a tax official to explain the process of subscribing to the tax system.

5.7 Registering to the tax system

To pay tax, you first need to register. The registration is different for the various taxes.

Filling in a registration form

When you have filled in the registration form, you receive a Tax Identification Number (TIN). Figure 5.5 shows an example of a VAT registration form. You need to supply all the information to register a business as a VAT vendor. Figure 5.6 show the notice of registration that the Rwanda Revenue Authority supplies when you have filled in all the correct forms.

VAT REGISTRATION SUPPLEMENTARY DOCUMENTATION FORM

To be completed for voluntary and compulsory registration

1. TIN niba wiyandikishije ku yindi misoro/ TIN (If already registered for other taxes:)

--	--	--	--	--	--	--	--

2. Izina ry'umusoreshwa/ Name of taxpayer

3. Izina ry'ubucuruzi/ Type of business

4. Ubwoko bw'ubucuruzi/ Type of business activity

5. Tanga impamvu ushaka kwiyandikisha muri VAT/ Reasons for VAT registration

6. Igihe watangiriye ubucuruzi/ Date the business was started

7. Impamvu zo kutiyandikisha kuri VAT ku gihe/ Reasons for not registering for VAT on time

Figure 5.5 A VAT registration form

RWANDA REVENUE AUTHORITY
OFFICE RWANDAIS DES RECETTES

NOTICE OF REGISTRATION
NOTICE D'ENREGISTREMENT
IMENYESHWA RYO KWUYANDIKISHA

Names: Noms: Amazina:

LINK LTD	
----------	--

Business Activity: Secteur d'activité:
Urwego ra umurimo:

OTHER SERVICE ACTIVITIES	
--------------------------	--

Is registered for tax purposes with
est enregistré(e) pour fin fiscale sous le
Yiyandikishije ku mpamvu z'umusoro

Taxpayer's Identification Number
Numéro d'identification du Contribuable
I nomere iranga umuscreshwa

TIN
NIF

XXX	
-----	--

Issuing Date: Date d'attribution:
Itariki itangiwoho:

25-10-2016

Taxpayer Centre: KIGALI IRD SMALL
Centre fiscal: KIGALI DR/
Ibiru by'umusoro: KIGALI IABA

Group Leader: Registration and Recruitment



Document ID: 5553152

Figure 5.6 A notice of registration from the Rwanda Revenue Authority

Legal form of a business

A business can have many legal forms. Below are a few examples:

- Sole proprietorship – this business is owned and managed by one person, the owner.
- Partnership – this business is owned and managed by two or more partners.
- Company – some companies are owned by a few people who hold shares (shareholders) in the company. Other companies sell their shares to the public on a stock exchange. These are public companies.

Some organisations are called non-profit. This type of organisation has a specific purpose other than making a profit. This purpose can be a social cause, such as caring for the elderly. Non-Profit Organisations do not pay income tax.

When you register your business with the Rwanda Revenue Authority, you need to ensure that you register the correct form of business.

Learning activity

Visit the RRA or a nearby tax office and discuss the documents used in the tax system.

Types of taxes payable

When you pay tax you will need to state which type of tax you are paying. For example:

- corporate tax
- Value-added Tax (VAT)
- consumption tax.

5.8 Documents used for taxation

You need to register a new business with the Rwanda Revenue Authority and fill in the required documents within a period of seven days from starting the business.

Before you can open your door for business you also need to ensure that you have the correct permits and licenses to operate the business. A business can be registered as an individual business, local or foreign company.

A business needs to be registered with the Rwanda Development Board (RDB). When you register your business, you receive a certificate of company registration (see Figure 5.7). This certificate must be displayed in the business.

ORG Office of the Registrar General		
Date of issuance: 22/08/2016 Company code:		
CERTIFICATE OF DOMESTIC COMPANY REGISTRATION <small>(Article 16 of law No.07/2009 of 27/04/2009 relating to companies)</small>		
Registration date:	27/01/2016	
Company Name:	ABC LTD	
Category:	Private	
Type:	Limited by shares	
Registered Office Address:	RWANDA Umujuji wa Kigali Nyarugenge Sector: Nyarugenge Phone number: 123 456	
Managing director:	Name: ALI HAMED ID document/number: Passport no.: RWANDA	
Business activities:		
No.	Code	Description
1.	S9609	Other personal service activities n.e.c.
2.	C3100	Manufacture of furniture
3.	G4719	Other retail sale in non-specialized stores
4.	G4610	Wholesale on a fee or contract basis




Figure 5.7 Certificate of registration from the RDB

Identification documents

To register for a Taxpayer Identification Number (TIN), you need to bring the completed application to the RRA. You also need to bring the following identification documents:

- your national identity card
- a passport photo.

Activity 5.7

1. What are the steps and procedures one must follow to subscribe to the Rwanda tax system?
2. Explain why the subscribing or registering with the tax system is important.

5.9 Advantages of being part of the tax system

There are many good reasons for being part of a tax system.

Taking part in business

- When you apply for small business loans, you need to prove that you own a business. Lenders and investors will ask to see your business registration before approving a loan. You also need to show your business registration to apply for a credit card.
- Your customers will also feel more confident about buying from a legal business than from one that is not registered.
- Many export businesses receive tax discounts from the government. This is done to encourage the growth of Rwanda's export sector.
- When a business subscribes to the tax system, the business also protects its employees. The business deducts funds for a national pension scheme. This money is used to pay pensions to people that have retired.
- Paying taxes help the government to build and fund different public activities such as building and maintaining roads, schools and hospitals.
- When you become part of the tax system, you are entitled to a tax certificate. This allows you to be an official operator in a business sector.

Case study 5.2

Read the case study. Then answer the questions that follow.

Register your business – it is the law

Government has threatened to close all unregistered businesses as it steps up efforts to make all business operations in the country formal and to increase its tax revenue base.

The move is also aimed at enforcing the Company Act, which was passed in April 2009. This requires all companies to register with the Registrar of Companies at the Rwanda Development Board (RDB). The government introduced a two-year grace period to allow all unregistered businesses to register. Businesses that had registered using the old law also needed to re-register. The law was passed as government wants to encourage small businesses to grow. To implement the law, the Ministry of Trade and Industry embarked on a sensitisation (learning) process where the relevance of this law was explained to the business community.

Source: <http://www.newtimes.co.rw/section/article/2012-06-26/54389/>

Questions

1. Why is it important to grow the country's tax base?
2. Explain the advantages of subscribing to the tax system.

Pre-learning activity

1. Do research on sanctions and penalties in Rwanda.
2. Invite a resourceful person to explain the sanctions and penalties applied to those who don't pay their taxes.

5.10 Sanctions and penalties

It is a legal requirement to pay tax. If a taxpayer does not pay tax or pays the tax late, then the RRA can impose sanctions or penalties. A taxpayer must pay a penalty if he or she:

- does not file a tax declaration on time
- withholds tax
- does not co-operate with a tax audit (official inspection)
- does not register the business.

If a taxpayer repeats the same violation, then the fine is increased.

Closure of a business

If a business owner chooses to close down a business, he or she must apply for a cessation (ending) of trading activities at the Rwanda Development Board (RDB).

If a business has not made any money and is insolvent (cannot pay **debts** owed), then it must apply for insolvency proceedings in a commercial court.

Cancellation of the registration certificate

The Rwanda Development Board will issue the cancellation certificate when the business stops operating and has paid all taxes owed.

Unit summary

Taxation and taxes

- Taxation is a source of income for the government.
- The government uses the taxes collected to build roads, provide state pensions, state funded education and healthcare.
- Taxes are collected in different ways: businesses pay tax on profits, employees pay tax on their income earned and consumers pay a general tax (VAT at 18%) when they buy goods.
- Rwanda uses a progressive tax system (the more you earn, the more tax you pay).
- Taxes are collected by Rwanda Revenue Authority (RRA).

Tax avoidance and tax evasion

- Tax avoidance is when people legally reduce their income according to current tax legislation to pay less tax.
- Tax evasion is when people illegally reduce their income to pay less tax.

The importance of paying taxes

- People working for the government are called civil servants are paid from the taxes that the government collect.
- A shortfall of tax collection will result in the government being required to borrow money from other countries to pay for certain essential services.
- It is expensive to borrow money from other countries therefore the Rwandan government would prefer that more people earn an income so more people can pay taxes.
- Taxpayers have certain rights.
 - Right to confidentiality.
 - Right to legal representation.
 - Right to tax refund.
- Taxpayers have obligations.
 - Register with the RRA.
 - Signing tax returns.
 - Supply supporting documentation when submitting tax returns.

Types of taxes

- Direct tax is tax paid on profit, income, or property tax.
- Indirect tax is paid on goods and services.
- Advantages of being part of the tax system include:
 - Customers will know that the business is a legal entity.
 - A business must be registered to qualify for a bank loan or to apply for a business credit card.
 - A registered business that export goods can receive refunds from the government.
 - A registered business protects its employees.
 - A registered business contributes to the well-being of Rwanda's economy.

Sanctions and penalties

- If a taxpayer does not comply with the law, he must pay penalties.
- A business that decides to stop conducting.

Self-assessment

1. Draw up a table where you list direct and indirect taxes paid in Rwanda.
2. Explain the purpose of adding consumption tax to certain products.
3. Imagine that you have just completed your education and are working for a business. Describe your obligations as a taxpayer.

Topic area: Summative assessment (Units 4 and 5)

Section A

Jeannette makes and sells *amahoro* baskets at the craft market in Caplaki. During the rainy season the market is often quiet.

She thinks that she should increase the price of each basket so that she will earn more money during the busy months.

1. Use the concepts of demand and supply to explain to Jeanette what the price of her baskets should be. (6)
2. Draw a Supply and Demand curve and show how the market reaches an equilibrium price. (4)
3. Explain what is meant by economic integration. (5)
4. Jeanette sells her products on the domestic market. Do you think that she should export her products and enter the regional market? Explain your answer. (5)

[20]

Section B

Frederick works as a clerk in a bank. The bank deducts PAYE from his salary every month. He lives in a small home on the outskirts of town. At the end of the month he shops for monthly groceries at a local supermarket.

1. Is PAYE a direct tax or an indirect tax? Explain your answer. (3)
2. Explain how the accountant at the bank determines how much tax Frederick must pay. (5)
3. At the shop, Frederick notices that some items are VAT-exempt. Explain what this means. (3)
4. Is VAT a direct or indirect tax? Explain your answer. (3)
5. Frederick notices that cigarettes are expensive. Which tax is levied on cigarettes and why do we pay more tax on luxury items? (4)
6. What type of tax must Frederick pay for his property? (2)

[20]

Section C

The Rwanda Revenue Authority has asked you to design a brochure that they will hand out to new entrepreneurs. The brochure must show the benefits of registering a new business for the business owner and for Rwanda.

Use the following statement from the Rwanda Revenue Authority to guide you:
'Without taxes, there is no peace, no roads, no hospitals and no schools.' (10)

Total marks: 50

**TOPIC
AREA**

Financial information and decision making

Sub-topic area Managing finances: Budgeting

Unit 6 Personal budgeting

Sub-topic area Basic accounting

Unit 7 Initial accounting entries of a business



Key unit competence: To be able to prepare a personal budget

Learning objectives		
Knowledge and understanding	Skills	Attitudes and values
At the end of this unit, you should be able to:		
<ul style="list-style-type: none">Explain the meaning of budgeting and personal budgeting.State the role of personal budgeting.Identify the elements of a budget.List the steps of budgeting.	<ul style="list-style-type: none">Analyse the principal parts of a budget.Prepare a budget.Review and make adjustments to a budget.	<ul style="list-style-type: none">Appreciate the importance of budgeting in a daily life.Prepare budgets for personal and business activities.Advocate for budget preparation in the community.



Review activity

Do you recall working with budgets in Senior 1? Why is it important to manage your money well?

Introductory activity

Ngoga is a young man. Last month he found a good job in Kigali. Now he has moved from his family home to the city. On the weekends, Ngoga likes to go out with a friend to the cinema. He also goes to concerts where local bands play. He dreams of buying a car.

