

Entrepreneurship

Student's Book for Senior Five

Kigali, January, 2019

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FOREWORD

Dear Student,

Rwanda Education Board is honoured to present to you this Entrepreneurship book for Senior five which serves as a guide to competence-based teaching and learning to ensure consistency and coherence in the learning of entrepreneurship subject. The Rwandan educational philosophy is to ensure that you achieve full potential at every level of education which will prepare you to be well integrated in society and exploit employment opportunities.

The government of Rwanda emphasizes the importance of aligning teaching and learning materials with the syllabus to facilitate your learning process. Many factors influence what you learn, how well you learn and the competences you acquire. Those factors include the instructional materials available among others. Special attention was paid special attention to the activities that facilitate the learning process in which you can develop your ideas and make new discoveries during concrete activities carried out individually or with peers.

In competence-based curriculum, learning is considered as a process of active building and developing knowledge and meanings by the learner where concepts are mainly introduced by an activity, a situation or a scenario that helps the learner to construct knowledge, develop skills and acquire positive attitudes and values. For effective use of this textbook, your role is to:

- Work on given activities which lead to the development of skills
- Share relevant information with other learners through presentations, discussions, group work and other active learning techniques such as role play, case studies, investigation and research in the library, from the internet or from your community;
- Participate and take responsibility for your own learning;
- Draw conclusions based on the findings from the learning activities.

I wish to sincerely extend my appreciation to the people who contributed towards the development of this book, particularly REB staff who organized the whole process from its inception. Special gratitude goes to the University of Rwanda which provided experts in design and layout services, illustrations and image anti-plagiarism, lecturers and teachers who diligently worked to successful completion of this book. Any comment or contribution would be welcome for the improvement of this textbook for the next edition.

Dr. Irénée NDAYAMBAJE

Director General, REB

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I wish to express my appreciation to all the people who played a major role in development of this Entrepreneurship textbook for senior five. It would not have been successful without active participation of different education stakeholders.

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Joan Murungi,
Head of CTLRD

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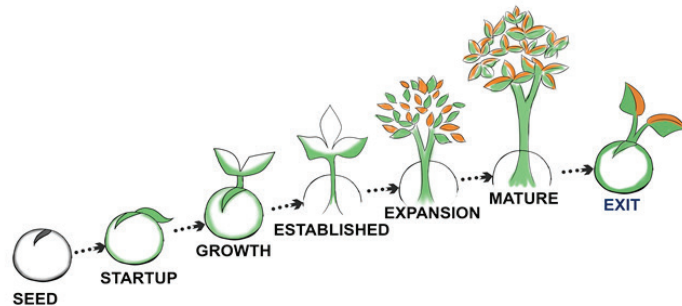
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UNIT 1

BUSINESS IDEAS AND OPPORTUNITIES

UNIT 1: BUSINESS IDEAS AND OPPORTUNITIES



Key Unit Competency: To be able to generate business ideas and take advantage of opportunities

Introduction

Many people worlds over and Rwanda in particular are in constant search for ways and means of starting their own businesses or improving on the existing ones. Many are driven into this by various reasons such as developing a career, self-employment, solving other people's problems or meeting their needs, among others. Such people usually ask themselves many questions like:

- Which business can I do?
- What business would be safe for me to do?
- Which business would I be interested in?
- Will the business be profitable?
- Will the business be able to attract customers?
- Will I be able to cope with competition if I was to start such a business?
- How much money will I need to start the business and where will I get it from?

And so self-questioning and searching goes on and on.

This unit therefore, is designed to guide you answer the above questions and finding an appropriate business idea and opportunity. It will equip you with knowledge and skills as well as attitudes that will enable you to generate business ideas and take advantage of opportunities. Under this unit, you will learn how to generate business ideas, assess and rank them to select those that constitute business opportunities that you can later develop into businesses to realize your business goals.

Introductory activity



Figure 1.1 A cross section of Kigali City Centre (The New Times/ Rwanda)

Rwanda has grown tremendously in the past years in terms of social, economic, political, and technological as well as in other aspects of life. Today, the Rwandan population is highly enterprising leading to a number of business activities being set up.

Referring to figure 1.1 above and using your previous knowledge of entrepreneurship, answer the questions below;

- What do you think has led to tremendous growth in all aspects of life in Rwanda?
- What factors have led to Rwandans being enterprising?
- Give some sources of business ideas that have led to Rwandans being enterprising.
- Not all business ideas are business opportunities. Is this statement true or false? Give reasons to justify your response.
- What should one do in order to take advantage of business opportunities available in his/her community?

1.1. Meaning of a business, a business idea and a business opportunity

Activity 1.1

Case study: A reality T.V. Show

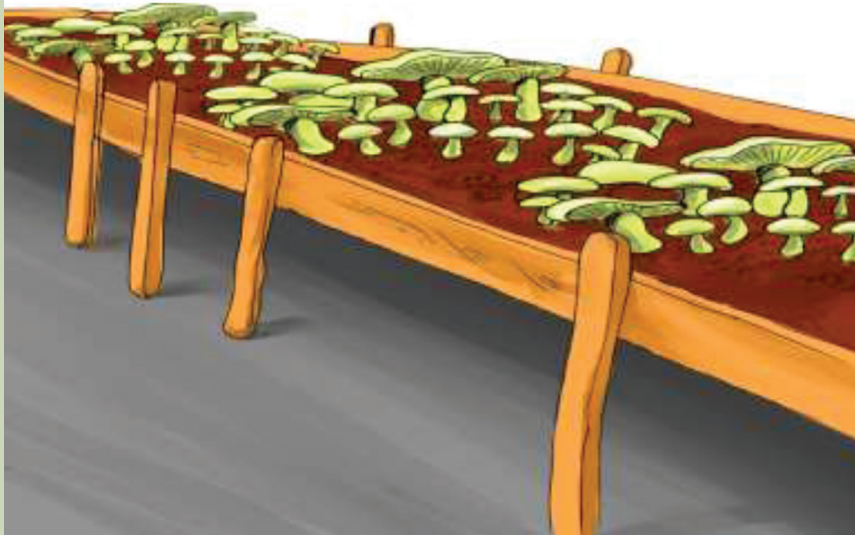


Figure 1.2 A mushroom garden (Impact Markets)

Rwiyemeza is a prominent entrepreneur dealing in growing and processing of Mushrooms in Kicukiro district. One day she was invited to give an interview on Rwanda Broadcasting Agency (RBA) about her business to the whole nation by Mr. Makuru.

Read through the excerpts from the interview

Makuru: How did you decide to get into mushroom growing and processing?
How did you start?

Rwiyemeza: It was during the long senior six vacations after failing to get a job as I waited for my results.

I basically got the idea after listening to the radio, reading newspapers, and watching TV about how different people have succeeded by starting their own business activities. Coupled with my secondary school entrepreneurship competences, I decided to give it a try and started with very many ideas of business activities I could start.

It was not an easy task deciding on one activity but after doing enough research from various people, I finally settled for Mushroom growing and processing.

Makuru: What was the biggest challenge while starting your business activity?
How did you overcome it?

Rwiyemeza: There were so many challenges such as competition, unsure market, lack of experience but deciding on turning my business idea into a profitable business was most challenging. I had to make a lot of research from existing entrepreneurs, Sector offices, and financial institutions. I also had to do personal evaluation.

Makuru: What are the benefits of your business to the community?

Rwiyemeza: Aaahhh.....there are so many I can't exhaust them.... but I will start with employment to me and my family which has improved our standards of living. I have 5 workers who earn a monthly salary, I pay taxes, my business helpsto conserve the environment. Most importantly, I have inspired a lot of other young entrepreneurs especially women to start their own businesses.

Makuru: What advice would you give to the young people who may want to start business activities?

Rwiyemeza: My advice would be that all around us are opportunities of business ideas but one has to be careful because NOT all business ideas can become business opportunities and therefore turned into profitable businesses. Before I finally decided to start mushroom growing and processing, I had tried a number of businesses which failed because they were not viable. So, I again advise the young people that take time and study/research the business ideas before investing money because "Not all business ideas are business opportunities".

Referring to the case study (**A reality T.V. Show**) above, answer the following questions

- a. What do you understand by business and what is Rwiyemeza's business?
- b. Explain what you understand by a business idea. Mention any sources of business ideas for Rwiyemeza's business activity.
- c. Rwiyemeza says it was not easy for her to start up the business activity. Explain what you understand by a business opportunity and identify some challenges Rwiyemeza faced.
- d. Why do you think it is very important to do a research and personal evaluation before deciding to start a business activity?
- e. Why do you think that it is important to generate business ideas?

1.1.1. Meaning of business

Business means the production, distribution, and sale of goods and services for a profit. Business, then, is a combination of all these activities: for example, cars can be classified as goods, services, on the other hand, are activities that a person or group performs for another person or organization. For instance, an auto mechanic performs a service when s/he repairs a car. A business therefore, can also be described as an organization that provides goods and services for human needs.

1.1.2 Rationale for Business



Figure 1.3 Entrepreneurs do business and earn money for their welfare and country development

The simplest purpose of business is to solve a customer's problem or meet the customers' needs. By providing the goods and services that meet the customer's needs, the business owner may realize profits (and at times may incur losses). Businesses exist to impact on people's lives. This happens by businesses providing people with goods and services they desire to meet their needs. While the people buying the business' products (goods and services) are meeting their needs, the business owners expect to realize profits. Businesses serve as conductors of economic activity and development.

Business may be done by private individuals, government, companies, co-operatives or non-governmental organizations (popularly known as NGOs).

1.1.3. Business idea and business opportunity

An idea is like a seed, an impression of a concept or a notion that revolves around seemingly successful product or service. A thought needs some amount of commercial validation before it shapes itself into an opportunity. Opportunity is the care and nurturing that a gardener has to endeavor for to turn the seed into a

seedling and then allow it to grow into a tall tree. The gardener ensures that it gets good soil, sunshine, proper environment and protection from harsh rains or weather conditions.

A business idea may not necessarily be a business opportunity; one needs to filter and sift through these ideas to realize whether they are real opportunities. Most of the times, these ideas remain dormant because of the lack of courage, resources for example time and money or mere inability to take action. In addition, those who show courage to take action generally see their dreams go off track due to lack of farsighted vision or lack of preparedness. The business owner must own the responsibility of its success or failure regardless of the circumstances. Successful entrepreneurs are good at turning ideas into opportunities, they execute to make it all happen. It takes time, resources and hard work.



Figure 1.4 A business woman opting for hair dressing saloon as her business opportunity among many different ideas

Meaning of a business Idea

A business idea can be referred to as the response of a person or persons, or an organization to solve an identified problem or to meet perceived needs, realize fantasies or dreams, improving on existing situations or products, etc.

Finding or generating a good business idea is the first step towards transforming the entrepreneur's desire and creativity into a business opportunity. Essentially, entrepreneurs need ideas to start and grow their entrepreneurial ventures. Generating ideas is an innovative and creative process.

Meaning of a business opportunity

An opportunity is a favorable set of circumstances that creates a need for a new product, service, or business. A business opportunity can be defined as an attractive business idea worth investing in or propositions that provide the possibility of a monetary return for the person implementing them or taking the risk of investing in them. Such opportunities are determined by customer requirements and lead to

the provision of a product or service which creates or adds value for its buyers or end-users.

Application Activity 1.1

As a student of entrepreneurship, come up with ideas that may result into opportunities for you to start business activities to solve identified situations in your community below.

- a. Lack of sufficient safe water in your community.
- b. High demand for charcoal as source of energy in your community.
- c. Increased pollution due to increased disposal of wastes in your community.

1.2. Characteristics/Qualities of business ideas and business opportunities

Activity 1.2

Think about people in your community who have started business activities. Have they all been successful? Give reasons to support your response.

- a. Why do entrepreneurs have to generate business ideas and opportunities?
- b. What do you think should make a good business idea?
- c. What do you think should make a good business opportunity?
- d. Think about people in your community who have started business activities. Have they all been successful? Give reasons to support your response.

1.2.1. Why generate business ideas

There are many reasons why entrepreneurs would need to generate business ideas. Some include:

- **You need an idea:** A good idea is essential for a successful business venture – both when starting a business and to stay competitive afterwards
- **Respond to the market needs:** Markets are made up essentially of customers who have needs and wants waiting to be satisfied
- **Changing fashions and requirements:** Provide opportunities for entrepreneurs to respond to demand with new ideas, products and services
- **To stay ahead of the competition:** Remember, if you do not come up with

new ideas, products and services, a competitor will. So the challenge is to be different or better than others

- **To exploit technology – do things better:** Technology has become a major competitive tool in today's markets and for one to be better with changing technology, generation of business ideas is crucial.
- **Because of product life cycle:** All products have a finite life. The firm's prosperity and growth depends on its ability to introduce new products and to manage their growth
- **To spread risk and allow for failure:** It is necessary for firms to try to spread their risk and allow for failures that may occur from time to time by constantly generating new ideas.

Good entrepreneurial business ideas should be:

a. Market driven

- Solve a problem
- Find a market need
- Customer focused not product driven
- Targets an identified sizeable market segment

b. Feasible

- Attractive –there is a demand
- Achievable –it can be done
- Durable –it lasts
- Value creating –it is worth something
- Safe
- Affordable

c. Unique

- Faster/Better/Cheaper
- Differentiated (commodity)
- They have a "Special Sauce"

d. Fundable

- Having a consistent Revenue stream
- Manageable risk
- Sustainable -Market exists with frequency of purchase
- Scalable or Replicable
- Barriers to entry
- Growth potential
- Product pipeline
- Exit plan

- Innovative

1.2.2. Reasons for generating business ideas

There are many reasons why entrepreneurs would need to generate business ideas.

A good idea is essential for a successful business venture both when starting a business and to stay competitive afterwards. Some of these reasons include;

- **To respond to market needs:** markets are made up essentially of customers who have needs and wants waiting to be satisfied.
- **Changing fashions and requirements:** provide opportunities for entrepreneurs to respond to demand with new ideas, products and services.
- **To stay ahead of the competition:** Remember, if you do not come up with new ideas, products and services, a competitor will. So the challenge is to be different or better than others.
- **To exploit technology(do things better):** Technology has become a major competitive tool in today's markets and for one to be better with changing technology, generation of business ideas is crucial.
- **Because of product life cycle:** All products have a finite life. The firm's prosperity and growth depends on its ability to introduce new products and to manage their growth.
- **To spread risk and minimize failure:** It is necessary for firms to try to spread their risk and minimize failures that may occur from time to time by constantly generating new ideas.

Good business opportunities should be represented by customers' requirements and lead to the provision of the goods or service that satisfies the customers (creates or adds value for the buyers or end user).

A good business opportunity must be carefully examined and should fulfill the following criteria:

- Real demand should exist for the products to be produced.
- Favorable return on the investment made.
- Be able to favorably compete in the market (competitive).
- Should meet the investors many objectives.
- There should be availability of resources necessary for the investment.

Application Activity 1.2

Analyze the extract below and answer questions that follow

In 'tech', there is an old saying, "an idea before its time is worse than a bad idea."

(Adapted from: <https://www.forbes.com/sites/quora/2017/06/21/these-seven-startups-had-amazing-ideas-and-failed/#767f7914613e>)

- a. What does the above extract mean to you regarding business ideas and opportunities?
- b. What should one do to avoid the situation in the extractiv1.

1.3. Sources of good business ideas and opportunities

Activity 1.3

- a. Referring to your community, give at least 3 examples of people or firms that have come up with good business ideas, and explain why you consider these ideas being good.
- b. Suggest any five (5) ways in which people in your community generate business ideas.
- c. Briefly explain any sources of business ideas and opportunities in Rwanda.

1.3.1. How to generate business ideas (Techniques of generating business ideas)

Where do you find new business ideas? In your own head! Of course, you can buy an existing business. But you could also find more exciting business ideas by looking around yourself, your community, country and the world to find out what needs to be fixed, what can improve on the existing situations, what is more exciting, what eases or saves people's lives, what can take advantage of existing or future situations, etc. Entrepreneurs can generate business ideas through any of the following ways.

- a. **Define the Problem.** Any problem, challenge or unmet customer needs and gaps need to be solved or a solution found. By thinking about different ways of solving or meeting the customer needs results into business ideas. Therefore, to generate business ideas, one needs to first define the problem and then look for ways to solve it.
- b. **Brainstorming:** This is where a group of potential entrepreneurs get together to think and generate a list of solutions to challenges or ideas to solve unmet customer needs. As the group members think and mention the ideas that they have come up with, it is written down.

- c. **Look at parallel problems and solutions:** Relate your current problem to the one that you had in the past and check for parallels between the two. The way that earlier problems were solved can assist you greatly in generating ideas to solve subsequent and current situations.
- d. **Look at each task as a challenge:** It's true that if you look at a problem simply as a "problem" then that is exactly how many will look at it. Sure it is a problem, and therefore, it needs a solution. Coming up with solutions to solve the problem or challenge will result into business ideas to that particular challenge.
- e. **Daydreaming:** Most people while undertaking their daily duties have their subconscious continue working (day dreaming). List your dreams. What have you always wished to do? Write them down. Then look for a way to turn these ideas into practical activities that have social, cultural or economic value for which someone out there could or may be willing to pay for.
- f. **Carry a notepad:** Always have a notepad with you. Make it a habit not to live without it. Write down any interesting idea your mind comes up with in response to every situation you may be faced with or environment you find yourself in. Capture and preserve your ideas for later use when you truly want them.
- g. **List customers' complaints:** How many times have you complained about a bad service, poor or wrong timing hours, limitations of a product you have purchased, etc? If your complaint is not unique, then you have just found an area where you could help meet a need. For example, if you were searching for a good or service on the weekend, and the store or Service Company was closed, couldn't you capitalize on that by offering expanded hours?
- h. **Read. Read:** Read virtually every newspaper, business magazine, marketing periodicals, entrepreneurship bulletins, etc that you can find. You may not get a winning idea from each issue, but always learn something new that you can use at a later date. The more information your mind has stored away, the greater the opportunity for creativity.

Every time you read about an entrepreneur who is making it on his or her own, you should be processing the data from your mind on why such an entrepreneur is successful.

- i. **Tap your interests:** Thousands of clever people have taken up hobbies and turned them into successful businesses. Unfortunately, a number of people never consider it as an important piece of work when they are doing something they love.
- j. **Travel:** Traveling opens your eyes and increases the chances for you to generate business ideas. You will for example benefit greatly if you visit well known entrepreneurs or people so that you can listen to their experiences.

- k. **Keep your eyes open:** When you see something that attracts your interest, ask yourself; what is it about this situation that is special? Then narrow your focus, so that you keep an idea that could be useful at some time later. The process of zeroing in on an idea often spawns important niche markets.
- l. **Library or internet Research:** Libraries and internet are often the underutilized sources of information for generating business ideas. The best approach is to talk to the librarian who can point out useful resources, such as industry (specific magazines, trade journals, industry reports), etc. Simply browsing through several issues of trade journals or an industry reports on a specific topic can spark new ideas.

1.3.2.Sources of business ideas

- Personal interest in searching for new things/Hobbies.
- Franchises (improving upon an existing idea).
- Mass media (newspapers, magazines, TV, Internet).
- Business exhibitions.
- Surveys.
- Customer needs, advice, complaints, preferences, wishes, etc.
- Changes in society.
- Brainstorming.
- Being creative .
- Prior jobs.
- Seeing a need or a gap in the marketplace.
- Using skills as foundation for a business.

Application Activity 1.3

1. Read the following and answer as required
 - a. **Generating business ideas from existing businesses:** By reflecting on the entrepreneurs from your community; list the business activities that they are performing. Using the listed business activities, think and come up with your own business ideas.
 - b. **Generating business ideas from the available information:** Take time to read newspapers, books or magazines, listening to the radio, watching television or search the internet. From whatever you have read, heard, watched or seen, generate and write business ideas in your note books.

- c. **Generating business ideas from existing products:** Analyze samples of existing products (e.g. 2 or 3 products) from your community and come up with a list of new products you think that you could make using these products (for example by improving on them, changing their uses, etc). As you think and propose the new products, be guided by their possible applications either at present or in the future.
 - d. **Totally new business ideas:** Think and come up with business ideas that can satisfy or help your group achieve its dream. Present your group report to the rest of the class for discussion.
 - e. **Business ideas based on the learners' community needs:** Visit your community to observe or investigate about its existing un-served needs, future needs and dissatisfactions that they have and list them. Generate business ideas based on your findings from the community.
 - f. **Business Ideas based on existing local resources:** Visit your community to observe or investigate about the existing local resources and list them. Then, discuss and generate business ideas that will make use of the existing local resources.
 - g. **Situations:** Identify different real life situations (e.g. back to school days, festive seasons, weddings functions, political campaigns, road junctions, border crossing points, rainy or sunny days, etc). Based on 3 or 4 situations of your choice, generate business ideas that can take advantage of them.
2. Why do you have to pay attention to issues such as gender, environment, peace among others while generating business ideas and opportunities from the different sources?

1.4. Factors influencing choice of a business opportunity

Activity 1.4

In senior one, unit 4: Concept of needs, wants, goods and Services and Senior two unit 4: Markets, you studied the different forms of enterprises and the impact of the different types of markets. After graduating, you may want to start a business activity.

Referring to application activity 1.3, chose one business opportunity you may decide to start and give reasons for your choice.

Some factors considered while choosing of a business opportunity

Most people have been looking for new business ideas since childhood. In their early years, they have started and tried a number of business activities such as rearing small animals, selling airtime cards, selling bakery products, among others where they have made many wrong mistakes. As they grow older (and wiser), they have learned to screen and evaluate opportunities more effectively before investing in them. Different people will have different criteria depending on things like risk tolerance, career goals, budget, inheritance, etc. Below are some factors to consider when deciding what business opportunity to pursue.

- 1. Identified market need or gap:** The nature of the identified need or challenge in the market or customer need will influence an entrepreneur's choice of a business idea. A person is likely to choose an opportunity which he/she thinks will solve the identified market needs.
- 2. Growing market:** Most people do not want to avoid the hustles of starting a new business. So, they will choose ideas or opportunities that are easy for them to start their businesses while others may choose ideas that gives them a chance to be creative.
- 3. Low funding requirements:** The amount of funding required to implement a business opportunity may influence one's choice of a business idea. Most people will choose opportunities that do not involve a lot of funding in relation to profits.
- 4. Vision or goals:** The choice of a business opportunity will greatly depend on the vision or goals of the entrepreneur. These could be short term or long term goals.
- 5. High profit margins:** Of course, on every entrepreneur's mind is profit. The profit margin expected from the opportunity will greatly influence one's choice.
- 6. Not easily copied:** Every entrepreneur of course wants to protect their ideas, protect intellectual property and developing a brand reputation. So entrepreneurs are likely to choose ideas/opportunities that cannot be easily duplicated in the market at least in the short run.
- 7. Inheritance:** Inheritance is the practice of passing on properties, rights, and obligations upon the death of an individual. Most people would prefer continuing in the line of family business than going for new business opportunities.
- 8. Skillset required:** If the skillset required to execute the opportunity counts to the survival of the business, then execution risk should be less. Therefore, most entrepreneurs would go for opportunities that are in line with their skill set or experience. This may also go as far as the human resources

requirements are concerned.

Application Activity 1.4

Around your neighborhood there are many business activities taking place. Identify any 3 of them and give reasons why you think the owners chose those activities over others.

1.5. Evaluating Business Ideas

Activity 1.5

There are plenty of opportunities out there in your community; it is just a matter of choosing which one is best. Many young entrepreneurs have burning ideas and visions for the future. Everyone's personal criteria and factors will probably be different depending on their goals. Using prior knowledge on entrepreneurship and researching in different entrepreneurship books, identify at least five factors that can be considered while evaluating business ideas.

Factors to consider when evaluating viable business idea and opportunities

It is very important to examine your business idea and determine your potential for success before you spend time and money developing a business plan. If you want to start a business, you will need to think carefully about your business idea. Is it a great idea that could turn into a major brand or will it fall flat at the start line?

Entrepreneur needs to determine whether the business idea they have in mind is viable or not. When evaluating the viability of the business opportunity, the following factors need to be taken into consideration:

- a. **Potential for growth:** An opportunity is said to be viable, when it has the ability to grow and expand.
- b. **Infrastructure:** Easy access to infrastructure such as roads, water, electricity, telephone and postal services among others enables business enterprises to easily make orders for goods and deliver them hence reducing operating expenses. With low operating expenses, profits can be maximized.
- c. **Market for the goods and services:** An entrepreneur has to assess potential and actual market for the goods and services he or she would like to sell. There must be a clearly defined market if the opportunity is to be considered.
- d. **Rewarding to the investor:** The opportunity should be rewarding to the investor (cost-benefit consideration). He should consider the expected returns against the expected cost to ensure that the benefits outweigh the

cost.

- e. **Price structure:** One has to put into consideration the price-structure of the goods and services he would like to offer. Goods and services, which are subjected to constant inflation, are likely to change in terms of price.
- f. **Competition and Competitive advantage:** Competition is regarded as a threat to business of similar kinds operating in a similar location. Although competition is a threat, it is healthy in the sense that it goes along the way in controlling price of goods offered. It is crucial for entrepreneurs therefore to consider opportunities where competition is not high as this will enable them to get reasonable market share. They should venture where competitive advantage is.
- g. **Incentives:** Offered by the government and Non-Governmental Organizations, incentives are legitimate business opportunities to exploit as they save on costs. E.g. duty free importation of sugar and maize, tax waivers, etc.
- h. **Legal Consideration:** The new idea should be in line with the legal regulatory framework e.g. an idea to sell drugs may not be viable because it is illegal.
- i. **Financial viability:** The assessment of financial viability is of significant importance when looking at the viability of the business. Capital investment requirements, break even analysis, cash flow projections, profitability of the business have to be analyzed. This is because they determine the sustenance of the business in the market-mix.
- j. **Personnel, Training and Management:** Before starting a business, it is necessary to make an assessment of the required personnel training and management. Look at the ability, cost of hiring and training human resource. Management efficiency will enable the business to succeed.

Application Activity 1.5

Analyze the photo below and answer questions that follow;



Questions

- What kind of activity is represented in the photo?
- What are the effects of such business ideas to the community?
- As an entrepreneur, suggest any two business ideas you may generate in response to the effects of the activity above.
- Picking one idea, give the factors you will base on while choosing that idea.
- What advice would you give to potential entrepreneurs while generating business ideas in relation to the photo above?

1.6. Evaluating business opportunities using the SWOT Analysis

Activity 1.6



1. Refer to the above figure and explain what the following terms may mean in relation to identifying and evaluating business opportunities:
 - a. Strengths.
 - b. Opportunities.
 - c. Weaknesses.
 - d. Threats.
2. Identify one successful business in your community and
 - a. Briefly describe the factors or things you think favored its growth.
 - b. Briefly describe the factors or things you think might affect its growth.

1.6.1. Meaning of SWOT Analysis

As an entrepreneur, you want to know your business inside and out so you can make informed and moneymaking decisions. To do that, a SWOT analysis is the key. By conducting a SWOT analysis, you will have a comprehensive look at your company's strengths, weaknesses, opportunities, and threats (which is what the acronym SWOT stands for).

A SWOT analysis encourages owners to evaluate their businesses, looking specifically at strengths, weaknesses, opportunities, and threats that surround the company.

A SWOT analysis is an analytical tool that can be used by the entrepreneur to check his/her business/product strength and weakness, opportunities and threats and to compare them with his/her competitors and therefore determine whether his/her business is in better position to compete or not.

1.6.2. The purpose of SWOT

For existing businesses, a SWOT report will:

- Give you a new perspective about your business.
- Provide valuable information that can be used to make strategic decisions.
- Allow you to assess the health of your business in real time.
- Identify areas for improvement.
- Give employees a chance to weigh the overall wellness of the business.
- Guide future plans.

For new businesses, a SWOT report will:

- Highlight the benefits of your proposed business.
- Identify potential problems.
- Encourage you to think critically about starting a business.
- Provide valuable information that you'll need to consider now and in the future.

SWOT stands for:

Strengths refer to the positive internal factors a business can draw from to accomplish its goals and objectives. For example:

- Skilled and motivated staff.
- Modern equipment.
- High quality products.
- Customer friendly but profitable prices.
- Ability of the product to meet customers' needs and preferences.
- Efficiency at serving customers.
- Good business location.
- Good and trained marketing staff.
- High and effective brand name, design, trademarks, packaging, etc.
- Efficient advertising and product promotion terms and strategies.
- Enough capital

Tips to maintain your company's strengths;

- **Be truthful:** It probably goes without saying, that if you're not truthful during this process, the entire analysis won't be effective.
- **Allow for feedback:** As you're brainstorming strengths, make sure your employees are comfortable offering their feedback. You may not agree on some strength, but it's best to talk to them through.
- **Stay focused:** You want to hear many viewpoints, but when you get several people in a room, time can get away from you. Keep the group on task.
- **Keep your list of strengths handy:** Keep your list in an accessible spot. You'll

analyze all of the data that you collect over the next few days at the end of the week.

Weaknesses refer to the negative internal factors that inhibit a business' ability to accomplish its goals and objectives. For example:

- Being new in the market.
- Weak marketing image and distribution image.
- Narrow product line; location of selling points not convenient or accessible to customers.
- Inability to finance needed marketing changes.
- High overall unit cost compared to the key competitors.
- Marketing skills that are poor or below average.

Tips to identify your business' weaknesses

- **Be open-minded:** As your employees suggest weaknesses, remain open-minded. It's likely that an employee will bring up a weakness that you hadn't thought of, or disagree with. When it happens, don't be judgmental.
- **Be critical of your business:** Now isn't the time for rose-colored glasses, now is the time for pure honesty. Be prepared to look at your business inside and out critically.
- **Remember, every business has weaknesses:** When you're finished talking about the negative aspects of your business, you might feel a bit deflated. Remember, every business has weaknesses. Today is just part of a larger process that will help you better access your business.
- **Keep your list of weaknesses handy:** Keep your list in an accessible spot. You'll analyze all of the data that you collect over the next few days at the end of the week.

Opportunities refer to the positive external factors that a business can exploit to accomplish its goals and objectives. For example;

- Possibilities of landing big orders say from government or big institutions.
- Sudden shift in tastes and preferences of consumers in favour of your products.
- Market trend changes due to new development like a school or large business in the area.
- Faster market growth.
- Falling or removal of trade barriers in attractive markets whether foreign or domestic.

Tips to exploit your business' opportunities

- **Do your research:** Finding answers to some of these questions might require some digging. Don't be afraid to make some calls, set up meetings, and do some market research to gauge upcoming changes.
- **Be creative:** To find an opportunity where your competitors cannot will take skill and creativity. Don't be afraid to think outside the box when you're listing possible opportunities.

- **Keep your list of opportunities handy:** We'll add to your SWOT analysis tomorrow, so keep your list of opportunities in a safe spot.

Threats refer to the negative external factors that inhibit a business' ability to accomplish its goals and objectives. For example

- Competitors reducing their prices.
- New businesses getting started.
- Entry of lower cost foreign competitors into the market.
- Changing tastes and preferences of consumers.
- Negative population changes/demographic changes.
- Sudden negative change in government policies.
- Negative shift in forex rates and trade policies.
- Rising sales of substitute goods.
- Declining availability of raw materials for the product.

Tips to identify and manage threats

- **Do market research:** As you're looking into possible threats, you will want to conduct market research to see how your target audience is shifting.
- **List every threat you can think of:** If you think of a threat, list it. Even if that threat has consequences that won't be felt immediately, it's still better to have it on your radar.
- **Threats exist, don't panic:** Listing threats may cause some anxiety, but remember that all businesses have threats. It's better to know about threats than it is to turn a blind eye to them.

Application Activity 1.6

Analyze the case study below and after answer questions that follow.

Case study: KGF Breweries

KGF Breweries is a medium-scale brewery that is located in the growing industrial center of Kigali, Rwanda. This is a relatively new business in its start-up phase having been incorporated recently.

We are on the brink of penetrating a lucrative market in a rapidly growing economy. The current trend towards an increase in the number of entrepreneurs and competition amongst existing companies presents an opportunity for KGF Breweries to penetrate the market. Our products will be positioned very carefully. They will be of extremely high quality to ensure customer satisfaction, supported by impeccable service to our customers. Our primary goal will be to establish and strengthen our license to trade, which will be bestowed by the communities in which we function.

As KGF Breweries prospers and grows, these communities will continue to benefit from both the value created by KGF Breweries and its behavior as a corporate citizen.

We are in a highly lucrative market in a rapidly growing economy. We foresee our strengths as the ability to respond quickly to what the market dictates and to provide quality brew in a growing market. In addition, through aggressive marketing and quality management we intend to become a well-respected and known entity in our respective industry. Our key personnel have a wide and thorough knowledge of the local manufacturing market and expertise, which will go towards penetrating the market. However, we acknowledge our weakness of a medium-sized company without a lot of experience, and the threat of new competition taking aim at our niche.

- a. Describe all the potential opportunities or positive factors that may favour the growth of KGF Breweries.
- b. Describe all the potential areas of weakness or limitations to the growth of KGF.

- c. Describe the likely effects of KGF on the community in general.
- d. Suggest possible strategies KGF may apply to regulate the effects on the community.

Skills Lab Activity 1.7

For the business you intend to start at home or for the products that already exist in the club or at home, how will you improve or add value to them? Answer the following questions to explain the above.

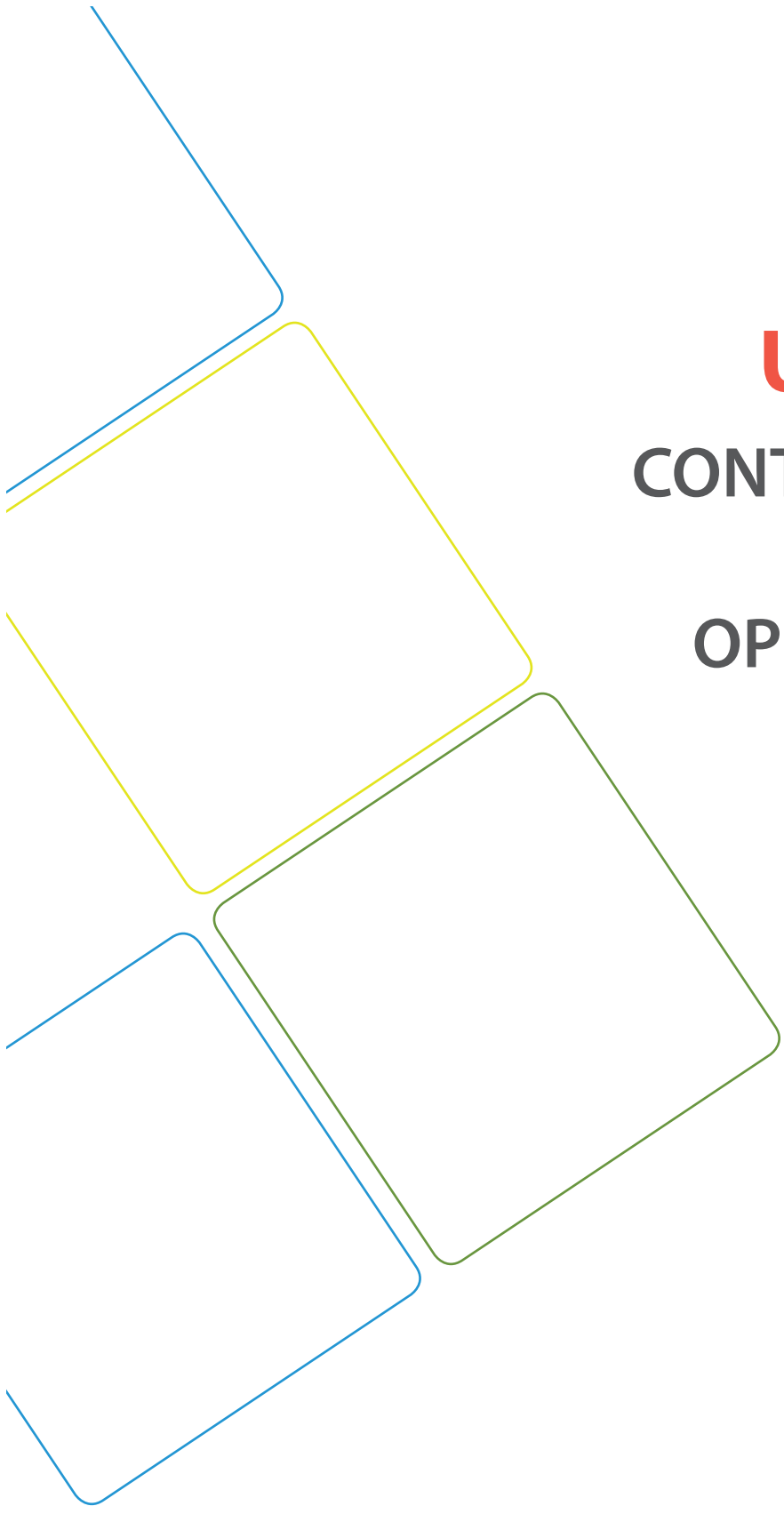
- 1. Relevance of the product or project to the community.**
 - a. What new or improved product are you making?
 - b. What additional attributes will the product have?
 - c. Explain how the product will be able to solve community problems.
- 2. Increasing production.**
 - a. What will be production goal for the year?
 - b. What strategies will you implement to have more output?
 - c. How will you be managing produce (output produced)?
- 3. Making the product competitive.**
 - a. What will be the sales goal for the year?
 - b. What strategies will be implemented to have a competitive advantage over other businesses in the community?
 - c. How will the mentioned strategies above be implemented.
- 4. Reducing negative effects on the environment.**
 - a. Why is it necessary for the clubs at school to be responsible with the environment?
 - b. What measures will you put in place to reduce environmental hazards as a result of club activities?
- 5. Recruitment more customers**
 - a. Discuss different strategies that you will employ to have more customers for your product.
 - b. What measures will be put in place to maintain the clients?

End of Unit 1 Assessment

1. "Not all business ideas are business opportunities" What does this statement mean to you?
2. Referring to your community,
 - i. Identify any one unmet customer need.
 - ii. Generate any three solutions to the unmet customer need identified above.
 - iii. Choose one idea that you think may be turned into a profitable business, and give reasons to support your choice.
3. Analyze the picture below and answer questions that follow.



- i. What is the problem in the picture above?
- ii. What are the effects of such situations to the community?
- iii. Suppose this was in your area, generate any 3 business ideas in response to the situation above
- iv. Use the SWOT analysis to evaluate any one business idea generated above (iii) for potential business



UNIT 2
**CONTRACTS IN
BUSINESS
OPERATIONS**

UNIT 2: CONTRACTS IN BUSINESS OPERATIONS



Key Unit Competency: To be able to make a valid contract and resolve conflicts in business operations

Introduction

The business environment is full of agreements between businesses and individuals. While oral agreements can be used, most businesses use formal written contracts when engaging in operations. Written contracts provide individuals and businesses with a legal document stating the expectations of both parties and how negative situations will be resolved. Contracts also are legally enforceable in a court of law. Contracts often represent a tool that businesses use to safeguard their resources.

This unit is designed to equip you with knowledge and skills as well as attitudes that will enable you to: make personal and business contracts, handle conflicts in life and business, respect agreements with other people and seek for the appropriate institutions for conflict and dispute resolution.

Introductory activity

Referring to laws in business operations and role of standards in business covered in S4, answer the following questions:

- a. What is the importance of laws in business operations?
- b. What is the importance of standards in business operations?
- c. What do you think is a business contract?
- d. Your friend met with a businessperson on a football match who requested her to supply him with beans at a price agreed on from there among the two of them. After delivering 200kgs, she was not paid the full amount of money she had been promised by the businessperson.
 - i. Has such a situation ever happened to you? When and what happened?
 - ii. What do you think was the mistake your friend did? What should she have done?
 - iii. How do we call such a situation?
 - iv. Advise your friend what to do so as to be fully paid her money.
 - v. What lessons do you learn from the above situation?

2.1. Business contracts: Meaning and Forms of Business contracts

Activity 2.1

Read the following paragraph and answer questions that follow.

Musabe is operating a micro enterprise in her local home area of Musanze. She wants Mugisha to supply her goods for her business. Musabe says Mugisha can start right away to supply the goods they will discuss other issues later on BUT Mugisha insists he needs an agreement between the two especially on issues such as payment terms, delivery period, quantity and quality, among others.

- a. How do you call the agreement Mugisha insists should be between them?

- b. Do you think Mugisha is right to have the agreement before starting the supply of goods? Give reasons to support your answer.
- c. In which form may the agreement be made between Musabe and Mugisha? Support your answer
- d. What do you understand by:
- e. Contract.
- f. Business Contract.

2.1.1. Meaning of contract and Business contract



Figure 2.1: A business contract

A business contract is a legally binding agreement between two or more persons/ businesses to perform an agreed business transaction. It is a legally binding agreement between two or more persons or entities.

Dealing with contracts is part of running a successful business. You will have a number of business relationships involving some type of contractual commitment or obligation.

You may:

- **Be a purchaser of goods and services** - as a borrower of money, in rental agreements and franchise agreements
- **Be a supplier of goods and services** – retailer, wholesaler, independent contractor

- **Have a partnering agreement with other businesses** – partnerships, joint ventures, and consortium.

Note:

- Managing your contracts and business relationships is very important.
- It is important that you fully understand the terms of a contract before signing anything. You are advised to seek legal and professional advice first.

2.1.2. Forms of business contracts

A business contract states the terms and conditions of any business transaction, including product sales and delivery of services. This helps the parties involved to avoid any type of misunderstanding that may arise in the absence of a written contract.

If you are collaborating with a friend on your new business, then it is all more important to create a written contract. This will help you avoid any misunderstandings and consequently will save you from the rifts that might end your friendship.

If you have an oral agreement, you might forget some points that you have agreed on verbally with the passage of time. However, with a written agreement, all the terms and conditions are clear at any point in time. Moreover, you can always amend the agreement with the consent of both the parties.

Contracts can be verbal (spoken), written or a combination of both. Some types of contract such as those for buying or selling real estate or finance agreements must be in writing.

Written contracts: This refers to the agreement between two or more parties in form of written words for example a property selling agreement, may consist of a standard form of agreement or a letter confirming the agreement.

Oral/Verbal agreements (gentleman's contract): These are agreements made between two or more parties by word of mouth or orally for example, telling the person to plough your piece of land without any written note, it relies on the good faith of all parties and can be difficult to prove.

It is advisable (where possible) to make sure your business arrangements are in writing, to avoid problems when trying to prove a contract existed.

Regardless of whether the contract is verbal or written, it must contain four essential

elements to be legally binding.

Application Activity 2.1

Read the following statements and answer questions that follow

Nkusi wants to lend his car to Niragire for 5,000Frw per day for five days.

- a. Niragire agrees with a handshake to borrow the car from Nkusi and pay the money in witness of Rukundo.
- b. Ntezimana promises to take his girlfriend Bagirishya for an outing to Lake Kivu.
- c. Niyokwizerwa promises to pay 10,000Frw to whoever finds her lost phone.
- d. Kato puts on paper his commitment to provide printing services to Umutoni on agreed terms.
- e. Mutesi promises to pay for her brother's school fees and puts it in writing.

Questions:

Which of the above statements are:

- i. Contracts.
- ii. Not contracts.
- iii. Business contracts.
- iv. Verbal contracts.
- v. Written contracts.

2.2. Elements of a written contract and a valid contract

Activity 2.2

Analyze the sample contract below and answer questions that follow

Contract for the sale of used car

This is a contract made between the seller, **Muhire John**, and the buyer, **Umugwaneza Nadine**, for the sale of the seller's car **Benz 2000, C-Class**.

The vehicle is a **4-seater, black in color**, year of make **2007**

The VIN number is **0984536222TG**, and the odometer reads **102345** as 14/Feb/2018

Buyer agrees to pay seller the purchase price of **2.000.000Rfw** to be paid in two equal instalments not more than 30 days of sale.

The car is sold **"AS IS"**. Seller makes no warranties about the condition of the car.

Seller will provide the buyer with the vehicle's logbook and any other required documents, inspection report, etc after completion of payment


.....

Seller Date
MUHIRE John


.....

Buyer Date
MUGWANEZA Nadine



Questions

- Do you think the above sample is a contract? Give reasons to support your answer.
- Name the elements of the written contract above.
- Do you think the sample above is a valid contract? Support your response by mentioning the elements of a valid contract in the sample.

2.2.1. Elements of a written contract

Written contracts may follow a structure that can include, but are not limited to, the following elements:

- Details of the parties to the contract, including any sub-contracting arrangements
- Duration or period of the contract
- Definitions of key terms used within the contract.

- A description of the goods and/or services that your business will receive or provide, including key deliverables.
- Payment details and dates, including whether interest will be applied to late payments.
- Key dates and milestones.
- Required insurance and indemnity provisions.
- Guarantee provisions, including director's guarantees.
- Damages or penalty provisions.
- Renegotiation or renewal options
- Complaints and dispute resolution process.
- Termination conditions.
- Special conditions.

2.2.2. Essential elements of a valid contract



Figure 2.2: The essential elements of a valid contract

Contracts can be verbal (spoken), written or a combination of both. Some types of contract such as those for buying or selling real estate or finance agreements must be in writing.

Regardless of whether the contract is verbal or written, it must contain the following essential elements to be legally binding:

- Intention to be bound by the contract:** The two parties should have intended that their agreement be legal. Domestic agreements between husband and wife are not taken as valid.

- b. Offer and acceptance:** There must be an offer and the two parties must lawfully come to acceptance leading to a valid contract. Until an offer is accepted, it's not a valid contract.
- c. Consideration/price:** This is the price agreed upon by the parties to the contract and paid by one party for the benefit received or promise of the other parties.
- d. Capacity of the parties:** The parties to the contract must have contractual capacity for the contract to be valid, i.e. should be sober, above 18years old, not bankrupt, not insane, properly registered.
- e. Free Consent:** Parties to the contract must agree freely without any of the parties being forced to accept or enter the contract.
- f. Legality/lawful object:** The consideration/object of the contract must be legal and not contrary to the law and public policy.
- g. Possibility of performance:** If the contract is impossible in itself either physically or legally, then such contract is not valid and cannot be enforced by law.
- h. Certainty:** The terms of the contract must be clear and understandable for a contract to be valid. If the terms are vague or ambiguous, where even the court may be able to tell what the parties agreed, then it will be declared invalid.

Application Activity 2.2

Assume, you have rental houses at home; Help your parents design a rental contract that will be signed with the tenants. (Refer to elements of written contract)

2.3. Importance and termination of business contracts

If you run a business, your business depends on all kinds of relationships: With customers or clients; with employees; with vendors of goods and services; with lenders and property owners, just to name a few. Each party to a business relationship brings to it a set of expectations with respect to what he or she will give and get. A contract is a useful tool for describing and defining the expectations of each party to a business relationship.

Activity 2.3

1. Referring to the activities in the previous lessons, do you think it is important to have contracts in business operations? Give reasons to support your answer.
2. Referring to the Contract for the sale of used car in activity 2 above, what do you think or when do you think the contract may end?
3. What do you understand by termination of business contract?

2.3.1. Importance of business contracts

A written contract plays a vital role in any business transaction. Apart from making the agreement between concerned parties legally binding, contracts can also serve as future references, part of the business' policies, as well serve as proof in the event of misunderstandings, complaints or disputes needing litigation proceedings.

Entrepreneurs sign many contracts with suppliers, financiers, workers, customers, transporters and government. A contract is important in the following ways:

- Contracts reduce business risks by compelling business partners to perform what they have agreed to as per contract.
- Business contracts specify terms and conditions of business transactions including price, quantities, quality, date of delivery, etc which avoids misunderstandings
- Contracts help entrepreneurs to get goods on credit because the suppliers are aware that the entrepreneur is bound by contract and therefore will make effort to pay
- Written contracts are important because it is easy to forget details you have agreed upon verbally and therefore provide a permanent record
- Contracts may be used by entrepreneurs to convince bankers that the entrepreneur has a business that will generate income so as to obtain loans

2.3.2. Termination of business contracts

To terminate a contract means to end the contract prior to it being fully performed by the parties. In other words, prior to the parties performing all of their respective obligations required by the contract, their duty to perform these obligations ceases to exist.

Most contracts end once the work is complete and payment has been made.

Contracts can also end:

- **By performance:** If the contract is performed and fulfilled as expected under the terms and conditions of the contract and both parties are satisfied, the contract may be terminated.
- **By agreement:** The parties to the contract may freely agree to end the contract if both consent to end the contract.
- **By destruction of the subject matter:** The contract may be put to an end when the subject matter of the contract ceases to exist such as being destroyed, stolen or died.
- **By operation of the law:** The contract may be terminated by law if it is illegal, if one party becomes bankrupt, insane or dies.
- **By frustration:** A contract can be put to an end when a condition set in hinders one of the parties from performing his/her contractual obligations.
- **For convenience:** Where the contract allows a party to terminate the contract at any time by providing notice to the other party eg employment contract.
- **Due to a breach:** Where one party has not complied with an essential contract condition, the other party may decide to terminate the contract and seek compensation for damages.

Application Activity 2.3

Read the following paragraph and answer questions that follow:

Musoni started a business selling general merchandise in his community. He is renting the place where his business operates. He buys his goods from a nearby town through a fellow businessperson. He says he trusts his friend so they never write down anything when sending for goods but just gives him the money. He always sells good to his customers on credit but rarely make any record of such transactions. Recently, after some advice from a friend, he contracted a construction company to build for him a two-roomed building from where he will shift his shop.