When Ngoga lived with his family, he did not need to pay rent. Now he is renting an apartment in the city.

Discuss the following:

1. List Ngoga's wants and needs.
2. Make suggestions to Ngoga on how he can manage his money to satisfy his wants and needs.
3. Do you think it is important to prepare a budget?



Figure 6.1 Personal budgeting is a tool that helps you manage your finances.

6.1 What is a budget?

You can plan how to spend the money that you make. This spending plan is called a **budget**. A budget shows how much money you are likely to earn. It also shows how you plan to spend the money. It is a useful tool that can help you decide how to manage your money.

The importance of a budget

With a budget, you know ahead of time if you will have enough money to buy the things you need. Also, if you have enough money to do the things you want to do.

If you do not have enough money to do everything that you would like to do, then a budget can help you to decide which things are the most important. A budget can also help you to see which expenses you should cut down on.

A budget can show you how much money you can spend. When you follow a budget, you can keep out of debt.

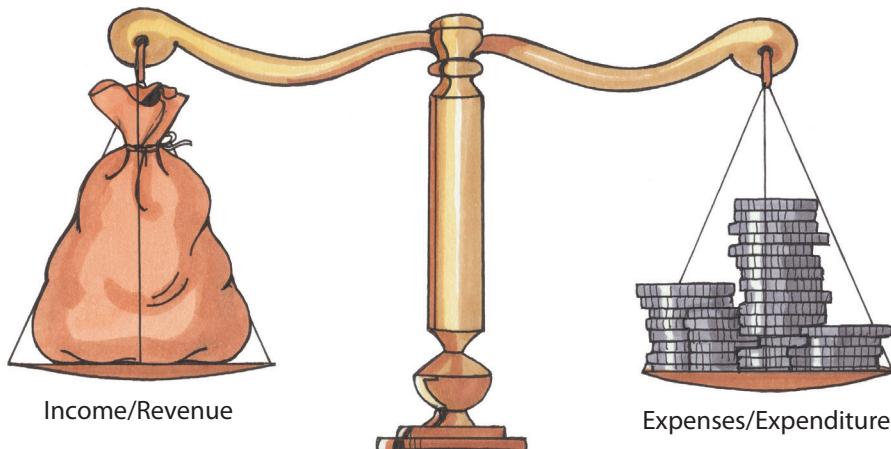


Figure 6.2 A budget shows how much money you can spend. If you spend more than you earn, you will be in debt.

Case study 6.1

Budgeting and our future

As a young woman, Mukundwa dreamt of running her own tour company. After checking the cost of the van she wanted and looking at her salary, she drew up a budget. Then she started saving. After 3 years, with her savings and a small loan from the bank, her dream came true. Mukundwa bought her first 12 seater safari vehicle. Today Amahoro Tours transports tourists throughout Rwanda.

Questions

1. What are the elements of a budget? Explain how to draw up a budget.
2. Why do you think that it was important for Mukundwa to draw up a budget?
3. What should Mukundwa do if she found that her expenses were greater than his income?
4. While Mukundwa was saving up to start her business, she still needed to pay for daily expenses such as food and rent. She therefore drew up a personal budget. What is the difference between a personal budget and a budget for a business?

Case study 6.2

Read the case study and answer the questions that follow.

Presenting the national budget

There are many different kinds of budgets. Every year, the Rwandan Minister for Finance and Economic Planning makes a presentation at a session in parliament in Kigali. In this speech, the Minister announces the amount of taxes the government expects to raise. The Minister also explains what the Rwandan government plans to spend the money on. The government's budget is called the national budget. It is published on the finance ministry website.

Questions

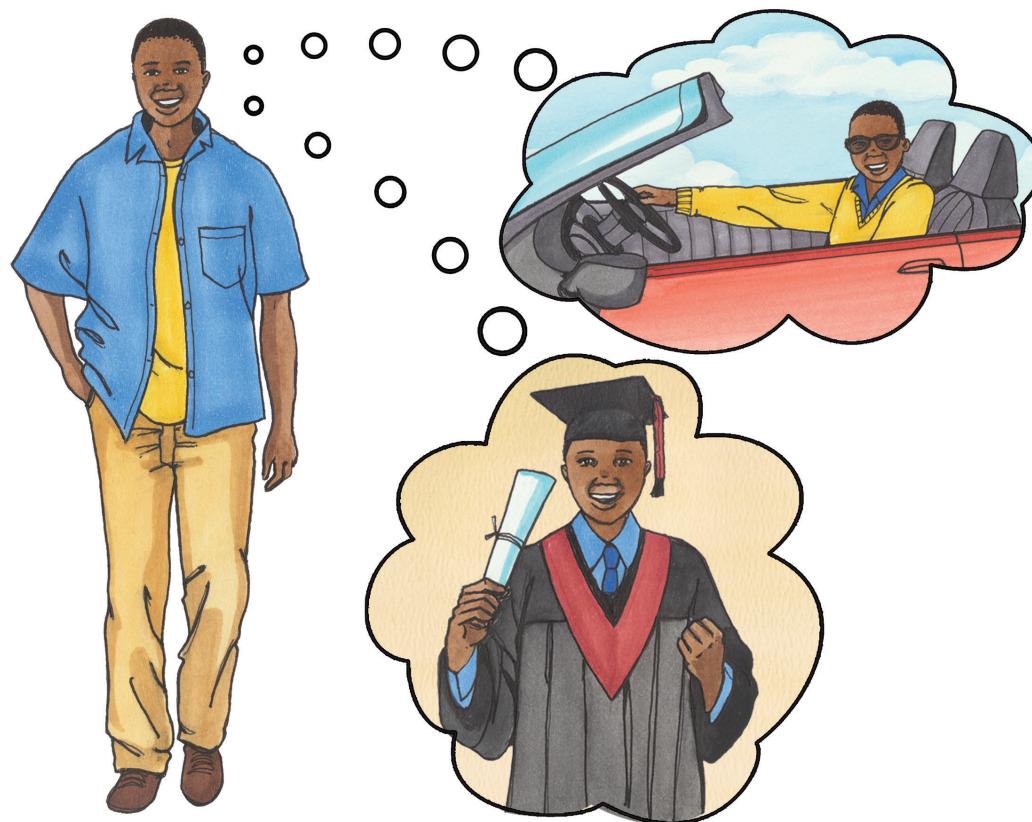
1. How does the Rwandan government announce the national budget?
2. The income for the national budget comes from taxes that are paid by people in a country. How do you think the Rwandan government knows how much tax will be raised next year?
3. One of the government's priorities in 2015 was rural development. Expenses for improving land use and reducing poverty was 252 Frw billion. This was 14% of the budget.
 - a) Explain how a budget can help the government decide what to spend money on.
 - b) Rural development, promoting export, youth development and other programmes were allocated 52% of the budget. How do you know that these were **priority** programmes?

Did you know?

An Excel spreadsheet is a useful tool for creating a budget.

6.2 A personal budget

We can draw up many different types of budgets. However, they all contain the same elements. In a government budget, the income comes from taxes that are paid by people in a country. The money that the government spends on education and health care is called expenses. For a business, income is the money that the business earns from the sales of goods and services. The expenses include salaries for staff and rent of offices.



We also need to budget for the money that we earn. This is called a personal budget.

A personal budget normally lists income and expenses for one year. You can also **extend** the budget into the future to save for important things like a car, a home or retirement.

Figure 6.3 Budgeting can help you with important decisions.

Activity 6.1

1. Why is it important to have a personal budget?
2. Discuss the similarities and difference between a personal budget, a business budget and a national budget.

The role of a personal budget

A personal budget is a tool that can help you:

- use your personal resources effectively
- to make personal decisions
- to minimise financial risks
- understand your spending habits
- to build a savings account
- to maintain a good credit rating.

Budgeting and decision making

Budgeting can help you to use your resources effectively. When you see how much things cost, then you can make important decisions. For example, if you spend too much money on food, you can save by buying less soft drinks. You could also eat out less. If transport is too expensive, you could perhaps use a bicycle to get to work.

Case study 6.3

Learning to budget

Ngoga is a young man who lives and works in Kigali. The table shows his monthly expenses. To get a picture of how much he spends on each item, Ngoga draws up a pie chart.

Monthly costs	Frw
Housing (rent and utilities)	20 000
Food	7 500
Clothes and personal items	5 000
Transport	5 000
Insurance	2 500
Medical insurance	5 000
Debt repayments	5 000
Total costs	50 000

How to draw up a pie chart

Step 1

Divide each expense into the total expenses. This is the fraction of each expense out of total expenses.

Monthly costs	Frw	Fraction
Housing (rent)	20 000	$\frac{20\ 000}{50\ 000} = 0,40$
Food	7 500	$\frac{7\ 500}{50\ 000} = 0,15$
Clothes and personal items	5 000	$\frac{5\ 000}{50\ 000} = 0,10$
Transport	5 000	$\frac{5\ 000}{50\ 000} = 0,10$
Insurance	2 500	$\frac{2\ 500}{50\ 000} = 0,05$
Medical insurance	5 000	$\frac{5\ 000}{50\ 000} = 0,10$
Debt repayments	5 000	$\frac{5\ 000}{50\ 000} = 0,10$
Total	50 000	

Step 2

A full circle has 360 degrees. To find the number of degrees for each sector, multiply the percentage by 360.

Monthly costs	Fraction	Sector
Housing (rent)	0,40	$0,40 \times 360^\circ = 144^\circ$
Food	0,15	$0,15 \times 360^\circ = 54^\circ$
Clothes and personal items	0,10	$0,10 \times 360^\circ = 36^\circ$
Transport	0,10	$0,10 \times 360^\circ = 36^\circ$
Insurance	0,05	$0,05 \times 360^\circ = 18^\circ$
Medical insurance	0,10	$0,10 \times 360^\circ = 36^\circ$
Debt repayments	0,10	$0,10 \times 360^\circ = 36^\circ$
Total	1,00	360°

Step 3

Draw a circle. Use a protractor to measure the degrees of each sector.

Step 4

Add all the sectors until your pie is complete. Add a key that shows what each sector represents.

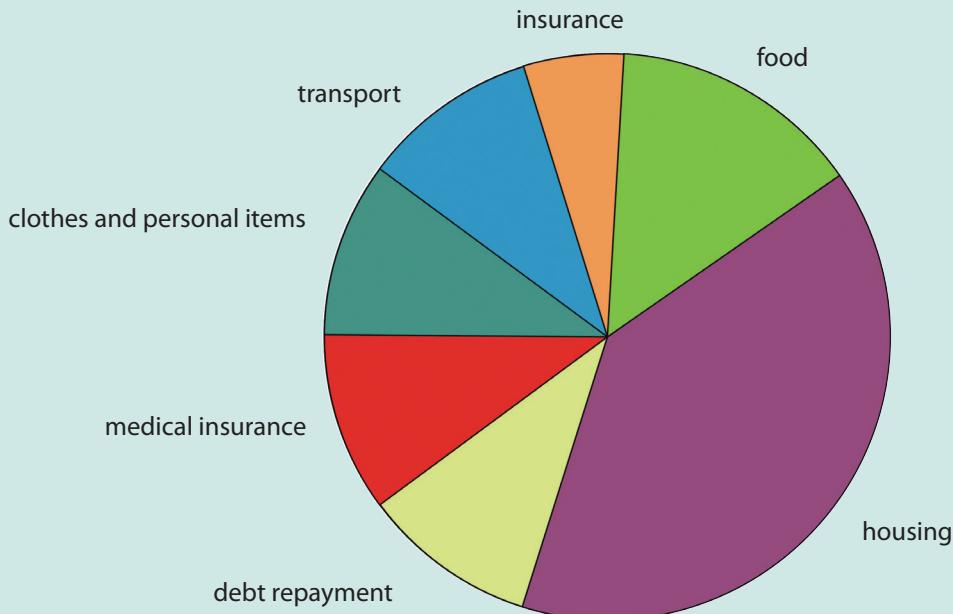
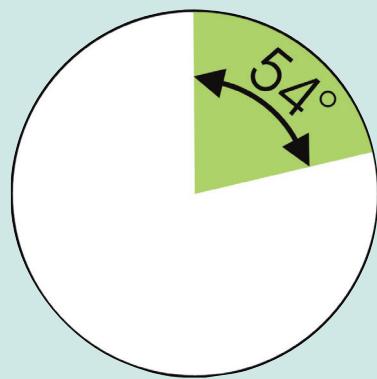


Figure 6.4 A pie chart of Ngoga's expenses

Exercise 6.1

List the monthly expenses in your household. Draw up a pie chart of your expenses.

Budgeting and minimising financial risks

Many people find it difficult to manage their finances. If you have little or no work, it is very difficult to pay for rent and food for the month.

Budgeting can minimise (make less) your **financial risk** and ensure that you can pay for your expenses. Follow these rules:

1. Pay your rent and food first.
2. Pay your utilities (gas, electricity and water).
3. Reduce or cancel services that are not necessary.
4. Set aside money to pay debt so that you will not pay additional interest.

Cross-cutting issue

Financial education:
It is very important for everyone to know how to budget. This ensures that you do not spend more money than you have and fall into debt.

Look for options that will increase your income. Can you find temporary work? Do you have an extra room that you can rent to a boarder?

Activity 6.2

Write a mind map on the board where you list the importance of budgeting in daily life.

6.3 Elements of a budget

A budget includes a list of income and expenses for a time period.

6.3.1 Income

Income can be a salary or wages. A salary is income that is paid every month. Wages are paid weekly. You can also earn income from interest on money in a savings account at the bank.

If you rent out part of your home, you earn rent. Students may receive a **stipend** or **bursary** at a university or your parents may give you a monthly allowance.

Add all your income in a column. This is your total monthly income. List your income for the following months. Your budget can be for six months or a year.

Income	January	February	March	April	May	June
Earnings (salary or wages)						
Interest earned						
Other income						
Total income	↓					

Add all income

6.3.2 Expenses

In a personal budget, expenses can include:

- rent or home loan repayments
- utilities (gas, electricity and water)
- rates and taxes
- home maintenance and repairs
- food
- laundry
- school uniforms, school books
- school fees for senior secondary
- clothes
- transport
- insurance
- medical insurance
- **debt repayments**.

Expenses	January	February	March	April	May	June
Rent or home loan repayments						
Utilities (gas, electricity and water)						
Home maintenance and repairs						
Rates and taxes						
Food						
Clothes						
Laundry						
School uniforms, school books						
School fees						
Transport						
Insurance						
Medical insurance						
Debt repayments						
Total expenses						



Add all expenses

Exercise 6.2

List the income and expenses for your family in a budget.

When listing the expenses, first write a list of needs and wants. Then select from this list which expenses are essential (needed) and which are expenses that you can add if you have sufficient (enough) income.



Figure 6.5 If your expenses are higher than your income, then you need to adjust your budget.

6.4 Steps in preparing a budget

Follow these steps to prepare a budget:

- Step 1:** Record all sources of income in a given time period.
- Step 2:** Create a list of expenses for a given time period.
- Step 3:** Subtract expenses from income.
- Step 4:** **Review** the budget.
- Step 5:** Make **adjustments**.

When you subtract the expenses from the income, you will see if there is enough money to pay for all the expenses. If the expenses are higher than your income, you need to make an adjustment. You can try to find another way to earn an income. You can also try to reduce expenses.

Activity 6.3

Draw up the following budgets.

1. Write a list of sources of income for yourself for a given time period. Then list the expenses. Draw up a personal budget.
2. Find an idea for a business. Then compile a budget for the business. Show the sources of income and expenses.

Activity 6.4

Prepare a presentation where you **advocate** for budget preparation in your community.

Case study 6.4

Read the case study and answer these questions.

Drawing up a personal budget

Ngoga draws up a personal budget. There is no money left over at the end of each month for savings. So he decides to rent out a room to a student at 5 000 Frw per month. He wants to save up to buy a car, so he places the savings in a bank account. The bank pays 10% interest per year.

Ngoga fills in the income and expenses in the adjusted budget.

	January	February	March
Income	(Frw)	(Frw)	(Frw)
Earnings (salary or wages)	50 000	50 000	50 000
Interest		50	50
Other income	5 000	5 000	5 000
Total income	55 000	55 050	55 050
Expenses			
Rent	15 000	15 000	15 000
Utilities (electricity and water)	3 000	3 000	3 000
Rates and taxes	2 000	2 000	2 000
Food	7 500	7 500	7 500
Clothes	4 500	4 500	4 500
Laundry	500	500	500
Transport	5 000	5 000	5 000
Insurance	2 500	2 500	2 500
Medical insurance	5 000	5 000	5 000
Debt repayments	5 000	5 000	5 000
Total expenses	50 000	50 000	50 000
Balance (total income – total expense)	5 000	5 050	5 050
Balanced carried forward	0	5 050	10 050
Accumulated balance	5 000	10 050	15 100

Add all income

Add all expenses

This is the money that you have from the previous month

Add the balance and the accumulated balance

Questions

1. a) List the steps in compiling a budget.
b) How did Ngoga adjust his budget?
c) Ngoga wants to save 100 000 Frw. How long will it take him to save?
2. List your own income and expenses. Then prepare a personal budget. Review and make adjustments to the budget if needed.

Adjusting a budget

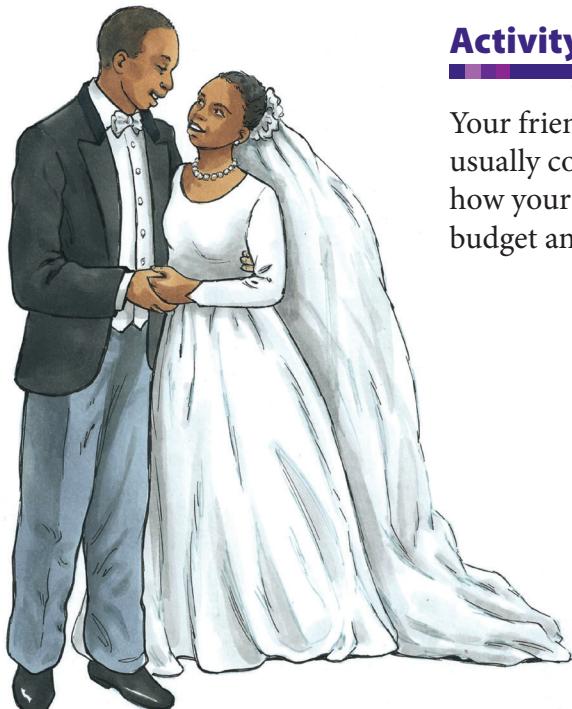
A budget is a useful tool that helps you to plan for the future. Sometimes, things happen that you did not plan for. You then need to adjust the budget.

In Entrepreneurship Senior 1, you learnt about debt management. When unexpected events occur, it is important to adjust a budget to avoid excess debt.

Pre-learning activity

Refer to Activity 6.3. Explain the adjustments made to your personal budget. How did you do these adjustments?

Financial problem	Reason why difficulty often occurs	Solution
Unexpected illness	<ul style="list-style-type: none"> Increased medical expenses and lower income. 	<ul style="list-style-type: none"> Check if health care can cover any of the medical expenses. Adjust your budget and cut unnecessary expenses.
Unemployment or lower income	<ul style="list-style-type: none"> Paying for living expenses on credit results in increased debt. 	<ul style="list-style-type: none"> Identify alternative sources of income. Adjust your budget and cut any unnecessary expenses.
Special occasion such as family member getting married or first baby is born	<ul style="list-style-type: none"> No budget for the increased expense Drop in income during maternity leave. 	<ul style="list-style-type: none"> Adjust the budget to the increased expenses.
Retirement	<ul style="list-style-type: none"> Income is now reduced to savings and pension. 	<ul style="list-style-type: none"> Move to a smaller home. Sell the things that you do not need. Adjust the budget to fit the savings.



Activity 6.5

Your friend is getting married. A wedding usually costs a lot of money. Make suggestions on how your friend can adjust his or her personal budget and avoid getting into serious debt.

Figure 6.6 A wedding is a wonderful occasion, but it is also very expensive.

Unit summary

What is a budget

- A budget is the plan you draw up to say how you intend to spend your future income.
- A budget is important, it shows how much money you can save and will help you reach your financial goals.
- A personal budget is a guess of how much income you will have and how much money you can spend for a specific time period.

The role of a personal budget

- The role of a personal budget is to use personal resources effectively, to minimise personal financial risk and to make personal decisions relating to your finances.
- The government's budget is an estimate of how much taxes they will collect and how much money the government can spend in the country.

Elements of a budget

- A budget has two elements: potential income and expected expenses.
- Income is any regular amounts received.
- Expenses are any amounts that should be paid.

Steps in preparing a budget

- There are five steps to follow when compiling a budget.
- A budget is a projection thus income and expenses can be adjusted to suite changes in circumstances.

Importances of a budget

- Ensures that you will always have money for things that you need
- Will keep you out of debt

Self-assessment

Sofia works in a restaurant in Butare and earns 30 000 Frw per month.

She lives with her family and takes a bus to work. She wants to save money to study in Kigali.

Monthly costs	Frw
Clothes and personal items	12 000
Transport	5 000
Eating out	5 000
Total costs	22 000

1. List the steps for compiling a budget.
2. Compile a budget that shows Sofia's income and expenses for the next year.
3. How much money can Sofia save every month?
4. Sofia wants to save 150 000 Frw before she goes to Kigali. Will she have enough money at the end of the year?
5. Make suggestions on how Sofia can adjust her budget so that she will have enough savings at the end of the year.
6. Sofia lives with her family. What additional expenses does Sofia need to budget for when she moves to Kigali?

Key unit competence: To be able to record initial Accounting entries for a business

Learning objectives		
Knowledge and understanding	Skills	Attitudes and values
At the end of this unit, you should be able to:		
<ul style="list-style-type: none">Identify various source documents used in business.Identify the users of Accounting information.Explain the double entry Accounting principle and the elements of the Accounting Equation.Identify the different books of prime entry.	<ul style="list-style-type: none">Categorise business transactions following the Accounting Equation.Record transactions in the books of prime entries.	<ul style="list-style-type: none">Appreciate the need for keeping Accounting records in business.Advocate for proper record keeping in business.Show concern for poor record keeping in business.



Review activity

In Senior 1, you were introduced to Accounting.

1. Explain the meaning of Accounting and bookkeeping.
2. Explain the importance of Accounting.
3. Who are the users of Accounting information?
4. Name the different business transactions.
5. Name the methods of payment.

Introductory activity

Mrs Nikuze has just moved to Karumuna in the Eastern Province and plants to start a business. Currently everyone in the region buys their daily bread from Kigali. Mrs Nikuze loves to bake, so she decides to prepare and sell pastries and different bakery products. However, setting up a business also means that she needs to keep track of all of her earnings and expenses. Her brother suggests that she draws up a checklist of financial information that she will need to keep track of in her business.

Draw up a checklist of financial information to assist Mrs Nikuze.



Figure 7.1 Mrs Nikuze's bakery



Figure 7.2 An accountant keeps track of financial records in a business.

7.1 What is Accounting?

In Entrepreneurship Senior 1 you learnt that financial management is managing the resources of a family or a business in an effective way.

Accounting is a system that assists us with good financial management. An accountant keeps, manages and inspects the financial accounts. An Accounting system gives us important information. For example, a business can determine if it is making a profit. A business owner can also use the information to decide if he or she should invest in new machines or a vehicle. An individual person can see if he or she is saving up enough money for retirement.

Both businesses and individuals can check that they are following their budgets.

Accounting is also important when paying taxes. When we add our financial transactions into an Accounting system, we can determine how much tax we need to pay.

To add financial information into an Accounting system, we first need to gather source documents.