Questions:

- Mention some of the mistakes Musoni is doing in his business activities
- What are the likely consequences of Musoni's actions mentioned above?
- What advice would you give to Musoni to avoid the consequences above and why?
- What may cause Musoni to terminate the contract with the construction company?

2.4. Types of Common Business Contracts

Activity 2.4

Analyze the following statements and answer questions that follows.

- i. You order a meal at a restaurant.
- ii. 'Lost wallet, brown with One hundred thousand Rwandan francs in it. Return to owner and receive a 10.000Frw reward.'

Questions:

- a. Which of the above statements is a contract? Support your response.
- b. Concerning contracts, what is the difference between the two statements?
- c. What do you think is the difference between;
 - i. Unilateral and bilateral contracts.
 - ii. Gratuitous and onerous contracts.
 - iii. Simple and adhesion contract.
 - iv. Commutative and Aleatory contracts.

Types of business contracts

- a. **Unilateral and bilateral contracts:** In terms of the number of people or parties promising an action, bilateral contracts need at least two, while unilateral contracts only obligate action on one part. Unilateral contracts involve only promisor while bilateral contracts involve both a promisor and a promisee.

A unilateral contract is a contract in which one party makes a promise to whomever takes action as prescribed in the offer

A bilateral contract is where two parties enter into an agreement where both parties promise to do something.

- b. **Gratuitous and onerous contracts:** **Gratuitous** contracts are those of which the object is the benefit of the person with whom it is made, without any profit or advantage received or promised as a consideration for it. A gratuitous contract is sometimes called a contract of beneficence.

Onerous contracts are those in which something is given or promised as a

consideration for the engagement or gift, or some service, interest, or condition is imposed on what is given or promised, although unequal to it in value.

c. Simple and adhesion contract: A simple contract is one, the evidence of which is merely oral, or in writing, not under seal, nor of record.

As contracts of this nature are frequently entered into without thought or proper deliberation, the law requires that there be some good cause, consideration or motive, before they can be enforced in the courts. The party making the promise must have obtained some advantage, or the party to whom it is made must have sustained some injury or inconvenience in consequence of such promise; this rule has been established for the purpose of protecting weak and thoughtless persons from the consequences of rash, improvident, and inconsiderate engagements.

A contract of adhesion refers to a contract drafted by one party in a position of power, leaving the weaker party to “take it or leave it.” Adhesion contracts are generally created by businesses providing goods or services in which the customer must either sign the boilerplate contract or seek services elsewhere.

d. Commutative and Aleatory contracts: Aleatory contract is a type of contract

1. whose execution or performance depends on a contingency or an uncertain (random) event beyond the control of either party, and/or
2. under which the sums paid by the parties to each other are unequal. Most insurance policies are aleatory contracts because the insured may collect a large amount or nothing in return for the premiums paid.

Commutative Contract is one in which each of the contracting parties gives and, receives an equivalent. The contract of sale is of this kind. The seller gives the thing sold, and receives the price, which is the equivalent. The buyer gives the price and receives the thing sold, which is the equivalent.

Application Activity 2.4

Analyze the following statements and answer the questions that follow;

1. You use your “Tap and Go card” to move from Nyabugogo Taxi park to Remera taxi park.
2. Payment of insurance premium every month for your new car.
3. The shop keeper hands you the new iPhone you have just paid for.
4. You borrow a book from a friend who insists you have to buy an envelope to take it in but it seems not necessary to you.
5. You continue paying service fee or monthly payments for water connections even when you no longer use the water.
6. You promise to buy a new dress to your sister.

With reasons, identify the types of contracts implied in the above statements

1.
2.
3.
4.
5.
6.

2.5. General business contracts: Employment related contract and Leases

Activity 2.5

Complete the following statements as used in business contracts using the list of words below.

1. (Bill of Sale, Agreement for the Sale of Goods, Purchase Order, Warranty, Limited Warranty, Security Agreement, Employment Agreement, Employee Non-compete Agreement, Independent Contractor Agreement, Consulting Agreement, Distributor Agreement, Sales Representative Agreement, Confidentiality Agreement, Reciprocal Nondisclosure Agreement, Employment Separation Agreement, Real Property Lease, Equipment Lease, Franchise Agreement, Advertising Agency Agreement, Indemnity Agreement, Covenant Not to Sue, Settlement Agreement, Release, Assignment of Contract, Stock Purchase Agreement, Partnership Agreement, Joint Venture Agreement, Agreement to Sell Business).

- a.Transfers ownership of a good from one party to another
- b. A contract for the sale, may be confirmed by a bill of sale after the transaction goes through.
- c. First official offer made by a buyer to a seller.
- d.Any conditions or actions that would avoid the contract.
- e.Warranty limited to just one or a few parts.
- f. Contract between a lender and borrower of a loan.
- g. A contract for employment, including details about payment, job responsibilities, etc.
- h.An agreement to not work for a direct competitor for a specified period of time after termination.
- i.Similar to an employment agreement, but outlines the terms to which the limited work contract applies.
- j.Outline of the tasks and responsibilities (and compensation in return) for a consulting relationship.
- k.Defines the relationship with a distributor.
- l.Typically used to define the amount of commission, and how it's tabulated, for a salesperson.
- m.Agreement to not disclose certain information to third parties.
- n.Non disclosure agreement in which both parties agree not to disclose certain trade secrets.
- o.Also referred to as a termination agreement, this formally ends the employment relationship.
- p.A contract to lease office, manufacturing, or commercial real estate between the landlord and the business.
- q.Agreement to lease equipment for a specified period of time.
- r.Outlines the relationship between the franchisor and the franchisee, such as support, advertising, use of brand, etc.
- s.Establishes the scope of duties to be performed by the agency, duration, payment, etc.

- t.An agreement to transfer risk from one party to another.
- u.One party claiming damages agrees not to sue the responsible party.
- v.Agreement between two parties to end a lawsuit in exchange for certain concessions (usually cash paid to the plaintiff).
- w.Typically refers to a release from liability (which are common for businesses where customers assume a reasonable risk of some sort).
- x.A legal transfer of the benefits and obligations of a contract from one party to another.
- y.Contractual agreement to sell a certain amount of stock to a named individual (often used for stock options at private companies).
- z.Official agreement among two or partners, including responsibilities of each.
- aa.Lays out the obligations, goals, and financial contributions of all parties involved in a joint venture.
- bb.Documents the terms of a business sale.

Employment related contract

While all valid contracts must include certain elements—particularly an offer, consideration, and acceptance. There are several different kinds of contracts addressing various business scenarios. Most small businesses will end up using the same kinds of contracts at various times, such as employment contracts or purchase orders, and will become quite familiar with these.

Some of the more common types of business contracts that you may enter into are included in the following:

a. Sales-related Contracts;

- **Bill of Sale:** Transfers ownership of a good from one party to another.
- **Agreement for the Sale of Goods:** A contract for the sale, may be confirmed by a bill of sale after the transaction goes through.
- **Purchase Order:** First official offer made by a buyer to a seller.
- **Warranty:** Any conditions or actions that would void the contract.

- **Limited Warranty:** Warranty limited to just one or a few parts.
- **Security Agreement:** Contract between a lender and borrower of a loan.

b. Employment-Related Contracts

- Employment Agreement:** A contract for employment, including details about payment, job responsibilities, etc.
- Employee Non-compete Agreement:** An agreement to not work for a direct competitor for a specified period of time after termination.
- Independent Contractor Agreement:** Similar to an employment agreement, but outlines the terms to which the limited work contract applies.
- Consulting Agreement:** Outline of the tasks and responsibilities (and compensation in return) for a consulting relationship.
- Distributor Agreement:** Defines the relationship with a distributor.
- Sales Representative Agreement:** Typically used to define the amount of commission, and how it's tabulated, for a salesperson.
- Confidentiality Agreement:** Agreement to not disclose certain information to third parties.
- Reciprocal Nondisclosure Agreement:** Nondisclosure agreement in which both parties agree not to disclose certain trade secrets.
- Employment Separation Agreement:** Also referred to as a termination agreement, this formally ends the employment relationship.

c. Leases

- Real Property Lease:** A contract to lease office, manufacturing, or commercial real estate between the Property owner and the business.
- Equipment Lease:** Agreement to lease equipment for a specified period of time.

d. General Business Contracts

- Franchise Agreement:** Outlines the relationship between the franchisor and the franchisee, such as support, advertising, use of brand, etc.
- Advertising Agency Agreement:** Establishes the scope of duties to be performed by the agency, duration, payment, etc.
- Indemnity Agreement:** An agreement to transfer risk from one party to another
- Covenant Not to Sue:** One party claiming damages agrees not to sue the responsible party.

- v. **Settlement Agreement:** Agreement between two parties to end a lawsuit in exchange for certain concessions (usually cash paid to the plaintiff).
- vi. **Release:** Typically refers to a release from liability (which are common for businesses where customers assume a reasonable risk of some sort).
- vii. **Assignment of Contract:** A legal transfer of the benefits and obligations of a contract from one party to another.
- viii. **Stock Purchase Agreement:** Contractual agreement to sell a certain amount of stock to a named individual (often used for stock options at private companies).
- ix. **Partnership Agreement:** Official agreement among two or partners, including responsibilities of each.
- x. **Joint Venture Agreement:** Lays out the obligations, goals, and financial contributions of all parties involved in a joint venture.
- xi. **Agreement to Sell Business:** Documents the terms of a business sale.

Application Activity 2.5

- a. Read the following paragraphs and answer the questions that follow: While walking along the beach, you notice a sign attached to a palm tree that reads, 'Lost wallet, brown with one million Rwandan francs in it. Return to owner and receive a 100,000Frw reward.' This picks your interest, and you begin sifting through the sand, turning over seashells, and flipping beach towels in search of the missing wallet. After all, you could use the 100,000Frw claims!
 - i. Name the form of contract above.
 - ii. Name the type of contract above.
- b. Kizito offered 10,000Frw for the return of his lost dog, but then he refused to pay because he thought the person who brought the dog back had stolen it.
 - i. Was there a valid contract in the paragraph above
 - ii. Do you think Kizito is right? Give reasons to support your answer.
 - iii. What advice would you give to the person who brought the dog back?

2.6. Breach of a contract

Activity 2.6

Read the paragraph below and answer questions that follows.

Kizito offered 10,000Frw for the return of his lost bag, but then he refused to pay because he thought the person who brought the bag back had stolen it.

Questions:

- a. Was there a valid contract? Give reasons
- b. What do you think is happening in the paragraph?
- c. Do you think Kizito is right?
- d. How do we call the behavior of Kizito in business contracts?
- e. What should the person who brought the bag back do?
- f. How do we call Kizito's behavior in business?

2.6.1. Breach of a contract

Breach of a contract is a legal term that describes a violation of a contract or agreement in which one party fails to fulfill its promises or by interfering with the ability of another party to fulfill its duties. A contract may be breached in whole or in part.

Most contracts end when both parties have fulfilled their contractual obligations, but it is not uncommon for one party not to completely fulfill his or her part of the contract agreement.

Breach of a contract is the most common reason contract disputes are brought to court for resolution. In order for a breach of contract to be upheld by a court it must meet all of these requirements:

- i. The contract must be valid; that is, it must contain all the essential contract elements so that it can be heard by a court. If all essential elements are not present, the contract is not valid and there is no lawsuit.
- ii. The accuser must show that the defendant breached the contract.
- iii. The accuser did everything required in the contract.
- iv. The accuser must have notified the defendant of the breach. If the

notification is in writing, this is better than a verbal notification.

Types of breach of a contract

- i. **Material breach** is a breach that is significant enough to excuse the aggrieved party from fulfilling its part of the contract.
- ii. **Partial breach** is not as significant, and it does not excuse the aggrieved party from its duties.
- iii. **Anticipatory breach:** A party may breach a contract by doing, or failing to do, something that shows intention not to complete duties under a contract.

2.6.2. Defenses to breach of a contract

A defendant may offer a reason (defense) why the alleged breach is not really a breach of contract. Common defenses against a breach of contract are:

- i. **Fraud:** Which “knowing misrepresentation of the truth or concealment of a material fact to induce another to act to his or her detriment.” The defendant is saying that the contract is not valid because the plaintiff failed to disclose something important or made a false statement about a material (important) fact. The defendant must show that the fraud is deliberate.
- ii. **Duress:** Which occurs when one person compels another to sign a contract through physical force or other threats. This too invalidates the contract, since both parties did not sign of their own free will.
- iii. **Undue influence is similar to duress:** In that one party has a power advantage of another and uses that advantage to force the other to sign the contract.
- iv. **Mistake:** A mistake by the defendant cannot invalidate a contract and take away a breach of contract case. However, if the defendant can prove that both parties made a mistake about the subject matter (a car, let us say), it may be enough to serve as a defense.
- v. **Statute of limitations:** Many types of cases have a time limit by which a case must be brought. If the defendant can show that the statute of limitations has expired, the breach of contract case may be thrown out. Statutes of limitations are set by individual states. Here is an example of the state statutes of limitations on debt.

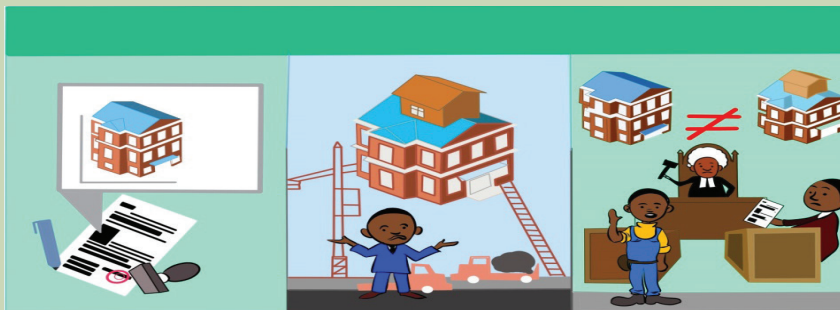
2.6.3. Remedies to a breach of a contract

If one party is found to be in breach of a contract, the plaintiff has several ways to be made whole; called a remedy. The most common remedy is monetary payment. Some other common remedies for a loss resulting from a breach of contract are:

- i. **Damages:** Including compensatory damages (to compensate for the actual loss) and punitive damages.
- ii. **Injunction:** To get a court to require the other party to stop an action that is causing damage.
- iii. **Rescission:** Sometimes the plaintiff has been so badly damaged by the breach that the injured party is allowed to rescind (terminate) the contract.
- iv. **Consequential and incidental damages:** Money for losses caused by the breach that were foreseen, that is each side knew at the time of the contract that its breach would cause loss to the other party.
- v. **Lawyer's fees and costs:** These are paid if it was clearly stated in the contract
- vi. **Liquidated damages:** Damages stated in the contract that would be payable if there is any fraud, dishonesty or breach of the contract.
- vii. **Punitive damages:** Money charged to punish the offending person to discourage them from such behavior.
- viii. **Specific performance of the contract:** Under certain circumstances, the court may direct the breaching person or business to perform that very obligation which he had promised to undertake.

Application Activity 2.6

Analyze the illustration below and answer questions that follow.



- a. Do you think there was a valid contract in the illustration above? Give reasons to support your answer.
- b. Do you think there was a breach of contract in the illustration? Give reasons to support your answer.
- c. With reasons, which type of breach is illustrated?
- d. Suggest the possible remedies for the breach of contract above.

2.7. Conflicts and disputes in business



Figure 2.3: Misunderstandings and disputes peacefully resolved in business

2.7.1. Business disputes and conflicts

A business dispute is a disagreement over the existence of a commercial legal duty or right, or over the extent and kind of compensation that may be claimed by the injured party for a breach of such a duty.

Conflicts between business owners and employees typically involve differences of opinion, style, or approach that are not easily resolved. These can lead to hurt feelings and altercations among employees.

Conflict may occur between co-workers, or between supervisors and subordinates, or between service providers and their clients or customers. Conflict can also occur between groups, such as management and labor, or between whole departments.

However, some conflicts reflect real disagreements about how an organization should function. If the winner of the conflict happens to be wrong, the organization as a whole could suffer. Some conflicts involve bullying or harassment of some kind, in which case a fair resolution must involve attention to justice.

In addition, if one party out-ranks the other, the power disparity could complicate resolution even if everybody concerned means well.

2.7.2. Business conflicts with stakeholders

a. Conflicts with customers;

- i. Quality of products and services.
- ii. Prices agreed upon and prices charged.
- iii. Calculation of discounts.
- iv. Delivery delays.
- v. Nonfunctional products.

b. Conflicts with Suppliers;

- i. Non-payment for supplies.
- ii. Non return of containers or packaging materials.
- iii. Sudden cancellation of orders
- iv. Delivery of damaged products.
- v. Delayed deliveries.

c. Conflicts with Employees/workers;

- i. Non-payment of salaries and wages.
- ii. Illegal termination of employment.
- iii. Discrimination based on sex, race, tribe, religion, etc.
- iv. Poor working conditions.
- v. Absenteeism.
- vi. Misuse of business property and facilities.
- vii. Corruption, embezzlement and theft.
- viii. Unfair dismissal.

d. Government and its agencies;

- i. Assessment of what and how much to pay.
- ii. Payment of taxes (time and rate).
- iii. Operation of business without valid licenses/documents.
- iv. Environmental degradation.
- v. Tax refunds.
- i. Use of wrong weights and measures.

Application Activity 2.7

1. The business deals with many other partners and therefore likely to get into conflicts with them during the numerous business activities. Mention any 3 causes of conflicts between the business and the following partners:
 - a. Customers
 - b. Suppliers
 - c. Employees
 - d. Government and its agencies
 - e. Society
2. What are the effects of such conflicts to the business and its operations?

2.8. Resolutions to conflicts and disputes in business



Figure 2. 4: Conflict resolutions

Activity 2.8

Read the following scenario to the participants:

1. Gilbert is a waiter at a popular restaurant. One Friday night, the busiest time for the restaurant, an impatient customer kept demanding better service – I want to order...Where is my food...Gilbert tried to reassure the customer that the kitchen staff was working as fast as they could. Suddenly the customer stood up and started yelling very loudly at Gilbert, attracting the attention of the other diners.

If you are the manager of the restaurant, how could you handle the situation?

2. How are conflicts or disputes resolved (at least 2 arguments for each);
 - a. At home.
 - b. At school.
 - c. By business and customers.

2.8.1. Conflict resolution process

Conflict resolution is a way for two or more parties to find a peaceful solution to a disagreement among them. The disagreement may be personal, financial, political, or emotional.

Conflict resolution skills are a job requirement for many different types of positions. This is because conflict within organizations can reduce productivity and create a difficult work environment, leading to unwanted turnover in staff and reduced morale.

The Conflict Resolution Processes

Some conflicts are essentially arbitrary, meaning it does not matter who “wins,” only that the problem is resolved so everyone can get back to work.

In any organization, conflicts, both major and minor, may arise. These conflicts can cause far-reaching negative effects on the people in a workplace.

Absenteeism, high turnover, poor productivity, and even violence can be a result of conflict and contention.

The resolution of conflicts in the workplace typically involves some or all of the following processes:

- i. Recognition by the parties involved that a problem exists.
- ii. Agreement to address the issue and find some resolution.
- iii. An effort to understand the perspective and concerns of the opposing individual or group.
- iv. Identifying changes in attitude, behavior, and approaches to work by both sides that will lessen negative feelings.
- v. Recognizing triggers to episodes of conflict.
- vi. Interventions by third parties such as Human Resources representatives or higher level managers to mediate.
- vii. Willingness by one or both parties to compromise.
- viii. Agreement on a plan to address differences.
- ix. Monitoring the impact of any agreements for change.
- x. Disciplining or terminating employees who resist efforts to defuse conflicts.

2.8.2. Examples of Conflict Resolution Skills

The following skills are often important in conflict resolution. The list is not exhaustive, and of course, many more applications of each skill are possible.

- **Assertiveness:** A supervisor might take the initiative to convene a meeting between two employees who have engaged in a public dispute. An employee might seek out a person with whom they are having conflict to suggest working together to find ways to co-exist more peacefully.
- **Interviewing and Active Listening Skills:** A Human Resources representative might have to ask questions and listen carefully to determine the nature of a conflict between a supervisor and a subordinate.
- **Empathy:** A mediator might encourage empathy by asking employees in conflict to describe how the other might be feeling and thinking and how the situation might look to the other party. Empathy is also an important skill for mediators, who must be able to understand each party's perspective, without necessarily agreeing with either.
- **Facilitation:** Managers of rival departments might facilitate a joint brainstorming session with their teams to generate solutions to ongoing points of conflict. Group facilitation techniques can also be used to avoid triggering conflict during group decision-making to begin with.
- **Mediation Skills:** A supervisor might guide subordinates who are in conflict through a process to identify mutually agreeable changes in behavior.
- **Creative Problem Solving:** A supervisor might redefine the roles of two conflict-prone staff to simply eliminate points of friction. Creativity can also mean finding new win/win solutions.
- **Accountability:** A supervisor might document conflict-initiating behaviors exhibited by a chronic complainer as preparation for a performance appraisal. In this way, the supervisor helps establish accountability, since the employee can no longer pretend the problem is not happening.

2.8.3. Resolution of conflicts in business

Whether you are involved in a family or neighborhood dispute or a lawsuit involving thousands of dollars, these processes should be considered. They are often the more appropriate methods of dispute resolution and can result in a fair, just, reasonable answer for both of you and the other party. The following processes describe ways to resolve disputes.

- a. **Negotiation:** Negotiation is the most basic means of settling differences. It is back-and-forth communication between the parties of the conflict with the goal of trying to find a solution.

You may negotiate directly with the other person. You may hire an attorney to negotiate directly with the other side on your behalf. There are no specific procedures to follow - you can determine your own - but it works best if all parties agree to remain calm and not talk at the same time.

Negotiation allows you to participate directly in decisions that affect you. In the most successful negotiations, the needs of both parties are considered. A negotiated agreement can become a contract and be enforceable.

Characteristics of Negotiation:

- i. Voluntary.
- ii. Private and confidential.
- iii. Quick and inexpensive.
- iv. Informal and unstructured.
- v. Parties control the process, make their own decisions and reach their own agreements (no third party decision maker).
- vi. Negotiated agreements can be enforceable.
- vii. Can result in a win-win solution.

b. Mediation: Mediation is a voluntary process in which an impartial person (the mediator) helps with communication and promotes reconciliation between the parties, which will allow them to reach a mutually acceptable agreement. Mediation often is the next step if negotiation proves unsuccessful.

The mediator manages the process and helps facilitate negotiation between the parties. A mediator does not make a decision nor force an agreement. The parties directly participate and are responsible for negotiating their own settlement or agreement.

When you and the other person are unable to negotiate a resolution to your dispute by yourselves, you may seek the assistance of a mediator who will help you and the other party explore ways of resolving your differences. Mediation can be used in most conflicts ranging from disputes between consumers and merchants, property owners and tenants, employers and employees, family members in such areas as divorce, child custody and visitation rights, eldercare and probate as well as simple or complex business disputes or personal injury matters.

Characteristics of Mediation:

- i. Promotes communication and cooperation.
- ii. Provides a basis for you to resolve disputes on your own.
- iii. Voluntary, informal and flexible.
- iv. Private and confidential, avoiding public disclosure of personal or business problems.
- v. Can reduce hostility and preserve ongoing relationships.
- vi. Allows you to avoid the uncertainty, time, cost and stress of going to trial.
- vii. Allows you to make mutually acceptable agreements tailored to meet your needs.
- viii. Can result in a win-win solution.

- c. Arbitration:** Arbitration is the submission of a disputed matter to an impartial person (the arbitrator) for decision.

Arbitration is typically an out-of-court method for resolving a dispute. The arbitrator controls the process, will listen to both sides and make a decision. Like a trial, only one side will prevail. Unlike a trial, appeal rights are limited.

The result can be binding if all parties have previously agreed to be bound by the decision. In that case, the right to appeal the arbitrator's decision is very limited. An arbitrator's award can be reduced to judgment in a court and thus be enforceable. In non-binding arbitration, a decision may become final if all parties agree to accept it or it may serve to help you evaluate the case and be a starting point for settlement talks.

A common use of arbitration is in the area of labor disputes - between fire fighters and the city in wage disputes, for example. You will usually be represented by an attorney in arbitration.

Many contracts have clauses that require that disputes arising out of that contract be arbitrated. If you agree to arbitrate or sign a contract with an arbitration clause, you should understand that the arbitrator may make the final decision and that you may be waiving your right to a trial in court.

Characteristics of Arbitration:

- i. Can be used voluntarily.
- ii. Private (unless the limited court appeal is made).
- iii. Maybe less formal and structured than going to court, depending on applicable arbitration rules.
- iv. Usually quicker and less expensive than going to court, depending on applicable arbitration rules.
- v. Each party will have the opportunity to present evidence and make arguments.
- vi. May have a right to choose an arbitrator with specialized expertise.
- vii. A decision will be made by the arbitrator which may resolve the dispute and be final.
- viii. Arbitrator's award can be enforced in a court.
- ix. If nonbinding, you still have the right to a trial.

d. Litigation (going to court/court interaction): Litigation is the use of the courts and civil justice system to resolve legal controversies. Litigation can be used to compel opposing party to participate in the solution.

Litigation is begun by filing a lawsuit in a court. Specific rules of procedure, discovery and presentation of evidence must be followed. There can be a number of court appearances by you and/or your lawyer. If the parties cannot agree how to settle the case, either the judge or a jury will decide the dispute for you through a trial.

If you cannot settle your differences through negotiation, mediation, arbitration or some other means, then you should pursue litigation through the courts with your lawyer.

Characteristics of Litigation:

- i. Involuntary - a defendant must participate (no choice).
- ii. Formal and structured rules of evidence and procedure.
- iii. Each party has the opportunity to present its evidence and argument and cross-examine the other side - there are procedural safeguards.
- iv. Public - court proceedings and records are open.
- v. The decision is based on the law.
- vi. The decision can be final and binding.

- vii. Right of appeal exists.
- viii. Losing party may pay costs.

The above processes of resolving conflicts and disputes in business can be applied through some of the following:

- **Trade associations:** Where the disputing parties belong to a trade or business association, they may refer the dispute to the association for advice and a solution.
- **Mediation:** This is where a neutral and independent third party facilitates communication between the disputing parties for a solution.
- **Refer to agreements:** if an agreement or contract is made, then the best way to resolve a dispute is to refer to the contract.
- **Partnership deed or articles of association:** Disputes relating to business ownership, management, sharing of profits and issues should be handled by referring to the partnership deed or articles of association.
- **Courts of law:** The dispute may be referred to a court of law for arbitration.
- **Negotiation:** Disputing parties communicate directly and try to reach an agreement without the costs of a mediator or arbitrator.

Application Activity 2.8

1. Analyze the following example of conflicts in business and answer questions that follow.

a. Leadership Conflict: John has been the sales manager for over a year. His sales reports show an increase in sales and he seems to know how to motivate his reps/agents pretty well.

However, a few of the reps repeatedly complain about John's management style. He tends to get very involved with their techniques, calls them out when he thinks they are making a mistake, and does not take criticism himself very well.

One of the top producing reps/agents complains more than the others, and he is threatening to quit.

Which techniques will you use to resolve the conflict above?

b. Work Style Conflicts: Ntaganzwa and Niyigena both work in accounting department. Ntaganzwa was hired a few months ago and Niyigena has been with the company for eight years. Ntaganzwa, while being a proficient worker, tends to wait until the last minute to get his work done. Niyigena works more steadily and keeps on top of her work daily. Niyigena complains that she feels she has to worry now about his work and her own. In addition, because they rely on each other's tasks, she is uncomfortable with waiting until an hour or so before a deadline when they are forced to collaborate.

Because of the conflict, Ntaganzwa is missing more work and you suspect it is because he wants to avoid Niyigena and her wrath/anger.

What Conflict Resolution Strategies will you apply for the Co-Workers?

Skills Lab Activity 2.9

Shine Business club

Shine business club wanted 3 crates of soda which they wanted to sell to their school that was organizing a visiting day. Chantal an active member of the club having been close to Bizimungu an entrepreneur dealing in retail business convinced the club to deal with him. The club paid him and he agreed he would deliver the sodas to the club after three days but unfortunately after the agreed time, he didn't deliver the sodas as expected. When the club contacted him for the sodas, he denied to have entered into any dealing with them that if he did he would be having at least a formal document to prove that. The club reported the matter to the school administration but it couldn't help them since it was not notified of that dealing.

1. What are some of the essential elements of a valid contract observed in the above case study?
2. Was there a valid contract in the above case study? Support your answer
3. What advice do you give to shine business club?
4. How would you approach the situation or the above problem if it was your business club

End of Unit 2 Assessment

1. Analyze the example below and answer questions that follow:

Nkusi and Mukarutesi are capable adults. Nkusi is in the need for a new car. It is on a budget, so he scans the classified ads and finds Mukarutesi, who is selling an old Toyota Carina for 2,000,000Frw. Nkusi calls Mukarutesi and offers 1,800,000Frw. Mukarutesi accepts Nkusi's offer and they decide to meet. At the meeting, Nkusi hands over 1,800,000Frw and Mukarutesi hands over the keys for the Toyota Carina.

Questions:

- a. Is there a valid contract in the above example?
Referring to the elements of a valid contract, support your response;
 - b. Which type of business contract is represented in the example above?
 - c. Which form of business contract would you advise Nkusi to sign with Mukarutesi?
 - d. What do you think may lead to the contract in the example above to be terminated?
2. Read the following passage and answer questions that follow.

Ntwali started a business selling general merchandise in his community. He is renting the place where his business operates. Ntwali paid his property owner three months' rent in advance but never asked for receipt. After two months, his property owner says he wants the rent for the two months. Ntwali is perplexed and tries to remind the property owner that he paid his rent for three months. The property owner denies and asks Ntwali for proof of the payment which he does not have. Ntwali is stuck, does not know what to do while the property owner threatens to evict him if he does not pay his rent.

Questions:

- a. What is the cause of the conflict in the example above?
- b. Advise Ntwali on how he can resolve the conflict with the property owner
- c. What are the disadvantages of the form of contract between Ntwali and the property owner?
- d. Help Ntwali design a written contract that he can sign with his property owner to avoid such conflicts again.



UNIT 3

TAXES IN BUSINESS

UNIT 3: TAXES IN BUSINESS



Key Unit Competency: To be able to justify the need for taxes in economy

Introduction

Every business requires developed infrastructure such as roads, hospitals, legal protection, welfare security, environment preservation, among others to operate successfully. The government provides such infrastructure. It provides education, health services, and security to all citizens and helps to increase the standards of living of the citizens hence ensuring availability of skilled labor force. For all this to happen, the government needs funds. Taxes are like the income for the government, and so for their survival, business needs to pay taxes to the government.

Introductory Activity: A case study

Why Do You Have to Pay Taxes

Every year around, before and after June 15, everybody especially business people will be discussing about tax changes in the national budget. This is because tax reforms and new taxes introduced are announced on that day. However, have you ever wondered why you and businesses need to pay taxes?

In Rwanda, there are arms of the government (ruling bodies) from the village, sector, district, provincial and national levels. These bodies comprise: Legislature (who make laws), Executives (who enforce laws) and Judiciary (exercise laws).

The salaries that public servants receive to do their jobs come from taxes. Paying taxes is considered as a civic duty, although doing so is also a requirement of the law.

Taxes take many forms, too. When you work at a job to make money, you pay income taxes. Depending on how much money you make, a certain percentage (part) of the money you make is withheld (kept out of your paycheck and sent to the government).

When you buy things at a store, you also usually pay sales tax, which is a percentage of the cost of the item charged by the store. If you own property, you also pay property taxes on the value of your property.

Paying your taxes is considered a civic duty, although doing so is also a requirement of the law. If you do not pay your taxes, the government agency that oversees taxes — the Rwanda Revenue Authority (RRA) - will require you to pay your taxes or else face penalties, such as fines or going to jail.

The money you pay in taxes goes to many places. In addition to paying the salaries of government workers, your tax dollars also help to support common resources, such as police and firefighters.

Tax money helps to ensure the roads you travel on are safe and well-maintained. Taxes fund public libraries and parks. Taxes are also used to fund many types of government programs that help the poor and less fortunate, as well as many schools!

Each year as the “tax day” rolls in, adults of all ages and businesses must report their income to the RRA, using special tax forms. There are many, many laws that set forth complicated rules about how much tax is owed and what kinds of special expenses can be used (“written off”) to lower the amount of taxes you need to pay.

For the average worker, tax money has been withheld from paychecks throughout the year. On “tax day,” each worker reports his or her income and expenses to the RRA.

Alabestrum tesenih ici pieris acchicuror licaetis publis; ne is, pro manum pl. Otierum te audem halegerum optessis pro, nos in in Itament urent, catant? Bem in Itandam ingultus pos rei popostilia? Saturec iactus, fit ficis Ahabunit, viver pore conoventius C. Batur quam ia? Quiu es optifex senium intilis pubis. Verma, non

Employers also report to the RRA how much they paid each worker. The RRA compares all these numbers to make sure that each person pays the correct amount of taxes.

If you have not had enough tax money withheld from your checks throughout the year to cover the amount of tax you owe, you will have to send more money (“pay in”) to the government. If, however, too much tax money was withheld from your paychecks, you will receive a check (get a “refund”) from the government.

Adapted from <https://wonderopolis.org/wonder/why-do-you-have-to-pay-taxes>)

From the passage, answer the following questions:

- a. What are the major changes expected by people especially business people on June 15, every year?
- b. What makes the business people so anxious to know the changes mentioned above in a)?
- c. Why do you think it is important for businesses to pay taxes to the government?
- d. How do the following benefit from taxes?
 - i. Entrepreneur.
 - ii. Government.
 - iii. Society.
- e. What do you think are some of the obligations of those who pay taxes?
- f. Identify and briefly explain e types of taxes paid in Rwanda?
- g. What happens to businesses or people who do not pay taxes?
- h. What is the difference between tax and taxation?

3.1. MEANING OF TAXATION CONCEPTS

Activity 3.1

Analyze the following scenario and answer questions that follow:

Ruth is a prominent trader in one of the growing centers of eastern province. He normally buys his goods from the neighboring country of Uganda. In the previous budget, the minister announced that in order for the government to be able to fund its activities such as providing free education, road construction, all people will pay a certain amount of money to the government but charged on the goods sold and bought in form of taxes. Ruti realized that this might reduce his profits. Therefore, he decided that in order to continue getting the same profits, he would:

- Pay some boys to get for him some goods from Uganda by crossing the river without going to customs to pay taxes.
- For goods on which he would pay taxes, he would increase the prices charged to the customers.
- Reduce or stop buying some of the goods on which the tax had been increased.

Questions:

From the scenario, what do you think is the meaning of the following,

1. Tax.
2. Taxation.
3. Tax avoidance.
4. Tax evasion.
5. Tax shifting.
6. From the decisions Ruti made, which of them is:
 - a. Tax avoidance.
 - b. Tax evasion.
 - c. Tax shifting.
7. Among the three actions, which one (s) do you think he can be penalized for? And why?

Tax and Taxation, Tax Evasion and Avoidance, Tax shifting

Tax is a fee without direct exchange requested to the members of the community by the State according to the law, to support financially the execution of the government tasks.

Business tax refers to compulsory and non-refundable payments made by the business to the government or local authority to raise revenue to the government or local authority.

Taxation is a system of raising money or revenue by the government from individuals/businesses and companies by law through taxes.

It is a means by which governments finance their expenditure by imposing charges on citizens and corporate entities.

Taxation refers to the practice of government collecting money from its citizens to pay for public services.

Tax avoidance is a situation where a businessperson does not pay tax because s/he has avoided the product or activity on which the tax is imposed. It is the taxpayer's exploitation of the loopholes in the tax system there by paying less tax than what they are supposed to pay.

Some Examples of Tax Avoidance:

- Taking legitimate tax deductions to minimize business expenses and thus lower your business tax bill.
- Setting up a tax deferral plan to delay taxes until a later date.
- Taking tax credits for spending money for legitimate purposes, like taking a work opportunity tax credit for hiring workers in your business.

Tax evasion is the illegal practice of not paying taxes, by not reporting income, reporting expenses not legally allowed, or by not paying taxes owed. In businesses, tax evasion can occur in connection with income taxes, employment taxes, sales and excise taxes, and state, and local taxes.

Examples of practices considered as tax evasion:

- It is considered tax evasion if you knowingly fail to report income.
- Under-reporting income (claiming less income than you actually received from a specific source).

- Providing false information to the RRA about business income or expenses
- Deliberately underpaying taxes owed
- Substantially understating your taxes (by stating a tax amount on your return that is less than the amount owed on the income you reported).
- An employer fails to withhold income tax from employee paychecks, or withholds but fails to report and pay these payroll taxes.
- Employment leasing, which involves hiring an outside payroll service that does not turn over funds to RRA.
- Paying employees in cash and failing to report some or all of these cash payments.
- Filing false payroll tax reports or failing to file these returns.

Tax shifting is the transfer of either part or the whole amount of tax imposed on a taxpayer to another party (other taxpayer).

Business firms pay general sales taxes, but most of the cost of the tax is actually passed on to those who buy the goods that are being taxed.

Example if the tax on sugar is increased and as result, a sugar producer or seller increases its price, in essence/reality the producer or seller is trying to recover the amount paid as the tax by collecting it from consumers in form of increased sugar prices.

Application Activity 3.1

1. With examples, differentiate
 - a. Tax and Taxation
 - b. Tax avoidance and Tax evasion
 - c. Tax evasion and tax shifting
2. What do you think is the purpose of taxation?
3. Do you think tax evasion is good? Give reasons to support your response

3.2. Benefits of paying taxes to Entrepreneur, Government and Society

One of the most frequently debated political topics is taxation. Taxation is the practice of collecting taxes (money) from citizens based on their earnings and property. The money raised from taxation supports the government and allows it to fund police and courts, have a military, build and maintain roads, along with many other services.

Activity 3.2

1. With examples from your community or Rwandan community at large, why do you think people and business enterprises need to pay taxes to the government?
2. As an entrepreneur to be or referring to activities of entrepreneurs in your community, how do you think businesses or entrepreneurs benefit from paying taxes?
3. In general, how does your society benefit from paying taxes? Give examples to support your views

3.1.2 Benefits of paying taxes to an entrepreneur

- Paying taxes by the entrepreneur helps the business activity to continue, as it does not face penalties and associated costs from the RRA for non-payment.
- When an entrepreneur pays taxes, it improves his/her reputation or public image which may result into increased customers and better services from the government
- To avoid inconveniences of closure of the business and its associated costs: when entrepreneur fails to pay assessed taxes, his/her business is subject to penalty even closure to some cases.
- Business needs certain infrastructure to operate successfully such as roads to move raw materials, finished goods, workers; security for their enterprises, goods, among others, which are provided by the government.
- Paying taxes means contributing money to government agencies or departments such as Development Bank of Rwanda (BRD), Business Development Fund (BDF), which support entrepreneurs to operate business activities through soft loans and other financial support.

3.2.2 Benefit of paying taxes to the government

- Source of government revenue: taxes are the main source of government revenue to finance its public expenditure. So taxes enable the government to pay it workers, construct roads, maintain security, provide health care, education among others

- Taxes benefit the Rwandan government to meet its objectives and goals such as constructing affordable houses for the citizens which helps improve the standards of living
- Taxes help the government to finance its policies especially on poverty alleviation through programs such as "GIRINKA", "VUP", "UBUDEHE" among others
- Taxes enable the government to regulate the prices of goods and services in the country hence ensuring a low cost of living and maintaining the standards of living of the citizens
- Taxes enable the government to maintain a balance between the poor and rich. The government uses the taxes from business people to provide services needed by the poor, which otherwise the rich could not provide.
- Taxes enable the government to promote its policy of industrialization through reducing products from other countries that would otherwise out-compete the home industries.
- Taxes enable the government to ensure that the citizens have enough products. This can be through taxes charged to reduce products moving out of the country or removing taxes on goods needed in the country. This helps maintain a high standard of living.

3.2.3. Benefits of paying taxes to Society

1. There is a reduced rate of poverty among the community due to a significantly equal distribution of income through various activities and projects set by the government
2. Improved wellbeing among the vulnerable and elderly as they benefit from the different government programs financed through taxes.
3. Reduced infant mortality rates and increased life expectancy due to improved access to health facilities and services.
4. Increase in the percentage of the population that completes secondary and TVET education, reducing the literacy levels, improving on the people's skills through programs such as 12YBE.
5. Increased community/social solidarity, general happiness, life satisfaction, and a significant more trust among the community members and for public institutions.
6. Taxes are charged on some products to discourage their production and usage hence controlling over-exploitation of resources as well as protecting the environment which is vital for the existence of the society.

Application Activity 3.2

1. By giving specific examples from your community, how does your society benefit from taxes?
2. What do you think would happen to business activities if taxes were not paid?

3.3. Principles of taxation

Activity 3.3

1. In your community, probably you have heard people and business people complaining about the taxes they pay or charged to different or similar items. Identify any 5 things you have heard normally people complain about.
2. If you were the one determining or imposing taxes to people and businesses, mention any five things you would put into consideration.

Principles or canons of taxation are rules and regulations that should be observed in the tax assessment, collection and administration. Adam Smith put forward the following canons/principles **Convenience:** Places, periods and seasons in which the tax dues are collected should be convenient to the taxpayer. For example, the convenient time to a trader is when s/he has made profit. For a farmer, is when s/she has sold his/her productivity

3. **Simplicity:** The type of tax and the method of assessment and collection must be understandable by both the taxpayer and tax collectors. Complicated taxes may lead to disputes, delays and high costs of collection in terms of time and resources.
4. **Certainty:** The taxpayer must know the nature, base and amount of a tax without doubt. Unpredictable taxes discourage investment and reduce work effort. Simply the tax should not be arbitrary.
5. **Economy:** The cost of collection and administration of tax must be much lower than the tax collected
6. **Elasticity:** A tax should change directly with change in the tax base. If the tax base increases, the tax charged on the tax base should also increase.
7. **Productivity:** The fiscal authorities should be able to predict and forecast accurately the revenue a particular tax would generate and at what rate it would flow in.

8. **Equity:** Tax assessment should be in such a way that tax payers bear a proportionately equal burden. I.e. people who earn more income should be taxed more than those who earn less income.
9. **Diversity:** This canon requires that there should be a number of taxes of different varieties so that every class of citizen may be called up on to pay something towards the national priorities

Application Activity 3.3

1. Why is it important to have principles of taxation?
2. Referring to the principles of taxation you know, briefly explain why each is important to the taxpayer and tax authority (RRA)
3. From the list of principles of taxation, which one do you think is the most important than others? Give reasons to support your answer.

3.4. Rights and obligation of the taxpayers

Activity 3.4

Basing on your knowledge on civic education, standards in business and other knowledge related to rights, answer the following questions:

1. What do you understand by "Rights"?
2. What do you understand by "Obligations/responsibilities"?
3. Using examples, differentiate a "Right from an Obligation"
4. If customers have rights, do you think taxpayers should also have rights? Give reasons to support your response.
5. If your response is yes in 4 above, mention some of the rights you think taxpayers should have.
6. Do you think taxpayers have obligations or responsibilities? Give reasons to support your response.
7. If your response is "yes" in question 6 above, mention some of the obligations/responsibilities of taxpayers.

3.4.1. Rights of taxpayers

- a. **The right of appeal:** The right of appeal against any decision of the tax authorities applies to all taxpayers, and to almost all decisions made by the tax authorities, whether as regards the application of the law or of administrative rulings, provided the taxpayer is directly concerned.
- b. **The right to be informed:** Taxpayers have the right to know what they need to do to comply with the tax laws.
- c. **The right to quality service:** Taxpayers have the right to receive prompt, courteous, and professional assistance in their dealings with the RRA, to be spoken to in a way they can easily understand, to receive clear and easily understandable communications from the RRA.
- d. **The right to pay not more than the correct amount of tax:** Taxpayers should pay no more tax than is required by the tax legislation, taking into account their personal circumstances and income.
- e. **The right to certainty:** Taxpayers also have a right to a high degree of certainty as to the tax to be paid.
- f. **The right to privacy:** All taxpayers have the right to expect that the tax authorities will unnecessarily not intrude upon their privacy.
- g. **The right to confidentiality and secrecy:** Another basic taxpayers' right is that the information available to the tax authorities on the affairs of a taxpayer is confidential and will only be used for the purposes specified in tax legislation.
- h. **The right to legal representation:** Taxpayers have the right to retain an authorized representative of their choice to represent them in their dealings with the RRA
- i. **The Right to tax refund:** A taxpayer gets a tax refund when he/she has overpaid taxes to the government. A tax refund is the difference between taxes paid and taxes owed.

3.4.2. Obligations of taxpayers in Rwanda

- **Obligations of a VAT registered taxpayer:** An article 57- 63 specifies the rights and obligations of a VAT registered taxpayer and include the following:
 - a. Must clearly display the VAT registration certificate in a plain view at the entrance of his place of business for his/her client to see.
 - b. Must issue a VAT invoice to his/her customers every time they purchase goods or services from him/her.

- c. Must file a monthly or quarterly VAT return on the appropriate form (UNG11).
 - d. Must be available at all times to receive VAT officers and to make available to the officer books of accounts ascertaining to the business.
 - e. Must use an Electronic Billing Machine in invoice issuing.
 - **Other obligations of taxpayers include:** The obligation to register with RRA (Rwanda Revenue Authority). Registration is immediately required whenever someone starts not later than seven (7) days of business activities, otherwise sanctions or penalties are required including that of business closure.
- The obligation to be honest.
 - The obligation to be co-operative.
 - The obligation to provide accurate information and documents on time.
 - The obligation to keep records.
 - Providing accurate information to the Rwanda Revenue Authority .
 - The obligation of signing of tax returns
 - The taxpayer must sign the form on which s/he makes an annual statement of income and personal circumstances, used by the tax authorities to assess liability for tax.
 - The obligation to pay taxes on time

Application Activity 3.4

Analyze the following scenario and answer questions that follow

Mutesi started a business dealing in selling agricultural products in one busy center in Musanze. She only got a trading license from the Umurenge (Sector) which used to carry out her business activities. She never kept records of her business transactions saying that as long as she can calculate the amount profit gained, the rest does not matter. She never issued receipts to her customers or not even asking for them from her suppliers. So, one-day staff from RRA visited her business and everything was a total mess.

Questions:

1. What mistakes did Mutesi do?
2. Do you think Mutesi is supposed to pay taxes? Why?
3. Which obligations/responsibilities did she not meet?

4. What do you think are the likely consequences after the visit by RRA?
5. Does Mutesi have any rights after the visit by RRA as a taxpayer? If yes, which are those rights?
6. If Mutesi is to correct her mistakes, which rights will she be entitled to?

3.5. Taxes imposed on business in Rwanda

Activity 3.5

Basing on your experience or knowledge,

- a. Mention any taxes paid in Rwanda by people and businesses you know
- b. "Even a one-day baby, pays taxes". Is this statement true? Justify your answer.
- c. With examples, differentiate direct taxes from indirect taxes

Direct and Indirect tax

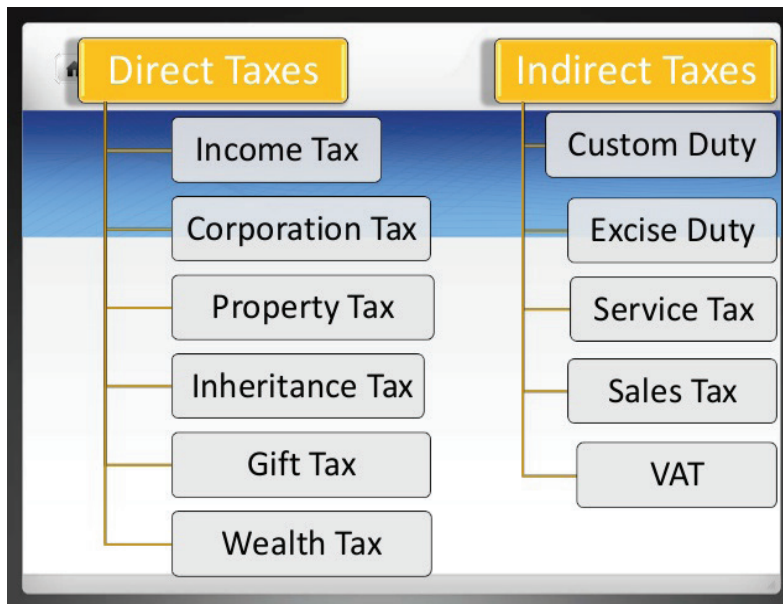


Figure 3 1: Direct tax and Indirect tax and their types

Central government raises revenue through a wide range of taxes. The tax law is made by statute. They are two types of taxes, namely: direct taxes and indirect taxes.

Direct taxes

Direct taxes are paid entirely by a taxpayer directly to the government.

It is the tax where the liability as well as the burden to pay it resides on the same individual.

Examples of Direct taxes

- i. **Personal income tax:** The tax levied on individuals whose income is above a certain level. It is generally progressive and deducted by the state. It applies to salaries, wages, rent, interests, employment income, business profits, and investment income.

A resident taxpayer is liable to income tax per the tax period from all domestic source and foreign source.