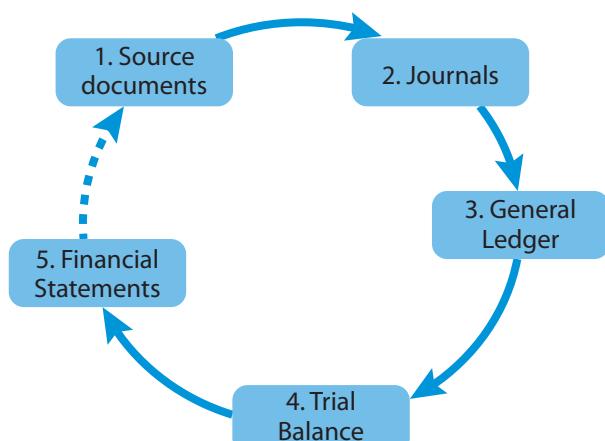


Figure 7.3 The Accounting Cycle

7.2 Source documents

How can you tell that you have paid for a loaf of bread at the supermarket? The teller gives you a till slip that shows how much you have paid. This slip is a type of **source document**.

A source document is the original document used in a financial transaction. It is the proof that the transaction took place.

The source document is used to keep track of the money that was exchanged in the transaction. On the document we include details such as the date,

the amount of the transaction and the quantity of goods traded. We also include the buyer, seller involved and the place where the transaction took place. Examples of source documents include:

- a receipt
- a voucher
- deposit slip
- an invoice
- a cheque
- a payment order.

Pre-learning activity

1. Find evidence to show that you traveled on a bus or bought fruit from a shop.
2. What are these documents called?

7.2.1 Invoices

When you buy a product or service, you receive an invoice from the seller. An invoice lists the description and the quantity of the item sold or service provided. This document is a record of the sale for both the seller and the buyer.

A buyer can pay straight away (known as Cash on Delivery or COD), but sometimes the buyer has a period of time to pay, for example 30 days or 60 days. This information is also on the invoice.

SFN BUILDING SERVICES		INVOICE	
		INVOICE NO: 57049	
SFN BUILDING SERVICES, Kibongo Avenue 79, Butare. (493) 726 411			
<u>TO:</u> Company B, Valley street 521, Butare.		<u>DATE:</u> 24 AUGUST 2016	
QUANTITY	DESCRIPTION	AMOUNT	
	BUILDING PERMIT	Frw	2 000,00
	ARCHITECTURAL SERVICES		5 000,00
	MACHINERY RENTAL		18 000,00
	SUBTOTAL	Frw	25 000,00
	VAT @ 18%		4 500,00
	TOTAL		29 500,00
	BALANCE DUE	Frw	29 500,00

Payment terms: COD

Figure 7.3 An invoice

7.2.2 Deposit slips

We use a deposit slip when we want to deposit money into a bank account and a withdrawal slip when we want to take money out of a bank account. To deposit money, we fill out the form to show how much money we deposit. The teller at the bank keeps the deposit slip along with the cash deposit and provides a receipt. The receipt is proof that the money has been deposited.

DATE <input type="text"/> 20 <input type="text"/>		DEPOSIT SLIP	
NATIONAL BANK OF RWANDA			
CREDIT _____			
Depositor _____			
Telephone _____			
Address _____			
ACC NO		RWANDAN FRANCS	
<input type="text"/>		Notes	<input type="text"/>
<input type="text"/>		Coins	<input type="text"/>
<input type="text"/>		Money Orders	<input type="text"/>
<input type="text"/>		Subtotal	<input type="text"/>
Total <input type="text"/>			
Name (print) _____			
DEPOSIT REFERENCE <input type="text"/>			

The date that
that the deposit
was made

Details of the
person that
deposits the
money

The amount of
money

Signature from the person that deposits the money

Figure 7.4 A bank deposit slip

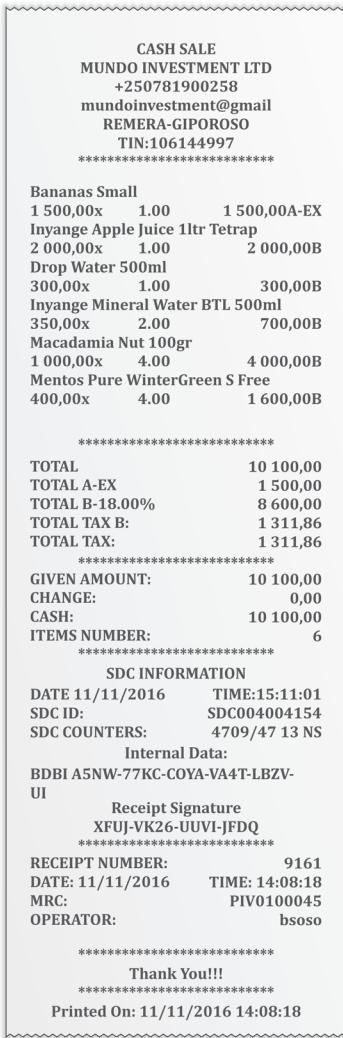


Figure 7.5 Various receipts



7.2.3 Receipts

A receipt is proof that payment has been received. When the buyer pays for goods, the seller issues the receipt. A bank also issues a receipt or deposit slip when you pay an amount into your bank account.

7.2.4 Voucher

A voucher authorises payment. The voucher is proof that the transaction has occurred. We can use vouchers for many different purposes. For example, we use a payment voucher to show that an invoice has been approved for payment in a business.

PAYMENT VOUCHER		
Chimpanzee Forest Lodge	PV number: _____	
Payee: _____	Date: _____	
Method of payment: Cash <input type="checkbox"/> bank transfer <input type="checkbox"/> credit card <input type="checkbox"/> debit card <input type="checkbox"/>		
The sum of: _____	_____	
Approved by: _____	Paid by: _____	Signature: _____

Figure 7.6 A voucher

7.2.5 Cheques

In ancient Persia (present day Iran) traders travelled long distances to sell their goods. The journey was long and dangerous. To avoid carrying large sums of money, the traders issued a vow (promise) to pay for goods when they were delivered. This promise is today called a cheque.

A cheque is a written instruction that orders a bank to pay a specific amount of money from the cheque holder's account to the account of the person named on the cheque. The three parties to a cheque are the:

- drawer: person that signs the cheque and pays the money
- drawee: bank that pays the money from the cheque
- payee: person that receives the money.

Cross-cutting issue

Standardisation culture:

All around the world, businesses use the same format when issuing source documents.

Cheques have been replaced by EFTs (Electronic Funds Transfers) and credit card payments in recent years. Most companies no longer accept cheques, except from very trustworthy clients. This is because there are a lot of **fraudulent** cheques.

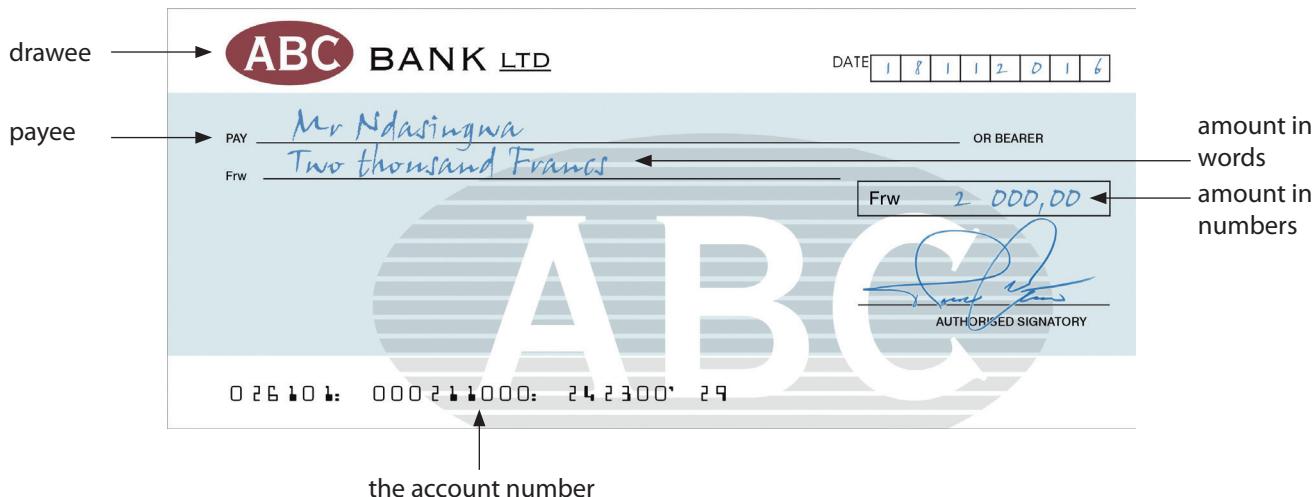


Figure 7.7 A cheque

7.2.6 Payment order

A payment order is an instruction to transfer funds from one bank account to another. This can be done manually (on paper) or electronically. A postal order is a type of payment order. Post offices can send ('wire') money between two points nationally or internationally. As with cheques, this form of payment has largely been replaced by the electronic transfer (EFT).

Activity 7.1

1. Visit a local business centre or Bursar and identify various source documents.
2. Design the following documents for Mrs Nikuze's bakery:
 - receipts
 - voucher
 - pay slips
 - invoices
 - cheque
 - payment order.

Pre-learning activity

Write a definition using your own words for the terms:

- Asset
- Liability
- Owner's equity

7.3 The Accounting Equation

Let us say that you are starting a new job. You want to look smart and decide to buy a new pair of jeans for 10 000 Frw. You use your savings of 8 000 Frw and you borrow 2 000 Frw from your parents. In Accounting, the jeans are called an **asset**. An asset is anything that has value. In business, we buy assets that can assist us in making goods or services to sell for a profit. Examples of assets include delivery vehicles, office furniture or raw materials used to make products to sell.

In business, the money that an owner invests is called Owner's **Equity**. Money that you borrow is called a **liability**.

To buy the jeans, you used Owner's Equity and money that you borrowed. Together this money is equal to the cost of your new asset, the jeans.

This relationship is called the **Accounting Equation**. It is an important equation in business. The Accounting Equation is:

$$\text{Assets} = \text{Owner's Equity} + \text{Liabilities}$$

Let us look at the Accounting Equation for your jeans.

Jeans (Asset) = savings (Owner's Equity) + loan from parents (Liability)
10 000 Frw = 8 000 Frw + 2 000 Frw

The left-hand side of the Accounting Equation must equal the right-hand side.

Case study 7.1

A cup of tea

A cup of tea is a new business that sells quality teas from the Karongi region. Josephine, the owner, has invested in a delivery van and a laptop. She saved 1 100 000 Frw and lent 3 000 000 Frw from the bank.

1. Identify the possessions of Josephine's business.
2. What are Josephine's Liabilities?
3. What is Owner's Equity?
4. Write the Accounting Equation
5. Draw up the Accounting Equation for Josephine's business.

Exercise 7.1

Mrs Nikuze is shopping for a new oven for her business. She wants to buy an oven for 200 000 Frw. She has 120 000 Frw in savings. Her brother has agreed to lend her the remaining amount.

1. Explain what is meant by the Accounting Equation.
2. Use the Accounting Equation to determine how much money Mrs Nikuze must borrow.

7.4 The double entry bookkeeping system

To manage the finances of a business we use an Accounting method called the **double entry bookkeeping system**. In this system we record all the money that we receive and the money that we pay.

In the double entry bookkeeping system there are two components to every transaction. One entry is called a **credit** and one is called a **debit**.

Let us look at another example. To start a business, you borrow money from your parents to invest in a sewing machine. When you do this, two things occur.

- First, you have an asset – the sewing machine. You record that you have increased your assets. This is called a debit.
- Second, you borrowed money to pay for the machine. You record this as a liability. Your liabilities have now been increased. This entry is a credit transaction.

Cross-cutting issue

Financial education
Financial knowledge is important for everyone. Managing money well means a more secure future.

Assets		=	Liabilities		+	Owner's Equity	
Debit	Credit		Debit	Credit		Debit	Credit
Increase (+)	Decrease (-)		Decrease (-)	Increase (+)		Decrease (-)	Increase (+)

Figure 15.8 Every transaction has a debit and a credit entry.

Do you recall using the Accounting Equation for buying jeans?

Your asset – 10 000 Frw for a pair of jeans increased. This leads to a debit.

Your savings 8 000 Frw decreased. Money is also an asset. This leads to a credit.

Your liabilities of 2 000 Frw have now increased. This leads to a credit.

Assets		Liabilities		
Jeans	10 000	Cash	8 000	Credit 2 000

The Accounting Equation must always balance!

A debit is a transaction that occurs when the business increases assets or decreases liabilities and Owner's Equity.

A credit is a transaction that occurs when the business decreases assets or increases liabilities and Owner's Equity.

Using accounts

When we record transactions in the double entry bookkeeping system we use a record called an **account**. To draw up an account we use a T-shape. The left-hand side is used for debits and the right-hand side to record credits.

We use different accounts to record the Assets, Equities and Liabilities of a business. An account is the first step to drawing up financial records for the business.

Account Name	
Debit	Credit

Figure 7.9 An account is shaped like a T.

Asset accounts

An **asset** is an item of value. We differentiate between fixed assets and current assets. Fixed assets are items which will stay for a long period of time, normally more than 12 months. A **fixed asset** is something that the business buys that is used to produce products and services. A delivery vehicle and a manufacturing machine are examples of fixed assets. Current assets are items which will stay for a short period of time, normally less than 12 months. A **current asset** is an asset such as raw materials, fixed products or cash. It includes items that the business sells or anything that can easily be converted to cash.

Liability accounts

Liabilities are amounts owing to lenders, investors or other creditors.

A **liability** is debt that the business owes. When we buy expensive things, such as a car or a home, we usually borrow money that we must pay back over a long period of time. This is called a **long-term liability**.

A business pays back a long-term liability over a long period of time, usually more than a year.

A **short-term liability** is a debt that the business must pay back in the near future. If the business buys raw materials on credit, the supplier usually wants payment within one month. A telephone bill must also be paid within a short period of time, so this is also a short-term liability.

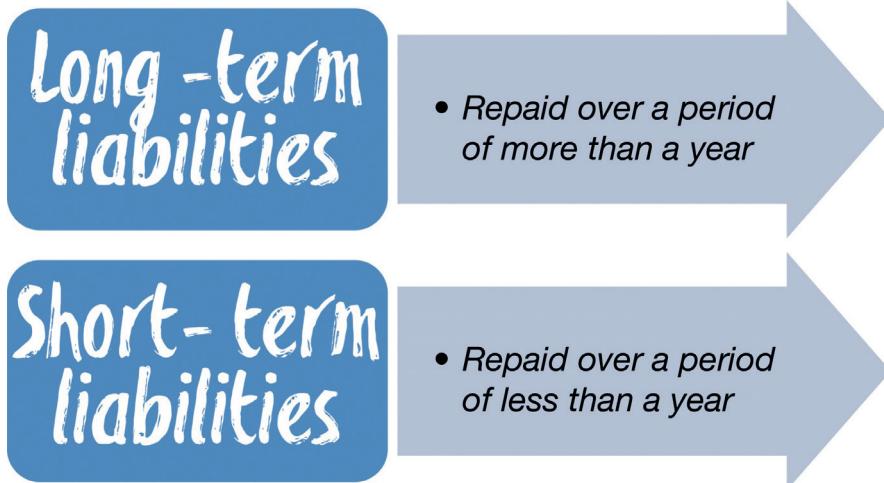


Figure 7.10 The difference between long-term and short-term liabilities

Equity accounts

Every business is owned by somebody. The money that the owner invests in his or her business is called **Equity**. The Equity accounts track how the owner invests in a business. These accounts include:

- The **Capital account**: To start a business, the owner typically invests his or her savings. This money is used to buy equipment, to advertise the business and pay other costs for the new business.
- **Retained Earnings**: This account tracks the profit or losses of the business from its starting date. At the end of each year, the profit or loss is added to this account.

Exercise 7.2

1. Write down a definition for the following terms: account, Asset, Liability, Owner's Equity.
2. Write down the Accounting Equation and explain why this equation always balances.
3. Explain how the double entry bookkeeping system works.

Prime books

Prime books are Accounting records. A prime book is the first place where a business transaction is recorded. We use the information on source documents and capture this in the prime books. The entries in a prime book are arranged according to when they happened (they are in chronological order).

The main prime books are:

- General Journal
- Sales Journal
- Purchases Journal
- Sales Returns
- cashbooks
- Purchases Returns

Pre-learning activity

Visit or invite the school bursar. Discuss the prime books used in the office and their functions.

When the information has been captured in the prime books, it is then transferred to the **Ledgers**. The Ledger accounts are used to prepare the financial statements for the business.

7.5 Debit and credit entries

It is sometimes difficult to identify the debit and the credit entries in each transaction. Use the guidelines below to decide which entry is the debit and which is the credit.

Debit side increases:

- Drawings (owner withdraws money from the business)
- Expenses
- Assets

Credit side increases:

- Capital (owner invests money in the business)
- Liabilities (debts)
- Income

Exercise 7.3

Mrs Nikuze invests 100 000 Frw in her business. She buys equipment for her bakery for 150 000 Frw. She asks her brother to lend her the remaining amount.

1. Identify the transaction that affects the Assets, Liabilities and Equity accounts of Mrs Nikuze.
2. Complete the Accounting Equation for Mrs Nikuze's transactions.

7.5.1 The General Journal

The General Journal is a master journal used to keep a **chronological** record of all financial transactions of a company. It is also called a master journal. A typical General Journal has columns that lists the date of the transaction, a description of the account, a posting reference (PR) and the debit (Dr) and credit (Cr) amounts.

Below are the General Journal entries that Mrs Nikuze entered when she bought equipment for her bakery business. (See Exercise 7.3)

General journal				
Date	Account description	PR	Debit	Credit
1/5	Assets (equipments)		150 000	
1/5	Liabilities (loan)			50 000
1/5	Equity (owner contribution)			100 000

The date and description of each transaction are included in the General Journal. Each transaction is also listed as a debit or credit entry. As you can see, the debits and the credits must add up to the same amount.

At the end of each year (or reporting period), the transactions are taken from the General Journal and posted to ledgers. A ledger records the information from the journals.

7.5.2 The Sales Journal

The General Journal is divided up into smaller journals. The Sales Journal records the credit sales of a business (when the goods are sold and payment is collected at a later date).

The date the transaction was recorded	The number of the original source document	The name of the customer	The posting reference	The amount of the transaction
Date	Invoice number	Customer	PR	Accounts receivable

7.5.3 Purchases Journal

The Purchases Journal is a record of all the items that a business buys on credit (where the goods are paid at a later date).

Worked example

Mrs Nikuze buys flour and other baking products on credit for 500 000 Frw and pens, paper and office supplies on credit for 100 000 Frw. These amounts are entered into the Purchases Journal.

The date the transaction was recorded	The business or person that the business buys from	This posting reference indicates where the two purchases appear in the General Ledger (GL), on page 17.	The amount that must be paid
Date	Account credited	PR	Amount
1/7	Baking King supplies	GL 17	500 000
2/7	ABC Office supplies	GL 17	100 000

7.5.4 Sales Returns Journal

A Sales Returns Journal records when a customer returns a product. This happens when goods are damaged or when a customer receives an incorrect order.

Sales Returns Journal			
Date	Details	PR	Accounts receivable

7.5.5 Purchase Returns Journal

A Purchase Returns Journal records the transactions of a business returning goods to the supplier.

Purchase Returns Journal			
Date	Details	PR	Accounts receivable

7.5.6 Cashbooks

The Cash Journal or cashbooks are journals where cash transactions are recorded. There are two types of cash journals, a **Cash Receipts Journal** (CRJ) and a **Cash Payments Journal** (CPJ).

Cash Receipts Journal (CRJ)

Whenever a business receives cash, the information is entered into the **Cash Receipt Journal** (CRJ). A business receives cash for different reasons. The simplest transaction is a cash sale. This happens when a customer pays cash for a good or service.

Cash Receipts Journal (CRJ)			
Date	Details	PR	Amount

Cash Payments Journal (CPJ)

When a business pays for goods or services in cash, the information is entered in the **Cash Payments Journal** (CPJ).

Cash Payments Journal (CPJ)			
Date	Details	PR	Amount paid

The transaction date The name of the person or business that is paid

7.6 Summary of the prime books

Prime books	Transaction type
Sales Journal	Credit sales
Purchases Journal	Credit purchases
Sales Returns Journal	Returns of goods sold on credit
Purchase Returns Journal	Returns of goods to the supplier
Cash Receipts Journal (CRJ)	All cash receipts
Cash Payments Journal (CPJ)	All cash payments
General Journal	All transactions

7.7 The General Ledger

The General Ledger is a record of all the accounts that the company uses. When all the transactions have been added into their respective journals, the information is posted to the General Ledger. A General Ledger is a record that the business uses to keep track of financial transactions. The General Ledger contains all the accounts for the Assets, Liabilities, Owner's Equity, Income and Expenses.

The General Ledger is used to draw up the Trial Balance. A Trial Balance is a list of all the General Ledger accounts. This list shows the name of each ledger and the amount. The Trial Balance shows either a debit or a credit amount. The debit amounts are then added and the credit amounts are added. The total credit amount must be equal to the total debit amount.

If the amounts are not equal, the accountant must identify and correct mistakes in the ledgers. When the Trial Balance is correct, the accountant draws up the financial statements. These statements show how well the business did during the year. The financial statements includes an Income Statement that shows how much profit a business made and a balance sheet that shows the Assets and Liabilities of a business. The cycle now starts anew. The source documents are again recorded for a new year.

Note

The Journal entries on the previous pages are examples of some of the information that is posted to the General Ledger.

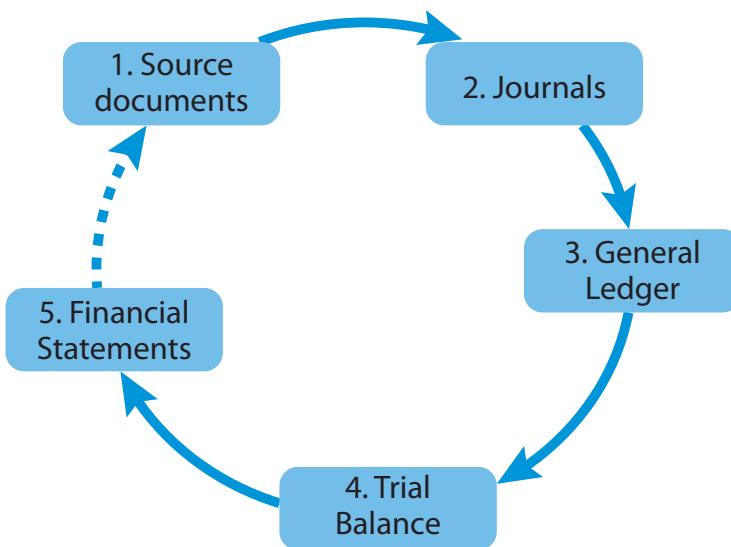


Figure 7.11 Accounting cycle

Example 1

Mr Nahayo sales at his bakery on 25 February 2017 were 15 000 Frw in cash and 20 000 Frw in credit sales. He pays his staff a total of 16 000 Frw in wages. In order for him to make the following day's additional birthday cake order, he needs to buy more eggs and flour. He buys these ingredients on credit at Drymon supplies for 11 000 Frw. During the day, a batch of mandazi was returned because they were over cooked. He gave the customer a refund of 10 000 Frw.

He recorded the daily transactions in the Cash Receipts, Sales, Purchases and Purchase Returns Journals and now he needs to record the transactions in the corresponding Ledgers.