A non - resident taxpayer is only liable to income tax, which has a source in Rwanda.

- ii. **Corporate income tax:** Corporate income tax is deducted by the state on industrial and commercial income achieved by the firms working as commercial companies. It is generally proportional to the firm's income. Where a company is registered in Rwanda and its management and control is exercised in Rwanda in a particular year, such a company is considered a resident company and is liable for taxation. Organizations with legal personality or organizations are subject to corporate income tax.
- iii. **Trading license:** The trading license tax is paid by any person who deals with a profit-oriented activity in Rwanda. It is paid before starting activities. It is paid every year not later than 31st March with ongoing business.
- iv. **A professional income tax or PAYE (Pay-As-You-Earn):**

PAYE: is composed of Wages, salaries, leave pay, sick pay, medical allowances, pension payment etc. All kinds of allowances including any cost of living, subsistence, rent, and entertainment or travel allowances'.

- v. **Withholding tax:** Withholding tax of fifteen percent (15%) is levied on the following payments made by resident individuals or resident entities including the following:

- Dividend, except those governed by Article 45 of this law;
 - Interests;
 - Royalties;
 - Service fees including management and technical service fees;
 - Performance payments made to an artist, a musician or an athlete irrespective of whether paid directly or through an entity that is not resident in Rwanda;
 - Lottery and other gambling proceeds;
- vi. Rental income tax:** The rental income tax is paid by any individual who earns income from renting out the fixed assets located in Rwanda, including land, buildings and improvements.
- vii. Fixed asset tax:** The following persons have to pay fixed asset tax if they have the land title deed:
- The owner of the fixed asset;
 - The holder of fixed asset who's the legal owner is unknown for a period of at least 2 years;
 - The holder of fixed asset if the freehold land title is not yet registered in the name of the owner;
 - The proxy who represents the owner who lives abroad;
 - Usufructuary (one who is using the asset)

Indirect taxes

A tax imposed on consumption, sales, shipping, or production, rather than directly on the property or income of the consumer. Indirect taxes are generally included in the price of goods and services, so are less obvious to those paying the taxes than direct levies.

Examples of Indirect tax

- a. Value Added Tax (VAT):** VAT has been introduced in Rwanda in 2001. VAT is a tax on the added value achieved by a firm. This is the difference between the buying price (of raw materials) and the selling price of the product in whatever form it is sold.
- b. Customs duties:** This is the tax imposed on imports and exports. They include:
 - i. Import duty:** This is the tax imposed on imported goods to
 - a. Get government revenue

- b. Discourage imports so as to protect domestic industries
- c. Discourage imports so as to conserve foreign exchange
- ii. **Export duty:** This is a tax imposed on exports to raise the revenue and discourage the exportation of certain goods in order to satisfy the local market demand.
- c. **Sumptuary tax:** This is a form of a sales tax, which carries a very high rate imposed in order to discourage the production and consumption of a particular commodity on grounds of morality, health or economic consideration to maintain productive efficiency. Example; taxes on alcoholic drinks, cigarettes etc where wines pay 70%; brandies, liquor and whisky 70%, cigarettes 150%.
- d. **Sales tax:** Sales tax is imposed on sales of commodities. In Rwanda, the sales tax is charged to consumers based on the purchase price of certain goods and services. The benchmark used for the sales tax rate refers to the highest rate – 18%

Application Activity 3.5

1. Discuss the taxes vested to local authorities (Districts)
2. Why do you think sumptuary tax rights are higher compared to others;

3.6. Tax computations and exempts

Activity 3.6

1. Do you think it is important for an entrepreneur to know how to compute the amount of tax he/she is supposed to pay? Give reasons.
2. What do you think the term “tax exempt means”?

Tax computations

a. Personal income tax

Monthly taxable income	Tax rate	Annual taxable income	Tax rate
From 0 - 30,000 Frw	0%	From 0-360,000Frw	0%
From 30,001 -100,000Frw	20%	From 360,001---1,200,000	20%
From 100,001 - and Above	30%	From 1,200,001 and Above	30%

Note: Benefits in kind (non-cash benefits) received from employment are generally taxable as follows:

Facility Provided	Taxable Benefit
Motor vehicle (with or without a driver)	10% of the employee's total cash emoluments
Accommodation (whether furnished or not)	20% of the employees total cash emoluments

Note: Retirement contributions to an approved pension fund made by the employer on behalf of the employee and/or contributions made by the employee, to a maximum of 10% of the employee's employment income, or 1,200,000Frw a year, whichever is the lowest.

b. Corporate income tax

Tax rate

- i. Taxable Business profit is rounded down to the nearest one thousand Rwandan Francs (1,000Frw) and taxable at a rate of thirty percent (30%). Newly listed companies on capital market shall be taxed for a period of 5 years on the following rates:
 - 20% if those companies they sell at least 40% of their shares to the public;
 - 25% if those companies sell at least 30% of their shares to the public;
 - 28% if those companies sell at least 20% of their shares to the public.
- ii. Venture capital companies registered with the capital markets Authority in Rwanda benefit from a corporate income tax of zero percent (0%) for a period of five (5) years from the date the decision has been taken.

However, a registered investment entity that operates in a Free Trade Zone or foreign companies that have its headquarters in Rwanda that fulfill the requirements stipulated in the Rwandan Law on Investment Promotion are entitled to:

- Pay corporate income tax at the rate of zero percent (0%);
 - Exemption from withholding tax mentioned in Article 51 of the Law n° 16/2005 of 18/08/2005 on direct taxes on income;
 - Tax free repatriation of profit.
- iii. If a taxpayer exports commodities or services that bring to the country between three million (3,000,000) US dollars and five million (5,000,000) US dollars in a tax period, he or she is entitled to a tax discount of three percent (3%).
 - iv. If he or she exports commodities or services that bring to the country more

than five million (5,000,000) US dollars in a tax period, he or she is entitled to a tax discount of five percent (5%).

- v. Companies that carry out micro finance activities approved by competent authorities pay corporate income tax at the rate of zero percent (0%) for a period of five (5) years from the time of the approval of the activity.

However, this period may be renewed by the order of the Minister.

Example.

Alpha Ltd company has obtained an accounting income of 960000RWF. Moreover the other expenses deductible amount to 90000RWF. 30% of the profit put in the reserve.

Required:

1. Calculate fiscal (taxable) income of Alpha company?
2. Calculate corporate income tax (at the rate of 30%)

Possible solution :

a. Net profit before tax = 960000 - 90000 = 870000 Frw

Reserve = $\frac{870000 \times 30}{100} = 261000 \text{ Frw}$

Taxable income = 870000 - 261000 = 609000 Frw

b. Corporate income tax = $\frac{609000 \times 30}{100} = 182700 \text{ Frw}$

c. Trading license

Tax rate

For, the taxpayer registered for VAT, the trading license tax is based on their respective turnovers of the previous year, as follows:

Turnover	Tax due in Frw
From 1Frw to 40,000,000Frw	60,000 Frw
From 40,000,001 Frw to 60,000,000 Frw	90,000 Frw
From 60,000,001 Frw to 150,000,000 Frw	150,000 Frw
Above 150,000,000 Frw	250,000 Frw

For others not registered for VAT, the trading license tax depends on the type of activity and location, as shown in the table below:

Type of Activity	Rural area in Frw	Towns area in Frw	City of Kigali in Frw
Vendors without shops, small scale technicians who do not use machines Sewing machine	4,000	6,000	8,000
Transporters of people and goods and services	4,000	6,000	8,000
Traders and technicians who use machines	20,000	30,000	40,000
All other vehicles besides bicycles	40,000 on each vehicle	40,000 on each vehicle	40,000 on each vehicle
For transport activities by motor boat	20,000 on each boat	20,000 on each boat	20,000 on each boat
Others profit – oriented activities	20,000	30,000	40,000

d. A professional income tax or PAYE (Pay-As-You-Earn)

Monthly taxable income (Frw)	Tax rate
From 0 - 30,000	0%
From 30,001 - 100,000	20%
From 100,001- and Above	30%
Casual laborer	15%
Casual laborer not exceeding 30,000	0%

Example:

The following relate to monthly salaries of Kanyarwanda enterprise employees for 2018:

- Rukundo earns 450,000frw
- Karinganire earns 89,000frw
- Keza earns 28500frw
- Buzima earns 12,5000frw

Required:

Calculate the total PAYE for above employees that Kanyarwanda enterprise pays to RRA every month.

Solution:

a. Rukundo :

Step1: 30000 is exempted $(30000*0)=0$

Step2: $100,000-30000 =70,000*20%= 14000\text{Frw}$

Step 3: $450000-100,000= 350,000*30%= 105000\text{Frw}$

Total TAX for Rukundo = 14000+105000= 119000Frw

b. Karinganire :

Step1: 30000 is exempted $(30000*0)=0$

Step2: $89000-30000 =59000*20%= 11800\text{Frw}$

Total tax for Karinganire is 11800frw

c. Since Keza earns less than 30000Frw she does not pay PAYE. Her total tax =0 $(28500*0)$

d. Buzima

Step1: 30000 is exempted $(30000 *0)=0$

Step2: $100,000-30000 =70,000*20%= 14000\text{Frw}$

Step 3. $125000-100,000= 25,000*30%= 7500\text{Frw}$

Total tax for Buzima =14000+7500=21,500Frw

Total **PAYE** for Kanyarwanda enterprise every month
 $=119000+11800+21500=152300\text{Frw}$

Note:

Exemption for PAYE is that every person who earns income less than 30000 does not pay PAYE to RRA.

The “casual laborer” means an employee or worker who performs unskilled labour activities, who does not use machinery or equipment requiring special skills, and engaged by an employer for an aggregate period not exceeding thirty (30) days during a tax period.

- e. Withholding tax:** Withholding tax of fifteen percent (15%) is levied on the following payments made by resident individuals or resident entities:
- A withholding tax of five percent (5%) of the value of goods imported for commercial use shall be paid at custom on the CIF (cost insurance and freight value) before the goods are released by customs;
 - A withholding tax of three percent (3%) on the sum of invoice, excluding the value added tax, is retained on payments or by public institutions to those who supply goods and services based on public tenders.
- f. Rental income tax:** The rental income tax is calculated progressively by revenue brackets as follows:
- 0% on brackets lower than 180,000Frw,
 - 20% from 180,001 to 1,000,000Frw
 - 30% above 1,000,000Frw

The taxable income is obtained in one of two ways:

- Deducting from the gross rental income 50% considered as the expenses incurred by the tax payer;
- Deducting 30% from gross rental income as the expenses incurred plus bank interest on the rented fixed asset during the tax year;

Tariff or tax rate

The tax rate is fixed at 1/1000 of the taxable value per year.

Tax rate

The VAT rate is applied to duty-free goods. Several rates can be applied depending on the nature of products. The standard rate is usually 18%

- g. Value Added Tax (VAT):** This is the tax charged on the difference between the buying price (of raw materials) and the selling price of the product in whatever form it is sold. $VAT = F.P - I.C$ where F.P is final product, IC is intermediate costs

Example

UTEXRWA industry bought cotton from a local farmer worth 1200,000frw to use in production of blankets. 170 blankets were manufactured and sold to wholesaler at a cost of 4,000,000frw which he later supplied to Lemigo hotel at a value of 8,000,000frw VAT included. Calculate the value of VAT paid on blankets.

Possible solution

Step 1: VAT paid by local farmer :

VAT = FP - IC where FP is final product and IC is Intermediate Cost

$$\text{VAT} = 1,200,000\text{Frw} * 18\% = 216,000\text{Frw}$$

Value added = Sales - Total Purchases

$$= 4,000,000\text{frw} - 1,200,000 = 2,800,000\text{Frw}$$

VAT paid by wholesaler = $2800,000 * 18\% = 504000\text{Frw}$

VAT paid by Lemigo hotel = $8,000,000\text{Frw} - 4,000,000\text{Frw}$

VAT = Value added * 18%

$$= (4,000,000\text{Frw} * 18\%) = 720,000\text{Frw}$$

Therefore total VAT = $216000 + 504000 + 720000 = 1440,000\text{Frw}$

Alternative:

VAT is calculated on sales.

VAT = Sales * 18%

Which is equal $8,000,000\text{frw} * 18\% = 1,440,000\text{frw}$

- h. Sumptuary tax:** Taxes on alcoholic drinks, cigarettes e.t.c where wines pay 70%; brandies, liquor and whisky 70%, cigarettes 150%
- i. Sales tax:** The benchmark we use for the sales tax rate refers to the highest rate – 18%

Application Activity 3.6

Answer the following questions

1. Mr. Bob is living in Nyarugenge district and he owns the following fixed asset for which he obtained the freehold land title in 2010:
 - i. A parcel of land in Gasabo district of 1 hectare on which he plans to build his hotel. The square meter is valued at 5,000 Frw at 1st January 2011;
 - ii. Commercial house in Nyarugenge district valued at 200,000,000 Frw at 1st January 2011;
 - iii. Residential house in Nyarugenge district purchased in 12/ 2010 at 100,000,000 Frw.

Required:

- a. Calculate the total fixed asset tax to be paid by Mr Bob for 2011;
 - b. Indicate the deadline of tax declaration and payment;
 - c. Determine the fixed asset tax that belongs to each decentralized entity.
2. Paul owns 3 houses located at Kicukiro district. For the year 2011, he received rental income of 12,000,000 Frw for each house.

Required:

- a. Calculate the tax on rent payable for the revenues received in year 2011;
 - b. Indicate the deadline of the tax declaration and payment.
3. Suppose Bank of Kigali has, a part of its Headquarters, six (6) branches in Nyarugenge district, five (5) branches in Kicukiro district and four (4) branches in Gasabo district. The following additional information is relevant:
 - i. The turnover of Bank of Kigali for the year 2011, according to the information provided by RRA, is 6,000,000,000 Frw;
 - ii. The turnover of each branch is the average from the total turnover.

Required:

1. Calculate the total trading license tax for Bank of Kigali;
2. Calculate the trading license tax that belongs to each district.

Tax exempts

Activity 3.6

- a. In Rwanda, not all goods and services pay taxes. Do you agree with this statement? Support your choice.
- b. Why do you think some goods should not pay taxes in Rwanda?
- c. Can you give some examples of goods and services you think should not pay taxes in Rwanda?

Taxes exemptions

The exemption generally refers to a statutory exception to general rule rather than the mere absence of taxation in particular circumstances, generally known as exclusion. Tax exemption also refers to removal from taxation of a particular item rather than a reduction.

- a. **Exemption from corporate income tax:** The following entities from the Government of Rwanda are exempted from corporate income tax:
 - i. The City of Kigali, Districts, Towns and Municipalities;
 - ii. The National Bank of Rwanda;
 - iii. Entities that carry on only activities of a religious, humanitarian, charitable, scientific or educational character, unless the revenue received during a tax period exceeds the corresponding expenses to the extent that those entities conduct a business;
 - iv. International organizations, agencies of technical cooperation and their representatives, if such exemption is provided for by international agreements;
 - v. Qualified pension funds;
 - vi. The Rwanda Social Security Fund;
 - vii. The Rwanda Development Bank;
- b. **Exemptions on Value Added Tax:** The following goods and services shall be exempted from value added tax:
 - i. Services of supplying clean water and ensuring environment treatment for nonprofit making purposes with the exception of sewage pump- out services;
 - ii. Goods and services for health-related purposes: (health and medical services, equipment designed for persons with disabilities, goods and

- drugs appearing on the list made by the Minister in charge of health and approved by the Minister in charge of taxes;
- iii. Educational materials, services and equipment; books, newspapers and journals;
 - iv. Transportation services by licensed persons;
 - v. Lending, lease and sale: (sale or lease of land, sale of a whole or part of a building for residential use, renting or grant of the right to occupy a house used as a place of residence of one person and his/her family) etc.
 - vi. Financial and insurance services;
 - vii. Precious metals: sale of gold in bullion form to the National Bank of Rwanda;
 - viii. Any goods or services in connection with burial or cremation of a body provided by an Order of the Minister in charge of finance;
 - ix. Energy supply equipment appearing on the list made by the Minister in charge of energy and approved by the Minister in charge of taxes;
 - x. Trade union subscriptions;
 - xi. Leasing of exempted goods;
 - xii. All agricultural and livestock products, except processed ones. However, milk processed, excluding powder milk and milk derived products, is exempted from this tax;
 - xiii. Agricultural inputs and other agricultural and livestock materials and equipment appearing on the list made by the Minister in charge of agriculture and livestock and approved by the Minister in charge of taxes
 - xiv. Gaming activities taxable under the Law establishing tax on gaming activities;
 - xv. Personal effects of Rwandan diplomats returning from foreign postings, Rwandan refugees and returnees entitled to tax relief under customs laws;
 - xvi. Goods and services meant for Special Economic Zones imported by a zone user holding this legal status;
 - xvii. Mobile telephones and SIM cards;
 - xviii. Information, communication and technology equipment appearing on the list made by the Minister in charge of information and communication technology and approved by the Minister in charge of taxes.

- c. Exemptions on Fixed Asset Tax:** The following fixed assets are exempted from the fixed asset tax if they are not used for profit - making activities:
- i. Fixed assets used for medical purposes, vulnerable groups, educational and sporting activities;
 - ii. Fixed assets intended for research activities;
 - iii. Fixed assets belonging to the Government, Provinces, decentralized entities;
 - iv. Fixed assets used for religious activities;
 - v. Fixed assets used for charitable activities;
 - vi. Fixed assets belonging to foreign diplomatic missions in Rwanda if their respective countries do the same for Rwanda;
 - vii. Land in use for agriculture, livestock or forestry if it is not more than 2 hectares. If this land is more than 2 hectares, the tax is imposed only on the excess land;
 - viii. Fixed assets used for residential purposes, if the assessed value does not exceed 3,000,000Frw. If the assessed value exceeds such amount, only the excess value is taxed.
- d. Exemptions on trading license:** The Government entities are exempted from trading license tax.
- e. Exemption on fees paid on parking:** The following vehicles do not pay parking fees when in official duties:
- i. Vehicles owned by the State, its institutions and projects that is when they have their identification plates;
 - ii. Vehicles belonging to an Embassy;
 - iii. Vehicles of the United Nations affiliated international organizations and other international organizations having specific agreement with the Government of Rwanda;
 - iv. Special vehicles designed for disabled persons.

3.7. Tax conflicts and Resolution

Activity 3.7

In the previous unit (contracts in business), we looked at conflicts and resolution:

- a. What conflicts do you think may happen between taxpayers and tax authorities (RRA)?
- b. What do you think may cause such conflicts between taxpayers and tax authorities?
- c. How do you think such conflicts may be resolved?

3.7.1. Tax conflicts

Tax related disputes/disagreement may arise between taxpayers and tax authorities. Some tax conflicts arise under the following circumstances:

- **Disagreement on law:** How the law is interpreted in relation to tax;
- Disagreement on the tax rates and the amount to be paid by taxpayer;
- **Disagreement on exemption:** Taxpayer may claim an exemption but tax collectors reject it;
- Disagreement on the time of payment;
- Disagreement on method of payment;
- Disagreement on non-payment

3.7.2. Resolution

When tax related conflicts arise between the taxpayer and authority, settlement process starts as follows:

1. Administrative appeal

Appeal to the Commissioner General (CG)

i. General

- Taxpayer must appeal within 30 days after receipt of the notice
- Forms of the appeal
- Be in writing;
- State the taxpayer's identification number;
- State the tax period;
- Describe the assessment and the grounds of appeal;
- Be signed by the taxpayer or his/her representative;
- Contain all the evidences and legal arguments.

- Appeal does not stop collection
- Commissioner General (CG) may suspend the obligation to pay tax, interest and penalties, upon written request by the taxpayer, the Commissioner General (CG) may suspend the collection of the disputed amount for the duration of the appeal.

ii. Decision

- Commissioner General (CG) sends the decision within 30 days;
- Commissioner General (CG) may extend once for 30 days and informs the taxpayer;
- The appeal is supposed accepted, if decision is not made within 30 days;
- The commissioner General (CG) informs taxpayer in writing about the decision.

2. Amicable settlement

- The taxpayer who is not satisfied with the decision of the Commissioner General may request the top Commissioner General for the amicable settlement.
- In case both parties do not reach an amicable agreement, the taxpayer may make an appeal to the competent court.

3. Appeal to the court

- The taxpayer who is aggrieved by the decision of the Commissioner General (CG) may make a judicial appeal. This appeal is brought before the competent court within thirty (30) days after the receipt of the Commissioner General's decision.

Application Activity 3.7

Analyze the following scenario and answer questions that follow

Mutesi started a business dealing in selling agricultural products in one busy center in Musanze. She only got a trading license from the Murenge (Sector) which she used to carry out her business activities. She never kept records of her business transactions saying that as long as she can calculate the amount of profit gained, the rest does not matter. She never issued receipts to her customers or not even asking for them from her suppliers. So, one day staff from RRA visited her business and everything was a total mess.

Required:

Assume, Mutesi is not pleased with decision of RRA officials regarding her tax situation, advise her on the process she should go through for her to resolve the disagreement with the official's decision.

3.8. Special and non-Fiscal tax collection

Activity 3.8

- Referring to your community/sector, mention all the ways you know that your sector (all administrative units/levels including Police...) raise revenue or money for providing services to citizens
- From all the sources you have identified, list those that you think are in form of taxes and those that are not
- How do we call such sources that are not in form of taxes?
- Differentiate tax from non-tax collection

Non-Tax Revenue is the recurring income earned by the government from sources other than taxes. In addition to taxes, business people pay other charges to the government and local authorities. These are non-tax collections or non-fiscal collections. The following are some of the non-tax collections that business people pay:

- Market Fees :** Market fees are charged to a trader who sells goods or services in a place designed by the competent authority. The threshold of market fees is fixed by the district Council considering the size of the designated area and nature of the goods sold. The market fees are paid on monthly basis per stall and fixed as follows:

	Town (Frw/ Stall)	Trading Centre (Frw/Stall)	Rural (Frw/ Stall)
Constructed Market	5,000-10,000 per stall	3,000-5,000 per stall	1,000-3,000
Unconstructed Market	3,000-5,000	1,000-3,000	≥1,000

- Fees charged on public cemeteries:** Fees are paid per tomb by individuals who need to bury their relatives. Fees charged per tomb range between 500 and 5,000 depending on area which the cemetery is located. The district council determines the area considered as public cemetery.
- Fees charged on parking:** The parking fees are paid by any person who parks his/her vehicle in parking lots determined by a decentralized entity. Parking fees are paid per category of vehicles either per hour, per day or

per month.

	Per hour (Frw)	Per Day (Frw)	Per Month (Frw)
Small vehicles and Motorcycles	100	500	10,000
Small lorries and minibuses	200	1,000	12,000
A heavy truck without trailer, big bus and tractors	400	2,000	15,000
Vehicles with a trailer and heavy machine used for construction works and road construction	1,000	5,000	20,000

- d. Fees on public parking:** Fees on public parking are paid by vehicles entering in the public taxi parking. Public parking fees are paid on daily basis as follows:

	Amount per day(Frw)
Minibus capable of transporting 18 passengers and small cars used as taxis	<= 500
Bus capable of transporting between 18 and 30 passengers	<= 1,000
Bus with capacity to carry between 30 and 50 passengers	1,500-3,000
Bus and other vehicles with capacity to carry more than 50 passengers	3,000-,5000
Vehicle not used for transporting passengers	200

- e. Parking fees on boats:** Parking fees on boats are paid by boats used for profit making activities that park in a boat parking area designated by the decentralized entity. Parking fees on boats are determined by the council of decentralized entity basing on the following threshold:

	Per Day (Frw)	Per Month (Frw)
Boat with capacity to carry five tones (5T)	<= 150	<= 4,000
Boat with capacity to carry more than five tones (5T)	<= 200	<= 5,000
Small boat without engine	<= 100	<= 3,000

Other sources of non-taxes revenues include:

- Fines and penalties on road offences;
- General fines;
- Certificate fees;
- Fees from the service provided by districts;
- Fees that are paid to renew registration;
- Optional dues taken from the value of the building sold by the public auction;
- Fees from selling of plots

Application Activity 3. 8

1. Gaparayi is a registered trader in Nyabugogo market. On every Friday, he takes part of the goods to the newly constructed Shyorongi market to attract more clients outside Kigali. In Nyarugenge district, the threshold of market fees is fixed at 10,000 Frw per month and per stall in Muhima, Nyarugenge and Gitega Sectors. The council of Rulindo district has decided to fix at 3000 Frw market fees per stall in all constructed markets across the district.

Required:

Calculate the monthly market fees to be paid by GAPARAYI.

2. RRA is one of the institutions that owns many vehicles. The number of operational vehicles is estimated at 100 in Kigali city. The management has decided to settle vehicles related expenses on a monthly basis to facilitate the work of the accountants and reduce paper work.

Required:

Calculate the amount of parking fees to be paid by RRA for its vehicles operating in Kigali City considering that all operational vehicles are in the category of "Small vehicles and motorcycles".

3. Mutake owns two Coasters capable of transporting 36 passengers each. They operate between Kigali and Kayonza, taking passengers from Remera main taxi park and Kayonza modern taxi park. In Gasabo,

fees in public parking are fixed at Frw 3,000 while in Kayonza fees are fixed at Frw 2,000 per day for this category of buses.

Required:

Calculate total public parking fees to be paid by Mutake on daily basis.

4. Nyamasheke district has allocated a slot of 50 square meters as the boat parking area. The district council has fixed the boat parking per month as follows:

Boat with engine capable to carry up 5 T	2,000Frw
Boat with engine capable to carry more than 5T.....	3,000Frw
Boat without engine.....	1,000Frw

Cooperative ABASAMBAZA owns 10 boats in 3 categories: 4 boats with engine transporting 3 tons each, 3 boats with engine with capacity to transport 7 tons each, 3 wooden small boats without engine for emergency. The cooperative management has decided to pay boat-parking fees on monthly basis.

Required:

- a. Calculate the monthly boat parking fees that should be paid by cooperative ABASAMBAZA.
- b. At which date should these fees be paid.

3.9. Subscribing to tax system

Activity 3.9

Analyze the following extract from RRA regarding tax payment in Rwanda and answer questions that follow.

Registration, taxpayer's benefit and responsibility (Rwanda Revenue Authority)

Cutting down the number of business informal sector is always identified as solid strategy and a way to establishing a secured and growing economy in any country. In this move, registering all businesses is the Government's main focus in this financial 2014-15 year.

In an entrepreneurship oriented state like Rwanda, registering a business is not only a law fulfillment; it's also a way of enabling it to expand and blossom because businesses are widely encouraged and different incentives are given only to registered business people.

Any person, who starts up a business or other income generating activities, is obliged to register with the tax administration within a period of seven days from the beginning of the business. Is also obliged to register for Value Added Tax (VAT) in seven days, any person who carries out taxable activities exceeding an annual turnover of twenty million Rwanda Francs (20,000,000 FRW), or five million Rwanda Francs (5,000,000 FRW) quarterly.

Registration is done at any RRA Office, but when it comes to register a new business, a Taxpayer must also register it through the Rwanda Development Board (RDB) and get a registration certificate. In a bid to facilitate taxpayers, the RRA and RDB combined registration systems so that a Taxpayer Identification Number (TIN) can be issued at the same time of business registration at RDB. After registration at RDB, the taxpayer gets a Registration Certificate with a TIN referred to as the "company code" on the right-top side of the registration certificate.

Business registration at RRA is free. In order to register, a businessman has to carry with him a copy of his Identity Card and one passport photo, and registration is done in five minutes.

De-registration process has also been provided; this may happen in case for instance a Taxpayer decides to stop his business. In this case he first writes a letter to the Commissioner for Small and Medium Taxpayers or Commissioner for Large Taxpayers depending on the category of the taxpayer. The registration office analyse your de-registration request and if approved they call him/her to complete required de-registration procedures. A de-registering taxpayer will then be asked to file returns for the previous period: annual declaration (and payment if applicable) for Profit Tax and Monthly or Quarterly declaration (and payment if applicable) for VAT and Pay As You Earn. He will finally be requested to fill two de-registration forms and get them signed and stamped from the Tax administration. One copy will be kept by the Tax administration for Official use, and another one kept by the Taxpayer for personal record.

Registration is also important because the law provides penalties to business persons who fail to register. Penalties vary from 100.000 to 500.000 Rwandan francs.

Questions

- a. In an entrepreneurship oriented state like Rwanda, registering a business is not only a law fulfilment. Why do you think it is beneficial to register a business in Rwanda?
- b. What are the obligations of any person, who starts up a business or other income generating activities in Rwanda?
- c. Briefly describe the process of subscribing or registering with RRA
- d. What are some of the basic documents involved in subscribing or registering with RRA?
- e. Briefly describe the process for a person/business who wants to de-register or stop subscription to RRA

3.9.1. Conditions for subscribing to tax system include the following

a. Filling in the registration form

Any person who sets up business or other activities that may be taxable is obliged to register within the Tax Administration within a period of 7days from the beginning of business activity.

An individual or group of persons may own a company. Rwanda Development Board (RDB) does registration via online services. This service is immediate and free of charge. Company registration certificate is issued by RDB.

Also for individual businesses, registration can be done by RRA and the Tax Identification Number (TIN) certificate is issued freely at countrywide spread RRA branches. There is an RRA office at all 30 districts in Rwanda. The law provides penalties to businesspersons who fail to register; such penalties vary from 100,000 to 500,000Rwandan francs.

b. Legal form of the business

Registering with the Rwanda Revenue Authority

- i. **Tax Identification Number (TIN):** Within seven days of incorporation of a business, companies and individuals are required to register with the RRA to acquire a TIN. It takes 30 minutes to register and obtain a TIN.
- ii. **Value Added Tax:**Any company or individual that engages in business

activities exceeding a turnover of 20,000,000Frw in a fiscal year or 5,000,000 Frw in the preceding calendar quarter is required by law to register for VAT with RRA within a period of seven days following the end of the year or from the end of the quarter mentioned above.

However, any person/company who/which is not required to register for VAT by law may voluntarily register for it.

- c. Indicate all the type of taxes one owes to RRA:** All taxpayers are expected to know all tax they will pay before starting business otherwise they are considered to make tax evasion; this will have direct impact on their business as sanctions and penalties.

Documents

1. Certificate of registration (to be downloaded from RDB)
2. Documents showing types of taxes (to be downloaded from RRA)
3. His/her identification document:

Requirements vary depending on whether the applicant is a physical person or a moral person.

a. Physical persons (a person who has its own legal personality, that is an individual human being):

- Photocopy of a national identity card/pass port
- A passport size color photo;
- A correctly filled application form

b. Moral person/legal person, (which may be a private that is, business entity or non-governmental organization or public organization):

- Correctly filled application form; these forms are available in two (2) languages, and taxpayers are encouraged to fill the form in the language they best understand in order to avoid errors;
- Certified copy of a legal instrument of incorporation of the company/association;
- Taxpayer Identification Number is required for shareholders if they are residents;

3.9.2. Advantages of subscribing to tax system

- **Take part in business:** if the business is registered with RRA, this is an indication that it will operate smoothly in business industry;

- **Take part in national building:** if the business is registered with RRA, it will highly contribute to the nation development through taxes paid;
- **Get certificate:** if the business is registered with RRA, it is the security that it is recognized by the government and should operate as admitted one by complying with tax laws;
- **Getting loans:** when you apply for loan, you are going to have to prove that you are actually have a business. Lenders and investors will ask to see your business registration along with other application requirements before approving you for a loan;
- **Reputation with customers:** customers and clients, especially people you have never worked with before, need assurance that you are a legitimate business. A potential client may suspect your business of being a “fly-by-night” operation if your company is not properly registered.
- **Supplier arrangements:** a registered business also makes you eligible to receive supplier discounts that you would not normally receive as an unregistered operation;
- **Hiring employees:** a business registration allows you to hire-full time employees and pay them in accordance to state laws. When you register your business with the state, you will receive a state identification number that allows you to route state taxes on the employee’s behalf. Therefore, if you plan to hire employees to your business, it is best to take care of registering your business with the state before you even start the search for workers.

Application Activity 3.9

Why is it important to register for taxes to the RRA?

3.10. Sanctions/ penalties for not complying with tax obligation

Activity 3.10

What do you think may happen to an entrepreneur if he/she does not comply to the tax obligations?

a. Penalties and Interest for not paying consumption tax

- A taxpayer who fails to comply with the provisions of law determining and establishing consumption tax on some imported and locally manufactured products shall be liable to a fine.
- Any taxpayer who fails to remit the tax due within the prescribed period is liable to a fine of five hundred (500) penalty units together with a late payment penalty of ten per cent (10%).

b. Interest and fines for not paying fixed asset tax

The interests, fines and penalties have to be applied for the following cases:

- In case of absence, late submission, or incomplete or misleading tax declaration:
- 10 % of the tax due, if the delay is less than one month;
- 20 % of the tax due, when the delay is not more than two months;
- 30% of the tax due, in case the delay is not more than three months;
- 40 % of the tax due, if the delay is more than three months.

In case of incomplete, incorrect or fraudulent information with an intention of evading tax, the offender is subject to a fine of 20% of tax due for one year when it is the first time and 40% of tax due for one year if the offence is repeated. **In case of late tax payments (law no 59/2011, article 25):**

- Interest of 1.5% per month calculated from the date the taxes are due up to the date they are paid.
- Surcharge of 10% of the tax due. However, such a surcharge must not exceed an amount of 100,000 Frw.

c. Interest and fines not paying rental tax

The interests, fines and penalties have to be applied for the following cases:

In case of absence or late submission

- 10 % of the tax due, if the delay is less than one (1) month,
- 20 % of the tax due, if the delay is not more than two (2) months,
- 30 % of the tax due, if the delay is not more than three (3) months,
- 40% of the tax due, if the delay is more than three (3) months.

In case of incomplete, incorrect or fraudulent information with an intention of evading tax, the offender is subject to a fine of 20% of tax due of one (1) year when it is the first time and 40% of tax due of one (1) year if the offence is repeated.

In case of late tax payments (law no 59/2011, article 25)

- Interest of 1.5% per month calculated from the date the taxes are due up to the date they are paid.
- Surcharge of 10% of the tax due. However, such a surcharge must not exceed an amount of 100,000 Frw.

Any late declaration of zero (0) tariff shall cause the taxpayer be liable to a fine not exceeding five hundred (500) penalty units.

d. Interest and fines for not paying trading license

The interests, fines and penalties have to be applied for the following cases:

In case of absence, late submission, or incomplete or misleading tax declaration:

- 10 % of the tax due, if the delay is less than one month;
- 20 % of the tax due, when the delay is not more than two months;
- 30% of the tax due, in case the delay is not more than three months;
- 40 % of the tax due, if the delay is more than three months.

In case of incomplete, incorrect or fraudulent information with an intention of evading tax, the offender is subject to a fine of 20% of tax due for one year when it is the first time and 40% of tax due for one year if the offence is repeated.

In case of late tax payments (law no 59/2011, article 25):

- Interest of 1.5% per month calculated from the date the taxes are due up to the date they are paid.
- Surcharge of 10% of the tax due. However, such a surcharge must not exceed an amount of 100,000 Frw.

If the taxpayer fails to present, the trading license tax certificate is punished by an administrative fine of 10,000 Frw.

If a trading license tax certificate is lost or damaged, a duplicate shall be issued by the concerned decentralized entity for a fee not exceeding 5,000 Frw.

e. Penalties and Interest on not paying PAYE

Interest

A taxpayer who fails to pay tax within the due date is required to pay interest on the amount of tax. Interest is calculated on a monthly basis at the inter-bank offered rate of the National Bank of Rwanda plus 2 (two) percentage points. For example, if the inter-bank rate is 9%, interest is imposed at 11% annually.

f. Penalties and Interest for not withholding tax

Failure to Withhold Tax

A withholding agent who fails to withhold tax in accordance with law 25/2005 is personally liable to pay to the Tax Administration, as provided for by paragraph 2, Article 48 of this law, the amount of tax which has not been withheld including penalties and interest on arrears. However, the agent is entitled to recover this amount from the payee excluding the associated fines and the interest on arrears.

g. Penalties and Interest for not paying VAT

Value Added Tax violations

“The following administrative fines are imposed to persons who do not comply with provisions of Value Added Tax:

- in the event of operation without VAT registration where VAT registration is required, fifty percent (50%) of the amount of VAT payable for the entire period of operation without VAT registration;
- in the event of the incorrect issuance of a VAT invoice resulting in a decrease in the amount of VAT payable or in an increase of the VAT input credit or in the event of the failure to issue a VAT invoice, one hundred percent (100%) of the amount of VAT for the invoice or on the transaction;
- for issuing of a VAT invoice by a person who is not registered for VAT is assessed a penalty of one hundred percent (100%) of the VAT which is indicated in that VAT invoice and is due to pay the VAT as indicated on that VAT invoice”.

Tax fraud

“A taxpayer who commits fraud is subject to an administrative fine of one hundred percent (100%) of the evaded tax. With exception of that penalty, the Tax Administration refers the case to the Prosecution service if the taxpayer voluntarily evaded such tax, like use of false accounts, falsified documents or any other act punishable by law. In case of conviction, the taxpayer can be imprisoned for a period between six (6) months and two (2) years.

Note: The Minister’s order determines an award given to any person who denounces a taxpayer who engages in tax fraud.

- Closure of the business for 30 days;
- Cancellation or withdrawal of registration certificate;
- Fail to pay tax withheld: this undertakes 100% penalty and 3 months to 2 years in jail;
- Obstructing or aiding: this undertakes fines and penalties equal to that of taxpayer;
- Bar from public tenders;
- Exposure in the media

Application Activity 3.10

1. Discuss why RRA charges fines and penalties?
2. What do you think will happen if tax payers don't pay both taxes assessed and fines/penalties?

Skills Lab Activity 3.11

Justify the following statements with concrete examples:

1. "Taxes are more of a benefit than a cost to an entrepreneur"
2. "Avoiding paying taxes is a shortcut to business growth"

End of Unit 3 Assessment

1. It is said that "tax is the free money to central or local authorities from taxpayers" do you agree with this statement. Justify your answer
2. Explain different taxes vested to decentralized authority (District revenues)
3. What is the role of EBM in Economic Development of Rwanda?
4. Describe any four principles of tax
5. How is tax used by government to;
 - a. Support Entrepreneurs
 - b. Support the community
6. Calculate the tax liability to be paid by a resident individual whose annual income is 45,000,000Frw. The employee is provided with furnished accommodation and a fueled car for the private use. The employee has two children attending school. The employer provides an education allowance of 7,200,000Frw per a year, paid on a monthly basis.
7. Fill in the gap the following:
 - a. punishment is the jail for a period between six (6) months and two (2) years; even the Minister's order determines an award given to any person who denounces a taxpayer who engages in that act.
 - b. is the compulsory and non-refundable payment made by the business to the Government or Local Authority so as to raise their revenues.

- c. is the one that is exempted from VAT.
- d. one of the taxes vested to the local government (Districts).
- e. The degree to which the taxpayers meet their tax obligations as set out in the appropriate legal and regulatory provisions is.....



UNIT 4

BUSINESS RESEARCH

UNIT 4: BUSINESS RESEARCH



Key Unit Competency: To be able to identify a business problem and carry out an investigation to solve it.

Introduction

In the present fast track business environment is marked by competition; many organizations rely on business research to gain a competitive advantage and greater market share. A good research study helps organizations to understand processes, products, customers, markets and competition, to develop policies, strategies and tactics that are most likely to succeed.

For example, if you are planning to start a video library in the neighborhood, you need to ask yourself many questions including the following:

- How many households possess television set?
- How many households access this center?
- What kind of movies do people generally enjoy watching?
- How much does an average household spend on movies?
- What is the current source of movies for these household?

Generally, such questions are in the mind of every business man. However, appropriate answers to such questions will be obtained through market research

because the right information is important for the success of every business activity. The need of information makes research an important component of every business activity.

This unit is therefore designed to guide you answer the above questions and will help to equip you with appropriate research knowledge of identifying a business problem and carry out an investigation to solve it. Through this unit, you will gain competency that will help you demonstrate ability to interpret and use research findings in business decision making. Under this unit, you will also learn how to develop a critical thinking approach to problem solving in business.

Introductory activity:

Kamaliza's Case Study

Read Kamaliza's Case Study and answer the questions below.

Kamaliza is a senior five students at UBWOROHERANE secondary school. Having enough competencies in some senior four units among others, initiation to entrepreneurship, career opportunities and market research, she decided to start a small orange juice processing factory and her main market was the restaurants located in UBUMWE village. Two years later, she found that the level of sales was extremely declining and started wondering why? Thereafter, she decided to gather all relevant information regarding the likely causes of such a decline.

Questions

Referring to the above text, answer the following questions:

- a. Why do you think it is very important for Kamaliza to gather information related to her sales decline?
- b. What is the meaning of business research?
- c. Why do you think it is important to carry out research in business?
- d. Explain the different sources of data that Kamaliza can use to obtain the relevant information.

4.1. Meaning of research, business research and the importance of research in business

Activity 4.1

Analyse the photos below and answer the questions that follow;



1. What do you think is this person busy doing?
2. From the photo above, what do you understand by terms research and business research?
3. Why is business research important for any business?

4.1.1 Meaning of research and business research

Research is a systematic process of collecting, logically analyzing and interpreting data for some purpose. John W. Creswell, states that “research is a process of steps used to collect and analyze information to increase our understanding of a topic or issue”. It consists of three steps: pose a question, collect data to answer the question, and present an answer to the question.

Business research is the process of collecting and analyzing information for the purpose of initiating, modifying or terminating a particular business activity. Business research can be brought in the context of research as doing a feasibility study about a business before it is actually started.

Aims or objectives of conducting a business research include:

- i. To find out the nature and type of products that is preferred by customers/ clients at a given time.
- ii. To find out quality of the products that consumers desire to buy.

- iii. To determine the quantity or volume of the products to be put on the market i.e. finding out how much is to be bought presently and in future.
- iv. To find out consumer's reactions on the ruling prices in the market regarding the entrepreneur's products.
- v. To increase turnover (sales). This results into subsequent increase in the profit margin of the entrepreneur.

4.1.2. The role or importance of research in business

Usually people do business research in order to get the best business choice which can help in maximizing profits. Many people go into business ventures when they have not carried out the appropriate study leading to different businesses ending up closing sooner than they had expected.

To understand the importance of research in business, consider a case where business customers are reducing. Someone may come up with a theory that people are generally poor and so their purchasing power has reduced. In this scenario, there is a need to conduct a systematic investigation to discover what the truth is, that is, you need to carry out research in order to establish, discover, and interpret behaviors and theories to come up with a definite answer.

The roles of research in business include but are not limited to the following:

1. Research, being a fact-finding process, significantly influences business decisions. The business management must choose the course of action which is most effective in attaining organization goals. Research not only provides facts and figures to support business decisions but also enables the business to choose the best one.
2. Research plays a significant role in the identification of a new project, project feasibility and project implementation.
3. Research helps the business management to discharge its managerial functions of planning, forecasting, coordinating, motivating, controlling and evaluating effectively.
4. Research facilitates the process of thinking, analyzing, evaluating and interpretation of the business environment and of various business situations and business alternatives so as to be helpful in the formulation of business policy and strategy like where to buy, when to buy, how much to buy, and at what price to buy etc.
5. Testing of new products. Business research helps in testing the possible success of fresh products. Businesses need to know what kind of services and products

consumers want before they produce them. Research can help design a new product or service, figuring out what is needed and ensure that the development of a product is highly targeted towards demand.

Application Activity 4.1

Think about at least 2 people doing business in your home locality. Do they carry out research in their businesses?

1. If not, explain the challenges they are likely to encounter in their businesses.
2. Describe the challenges or obstacles to effective business research?

4.2. Types of business research

Activity 4.2

Read the following case study about Mugabe and answer the questions below; Mugabe is a businessman in Kazi village. After recognizing increase in price of one of his preferred commodities “Ibirayi bya Kinigi”;he decided to carry out a research to help him answer some questions like:

- What are the causes of price increase for “Ibirayi bya Kinigi”?
- How do you think will that research impact his business?

While conducting a research, data was collected from MINICOM's report showing the figures, observations, opinions and descriptions on the reasons for the increase in prices of “Ibirayi bya Kinigi”. Also, MUGABE collected some other data from different respondents (cultivators in Kinigi, Musanze District) using interviews and questionnaires.

- a. Describe the different types of research used by MUGABE.
- b. What was the purpose of using the different types of research you identified in the above question?

The types of business research include the following:

1. **Quantitative research:** This is the gathering and analysis of data that can be expressed in numerical form. E.g. Collecting data about prices, amount of money people earn, etc.

Quantitative research: is a formal, objective, systematic process in which numerical data are used to obtain information about the situation. This research method is used: to describe variables; to examine relationships among variables;

to determine cause-and-effect interactions between variables.

Some advantages of quantitative research	Some limitations of quantitative research
<ul style="list-style-type: none">• Larger sample sizes often make the conclusions from quantitative research generalizable.• Quantitative research can be used to test hypotheses in experiments because of its ability to measure data using statistics.• Appropriate for situations where systematic, standardized comparisons are needed.• Relationship between an independent and dependent variable is studied in detail, which is advantageous because the researcher is more objective about the findings of the research.	<ul style="list-style-type: none">• Can reveal what / to what extent, but cannot always explore why or how.• Quantitative research does not study things in a natural setting or discuss the meaning things have for different people as qualitative research does.• May give a false impression of homogeneity in a sample

- **Qualitative research:** This deals with the collection and analysis of non-numerical data.). Qualitative data describes items in terms of some quality or categorization that may be 'informal' or may use relatively ill-defined characteristics such as warmth and favour. For example, to find people's opinions on a new product launched cannot be measured numerically, because they are just opinions based on an individual's perception and beliefs.

Qualitative research can also be referred to as a type of social science research that collects and works with non-numerical data and that seeks to interpret meaning from these data that help us understand social life through the study of targeted populations or places. Qualitative data can include well-defined aspects such as gender, nationality or commodity type, qualities of a good leader, etc.

Advantages of qualitative research	Limitations of qualitative research
<ul style="list-style-type: none"> • Rich, in-depth detail information is possible (e.g. participants can elaborate on what they mean). • Perceptions of participants themselves can be considered (the human factor). • Appropriate for situations in which detailed understanding is required. • Events can be seen in their proper context/ more holistically. • Gathered data has a predictive quality to it. One of the common mistakes that occur with qualitative research is an assumption that a personal perspective can be extrapolated into a group perspective. This is only possible when individuals grow up in similar circumstances, have similar perspectives about the world, and operate with similar goals. When these groups can be identified, however, the gathered individualistic data can have a predictive quality for those who are in a like-minded group. 	<ul style="list-style-type: none"> • Not always generalizable due to small sample sizes and the subjective nature of the research. • Conclusions need to be carefully hedged • Accusations of unreliability are common (different results may be achieved on a different day/ with different people) • Researcher influence can have a negative effect on the collected data. The quality of the data that is collected through qualitative research is highly dependent on the skills and observation of the researcher. If a researcher has a biased point of view, then their perspective will be included with the data collected and influence the outcome. There must be controls in place to help remove the potential for bias so the data collected can be reviewed with integrity.

3. Primary research (field research): This is the collection and use of original data from the field. The researcher gathers information directly from the target groups. It involves the collection and use of data that does not already exist. It is the collection and use of original data.



Figure 4.1: A researcher collecting primary data from the shop

Some advantages and disadvantages of primary research

Advantages include:	Disadvantages include:
<ul style="list-style-type: none"> • The information is relevant and up to date. • It is specific to the firm's actual scenario and situation. • The information obtained is available to organization only. • Data interpretation is better. The collected data can be examined and interpreted better based on the needs of the business rather than relying on data interpreted by others. • Gives original research quality, and does not carry bias or opinions of the third parties. 	<ul style="list-style-type: none"> • Can be costly and time consuming, depending on the method and sampling method. • Poor questionnaire design or methodology may provide bias results. • May find it difficult to get enough people to represent the population or market segments accurately and equally. • Primary research requires skills in data collection and analysis that may not be readily available in the business.

4. Secondary research (desk research): This is the analysis and use of existing data and information. The information is available to the researcher from textbooks, magazines, newspapers, directories, trade publications, internal and external reports, government and its ministries, etc.

For example, if you want to start a school in Ntarabana Sector in Rulindo District and you need the data about population, you can get statistics from the National Institution of Statistics of Rwanda (NISR) about population density, number of school going children in Ntarabana Sector, number of boys and girls, number of existing schools, sources of income and other data. You can use this data to analyse and make your own conclusion but using existing data.

Some Advantages and disadvantages of secondary research

Advantages	Disadvantages
<ul style="list-style-type: none"> • The data is already gathered, so it may be quicker to get the relevant information • Data may be gathered on a much scale. This means that may have been collected covering a large scope. • In some cases, the data can be cheap to collect and free to access. • Sampling. While using secondary data, the researcher can use the random sampling resulting in larger sampling size which may not be possible in a primary data collection. 	<ul style="list-style-type: none"> • Information may be outdated, therefore inaccurate. • The data may be biased and it is hard to know if the information that was collected is accurate. • The data may have been gathered for the specific purpose or what the firm needs but may not be relevant to the original context. • In some cases, it can be costly. E.g. marketing firm reports. • Lack of control over data quality. Government and other official institutions are often a guarantee of quality data, but it is not always the case

(Source: Saunders, 2009).

Application Activity 4.2

- i. Examine the advantages of primary research over the secondary research
- ii. Imagine, you have a business you want to start, treating your class as a market; referring to the most pressing needs of your classmates, conduct a research to determine which product could be more feasible and profitable for you. Also be specific about which type of research you will have used.

4.3. Key steps in research

Activity 4.3

Read the following case study clearly and answer the questions that follow;

When Mr. MUHIRE completed his secondary school studies, he started a business dealing in trading of beans in Gasabo District. Six months later, he decided to carry out a research aiming at discovering which types of beans are preferred in the District as many of his loyal customers claimed on the type of beans delivered to them during the previous month. He took time to clearly decide on the objectives of the research and ways of collecting helpful information. He also scheduled how activities will be following each other. After getting the research funding, he started gathering information, intensively studying his data and came up with useful information from the data collected.

Required:

1. Suggest and describe the steps that MUHIRE should follow throughout his research process.
2. Go out in a nearby market or trading center and collect information about a specific product of your choice offered by different companies and find out what the users say about them.

Steps that are involved in carrying out a business research

1. **Finding the topic of the research study.** This is the title of all the research work that has to be done in the field. E.g. an evaluation of the influence of income levels of consumers to the growth of a business.
2. **Defining the research problem.** This enables the entrepreneur to find out how to deal with prevailing situation which consequently enables him to achieve his/her target.
3. **Setting of objectives.** Specifically show what the research wants to achieve at the end of the study. They should always be brief and SMART (systematic/specific, measurable, achievable, realistic, time bound).
4. **Selection of the basic data collection methods.** (Observation, interview, questionnaire, field experiments, focus group etc.)
5. **Determine the scope.** The researcher determines the limitations of his/her study. That is to say, areas to be covered and what to be included or excluded. (sample/population).

- 6. Designing a clear schedule for conducting the research** or coming up with a clear plan of the whole research process. Consider the example below;

An example of a research schedule of activities on a topic of study “Customer perception towards a new brand of product from a given company”

Customer perception towards a new brand of product

PERIOD/TIME	ACTIVITY	RESPONSIBLE PERSON	REMARK
JANUARY	Buying requirements E.g. cameras, note books, recorders, etc.	Procurement officer	
FEBRUARY	Making a pilot study	Marketing manager Research assistants	
MARCH	Real field study	Marketing manager Research assistants	
APRIL	Categorizing, analysis and interpretation of data findings	Marketing manager Research assistants Research department	
MAY	Writing a report	Research department and marketing manager	
JUNE	Decision making based on the research findings	Board of governors and managers (depending on the structure of the organization)	

- 7. Collecting data:** The researcher collects data on a number of things such as price, product, promotion, target market etc. This is normally done in the real field study.
- 8. Analyzing data:** This is done during and after the real field study. It enables the researcher to know how the market will be especially in terms of demand.

- 9. Presenting data:** After data analysis, the researcher presents his findings to the relevant authorities for action. The researcher should ensure that he presents empirical data and not estimates or hypothetical figures to those who are supposed to take the action.

Application Activity 4.3

Read the story below and answer the questions that follow.

AKEZA is a dairy firm that heavily relies on production of yoghurt for their profits. They have been in this business for 5 years now. However, other firms have joined the industry and yoghurt is no longer profitable for AKEZA dairy. The firm is contemplating about the introduction of new products; ghee and powder milk because no other firm is currently producing them for the market. The research and development department has been tasked to carry out a study on how the new products will help the firm to regain its profits.

Questions

1. Suppose you are the researcher for AKEZA dairy, what essential things would you consider before you carry out research to find out whether the 2 new products will help the firm to regain profits?
2. What challenges are you likely to face when carrying out the research and how would you overcome them?

4.4. Data collection

Activity 4.4

- a. What do you understand by data collection?
- b. MAHORO, a trader in Rugwiro trading center carried out research for the problem of her "decrease of business's monthly turnover" during eight consecutive months. While collecting data to find out the likely cause, MAHORO read the report of National Bank and discovered that one of the causes was the measures applied by the National Bank to reduce money in circulation.

In the process of collecting data she used interviews and questionnaires as research tools.

- i. Describe the main sources of data used by MAHORO while conducting her research
- ii. Formulate five questions MAHORO would administer to collect the required data
- iii. Explain the types of data used by MAHORO in her research.
- iv. Differentiate between primary and secondary data and explain how they help in business research.

4.4.1. Sources of Primary and Secondary data

Data refers to all information a researcher gathers for his or her study. The word data comes from a Latin word "**datum**" which means a single piece of information. "In research, data is defined as recorded factual material commonly retained by and accepted in the scientific community as necessary to validate research findings; although the majority of such data is created in digital format, all research data is included irrespective of the format in which it is created."

The sources of data may be classified into: Primary data and Secondary data sources.

Primary sources of data

Primary sources are original sources from which the researcher directly collects data that have not been previously collected. The major sources of primary data include respondents, analogous case situations and research experiments.

Respondents: As noted earlier, one of the sources of primary data is respondents; this is the very important source of first-hand information while conducting any research. In business research, the type of information that may be collected from respondents may include data on past behavior, intentions of likely behavior, extent of knowledge, attitudes and opinion and socio-economic characteristics and lifestyle data.

Primary data from Analogous situations - Case Study: Evolved from the behavioral sciences, case study or case history is in extensive use in marketing research today. Using analogous situations to or relevant to the problem situation, an in- depth investigation is carried out to thoroughly study the case situation.

Experimentation: Experimentation also represents a fairly rich source of primary data and is used mostly to study cause-effect relationships among research variables. For example, an experiment may be done to find out how sales will be affected when the colour of the product is changed by making sample products with the new colour, putting them on the market and observing customer reactions.

Secondary sources of data

These are sources containing data that have been collected and compiled for another purpose. It means that the data here is already in existence. Secondary data may be internal or external. Internal sources are within the organization while external sources are sources of secondary data that originate from outside the organization. These include the following:

- **The government and its ministries:** For example, the ministry of education has data on schools, enrolment, distribution of tertiary institutions etc.
- **Trade publications** especially industry magazines.
- **Bureau of statistics:** (Data centers). The bureau of statistics has the important information used for research. In Rwanda the bureau of statistics the “National Institute of Statistics of Rwanda”.
- **Competitors:** Company reports and websites are easily accessible and contain a limited amount of information.
- **The general media** (newspapers, radio and television).
- Company records and files.
- Textbooks and other published sources.
- Publications.
- Other researchers’ information.
- Internal and external reports.
- Associations, Databases and Directories.

4.4.2. Methods of data collection

Data collection techniques are means by which a researcher obtains data. There are various methods of data collection to choose from. In some instance, it is useful to use more than one method to collect the required data. Using more than one method to test a hypothesis is called triangulation or mixed method.

Methods of collecting primary data

The researcher directly collects primary data from their original sources. In this case, the researcher can collect the required data precisely according to his research needs, he/she can collect it when he/she wants it and in the form he/she needs it. But the collection of primary data is costly and time consuming.

- **Interviews:** Interview as a source of research data refers to systematic talking and listening to people. The person asking questions is the interviewer while the person answering is called the interviewee or respondent. Interviews may be face to face or over a telephone.
- **Face to face interview:** These are interviews where the interviewer and the interviewee face each other and talk directly to each other. The interviews have the advantages of allowing the researcher to establish some rapport with the respondents and in the process gain their confidence and trust.



Figure 4.2: This figure shows a researcher conducting a face to face interview.

- **Telephone interviews:** Telephone interviews are conducted over a telephone line. The researcher and respondent do not meet face to face but questions are asked and answered over the telephone.



Figure 4.3: Telephone interview while conducting a research.

- **Computer Assisted Personal Interview (CAPI)** is relatively new but modern method. Instead of respondents answering questions on paper, the researcher enters the information into the computer as respondents answer.

Types of interviews

There are different types of interviews and these include the following:

- **Structured (standardized) interview:** With structured interviews, respondents are asked the same questions. The questions are the same and administered in the same order for all the respondents. If possible, they should even be read by the same person in the same tone.
- **Semi-structured interviews:** These are non-standardized interviews. The researcher has a list of issues, topics and themes around which questions are asked. The nature and order of questions may be changed depending on the trend of the interview. Where possible, additional questions may be asked and the interviewer is free to rephrase and explain the questions.
- **Unstructured interview:** This form is non-directed and casual. There is no interview guide. Each interview is different and each respondent may be asked their own questions.
- **Non-directive interviews:** The interviewee leads the process and freely discusses a topic. There are no pre-planned questions.

Advantages of using the interview method

The advantages of using the interview method include:

- Allow for more in-depth data collection and comprehensive understanding
- Body language and facial expressions are more clearly identified and understood
- The interviewer can probe for explanations of responses
- Stimulus material and visual aids can be used to support the interview
- Interview length can be considerably longer since the participant has a greater commitment to participate

Disadvantages of using the interview method include;

- Interviews are more time consuming to conduct
- As a result of timing and travel, face to face interviews can be expensive
- Interviews can deliver biased responses etc.
- **Observation**

Observation may be defined as a systematic viewing of a specific phenomenon in its proper setting for the specific purpose of gathering data for a particular study. Observation as a method includes both “seeing” and “hearing.” It is accompanied by perceiving as well. Using observation of customers, the researcher can observe peak

days, time, age and sex of buyers, etc.

For example, if you want to find out which age group buys most from Musanze market, observation method would be simple and straight forward to find out. The researcher positions him/herself in a strategic position near the market main entrance gate, counts and records the most age group of all the buyers entering the market. At the end of the research period, this data can be analysed to get the information required, that is which age group (male or female) shops most from Musanze market.

Advantages of using observation method

- Very direct method for collecting data or information and best for the study of human behavior.
- Data collected is very accurate in nature and also very reliable.
- Improves precision of the research results.
- Helps in understanding the verbal response more efficiently.
- Observation is less demanding in nature, which makes it less bias in working abilities.
- By observation, one can identify a problem by making an in depth analysis of the problems.

Disadvantages of using observation method include

- Problems of the past cannot be studied by means of observation.
- Having no other option, one has to depend on the documents available.
- As observations require some special instruments or tools for effective results, this can be very much costly.
- One cannot study opinions by this means.
- Attitudes cannot be studied with the help of observations etc.

Field experiments

Field experiment relates to finding out what happens as a result of an action. For example, an experiment may be done to find out how sales are affected when the size of a given product is changed by simply making sample products with the new size, putting them on the market and observing customer reactions.

Advantages of field experiments

- Field experiments are conducted in everyday natural environment of participants, promoting high ecological validity. The experimenter still controls the IV (independent variable)
- There is a much lesser risk of demand characteristics as participants may not be aware that they are being studied.
- This method of research includes a real life situation and so the results are more realistic.
- Decisions are made with lots of confidence which makes them accurate.

Disadvantages of field experiments

- It is expensive and takes a long time because the product must be produced and sold.
- The sample market may differ substantially from the general market and so the result obtained in the experimental market may not apply in the other markets. For example, a sample cake produced and experimented within a local restaurant may not work out exactly the same way as in open markets.
- External factors like weather, government policy, location and social trends may affect the results of the experiment.
- If experiment is not controlled, it may lead to inaccurate results. For example, if you change the colour of a product during political campaigns, people may buy the product by associating it with the colour but the same behavior may not be observed during normal non-political times, etc.

Focus groups

A focus group is a small, but demographically diverse group of people and whose reactions are studied especially in market research or political analysis in guided or open discussions about a new product or something else to determine the reactions that can be expected from a larger population. It is a form of qualitative research consisting of interviews in which a group of people are asked about their perceptions, opinions, beliefs, and attitudes towards a product, service, concept, advertisement, idea, or packaging.

Questions are asked in an interactive group setting where participants are free to talk with other group members. During this process, the researcher either takes notes or records the vital points he or she is getting from the group. Researchers should select members of the focus group carefully for effective and authoritative responses.

Advantages of using the focus group method include

- Through interaction, the researcher is most likely to learn more through non-verbal communication by observing gestures and body language.
- They encourage participation of people who cannot read or write.
- They enable people use different forms of communication that they use in their day to day interaction.
- They encourage participation of those who may not feel comfortable with one on one interview.
- Focus groups also allow the respondent to share experience and come up with more informed responses.

Disadvantages of using the focus group method include

- Groups are more difficult to manage than one individual; interviewer must keep track of what is going on in the group.
- Unexpected conflicts, power struggles, and other group dynamics may inhibit discussion.
- Shy persons may be intimidated by more assertive persons.
- One person may dominate to the exclusion of others.
- Data may be more difficult to analyze.
- Moderators need to be skilled in working with groups.
- The environment can have an impact on the responses.

Case studies

The term case study usually refers to a fairly intensive examination of a single unit such as a person, a small group of people, or a single company. Case studies involve measuring what is there and how it got there. In this sense, it is historical. It can enable the researcher to explore, unravel and understand problems, issues and relationships. It cannot, however, allow the researcher to generalize, that is, to argue that from one case study the results, findings or theory developed apply to other similar case studies. The case looked at may be unique and, therefore not representative of other instances. It is, of course, possible to look at several case studies to represent certain features of management that we are interested in studying. The case study approach is often done to make practical improvements.

Case studies help researchers to analyse complex issues by studying and analyzing a limited number of events or situations.

Advantages of using case study method include but not limited to:

- Case studies allow detailed information to be collected that would not normally be easily obtained by other research designs. The data collected is normally a lot richer and of greater depth than can be found through other experimental designs.
- Case studies tend to be conducted on rare cases where large samples of similar participants are not available.

Disadvantages of using the case studies method include:

- One of the main criticisms is that the data collected cannot necessarily be generalized to the wider population. This leads to data being collected over longitudinal case studies not always being relevant or particularly useful.
- Case studies are easier and cheap to conduct

Using case studies method, the selection of the case and how wide it is may determine how applicable the collected data may be represented. A poorly selected case may lead to wrong conclusions.

The Questionnaire

A questionnaire is a pre-determined set of questions used to get information from a client. These questions are presented in a written form and taken or given to the respondent. Questionnaires can be fact or opinion based. Respondents are expected to return the filled questionnaire to the researcher for analysis. The questionnaires should be well planned and carefully formulated if it is to generate the right data.

Questionnaire questions

Questionnaire questions can either be open ended or closed ended questions.

Open-ended questions: Open-ended questions are questions that allow someone to give a free-form answer. These questions are asked to encourage a meaningful and full answer using the respondent's own knowledge. Examples;

- a. What do you think about the new product?
- b. How is your relationship with your loyal customers?

Closed ended questions: These questions require the respondent to respond by choosing from a limited range of responses pre-determined by the researcher.

Examples:

- a. What is your gender?
 - Female
 - Male
- b. How are you likely to transact with our business this month?
 - Very likely
 - Likely
 - Unlikely

There are several basic principles to remember when developing such questions.

- **The question should match the research objectives:** You must know why you want to conduct the survey in order to be able to ask the right questions.
- **Understand the participants:** It is important to remember that it is your respondents (and not you the researcher) who will be answering the questions. Compose questions that they understand and not those that you understand because it is them (the respondents) answering and not you the researcher.
- **Use familiar and natural language:** Use the language level that is understandable by your respondents. Consider their level of education and age. Also consider your religious, social, political and cultural background in phrasing the questions.

Advantages and disadvantages of questionnaires

ADVANTAGES

- Large number of respondents possible.
- Representative sample possible.
- Question responses can be highly structured and easily coded.
- Statistical tests possible (depending on nature of data collected).
- Respondent has time to consider questions (especially so when not face to face).
- Inexpensive way to cover a large geographical area.
- Questionnaires are replicable and can be used in later studies and, if well constructed and properly piloted, they should be reliable.
- Standardised questionnaires have already been validated; you can compare your work directly to other studies.

DISADVANTAGES

- If not administered face to face, (eg by email attachment or on-line) there is a possibility of a low response rate (not getting many questionnaires back)
- No way of knowing how representative people are in some website/Internet-based surveys (that is, it depends on whether people can access a website)
- Questions cannot be explained to respondents and can be misinterpreted (unless administered face-to-face) and answers cannot be put in any real world context
- Questionnaires cannot tell us about context and meaning behind a response
- Likelihood of socially desirable responses to certain questions.

- **Sampling**



Figure 4 4: Research population and sampling.

Meaning of sampling

Sampling refers to the process of selecting units (e.g. people or organization) from a large population. By studying the sample, we may fairly generalize our results about the population from which the sample was chosen.

Population, as used in research, refers to as a collection of all the items about which we would like to know some characteristics. Examples of population include the people in a market. The population that we are interested in is the target population.

A sample is the subset or segment of a population that is used to represent the entire group as a whole. When doing research, it is often impractical to survey every member of a particular population because the sheer/total number of people is simply too large. To make inferences about characteristics of a population, researchers can use a Random sample. For example, 500 buyers in a market.

Different types of sampling methods

Sampling methods are mainly divided into two; these are:

- a. Probability sampling
- b. Non probability sampling

a. Probability sampling

The following sampling methods are examples of probability sampling:

- i. **Simple random sampling.** This is obtaining data by choosing elementary units in such a way that each unit in the population has an equal chance of being selected. Simple random sampling should be free from bias.
- ii. **Stratified sampling.** Using this method, the population is divided into separate groups basing on some variable/ characteristics such as income or age. These groups are referred to as strata. Select from each stratum a given number of units which may be based on to draw conclusions.
- iii. **Cluster sampling.** This is obtained by selecting clusters from the population on the basis of simple random sampling. A cluster may be something like a village, a school, a class or a hospital.

b. Non-probability sampling

The following sampling methods are examples of non-probability sampling:

- i. **Convenient sampling.** Where the researcher questions whoever is available. This method is quick and cheap. However, we do not know how representative the sample is and how reliable the results are.
- ii. **Quota sampling.** Using this method, the sample elements are made up of potential purchasers of your product. For example, if you feel that your typical customers will be females between the age of 19-25, then some of the respondents you will interview should be of this age group. In this case quotas are given.
- iii. **Judgmental sampling/ purposive sampling.** This sample is obtained by basing on the idea that people who are deemed to be having more relevant information are sampled out especially if they have the relevant characteristics of the target population.
- iv. **Snowball sampling.** This is a method in which the researcher identifies one member of the target population, speaks to him/her and asks that person to identify others in the target population that the researcher might speak to. This method has an interesting application to group membership.

Importance of sampling

Sampling is important in all kinds of research for the following reasons:

- i. Sometimes, research involves “testing”, “measuring” or some form of demonstration that may result in the destruction of the subject. For example, to see the quality of an orange, a trader splits one orange to

see the inside.

- ii. It is cheaper to deal with a sample than dealing with the entire population. In example of buyers in a market used earlier, it is cheaper to interview a sample of 500 buyers rather than looking for every individual buyer throughout the market. Sometimes, it is not possible to access all units of the population. Some units of the population may not be obtainable at the time of the research. For example, to find the quality of bread, you cannot access all the loaves of bread and so you resort to a sample. To test the rate of air pollution, you cannot collect all the air molecules from an entire province, so you collect and test samples.

Application Activity 4.4

Imagine a situation when you have finished your secondary school studies and one of your family members learns that you studied entrepreneurship and so accepts to grant you capital to start your own business. But before he gives you that money he asks you to first carry out market research for the feasible business.

He then asks you to first carry out the following business research task after which you prepare report and present it to him for you to obtain the promised capital.

- What products (goods or services) that people in your community would like to have but are currently not being provided?
- Choose one product that you would be interested in dealing with.
- Who from your community can give you information about the product you identified?
- Decide the population sample (the number of people identified in no. 3 above) to ask
- Formulate questions that you will use to collect the data that you require about the product that you chose in no. 2 above)
- Make a plan of how you will collect the data and how you will analyze it.
- Proceed to collect the information/data.

- **Methods of collecting secondary data**

Activity 4.5

Suggest at least five sources of secondary data

Secondary data collection

Secondary data refers to the data which have already been collected and analysed by someone else. When the researcher utilizes secondary data, then s/he has to look into various sources from where s/he can obtain them.

Collection of secondary data majorly uses documentary method: documents are an important source of data in many areas of investigation. Review of the documents shows that the researcher is aware of the available functions of research. In documentary analysis, the following may be used as sources of data records: various published or unpublished data, books, magazine, newspaper, trade journals, reports, printed forms, letters, diaries, compositor's themes or other academic work, pictures films and cartoons

Unpublished data may be found in: letters, diaries, unpublished biographies or work.

Before using secondary data, you need to consider the following;

Reliability of data: Who collected the idea? From what source? Which methods? Time? Possibility of bias? Accuracy?

Suitability of data: The object, scope and nature of the original inquiry and studies and then carefully scrutinize the data for suitability.

Adequacy: The data is considered inadequate if the level of accuracy achieved in data is found inadequate or if they are related to an area which may be either narrower or wider than the areas of the present enquiry.

Application Activity 4.5

Discuss the advantages and disadvantages of using secondary data in business research.

4.5. Data Analysis

Activity 4.6

Observe and analyse these photos and answer the questions below.



In any research project, the researcher goes through a given process to obtain usable and useful information from the data collected.

- a. Identify the research stage illustrated above
- b. Explain the process of the research stage identified in (a) when using qualitative data. The purpose of analysing data is to obtain usable and useful information. The analysis, irrespective of whether the data is qualitative or quantitative, may:
 - i. Describe and summarize data.
 - ii. Identify relationships between variables.
 - iii. Compare variables.
 - iv. Identify the difference between variables.
 - v. Forecast outcomes.

Data that is not sorted and analysed is of no value. When it is sorted, arranged and analysed it generates useful information. Data analysis comes after data has been collected. You have to analyse the data collected to come up with the conclusions. Without analysis, data alone does not provide meaningful and useful information. The research process at this stage may have generated two types of data, qualitative (non-numeric) data and quantitative (numeric) data.

Analysis of qualitative data

Qualitative data is data that consists of words, observations and descriptions but not numbers. Analyzing qualitative data is also called content analysis. Analyzing qualitative data is rather a tricky process since each respondent gives a unique response.

Qualitative data comes in varied forms. This may include short answers from open ended questions, long answers from interviews and in many other different forms. Qualitative data may be produced from any of the following:

- **Open ended questions and comments from questionnaires.** Such questions may generate single words, short phrases or even complete sentences and paragraphs.
- **Discussion groups.** These may generate qualitative data in form of notes and observations recorded by the group moderator or leader.
- **Interviews.** These generate data in form of brief notes or recordings.
- Other sources like case studies, documents and reports also generate qualitative data.

The qualitative data analysis process

Step 1: Understand your data. Under this stage, the researcher tries to understand the data by reading the data over and over again. If the data is recorded, the researcher listens to it as many times as possible to understand the quality of data.

Step 2: Focus on the analysis. At this stage, the researcher reviews the purpose of the research and what he/she wants to find out, what questions he/she wants answered and what he/she wants to use the findings for.

Step 3: Categorization of data. This stage may be called coding data or indexing data. The researcher identifies themes and patterns in the data and organizes the data in groups. This involves reading and re-reading over the data to identify similarities in responses.

Step 4: Sort and organize the data. Here, the researcher identifies patterns and relationships within the data. This includes identifying relative importance of particular response (what percentage shop from boutiques), relationship between the data (people who say they buy shirts from shops also prefer long sleeved shirts).

Step 5: Interpret the data. Use the interpretations, themes and connections between data to explain your findings.

Analysis of quantitative data

Quantitative data analysis is a systematic approach to investigations during which

numerical data is collected and the researcher transforms what is collected or observed into numerical data. It often describes a situation or event; answering the 'what' and 'how many' questions you may have about something. This research involves measuring or counting attributes (i.e. quantities). The quantitative data is subjected to various tests and measures namely:

- Measures of central tendency (mean, median and mode)
- Measures of variability (range, standard deviation).

Manual data analysis

Before the computers and specialized computer programs were developed, research was always done and the data collected was analysed. People used manual methods to analyse data. This is very tiresome, slow and at times difficult altogether because more errors are likely to be committed and difficult to detect.

Electronic data analysis

There are various computer programs that are specifically made to analyse data collected from research and present results. There are also several statistical packages that can be used to analyse data.

Data analysis using software

Nowadays many computer applications that can be used to analyse research data are available. When choosing which software to use, the following are taken into consideration:

- The cost of the software
- The volume and nature of data available
- The skills of the researcher and the kind of analysis required.

The common software for research data analysis includes: METLAB, SPSS, STATA and Microsoft Excel. Microsoft Excel is the most common and basic program that can be used for research data analysis.

Entering data into excel

You need to get familiar with the basic features of MS Excel workbooks, worksheets, formula and functions before you start using MS Excel to enter and analyse data. Like a book with many pages, an excel file is called a workbook and in each workbook,

there are several sheets called worksheets. Different data may be entered in different worksheets in the same workbook.

You can enter and edit data from worksheets. Different kinds of data may be entered in different worksheets in the same workbook.

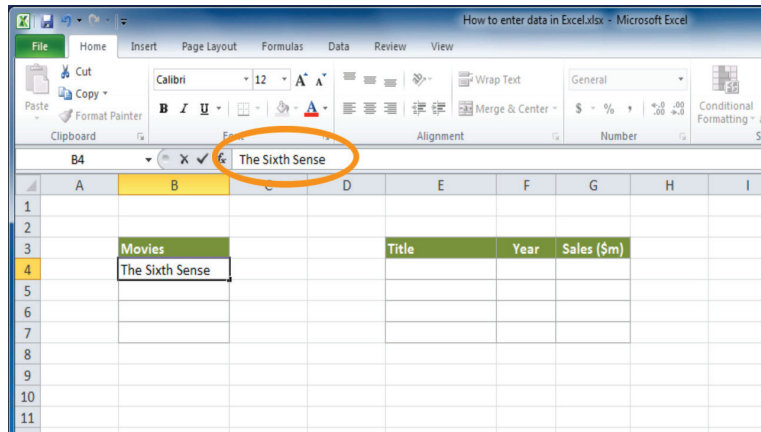


Figure 4 5: Excel worksheet showing how data is entered.

Excel helps a researcher analyse data. It is important to understand that before thinking of using Microsoft Excel to analyse research, the important thing is to have useful and relevant data and then excel will sort and analyse it.

The researcher must plan on how data will be arranged in a systematic way that will allow sorting and analysis. The researcher must decide on what goes into the columns and the rows. For example, data that involves names of sellers, sex, age, sales in January, February, March and April may be arranged in the following way using excel.

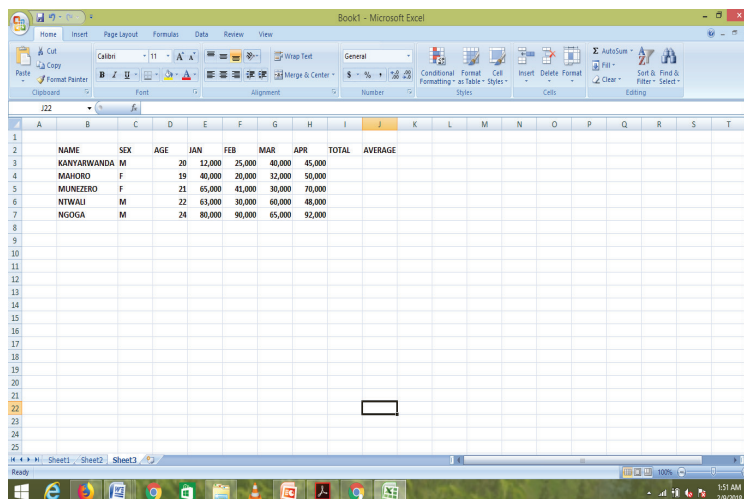


Figure 4 6: Arrangement of data in an excel worksheet

Entering the data into a spreadsheet is always a three step process, which are:

- Click in the cell where you want the data to go
- Type the data into the cell
- Press ENTER key on the keyboard or click on another cell with the mouse.

Using Microsoft excel, research data can be analysed using bar graphs, pie chart and line graphs. Having completely entered the data, the data can be graphed by selecting the data, then the type of graph and excel will generate a graph on the selected data. It is important to be as accurate as possible when entering data for analysis.

Graphical analysis and presentation of data in excel

For example, a producer who wants to introduce a new product in the market carries out a research using a single multiple question that follows:

What makes a good product in the market	
A	Colour
B	Size
C	Smell
D	Durability

The questionnaire is administered to 500 buyers in the market. When the questionnaires are collected and tabulated, the following is obtained:

What makes a good product in the market	
Options	Score
Colour	200
Size	235
Smell	100
Durability	125
Total	660

You have to first of all correctly enter the data in excel and use excel graphing functions to analyse and display the information graphically.

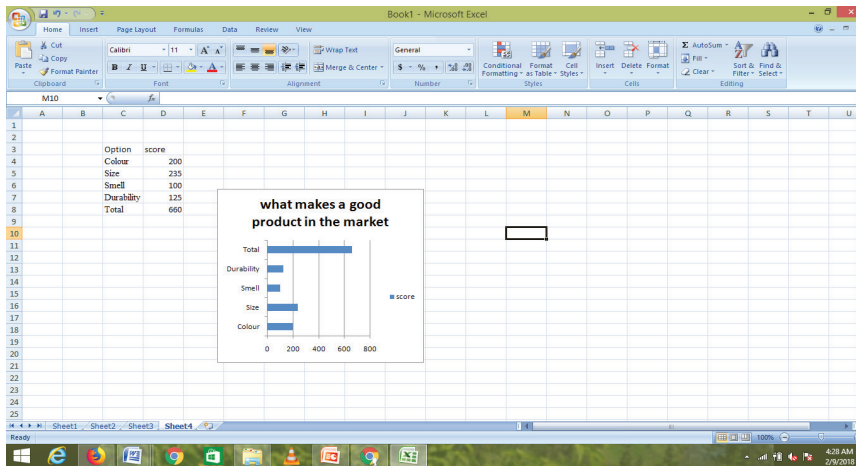


Figure 4.7: Data entered and selected can be converted into graphs by excel.

The same data may be presented graphically as a pie chart. A pie chart is a type of graph in which a circle is divided into sectors that each represents a proportion of the whole.

From the same data, we used to draw a bar graph, we can also use excel to make a pie chart.

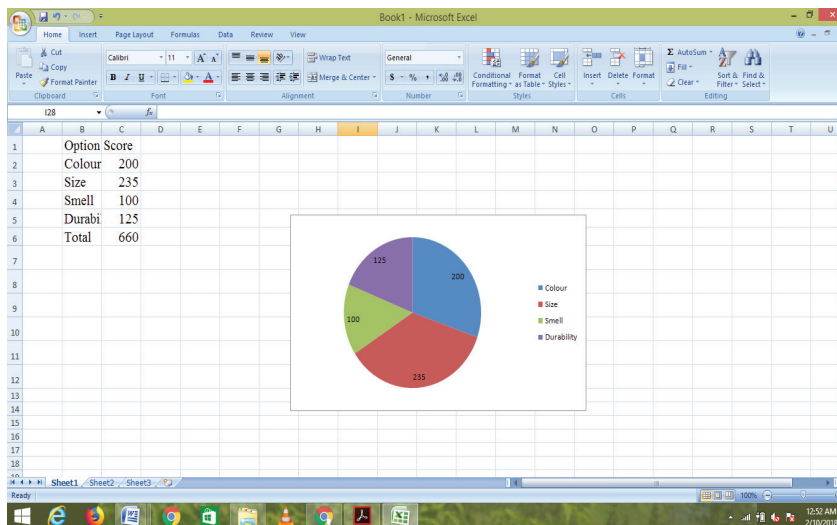


Figure 4.9: Pie chart made by Microsoft excel

Frequencies and percentages

Frequency is the number of times something has occurred. A frequency table shows the number of times a given event has happened. For example, for a statement that requires a YES or NO response (selecting one of the options).

Question

Have you at least transacted with our business one time?

YES

NO

You may get something like this after tabulating the data from the responses.

Options	Score
YES	162
NO	358
Total	520

The above data can be expressed in percentage form as follows:

If 162 respondents transacted with the business.

$162/520 \times 100 = 31.15\%$, so 31.15% transacted with the business at least one time.

Out of 520 respondents, 358 didn't transact with the business.

$358/520 \times 100 = 68.84\%$, so 68.84% never transacted with the business.

Measuring central tendencies in data

A measure of central tendency is a single value that attempts to describe a set of data by identifying the central position within that set of data. As such, measures of central tendency are sometimes called measures of central location. They are also classed as summary statistics. The mean (often called the average) is most likely the measure of central tendency that you are most familiar with, but there are others, such as the median and the mode.

The mean, median and mode are all valid measures of central tendency, but under different conditions, some measures of central tendency become more appropriate to use than others. In the following sections, we shall look at the mean, mode and median, and learn how to calculate them.

What is the mean?

The mean is the sum of the value of each observation in a data set divided by the number of observations. This is also known as the arithmetic average.

Looking at the retirement age distribution again: 54, 54, 54, 55, 56, 57, 57, 58, 58, 60, 60

The mean is calculated by adding together all the values (54+54+54+55+56+57+

$57+58+58+60+60 = 623$) and dividing by the number of observations (11) which equals to 56.6 years.

There are specific functions for calculating the mean of a data set using excel. Considering the monthly expenses of the following people, determine the mean:

Names	Monthly expenses in Frw
RUGWIRO	18,000
KANEZA	200,000
MUHOZA	50,000
KAGINA	100,000
UWERA	15,000

To find the mean,

- Add up all the incomes= $18,000+200,000+50,000+100,000= 368,000$ Frw
- Divide by the total number of elements(people) in data set= 4
- The mean = $368,000/4= 92,000$

What is the median?

The median is the middle value in distribution when the values are arranged in order of magnitude (smallest first).

The median divides the distribution in half (there are 50% of observations on either side of the median value). In a distribution with an odd number of observations, the median value is the middle value.

Looking at the retirement age distribution (which has 11 observations), the median is the middle value, which is 57 years: 54, 54, 54, 55, 56, 57, 57, 58, 58, 60, 60

When the distribution has an even number of observations, the median value is the mean of the two middle values. In the following distribution, the two middle values are 56 and 57 like: 52, 54, 54, 54, 55, 56, 57, 57, 58, 58, 60, 60

Therefore, the median equals $(56+57)/2$ which give 56.5 years:

Using the previous example of income, we have to first sort the data (income) in descending order and then determine the median.

Names	Monthly expenses in Frw
RUGWIRO	18,000
KANEZA	200,000
MUHOZA	50,000
KAGINA	100,000
UWERA	15,000

The data after sorting in descending order

Names	Monthly expenses in Frw
KANEZA	200,000
KAGINA	100,000
MUHOZA	50,000
RUGWIRO	18,000
UWERA	15,000

The median is 50,000; there are 2 data items before the median and 2 data items after the median.

What is the mode?

The mode is the most commonly occurring value in a distribution.

Consider this dataset showing the retirement age of 11 people, in whole years: 54, 54, 54, 55, 56, 57, 57, 58, 58, 60, 60

This table shows a simple frequency distribution of the retirement age data.

Age	Frequency
54	3
55	1
56	1
57	2
58	2
60	2

The most commonly occurring value is 54; therefore, the mode of this distribution is 54 years.

Application Activity 4.6

Mr. HABINEZA needs to start a business in Rulindo district at the end of his secondary studies. After making a research in his district, he realized that people in his district consume products per month as stated in the following table:

Product	Rural area	Urban area
Irish potatoes	2,000kg	5,000kg
Beans	1,000kg	800kg
Meats	500kg	1,500kg
Pineapple	100kg	500kg
Sorghum	2,500kg	2,000kg

Required:

- Use the bar charts to present the consumption of those goods in rural area.
- What is the most needed product in rural and urban area?
- According to the above mentioned data, which kind of business can be started in both areas?
- Use the pie chart to graphically present the consumption of those goods in urban area.

Skills Lab Activity 4.7

Given the questions below, carry out a survey in your community and thereafter make a report according to the findings from the research.

Interview questions:

- What do you like most about the products that you normally buy and why? If you have a business club at the school, ask them what they find interesting about the club products
- What changes would you propose to the above product (ones they normally buy?)
- What do other products similar to the above product differ from others?
- As aspiring entrepreneurs, advise us on how can we best extend our products to bigger markets outside our community?
- Name other products we could make from locally available resources that can be most competitive

End of unit 4 assessment

1. Choose the best answer for the following statements
 - i. Having no research questions or poorly formulated research questions will lead you to poor research findings because:
 - a. You will only consider epistemological queries
 - b. Marks are allocated for having a research question and without them my project will be penalized.
 - c. You won't know what data analysis method used.
 - d. Your research is likely to be unfocused and you are likely to be unsure what data to collect.
 - ii. What is data collection?
 - a. Collecting the research question and objectives together
 - b. Gathering the information (data) which will help you address your research question
 - c. Reviewing the literature review
 - d. Outlining how you will gather the information for your research question.
2. Using the knowledge obtained from this unit, outline the essential things to put in consideration when conducting an interview.
3. As an entrepreneur, you are planning to initiate a new product "Made in Rwanda sandals" in the market. This is an activity that requires deep and serious research so as you produce a product that will be appreciated by the buyers. You particularly want to find out the following:
 - Characteristics of a good sandal
 - Size of the market
 - Appropriate price

Required:

- i. Identify the sample
 - ii. Design a questionnaire to be used while collecting data
 - iii. Administer and collect the filled questionnaires
 - iv. Using Microsoft Excel, analyse and interpret the data collected.
4. Explain how research can help the marketing department of a business in achieving its target.



UNIT 5
**BUSINESS GROWTH
AND DEVELOPMENT**

UNIT 5: BUSINESS GROWTH AND DEVELOPMENT



Key Unit Competency: Evaluate the factors that lead to business growth.

Introduction:

The business environment is not static rather; it keeps on changing. Take an example of a small shop selling foodstuffs. After say three years, you may notice some changes that have taken place since it was started. Once those changes are positive, it will be an indication that the business is growing. Some indicators of business growth may include: increased profit, increase of assets, opening more branches, increased employees, etc. Many entrepreneurs normally begin with small business with the hope that they will grow up to bigger enterprises resulting to high profits. However, it is not automatic; entrepreneurs have to strive in order to achieve it.

Ideally, if you intend to start a business, you need to ask yourself questions such as:

- Why do some businesses start and grow while others fail?
- Do I have the required capital and other resources to make my business grow?
- What are the factors and strategies for business growth and development?
- What are the barriers/hindrances to business growth and development?

This unit is designed to equip you with knowledge, skills as well as attitudes and values that will enable you assess the factors and strategies for business growth and development and, identify indicators of business growth and development as well as its hindrances.

Introductory activity: Gasana's Case Study

Gasana lives in Kamonyi District where he started a small boutique in his village with a small capital of 150,000Frw. During his absence he was helped by his wife and sometimes by his children during school holidays. Gasana worked so hard and provided good customer care to his customers. After four years, he got many customers and his capital doubled.

Since that time Gasana's capital continued to grow and his profit increased tremendously from time to time. Now he has opened two more shops selling various items in Kamonyi District employing five skilled workers and has got enough market for his products. Gasana is also planning to start a wholesale shop in Kigali but he is uncertain if he will succeed.

Questions

Referring to the above text, answer the following questions:

1. Differentiate between a growing business from a declining business
2. Describe the different strategies Gasana used to grow his business
3. Propose the possible solutions to the constraints (barriers/hindrances) for business growth and development.

5.1. Business growth and business development

Activity 5.1

- a. Think about people in your community who have started small businesses. Have they succeeded or not?
 - i. If yes, what do you think are factors that facilitated their growth?
 - ii. If no, what do you think are factors that hindered their growth?
- b. What do you think are strategies to business growth and development?

The meaning of business growth and business development

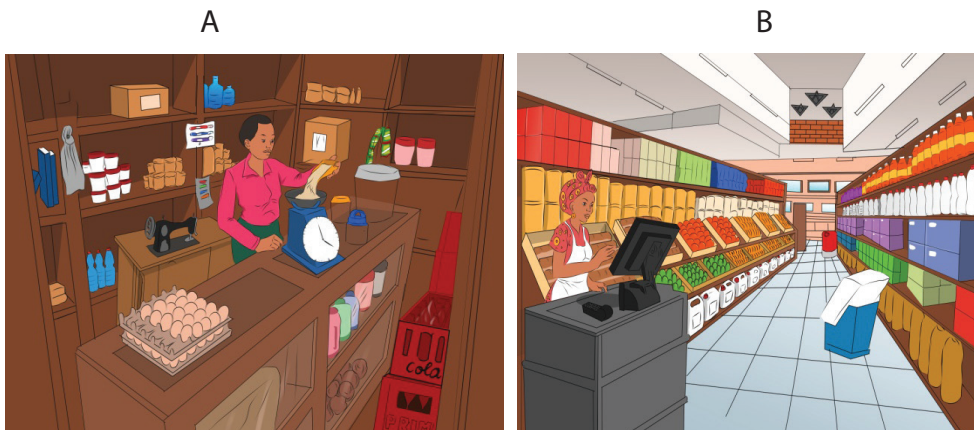


Figure 5.1: "A" A small and start-up business

Figure 5.2: "B" A business that has grown up

Business growth refers to the process by which business enterprises increase their production, profitability and size. It is the expansion of the business enterprise. Business growth can also be defined as a stage where the business reaches the point for expansion and seeks additional options to generate more profit.

Business development is the business growth in terms of sales revenue, business expansion, increasing market and profitability. It can also be seen as the activity of pursuing strategic opportunities for a particular business or organization, for example by enforcing partnerships or other commercial relationships, or identifying new markets for its products or services.

There is a relationship between business growth and business development since all involve growth in terms of revenues, business expansion, increasing market and profitability.

A Roadmap to Business Development



Figure 5.3: A roadmap to business development.

Application Activity 5.1

Analyze the photograph below and answer questions that follow.



Questions

1. Analyze the photograph above and make comments in relation to the different stages of a plant.
2. Assume you plan to start a business after school, do you think it is possible to grow in one or two months? Justify your answer.
3. Referring to the above photo, what advice would you give to entrepreneurs who wish to grow their businesses?

5.2. Indicators of business growth

Activity 5.2

Kayitesi started a business of selling women shoes in Muhanga town. She started the business with little money. After one month she would sell an average of five shoes per day. Five months later, the number of customers had increased to an extent that she could sell an average of twenty shoes per day. She used the business profits and a small loan from the bank to increase the stock and after a short time the shelves were full of shoes. One year later, Kayitesi had thought of expanding her business by opening another shop in Kigali city.

Strategically, Kayitesi used advertisement on different radios and televisions to inform people about her new branch in Kigali and prices of the shoes, as a result, there was increase in customers and sales respectively. She is now a successful business woman who sells shoes in large quantities and has a license to import shoes from Italy.

This, coupled with other factors mentioned above enabled her to accumulate a lot of profit.

Questions:

- a. Referring to Kayitesi's business, what are the indicators of business growth?
- b. Suggest other indicators for a business that is growing.

The indicators of business growth

There are many indicators of business growth. They include the following:

- 1. Increased capital:** If the capital of a business is increasing, then it is the indicator that the business is growing.
- 2. Increase of assets:** Another indicator of business growth is the increase of assets like buildings, vehicles, bank deposits, etc. The total value of business assets can be revealed by the balance sheet of the business for a particular period of time.
- 3. Increase of business profit:** When the business profits are growing, then it is an indicator of business growth.
- 4. Opening more branches:** Opening more branches is an indicator that the business is covering more areas and is serving more customers. This is an indicator of business growth.
- 5. Increased market share:** When the market share of the enterprise is growing, the enterprise is growing because it is serving more customers.
- 6. Increased sales revenue:** Increased sales revenue for a business is an indicator of the business growth.
- 7. Increased number of employees:** When the business grows, it normally increases the number of departments and employees. For example, a restaurant that started with four workers and expands into a hotel, it will need to recruit more employees than previously.
- 8. Use of advanced technology:** Most businesses start with simple technology but as the business expands, they use more advanced technology.



Figure 5.4: An entrepreneur in a company using a computer in recording

9. Increased stock of goods: When the enterprise grows, it produces and sells more products. For example, in a shop there are more and wider variety goods.



Figure 5.5: A big shop with varieties of products

10. Better salaries and wages paid to workers: When a business is growing, it is able to give better wages and salaries to its workers due to increased profits.

Application activity 5.2

Case study: Moses the maize farmer

Moses is a farmer of maize in eastern province. He started growing maize on a small piece of land using traditional techniques like hand hoes and did not use fertilizers to increase production. He employed two man powers in his small farm. One day Moses got the chance of being selected by the Ministry of Agriculture in the two days training that had the following theme “Doing agriculture oriented to the market”.

When Moses went back home, he tried to improve on the methods he used to grow maize and decided to take a small loan from Umurenge Sacco with the

purpose of buying another land to grow maize and acquiring enough capital to buy fertilizers that he mixed with manure.

Since that time, the production increased considerably. In the season that followed, he increased the number of workers from 2 to 50 workers. After one year, he thought of using irrigation system in order to cope with climate change. He also used tractors in farming instead of man powers. Now he harvests more maize and sells it to maize processing industries in Kigali and in other provinces across Rwanda.

Questions

Basing on the above passage answer the following questions:

- From the above Case study, what are the indicators of his business growth?
- Think about the barriers that might hinder Moses's business.
- Assume you are doing the same business as that of Moses, How can you overcome those barriers?
- What strategies can you use to grow if you have a small business?

5.3. Growth strategies



Figure 5.6: Strategies to business growth

For a business enterprise to survive and expand it needs to have specific growth strategies. There are two separate types of business growth strategies which are internal and external growth. Therefore, integration of both internal and external growth strategies is crucial to the overall development of a business and continuous increase of revenues.

These growth strategies are implemented using various resources such as financial, human and material resources.

Activity 5.3

Basing on your knowledge of entrepreneurship subject and other knowledge related to business, answer the following questions:

- a. What do you understand by a growth strategy?
- b. Describe any 5 internal growth strategies which you think entrepreneurs in your community should use to grow their businesses.
- c. Propose any 5 external growth strategies used by business people in your community.
- d. What the importance of using the above growth strategies in business?

5.3.1. Internal business growth strategies

Internal business growth strategy refers to the expansion of a business enterprise using internal resources and capabilities. This means that all business growth is established without using external resources or external parties. It refers also to the growth within the organisation by using its own internal resources to increase their size, scale of operations, resources (financial and non-financial) and market penetration.

The internal growth strategies which can be used by companies include the following:

- 1. Improving customer care:** This involves offering good customer care to the customers as a way of attracting them.
- 2. Delivering quality products and services:** This strategy involves providing quality products and services. This helps the company to grow.
- 3. Offering discounts to customers:** A discount is a deduction on the price. As a growth strategy, discounts attract customers and increase sales revenue.
- 4. Carry out sales promotion:** This growth strategy involves all activities done to inform and attract customers to buy more of the business products. For example,

giving discounts, advertising on Radio, Television, Newspapers, etc.

- 5. Human resources development:** A business may seek to grow by improving the quality and efficiency of its workers through trainings and workshops. Better quality workers increase the productivity and efficiency of a business leading to higher profits.
- 6. Creating new distribution channels and locations:** This involves opening new branches and making products available in new outlets. This increases sales and generates extra profits for the business.
- 7. Bundling products:** This involves selling a bundle of products as one kit. For example, Mobile phone and SIM Card, Toothpaste and Tooth brush bread and butter, etc. Even services can be bundled where two separate services are packaged into one product and sold together. For example, for computer software. Software is often sold in “suites” bundle that contains multiple applications. If you buy Microsoft office, you pay a single price and get Word, Excel, Power point, Publisher and Access, etc.

Another example for service bundle is where some colleges and universities may say that if you pay for a diploma or a degree course, you will receive free computer training. This means that the degree/diploma has been bundled with the computer training. Bundling helps the company to sell two products at the same time, attract more customers and earn more revenue.

- 8. Market penetration and development:** This involves selling more of the company’s products or services to the existing as well as to the new markets. This strategy is about reaching new customer segments by targeting new both internal and external markets.

5.3.2. External business growth strategies

External growth strategies refer to the expansion of a business enterprise by using external resources. These growth strategies focus on increasing output using resources and capabilities that are not internally developed by the company itself. Rather, these resources are obtained through the merger, partnership with other companies, joint venture and franchising the business model. The larger the number of business partners and/or franchisees, the greater the net worth of the company and throughput of cash. The goals of external growth strategies are to provide larger opportunities to increase the worth of the company, and for this reason external growth strategies tend to produce immediate return on investment.

The external business growth strategies include the following:

1. Merging with other firms or Mergers

Merging of firms refers to the combination of one or more corporations, Limited Liability Companies (LLCs), or other business entities into a single business entity; the joining of two or more companies to achieve greater efficiencies of scale and productivity. In most cases, this is done by the companies producing and selling the related goods or services as a way of reducing competition among themselves, increasing profits, etc.