Cash Receipts Ledger

Dr	Bank	Cr
25/2 Sales	15 000	

Sales Ledger

Dr	Sales	Cr
	25/2 Bank	20 000

Purchases Ledger

Dr	Accounts payable	Cr
	25/2 Drymon	11 000

Purchases Ledger

Dr	payable	Cr
25/2 Bank	11 000	

7.8 Recording transactions using the double entry Accounting principle

Let us investigate how to record transactions using the double entry Accounting principle.

Recording transactions at Colourful Trading

The following transactions took place during one week in July 2017 at Colourful Trading, a retailer that sells paints in Kigali.

Date

- 2/7 The owner invests 50 000 Frw in her business. The amount is deposited in the bank.
- 3/7 Cash sales of paint for 20 000 Frw. The amount is deposited in the bank.
- 3/7 Cash payment of wages for 8 000 Frw.
- 3/7 Buy inventory from Musanze Traders for 20 000 Frw on credit.
- 5/7 Buy office supplies from ABC stores for 2 000 Frw on credit.
- 5/7 Credit sales to J Ishimwe for 2 000 Frw. Invoice number 103 issued.

Look at how the transactions are recorded in the different journals and their respective Ledgers.

a) Journal entries

Cash Receiptd Journal (CRJ)			
Date	Details	PR	Amount
2/7	Owner Capital		50 000
3/7	Sales		20 000

Cash Paymentd Journal (CPJ)			
Date	Details	PR	Amount
3/7	Wages		8 000

Purchases Journal			
Date	Details	PR	Amount
3/7	Musanze Traders		20 000
5/7	ABC Stores		2 000

Sales Journal			
Date	Details	PR	Amount
6/7	J Ishimwe		2 000

b) Ledgers

Cash Receipts Journal

Dr	Bank	Cr	Dr	Sales	Cr
2/7 Capital	50 000				
3/7 Sales	20 000				
Dr	Capital	Cr	Dr	Sales	Cr
			3/7 Bank	20 000	
Dr	Capital	Cr			
			2/7 Owner	50 000	

Cash Payments Ledger

Dr	Bank	Cr	Dr	Wages	Cr
			3/7 Bank	8 000	

Purchases Ledger

Dr	Accounts payable	Cr	Dr	Inventory	Cr
			3/7 Musanze Traders	20 000	
			5/7 ABC Stores	2 000	

Dr	Office supplies	Cr
	5/7 ABC Stores	2000

Sales Ledger

Dr	Accounts receivable	Cr	Dr	Sales	Cr
5/7 Sales	2 000			2/7 J Ishimwe	2 000

Activity 7.2

Mutoni grows and sells dried pyrethrum. The following transactions took place during one week in August 2017.

Date

- 1/8 The owner invests 20 000 Frw in her business. The amount is deposited in the bank.
- 3/8 Credit sales to Pyrethrum Coop for 50 000 Frw. Invoice 555 issued.
- 4/8 Cash payment of wages for 6 000 Frw.
- 4/8 Buy fertiliser from Musanze Farm stores for 10 000 Frw on credit.
- 5/8 Buy seeds from Rwanda Seed Supply for 5 000 Frw on credit.
- 5/8 Cash sales for 10 000 Frw. The amount is deposited in the bank.

Use the example from page 99 to draw up your own Journals and Ledgers in your workbook. Use these to record Mutoni's transactions.

- a) Enter the above transactions in their General Journal.
- b) Post the transactions in their respective ledger accounts.

Unit summary**What is Accounting**

- Accounting is a system that assists a business with good financial management and this information assists various stakeholders to make an informed business decision.
- The Accounting process starts when source documents are processed in the Accounting system.

Source documents

- A source document is the original document used in a financial transaction and is proof that the transaction took place.
- Source documents could be: cheque, invoice, receipt, voucher
- A receipt is proof that a payment was received.
- A voucher is a document to proof that payment was made for a specific service. The holder of the voucher gives the voucher to receive the goods or services.
- An invoice is a document issued detailing the goods or services, date of the transaction and the quantity of goods purchased. An invoice can be paid cash or after a predetermined time period e.g. after 30 days, 60 days or 90 days.
- A cheque is issued to pay for goods or services and this amount is guaranteed by the bank. It is a safe way to pay large sums of money.

- A payment order is a written instruction made from one bank to another bank to transfer funds.
- A bookkeeper is the person who captures all the source documents into the Accounting system and prepares certain financial statements.
- Internal and external users use Accounting information for various different reasons.

The Accounting Equation

- All business owners should know the difference between Assets, Equity and Liabilities. These are stated as the Accounting Equation.

The double entry bookkeeping system

- The double entry bookkeeping system is the Accounting method used in a business to manage finances.
Assets = Owner's Equity + Liabilities
- In this system there are two components to every transaction. One entry is called a credit and one is called a debit.

Different books of prime entry

- Prime books, also known as Accounting records, is the first place where source documents are recorded.

Prime books	Transaction type
Sales Journal	Credit sales
Purchases Journal	Credit purchases
Sales Returns Journal	Returns of goods sold on credit
Cash Receipts Journal (CRJ)	All cash receipts
Cash Payments Journal (CPJ)	All cash payments
General Journal	All transactions

- Steps in the Accounting Cycle are:
 - Source documents: a receipt, a voucher, a pay slip, an invoice, a cheque, a payment order
 - Capture in various applicable Journals
 - Post to the Ledger or T-accounts
 - Draw up Trial Balance
 - Compile Financial Statements

Self-assessment

1. Give three examples of source documents.
2. Explain the following:
 - a) Accounting Equation
 - b) Double entry method of bookkeeping
3. List the entries that you will do in the following prime books:
 - a) Sales Returns Journal
 - b) General Journal
4. Explain the difference between long-term and short-term liabilities.

Topic area: Summative assessment (Units 6 and 7)

Section A

Read the text. Then answer the questions that follow.

Music to my ears

Music, dance and poetry play an important role in Rwandan society. Suzanna has started a new business called 'Music to my ears'. In this business, she will produce and sell double-skin drums made from hardwood, cattle skin and lacing. She has rented a space at a retail market in Kigali where she can make and sell her drums.

1. Explain what is meant by a budget. (2)
2. Describe how Suzanna can develop a personal budget. (4)
3. Suzanna estimates that she can earn 40 000 Frw per month from selling her drums. Below is a list of her monthly costs.

Monthly costs	Frw
Rent	12 000
Food, clothes and personal items	12 000
Transport	5 000
Eating out	5 000

- a) Calculate Suzanna's total monthly costs. (2)
- b) Draw up a budget that shows Suzanna's income and expenses for the next year. (10)
- c) How much money can Suzanna save every month? (2)

[20]

Section B

Peter maintains the gardens at hotels and other businesses. Here are some transactions in Peter's Garden Service business.

Date	Transaction	Components
1/5	Peter opens a bank account and deposits 20 000 Frw	1. The business has 20 000 Frw in a bank account 2. The Owners' Equity is now 20 000 Frw
4/5	Peter buys garden tools for 7 500 Frw. He pays cash	1. The business has assets of 7 500 Frw 2. Cash in the bank account is reduced by 7 500 Frw
5/5	Peter pays 2 500 Frw to MTN for cellular phone calls	1. The business incurs an expense of 2 500 Frw 2. Cash in the bank account is reduced by 2 500 Frw
5/5	Peter clips the hedges at Gorilla Hotel and receives 10 000 Frw	1. Income of 10 000 is earned 2. Cash in the bank is increased by 10 000 Frw
	Peter pays wages of 5 000 Frw to his assistant	1. An expense of 5 000 for wages is incurred 2. Cash in the bank is reduced by 5 000 Frw

1. Explain what is meant by double entry bookkeeping. (4)
2. What is a source document? (2)
3. List two types of source documents. (2)
4. Draw up a record of the transactions for Peter's Garden Service. (12)

Cash Receipts Journal (CRJ)

Date	Details	PR	Amount

Cash Payments Journal (CPJ)

Date	Details	PR	Amount

Section C

1. Suzanna sells a drum to a customer. Draw up a suitable source document that shows this transaction. (4)
2. Suzanna finds it difficult to start a new business. Suggest ways that Suzanna can increase her income for her business 'Music to my ears'. (6)

Total marks: 50

Sub-topic area: Standardisation

Unit 8

Concepts of metrology and quality testing



Key unit competence: To be able to apply basic concepts of metrology and quality testing

Learning objectives		
Knowledge and understanding	Skills	Attitudes and values
At the end of this unit, you should be able to:		
<ul style="list-style-type: none">Explain the meaning of metrology, quality testing, and accurate measurement.Identify the base units used in accurate measurement.Identify where base units are applicable.Explain the quality testing process.	<ul style="list-style-type: none">Analyse accurate measurements.Assess the applicability of base units.Assess the quality testing process.	<ul style="list-style-type: none">Appreciate the need for metrology, quality testing and accurate measurement.Show concern for accurate measurement and quality testing.



Review activity

In Senior 1, you were introduced to standardisation.

1. Give a definition of the following terms: standards, standardisation, standards body, standards harmonisation?
2. Why is standardisation important?
3. Name different types of standards.

Introductory activity

Study a bottle of water. Discuss the following:

1. How much water is in the bottle?
2. At what temperature was the water kept at the shop?
3. What does the 'sell by date' on the bottle mean?
4. Milk sold in Rwanda should be safe for our consumption. Use the pictures below to explain how milk is kept safe at every stage. What do you think this is? Use the pictures below to make suggestions for quality testing the production of milk.

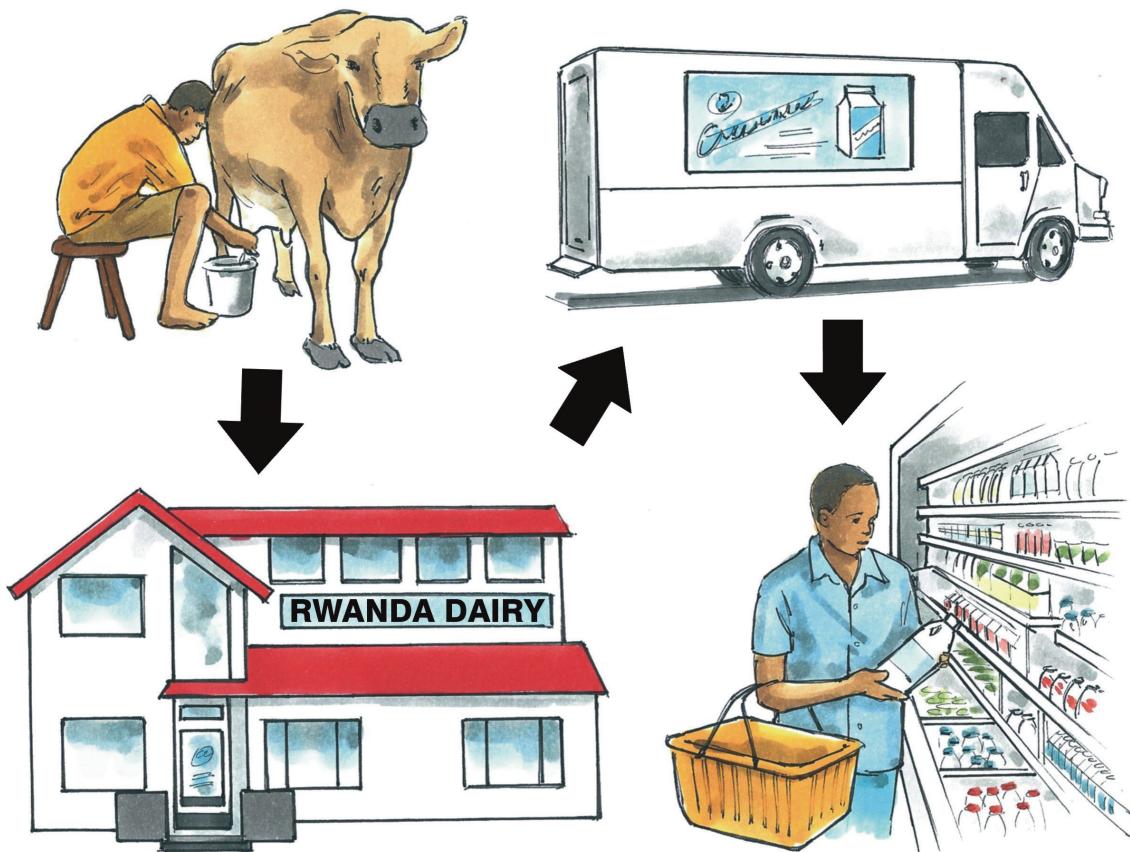


Figure 8.1 The journey of a bottle of milk

8.1 Metrology in entrepreneurship

Metrology is the study of measurements. In entrepreneurship, we learn metrology so that we can manage the production of goods and services. Metrology is used to control the quality of goods and services.