Types of mergers

The following are the types of mergers:

- **Horizontal merging (integration):** Horizontal merging occurs when two or more firms which are at the same industry of production join/merge into one e.g. two hair dressing salons join together to form one bigger hair dressing salon.
- **Vertical merging:** This is merging of two or more firms which are at different stages of production in the same industry. In this merging, a business merges with another that is at the next or previous stage of production process e.g. coffee farm combining with a coffee factory.
- **Conglomerate merging:** This is merging of two or more firms which produce unrelated products which do not compete with each other e.g. if a book shop merges with a restaurant. Another example, if a shoe manufacturing firm merges with a restaurant. The idea behind this merger is to get a bigger market e.g. shoe clients going to the restaurant and vice versa.
- **Concentric Mergers:** Concentric mergers take place between firms that serve the same customers in a particular industry, but they don't offer the same products and services. Their products may be complements, product which go together, but technically not the same products. For example, if a company that produces DVDs merges with a company that produces DVD players, this would be termed as concentric merger since DVD players and DVDs are complements products, which are usually purchased together. These are usually undertaken to facilitate consumers, since it would be easier to sell these products together. Also, this would help the company diversify, hence higher profits. Selling one of the products will also encourage the sale of the other, hence more revenues for the company if it manages to increase the sale of one of its product.

The advantages for companies to merge

The following are the advantages of merging:

- 1. It increases profits of the mergers:** After merger, the new company will have adequate financial resources/capital to invest in heavy investments; this increases profits for the merged company.
- 2. Growth and expansion:** Mergers help companies to grow and expand their business activities.
- 3. Entry in global market:** Global market means a huge world-level market in which any company can sell their goods and services. This market does not have any restrictions for entrances. Merger helps merged companies to get an entry in the global market which encompasses various regions.
- 4. Increase in market share:** Merger helps the merged company to increase the market share. This rise in market share is achieved by:
 - Providing an adequate supply of goods or services as needed by clients.
 - Entering into agreements with clients for continuous supply of goods and services.
- 5. Increases goodwill:** Merger helps the merged company to boost its goodwill in the market. It creates good will by:
 - Increasing the confidence of shareholders of the merged company.
 - Creating a good image of the merged company among the customers.
- 6. Leads to economies of scale:** Mergers result in economies of scale for the company. Economies of scale are the costs benefits that a company obtains due to over expansion. The union of two or more firms leads to the costs reduction and the lower costs enable lower prices for consumers. This gives the merged firm a competitive advantage.
- 7. International competition:** Mergers help the merged company to compete at both national and international markets. It helps also the merged company to deal with the threat of multinationals companies. This is increasingly important in an era of global markets. A unique large company will become competitive and it will retain or grow a competitive edge.
- 8. Tax benefits:** The biggest advantage for merging firms is tax benefits. This means that under one ownership, the union of two or more firms pay a tax as a single firm. The merging firms also can get tax benefits when acompany enjoys a subsidized rate of taxation.
- 9. Mergers may undertake big investment:** This is because the new firm will have more profit which can be used to finance risky investment. This can lead to a better quality of goods for consumers.

- 10. Greater efficiency:** Under mergers ownership, workers are properly supervised and work efficiently. This increases the productivity and profitability of the firm.
- 11. Diversification:** Because of increased financial capacity and using high technology in production, there is a possibility for mergers to introduce new products or services to sell on internal and external markets.
- 12. Mergers may allow greater investment in research and development:** Merger enhances the research and development programs of the merged company. This is because the new firm will have more profit which can be used to finance extensive research and development programs aiming at improving production.

The disadvantages of merging include:

- 1. Limited degree of independence:** After merging of firms, every company loses its independence because firms act as one single firm under one ownership.
- 2. Over expansion can lead to diseconomies of scales:** The new larger firm may experience diseconomies of scale from the increased size. This is because as a firm increase in size the costs in terms of communication costs, salaries for workers, research and development costs, etc. may also increase, hence diseconomies of scale.
- 3. Reduced competition leading to monopoly and inefficiency:** Monopoly is a market structure characterized by a single seller/company selling products with no close substitute in the market. A merger can reduce competition and give the new firm monopoly power.

With less competition and greater market share, the new firm can usually increase prices for consumers, producing poor quality products, etc. because such a company faces no competition, this leads to inefficiency.

- 4. It leads to unemployment:** If two or more firms/enterprises merge into one large company, some employees in those companies may lose their jobs. The new company also will have a single manager; this means that other managers who were in the previous firms lose their job positions but get new jobs in the new firm.
- 5. Over production and hence wastage:** Sometimes the merging firms produce more output than that is needed on the market because of increased capacity and capital, this may lead to overproduction and wastage of resources.
- 6. Duplication:** Merging of two or more firms that are doing similar activities may mean duplication and over capability within the company that may need retrenchments.
- 7. Over exploitation of resources:** Merging can lead to overexploitation of resources due to the use of high technology and modern machines to exploit natural resources. For example, fisher's cooperative in Rwanda merge to form

one big cooperative, due to increased financial capacity and skills they can acquire modern fishing machines and therefore there could be a possibility to over exploit fishes in KIVU Lake and other water bodies in Rwanda.

2. Franchising

Franchising: A franchise is an arrangement where one party gives another the right to use its trademark or trade name to produce and market a good or service e.g. telecommunication companies like Mtn, AirtelTigo etc.

A franchiser (or a franchisor) is the owner of the name, logo and business model who sells it for use by third parties.

A franchisee is the person or company who buys another company's name, logo and business model for use in his own business.

Companies can use franchising as a business growth strategy in two ways:

- **By buying a franchise from well-known and reputable companies.** This helps it to sell more in the markets it would have found harder to penetrate.
- **By selling the franchise.** By selling its name and logo, to be used by other companies, a business can spread further than it could have done alone .

The following are the advantages of franchising

- It helps to reduce wasteful competition.
- It helps to increase sales and profits.
- Banks can easily lend you money to buy a franchise that has a very good reputation.
- The business is based on a proven idea and so chances of business success are higher.
- It helps to attract customers who are already familiar with the name and logo.
- The franchisee can get ideas from other business people who operate similar franchises.
- The owner of the franchise normally provides support, trainings and advice to the franchisee.
- A franchise gives you exclusive rights to sell the product or service in your region.
- It is easier for a franchisee to perform better than a start-up business whose name is not known and which has no reputation.

The following are the disadvantages of franchising:

- The costs of a franchise may be high.
- Profits are shared with the franchiser whose name, logo and business model you are using.
- The franchise includes strict guidelines and restrictions on how to run the business.
- In case you want to leave the business, it may be difficult to sell the franchise to someone else because the buyer must be approved by the franchisor first.
- If the franchisor runs out of the business or the reputation declines, it affects the entire business.
- The process of buying a franchise involves a long legal process which is costly.

3. Joint-ventures

A joint venture (JV) is a business entity created by two or more parties, generally characterized by shared ownership, shared returns and risks, and shared governance.

A joint venture can also be defined as a strategic alliance between two or more entities to engage in a specific project. It may take place between two or more entities, between an entity and the government or between two or more individuals to carry out a specific project or undertaking. Partnerships and joint ventures can be similar but in fact can have significantly different implications for those involved. A partnership usually involves a continuing, long-term business relationship, whereas a joint venture is based on a single business project.

Companies typically pursue joint ventures for a number of reasons: to access a new market, particularly emerging markets; to gain scale efficiencies by combining assets and operations; to share risk for major investments or projects; or to access skills and capabilities. Companies that form joint ventures share the profits and losses while simultaneously pooling their resources to complete the specific objective.

The advantages of using joint venture as a business growth strategy:

- Forming a joint venture can help your business to grow faster.
- It increases productivity and generate more profits.
- It increases the chances of business success.
- Leads to the access to new markets and distribution networks.
- It reduces competition among partners.

- It increases capacity in terms of capital.
- Forming a joint venture will give you access to better resources such as specialized staff and technology.
- Provide companies with the opportunity to gain new capacity and expertise
- It leads to economies of scale.
- Both parties share the risks and costs.
- It builds business relationship and networks between business partners.
- Allow companies to penetrate new markets quickly and expand the market size.
- Joint ventures can be flexible. For example, a joint venture can have a limited life span and only cover part of what you do, thus limiting both your commitment and the business' exposure.

The disadvantages of using joint venture as a business growth strategy:

- It takes time and efforts to form the right relationship.
- Lack of communication between the partners may affect the business.
- Disagreement between partners may arise over the operating policies.
- It can restrict the activities of your whole business.
- There is an imbalance in levels of expertise, investment or assets brought into the venture by the different partners.
- The partners don't provide enough leadership and support in the early stages.
- Different cultures and management styles may result in poor integration and co-operation.
- There is a high cost associated with the formation and operation of a joint venture.
- Competing against your joint venture partners on other projects. For example, your joint venture has an exclusive long-term arrangement to pursue water supply project in Rwanda. Eventually you will wind up competing against each other on non-water supply projects or you could wind up competing against each other non-water supply projects outside of Rwanda.

Application activity 5.3

1. Distinguish between organic and inorganic growth strategy.
2. With examples in your community/village, describe at least 2 people or entrepreneurs whose businesses have grown up. If you know or heard how they started, what strategies did they use to grow?
3. Referring to business activities of entrepreneurs in Rwanda, what do you think are the benefit from establishing clear growth strategies?
4. What do you think would happen to business enterprises, if their owners do not apply growthstrategies?
5. Assume you have a small business with a small capital and there are more competitors where your business is located. Do you think it will be possible to compete successfully with your competitors? What will you do to continue operating and over compete your business rivals?

5.4. Factors that lead to business growth

Activity 5.4

Answer the following questions:

1. Give any three examples of entrepreneurs in your community/village who have achieved businesses growth.
2. Think about any two main things that lead businesses to grow.

5.4.1. Factors that lead to business growth

Business growth can be achieved either by boosting the top line or revenue of the business with greater product sales or service income, or by increasing the bottom line or profitability of the operation by minimizing costs. There are many factors that determine business growth these include,

- i. Availability of market:** The market plays a big role in determining the success of a business. A big and reliable market helps a business to grow. More buyers will mean more sales and more revenue for the business.
- ii. Enough capital:** The amount of capital available to a business determines its growth.
- iii. Competent business management:** The quality and ability of the business management team determine the growth of a business. If the management is competent and hardworking, then the business will grow faster.

- iv. Proper location of the business:** A suitable location may determine the growth of a business. A business will grow if it is located near the customers. In addition, a business may succeed if it is located in a secured place without robbers.
- v. Level of competition:** Competition may force a business to be more efficient and as a result it grows.
- vi. Technology used by the business:** Technology as a method of production determines the quantity and quality of output. It is a factor that determines the growth of a business.
- vii. Favourable government policies:** Government policy may directly affect business growth. Favourable government policy like low taxes, tax holidays, subsidies, etc. determines the growth of a business.
- viii. Political stability and security:** The political environment affects business growth, a peaceful political environment enables a business to grow
- ix. Quality of workers:** The quality of workers in terms of skills, trainings, experience and commitment is factor of business growth.
- x. Proper business planning:** Business planning is also a factor which determines the growth of a business. Planning enables the business to set targets to be achieved and properly control its resources and time.
- xi. Favourable economic environment:** The economic environment in which the business operates in also determines its growth.
- xii. Presence of business support services** like banks, insurance companies, telecommunication companies, etc. This also determines the business growth.



Figure 5.8: Banks provide financial services towards the growth of business enterprises.

- xiii. Good entrepreneurial characteristics (traits)** like self-confidence, risk taking, perseverance, creativity and innovation, etc. This also determines the growth of a business.

Application activity 5.4

Basing on your prior knowledge about business growth,

- a. Evaluate the factors that lead to business growth.
- b. Explain briefly the following statement "try and fail, never fail to try". How can this statement help you to make your business grow?

5.5. Factors that hinder business growth

To achieve a business growth is not an easy task. It requires an entrepreneur to make efforts and working hard towards achieving the set targets. This is because there are thorns and barriers that a company can meet during the implementation of the set targets. A number of firms particularly small firms wish to grow, but they are prevented from doing so by 'barriers'. There are internal constraints of business growth that come from (within) the enterprise itself and external constraints of business growth which originate from (outside) the enterprise.

Activity 5.5.1

Visit a small scale business near your school or in your home village. Interview the business owner and ask the owner to explain reasons why his/her business has not grown to a large scale. Based on the explanations the owner has given to you, make a report summarizing the external and internal constraints to business growth in this area.

5.5.1. Internal factors that hinder business growth

Internal factors that hinder business growth can be:

- i. Lack of enough capital or capital constraint:** Some businesses lack sufficient capital to increase their stocks, buy modern machines and spares. This hinders them to expand their operations.
- ii. Poor management of the business:** Most businesses fail because of poor management. When the business is poorly managed, workers will be inefficient, business assets are misused and lost, workers will waste time because there is no supervision and the various departments are not properly coordinated. This will hinder the business growth.
- iii. Lack of skilled workers:** Most business relies on the skills of workers. Customers tend to come to the business because of such workers. When such skilled and reputable workers leave the business, some customers also leave. For example,

some people go to certain salons because of certain skilled people whom they expect to give them a good service. When such skilled workers leave, customers also leave.

However, there are some entrepreneurs who employ unskilled labour without paying them such as their relatives, they tend to do this in order to cut costs. These workers don't take business seriously as they know they are owned by their relatives.

In the long run it is the business enterprise which suffers as it is constrained from growing. Labour is a factor of production and so without proper labor force productivity is low in terms of quality and quantity. This hinders the business to grow.

- iv. Lack of proper record keeping:** In business, improper record keeping comes as a result basically of inadequate education and training in business, because of this the business loses track of its cash flows and in turn leading to cost control and liquidity problems. If the records of the transactions a business undertakes are not kept properly, growth for such business cannot be achieved.
- v. Lack of background and experience in the business:** The experience automatically gives the entrepreneurs or managers adequate managerial capabilities to handle and overcome more easily the problems which are experienced in their businesses. The lack of background and experience by entrepreneurs and managers is a factor limiting the growth of their companies.
- vi. Lack of business plan/vision for the business:** For entrepreneurs who have no proper business plans at start, face the most challenges during the course of their lives. In a business, a business plan is needed in order for proper goals and objectives of the firm to be laid out in the open so that the team in the organization/firm works together for the same goals in their minds. If a business has no business plan/vision it will find it difficult to grow.
- vii. Inadequate education and training:** Education is a key constituent of the human capital needed for business success. This is because education and training provides the basis for intellectual development needed by entrepreneurs in business to be successful. Moreover, they provide the entrepreneurs with confidence to deal with clients. As seen for many companies, the educated entrepreneurs showed more promising results in terms of how their business is doing. For this, it has been seen that inadequate education and training may also be a barrier to the business growth.
- viii. Embezzlement and misuse of business funds:** Misuse of business funds is one of the most common causes of business failure. Some entrepreneurs, business managers and workers divert business funds to personal uses like buying clothes, cars and paying personal debts. As a result, the business fails

to function properly and collapses. This stops the businesses from expanding.

- ix. Low quality products:** If products sold by a business are of low quality, many people will not buy the products and this may limit its growth.
- x. Poor location of the business:** The location of a business is very important for success of the business. If the business is located in a bad area where there are very few buyers, poor road network, no electricity, insecurity then the business cannot grow.
- xi. Lack of motivation and drive:** Some entrepreneurs start businesses with no clear visions and goals for their businesses meaning they are just about being in business to earn normal income to meet their basic human needs. Those entrepreneurs' especially small business owners lack positive motivation in their mindset and waste a lot of time in thinking about negative motives. This hinders their businesses to grow. It is quite obvious that positive motivations of the entrepreneur(s) are more likely to establish a business that grows than those with negative motivations. Positive motives include such things as the perceptions of high demand for a product and market opportunities while negative motives may include expecting loss or giving up because of big and excessive competitors. The more positive motivation of the entrepreneur(s) the more likely the business will grow.
- xii. Failure to manage stock:** Businesses own stock of finished products, raw materials and goods purchased for resale. For a trading business like a shop, when the business person fails to manage stock properly, customers fail to get what they want from the shop and they stop coming to the business. Proper stock management includes making sure the products are not stolen and that only the right quantities are stocked or that there is no shortage. If proper stock management is not done, the business will not expand instead it will make losses.
- xiii. Bad debtors:** Most businesses allow some customers to take products without paying cash and promise to pay later. Bad debtors are customers who take goods on credit and fail to pay for a long period. This means that there is almost no hope that they will pay. When this happens, it means the business will lack the capital to continue operating since much of the money is with debtors. In the end, the business fails to continue running because of excessive debts.
- xiv. Poor customer care:** Customers are very important in any business. If there are no customers, there is no business. Customers are lifeblood and backbone of a business. When the customers are poorly handled, they will even tell other people about the poor service. The business will lack customers (market) and at the end it will not grow.

5.5.2. External factors that hinder business growth

Activity 5.5.2

Basing on your prior knowledge from entrepreneurship lesson in ordinary and advanced level, discuss the external factors that hinder business growth in your community and suggest the possible solutions to overcome those hindrances.

The external factors that hinder business growth include;

- 1. Corruption:** Corruption prevents fairness to prevail and therefore it is to a large extent a cost/ expense to a business owner or individual, the community and the government as a whole. As corruption deprives people of their rights, this means businesses cannot be established by deserving individuals; customers and buyers of products are reaped off (prices become high) since businessmen want to compensate for the money paid out as bribery, productivity is lowered, customer loyalty and demand falls as a result and therefore growth of small firms is affected in a negative way. The problem of corruption is a barrier to growth in business.
- 2. High competition:** At times some businesses do not expand because of stiff competition. This may happen if a new and bigger company or individual joins the business and is able to produce better quality products, provide better services, and charge lower prices. In industrial sector, there is also competition with imported products from industrialized countries like China, Japan and Germany. Local manufacturers find it very hard to produce high quality products at low prices to compete with products from highly industrialized countries. This hinders the business growth for both trading businesses and manufacturing businesses.
- 3. Change in government policies:** When the government changes its policies, it affects businesses. For example, when the government decides to ban some products like polythene bags, people who manufacture such products and those who sell them both suffer losses of business.
- 4. Technological barrier:** Small firms may fail to afford modern technological tools since they are expensive to buy and maintain
- 5. Unfavorable economic factors:** Unfavorable economic factors like low demand of products due to inflation, poverty and unemployment are barriers to the business growth. Other unfavorable economic factors that hinder business growth include high interest rates, low purchasing power of customers, problems of currency exchange rates affecting the exports or imports of a particular product and the underestimation of the rise of costs of production due to scarcity of resources, etc.
- 6. Bureaucratic procedures:** Small businesses find it difficult in terms of procedural processes in areas such as obtaining business license, registering a business, tax matters and soon.

- 7. Small local markets:** Most businesses face the problem of small local markets and foreign markets are not easy to get. For example, industrial businesses can produce a lot of products if they have a large market but they produce below capacity due to lack of markets. This hinders them to grow.
- 8. Natural calamities:** Natural calamities like floods, earthquakes, droughts, etc are also barriers to the business growth. This is because such calamities cause business to lose their property and stock. When the losses are very big, the business may collapse. This is even worse for the business if it has not insured itself against such risks.



Figure 5.9: Natural calamities like floods are barrier to business growth.

- 9. Poor infrastructures:** Poor infrastructures like roads do not ease the transportation of raw materials, finished products, workers by manufacturing businesses and even the transportation of goods for resale from town centers by trading businesses. This makes transport expensive and increases the costs of the business which in turn hinders the business to grow.



Figure 5.7: Poor roads as a barrier the business growth

10. Political instability and insecurity: Political instabilities like civil wars, strikes and riots are serious barriers to the growth of businesses. When there is political instability, people destroy properties, burn buildings and vehicles. When a lot of the business' property is destroyed, the business cannot expand, it will collapse.

11. Limited to finances/funding: Sometimes, it is difficult for some entrepreneurs mostly those who own small businesses to access proper financing from financial institutions due things like lack of collateral security, inadequate business plan, state of economy and bureaucratic procedures in applying for loans/finances. This is a constraint for that entrepreneur to grow their businesses.

Application Activity 5.5

Some entrepreneurial practices below hinder business growth, identify the hindrances resulting from those practices and propose the corresponding solutions to those barriers of business growth.

- i. Not employing a professional accountant in a large enterprise.
- ii. Not insuring business assets and stock in insurance companies.
- iii. Use business money in private affairs.
- iv. Employing uncompetent manager in business.
- v. Being impolite and using negative words when treating customers.

Skills Lab Activity 5.6

1. Given a form of business growth strategy as

- Bundling
- Promotion and discount
- Developing new product
- Franchising
- New distribution channels,

Discuss the following questions.

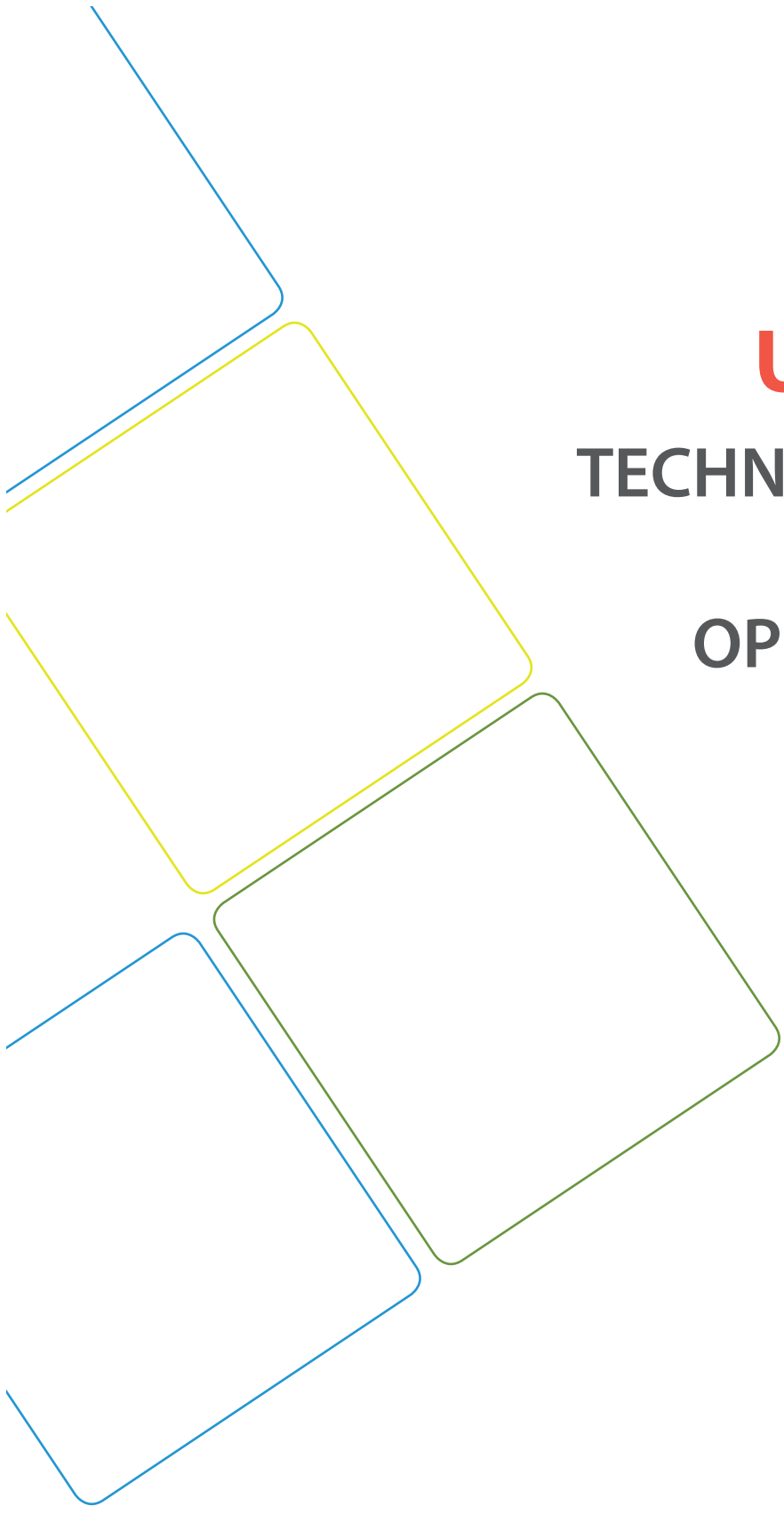
- i. Where does the given growth strategy fall? (internal or external growth strategy) explain your answer
- ii. Explain the activities can be done in order to apply the above strategies in the business club activities or in the business you want to start back at home.
- iii. Draw an action plan showing when the above activities will be done.
- iv. What are the advantages and disadvantages of each of business growth strategies?

End of Unit 5 Assessment

1. Assume your business is attaining the following, fill in the blanks below:
 - a. Increase in production, profitability and size.
This is
 - b. A prolonged period of little or no growth for companies.
This is

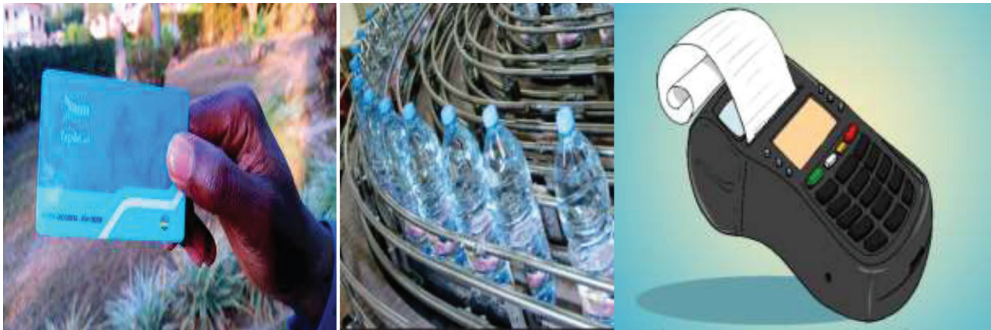
2. Assume that you have a mini-supermarket selling fresh milk, juices, bread and cakes in Kicukiro District;
 - a. How would you know that your business is growing?
 - b. How would you know that your business is declining?
 - c. What can you do to minimize such a decline?





UNIT 6
**TECHNOLOGY IN
BUSINESS
OPERATIONS**

UNIT 6 : TECHNOLOGY IN BUSINESS OPERATIONS



Key Unit Competency: To be able to describe the role of technology and its impact on businesses.

Introduction

We are living in the 21st century and the word “Technology” is not new for many people. It has greatly changed the way our forefathers used to live. It affects our lifestyle in many ways, like choosing between modes of travelling to ways of shopping, it helps us to make informed decisions in different kinds of situations. When we are short of time, we choose to travel by air mostly and when we don't have cash in hand, we prefer shopping from shopping center, supermarket, points of selling terminals, etc. that offer credit card facilities.

While technology has made a huge impact on our living style, in this 21st century, technology has changed the way people conduct business especially in the flow of information, production methods used, sales and distribution of goods and services. No matter the size of your enterprise, the use of technology in business operations plays a vital role for the success of any business.

It has both tangible and intangible benefits that will help you make money and produce your customers demand. Technological infrastructure affects the culture, efficiency and relationships of a business. It also affects the security of confidential information and trade advantages. It helps the businesses to communicate with clients through websites, email and social media and this saves time for both parties involved.

Since the use of technology in business activities plays a tremendous role in developing a country, the government of Rwanda has taken several strides in

developing policies on ICT in all sectors of the economy to make it an ICT based economy by 2020.

In this century, the question isn't how much can technology improve your business but is it possible to conduct business without relying heavily on technology? Therefore, this unit is designed to equip you with knowledge, skills, attitudes and values to: Appreciate the importance of technology in the business world, differentiate types of technology and how they are used, select appropriate technology for any given business and identify technological limitations.

Introductory activity

Analyze the Photos below and answer the questions that follow.



Picture 1



Picture 2



Picture 3



Picture 4

Questions

- i. Looking at picture 1 and 2, which production technique do you think is faster and yields more output?
- ii. Pictures 3 and 4, which production method will bring quality output and employs few people?
- iii. Explain the advantages and disadvantages of using the above techniques in the production of goods and services.
- iv. Distinguish between labor intensive technology and capital-intensive technology.
- v. Which type of technology is suitable for your school business club and give reasons to justify your answer.
- vi. Identify various ICT tools used in the business world today.
- vii. Discuss the various business opportunities that can be started basing on ICT.
- viii. Examine the impact of using technology in businesses today.

From the above observations, we realize that all these production methods are good in one way or another and this brings us to our topic of Technology in business.

6.1. Meaning of technology in business.

Activity 6.1

- a. Refer to your school and describe how technology has helped in the efficiency of the school for both students and the school itself.
- b. Look around in your community and find a feasible project that you may start. Which type of technology will you use in your business?
- c. Why would you use this type of technology?
- d. How would you define the term technology as used in business?

Technology means the use of knowledge, tools, techniques or specific methods to solve a problem or serve a purpose. It is a term referring to whatever can be said at any particular historical period, concerning the state of the art in the whole general field of practical know-how and tool use. It therefore encompasses all that can be said about arts, crafts, professions, applied sciences and skills.

Information technology involves the use of electronic means to help to transmit and interpret information internally and externally. Examples of the use of the information and technology include word processor, spread sheet, data base, bar code scanners, and internet. Managers who have good access to information will benefit from being informed and making better decision than their rivals.

Appropriate technology is the method of production that is relevant and suitable for the condition of an enterprise and properly fits into the level of the development of the country. In other words, it is a production technique which matches with the country's level of growth and development.

Appropriate technology is also designed with special consideration to the environmental, ethical, cultural, social, political, and economical aspects of the community it is intended for. Appropriate technology can be capital intensive, labor intensive or intermediate technology.

6.2. Types of Technology.

Activity 6.2.

Referring to the types of technology you mentioned in activity 1 above, discuss why it is important to use more machines than labor in production process.

From the above activity, we learn that using more machines than labor in the production process is what we call **Capital-intensive technology and the use of more labor than machines is called labor intensive technology.**

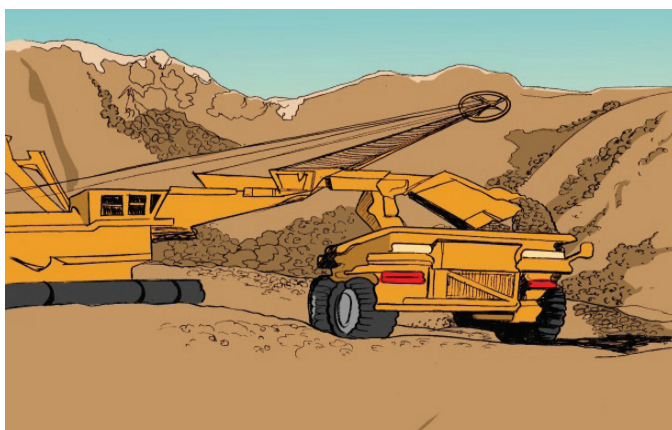


Figure 6 1: Capital intensive technology in a construction company

6.2.1 Capital Intensive Technology

Capital intensive technology is a production method which uses more capital or machines than labor. It is also known as labor saving technology that is, we save more labor to use machines.

Many heavy industries are capital intensive industries for example construction, mining, textile and communications industries.

A business is considered capital intensive if the ratio of the unit's capital required is greater than units of labor used. The use of tools and machines makes labor more effective hence pushing up labor productivity. Capital intensive societies tend to have a higher standard of living over the long run.

Advantages of Capital Intensive Technology

- **Commodities of high quality are produced** which compete favorably both in the domestic and international market.
- **There is mass production** with the use of machines more output is produced which stimulates the rate of economic growth in a country.
- **Exploitation of idle resources** is encouraged since it is efficient which increases the production of more goods and services.
- **Promotes development of skills** using machines requires highly skilled labor therefore encourages people to do research, innovations and inventions.
- **Reduces labor unrest for instance demonstrations and strikes** this increases production of more goods and services therefore it is easy to control machines than labor.
- **It saves time and increases labor productivity** because a worker who uses a machine will do his or her work in a shortest period of time and are less exhausted than using manual labor to perform a given task.
- **Increases a country's assets** which can be used as collateral security to acquire loans.
- **Promotes specialization** which leads to production of excess (surplus) at a low cost. The surplus is exported yielding foreign exchange earnings.
- **High profits for the entrepreneur** since it minimizes costs in form of wages bills and other fringe benefits.
- **It is appropriate where labor is scarce and not applicable** for example heavy duty and highly risky jobs like mining are best done by machines.

- **It promotes industrialization** when capital intensive technology is adopted, many industries will come up and development of other infrastructures such as roads hence promoting the tertiary sector.
- **It strengthens good relationships** between countries where machines are exported or imported hence fostering trade.

Disadvantages of capital intensive technology.

- **It is very expensive to buy machines** most developing countries depend on foreign aid and loans to finance their budgets so if they adopt the use of machines they will have too much debt.
- **It leads to technological unemployment** since more machines are used than labor in the production process therefore most labor will be unemployed which is an economic problem.
- **It widens the income inequality gap** where a few skilled labor will be engaged in the production process to run machines and the unskilled will remain unemployed hence widening the gap.
- **High costs** as a result of maintenance, repairs when broken down and depreciation. therefore, it is expensive because it requires a lot of foreign exchange to import spare parts and other machines.
- **It encourages rural- urban migration** since most machines are used urban centres. This leads to development of shanty towns or slums in cities.
- **It is not helpful in the eradication of poverty** since there are very few people employed in the production of goods and services.
- **It is inappropriate technique in some activities** that require human judgementsuch as picking flowers and tea, sorting printed papers. In this instance machines may not be applicable at all stages of production.
- **It may promote over exploitation of natural resources,** leading to their quick depletion.
- **It requires infrastructures like power, transport etc.** which may not be adequate in developing countries.
- **It also leads to social costs like noise, air and land pollution.**

6.2.2. Labour Intensive Technology

Activity 6.3



Questions.

- Which economic activity is taking place in figure 6.2?
- What is meant by the term capital saving technology?
- Why do most economies in Africa employ labor intensive technology in their production process?

Labor Intensive Technology

Labor intensive technology is the production method/technique which uses more labor than machines to produce its goods or services. It is also called capital saving technology meaning we save capital to use more labor. Examples where labor-intensive production is common are hotels, restaurants, small scale farming, fishing, mining etc.

In Rwanda, the largest part of the population is employed in the primary sector, which uses more labor than machines. Most labor is employed in agriculture, fishing, mining, and the service sector. Labor intensive technology has many advantages and that's why it employs a bigger percentage in our economy. Although, it is associated with very many challenges like, being very expensive to maintain through medical insurance, wage bills, low and poor-quality output, strikes and labor gets tired and exhausted easily, unlike the use of machines.

The question of the day should we continue to use this type of technology? Despite its challenges and short comings it has the following advantages,

- **It generates more employment opportunities:** for nationals due to investments in various sectors. This leads to even distribution of income in country since they are many people involved.
- **It reduces costs of production** since in most countries it is cheap and abundant.
- **It helps to reduce rural-urban migration (RUM):** Since it can easily be established in the rural areas where labor is abundant. This leads to rural transformation hence reduction in poverty and crime rate levels.
- **It increases effective demand:** Many people are employed which increases their chances of investing in an economy.
- **Monopoly control:** It minimizes monopoly tendencies in the industry since the economic power cannot easily be concentrated in a few hands.
- **Labor is more mobile than capital technology:** It's easy to move workers from one town to another compared to moving machinery or capital assets.
- **It does not require a lot of skills** and is suitable to work with in industries that require human judgment. For instance, picking flowers, picking tea leaves.
- **Labor can provide feedback and craftsmanship in the production process:** This provides ideas for continuous improvement hence workers can also adapt to introduce innovative ideas in hand crafts.
- **It encourages decentralization:** As it allows industries to be established in various parts of the country. That is to say, the rural areas and small towns.
- **It minimizes the dependency on technology:** which might be complex and very expensive hence increasing self-reliance.
- **It is flexible:** Unlike machinery, it can be used to meet the changing levels of consumers demands.
- **It helps to improving the standards of living:** When labor intensive techniques are adopted, many people in families will get jobs and earn income hence increasing their standards of living.
- **It encourages infant industries** acting as training grounds for man power and this helps in the acquisition of skills. These also play a vital role in the economic development of a country.
- **Personal touch:** People can interact properly with customers and most services cannot be done with the use of machines for instance hair dressing.

Disadvantages of labor intensive production

- **It is relatively expensive in the long-term when compared to machinery:** Because it is associated with other labor costs. For example, housing, insurance, medical bills which increases cost of production.
- **Inferior quality products are produced:** When labor intensive techniques are adopted, many people produce products without carrying research thus poor-quality products.
- **Limited hours of work:** Machines can work day and night hence produce high output. Economic Growth remains low in a country with the use labor intensive technique of production.
- **It requires a lot of supervision:** Which leads to under-utilization of resources and increased costs.
- **Lack of uniformity in production:** With the use of labor intensive techniques of production there are most likely to produce products that are not uniform this makes them not competitive to the market.
- **Specialization is not promoted:** In the production process which may slow down the production process.
- **Managerial complexity arises:** It is not easy to manage people since they have individual differences, especially when a business grows. This may further lead to bureaucracy in decision making.
- **Difficulty in getting skilled man power:** It is easy to get machines than skilled labor in a given field and this hampers the production of goods and services.
- **Problems in personal life:** could easily affect the performance at work and lead to inconsistency in the production process.
- **Industrial disputes:** such as strikes may be destructive and time wasting which may retard/delay production yet with the use of machines this cannot happen.
- **Labor intensive technique may not be appropriate:** in unpleasant, heavy and high risky activities like mining.

Application activity 6.3

Justify why the government of Rwanda is encouraging businesses to use capital intensive technology.

6.2.3. Intermediate Technology and Appropriate Technology.

Activity 6.4

Analyze the photo below and answer the questions that follow.



Questions:

- What economic activity is taking place in the picture above?
- Which type of technology are they using?
- Do you think this type of production method is the most suitable for this activity? Justify your arguments.

6.2.4. Intermediate Technology

Intermediate technology is the technology which is between the high intensive technologies and the local indigenous techniques and usually relying on the use of local materials and skills e.g. ox-ploughs. It involves the use of both labor and capital in almost equal proportions. It is neither too advanced nor simple.

Characteristics /features of intermediate technology

- Figure 6 1: Capital intensive technology in a construction company Work places of intermediate techniques are established in villages and towns, not in urban centers.
- The workplaces involve more workers, costs are low and minimum inputs particularly in the case of capital.
- There are simple methods of production process so that the demand of highly skilled labor is reduced.
- The Production process should largely be based upon using local raw materials and local domestic labor.
- There must be facility of repair at door step.

Role of intermediate technology

- It provides employment opportunities to the available skilled man power and this solves the economic problem of unemployment in a country leading to improved standards of living.
- There is efficient utilization of local resources which increases productivity in the economy hence promoting economic growth.
- It leads to rural development since intermediate technology makes it possible to be developed in rural areas hence solving problems that would arise due to rural- urban migration.
- It reduces income inequalities through job creation, as many people get employed and earn income.
- It helps to reduce foreign dependence since it can easily be developed within the country.
- It enables workers gain more new skills as they use this type of technology.
- It reduces brain drain in the country since most people will be employed hence saving foreign exchange that would be used to import labor.
- It promotes linkages among sectors which controls wastage of resources.
- It promotes the development of craftsmanship in the country. This helps to meet the consumers demand of quality, creativity and authenticity.
- It encourages industrialization especially in the agro-processing industries hence fostering development of a country.
- It encourages export promotion since resources are efficiently utilized hence increase in exports.

6.2.5 Appropriate Technology

Appropriate technology is the type of technology which matches with the existing conditions in the host country. It thus fits in the conditions existing and responds to the needs of the society at that time.

Characteristics/ features of appropriate technology

1. It should be able to increase production and productivity in the country for economic growth to be attained.
2. It should be able to reduce income imbalances through employment potential.
3. It should produce for an identified market to prevent resources being

wasted.

4. It should be able to produce the right quality and quantities of the products needed by the consumers.
5. It should minimize foreign exchange requirements.
6. It should also minimize the use of imported inputs like labor, raw-materials and some capital equipment.
7. It should match with the social-economic standards of the society.

Benefits of appropriate technology

1. It tends to improve the living standards of people in the country through employment opportunities which results in the expansion of agriculture, industries and other services.
2. It does not require heavy investment expenditure for its success.
3. It promotes self-reliance since local resources and skills are being used and production is mainly for the local market. Therefore, the dependence factor of a country on another country is being reduced.
4. It promotes fair income distribution through job creation therefore the income gap is reduced.
5. It encourages the exploitation of idle resources and local raw material this results into increased investments.
6. It increases the volume of goods and services produced especially consumer goods. This controls inflation in the country.
7. It reduces the effect of "brain drain". many people will be able to work using the technology that matches with the conditions in their country hence reducing man power who are unemployed to search for green pastures.
8. It helps to eradicate poverty since there are many sectors which generate income.
9. Foreign exchange is saved when all commodities are produced locally due to the use of appropriate technology.
10. It encourages specialization which results into large scale production, low prices and fair competition for commodities in the market.

Application activity 6.4

1. Using a local business or a production unit in your locality, explain how intermediate technology is applied.
2. Examine the importance of using this type of technology in that business.
3. Try to find an example of simple and more complicated technology method of production
4. a) From each of the following areas of human activity.

Human activity area	Simple example	Complex example
Cultivation		
Cloth making		
Secretariat		
Transportation		
Milking		
Mining		

- i. If you were to start a business in any of the above human activity area, which technology will you be likely to choose? A simple technology or a more complex technology?
- ii. What could be the reasons guiding your choice?
- iii. Now that you have identified possible businesses from these areas of activities, which technology do you think will be more effective in order to improve the productivity of the specific businesses or to improve your qualities?

6.3. Factors considered before choosing an appropriate technology.

Activity 6.5

Using examples of businesses near your school or your community employing different types of technologies, investigate to find out the factors considered when choosing an appropriate technology in any business organization of your choice.

From the above discussion, it's really challenging to decide on the appropriate

technology to use but the following factors can be considered before choosing a suitable production method.

Approaches of choosing an appropriate technology

Technology is evolving at an incredible pace. The rapidity of changes challenges any business trying to employ the most appropriate technology for their business model and environment. The following three approaches can help in making the right decision:

- i. Balance cost against benefits,
- ii. Look for ease of use,
- iii. Take it for a test drive.

The factors that should be considered before choosing an appropriate technology include the following:

Social benefit: The technology should have social benefits to the country, in terms of job creation, as well as not having a lot of social costs like pollution (air, water and noise).

Health impact on users: The technology should put into consideration the health of the users as well as the population around. Some technology for example machines and mobile phones make vibrations which affect the health of the people leading them to get cancer related problems.

Ease of use and adaptability: The technology chosen should be simple to use and easy to learn and adopt. It should be able to accommodate the skills of the available labor in a given country.

Productivity and profitability: The technology chosen should be able to yield profits for the business as well as efficient and effective use of resources to produce much output.

Cost effectiveness: The technology chosen should be affordable to the company and should be able to yield more returns for the capital invested.

Institutional needs: The technology should be able to address the needs of the institution or company where it is being used. For example, banks need more capital-intensive technology in form of information communications technology

as compared to labor intensive technology.

Environmentalfriendly: The technology must comply with the environmental laws thus; it should not degrade the environment. This is very common with industries which use capital intensive technology.

Application Activity 6.5

Read the text below and answer the questions that follow.

The Benefits of an Environmentally Friendly Technology in Production

Running an environmentally friendly technology in production of goods and services helps you reduce the negative impacts on the environment and conserve the natural resources. Your business can help the environment in many ways.

For example, you can use products that reduce your reliance on natural resources (e.g. re

You can also use products that are made from recycled material (e.g. office supplies made from recycled plastic, furniture made from recycled rubber). all this helps to reduce the costs of production. Good practices in business attract many customers which sets you apart from your competitors.Reducing the environmental impact of your business will improve the sustainability of your business. If you are less dependent on natural resources than your competitors and have ways to deal with rising costs due to climate change, your business will have a greater chance of long-term success.

Questions:

- a. Referring to your community or even from other places in Rwanda, identify any business and describe how its business activities/ operations affect the environment due to the technology the business use.
- b. Referring to the passage above, your knowledge and life experience, examine the benefits of using an environmentally friendly technology in business?

6.4. Technology in Business

Activity. 6.6

Carry out a research and identify the various technologies that are being used in businesses be it in your school or other business enterprises. Suggest their importance in terms of communication, management, accounting and transport.

Technology of the twenty-first century has become completely integrated in the business operations. Whether you are running a small start-up business or a worldwide enterprise, technology is vital in all aspects of business operations. It helps workers to communicate with one another easily which is critical to the success of a business. It is also used to protect confidential financial data which may be subject to security threat and vandalism. Fortunately, several technology tools are being used by companies in the day today running of business. Examples include; use of Emails, mobile phones, internet etc.

Activity 6.7

Observe the pictures below and explain the importance's or uses of each machine, equipment or technology as used in business.



Picture 1. Email



Picture 2. Mobile phone and a Telephone



Picture 3. Cashless public transport system (Tap and go)



Picture 4 Technology in transport.



Picture 5. Closed Circuit Television (CCTV) camera



Picture 6. Metal detectors



Picture 7. Electronic Point of sale



Picture 8. Solar panel energy



Picture 9. Electronic safe.

Figure 6.2: Most common technologies used in business

From the above pictures, you realize that businesses use various kinds of technology, depending on the type of business, and department. The table below shows the types of technology used in business departments.

BUSINESS DEPARTMENTS	TECHNOLOGY USED
Communication	Telephone, email, internet, fax, SMS, websites, blogs, social media (Twitter, Instagram, Facebook, LinkedIn, WhatsApp etc.)
Management	Computers, time recorders, software, access control gadgets.
Accounting	Computers, calculators, money counting machines, Automated Teller Machine (ATM), computerized accounting software's, electronic safes, .
Transport	Cashless public transport system, cars, planes, motor bicycles, airline booking and reservations software.
Security	Closed Circuit Television (CCTV) cameras, webcams, finger prints, metal detectors, locks, electronic safes.
Human resource	Email, internet, SMS, time recorders, drop box.
Marketing, Sales and Distribution	Email, SMS, electronic displays, point of sale terminals, websites, electronic money transfer, mobile money.
Energy and Power	Generators, solar panels, inverters, UPS, etc.

Application activity 6.6

Suggest other types of technology that are used in the business world today.

- Mention the benefits of using such technologies.
- Explain the challenges of using such technologies in local and small-scale businesses in Rwanda.

6.5. Information Communications Technology (ICT) in Business



Figure 6.5: electronic payment systems

Activity 6.7

Read the following passage and answer the questions that follow.

THE RISE OF ICT SECTOR IN RWANDA

Beyond the promotion of the ICT sector, Rwanda has an initiative called Smart Kigali, aimed at modernizing the lifestyle of Kigali City dwellers and visitors through use of ICT for better service delivery. The initiative enabled provision of free broadband Wi-Fi Internet access in public places that include commercial buildings, bus Stations, airport, in public transport buses, cabs and improved internet access.

In socio-economic transformation, the ICT sector has facilitated the development of other sectors as well as provision of services by other agencies. These include, among others the cashless economy, which encourages the public to utilize the multiple payments systems available, including mobile money. In line with improving accountability, efficiency and openness through ICT, Rwanda Online Platform Ltd, a private company was contracted by the government to build and manage a platform to about 100 government services online.

The platform, dubbed “Irembo,” is now offering online registration for provisional and definitive driving tests, paying for the Community-Based Health Insurance (CBHI) commonly known as “Mutuelles de Sante”, application for a birth certificate and application for a criminal record. (editorial@newtimes.co.rw, October 14, 2015)

Questions;

- a. What is meant by the term ICT?
- b. From the above passage, mention any areas where ICT is used in Rwanda’s business environment today.
- c. Why do you think ICT is growing very fast in Rwanda’s business environment today?
- d. Mention any ICT tools used in a business.
- e. Analyze the role of Information Communication Technology in a business today.
- f. Discuss the various problems associated with Information Communication Technology in the business world today.

6.5.1. Meaning of ICT

Information and Communications Technology usually called ICT, is often used as an extended synonym for Information Technology (IT) but is usually a more general term that stresses the role of unified telecommunications and the integration of telecommunications (telephone lines and wireless signals), intelligent building management systems and audio-visual systems in modern information technology.

ICT consists of all technical means used to handle information and aid communication, including computer and network hardware, communication middle waves as well as necessary software. In other words, ICT consists of IT as well as telephony, broadcast media, Electronic Billing Machines (EBM), all types of audio and video processing and transmission and network based control and monitoring functions.

6.5.2. Tools of ICT

Activity 6.9

Identify the various ways or methods used by businesses to communicate with customers, suppliers, government and other stake holders.

Tools of ICT include the following.

- Intranet/Social Intranet.
- Chat rooms, Private and Group Messaging.
- Discussion Forums.
- Ticketing, Issue Tracking and Case Software.
- Internal Blogs, Video and Audio.
- Podcasts.
- Web-Based Communication.
- Social media.
- SMS.

Application activity 6.5.

1. Explain how the above tools are used in today's businesses?
2. what are the challenges of using the above tools in today's business environment?

6.5.3 ICT and Business Publicity

Activity 6.10

Many businesses have adopted the use of ICT to promote sales of their business. Social media has played a significant role in marketing of company products, as well as helping businesses to communicate to potential clients in order to increase sales and be more competitive. It has become part and parcel of business life. Discuss other ways apart from social media, how a business can spread information to the public about its products.

ICT has played a significant role in business publicity. These are the various methods used by an enterprise for publicity.