Activity 8.1

Study the quotation below. Discuss how accurate measurements are linked to good standards in a business.

“ We use many different types of measurements. For example, to make food products we need to know how many litres or kilograms to use. We also need to know at what temperature to store fresh produce. To make clothes, you need to know how many metres of fabric you need. To make furniture, you need to know what length of wood to cut. ”

8.1.1 International System of Units

We use a standard system called the International System of Units (SI). There are seven **base units**. The table shows these. All other units come from the base units. We say that they are derived units. For example, we use hertz (Hz) to measure frequency (how often something happens). This unit is derived from seconds, the unit that measures time.

SI Base unit	Name	Symbol
Length	metre	m
Mass	kilogram	kg
Time	second	s
Electric current	ampere	A
Temperature	Kelvin*	K
Amount of substance	mole	mol
Luminous intensity	candela	cd

* Celsius ($^{\circ}$ C) and Fahrenheit (F) are units of measurements for temperature.

Did you know

We can measure temperature using different systems. From your studies in science, you may know how to measure temperature in Fahrenheit or Celsius. If we measure 273 Kelvin, this is the same as 0 degrees Celsius.

Activity 8.2

Discuss which unit (base or derived) you can use to measure the following:

1. The length of time to bake a cake in the oven.
2. The length of a necklace.
3. How cold a freezer that contains ice cream should be.
4. How much meat you need to make a stew for a family of four.

Pre-learning activity

Visit the Science laboratory at your school and identify how various measurements are done.

8.1.2 Accurate measurements

It is important to use accurate measurements. Imagine what would happen if one bicycle tyre was larger than the other. Imagine if the fridge at the store was not cold enough to keep milk or cheese.

Accurate measurements ensure that we can control the quality of products.

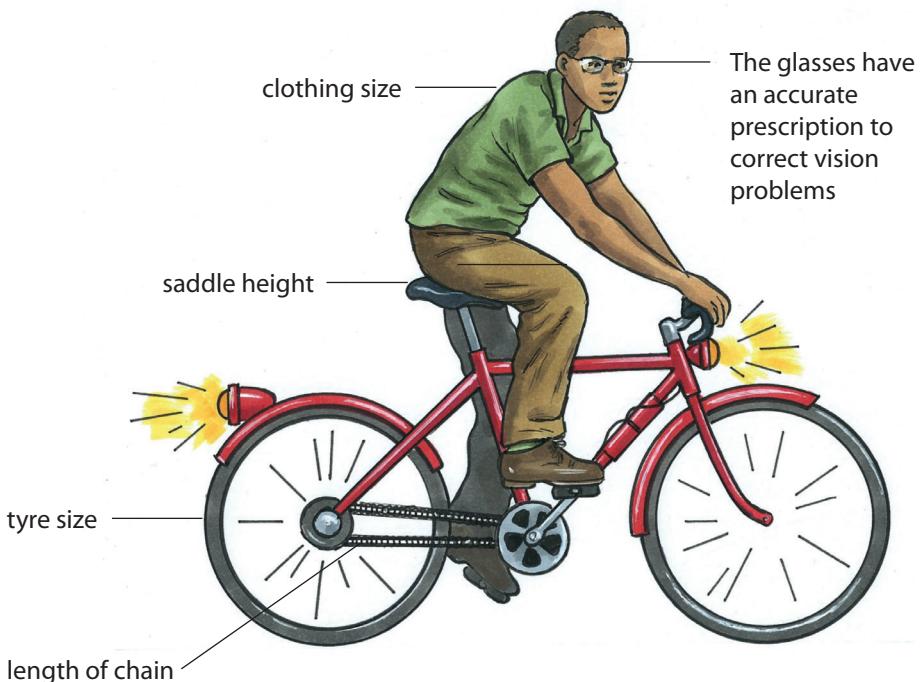


Figure 8.2 Measurements in everyday life

Exercise 8.1

Look at Figure 8.2. Identify the accurate measurements that were used to produce the items in the picture.

Information

You can find a graduated cylinder and a scale in the science laboratory.

8.2 Using base units

We use different base units when we trade products and services. We sell and buy products in quantities such as kilograms or metres. Base units are also used for quality testing.

When we test, we need to **calibrate** our instruments or tools. To calibrate means to verify that the instrument or tool has the correct measurements.

When we have conducted all the tests, we can then verify that the product is made correctly. Verification is done by completing checklists and inspections.

Activity 8.3

Keza wants to sell pancakes at the school fair. She uses the recipe below. She has two cups to use for measuring flour and milk. She needs to calibrate the cups so that they measure the correct quantities.

Pancake recipe

You will need:

- 100 g flour
- 2 eggs
- 300 ml milk
- 1 tbsp vegetable oil
- pinch of salt

Instructions

1. Mix the flour and salt in a mixing bowl.
2. Crack the eggs and pour in the milk and oil.
3. Whisk the mixture until the batter is smooth.
4. Heat oil in the pan and ladle some batter into the pan. Cook for about $\frac{1}{2}$ minute and then use a spatula to gently flip the pancake. Cook for another $\frac{1}{2}$ minute. Serve with cinnamon, sugar and lemon.

Calibrate tools

You will need:

- scale
- graduated cylinder
- two cups
- flour

Instructions

1. Use a scale to measure 100 g of flour. Add the flour to the cup and mark the level on the cup.
2. Use a graduated cylinder to measure 100 ml of water. Add the water to the second cup and mark the level.

You now have two calibrated cups.



Figure 8.3 We use calibrated tools for cooking.

8.3 Quality testing

Quality testing means to test a product against a specific standard. A quality test does not necessarily mean that the product is of a high quality. To do a quality test we follow specific procedures.

Pre-learning activity

Ask your science teacher to explain the process of testing for quality.

Learning activity

Invite a resourceful person from the Rwanda Standards Board (RSB) to explain about the testing process.

Cross-cutting issue

Standardisation culture:

We follow safety standards so that workers stay healthy and do not get hurt. We follow quality standards so that we know what to expect when we buy a product.

Quality testing process

We can find defects (faults) in a product or service by conducting a quality test. The testing process involves all the steps in making a product or service. The tests also check that the people making the product have the correct knowledge and skill. We can also test that they used the correct raw materials.

To carry out a quality test we first select a **sample**. Then we use the correct equipment and apparatus to carry out the inspection. Lastly we write a report on our findings.

Sampling

We cannot test every product, so we first need to select a sample. It is important that the sample is random. This means that we do not plan ahead to decide which product is selected. A random sample means that every product has a chance of being selected.

Equipment and apparatus

We need to use correct equipment and apparatus to carry out tests. When the test happens in a **laboratory** we also need to use the correct **reagents** and **consumables**.

Test methods and reports

There are many different test methods. One method is product inspection. We follow a checklist to see if the product has defects, for example, holes or cracks. We also check that the correct materials have been used.

After completing the tests, we write the findings in a report. A test report compares the findings of the tests with the objectives of the test. We evaluate the findings and decide whether or not the product passed the quality tests.



Activity 8.4

Your class is planning a hiking trip to the canopy walk at Nyungwe Forest National Park. Develop a checklist of the kit that you will need for your hiking trip.

Figure 8.4 A checklist is a useful tool for inspections.

Case study 8.1

Read the case study and answer the questions that follow.

Improving road safety in Rwanda

Rwanda once had one of the world's worst road safety records. Accidents happened a lot. They were caused by consumption of alcohol or driving too fast on poorly maintained roads.

After the 1994 genocide, the government saw that making roads safer could help to rehabilitate the nation. The road safety programme included upgrading roads. It also included making pedestrian crossings and pavements. New laws were introduced. For example, it is now mandatory (required) to wear seatbelts. Vehicles were inspected to ensure that they were roadworthy. The programme had an immediate positive effect. The number of deaths caused by road accidents dropped almost immediately by 30%.

Source: <http://www.who.int/bulletin/volumes/85/6/07-010607/en/>

Questions

1. To reduce accidents caused by alcohol, police stop some drivers and measure how much alcohol is in their blood. Explain why testing a sample of blood reduces accidents caused by alcohol.
2. We use a crashtest dummy to test car safety. The dummy is placed in a seat and the test car is then driven into a wall. Explain why watching a video of a crashtest dummy can increase the use of seatbelts.
3. Future plans for improving road safety include programmes for road safety at schools. Give a suggestion on how you can test the quality of the programme.

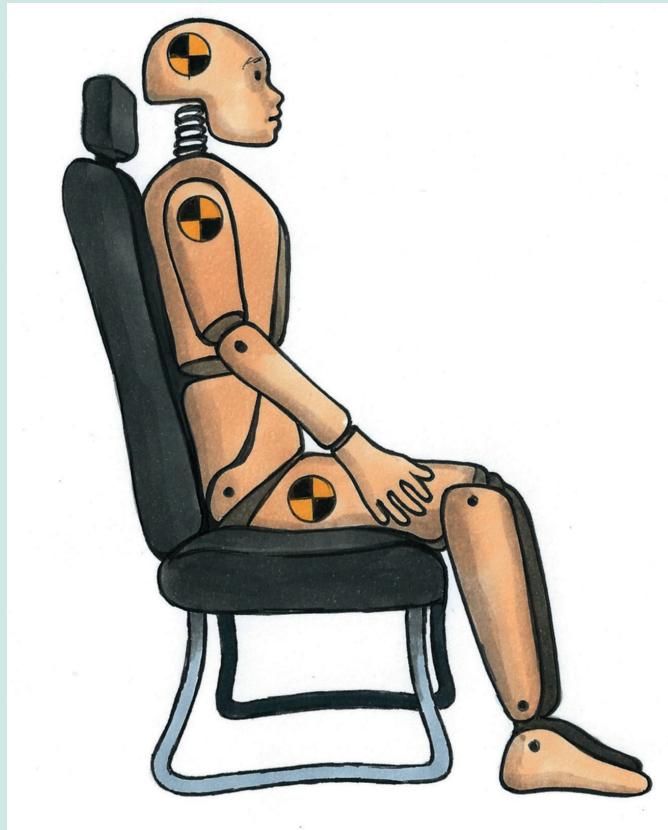


Figure 8.5 A dummy is useful when we carry out dangerous tests.

Activity 8.5

Arrange a field visit where you can investigate measurements in a business.

1. Ask the person responsible for applying measurements and quality testing to share his or her knowledge.
2. Do a presentation after the visit where you explain how the business used the measurements.

8.4 Quality and safety controls in a laboratory

Quality control is important in a laboratory. We also need to ensure that we work safely, so all laboratories have rules and safety controls.

Case study 8.2

Read the case study and answer the questions that follow.

Testing for quality and safety

The Rwanda Standards Board conducts tests at the National Quality Testing Laboratories (NQTL) in Kigali. Here, technicians measure the mass and volume of different products. The food laboratory tests the quality of products, including tea, coffee, animal feeds, meat and cereal. The laboratory measures fat content, carbohydrates (sugar content) and protein in the different food products. The laboratory also conducts tests to ensure that there are no diseases in the food.

Aside from food, the laboratory also conducts tests on the content of fertilisers. These tests ensure that the fertiliser contains the correct plant nutrients, such as nitrogen, phosphorous and potassium.

The laboratory tests ensure that the food sold in the stores is safe to eat.