- **Telephone systems:** Telephones are used to communicate to potential customers about business products as well as innovations and inventions. It makes it cheap and convenient for business to increase its market share.
- **Electronic mail:** E-mail is one of the ways businesses use to reach its customers. Messages are sent and received between the business and customers which makes communication very fast and convenient.
- **Websites:** A website is a collection of web pages. Web pages may contain text, images or videos. Businesses use websites to provide information to customers.
- **Chatting:** Chatting online involves two or more people exchanging short messages across computer network. This can be used for immediate inquiries about prices, quality of the products, color as well as knowing the latest products on the market.
- **Blogs:** A blog is a kind of website. It's used for regular information that someone wants to communicate. When an author posts a blog, visitors to the website who see that blog can comment and share such comments with other people that visit the website. Blogs contain text, pictures and links to other web pages.
- **SMS:** (short message service). This is a form of text messaging communication on a fixed phone and mobile phones. Such messages can be stored on the receiver's phone for future reference. SMS can be sent as a reminder to customers, to announce new products and other purposes. SMS is cheap and easily accessible on mobile phones.
- **Social networking:** Social networks such as WhatsApp, twitter, Facebook, Google, Instagram, yammer are useful tools to keep in touch with customers, suppliers and the general public. Businesses create accounts on such networks and use their accounts to communicate with business partners and customers.

Activity 6.11.

Read the text below and answer the question that follow.

THE INTERNET HAS BECOME A VITAL TOOL FOR THE SUCCESS OF BUSINESSES.

It is very difficult to imagine how business could operate during this time without the use of the internet. The development of the internet has significantly altered the day to day operations of a business; including how they communicate with each other and their audience. Information can be easily transmitted to any destination in a matter of seconds.

The internet has become an essential tool for marketing and advertising. A business can present itself to customers with the use of a website or online advertisements. Many businesses now use the internet as a means of making customers aware of their current promotions. This can be very beneficial to businesses that are targeting a younger audience.

Creating the right image is very important to any business wishing to be a success. The internet can aid a business in achieving the perfect image. By having an effective website, they can create the perfect web existence. Many businesses now also use social networking as a means of making themselves known to their target audience.

Communication and interaction with customers is vital to any business. The internet has ensured that this can be easily achieved. Businesses are able to communicate and interact with customers via email or instant messaging. Internet telephony such as Skype is now a popular method of communication and is used frequently by businesses in order to conduct virtual meetings with both customers and other businesses. The use of the internet also makes it easier for businesses to deliver messages to people working within the organization.

The internet has simplified the way in which businesses collect and record information. They are able to conduct effective research by searching on the web or by using online databases. An electronic record can then be made from the information gathered. Important information such as the state of the stock exchange can also be obtained.

In addition, businesses that have an international presence are able to use the internet to conduct operations and communicate with people in offices that are based in different locations around the world. Transactions and payments can now also be made online which has simplified and sped up the payment process.

Question.

- Discuss several ways how internet plays a vital role in today's publicity of the company's products.

6.5.4 ICT and Business in Financial Management.

Activity 6.5.5

Research work

Visit a nearby financial department such as a school accountant (Bursar) office, a bank, school canteen, or a shop near school. Observe how this department uses ICT equipment or tools.

Explain the importance of using ICT in financial management.

Information Communication Technology plays a key role in book keeping and financial management of an enterprise. There are specialized accounting programs like quick books, Tally accounting, sage pastel among others, which can handle almost all financial need of an enterprise.

The role of ICT in financial management of a business includes the following;

1. **Secure information:** Important information can be backed up on external servers making information more secure than keeping paper files and documents.
2. **Easy mobility of information:** It's easy to move information from one department to another or outside the business by use of emails and fax machines
3. **Book keeping:** Computers can balance the business books much more quickly and accurately than using manual system. This involves use of software like Tally, Sage, quick books, etc.
4. **Security:** ICT ensures security through computerized access systems like computer operated safes and money counters.
5. **Filing of documents:** Business documents are filed electronically which is

cheaper and safer.

6. **Easy retrieval of files:** Valuable information can be retrieved faster by searching in the computer system, which makes work easily accessed.
7. **Access to funds:** ICT enables easy access to funds through use of ATM cards, such as debit cards, credit cards, and electronic money transfer etc.

Application Activity 6.6

1. To what extent is the introduction of ICT in business a priority?
2. Identify some of the businesses that can be started basing on ICT.

6.6. Role of ICT in Business.

Activity 6.12

- a. Identify one business you are familiar with and discuss how it applies information communication technology.
- b. Explain the advantages and disadvantages of using ICT in this kind of business identified in (a) above.

From the above discussion, you realize that technology has a significant role in every business department.

6.6. ICT in Business



Figure 6.6: ICT connecting people and places

Modern business requires modern technology. Any business that expects to thrive today must have at least a basic understanding of the various innovations, programs

and devices as well as the knowledge of how to apply these technologies. The many tools and powers that technology made available to the business owner and employees can help the business succeed in its goals after understanding how to use them properly.

ICT has increasingly been identified as a major contributor to the process of business development and improvement. It drives improved efficiency, effectiveness, better services and products across the entirety of the private and the public sectors.

6.6.2. Role of information communication technology in business.

The following are some of the roles of information communication technology in business.

- 1. Makes work easier:** Technology simplifies work in all aspects. Work becomes so interesting, less stressing, enjoyable and fast.
- 2. Quality products:** Advanced technology is very accurate and tends to produce better quality products that fetch a lot of money for the enterprise.
- 3. Complicated tasks:** Technology helps to perform complicated tasks faster and with ease. For example, use of computerized accounting software like quick books, sage and pastel helps in accounting with ease.
- 4. Global marketing:** Technology helps companies to sell around the world. People are able to buy and sell products online and receive payments electronically. This is possible through the use of E-commerce sites like E-Bay, Amazon, Jumia, etc. and payments can be made using Credit cards and visa electronics cards.
- 5. Monitor buying habits:** ICT helps firms to monitor the buying habits of their customers and be able to stock the right products in the right quantities at the right time. Speed Governors help to track drivers which supports a positive public image of employees who realize they can't get away with poor behavior.
- 6. Ability to process high volumes of information and at a high speed:** Computers can perform a lot of work in the shortest time possible which would require a lot of time if done manually. Examples include preparation of control accounts, financial statements and preparing payrolls etc.
- 7. Increases customer satisfaction:** The use of ICT helps producers to produce goods and services which are of good quality and a variety. This therefore increases the customers demand and satisfaction of the commodities.
- 8. Communication:** ICT enables businesses to communicate both nationally and internationally with clients and business partners. It also helps to improve communication within a company which helps managers to make

good decisions.

- 9. Production and distribution of products:** Technology plays a key role in the production and distribution of products by use of machines and transport means.
- 10. Technology has made it easy:** for companies to handle large numbers of employee profiles as well as client profiles.
- 11. Technology cuts costs:** For example, the costs incurred while transporting and delivery of goods can all be done using computers and the internet.
- 12. Advertising:** Information Communication technology introduced new methods of advertising particularly through the Internet which helps businesses to be known and sell worldwide hence increasing producer's income.
- 13. ICT improves stock control:** The use of barcode scanners and point of sale terminals within shops, enables firms to know immediately what their stock levels are, reducing the need for many manual checks.

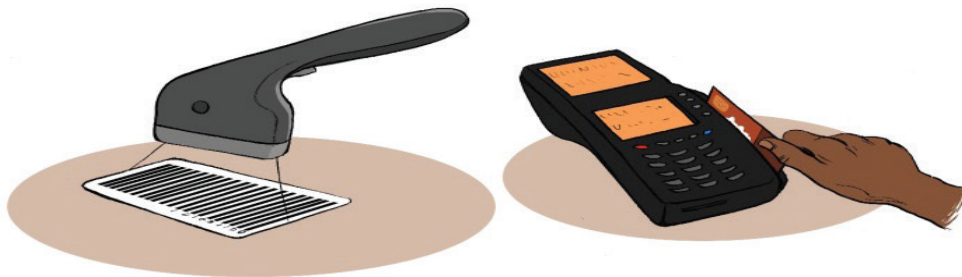


Figure 6.7: Barcode scanners *Figure 6.8: Point of sale terminals*

- 14. Advertising:** Information Communication technology introduced new methods of advertising particularly through the Internet which helps businesses to be known and sell worldwide hence increasing producer's income.
- 15. Security:** Information stored on computers is considered to be safer. This is because access to information can be restricted by using passwords. Also, in some accounting software which allows multi-users, it is easy to trace which user has performed a given transaction. This reduces the risk of fraud. For example, in banks.
- 16. Research tools:** ICT helps businesses to carry out research easily about their competitors which helps them to survive. The Internet allows a business to virtually travel into new markets without the cost of an air ticket or the risks of creating a factory abroad. By doing this, businesses grow and acquire new opportunities.
- 17. Reduces the worker's costs:** An individual can be used to perform a given

task which can be done by many people by using a computer. Therefore, there is reduction of costs in terms of salaries and other fringe benefits that would be incurred.

Application Activity 6.7.

Organize a debate; *“Information communications technology in business has done more good than harm”*

6.7. Problems/ limitations associated with ICT.

Activity 6.13

- a. Discuss the problems associated with the use ICT in business.
- b. Give reasons why some people don't use technology in their businesses.

Much as ICT has many advantages, it also has many disadvantages in business. These challenges include the following.

- 1. ICT needs staff training:** With the various updates in technology, it will require the business to incur costs of training, either on-the-job, off-the-job or induction training.
- 2. Difficult to implement in some systems:** Systems made by different companies may be incompatible and fail to work together, limiting the firm to use the latest technology.
3. Sometimes the users of technology may not be able to interpret the generated information and as a result, fail to use the information for proper decision making.
- 4. Technological unemployment:** ICT automates so many processes and as a result, may result in mass unemployment of people.
5. Through the use of ICT, and the internet, customers search cheaper and better sources of products, which increases competition in businesses leading to some businesses being outcompeted.
6. Sometimes the users of technology may not be able to interpret the generated information and as a result fail to use information for proper decision making.
7. ICT heavily depends on regular and sufficient power supply which is still a challenge in developing countries
8. The internet provides consumers with the ability to rapidly search for alternative goods and prices which is likely to lower a firm's profit margin.
9. It does not put into consideration the use of body language which may lead people to miss-interpret messages because of the use of instant messaging, voice calls.

Application activity 6.8

Read the text below and answer the questions below.

INFORMATION COMMUNICATION TECHNOLOGY IN BUSINESS

Information technology has changed the way businesses do things. Correspondence that once took weeks to get from one organization to another is now delivered instantly with the push of a button. Advances in telecommunication allow associates from all point of the globe to confer in a virtual environment, minimizing the need for business travel. Although the benefits of integrating information technology in business are many, there are also disadvantages to its use. Every business must consider startup costs when implementing any type of information technology system. In addition to the cost of hardware and software, some technology vendors require businesses to purchase user licenses for each employee that will be operating the system. Businesses must examine the cost of training employees in unfamiliar technology. Although basic information technology systems may be user friendly, advanced programs still require formal instruction by an expert consultant. In addition to the startup expenses, information technology systems are expensive to maintain. Systems malfunction, and when they do, businesses must engage skilled technicians to troubleshoot and make the necessary repairs. These expenses present a major disadvantage of information technology in business, particularly to businesses that are entering the technology era for the first time.

Implementing information technology into business operations can save a great deal of time during the completion of daily tasks. Paperwork is processed immediately, and financial transactions are automatically calculated. Although businesses may view this expediency as a boon, there are untoward effects to such levels of automation. As technology improves, tasks that were formerly performed by human employees are now carried out by computer systems. For example, automated telephone answering systems have replaced live receptionists in many organizations. This leads to the elimination of jobs and, in some cases, alienation of clients. Unemployed specialists and once-loyal employees may have difficulty securing future employment

The ability to store information in an electronic database facilitates quicker, more efficient communication. In the past, an individual would sift through stacks of paper records to retrieve data. With properly implemented technology, information can be recovered at the touch of a button. Although information technology systems allow business to be conducted at a faster pace, they are not without their flaws. Information technology systems are vulnerable to security breaches, particularly when they are accessible via the Internet. If appropriate measures are not in place, unauthorized individuals may access confidential data. Information may be altered, permanently destroyed or used for unsavory purposes.

Questions

1. From the text above, mention some of the challenges or problems of using ICT in business.
2. Mention some of the solutions to these problems of ICT in business.

6.8. E-Commerce or Online Business

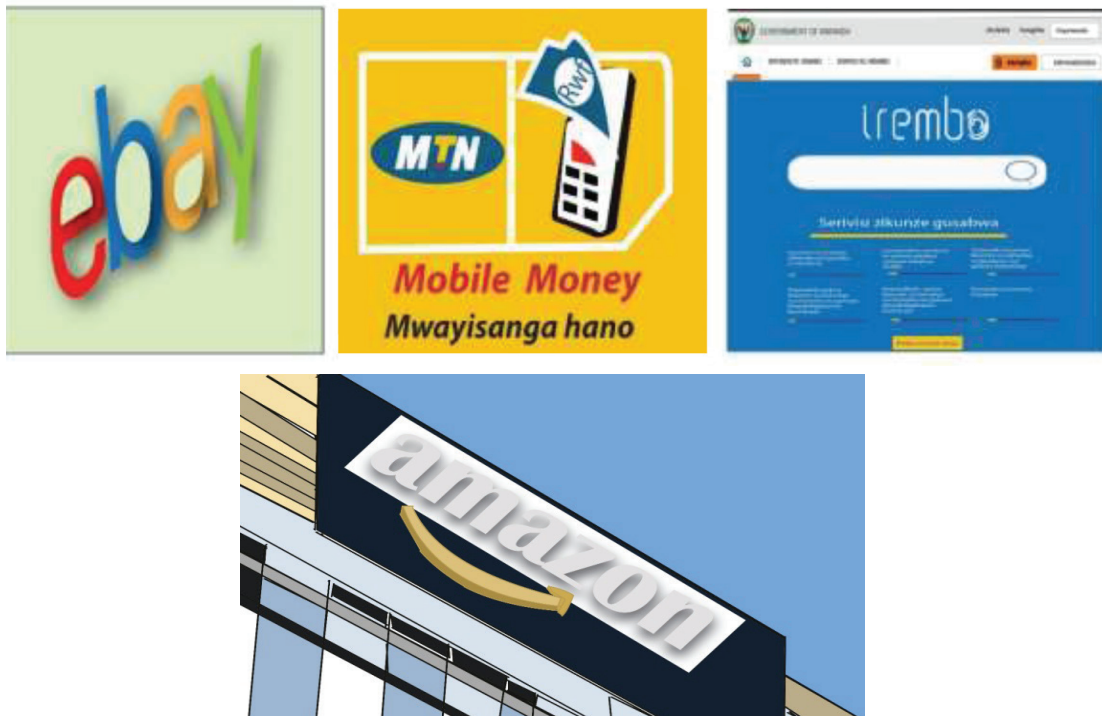


Figure 6.9: Barcode scanners

Activity 6.14

Using the internet, books or knowledge from the community around you, Discuss the following.

- a. What is meant by e-commerce?
- b. Mention any 3 types of e-businesses in Rwanda today.
- c. Examine the advantages and disadvantages of e-commerce to businesses and to the consumers.

From the above discussion, we learn the following;

ICT has opened new commercial activities like e-commerce. E-commerce means Electronic Commerce. In some years back, buying and selling of goods involved movement from one place to another (e.g. to the shop or market) and physically meeting between the seller and the buyer.

Today, ICT has extended the scope of buying and selling goods within and outside a country. For example, goods can now be sold across continents via the internet. Activities such as advertising, customer care and delivery of goods can be done electronically.

An e-business is supported by internet services within as well as without organizations, countries and continents. With the use of ICT, such businesses can be done, and it allows businesses to transact without geographical limitations. Ordinarily, this may not have been possible, or it could have been possible but at a very high cost.

6.8.1. History of e-commerce

E-Commerce started way back in the 1960s, this is when businesses started using Electronic Data Interchange (EDI) to share business documents with other businesses. In 1990's, World Wide Web (www) on the internet came into existence. It is used for disseminating and publishing information. It became cheaper to do businesses. Consumers can now purchase variety of items online, examples of e-commerce businesses in Rwanda include; - Jumia, Irembo, mobile money services, electronic banking services and the international e-commerce include; Amazon, eBay, etc.

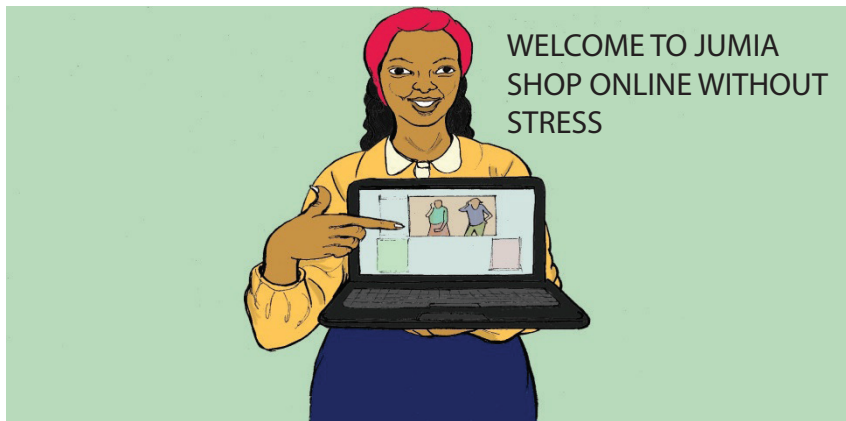


Figure 6 3: Jumia online shop. You can shop on online

6.8.2. Advantages and Disadvantages of e-commerce

Advantages of e-commerce

- It is easy to start and manage an online business.
- A business can reduce the costs of handling sales inquiries, providing price quotes, and determining products availability by using electronic commerce. This means that the operational costs are low and better quality services.
- It helps consumers to buy products anywhere in the world.
- Electronic payments of tax refunds, public retirement, and welfare support cost less to issue and arrive securely and quickly when transmitted over the internet.
- Electronic payments can be easier to audit and monitor than payments made by cheque, providing protection against fraud and theft losses.
- Electronic commerce can also make products and services available in remote areas.
- Electronic commerce is faster in buying and selling of goods and services. This helps to avoid long queues if their where many buyers.
- Low operational costs and better quality of services.
- There is no need of physical company set-ups in terms of buildings.
- Buying and selling is done 24/7. This means buying and selling can be done twenty-four hours in seven days.
- It is cheaper. Sellers and buyers reach each other without the physical movement of the buyers to the shop.
- Virtual goods like music, electronic books can be delivered instantly.

Disadvantages of e-commerce

- There is no guarantee of product quality.
- It requires internet connection and yet not everyone can be connected.
- Any one, good or bad, can easily start a business. And there are many bad sites which eat up customers' money.
- It is costly in terms of delivery and ICT equipment.
- Mechanical failures can cause unpredictable effects on the total processes.
- There are many hackers who look for opportunities, and thus an e-commerce site, service, payment gateways, all are always prone to attack.
- Return-on-investment is difficult to calculate.
- Many firms have had trouble recruiting and retaining employees with the technological, design, and business process skills needed to create an effective electronic commerce presence.
- Difficulty of integrating existing databases and transaction-processing software designed for traditional commerce into the software that enables electronic commerce.
- There is no consideration of loyal customers since there is no physical contact with customers while carrying out business transactions.

Application activity 6.9

- a. Carry out a research on the procedures of starting an e-commerce business.
- b. Design a plan on how to sell products of your business club online.
- c. Give examples of companies in Rwanda that sell their products online.

6.9. ICT as a source of business opportunities

Activity 6.15

Identify various areas where ICT is used and how it has contributed to creation of business opportunities.

The use of ICT and technology has affected every aspect of business, transforming not only the way that business is conducted but also creating new business opportunities, sectors and jobs. The creation of companies like Google, Yahoo, MTN – AirTel - Rwanda, internet cafes, companies selling, repairing or charging mobile

telephones, selling air time, money transfer and e-commerce which did not exist in the country before but are now major players in society, country and World Over is due to ICT.

Information Communication Technology itself offers numerous business opportunities. The following are some of the businesses that can be started basing on ICT.

1. Develop and design websites for individuals, organizations and companies.
2. Selling ICT equipment's like computers, phones, network cables, tablets, laptops etc.
3. Repair ICT equipment's like laptops, computers, and mobile phones.
4. Starting and managing online shops.
5. Developing software for different organizations
6. Starting training programs for people who want to use computers and such technology in their business enterprises.
7. SMS service providers. Sending SMS on behalf of clients. This is also a business opportunity that is cheap to start.
8. Operating a call center.
9. Manage databases for different companies
10. Providing delivery services to other online retailers.
11. Develop games
12. Create companies that train people about information technology
13. Develop mobile applications
14. Computer forensic investigator. These detect computer crimes
15. Multimedia publishing
16. Computer networking
17. Graphics designs
18. Manufacturing or product designs

Application activity 6.10

Although ICT has led to technological unemployment in some parts, there could be many benefits to entrepreneurs.

- a. Mention some businesses you know, which came up as a result of ICT which operate in Rwanda.
- b. How have these businesses boosted economic development in Rwanda?

Skills Lab Activity 6.11.

1. Describe different ICT tools you will use in your business club or the business you want to start at home.
2. Explain how you will use the ICT tools identified above in your business activities or business you want to start back at home.

End of Unit 6 Assessment.

Justify the statement “Technology is something to be welcomed rather than feared”.

Case study

Mugwaneza has a peanut butter making business. Last week she announced the purchase of new equipment's and modern technology that would make a radical change in the production process. The investment would lead to some employees lose their jobs. Mugwaneza explained to them but there was no doubt, it was in the best interests of the company as a whole.

Employees were not consulted because it would slow up the process and Mugwaneza felt that it was the best decision to make.

In the long run, the modern technology and equipment's will increase the businesses' competitiveness and also produce quality products and in large quantities. The working practices will obviously be changed, and employees will have to learn new skills of using them. The employees were promised to be trained, although it was not a guarantee to employ all of them if they fail to adapt successfully.

After the announcement, the employees were so furious and considered taking industrial action. Hearing the rumors of a possibility to strike, Mugwaneza admitted that the issue was not handled very well but would not reconsider the decision.

Questions

1. What factors may have made Mugwaneza decide to invest in modern technology?
2. Do you think the employees were right in taking industrial action? Give reasons for your arguments.
3. Analyze the factors that Mugwaneza might have taken into account before acquiring the modern technology.
4. Mugwaneza admitted that the issue was not well handled. In your opinion, how should she have handled it?
5.
 - a. Distinguish between capital saving technology and labor-saving technology.
 - b. Explain any 5 advantages and 5 disadvantages of using capital intensive technology.
6.
 - a. What is meant by the term “technology”
 - b. Discuss the pros and cons of labor intensive technology.
7. Peter produces flowers and sells them both in the local and international markets. He plans to use e-commerce in his business.
 - i. Mention any 3 E-shops in Rwanda he can contact for advice.
 - ii. Explain the merits and demerits of using e-commerce in a business like that of Peter.
8. Explain how ICT can be of great importance in financial management.
9. ‘The key to better performance is better management rather than more technology.’ Critically assess this view.
10. Examine the challenges of using Information Communication Technology tools in business.



UNIT 7

INTERPERSONAL COMMUNICATION

UNIT 7: INTERPERSONAL COMMUNICATION



Key Unit Competency: To be able to maintain good relations with people at the work place through effective communication.

Introduction

Every person needs to interact and build relationships with others. Every day, people engage in interpersonal communication with family, friends, employers through face-to-face, phones, etc. Through personal contacts, people build connections and establish relationships to satisfy their social needs and realize their personal goals.

Communication is an essential aspect of human relations and interactions. It helps a person to live and cooperate with others. Communication is also very essential for business activities and operations. Businesses use communication to maintain good relationship with customers, to pass the relevant information to the staff and to advertise business products or services.

However, there are barriers which interfere with the communication process resulting in sending unclear message to the receiver, noise, distraction in the environment, etc.

This unit is therefore designed to equip you with knowledge, and understanding about proper listening and speaking skills. It will also equip you with knowledge and skills as well as attitudes and values that will enable you to maintain good relations with people at the work place and in the society where you live through effective communication.

Introductory activity

Many people in the world and Rwanda in particular navigate their interpersonal relationships through interpersonal communication. Even businesses use communication in their daily activities and operations. Based on your understanding, answer the following questions:

- a. What is meant by interpersonal communication?
- b. Identify various listening and speaking strategies and skills that are essential for proper interpersonal communication.
- c. The manager of KUNDUMURIMO Cooperative has called a meeting with cooperative members. While he/she was communicating to members about the performance of their cooperative and measures they have to take in order to improve productivity, some people in the meeting were loudly conversing. Around the meeting also dogs were barking.
 - i. Do you think the communication between the manager and the cooperative members was effective? Give reasons to support your answer.
 - ii. Suggest other barriers that might have hindered communication to be effective between the manager and cooperative members.
- e. Describe the importance of team building in any business.
- f. Assume you have a business, what do you think would be the importance of good customer care in your business?

7.1. Listening and speaking effectively

Activity 7.1

Analyze the photo below and answer the questions that follow.



- a. Referring to the above photo, make a short comment on what is going on between those two people?
- b.
 - i. What would happen if the speaker in the above photo had no good speaking skills?
 - ii. Assume also that the listener in the above photo had no good listening skills, what would happen?
- c. In your understanding, what do you think is required on the part of the speaker and listener to communicate effectively?

7.1.1. Effective listening skills/strategies

Listening skills refers to the ability to pay attention to and effectively interpret what other people are saying. Listening is a skill that is highly valued in schools and at the workplace.

For example, when you are seeking employment, interviewers will want to know if the interviewee possesses adequate listening skills.

Effective listening skills/strategies include the following:

1. Listening to the speaker without interrupting.
2. Listening without thinking about how you are going to respond until the person has finished speaking.
3. Ask questions for clarification when you do not understand something.
4. Use appropriate body language to show that you are listening (eye contact, nod head, etc).
5. Avoid being distracted by noises, mobile phones (turn it off), what other people are doing, etc.
6. Be aware of your own attitude and avoid being judgmental.
7. Avoid being distracted by the gestures, speaking style, clothing of the person speaking, etc.

7.1.2. Effective speaking skills/strategies

Speaking refers to an act of making conversation or expressing one's thoughts and feelings in a spoken language. It is also an act of making vocal sounds.

Speaking skills refers to the ability that allows the speaker to convey his message in a passionate, thoughtful and convincing manner. It gives people the ability to

communicate effectively and help to assure that one won't be misunderstood by those who are listening. Below are some speaking skills that people should use to communicate effectively with others.

The effective speaking skills/strategies may include:

- Be polite/friendly.
- Be clear, brief, and concise to the point.
- Speak with confidence but not arrogance.
- Be honest.
- Be respectful.
- Use examples to get to the point.
- When you need to be direct, speak with respect.
- Be flexible i.e. check the mood and attitude of others and adjust accordingly.
- Be aware of body language, your own and that of others.

Application activity 7.1

An English teacher in a Secondary school used loud speakers to teach listening skills. The speaker on radio explained some vocabularies where he said that creativity is the *"ability to create something new"*. After five minutes, the teacher switched off loudspeakers and asked students about what they have heard regarding the meaning of creativity. The first student answered in the following way *"creativity is the ability to perform well a given job"*. The teacher asked the second learner and answered in the following way *"creativity is the ability to over business competitors"*. Finally, he asked the third learner who answered in the following way *"creativity is the ability to create something new"*

Referring to the above passage answer the following questions:

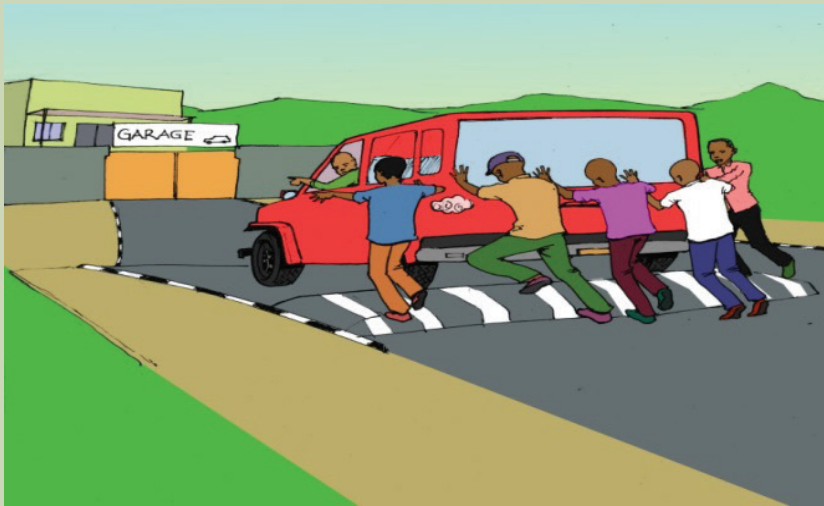
- a. Do you think all learners had good listening skills?
- b. Which learner(s) had poor listening skills amongst the three learners who answered the question? Support your answer.
- c. In your opinion, who had effective listening skills among the three learners? Justify your answer.

- d. Apart from the listening skills mentioned above, think of any other five listening skills a business person should possess in order to communicate with others effectively.
- e. What speaking skills do you need to possess in order to interact with others in the society where you live?

7.2. Cooperation and Teambuilding

Activity 7.2

Analyze the photo below and answer the questions that follow;



1. Differentiate between cooperation and team building.
2. Do you think it is important to work as a team as people represented in the photo below? Justify your answer.
3. Explain the importance of working as a team in business other than working as an individual.

Meaning of cooperation

Cooperation means to work with other persons for a common purpose or benefit. For business enterprises, cooperation occurs when two or more entities engage in a mutual beneficial exchange instead of competing between themselves.

Meaning of Team building

Team building is the process of enabling and facilitating team members to meet their goals. Team building is also defined as the various activities undertaken to

motivate team members so as to increase team performance.

7.2.1. Characteristics of a good team

A team is a group of people working together towards attainment of a common goal. Every group of people does not necessarily make a team, for a team to exist such a group of people must have the same purpose, participate actively and share the team rewards. There are teams which are strong while some others can be considered as weak.

Below are some of the features of a good team;

The following characteristics make a good team:

- A team must have a common goal.
- Members must be committed to the common goal.
- There should be willingness by members to contribute resources, skills and ideas to help achieve the common goal.
- Every member takes initiative to get things done.
- Team goals should be understood by every member.
- Each member should contribute and accept the decisions made.
- Team goals are given realistic time frames.
- Each teammate trusts the judgment of the others.
- There is plenty of communication between team members.
- Members are carefully listened to and receive thoughtful feedback.
- Everyone participates actively and positively in meetings and projects.
- The team is always ready and willing to take risks.
- Every member is focused on the ultimate goals of the business.
- Team decisions are made using organized and logical methods.

7.2.2. Behavior of an effective team member

Behavior refers to the way in which one acts or conducts him/her self especially towards other people. The behaviors for team members are a mixture of different qualities and values. For a team to be successful, team members must collaborate and work well with their teammates. This helps a team to execute its work assignments and to accomplish goals.

The following are behavioral traits of an effective team member:

1. Performs the assigned tasks to meet goals of the group.
2. Listens without interrupting.
3. Follows the rules, policies and procedures of the team.
4. Promotes positive relationships with teammates.
5. Offers ideas that help the group to achieve the common goal.
6. Interacts with others in courteous, respectful and honest way.
7. Respects and is tolerant of differences in opinions, culture, ethnicity, etc.
8. Negotiates and discusses ideas while being flexible to meet the goals of the group.
9. Provides opinions and ideas and seeks the opinions and ideas of others.
10. Moves the group towards resolving conflict (if it exists) so that goals can be met.
11. Is aware of own emotions, thoughts and feelings and keeps them under control for the good of the group.
12. Has skills in understanding what's going on in the group
13. Have the ability to admit when he/she is wrong: This is an admirable trait for any team member. The inability to admit when he/she is wrong inhibits personal growth and impedes the team's ability to innovate.

Note: As a team member, if you can't say, "**I was wrong,**" then you'll never get the chance to say, "**You were right.**"

Team building in businesses

In business world, most business people highly value the positive results of team building in their businesses. Big business enterprises, divide the workplace into smaller units called departments and each department tries to fulfill its distinct role towards the attainment of a common goal.

Importance of team building

The main purpose of team building is to improve productivity and motivation among each other. Team building is very important in business since it helps to improve the team performance.

Importance of team building include

- Helps to improve team productivity.

- Helps to involve every member in goal setting.
- Helps to motivate team members.
- Helps to know each other's strengths and weaknesses and help each accordingly.
- Helps to identify and effectively use the strengths of team members.
- Helps to make the workplace comfortable and attractive.
- Helps to improve communication among team members.
- Helps team members to learn about themselves.
- Leads to effective collaboration with team members.
- Facilitates cohesiveness and trust among team members.
- Improves the ability for problem solving.

Building an effective team

Teams are formed by gathering people together and then expecting that such people will create a way of working together.

In business, there are some guidelines that can be used to build an effective team.

The guidelines/strategies for effective team building.

1. **Set clear goals for the team:** The goals for each team should be SMART that is specific, measurable, achievable, realistic and time bound. An example of such goals can include "to increase the sales by 85% in one year".
2. **There must be trust among team members:** All team members should feel safe and supported.
3. **Define a mechanism for clear communication among team members:** The clear communication is important for an effective team. Team members can be communicated to through meetings, telephone, e-mail, notice board, newsletters and using collaboration tools such as internet.
4. **Define a procedure for team members to solve problems and make decisions:** Teams often encounters situations that require decision making and problem solving. Effective teams should design procedure for problem solving. For example, the procedure could state that if the consensus on a problem is not reached within one day, then the voting is done and take the decision of the majority or if voting is not concluded within one day then the team leaders take decision. This means that there must be rules and conditions that minimize time of making decision on a given problem.
5. **Define staffing procedures:** Effective teams know what skills and expertise they need in the group. They recruit worker's in accordance with the expertise

they need.

6. **To monitor the contribution and work of each team member:** An effective team should monitor the contribution and work of each team member towards the common goal. When goals and plans change team members should also adjust.
7. **Assign team leaders:** Each team should have a team leader who focuses on team practices and procedures. He/she should insure that all members are active in achieving the team goals.
8. To encourage people with different abilities and personalities to work together.
9. Use positive feedback.

Application activity 7.2

Most learners at school join different clubs such as Anti-Sida club, Entrepreneurship club, Red-Cross club, Scout club, Anti-drugs, etc. Assume you belong to any of the clubs mentioned above; analyze any 5 characteristics that can make your club a good team.

7.3. Effective communication

Activity 7.3

Read the following case study clearly and answer the question that follows;

Mr. Shyaka is the owner of Gold Industries Ltd dealing in the production of vegetable oil. The company's owner is planning to increase business performance and the number of customers. To achieve this, Mr. Shyaka has contacted the manager and told him to prepare a meeting aiming at discussing on what should be done to increase sales as well as profits of the company. Another item on agenda during the meeting was to give performance targets /indicators to every department of the business. The manager informed the staff about the upcoming meeting three days before by use of different forms of communication. The meeting took place on Monday and it was attended by many staff members.

Required:

- Basing on the above case study, suggest ways/forms the manager used to pass the information to the staff regarding the upcoming meeting.
- In your own understanding, do you think communication is important in business? Give reasons to support your answer.
- What do you think are major barriers to effective communication?

7.3.1. Meaning of communication and effective communication

Communication is the process by which information is transmitted from one person to another through a defined medium. Communication is also the transfer of information from one person to another. It involves the person sending the message called the sender and the person who receives and acts on the information called the receiver. The reply from a receiver of a message is called feedback (response).

Effective communication: It is a mutual exchange of messages between two or more persons and requires that people involved are satisfied with the interaction taking place. This occurs if the receiver of the message is able to understand it and give an appropriate feedback. For example, there will be effective communication between the buyer and the seller if the buyer correctly and precisely asks the seller information about the goods available for sale and the seller correctly gives a good reply.

i. The communication process

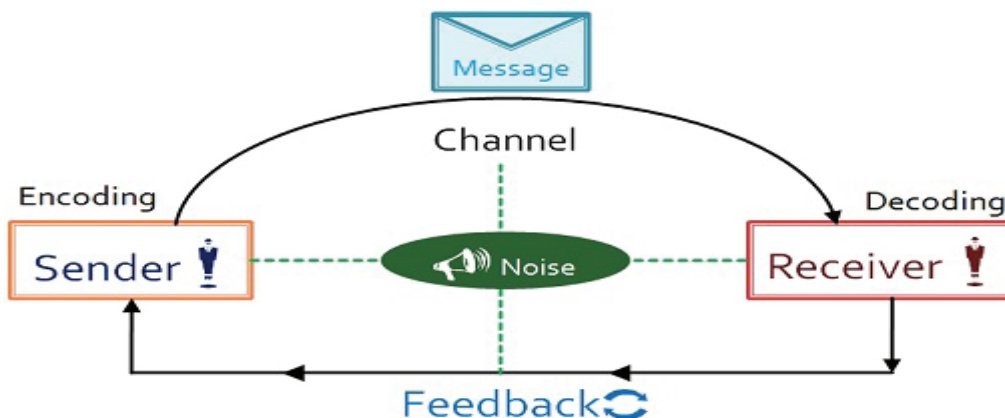


Figure 7.1: The communication process

The communication process involves the sender of the message, medium and receiver who gives feedback. For example, Mugisha sends an e-mail to Mary.

Mugisha is the sender, the internet is the **medium** and Mary is the **receiver**. If one of these parties is missing, then the communication process is incomplete and communication cannot take place.

The communication process involves:

- 1. The Sender (Transmitter):** This is the person who starts the communication process by sending a message. When sending a message, the sender first encodes the message. Encoding refers to the process of transforming the ideas or thoughts into a message that the receiver will understand.
- 2. Message:** This is a verbal, written or recorded communication from one person to another. The idea in the mind of the sender is transformed into words called a message that is sent to the receiver. The sender decides on the length, style and tone of the message.
- 3. The Medium of communication:** Refers to the method by which a message moves from a sender to a receiver. For example, the sender can use a letter, telephone, memo, notice board, etc as a medium to send the message to the receiver.
- 4. The Receiver:** This is the person who receives a message. When a message is received, the receiver decodes it. Decoding by the receiver means that after receiving the message from the sender, the receiver attempts to understand and interpret the message and give feedback. Decoding is also the process of converting the language of message into thoughts. For instance, the receiver, having received a job application, reads the application and understands the message conveyed by the applicant.
- 5. Feedback:** This is a response (reply) from the receiver of a message that is sent back to the sender. This ensures that a message has been received and understood by the receiver who if necessary acts on the message. The response/feedback from the receiver may be positive, negative, or for further enquiry.

This ensures that a message has been received and understood by a receiver and if necessary, acted upon.

7.3.2. Internal and external communication

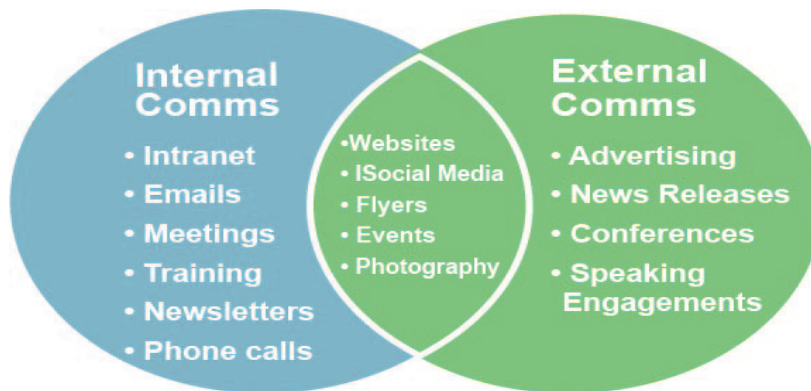


Figure 7.2: Shows internal and external communication channels

The information flow in an enterprise may be internal or external.

Internal communication

Internal communication occurs when information is shared by people within the same business enterprise. The sender and the receiver of the information are within the same business enterprise. Examples, the general manager sends a memo to all staff within the company, Secretary sends an e-mail to the marketing manager, etc.

Internal communication in a business may be horizontal or vertical depending on the position of the sender and that of the receiver in the organizational hierarchy.

- a. **Horizontal communication** occurs when the sender and the receiver of the message are at the same level in the organizational hierarchy. For example, when a cashier communicates to another cashier in the same bank, when a teacher communicates to another teacher in the same school.
- b. **Vertical communication** occurs when information moves from a senior to a junior staff and vice versa. For example, when an accountant communicates to the general manager in the same company. Vertical communication is said to be **downward communication** if the information is moving from a senior to a junior staff in the organization. For example, when a manager of the bank sends a message to the cashier.

Vertical communication is said also to be **upward communication** if the information originates from a junior to a senior staff in the company. For example, when a secretary sends a message to the manager in the enterprise.

External communication

External communication is the transmission of information between a business and an external entity or person. For example, when a customer care officer calls a customer reminding him/her about the date of payment for goods taken on credit, when a sales manager sends an invoice to a customer or when a customer calls the customer care department to complain about undelivered goods.

7.3.3 Essentials/features of effective of communication

For effective communication to exist between the sender of the message and the receiver, one should consider the following features/principles:

1. **Concrete:** The message should be based on facts and the sender should be able to provide evidence of such facts.
2. **Clear:** The message should be clear and easy to understand. The sender should use the language that the receiver understands. If the message is ambiguous and is not understood by the receiver, then that is not an effective communication.
3. **Complete:** The message should be complete by including all details that the receiver needs to understand the message.
4. **Courteous:** The sender should communicate to the receiver in a respectful way. The sender should avoid hurting the receiver but he /she should not be shy from addressing the issue under concern.
5. **Concise:** The message should be as brief as possible and contains all the information that is required. If the message contains useless and irrelevant details, it may confuse the receiver.
6. **Considerate:** The sender should consider the receiver's feelings, religious and cultural beliefs, age, sex, status, etc. When communicating to someone else positive words and language are better to be used than negative ones. If the message is not considerate, it may not generate the required response.
7. **Correct:** The information should be correct and accurate.
8. **Timing:** The message should be communicated at the right time when the receiver is able to listen and to receive it.
9. **Media:** The sender must use a media that the target recipient (receiver) uses. For example, a radio is more efficient than newspapers when communicating to the village population.

Note: For effective communication to take place, the message communicated should be fully understood as expected by the sender.

7.3.4. Forms of communication

There are three forms of communication namely: **Verbal communication, written communication and visual communication.**

1. **Verbal (Oral) communication:** This is the use of spoken words to communicate. It involves direct communication by word of mouth either face to face or by telephone. Because the sender is in direct contact with the receiver, he/she can demand direct feedback and the receiver can demand for clarification where the message is not clear.

The following media can be used for verbal communication:

- i. Face to face talking.
 - ii. Telephone.
 - iii. Radio.
 - iv. Sounds (drums, gun shots).
 - v. Meetings.
 - vi. Voice over internet.
2. **Written communication:** This involves the use of written text to communicate.

The following media can be used for written communication:

• Letters.	• Reports.
• Memos.	• Minutes.
• Circulars.	• Notices.
• Newspapers.	• Faxes.
• E-mail.	• Posters.

3. **Audio -Visual communication:** This involves the use of eyes to receive information. In some cases, this communication combines the use of sound and sight hence the name audio-visual communication.

The following media can be used for Audio -Visual communication:

- Television.
- Photographs, Films, Maps.
- Charts, Billboards.
- Signposts, Sign and gestures.
- Power point presentation.



Figure 7.3: Watching television as an example of Audio -Visual communication.

7.3.5. Choosing a communication channel

Generally, there is no single communication channel that is suitable for all circumstances. Different channels are suitable for particular cases while unsuitable for others. The sender of the message should consider the benefits and disadvantages of the various communication channels to determine the best channel he/she can use. Below are factors that should be considered when choosing the appropriate medium of communication.

Factors considered when choosing a communication channel are:

- 1. Distance between the sender and the receiver:** The distance between the sender and the receiver determines the choice of the communication channel. Some channels like e-mail, fax and telephone cover long distance while word of mouth covers a shorter distance.
- 2. Speed:** Some channels are faster than others. For a message that is urgent, the speediest channel should be used. For instance, written communication may delay an urgent announcement.
- 3. The cost of medium:** This refers to the amount of money spent on using the channel of communication. For example, a television advert is very expensive compared to radio announcement. The most cost effective channel should be used.
- 4. The nature of the message:** Some messages are best sent through specific mediums than others. For example, a message to demand for payment is best sent through written documents than over the phone.
- 5. The accuracy of the channel:** Some channels are more accurate and more suitable for certain kinds of messages. For example, you cannot use

telephone to explain the accounts of a business. This would not be suitable and accurate instead, a fax or e-mail would be more suitable.

6. **The reliability of the channel:** The channel of communication should be reliable so that messages are not interrupted, lost, distorted or delayed.
7. **The confidentiality of the message:** If the message is private, then the most confidential channel must be selected. For example, e-mail requires a password to open and so only the rightful receiver can access the message. Radio, notice boards and newspapers are not confidential.
8. **The nature of the receiver:** It is very important to consider the nature of the person receiving the message. The receiver may be able to understand one channel of communication and not another. For example, writing a letter to a blind person may not be effective communication channel. The personal characteristics of the receiver should be considered.
9. **The legal consequence of the message:** Some forms of communication may not be legally binding and will therefore not be suitable for certain information. For example, when appointing someone to a job, the information should be communicated in writing in form of an appointment letter so that at a later date, one can be able to prove it.

7.3.6. Importance of effective communication

In business, entrepreneurs and managers communicate with different people on daily basis. They call suppliers to make orders of goods or services using mobile phones, write letters to their debtors demanding payment, read newspapers and use internet to get information about tenders and prices, get information from Rwanda Revenue Authority about their tax obligations, etc

Communication is important in a business in the following ways:

1. Helps the entrepreneur to maintain a good relationship with the customers.
2. It helps to increase the sales of the business. For example, through advertising.
3. It helps an entrepreneur in building the company brand image.
4. It helps in advertising job vacancies for the business. For example, publishing job vacancies on radios, TVs, in newspapers, etc.
5. It helps to pass the relevant information to the staff of the business.
6. It links entrepreneurs and the suppliers.
7. Helps the enterprise to pass information to customers, government and the public.

8. It helps in cultivating new customers. For example, through advertising and word of mouth.
9. It helps to coordinate operations in different business departments.
10. Helps the entrepreneur in negotiating with customers so as to get the best deals.
11. It reduces the costs of production in an enterprise.
12. Helps an entrepreneur in making decisions basing on informed basis.
13. It promotes good relationship between the employees and the entrepreneur.
14. Helps the entrepreneur to implement his policies by giving instructions to employees or their supervisors.
15. Helps the general public to have knowledge about the existence of the business and its operations.
16. It helps to know when, how and where to meet customers.

7.3.7. Barriers to effective communication

A barrier is an obstacle or a hindrance. A communication barrier is any hindrance that stops the receiver from getting the message in the way and sense it was sent by the sender.

Some of the barriers to effective communication include the following:

1. **Unclear message:** For example, if the sender, sending unclear message to the receiver.
2. **Using inappropriate channel of communication:** For example, communicating through radio when you are targeting deaf people (hearing-impaired), communicating through Television when you target blind people, etc.
3. Noise in the environment.
4. Distraction in the environment.
5. Using of funny language.
6. **Message being too long:** For example, too many details may confuse the receiver.
7. **Message sent at wrong (bad) time:** For example, sending a message at night.
8. **Message being incomplete:** For example, someone writes, 'please supply as soon as possible'.
9. **Message getting lost:** For example, if the message does not reach the

receiver.

10. Language barrier: i.e if you communicate in English to people who understand French only.

11. Emotional blocks: e.g if the receiver disagrees with the sender on some sent ideas.

Application activity 7.3

- a. Discuss the role of effective communication within and outside the organization.
- b. People communicate with their friends, employers, etc on daily basis, in your views, what forms of communication do they use?
- c. Mr. Mahoro is businessman who has a shop in BUGESERA District. Sometimes he gives goods on credit to well-known and honest customers. Last Christmas, he gave goods on credit to Byiringiro who promised to payback in 5 days to come. On the promised payment day, Byiringiro did not pay as agreed and did not tell Mahoro why he did not pay. On the 6th day, Mahoro called Byiringiro using negative language and insulting words asking him to pay. The customer responded that he will pay soon in the next few days.

Questions

1. Referring to the above text, think and comment about the language used by Mahoro in communicating to the customer. If you were Mahoro, how would you have communicated to Byiringiro?
2. Explain if the language used fulfills the features/principles of effective communication.
3. Suppose you become an entrepreneur, explain briefly the features of effective communication you would use in your business.
4. Discuss the elements (factors) that constitute the process of communication.

7.4. Public relations/Customer care

Activity 7.4

Uwamahoro went to the shop to buy different items. When she entered in the shop, she asked the shop owner to give her the items she wanted to buy but the trader was busy conversing with his friends on phone. The shop owner continued to be busy until a time where Uwamahoro decided to move to the next shop to buy the items she wanted and was treated with care as compared to the first shop.

Questions

- a. Did Uwamahoro get good customer service or not? Justify your answer?
- b. Why did Uwamahoro decide to move to the other shop?
- c. What do you think the business owner would have done to offer quality service to Uwamahoro?
- d. Suppose you have a business of selling clothes at Nyabugogo near the taxi park, do you think is it important for you to provide good customer care? Give reasons to justify your answer.

7.4.1. Public relations

Public relations refer to the management function that establishes and maintains mutual relationships between an organization and the public on whom its success or failure depends. It is also the process of maintaining good relations with the public. Every day, business enterprises deal with the public. Businesses deal with customers, employees, suppliers, etc.

7.4.2. The public in business include the following:

Customers, employees, suppliers, shareholder, government, service providers, contractors, neighbors to the business, etc.

Functions of public relations

In a business organization, the public relations department performs various functions which include;

1. **Educating the public:** The public relations department educates the public about how they can improve their welfare and make income generating

activities. For example, some TVs and newspapers may educate the public about how they can create and manage small businesses to earn money.

- 2. Mitigating the negative publicity against the business:** The public relations department has the responsibility to identify any negative publicity against the business and products and make efforts to correct such negativity.
- 3. Monitoring the media:** The public relations department monitors the media for any comments that is issued about the company and its products.
- 4. It manages crisis periods:** The public relations department monitors and manages crisis periods and ensures that problems of crisis do not adversely affect the business and its products.
- 5. Provide accurate information:** The public relations department provides accurate information about the performance of the business, product failure, etc.
- 6. Enforce community relation:** Public relations department creates community relations programs to build business reputation.
- 7. Ensures that employees have a good image about the business:** the public relations department ensures also that employees have a good image about a business so as to maximize productivity and increase their job security.

Tools of public relations

In performing their duties, there are various tools which may be used by public relations practitioners.

Some of the tools of public relations include:

- 1. Brochures:** A brochure is a booklet published by an organization that contains information about the organization, its vision, mission, ethics, past and present achievements, etc. This printed paper document is largely used to inform the public about the company's products or services.
- 2. Press release:** A press release is a document produced by a business enterprise and circulated to the press. The press then uses the information to communicate through stories and articles. These documents provide a brief but thorough description or explanation of an event or situation.
- 3. Photographs:** These are used to communicate about an event or situation. Companies use a photograph of a person or a photograph of an activity that has been done by the company. For example, the photograph of a manager (possibly wearing a T-shirt) giving a cow to poor people under Girinka Munyarwanda Program may be used to create the image that the company cares for the community.

4. **Advertorial:** These are a combination of advertisements and an editorial. An advert is accompanied by some write up that explains text about a product or event. The company has control over the content and costs.
5. **Conferences:** The most common of this type are press conferences where representatives of various media houses (the press) are called upon and knowledgeable member of the organization explains the required information.
6. **Interview with journalists:** This is a meeting with journalists who ask questions and you provide the answer. Your answers may be interpreted differently by different journalists. There is a limited control over the final message when the interview tool is used.
7. **Print media:** The print media, particularly the newspapers are the most common tools of public relations. Companies can use print media because newspapers are widely circulated and readily available to a wide audience.
8. **Newsletters and publications:** These are internal publications in which information about the company, its values, achievements, profits and other information is produced. Newsletters can be used to advertise or communicate new ideas and events to the public. It is given to customers, new employees, stakeholders, journalists and members of the society through printed and digital newsletters.
9. **Letters to editors of newspapers:** These are letters written to editors of newspapers, journals and magazines often in response to a news article or other published letters and opinions. Letters are free and are not heavily edited and so there is some degree of control over what message the public gets.
10. **Internet:** The internet is a powerful tool of public relations. Notices may be placed on the company website, e-mail sent to the public and social networking websites like Facebook, WhatsApp, Instagram and Twitter are used to communicate. Blogs can also be used as a public relations tool.

Application Activity 7.4

- a. Explain briefly the functions of public relations.
- b. Discuss the tools of public relations.

7.5. Customer relations

Activity 7.5

Suppose you have a shop that is full of items like rice, cooking oil, sugar, etc in Huye town:

- a. Give an example of a poor service you can avoid in your business so that your business doesn't fall in bankruptcy.
- b. Give also an example of an exceptional service which can enable you to over compete your competitors.
- c. What do you think customers need/expect from sellers?
- d. What can you do to manage customer care with your customers?

A customer relation is the relationship between the entrepreneur and customers and how customers are treated. Without customers no business can exist. When the business has customers, it expands. Customers are like water. They flow to where it is easier. Customers go where they can get better service. **Customer service** is how we meet the needs of people who use our services.

There are three levels of customer service;

- **Poor service:** Under this type, those giving service do not seem to care; do not make efforts to please customers. For example, a server in a restaurant who does not bring the menu, does not tell you when food is not available, does not ask if you need anything.
- **Mediocre service:** Under this type, service provided is good. Those providing service care about customers but might not be able to provide customers with their needs. For example, a server in a restaurant who is polite but cannot give information about the food.
- **Exceptional service:** At this level, the quality of service is always excellent, customer always feels happy and recommends the service to other people he/she knows. For example, a server in a restaurant who shows up on the table with the menu, explains what is available, gives recommendations, explains why food is late, etc.

Note: More customers stop buying from the company due to rudeness or indifference. You strive for exceptional service.

Key areas of customer relations

a. What a customer wants from the business

Today most customers are smarter buyers. Customers also have more choices than

ever before and therefore rely on their service experience to weigh the quality of product or service the business provides.

A customer wants/needs the following from any business;

- **Quality of goods or services:** Most customers expect from the business to buy quality goods or services at reasonable price.
- **Respect:** A customer needs to be respected.
- **Customers want to feel appreciated:** This means their presence and concern need to be appreciated.
- **Customer care:** Customers are happy when they are better served and cared for. When this happens they recommend you to others and this also builds a positive image of the business.
- **Business that keeps promises:** Customers trust organizations that keep promises with them. When promises are broken, it may affect the relationship between a business and customers.
- **To feel in charge:** To feel that they are in control and not being manipulated.
- **Fairness:** Customers do not like a trader who takes advantage of them. A trader who cheats customers by using wrong weights and measures, charging high prices because for example other shops in the neighborhood are closed, etc.
- **Friendliness:** Customers need to be treated as humans.
- **Knowledge:** Customers need to be fully informed about prices, quality, etc. for example; they need to be informed about price changes in the business.
- **Customers want to be satisfied:** with your products and/or services.

b. How to manage customer care

Customer care is how the business treats its customers and meet their needs to ensure their satisfaction. Customer care management plays a crucial role for the success and survival of the business in today's competitive market.

The business can manage customer care in the following ways:

1. **Being transparent and honest:** Transparency is absolutely crucial to managing customer service expectations effectively and will affect clients' ability to trust a company. Businesses can ensure clients remain confident in their providers and have a positive experience by remaining honest in every possible situation.
2. **Openly discussing solutions:** Businesses that have highly knowledgeable

customer support teams should be well-versed in the solutions to every potential problem and be able to speak to those possibilities quickly. One important way businesses can manage customer service expectations is by openly discussing possible solutions to a problem with the client.

- 3. Providing clear timelines:** Glitches, errors, and bugs in business can be irritating and costly to customers. However, clients will become angrier if they look forward to their problem being solved in a week, and instead wait a week and a half. Businesses can manage customer service expectations by clearly stating how long any particular task will take from the moment the client gets on a call until the resolution is in progress.
- 4. Remaining optimistic, but realistic:** While optimism is an important part of a positive business experience, managers, customer care officers and other public relations officers must be realistic about solutions they give to customers. For a business enterprise, it is more important to tell the truth to the customer than set expectations that can't be met.
- 5. Following up regularly:** Finally, support teams can manage customer service expectations by following up after each stage of the resolution process.

c. Dealing with customer complaints

In business, complaints are inevitable. However, if mismanaged or ignored, complaints can become bad for business. If you don't adequately address and resolve customer's complaints, it can negatively impact customer retention, loyalty and brand awareness.

Most complaints/ conflicts can be resolved in their earliest stages. This helps the business to avoid and resolve complaints in their early stages before they interfere with the relationship between the business and customers. Below there are ways you can use to resolve customer's complaints.

The business can deal with customer complaints in the following ways:

- 1. Stay calm and listen:** Think before you talk and control yourself.
- 2. Allow customers to talk:** Allow angry customers to talk and express their feelings until they release their frustration and calm down.
- 3. Use the correct tone:** Don't smile, laugh or mock upset customers. Convey empathy with a soft tone.
- 4. Be neutral:** Do not offer your opinion, agree or disagree with customers. Offer empathetic support and work to solve their problems effectively.

5. **Don't react:** Never respond to angry comments. Allow the customer to voice their opinion and interject with helpful redirection when appropriate.
6. **Focus:** When a customer is tangential, redirects the conversation back to the important issues and focuses his/her attention on constructive solutions.
7. **Use verbal softeners:** Use words like "likely", "typically", "perhaps", "sometime", "possibly" or "occasionally" with customers who might not respond well to categorical words like "always" or "never".
8. **Make angry conversations private:** Avoid talking with angry customers within earshot of employees or other customers.
9. **Agree:** Find something to agree with the customer about. An agreement will result in collaboration and cooperation.
10. **Use silences:** When customers talk, listen and wait for a silence. When your customer has stopped talking, then summarize their main point and work together on a solution.
11. **Use timeouts:** If customers are frustrated, annoyed, or are not capable of engaging in a productive conversation, allow them the opportunity to think by themselves for short periods of time. Then, address their concerns effectively.
12. **Set limits:** When customers refuse to act constructively and alternative methods have been exhausted, set limits and end the interaction.

d. Ways to treat customers better

A customer is person who buys business products or services. A customer is also defined as a person or organization that purchases goods and services from a seller.

Customers are very important in business because without them the business cannot survive, it will collapse. For this reason, customers must be treated well and highly respected.

Some ways of treating customers well are:

1. **Providing good customer care to them:** This involves offering high quality service to the customers as a way of attracting them.
2. **Providing quality products or services:** This involves offering quality products or services to customers in order to satisfy their needs.
3. **Giving discounts to customers:** A discount refers to a reduction on the price of a commodity or service.
4. **Giving gifts to customers:** This involves giving them some gifts like sweets, T-shirts, caps, etc. This pleases customers and makes them come back.

5. **Giving them credit facilities:** Giving products on credit to customers is another way of treating them well. This helps the customers who have not enough money. When giving products on credit you have to make sure you know well the customers.
6. **Accepting returned goods in case they have defects:** Some time goods may be returned by customers due to some reasons like damaged goods, bad quality products, expired products, etc. In this case, when the customer returns goods due to those reasons you have to accept them.
7. **Deliver goods on time.**
8. **Giving them goods which are not expired.**
9. **Offer transport facilities to customers.** This is application is some exceptional cases not all the time and it is done upon agreement with customers.

Importance of treating customers well

- Helps to increase sales.
- For good reputation.
- They will be able to pay you promptly.
- It is a basis for business growth and success.
- Security of the business resources.

Application activity 7.5

Answer the following questions:

- a. It is normally said that “a customer is a king. Do you agree with this statement? Give reasons to support your response.
- b. Suppose you create a business after your studies, how can you ensure good customer relations in your business?

7.6. Supplier Relations

Activity 7.6 i



Figure 7.4: An illustration of appreciation of service delivery

Observe the picture above and answer the questions below:

1. What does the above figure mean to you?
2. Explain the strategies that you will use to become a successful salesperson

7.6.1. Who is a successful sales person?

A salesperson is an individual who sells goods and services to customers on behalf of company. Salesperson can be a company owner or an employer. The successfulness of salespersons is usually measured by the amount of sales he or she is able to make during a given period and how good that person is in persuading individuals to make a purchase. If a salesperson is employed by a company, in some cases compensation can be decreased or increased based on the amount of goods or services sold.

7.6.2. Ways of becoming an effective salesperson

1. **Being a Critical Thinker:** The best salespeople don't simply rely on a script that dictates every step of how they should sell a product or service, but rather they adapt or alter their sales pitches in accordance with the prospective customer, time and place. This also means having the ability

to think outside the box in challenging their existing sales pitches and processes to reach higher levels.

2. **Being Resourceful:** A successful sales representative needs to be resourceful, which is especially important for reaching out and targeting potential customers. This means going above and beyond and using every resource or asset at his or her fingertips to close the deal. Sometimes, figuring out how to be a better salesman requires thinking outside the box of traditional sales methods and processes.
3. **Being Honest:** Sales representatives have to be honest about the product or service they're trying to sell. Feeding potential customers lies or undeliverable promises is not the pathway to success - disingenuous sales reps are what give the profession a bad name in the first place.
4. **Being Competitive:** The most successful sales representatives are extremely competitive by nature and are constantly striving to be the top salespeople within their company and the industry. They set the bar as high as possible, giving themselves lofty targets to shoot for - even if they miss their ambitious targets, they will still be well-positioned to achieve great things.
5. **Being Communicative:** Naturally, one of the most important attributes for any top salesperson is to be an effective communicator. If you aren't capable of articulating your thoughts in an easily comprehensible manner, even your best sales pitches will ultimately fall on deaf ears. Be clear and concise in what you are communicating.
6. **Being Confident:** Confidence is a subset of charisma. The best and most charismatic salespeople believe fervently in themselves, their company and their product or service. Confident salespeople act fearlessly and are willing to take risks without worrying about hearing a "no" from a customer or losing out on a potential opportunity.
7. **Being Knowledgeable:** The best sales representatives are well-informed, not only about their own company and product but also about the prospective customer's company and specific pain points. Conducting extensive research into a prospective customer to find triggers before you make your pitch can be the difference between tremendous success and sure-fire failure.
8. **Being strongly motivated:** Any sales person to become successful, has to be highly motivated to his work as well to his prospectus customers.
9. **Preparing ahead of time:** An effective salesperson prepares a head of time. This means they do research on their customer and gather all the information before a big customer meeting. This way, they anticipate challenges or questions and prepare an effective response to avoid losing

the sale.

- 10. They don't think in terms of sales but rather in terms of building a business:** Great sales people are building a business, not just trying to make a sale. When you think beyond a sale, you're going to get other people's attention much more easily. They're going to be more interested in what you have to say. You want something that's going to survive beyond one sale.
- 11. They listen more than they speak, getting an understanding of the customer's needs and then finding a solution:** Great sales people always ask their clients why they want something done. In listening more than talking, you can better accommodate what they are looking for.
- 12. They are always seeking new, better and faster ways to increase their sales efforts:** Be really concerned about time. Great sales people consistently work on improving themselves and look for faster ways to close transactions.
- 13. They see problems as opportunities:** When a problem comes along, a successful salesperson should see it as an opportunity.

Application Activity 7.6

Read the following case study

Muhire is salesperson in a life insurance Company, a relationship builder. He connects with people everywhere he goes not only in the working environment but also in other places using different ways such as exchanging of business cards" but in a genuine and human way that makes people want to talk to him again. He always looks for potential customers in different ceremonies, parties, different working places where he connects to many people and discuss with them business related issues.

After reading the following passage, answer the following question:

- a. What characterizes Muhire as a successful salesperson in his company.
- b. Assume you are a salesperson in business organization, explain strategies you will use for making good relationship with your customers.

7.7. Writing skills

Activity 7.7



Figure 7.5: Office with different documents

After observing the above illustration, answer the following questions:

- What are the different business documents found in the illustrations?
- Mention the different business communication documents that are found in offices.
- Explain how the documents identified above facilitate business communication.

7.7.1 Business documents

a. Standard letters

A letter is a written message from one person to another, or from one organization to another. Letters are the most important means of written communication, the most numerous and the most personal. Letters are widely used for external communication. In certain situations, a direct letter may be used internally like for confirming an oral briefing, to remind employees about the previous arrangement, etc. They are also very important for any organization or individual for the purpose of giving or seeking information.

However, letters must be kept brief, clear and should have all the necessary details.

Features of an effective letter

- Simplicity:** This means that a business letter should be simple to read and understand the information therein
- Clarity of Goal:** Both in thought and expression we have to be clear in

our correspondence. Every letter is a reflection of the writer's mind. He/she should be therefore clear about what information he/she is seeking or wishing to give. All facts and figures must be stated in the simplest possible language.

3. **Public Relation Aspect:** Besides aiming at the immediate goal, business correspondence is also deeply concerned with the image of the company in the eyes of the public. People form images about companies from many sources, and correspondence is a major factor among them. All effective correspondence has the broad objective of enhancing the company's public relations.
4. **Attitude:** The most effective business letters are those that show the writer's interest in the receiver. It means that the writer has to view things from the reader's point of view so as to get a favorable response from him or her.
5. **Persuasion:** Persuasion is the main function of business communication. It is most evident in effective business letters. The basic purpose of an effective letter is to influence, or to sell an idea to the reader(s).
6. **Sincerity:** Sincerity means that our readers must believe what we say. They must be convinced that we are genuinely in mutual profit sharing and well-being. Words of exaggeration like 'extraordinary', 'sensational', and 'revolutionary', 'greatest', 'amazing' etc. must be avoided in letters.
7. **Positive Language:** A wise communicator tries, as far as possible, to use positive language. Use of positive language becomes all the more important in a business letter, the primary aim of which is to build up the best of human relations and to earn business. Positive words stir up positive feelings. That is why it is advisable to avoid using negative words.
8. **Coherence:** Effective letters present information in logical order by careful use of linking devices, use of pronouns that are reference words, and repetition of key words. Linking devices like 'besides', 'therefore', give a logical progression to the thought content of the writer. Repetition of key words gives the content of the letter a forceful thrust. A skillful writer knows which words to repeat.
9. **Care for Culture:** In international correspondence we have to be especially careful in the choice of words so as not to offend the receiver who may be having a very different cultural background. We should avoid use of culturally derived words, slang, colloquialisms and as far as possible, even idioms and phrases. Therefore, it better to a letter in a simple, and in general service list words that are universally understood and acceptable.

An example of a Lay-Out of a Business Letter

Name of Sender

Title/Department

Company

Street Address

City, State, and P.o.Box

Date:

To: Name of Recipient

Title/Department

Company

Street Address

City, Country/State, and P.o.Box

Dear Name/Sir//Madam:

RE: _____

Introduction, Body, and conclusion

Sincerely,

(Handwritten Signature)

Writer's Name

Enclosure

CC: Dr. Kamali John

- 1. Heading:** The heading, also called "letterhead", contains the name of the firm/company and its address. It is usually given at the top center or the top right side of the paper. It is also usual to give the telephone, fax and email address of the writer.
- 2. Date:** Place the date at least two spaces below the letterhead. The line may be flush left or right, or centered below the letterhead.
- 3. Inside Address:** It contains the name and address of the organization or the individual to whom the organization is being sent. It should be complete. This is always on the left margin.
- 4. Reference:** "Reference lines" assist with filing or routing correspondence. A reference line can refer to your files and/or your reader's files. Place your reference line first. Our reference: Project #234. Your reference: Invoice

#3444 RE Order #4558

- 5. Attention line:** Use an “attention line” whenever you want to direct your letter to a specific person or department within a company. Place the attention line two lines below the inside address. Use a colon after Attention
- 6. Salutation:** Always try to greet your reader by name rather than by title. If you don’t have a name, you may use one of the following:

Dear committee members, Dear colleagues, To whom it may concern, Dear Madam or Sir, Dear Kim Krause (if you know the name) etc.

- 7. Subject:** In internal communications, subject line informs the reader as to the content or subject of the letter. The more information you give in the “subject line”, the better. For example;

RE: Management Development,

RE: Request for Approval on the August 10th Management Development Seminar.

Place a subject line two lines below the salutation because it is part of the body of the letter. Either use all capitals or underline the complete subject line.

- 8. Body:** the body of the letter carries its message or content. It is generally divided into three or four paragraphs, each having its own function. The first or opening paragraph links up the correspondence and establishes rapport with the reader. The second paragraph may be called the main paragraph that contains the subject proper. If need be, the point made in the second or main paragraph is elaborated or further developed upon in the third paragraph. The fourth or final paragraph brings the letter to a goodwill ending, leaving the door open for further business.

Formal Close: The closing should match the tone of the letter. Listed below are closings that range from the very formal to the informal. Very formal like; Yours respectfully, Yours truly, Less formal like Sincerely yours, Cordially yours, and Informal like; Regards, Thanks etc. Any of these can be used depending on who the letter is addressed to.

- 9. Signature:** Always sign your letters in ink and by hand.

Enclosure: The “enclosure notation” goes flush left two lines below the signature block or the typist’s initials, if they’re included. Identify each and every enclosure that is being sent so that the reader will know if something

is missing from the packet. As an option, you may list the name of each document you are including in the envelope. For instance, if you have included many documents and need to ensure that the recipient is aware of each document, it may be a good idea to list the names.

Some examples of opening and closing sentences

Opening Sentences: e.g. Please let us know your lowest rate as early as possible for the supply of nation or product name

Closing Sentences: We look forward to hearing from you soon. If your quotation is suitable, we shall be happy to buy our requirements this season from you.

Example of a business letter

Closing Sentences: We look forward to hearing from you soon. If your quotation is suitable, we shall be happy to buy our requirements this season from you.

Example of a business letter

Self-Reliance Trading Company Ltd (SERETRACO Ltd)

Gasabo District

P.o Box.....

Kigali City

Tel:1234567890Email:

Date 19/03/2018

ABC Ltd

Gasabo

Kigali City

P.o.Box...

Dear Sir,

RE: Request for Office Equipment

Since we are in the process of setting up a new office in Muhanga district, we will need 12 desks and 24 chairs and a high quality wood conference table that seats eight. We would need the furniture delivered by the 10/04/2018. We are looking to spend no more than 1,500,000frw. For more details, please call us.

We hope to have all our quotes by next Friday.

Sincerely,

Kamali John

Managing Director

b. Simple reports

Business report is an impartial, objective, planned presentation of facts to one or more persons for a specific, significant business purpose. Reports travel upwards to supervisors and management/policy-makers, downward and horizontally to those who carry out the work and policies, and outward (outside the firm) to stockholders, customers, the general public and government officials.

The report facts may be pertained to events, conditions, qualities, progress, results, investigations, or interpretations. They may help the receiver(s) understand a significant business situation, carry out operational or technical assignments, and / or plan procedures, solve problems and make executive decisions

Functions of Business Report: A business report is very much useful for the management and also for the others. . A business report performs the following roles:

- **Provides Facts** pertaining to events, conditions, qualities, progress, results investigations or interpretations.
- **Measures Progress** of employees, departments, and companies.
- **Points Causes** of problems e.g., low margins, high rate of staff turnover, accidents in factory etc.
- **Suggests measures** to overcome the business problems.
- **Assists Managers** in carrying out operational or technical assignments, planning procedures, solving problems and making decisions.
- Provide recommendations for future action.
- Helps in applying business and management theory to a practical situation.

Parts of formal report:

Parts of a formal report may be grouped into prefatory parts, body parts, and supplemental parts

- **Prefatory parts:** Cover; title fly; title page; letter of authorization; letter of acceptance; letter of approval; letter of transmittal, acknowledgements; table of contents; table of tables; synopsis; abstract or summary.
- **Body Parts:** Introduction; text; terminal section conclusion and recommendations.
- **Supplemental parts:** Appendix, bibliography, index.

Example of a business report

Self-Reliance Trading Company Ltd (SERETRACO Ltd)

Gasabo District

P.o.Box.....

Kigali City

Tel:0787654321

To: Marketing Manager

From: Marketing Officer

Ref: 33/02/018

Date 29/03/2018

RE: FIELD BUSINESS TRIP TO MUHANGA DISTRICT

As you may recall, on 15/01/2018 you assigned me to go to Muhanga town to assess the business situation and explore opportunities if any. I would like to report to you the following findings:

There are so many upcoming buildings which can make use of our steel products

The hardware dealers mainly get their materials from our competitors in Kigali

Our steel prices are higher than those of competitors

Our products exhibit the best quality in the market

In view of the above, I would suggest the following recommendations:

There is urgent need to recruit agents/ dealers in the area.

There is need to reduce our prices to match the current market situation.

There is need to launch a product awareness campaign to educate the existing and potential customers about the performance and quality of our products.

Your urgent attention to the issues raised above is of paramount importance.

Signature

.....

Moses Kayihura

b. Advertisement

Advertisement is a mass communicating of information intended to persuade buyers to buy products with a view of maximizing a company's profits. The elements of advertising are:

- It is a mass communication reaching a large group of consumers.
- It makes mass production possible.
- It is non-personal communication, for it is not delivered by an actual person, nor is it addressed to a specific person.
- It is a commercial communication because it is used to help assure the advertiser of a long business life with profitable sales.
- Advertising can be economical, for it reaches large groups of people. This keeps the cost per message low.
- The communication is speedy, permitting an advertiser to speak to millions of buyers in a matter of a few hours.
- Advertising is identified communication. The advertiser signs his/her name to his/her advertisement for the purpose of publicizing his /her identity.

Advertising messages come through the following forms;

- Newspapers and magazines;
- On radio and television broadcasts;
- Circular of all kinds, (whether distributed by mail, by person, thorough tradesmen, or by inserts in packages);
- Dealer help materials,
- Window display and counter-display materials and efforts;
- Store signs, motion pictures used for advertising;
- Novelties bearing advertising messages and Signature of the advertiser,
- Label stags and other literature accompanying the merchandise.

c. Notices

Notices are intra or inter-departmental written communication. The various components of notice are: Date, time, and place of meeting, purpose/subject matter of the business to the transacted. The tone of notice is always in the form of a request instead of command.

Example of a Notice

Self-Reliance Trading Company Ltd (SERETRACO Ltd)

Gasabo District

P.o.Box.....Kigali City

Tel: 0728456780

Date

NOTICE

Members of the production department are requested to gather on Friday, 23rd March 2018 at 9:00 am to discuss the latest production technology recently acquired. Please keep time.

(Signature & Stamp)

Kamana John

Head of Production Department

d. Instructions

Instructions are different points given as conditions or rules and regulations for performing a task. Business instructions can be those conditions given by the business organizations for performing a business. Instructions can also be those related to products and services whereby the business organizations or manufacturing industries can put in place instructions for using certain conditions for using a product. For example, on Juice bottle it is written on, 'to shake it before use'. Another example is when hiring office, there are some conditions set by the landlord to follow when using the hired office.

e. Memos,

A memorandum (known as 'memo' in short form) is by definition, "a written statement that you prepare specially for a person or committee in order to give them information about a particular matter". In an organization it takes the form of "a short official note that you write to a person or to several people, especially people who you work with."

It has been derived from the Latin word 'memorare' changed to 'memorandus' (notable), and means literally 'to mention' or 'tell'. To achieve its purpose a memo

is written in easy-to-understand language. Its style is like that of reports: objective, matter-of-fact, and coherent. No attempt is made to make an emotional appeal to the reader or to create a psychological impact on him/her. Plain and direct statements of facts are all that is required. A memo plays a very useful role in an organization as follows;

- It ensures quick and smooth flow of information in all directions.
- It also enables officers to maintain good business relationships.
- A memo will come to your aid when you wish to avoid coming into personal contact with certain colleague.
- Another useful function of a memo is to establish accountability.
- Since it is a record of facts and decisions, you can return to it in future if there is a need to find out who went wrong and at what stage.

The following essential items of information must be given in a memo:

- The title of the receiver,
- The title of the sender,
- Date,
- Subject.

Example of memo

Self-Reliance Trading Company Ltd (SERETRACO Ltd)

Gasabo District

P.o Box.....

Kigali City

Tel: 0728456780

To: All Heads of Department

From: Managing Director

Date: 20/03/2018

RE: Urgent meeting

All Heads of Department are requested to attend an urgent meeting that take place in the Boardroom today on 20th March 2018 without fail. The issues to be discussed play a big role in improving the performance of our company.

(Signature)

Kamali John

Managing Director

Messages, (using appropriate format, style and tone)

The idea in the mind of a sender is transformed into words that is called a message. The sender decides on the length, style, organization and tone of the message. The message may be presented in many ways, depending on the subject, purpose, audience, personal style, mood and cultural background.

A message should be drafted on paper. A routine short communication may be written easily with little or no revising. But complex and longer letters and reports should be revised and edited properly before they are sent out.

Appropriate message format

A message is any textual information presented to the user. A message could be an error message, or the instructions in an alert box, or the label on a button or other item. A lot of messages are straightforward text which can simply be stored

in a resource bundle and used as is by the program. These messages are simple text messages used directly from a resource. The message format is different according to the purpose of the message.

The following guidelines should be kept in mind while writing a message

- Be courteous and sincere.
- Use appropriate emphasis.
- Avoid discrimination.
- Consider the reader’s perspective.
- Write appropriately for your audience.

7.7.2. Proof reading

a. Identifying errors (spelling, punctuation, figures, presentation and layout)

Proofreading means examining your text carefully to find and correct typographical errors and mistakes in grammar, style, and spelling. When proofreading there are some different elements and errors that are considered such as spelling, punctuation, figures, presentation and general layout of type of the text message

Steps used in proofreading

- Be sure you’ve revised the larger aspects of your text. Don’t make corrections at the sentence and word level if you still need to work on the focus, organization, and development of the whole paper, of sections, or of paragraphs.
- Set your text aside for a while (15 minutes, a day, a week) between writing and proofing. Some distance from the text will help you see mistakes more easily.
- Eliminate unnecessary words before looking for mistakes. See the writing center handout how to write clear, concise, direct sentences.
- Know what to look for. From the comments of your teachers or a writing center instructor on past papers, make a list of mistakes you need to watch for.

Points to consider when proofreading

- **Work from a printout**, not the computer screen. (But see below for computer functions that can help you find some kinds of mistakes.)
- **Use a blank sheet of paper to cover up the lines below the one you’re reading.** This technique keeps you from skipping ahead of possible mistakes.

- **Proof reading for everything at once is hard to do.** A better practice is to proof read separately for :

Context: Does the statement mean what the writer meant to say? Does the message possess all the qualities of effective communication?

Accuracy: Is the language free from errors of spelling, punctuation, grammar, capitalization? Are figures, diagrams and other marks accurate?

Form and Appearance: Is the layout correct? Does it look good? All these have to be put into consideration while proofreading.

Application Activity 7.7

Proof read and correct errors about the business document below and answer the questions that follows.

XWZ Ltd

Huye District

P.o.Box.....

Huye

Tel:1278936045

Date 19/03/2018

ABC Ltd

Gasabo

Kigali City

P.o.Box:.....

Yours Sincerely,

To day, unfortunately, on opening the carton we found three sets of "Entrepreneurship", part I, II and III incomplet? The last chapter of each of these books is missing. We are convinced it is not your fault. May be at some stage the books were not properly chked.Anyway, we request you to kindly replace them immediately so that we culd send them to the text-book where they yare urgently needed.

We must first of all thank you for your prompt delivery of the books we had ordered only last week on tele4ne. For the last so many years of our contact we have ben highly satisfied with your prompt and courteous service.

RE: Incomplete parts of Entrepreneurship Books

Dear Sir,

Director Managing

Muhire Anthony

Answer the following questions:

What type of business document is indicated above?

Proof read again the above business document and identify errors of

Answer the following questions:

1. What type of business document is indicated above?
2. Proof read again the above business document and identify errors of
 - i. Spelling
 - ii. Punctuation
 - iii. Presentation and layout
 - iv. Re-write the business document correctly.
3. After proofreading the above document, write a letter that can be the response of the above document

Skills Lab Activity 7.8.

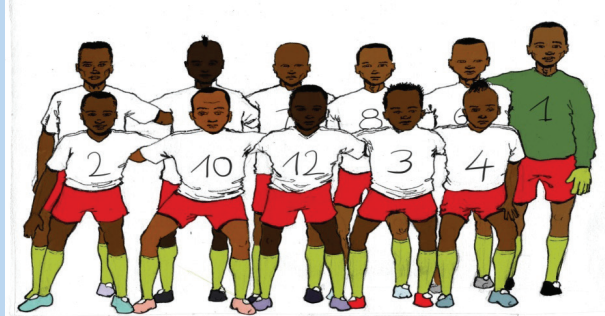
You are planning to start a business in your sector and one of the requirements is to write a business letter seeking permission to operate in the area.

Required;

Write a letter to the Executive Sectary of the sector seeking for permission of a business you intend to start in your community.

End of Unit 7 assessment

1. Analyze the photo below and answer questions that follows:



Questions

- a. What does the photo above show? Is it possible for only one person to make a football team and mark goals with other teams?
 - b. Suppose employees of company B are not operating as a team where some workers fight against themselves in their offices. What do you think will happen to this company?
2. Kamaliza is busy charting on WhatsApp when two customers enter in her alimentation. She sees the customers but continues charting. The customers make eye contact and ask if there is fresh milk and cake. Kamaliza acts as if she has not seen them. Missing someone to serve them, customers go somewhere else in the other alimentation to buy what they need.
 - i. Comment on the behavior of Kamaliza. How would have Kamaliza conducted herself towards the customer? If you were Kamaliza would you have done this?
 - ii. In your own understating, what can be the negative effects of giving bad customer service in business?
 - iii. In a group of four, use a role play and present the above scenario in classroom.
 3. According to you, how can you treat your customers well if you have a business?
 4. It is said that "Customers are lifeblood and backbone of a business". Do you agree with this statement? Justify your answer.

1. Case Study: AMAHORO Hotel

Kampire is a manager of AMAHORO Hotel. In previous two years, the hotel had a big number of customers because of the employees who worked with courage because of being motivated through paying them the extra time money, bonus, etc. Nowadays, the net income of the hotel is promptly decreasing because the employees are not motivated. The motivating acts were cut by the manager, and the customers go to the neighboring hotel for the good service found there. Kanyange who is the chairperson of the Board of that hotel, does not know the cause of that income decrease and she decided to hire external market research officer to find the reasons for income decreasing and to suggest the way forward.

After reading the above case study of AMAHORO Hotel and based on the knowledge of interpersonal communication, answer the following questions:

1. Explain the mistakes done by the manager of that hotel.
2. Why did the clients of Amahoro Hotel decide to change to another Hotel?
3. Explain the strategies of effective communication that the waitresses of the Hotel should use in order to keep the clients.
4. Explain the ways of treating customers better and developing customer loyalty in AMAHORO Hotel.
5. As the market research officer hired by the owner of the hotel, write a comprehensive report about the research done for identifying reasons for decreased income in the Hotel and suggest the ways forward.
6. Compose a letter of termination of the job offer/appointment addressed to the Manager Ms. Kampire.





UNIT 8

OFFICE PROCEDURES

UNIT 8: OFFICE PROCEDURES



Key Unit Competency: To be able to demonstrate ability and knowledge of carrying out general office operations.

Introduction

An 'organization' is a group of individuals working together to achieve one or more objectives. Different organizations have different structures that show different levels of managers to staff personnel. Each staff has his/her duties and responsibilities. The house, rooms, set of rooms, or building used as a place of working activities or business is called office. In offices there are different activities done by different staff. There are so many questions that one can ask him/herself about any Business Organization having personnel and offices which include.

1. How do different people work together to achieve an organizations' goals?
2. How do you find the right personnel to perform different jobs?
3. Which equipment's should a good office have?
4. Which documents are used in buying and selling of goods?

This unit is therefore, designed to guide you answer the above questions and many others related to office procedures and find appropriate office procedures. Managing a successful business requires one to effectively and efficiently perform business management functions as well as tasks. Studying this unit will equip you with the requisite knowledge, skills and attitudes that you require in order to successfully organize and manage your business and office operations.

Introductory activity

Analyse the following case study;

Mr. Dusa's factory is among the oldest brick making factories that have been operating in their area. It started operating in the first half of the 20th Century. It employs over 200 employees and owns production machines. Last year, the external auditor of the factory found out that the business was about to collapse. When the manager read the report, he was shocked about the eminent collapse of the business and could not figure out what to do to prevent the business collapse. He consulted many people for help, but he wasn't able to get a clear solution.

1. As an entrepreneurship student, what do you think could be the main cause of poor performance of that oldest brick making factory?
2. Suppose you are appointed as the manager of this factory, what can you do so that this business does not collapse?
3. Observe carefully, the illustration below and answer the questions that follow:



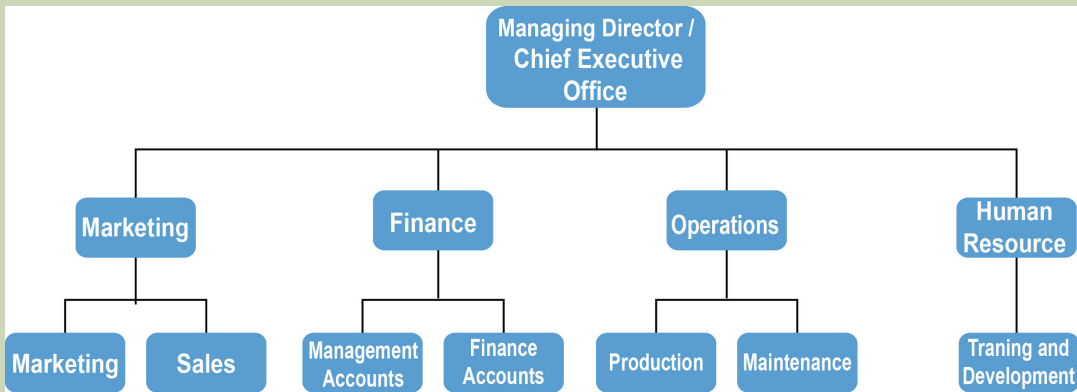
How do we call the room where they are working from?

How do you think their manager recruited them to work in this organization?

What are the different documents you think are found at that place and why?

8.1. Personnel

Activity 8.1



After analyzing the organization structure, answer the following questions below;

1. From your community, identify some business organizations that operate from there, explain how they are organized and the way they operate.
2. Choose one answer and explain why: The above structure is
 - a. The district organization structure
 - b. The Sector organization structure
 - c. The Ministry of Education organization structure
 - d. Financial institution organization structure
3. Explain how to find the staff/ personnel to perform the above positions in the structure?
4. Give two main duties and responsibilities that you think should be applied to the above-mentioned positions and give reasons?
5. what is an organisation chart from your point of view?

8.1.1. Principal departments of an organization (staff, duties and responsibilities)

The term organizational structure refers to the relationships between the various functions and positions in an organisation. Structure determines authority and responsibility for tasks/activities. It also specifies the routes of communication between different parts of the organization. A typical business organization may consist of the following main departments or functions:

- Production.
- Research and Development (often abbreviated to R&D)
- Purchasing.
- Marketing (including the selling function)
- Human Resource Management.
- Accounting and Finance.

a. The Production function

The production function undertakes the activities necessary to provide the organization's products or services. Its main responsibilities are:

- Production planning and scheduling.
- Control and supervision of the production workforce.
- Managing product quality (including process control and monitoring).
- Maintenance of plant and equipment.
- Control of inventory.
- Deciding the best production methods and factory layout.

Close collaboration will usually be necessary between production and various departments within the organization, for example: research and development, concerning the implications of product design for production methods and cost; marketing, concerning desired product functionality, appearance, quality, durability and so on. Finance, concerning the availability of funds for purchase of new equipment's and the acceptability of inventory levels. Human resource management, concerning staff motivation implications of job design and production methods.

b. Research and Development

The Research and Development (R&D) function is concerned with developing new products or processes and improving existing products/processes. R&D activities must be closely coordinated with the organization's marketing activities to ensure that the organisation is providing exactly what its customers want in the most efficient, effective and economical way.

c. The Purchasing function

The Purchasing function is concerned with acquiring goods and services for use by the organization. These will include, for example, raw materials and components for manufacturing and production equipment. The responsibilities of this function

usually extend to buying goods and services for the entire organization (not just the production function) for instance, office equipment's, furniture, computers and stationery. In buying goods and services, purchasing managers must consider a number of factors collectively referred to as 'the Purchasing Mix' namely, *Quantity, Quality, Price and Delivery*.

- **Quantity:** Buying in large quantities can attract price discounts and prevent inventory running out. On the other hand, there are substantial costs involved in carrying a high level of inventory.
- **Quality:** There will usually be a trade-off between price and quality in acquiring goods and services. Consequently, production and marketing functions will need to be consulted to determine an acceptable level of quality which will depend on how important quality is as an attribute of the final product or service of the organization.
- **Price:** Other things being equal, the purchasing manager will look for the best price deal when procuring goods and services, although price must be considered in conjunction with quality and supplier reliability, in order to achieve best value, rather than lowest price only.
- **Delivery:** The time between placing an order and receiving the goods or services, the lead time, can be critical for production planning, scheduling and has implications for inventory control. Suppliers must therefore be evaluated in terms of their reliability and capability for on time delivery.

In short, the 'purchasing mix' can be considered as making sure that the organization has the right amount, right quality, right price, in the right place and at the right time.

d. Marketing function

Marketing is concerned with identifying and satisfying customers' needs at the right price. Marketing involves researching what customers want and analyzing how the organization can satisfy these wants.

Marketing activities range from the '*strategic*', concerned with the choice of product markets (and how to compete with them for example, on price or product differentiation) to the *operational*, arranging sales promotions (e.g. offering a 25 per cent discount), producing literature such as product catalogues and brochures, placing advertisements in the appropriate media and so on. A fundamental activity in marketing is managing the Marketing Mix consisting of the '4Ps': *Product, Price, Promotion and Place*.

e. Human Resources function

The Human Resources function is concerned with the following:

- **Recruitment and selection:** Ensuring that the right people are recruited to the right jobs.
- **Training and development:** Enabling employees to carry out their responsibilities effectively and make use of their potential.
- **Employee relations:** Including negotiations over pay and conditions.
- **Grievance procedures and disciplinary matters:** Dealing with complaints from employees or from the employer.
- **Health and Safety Matters:** Making sure employees work in a healthy and safe environment.
- **Redundancy procedures:** Administering a proper system that is seen to be fair to all concerned when deciding on redundancies and agreeing redundancy payments.
- **Performance appraisal:** Is evaluating the performance of employees and to identify their abilities of a person for further growth and development.
- **Induction:** Is the process where new employees are welcomed in the business company and are prepared for their new duties.

f. Accounting and finance function

The Accounting and Finance function is concerned with the following:

- Financial record keeping of transactions involving monetary inflows or outflows.
- Preparing financial statements (the income statement, balance sheet and cash flow statement) for reporting to external parties such as shareholders. The financial statements are also the starting point for calculating any tax due on business profits.
- Payroll administration paying wages and salaries and maintaining appropriate income tax and national insurance records.
- Preparing management accounting information and analysis to help managers to plan, control and make decisions.

8.1.2. Recruitment

Activity 8.1.2

Case study:

Umutoni, Human Resource Manager of Sweet bread bakery was having challenges getting the suitable finance manager for the company. She was advised to prepare a job analysis, which shows the responsibilities and tasks relating to the job. Furthermore, she was advised to prepare a job description which outlines the responsibilities and duties to be carried out by the financial manager. Umutoni was also advised to prepare a job which outlines the requirements, qualifications, expertise, physical characteristics, for the financial manager. All these were to appear on the job advert. The task was so challenging, but she managed to come up with the documents, and a suitable financial manager was got after the selection and interviews.

- a. What do you understand by the term 'Recruitment'?
- b. What is meant by the following terms; -
 - i. Job analysis
 - ii. Job description
 - iii. Job specification
 - iv. Job advert.
- c. Why do you think it is important to prepare the above documents?

8.1.3. Recruitment process

Recruitment involves attracting the right standard of applicants to apply for vacancies. This is one of the major tasks of the human resource managers in an organization. Recruitment can either be internal i.e. hiring workers from within the organization, or external, i.e. hiring workers from outside the organization.

When a new business is starting up or when a business is successful and wants to expand and when one leaves the job, the process of recruitment and selection starts. The business will first of all have to decide if they need employees or to replace some workers. The recruitment process also gives the business an opportunity to re-assess the nature of people's jobs and consider further requirements.

Hiring the Right Employees

If you need to hire right employees, this should be put into consideration;

- Conduct a job analysis
- Create a job description
- Create a job specification
- Job grading
- Job advertisement
- Application and selection of candidates
- Recruitment test

a. Job analysis

Job analysis is establishing the nature of the job (tasks, activities, responsibilities, and accountabilities) which will also determine associated required talents and competencies defining behavioral attributes for best performance. A personnel manager has to undertake job analysis to recruit the right person on the job.

Before you employ people, you need to think about what type of role you're trying to fill. Job analysis is the process of getting detailed information about particular jobs. A job analysis will identify:

- The skills, knowledge and attributes an employee must have to do the job
- New tasks or responsibilities, given changed circumstances in the business.

b. Job description

The output of job analysis is the job description and specification. Job description is a process of describing the job to be performed. Or is a written statement which outlines the duties and responsibilities involved in performing a job such as who does what, when, where and why. The main contents are the job purpose and the job tasks and responsibilities.

It informs employees exactly what is expected of them and provides a useful document to refer to when you are evaluating an employee's performance. You can also use it to develop selection criteria, identify training needs, and manage performance.

Purpose of Job Description

- a. The main purpose of job description is to collect job-related data to advertise for a job. It helps in attracting, targeting, recruiting and selecting the right candidate for the right job.
- b. It is done to determine what needs to be delivered in a particular job. It clarifies what employees are supposed to do if selected for that particular job opening.
- c. It gives recruiting staff a clear view what kind of candidate is required by a particular department or division to perform a specific task or job.
- d. It also clarifies who will report to whom.
- e. Once someone has been employed, it will show whether they are carrying out the job effectively.

Here is a job description for a financial manager

Job title	Financial manager
Department	Finance Department
Responsible to	Managing Director
Responsible for	Accountants, cashiers

Main purpose of the job:

- Responsible for book keeping, auditing and making financial reports for the business.
- Responsible for accountants, cashiers and workers in the finance department. To take a supervisory role.

Main duties

- Preparing pay rolls
- Making financial reports for external auditors and other stake holders
- Advise the general manager and the managing directors on financial issues.
- Supervise the subordinate staff
- Advising staff when queries arise

Occasional duties

- Appointment of new staff
- Training new staff in their duties

- Training new staff to use the equipment
- Disciplining staff as and when required
- Dismissing staff if necessary.

c. Job specification

Job specification involves a definition of qualifications, experiences and competencies required by the jobholder and any other necessary information on the special demands made by the job such as physical conditions, unusual hours or travel away from home. Job specification sets out terms and conditions of employment such as pay, employee benefits, general health, mental health, intelligence, aptitude, memory, judgment, leadership skills, emotional ability, adaptability, flexibility, values and ethics, manners and creativity, etc.

Purpose of Job Specification

- It helps candidates analyze whether they are eligible to apply for a particular job vacancy or not. It is based on job description and job specification
- It helps the recruiting team to understand what level of qualifications, qualities and set of characteristics should be present in a candidate to make him or her eligible for the job opening.
- Job Specification gives detailed information about any job including job responsibilities, desired technical and physical skills, conversational ability and much more.
- It helps in selecting the most appropriate candidate for a particular job.

Here is a job specification for a financial manager.

Job title		Financial manager
Department	Finance	

Details of job:

- Responsible for book keeping, auditing and making financial reports for the business
- Responsible for Accountants, cashiers and workers in the finance department. To take a supervisory role.

Qualifications

Essential: Bachelor's degree in finance and accounting. Master's degree in the related field will be an added advantage.

Experience:

Desirable minimum 5years' experience of working in the finance department.

Skills:

- Communication effectively with people.
- Ability to manage people
- Computer literate with computerized accounting software packages e.g. Sage or Quick books

Physicalfitness:

- Fit, needs to be fit all day

Personalcharacteristics:

- Honest and responsible.
- Friendly, helpful, organized
- High integrity

d . Job grading

Job grading/classification is done when jobs are assigned grades e.g. A, B, C etc. by taking into account key skills, competencies and responsibilities required by the job to be done effectively. A job may be the one with just simple tasks which do not require higher education or experience.

Following is a brief description of such a classification in an office;

Grade I: Executives: Further classification under this category may be Chief Executive officer, (C.E.O) Office Manager, Deputy Office Manager, Office Superintendent, Departmental Supervisor, etc.

Grade II: Skilled workers: Under this category may come the professionals like Purchasing assistant, Cashier, Receipts clerk, etc.

Grade III: Semi-skilled workers: Under this category examples are drivers, Machine-

operators, Switchboard operator etc.

Grade IV: Unskilled workers: This category may comprise of persons like, messengers, housekeeping staff, File clerks, Office boys, accounts clerk, tea boys/ girls etc.

e. Job Advertisements

Job advertising

Is a way organizations communicate to attract new employees to work with them. Recruitment advertisements typically have a uniform layout and contain the following elements;

- i. Brief description of the organization
- ii. The title of the job advertised, the grade and the manager to whom the job holder will report
- iii. Duties and responsibilities of the job holder
- iv. Skills and Competences of the job holder
- v. Conditions of educational qualification and experience of that job position holder
- vi. The channel of communication used for submitting the application
- vii. The timeline during which applications will be submitted
- viii. The channel of communication for feedback
- ix. Signature and the stamp of the organization manager who wants to post the advertisement.

Some business organizations use recruitment advertising agencies to receive professional advice and also help them to recruit new workers. They offer a service which they are paid for in return. Examples of recruitment agencies in Rwanda include; -

- i. Tohoza.com
- ii. Umurimo.com
- iii. Jobs in Rwanda
- iv. NFT consult
- v. Ndangira.net

Activity 8.1.3

Assume you want to apply for a post in any business company.

- i. Prepare an application letter
- ii. Prepare your curriculum vitae.

Application form is a form made to be completed by the person who wants to apply for the job. Application forms are different according to organizations, there are also some organizations that do not have their specific application forms.