Source: <http://www.rsb.gov.rw/~rbs/main-nav/testing.html>

Questions

1. List some of the measurements that NQTL technicians do.
2. What unit of measurement do you think the laboratories use to test plant nutrients?
3. What would happen if a fertiliser did not contain the correct plant nutrients?
4. Why do you think that it is important to know the fat content of a food product?
5. Why is quality testing important for:
 - a) Manufacturers
 - b) Exporters
 - c) Customers?
6. Explain the relationship between metrology, quality testing and accurate measurement.

Activity 8.6

The Rwanda Coffee Company is a new company that exports ground coffee to many countries in Europe. The company has asked your class to design a new logo and paper packaging. The bag must contain 250 g of ground coffee.

1. Design a logo for the Rwanda Coffee Company.
2. Draw your design on paper.
3. Make paper packaging by following the instructions below.
4. Conduct quality control on your bags. Measure the size of each bag and ensure that it can contain 250 grams of coffee.
5. Display your paper bags in the class.

How to make paper packaging

You will need:

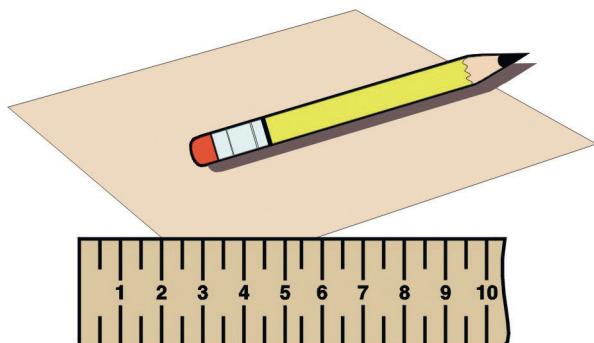
- a ruler
- scissors
- paper
- glue
- a few books
- coloured pencils

Dimensions for packaging

Size (grams)	Width (mm)	Length (mm)	Bottom gusset (mm)
250	160	230	90

Instructions

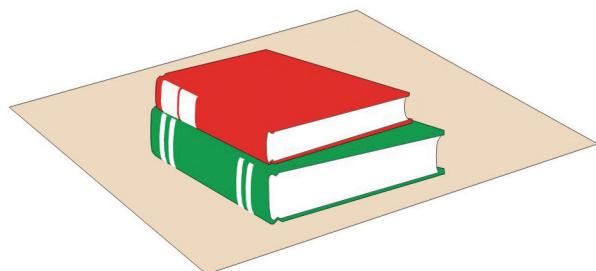
Step 1: Measure the dimensions of the bag on paper. Add 10 mm for overlap on both sides. Cut the paper.



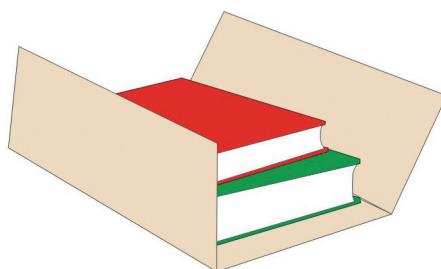
Step 2: Fold the top edge (10 mm) and glue in place.



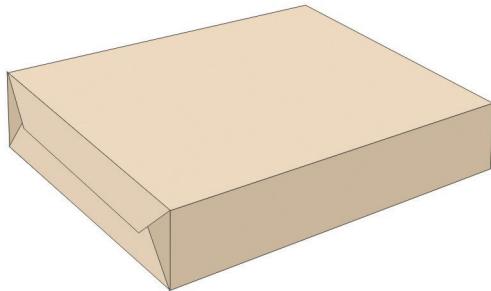
Step 3: Wrap the paper. You can use books to make the shape.



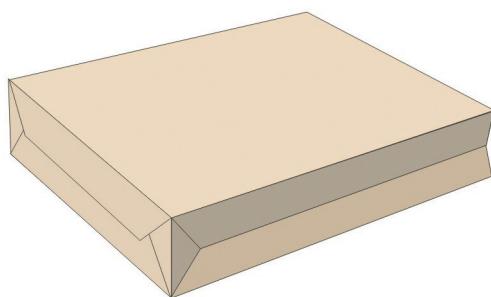
Step 4: Fold the edge and glue in place. Be careful not to wrap the books too tightly, or it may be difficult to remove them from the bag.



Step 5: Form the base of the bag by folding the paper over the books like wrapping a box. Run your fingers down each edge to crease the bag's corners. Remove the books from the bag.



Step 6: Fold the gusset by pinching the sides of the bag together. Make a crease down the middle of the side. Do this on both sides of the bag. Then crease the bottom of the bag.



Step 7: Add your design on the bag.



Step 8: Add a piece of cardboard to the bottom of the bag. Allow space for the top to fold.



Unit summary

What is metrology

- Metrology is the study of measurements.
- Metrology is used to control the quality of goods and services

Base units used in accurate measurement

- The International System of Units (SI) is a standard system with seven base units.

SI Base unit	Name	Symbol
Length	metre	m
Mass	kilogram	kg
Time	second	s
Electric current	ampere	A
Temperature	Kelvin	K
Amount of substance	mole	mol
Luminous intensity	candela	cd

Accurate measurement

- Accurate measurements ensure the production of high quality products.
- When measuring tools are checked to see if they still work correctly, it is called calibration.
- Verification of products can be done by completing checklists or conducting inspections.

The quality testing process

- Products are quality tested against a predetermined set of standards by using a sample of the products.
- Once the tests are completed a report is written to state the findings of the tested sample.
- When sample testing takes place in a laboratory, safety rules and controls must be adhered to.

Self-assessment

Muteteli is a tourist guide. She takes tourists to see Volcanoes National Park.

Muteteli has asked you to develop a quality testing process where she can check the quality of her tours.

1. What is a sample and what type of sample can Muteteli use?
2. Suggest a test method that she can use to evaluate her tours.
3. Develop a checklist for quality testing.
4. Explain why quality testing is important for businesses that offer services.

Topic area: Summative assessment (Unit 8)

Read the text. Then answer the questions that follow.

Section A

Road safety and entrepreneurial opportunities

Rwanda is located just south of the equator, so night falls quickly here all year around. The roads are mountainous and often poorly lit. It is often hard for motorists to see pedestrians and cyclists.

An effective way to improve road safety is to wear a safety reflector. A safety reflector reflects the light from headlights of vehicles. The motorist can now see the pedestrian.

1. What is metrology? (2)
2. List five base units and their symbols. (5)
3. Which problem does the text above discuss? (4)
4. How will a reflector band help to solve this problem? (2)
5. What is a sample and what type of sample can you use to test the reflector band? (5)
6. Suggest another solution for improving road safety in Rwanda. (2)

[20]

Section B

When we test safety measures in a car we can use a crashtest dummy.

1. Explain why we use a dummy and not a real person to test safety measures in cars. (4)
2. Suggest a test method that you can use to evaluate safety using crashtest dummies. (6)
3. How would you ensure that the test method for evaluating safety, using crashtest dummies, is effective? (4)
4. Explain the relationship between metrology, quality testing and accurate measurements. (4)

[20]

Section C

Design a product that is aimed at improving road safety. Set standards for your product and draw up a quality testing process that you will use to ensure that your product follows the standards. (10)

Total marks: 50

Glossary

account – a record of spending and receipts relating to a particular period or purpose

accountant – a person who keeps and inspects financial records

Accounting – the process of keeping financial records

Accounting Equation – the formula that shows the relationship between a firm's Assets and its Owners' Equity and Liabilities

adjustment – make change to get a better result

advocate – publicly support or recommend a particular cause or idea

ambitious – have a strong desire and determination to succeed

analogy – a comparison between one thing and another, typically used to explain or clarify

Assets – item of value owned by a person or business

base unit – one of the seven fundamental SI units

bookkeeper – a person who records financial transactions in a business

budget – summary of your likely income and expenses for a time period

bursary – a grant awarded to a student to pay for university

calibrate – match with a standard scale

capital account – general ledger account that shows the money invested by the owner

cash crop – crops that are planted and sold for cash

cash payment journal – journal to keep track of payments of goods or services when cash is paid

cash receipt journal – journal to keep track of sales of goods or services when cash is received

chronological – record of events in the order that they occurred

circular flow model – a diagram that represents the flow of money and goods and service in an economy

collateral – something offered as security for repayment of a loan, to be forfeited if the loan is not paid

commemoration – a ceremony in which an event is remembered

consumables – components used in a testing process

contracting – enter into a formal agreement

consumption tax – a tax on spending on good or service

corporate tax – tax on the income or capital of corporations

credit – accounting entry that either increases a liability or equity account or decreases an asset or expense account

current asset – cash and other assets that can easily be converted to cash

debate – formal discussion on a topic where opposing arguments are put forward

debit – accounting entry that shows an expense resulting in the increase of an asset or a decrease in liability or owner's equity

debt – money that is owed to others

debt repayment – paying money back according to a schedule

declares – state something in an official way
demand – need or want for a product
demand curve – a graph showing how the demand for a product or service varies with changes in its price.
direct tax – tax, such as income tax, which is levied on the income of a person or profit of a business
dividend – sum of money paid annually (every year) by a company to its shareholders
double entry bookkeeping system – system of Accounting where every entry is recorded in two different accounts
economics – a social science studying how people choose to use resources
economist – a person who studies economics
equilibrium – a state where opposing forces or influences are balanced
equity – money invested by the owner of a business
evidence – facts
excise tax – indirect tax charged on the sale of a good
expenses – unbold on p74
extend – make longer
failure rate – how often something fails
financial risk – the possibility of losing money
fixed asset – assets which are purchased for long-term use such as land, buildings or equipment
fraudulent – definition: dishonest and illegal please unbold cheque in lb
fringe benefit – extra benefit supplementing a salary such as a company car or health care
genocide – the deliberate killing of a large group of people, such as those of a particular nation or ethnic group
households – an economic unit of everyone living under one roof
indirect – not directly caused by something

indirect tax – a tax levied on goods and services rather than on income and profit
innovative – original and creative thinking
insure – arrange for compensation in the event of loss of or damage to property
interdependent – two or more things depending on each other
interest – money paid or received at a regular rate for the use of money borrowed or repayment of debt
inverse – opposite
irregular – not fixed
laboratory – room for scientific experiment and research
ledgers – book of financial accounts
levy – money that you have to pay to a government or organisation
Liabilities – money owed
livestock – farm animals
long-term liability – debt that must be paid over a long period of time
market – any environment that exists when buyers and sellers come together to exchange goods and services
maternity leave – period during pregnancy and shortly after childbirth
metrology – study of measurements
negotiation – discussion aimed at reaching an agreement
overexploit – make use of excessively or in an unfair way
overfishing – to catch too many fish so that the fish are depleted
peat – decomposed vegetable matter that is dried and used as fuel
personal tax – tax paid by individuals that varies with the income of the taxpayer
prime books – a record of a business transaction arranged according to the type of transaction

priority – more important

property tax – annual tax paid on the value of a property

raw materials – basic material from which a product is made, for example, wood or iron

reagent – substance used for chemical reactions

rental tax – a tax on income from renting property, livestock or machinery

retail trade – selling products directly to the consumers

retained earnings – money not paid out to shareholders but reinvested in the company

reputation – the estimation in which a person is held in the community or the opinion that is held about someone or something

review – assess and change if necessary

sample – a small part or quantity that represents the whole

self-reliance – reliance on one's own abilities and resources rather than those of others

short-term liability – debt that must be paid within one year

social makeup – the relationships between social groups

socio-economic – the interaction of social and economic factors

source documents – slip, invoice or other document that is evidence of a business transaction

stipend – fixed regular sum paid as a salary

strategy – a plan of action designed to achieve a long-term or overall aim

supply – the amount of products that producers will sell at a certain price

supply curve – graph showing how the supply of a product or service varies with changes in its price

tariff – tax or duty paid on imported goods

tax – a compulsory contribution to state revenue

trading – buying and selling goods and services

wholesale trade – market where goods are bought and sold in large quantities

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