CV stands for Curriculum Vitae. This is a document that contains all details of the applicant. In recruitment, CVs are very relevant because they are used to track all the information needed to the job applicant. It should be well laid and clear with the following main components:

- Name of the applicant
- Address of the applicant
- Telephone number
- Date of birth
- Marital status
- Nationality
- Sex
- Education and qualifications
- Work experience
- Positions of responsibility
- Interests/hobbies
- Languages
- Names and addresses of referees (for references)

c. **Application forms and CVs in the recruitment and selection process.**

Below is a sample of curriculum vitae (CV) /Resume for Janet.

Curriculum vitae				
1. PERSONAL IDENTIFICATION				
<ul style="list-style-type: none"> ▪ Names: BUTERA Janet ▪ Date of Birth: 8/12/1995 ▪ Gender: Female ▪ Nationality: Rwandan ▪ Marital status: Married ▪ Telephone: (+250) 738469764 ▪ E-mail: butejane@yahoo.fr ▪ Contact address: P.o.Box 1010 Bugesera District Eastern Province – Rwanda 				
2. EDUCATION BACKGROUND				
Dates attended		Name of the learning Institution	Academic Awards	Main field of study
From	To			
2010	2012	Kiziguro Secondary School	Advanced Level Certificate (A2)	Mathematics-Economics-Geography (MEG)
2007	2009	New Good Life Christian High Academy	O' Level Certificate	General Education
2001	2006	Munzero Primary School	Primary Education Leaving Certificate	Primary Education
3. PROFESSIONAL EXPERIENCE				
From: January 2011- To date Self-employed: Running a Min Super Market: BUTEJA Min Supermarket				
A.	Number and kind of employees supervised: 5 Employees (1 Cashier, 2 attendants, 1 Messenger, 1 Cleaner)			
B.	From: June 2013 – 2015: Worked as receptionist at UBUMWE Guest House, Kigali – RWANDA			
4. OTHER SKILLS ACQUIRED				
A.	<ul style="list-style-type: none"> • October 1st – 30th, 2015: Customer care Training • January 10th – February 13th,2016: Business Planning and Project Management 			

- B.**
- Good communication skills
 - Good interpersonal skills
 - Personal selling skills
 - Working under minimum supervision

5. LANGUAGES

Mother tongue: Kinyarwanda

Other languages	Read		Write		Speak		Understand	
	Easily	Note easily	Easily	Note easily	Easily	Note easily	Easily	Note easily
English	√		√		√		√	
French	√			√	√		√	
Swahili		√		√	√		√	
Kinyarwanda	√		√		√		√	

6. HOBBIES

- Volunteering
- Adventuring
- Travelling
- Making friends
- Reading books

7. REFEREES

Full name	Full address	Telephone No. and email:	Business or Occupation
Mr.	Kigali Traders	(+250) 0728543290	The Manager

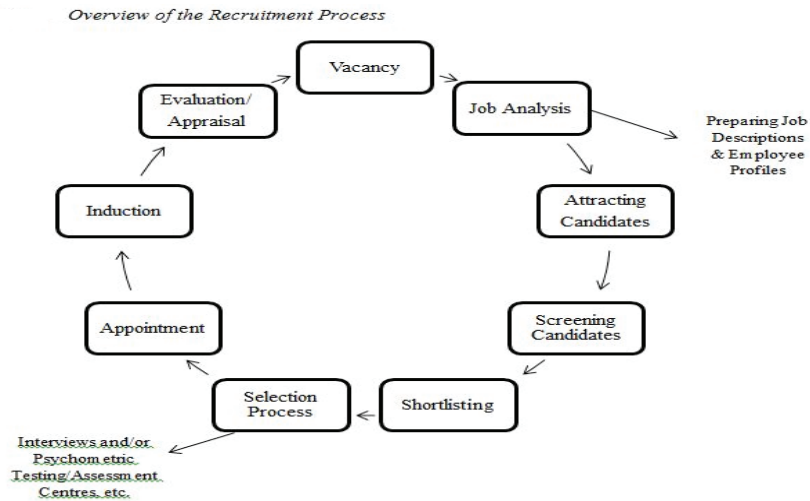
KAYITARE John	Ltd, Kigali - Rwanda	kayjohn@yahoo.co.uk	
Mrs. INEZA Beatrice	The New Hope Revival Mission Rwanda	+(250) 0789789781 inezabea@gmail.com	Commissioner general
Miss BURANGA ISHEJYA Judith	UBUMWE Guest House	+(250)788866131 buraiju@ubumweguest.org	The Hotel Manager

I, BUTERA Janet do declare that the above information is true to the best of my knowledge.

Signature

BUTERA Janet,
The manager,
BUTEJA Min Supermarket

g. Selection process



Selection is the process of getting human resources into organizations' departments, sections and jobs. Human Resource Managers are responsible for recruitment and selection which should be clear on the type of employees they are looking for. Lack of clarity may lead to poor selection criteria and may result in the wrong person being recruited for the job.

There are important steps in the process for effective competence-based recruitment and selection. These are:

- Development of competence models for recruitment and selection.
- Determination of selection methods.
- Training of assessors.
- Assess job applicants.
- Validate the assessment methods.
- Development of a database for future use.

h. Recruitment test

- Plan an effective interview
- Develop a series of core questions to ask the candidates for the job.
- Ask open-ended questions rather than those calling for “yes or no” answers.
- Create hypothetical situations that the candidates would encounter on the job and ask how they would handle them

Application Activity 8.1

1. Design a job description for one of the following;
 - a. A physics teacher
 - b. Shop assistant
 - c. Hotel manager
2. Now prepare a job specification for your chosen job.
3. How does a job description and a job specification help to ensure the most suitable person for the job is recruited?
4. Draw an organization structure (organogram) for your school.
5. Examine the organization structure of your school and describe the roles played by the main departments.

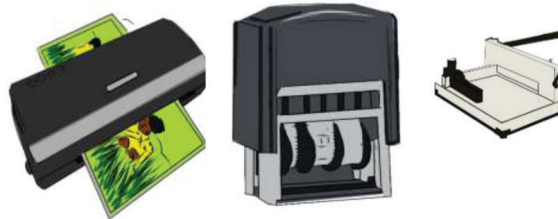
Office support servicesEquipment



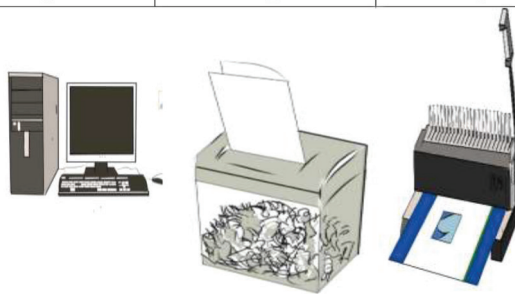
Figure 8.2 Some of the modern equipment in an office.

Activity 8.2

1. a. Describe the common office equipment types you are familiar with and their uses.
 b. How is this equipment kept safely?
2. Analyze the photos below and answer questions that follow.



D	E	F
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G	H	I
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Questions

- a. Name the office equipment in the pictures above.
- b. After completing senior six, a group of ICT students decided to start up a business of hardware maintenance and sales.
 - i. Describe the office equipment they will need.
 - ii. Explain how each of the equipment you have listed will be used.
- c. Give reasons why some office equipment or machines work for a short period of time and must be replaced?
- d. Explain what entrepreneurs should do to make their machines last longer to reduce the cost of production.

8. 2.1 Equipment in a modern office

Modern equipment and gadgets should be installed in an office to complete the office work in an effective and efficient way. In the market these days, high quality machines are available which can be used to perform a given task in just a short time. All the equipment that you purchase should be according to the needs and requirements of your office.

The most common office accessories and modern equipment that are being used these days are paper clips; post-it notes and staples, small machines such as punching machines, binders, staplers and laminators and other expensive equipment like computers, printers, fax machines, scanners, printers, photocopiers, office furniture such as chairs, cubicles; file cabinets and desks.

The following are the common equipment used in offices:

- **Typewriters:** These machines are used to type information on a paper. These may be manual or electronic and they work just as modern printers. These machines are phasing out.
- **Calculators:** There are manual and electric calculators. The simplest ones will add and subtract. The more complicated electric calculators will add, subtract, divide and multiply and give sub totals.
- **Photocopiers:** These are used to duplicate information on papers into various copies of the original document. Most modern photocopiers are very fast and can produce various copies at a time accurately.
- **Laminating machines:** These machines are used for inserting documents into a plastic pocket and sealed with heat making the document dust and water proof. They are used for laminating single documents like identity cards and certificates. There are different sizes of laminating machines

depending on the size of the document.

- **Binding machines:** These are machines used for putting together office documents in a transparent plastic sheet as a cover to take a form of a book. Binding machines put holes in papers and they are attached together for proper and easy storage.
- **Computers:** A computer is an electronic device used in the daily operations of the business. It stores files, processes and retrieves information needed in a business.
- **Cash register.** These are machines used when a printed receipt is required when a sale is made in a business.
- **Cheque writing machine:** This machine is used for writing cheques and is used mainly in banks. Instead of writing a Cheque manually, a Cheque leaf is inserted into the machine and it's written on electronically. This helps to write many cheques in a short time possible.
- **Note counting machine:** This machine is used in counting money in form of notes. It is used mainly in banks and other busy companies which count large sums of money.
- **Coin counting machine:** This machine is used for counting coins. It is mainly used in banks and forex bureaus.
- **Stapling machines:** These are used for fixing related documents together.
- **Letter opener:** This is a hand-held devise shaped like a knife that cuts off edges of envelopes. It can be used to open a single envelop or numerous envelops at a time.
- **Letter or parcel scales:** These are used to weigh correspondence to ensure correct postage. Most parcels are weighed before posted, because the cost of postage of a parcel depends of its weight.
- **A date-stamp:** This records the date on which the letter was received.
- **Shredding machine:** This is a machine used to destroy secret and confidential material if no longer required. It cuts paper material into smaller pieces, making it impossible to read again.
- **Punch:** This is used to put holes in a document ready for filling. The size of punch machines varies, depending on the size of the office and the documents filled at a time.
- **Addressing machine:** This is used to print names and addresses of regular customers or correspondents. Small plates bearing the name and addresses are prepared as stencil. Envelopes are passed through the machine and names and addresses are written on automatically.
- **Franking machine:** This is used to print postal stamp impressions on the envelopes. It can also be used to print advertising slogans on envelops.

- **Guillotine machine:** This is used for cutting and trimming papers to the required size and shape.
- **Composite machines:** These are machines used to fold documents, insert them in envelopes and seals the envelopes.
- **Mobile phone :** This is a device used to call and send or receive messages to and from the office. Service providers like Mtn, Tigo and Airtel make office telephones inter connected to other networks, and it aids in the quick and faster conveying of information.
- **Filing equipment:** This equipment is used for storing important files of an office. It consists of covers, folders, box files and filing cabinets.
- **Projector:** This is used in large meetings, seminars and presentations.

Other equipment may include: pair of scissors, chairs, tables, trays, trash cans/dust bins, etc.

8.2.2. Selection of equipment for given office tasks

Equipment and machines are essential part of a modern office. Most of them are used for efficient, accurate and speedy performance of office activities. The most suitable equipment should be selected based on the factors explained below.

1. **Ease of operation:** The best choice of office equipment should be one which is easy to use and operate. This results into faster operation of business activities, less fatigue, and errors are reduced.
2. **Flexibility:** The choice of equipment should depend on the different types of work it can perform. It's always better to select an equipment which can be used for numerous kinds of work.
3. **Durability:** Machines are used by different people under conditions that vary. The best equipment or office machine should be strong and long lasting.
4. **Portability:** Office equipment's are frequently moved from one user to another user or from one place to another place in the same work environment. The choice of equipment's should put into consideration the ease to carry. Modern machines have been reduced in size and weight without the sacrifice of the quality.
5. **Adaptability:** If a machine can be used without disrupting an existing system, it would be better to do so than go in for one which necessitates a considerable rearrangement of the forms and records involved of extensive copying of information and of adjustments in procedures.
6. **Service:** Reliable and continuous performance demands quick repairs and proper maintenance. The machine which can be serviced promptly has an

advantage over one which cannot be serviced. Therefore, the spare parts of the machines should be easily available in the markets.

7. **Operating cost:** This includes things like supplies, the space occupied, the special equipment and repairs etc.
8. **Reputation of the Supplier:** Few people have the expertise to judge the mechanical qualities of a machine; one has therefore, to depend upon the integrity of the manufacturer and dealer to furnish a good machine and to backup claims and guarantees.
9. **Styling:** A modern office requires machines which have a pleasing design, color, touch and sound.
10. **Cost:** The cost of an office machine is a major factor in buying it. The cost of a machine or equipment should be within the budget of the business.
11. **Training facilities:** If facilities are available to train the staff of a firm to use computers and other types of latest technology equipment, then the organization will prefer the use of this type of equipment.
12. **Quality and speed:** Office equipment should be of high quality and speedy in nature.
13. **The need of the office equipment:** Before selecting any machine, its degree of need must be checked thoroughly. Make an analysis on the alternates of the machines available.
14. **Safety:** The machines to be used must be safe to the users. Machines which are not safe should not be used in offices because they might harm and cause diseases to the workers. Such as cancer.
15. **Standard and noiseless machine:** The standard machines are further developed as noise proof at action. Such noiseless machines are the most needed in a business environment.
16. **Environment friendly:** Machines and office equipment used should be environment friendly although their price tag tends to be higher than those that are not environment friendly.

8.3.2. Maintenance and care for office equipment

Manufacturers recommend proper maintenance and servicing of office equipment for machines to work effectively, efficiently and serve longer periods. Regular maintenance helps ensure that office equipment runs efficiently. The following are some of the ways of proper maintenance and care for office equipment:

- **Clean environment:** Ensure that all office machines and equipment are in the right environment, away from places with excessive heat or moisture.

- **Warranty period:** New equipment normally have a warranty period that may include a regular servicing schedule for a set period.
- **Regular servicing:** After the warranty period has expired an organization can choose to take out a maintenance agreement that ensures the equipment are maintained at regular intervals for a specified period of time.
- **Scheduling services:** Regular services should be scheduled for times that minimize the impact on the operation of the firm. As you gain experience you will begin to identify the number of times that a machine **is used less frequently.**
- **Paper jams:** Printers, fax machines and photocopiers can be affected by paper jams. If a paper jam occurs, then you should follow the instructions in the User Manual for clearing a paper jam or the prompts on the control panel of the photocopier or fax. This process may be quite straight forward for a computer, printer but can be quite complicated for a photocopier.
- **Stock levels:** Consumables to be available when required it is important that appropriate stock levels are maintained. Not having consumables in stock can cause a piece of equipment to become inoperable leading to serious problems for the completion of work
- **Replacing consumables:** The consumables used with office equipment, such as paper cartridge and toner need to be replaced at certain times.
- **Encouraging feedback from the users:** By encouraging feedback from the users you are more likely to find out when a piece of equipment is beginning to malfunction.
- **Keeping a log book of faults:** Some organizations keep a log book for each piece of equipment that records the faults that have occurred. The people who discover a fault can complete the logbook themselves or they can inform the person responsible for maintaining the equipment who can then complete the log book.
- **Cleaning tools:** While cleaning the office equipment, use the types of tools suggested by the manufacturer, for example, the correct cleaning cloths or brushes should be used for photocopiers.
- **Cleaning fluids:** Use the right cleaning fluids suggested by the manufacturer.

8.2.4. Security for office equipment

The list below provides some of the solutions to theft and damage of office equipment and machines, which will help to reduce business costs and unnecessary expenditures in repairs and maintenance.

- i. Installation of cameras:** Security cameras such as Closed-Circuit Television (CCTV) enable business owners and managers to keep an eye on activities that they would not normally be able to keep track of. This reduces the cases of theft of office equipment.
- ii. Installation of entry alarm systems:** An alarm system is a must for most modern businesses. Whether it is installed to protect employees, inventory, or information, an alarm system allows only authorized personnel to enter the premises. The system may be activated at night only, such as when a business is closed or all day long in an office. There are different types of alarms to suit these purposes. This limits the theft cases of office equipment and machines.
- iii. Fire alarms and smoke detectors:** Modern technology makes it easy to warn people evacuate in time, if a building catches fire. In case a fire is detected on time and prevented, it helps to protect damage of office equipment and machines.
- iv. Fire extinguishers:** These are tools that can be put in place to reduce on the damage of office equipment, in case of a fire. Fire extinguisher trainings should be part of company's regular safety training, because having the extinguishers on hand is not enough if nobody knows how to use them.
- v. Locks:** are the ultimate basic security equipment: locks have been used for many years in varying forms, including combination locks, key locks, and deadbolt locks. Locks are most often used on exterior and interior doors. They may also be placed on windows, cabinets, desks, and equipment. The business owner must determine where interior locks are necessary; any possible entrance to the building itself should always be locked to protect office equipment from being stolen.
- vi. Safes:** A business can design lockable safes, where office equipment such as stapling machines, punch, scissors, etc. can be kept. This will reduce on the cost of replacing them in case of theft.
- vii. Marking of equipment:** Office equipment can be labeled with a business name or company logo. Most businesses label their equipment using stickers placed on the equipment. This prevents them from being stolen.

Application activity 8.2

1. The use of Machines in any business play a vital role for their success. What are the advantages of using machines?
2. Carry out a research of office equipment with brand names that you believe are more durable and of high quality compared to others. (Ask the school secretary, Director of studies, or any other office worker for this information) and report your findings.
3. Assume you are the new ICT teacher or Computer lab technician for your school. Suggest the measures you can put in place to maintain proper care of all equipment or machines in the computer lab. (Visit a computer lab and ask the teacher or technician available or read the rules and regulations in your computer lab.)
4. For any office ever visited be it in school or other businesses, Identify the security tools used for their office equipment and machines.

8.3. Telecommunications

Activity 8.3

Read the text below and answer the questions that follow.

Rwanda's mobile phone penetration rise over the past five years

With the recent development of communication facilities, the large majority of Rwandan population has continuously adopted the use of mobile phone as one of the technology platform to share information. Within this move, the mobile phone penetration has impressively increased from 2005 to 2010 across the whole country.

According the third EICV (Integrated Survey on Life Conditions), the percentage of households with at least one mobile phone which was 6.2 percent in 2005/2006 has increased by 39 percent to reach 45.2 percent among the general population in 2010/2011.

The City of Kigali made a big progress in terms of mobile phone ownership because the percentage of households with at least one mobile phone in Kigali City was 79.6 percent in 2010/2011 from 33.2 percent in 2005/2006, which is a growth rate of 46.4 percent in only five years.

Countrywide, Kigali recorded some great different vis-à-vis other provinces with a rate of 79.6 per cent of household owning mobile phone followed by the Eastern province with 48.4 per cent. The three provinces which have a low percentage of mobile users are namely Northern, Western and southern provinces with a proportion of 41.9%, 40.4% and 35% respectively. The percentage of households which own at least a mobile phone also increased in urban areas (from 26.5% in 2005/2006 to 71.5% in 2010/2011) as well as in rural areas (from 2.2% in 2005/2006 to 40.6% in 2010/2011). In terms of gender, the households headed by female accuse a low percentage in owning at least one mobile phone in 2010/2011 with 35.1% against 49% of households headed by male. In terms of mobile phone subscribers, the number has also increased from 2009 to 2011. The number of subscribers was 2,429 thousand in 2009 and 4,842 thousand in 2011, which is a growth rate of 99.34%. *Source: Statistical yearbook 2012*

The mobile phone in Rwanda is used for different purposes: calls and short messages sending/receiving, money transfer, recording and playing music and movies, picture shooting, listening to the radio, watching TV, internet connectivity, advert and publicity etc. The increase of ownership of mobile phones goes together with the increase of economic growth of a country.

Within the current situation of mobile phone penetration, both public and private institutions are affording means to plan they can use this opportunity for other functions to foster the potential of national development.

Source: <http://statistics.gov.rw/node/756>

1. Using the case study above mention any areas where telecommunication is being used mostly in Rwanda in 2011.
2. Why is the use of telecommunications in a business environment very essential?

8.3.1. Telecommunications methods

Telecommunication is the transmission of signs, signals, messages, words, writings, images and sounds or intelligence of any nature by wire, radio, optical or other electromagnetic systems. It is transmitted either electrically over physical media, such as cables, or via electromagnetic radiation. Such transmission paths are often divided into communication channels which afford the advantages of multiplexing.

Long ago, people used to communicate by use of smoke signals, telegraphs, signal flags, drumbeats, lung-blown horns, and loud whistles. Due to the development of technology in the 20th and 21st century, long-distance communication usually involved the use electrical and electromagnetic technologies, such as telephone, social networks, radio, microwave transmission, fiber optics, and communications satellites. Specifically, these methods are mainly fax, e-mail, telephone, mobile/cell phones, answering machine. etc.

8.3.2. Advantages of telecommunications

1. **Quick and accessible communication:** With telecommunications, sending and receiving messages has become quicker and accessible with the use of internet and other social networks.
2. **Costs are reduced:** There is no need to travel long distances while sending and receiving correspondence. Telecommunications has solved the problem for most businesses.
3. **Saves time:** Telecommunications saves time of travel and delivering of information. It's just a tap of the mouse and information is delivered.
4. **World Wide access:** With the use of the World Wide Web, businesses and customers can link, which solves the problem of communication and marketing of company products. This facilitates e-commerce and globalization.
5. **Saves gasoline (do not have to drive distance):** Telecommunications has solved the costs of transportation for most businesses, for, most transactions are done online or by use of telephone.
6. **More than two people can communicate to one another at the same time:** This is possible with email and web conferencing, where by more than one person can communicate at a time.
7. **Easy to exchange ideas and information via phone or fax:** With just a phone call away, people can share business ideas quicker and faster thus making business easy.

8. **Easy access to the people you need to contact with:** Business can easily contact with customers, suppliers and other stake holders by use of telecommunications.
9. **Enable end users to communicate electronically and share hardware, software, and data resources.** Telecommunications has made business better. Goods can be delivered online for example software products.
10. **Enable a company to process transactions immediately** from many remote locations, exchange business documents electronically with customers and suppliers, or remotely monitor and control production processes.
11. **Interconnect the computer systems of a business so their computing power can be shared by end users throughout an enterprise:** This helps to build internal communication in a business and bridges the gap between the employer and the employees.
12. **Develops new products and inventions:** Through research on the internet, people are able to come up with different ideas and innovations, which makes businesses grow.
13. **Telecommunications inspire collaboration among workers:** the use of technologies, such as video calling, video conferencing enables employees to work in different departments or separate locations with ease. This yields better performance on any given project.
14. Telecommunications play a pivotal role in the development of infrastructure of the national security.

Disadvantages of telecommunications

1. **Misunderstanding:** Sometimes the messages communicated are misunderstood by the end users making it a barrier in communication.
2. **Prank calls.** Some people misuse telecommunications to make calls which are misleading to the public. These are calls made to trick others.
3. **There are expensive:** The cost of a telephone line and the gadgets used in communication can sometimes be expensive. This has become a barrier to most startup businesses.
4. **High electric bills:** Telecommunications increases business costs in terms of electricity. Telecommunications cannot be possible without the electricity, and in some areas, it's too expensive for the business.
5. **Remote areas do not have access:** Some rural areas face a challenge of poor network, thus making telecommunications next to impossible. This makes the businesses fail to communicate effectively with its customers and suppliers.

6. **Eliminates face to face contact:** There is lack of facial expressions when using most telecommunications. For example telephones, fax, email and radio. This may result into misunderstanding, misinterpreting the message and unhealthy relationship thus poor performance in the business.
7. **Increase Vulnerability to Information Hacking and Attacks:** The use of telecommunications may lead to the information being hacked and this may affect the business operations.

Activity 8.3

Using examples of businesses around your community or school business club identify various telecommunication method used and how they can control costs of telephone and data communication

8.4. Business documents and payment procedures.

Activity 8.4

You are in the sales and marketing department of a business and you are required to connect with potential customers, suppliers and banks. Identify and explain some of the documents you will need in the buying goods and services as well as payment of goods.

8.4.1. Documents used in buying and selling of goods and services.

Buying of goods: This is a process where a person obtains the right of ownership over a product in return for a price.

Selling of goods: This is a process where the seller gives up the right of ownership of a product for a price.

In today's modern business environment, it's necessary to prepare some documents to make it easy for the flow of goods and services. These documents may include the following: -

1. Purchase requisition/purchase order.

A purchase requisition form is a document which allows employees to request the purchase of a good or service using a uniform process that provides details of the purchase for a purchasing agent, accounting employee or whoever approves purchases.

These forms usually include the name of product or service, the quantity desired, the stock or model number, the desired delivery date, the cost and the reason for the request.

The person you choose to review and approve purchase requests, checks the order details against previous purchases to make sure you are paying the correct amount or may use the form to solicit bids if the request is for a large amount of money.

Format of the purchase requisition form

PURCHASE REQUEST FORM

DATE OF REQUEST:		DATE REQUIRED:		VENDOR NAME:	
REQUESTED BY:					
PROGRAM MANAGER APPROVAL				VENDOR CONTACT:	
DIRECTOR APPROVAL				SHIP TO ADDRESS:	
EXEC DIR. OR ASST. DIR. APPROVAL					
Special Instructions, Quotes, Etc.:					
QTY	ITEM #	DESCRIPTION	PRICE EACH	TOTAL PRICE	
TOTAL					

2. Letter of enquiry

It is a document sent by the buyer to the seller to find about the goods required, their availability, their prices, quantity and the terms of payment. The buyer can send a number of letters to various sellers to find goods at lower prices and are of quality

Format of the letter of inquiry

From: Amahoro Hillside Academy
P.O.Box 34
KIGALI - RWANDA
18th January 2018
To: Ibyiwacu Stationery Shop
P.o Box 100
Kigali Rwanda
Dear customer relations officer,
Re: INQUIRY OF STATIONERY SUPPLY.
We are a secondary school based in Kigali Rwanda, and would wish to supply us with stationery. We wish to know about the quality, color and the prices of the following items, and the terms of delivery:
1. Reams paper (100)
2. Bic (20 boxes, Blue, Black and Red each)
3. Box files (50)
4. Rulers (20)
5. Graph papers (5 Reams)
Quote for us the general details of the above items, and the time of delivery.
Yours faithfully
Kalisa John
Head teacher
Amahoro Hillside Academy

3. **Reply to an inquiry.** The seller replies through a price list, quotation,

catalogue or a sample.

- i. **A price list** is a document which shows the goods available for sale together with their prices.

The figure shows two identical price lists for stationery items. Each list is titled 'STATIONERY PRICE LIST' and contains the following items and prices:

Item	Price
Ruler	500 Rwf
Crayon	50Rwf
Felt tip pen	200 Rwf
Stapler	1500 Rwf
Plain paper (per sheet)	300 Rwf
Lined paper (per sheet)	250 Rwf
Staples	10 Rwf/piece
Pencil sharpener	50Rwf
Scissors	300 Rwf
Rubber	100 Rwf
Pen	100 Rwf
Pencil	50Rwf

At the bottom of each price list, there is an illustration of a hand holding a pen, ready to write on a piece of paper.

Figure 8.2. Example of a price list

- ii. **A quotation/proforma invoice.** It is sent by the seller to the buyer in reply of the letter of enquiry. It provides all the relevant information required by the buyer which has been mentioned in the letter of inquiry. It shows the types of goods, their brands, their respective prices, the terms of delivery, the terms of payment. etc.
- iii. **A catalogue** Sometimes, instead of sending a quotation, the seller

may send a catalogue to the buyers containing detailed and classified information of the various types of goods offered for sale. It is similar to quotation but prices are not quoted there in. It can be used as an advertisement medium. **A catalogue** is a book or a leaflet which shows the nature, type and prices of goods that are on offer.



Figure 8.3. Example of a catalogue

A sample is a consumer product that is given to the consumer free of cost so that s/he may try a product before committing to a purchase.



Figure 8.4. Example of sample products

4. **A purchase order:** Purchase order is sent by the buyer to the seller to place an order for buying the goods regarding the quotation. It states the type,

brand, quantity and price of the goods (as given in the quotation) as well as the terms of delivery, the terms of payment, the expected delivery date and the address to which the goods are to be sent.

Format of a purchase order

UMUNEZERO Girls Academy		PURCHASE ORDER			
Kigali Rwanda		DATE	25 th Jan 2018		
P.O.BOX 20		PO no	123456		
Phone: +250-785000001					
VENDOR					
Terimbere Stationary					
KIGALI RWANDA					
Phone: +250-785767676					
REQUISITIONER	SHIP VIA	F.O.B.	SHIPPING TERMS		
ITEM #	DESCRIPTION	QTY	UNIT PRICE	TOTAL	
1	Reams of duplicating paper	100	3000	30000	
2	Bic pens (Blue, Black and Red each)	20	2000	40000	
3	Box files	50	2000	100000	
4	Rulers	20	500	10000	
5	Graph papers	50	1000	50000	
				SUBTOTAL	230,000
Comments or Special Instructions Thank you for your business.				TAX	
				SHIPPING	
				OTHER	
				TOTAL	230,000
If you have any questions about this purchase order, please contact					
KALISA Peter +250-785000000					

- Dispatch note:** It is a document sent by the seller to the buyer to inform the buyer that the goods have been dispatched or sent. It shows the quantity of the goods and the date of dispatch.
- Delivery note:** It is a document sent by the seller to the buyer along with the goods to confirm the delivery of goods. It must be signed by the buyer to confirm that the goods are delivered in accordance with the conditions established.

7. **Consignment note:** It is almost like the delivery note. It is a document sent by the seller to the buyer when the goods are delivered through the hired vehicles. It is a formal instruction to the transport firm to deliver the goods to the customer. It is signed by the consignor and the consignee.
8. **Invoice:** An invoice is a document sent by the seller to the buyer to inform the buyer about the amount due on the goods supplied, stating also the type, quantity, price and terms of payment. It is used for the goods sold on credit. It is a very important document used for accounting entries.

Example of an invoice

NYAMATA PRINTING COMPANY LIMITED			
DATE 3rd March 2018			
INVOICE			
No.2305			
To:			
Quantity	Particulars/details	Rate (unit price)	Amount
15	Boxes of chalk	1,000	15,000
20	Markers	1,000	20,000
15	Black books	3,000	45,000
5	Reams of duplicating papers	5,000	25,000
E&OE			94,500

9. The debit note.

It is a document prepared by the seller and sent to the buyer who has been undercharged on an invoice. It informs the buyer that his account is debited, increasing the amount that he owes.

Reasons for issuing a debit note.

- i. If there has been an undercharge on an invoice

- ii. If some charges like delivery, packing, loading, etc. have not been included in the invoice.

10. The credit note.

It is a document prepared by the seller and sent to the buyer who has been overcharged on an invoice. It is sent to the buyer to deduct the over charged amount in the invoice. It informs the buyer that his account is credited, decreasing the amount that he owes.

Reasons for issuing a credit note

- i. If there has been an overcharge on an invoice
- ii. If damaged goods have been returned by the buyer.
- iii. If the goods are short delivered to the buyer.
- iv. If the buyer has returned gift vouchers or coupons to the seller

8.4.2. Receipts and payments

1. Receipt

It is document issued by the seller to the buyer as a proof of the money received. When the payment is made by Cheque, it is not necessary to issue a receipt since the Cheque serves as a proof of payment.

Format of a receipt

RECEIPT	Date	31 st Jan 2018	No.	87769
Received From	Amount	Rwf 400,000		
Amount	Four hundred thousand francs			
For Payment of	INVOICE NO 10			
From	25 th Jan 2018	to	31 st Jan 2018	Paid by
				<input checked="" type="checkbox"/> Cash
				<input type="checkbox"/> Check No. 78987
Received By	Kamikazi			<input type="checkbox"/> Money Order
Kigali				
+250-78000001				
	Account Amount	4000,000 FRW		
	This Payment	400,000 RWF		
	Balance Due	-		

2. Cheque

The Cheque or draft should be sent by the buyer to the seller in the given period to

settle the due amount mentioned in the invoice. Nowadays the traditional payment method is replaced by the online payment using cash cards.

Format of a Cheque

3. **Statement of account:** It is sent by the seller to the buyer showing the summary of the transactions between the buyer and the seller for a particular period of time. It shows the amount of goods purchased, the returns made, the payments, cash discounts, details of the credit note, debit note and the amount due.
4. **Pay-in-slip:** A deposit slip is a document supplied by a bank for a depositor to fill in, designed to document in categories the items included in the deposit transaction. The categories include type of item, and if it is a Cheque, where it is from such as a local bank or a state if the bank is not local. The teller keeps the deposit slip along with the deposit (cash and cheques) and provides the depositor with a receipt.
5. **Credit transfers:** The transfer of money from one account to another, mainly from one bank account to another. It is also called a wire transfer. The buyer may decide to transfer money from his/her bank account to the bank account of the seller.
6. **Direct debits:** A direct debit is an arrangement made with a bank that allows a third party to transfer money from a person's account on agreed dates, typically in order to pay bills. This is a common payment method to regular suppliers made by the business.
7. **Standing orders:** A standing order is an instruction to a bank by an account holder to make regular fixed payments to a particular person or organization. It's one of the modern payment methods for suppliers who

have fixed supplies to an organization or a business.

8. **Credit card:** A credit card is a small plastic card issued by a bank, building society, etc., allowing the holder to purchase goods or services on credit. It allows the card holder to buy goods or services even when they have no money on their accounts.
9. **Debit card:** A debit card is a card allowing the holder to transfer money electronically from their bank account when making a purchase. It can only allow the account holder to buy goods and services when they have money on their bank accounts.



Figure 8.5. Credit and debit cards

8.4.3. Stock control

- **Stock Control Requisitions.**

A material requisition form lists the items to be picked from inventory and used in the production process or in the provision of a service to a customer, usually for a specific job.

Format of a stock requisition form

Date	Received From	Quantity Received	Quantity Out	Issued To	Balance on Hand	Remarks & Signature
2/09/07	CMS	100	INV2367	E X P 06/2011	325	ETC

Application activity 8.4

1. You are the new purchasing manager of a Hotel in your community. Mention the types of business documents you need to buy for the hotel.
2. Use the same business of a hotel to prepare the business documents for the supply of food products of Hotel.
 - i. Letter of inquiry
 - ii. Purchase order
 - iii. A price lists
 - iv. An invoice
 - v. A receipt.
3. Why are these documents needed in any business?

8.5. Information and record handling.



Figure 8.6. Box files used in offices to keep documents.

Activity 8.5

Visit the school bursar, director of studies, library or any other office in school and ask them how office documents and confidentiality of information are filed. Ask them how these records are safely kept.

4. There are times when a staff member fails to trace documents for a client or a customer due to various reasons. Sometimes confidential information for example business finances, payrolls or contracts are read by third parties or sometimes go missing.
 - i. Explain the causes of loss or insecurity in the filing system
 - ii. As the new data clerk for an organization, why should business enterprises practice filing of office documents?

Maintenance of established filing system

In any business/organization, there are different documents/records. These documents can be classified as business records and official incoming and outgoing correspondences. These documents should be organized and filed properly as they can be used later for different reason.

Filing refers to a process of classifying and arranging records for easy retriving with out delay.

It's the systematic arrangement and keeping of business documents so that they may be found and delivered when needed for future reference.

- **Classification system**

There are different systems of classifications. The classification system refers to the basis of arrangement of documents in a folder. The documents can be classified by five main methods: alphabetical, numerical subject, geographical, chronological or same combination of them.

1. **Alphabetical** is where documents are filed according to the first letters of either the name of sender or subject. It is similar to the names in the telephone.



Figure 8.7 Alphabetical filing

Advantages of alphabetical filing

- i. It is convenient in grouping papers by name of company
- ii. It facilitates direct filing, with no need of indexing since the files are arranged alphabetically.
- iii. It is simple and easy to use for all employees and new employees.
- iv. One folder can be opened for many files without opening separate files.

Disadvantages of alphabetical filing

- i. In large systems, it may take a long time to find papers.
 - ii. It may lead to congestion under common names.
 - iii. It is difficult to forecast space requirements for different letters of the alphabet.
 - iv. Documents can be filed differently due to wrong spellings of names.
2. **Numerical filing:** This is where documents are arranged according to numbers rather than letters. This system is useful for filing orders or other items kept in numerical sequence index which is necessary for locating the correct file.

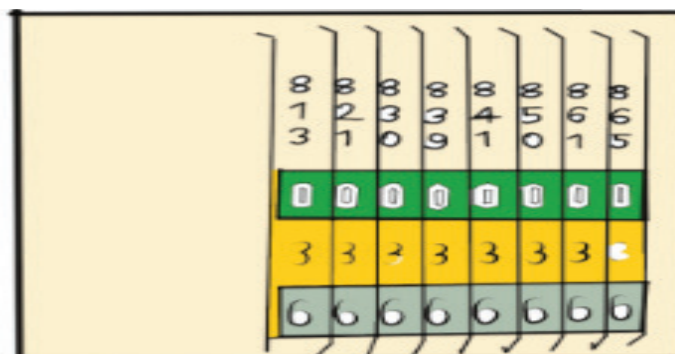


Figure 8.8 Numerical filing

Advantages of numerical filing

- i. There is unlimited room for expansion. New documents are added to the file as they come in the office.
- ii. It is a highly efficient system
- iii. It helps in cross-reference with other systems.
- iv. The file number can be used as a reference for correspondence.
- v. The file number can be used for other purposes, for example, a mailing list as well.

Disadvantages of numerical filing

- i. It takes longer to file materials as it involves two operations. i.e. recording of the document number on the card index and filing of the document.
 - ii. Filing and location of documents is not simple.
 - iii. A separate index must be provided for each file.
 - iv. It takes time for new employee to fully understand the system and the code numbers.
- 3. Geographical filing:** This is where files are divided according to their place of origin for example, countries, provinces or districts, regions. The files within each group are arranged alphabetically.

Advantages of geographical filing

- i. It is suitable for companies that have several branches spread all over the country, e.g. commercial banks, telecommunication companies.
- ii. It is convenient when the locations are known
- iii. It facilitates easy access for filing purposes.

Disadvantages of geographical filing

- i. Possibility of errors in case the geographical location is not known.
 - ii. Some geographical names can be misspelled leading to confusion in the system.
- 4. Chronological / dates filing:** This is a filing system where all documents are filed in order of their dates of receipt. This system is rarely used but it is a useful method of filing papers inside each folder.

Advantages of chronological filing

- i. Useful if the dates are known
- ii. It provides for unlimited scope of expansion

Disadvantages of chronological filing

- i. It is not always suitable to different types of records.
 - ii. Incoming letters might be mixed up with outgoing ones.
5. **Subject/ category filing:** Subject filing is where files are classified according to subject headings topics. Main headings and subsidiary items are in alphabetical order.

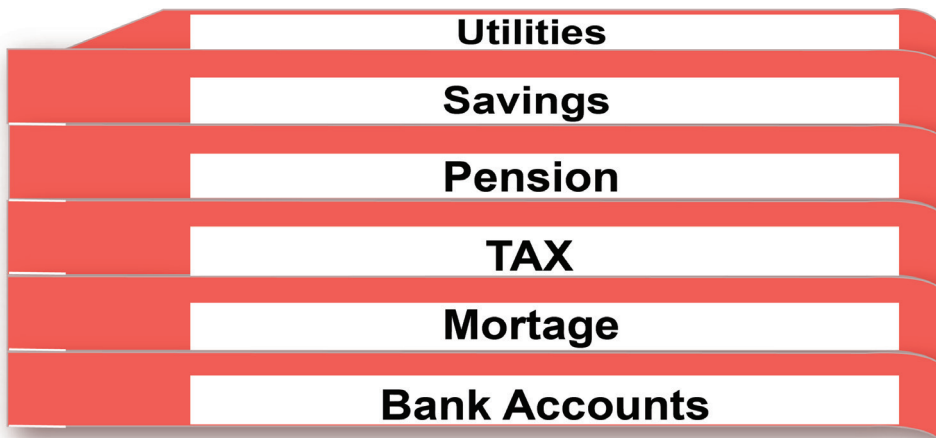


Figure 8.9. Subject filing system

Advantages of subject filing

- i. All documents referring to a particular subject or mater are kept together in one place.
- ii. The files can easily be expanded or contracted by simply adding new ones or removing old ones.

Disadvantages of subject filing

- i. It is difficult to determine the list of divisions and it requires one to have knowledge of the business and its files.
- ii. It is difficult to determine the headings for filing purposes. It requires a trained and careful employee.

- **Filing/sorting Methods**

This refers to how covers of file are kept in the filing cabinets. The four main methods include:

Horizontal filing: Is when files are kept in the shelves or drawers when one is on top of the other: they are facing east to west.

Vertical filing: Is when files are kept in the shelves or drawers when they are standing

upright. they are facing north to south

Lateral filing: This is where files are arranged side by side in the drawers or shelves. This method saves space because of the great heights.

Suspension filing: Is where two metal bars are fixed on the sides of a filing cabinet drawer. The files stand in a vertical position. this method has an advantage because they are tidy since they are upright and it's easy to locate them.

- **Efficient and effective filing system**

Characteristic of good filing system

A good filing system should have the following characteristics:

- Compactness:** It should not take up much space; especially the floor for the filing cabinets.
- Accessibility:** Record cabinets should be easily accessed. It should be easy to file records or extract them. Without having to disturb others.
- Simplicity:** The system should be simple to understand and operate.
- Safety:** A high love of safety should be ensured for documents according to their importance. They should, therefore, be protected against hazards like fire.
- Elasticity:** The system should be capable of expansion when required.
- Cross-reference:** Reference should be provided where necessary information should be provided on file movements such that it is easy for users to trace them.

- **Procedure of keeping documents**

The documents are kept in a folder or file and are arranged in a specific manner. Each organization has its own way of organizing files and are kept for a specific period of time. Some documents are kept in a single office while others are kept according to the department responsible. These are the centralized and the decentralized filing system.

- Centralized filing system:** Centralized filing system is one in which the records or files for all staff are in one central location.

Advantages of centralized filing

- It helps to develop staff who are specialists in filing.
- There is easy control of all files since they are controlled in one room.

- iii. Files are easily controlled and monitored in one central unit.
- iv. It ensures that all correspondences about the same subject are kept together.
- v. It ensures establishment of a uniform system of filing throughout the organization.
- vi. The time spent to search for the files is reduced.
- vii. It is very safe to control since all records are in one central location.
- viii. It reduces costs for printing and use of papers.

Disadvantages of centralized filing

- i. Files may be too far from staff for adequate service.
- ii. The system requires full time staff for filing purposes.
- iii. It requires more capital for investment in more efficient filing equipment and space.
- iv. It is risky or vulnerable because all records are kept in one central location.
- v. If a company has numerous departments working from different regions, this system may not be suitable.
- vi. The filing department may become a storage place of unwanted and unnecessary documents.
- ii. **Decentralized system:** A Decentralized filing system is one in which the files are located at individual work stations and usually controlled by each person who uses them.

Advantages of decentralized filing system

- a. There is less duplication of equipment and work; more staff has to be engaged hence it proves to be more costly
- b. There is very little scope for socialization as each filing clerk has to do various operations.
- c. Standardization of filing work is not possible where each department has its own system and method of filing.
- d. There will be difficulty in filing the documents which concern more than one department.
- e. It prevents misfiling since the work is done by different departments that are specialized in that field.
- f. It promotes secrecy. In case the work is confidential it will not be known by other departments.

- g. It is a suitable method if the functional departments of an organization are located in different geographical areas.

Disadvantages of decentralized filing

- a. There may be confusion as to where information can be found especially if staff member is absent.
- b. Can result in duplication of related information due to having different filing places.
- c. Individual staff members may not know how to properly maintain their files.
- d. Lack of uniformity in the filing of documents.
 - **Safety, security and confidentiality of information.**

Records (business information) must be kept safely to enable management to study them thoroughly in order to take proper decisions relating to past and present situations in the business, so as to make decisions for the future success.

Safety, security and confidentiality of records

1. **Verification:** Records can be verified whenever needed.
2. **Justification:** Records must be maintained with some justifiable purpose otherwise, it will be a waste of money, space and time.
3. **Classification:** Records must be classified according to their use. They may be classified according to time or chronology or subjects.
4. **Information:** The information required must be available whenever it is needed.
5. **Elasticity:** The record system must be elastic in capacity so that it allows room for expansion or contraction of records is possible.
6. **Reasonable cost:** The cost of record management must be a reasonable one. For more important records a large amount may be spent and for less important records only small amount should be spent.
7. **Records management:** Should be simple, accurate, economical and useful for the organization.

Purpose of maintaining business information

Past records of business are maintained for different purposes depending on the unit or office.

1. **Accounts of progress are kept in an orderly way:** In business it is necessary to measure the progress of the business organization or to find out history and other facts about the firm.

2. **Proper study of the position of the firm:** Records of past transactions are the basis on which further study can be made. The preserved records are contributory factors, without which a good and proper study of the position of the firm cannot be made and therefore a statement cannot be prepared.
3. **Comparison of business:** Past records make it easy and possible to compare performance of one period with that of another period, one place with another, one result with another.
4. **In case of disputes:** The need for referring to records or documents often arises for the settlement of disputes in transactions. All information cannot be remembered.
5. **Policy making:** Past records, events are very necessary to decide future policies and plans. In the absence of records, the policies and plans may not be successful.
6. **Legal requirements:** Certain records are to be kept for a number of years from the legal point of view.
7. **Evidence:** Records are good evidence in courts of law, in case of disputes.
8. **General use:** For example, customers may need to refer to the previous correspondence by quoting the number.

How to ensure documents are kept well in an organization?

The following must be put in place to ensure safety of records; -

- i. The organization should ensure that it has qualified staff in keeping records.
- ii. All confidential documents should be kept in a centralized filing system.
- iii. Documents should be checked regularly to ensure that they are kept safely and intact
- iv. Offices should be locked when leaving the work place.
- v. Use a single filing system, either alphabetical, numerical, geographical filing in order not to confuse files.
- vi. Modern filing cabinets should be used for the documents.
- vii. The filing room should be kept clean and safe from any things which may destroy the files.



Figure 8.10. A modern filing cabinet.

File retention policy.

Business organizations that have existed for many years have a challenge in keeping large numbers of files and business correspondence. For example, Rwanda Education Board, must keep all students answer sheets for a period of time, as well as certificates, and other internal documents. Others include schools, which keep student's records, report cards, certificates, minutes of meetings, employee contracts, and many other valuable information. At a certain point, the files have to be destroyed in order to create more space for new records and files.

A file retention policy is an organization's established protocol for retaining information for operational or regulatory compliance needs. It helps to identify the duration of time for records to be maintained or retained. When writing a data retention policy, you need to determine how to:

- i. Organize information so it can be searched and accessed in future
- ii. Information that is no longer needed should be disposed off.

Some organizations use a data retention policy template that provides a framework to follow when crafting the policy.

Data retention policy of an organization

Destruction of specific records shall be carried out in accordance with policy, laws and regulations. The policy specifies persons responsible for administration, storage and retention of organization's records.

Application activity 8.5

1. You are the head teacher of a school in your community. Do you think it's important to retain documents or files for the school? Give reasons for your answer.
2. Why do you think it's important for some organizations to destroy old files and documents?
3.
 - a. Visit any office and identify the filing system used.
 - b. Find out why that system of filing is being used.
 - c. What challenges does the office personnel meet while using that type of filing system.
4. For the following organizations, choose the best filing system, either centralized filing or decentralized filing system and justify the reasons for choosing it.
 - a. A hospital
 - b. A staff room at school
 - c. A commercial bank
 - d. A private business organization
 - e. Rwanda education board.

Skills Lab Activity 8.6

You are planning to start a business of your choice in your community.

Required;

1. Draw the following business documents that you will be using in your business
 - i. Inquiry note
 - ii. Purchases order
 - iii. Invoice
 - iv. Receipt
 - v. Good received note
2. Explain how the above drawn documents will be used in your business

End of unit 8 assessment.

1. With reference to a business project owned by your school business club.
 - a. Identify how the documents are being filed.
 - b. Design an organization chart of the business club and give functions for each department
 - c. Design a job advert for the post of an accountant.
2. You are operating a bookshop in your home area. Some clients return damaged copies. Present the goods returned note for the stock returned.
3.
 - a. Describe the ways how you would advise your head teacher to store the information about the students.
 - b. Describe the different classifications you would advise your librarian to file the school past papers
 - c. Identify the filing cabinet used in your school.
 - d. Identify some of the business documents that you know.
 - d. Explain at least three details of documents
4. You are applying for a post of Head Security Officer for a bank. Prepare a detailed curriculum vitae and an application letter for the post.
5. Gikundiro is a senior six level student who wants to start a fruit processing business and she needs help from you to:
 - a. Design an advert for various posts in a fruit processing business.
 - b. Identify office equipment she needs in her office.
 - c. Prepare at least two business documents she may need while operating business. Respond to Gikundiro's request.



UNIT 9

MONEY MANAGEMENT

UNIT 9: MONEY MANAGEMENT



Key Unit Competency: To be able to manage finances responsibly.

Introduction

Your Money, Your Life, Your Future

What does money mean to you? Seems like a simple question, doesn't it? But if you really think about it, it may be difficult for you to come up with an immediate answer. Money means different things to all of us; that's why we each have unique financial goals related to our wants, needs and values. For some, money means security. For others, it's about freedom or success. Before you can learn how to manage your money, you must learn what money means to you. Spend some time thinking about your money values. Ask yourself the following questions to determine your money values and learn how they shape your spending and saving priorities.

- How did you view money as you were growing up?
- Did your parents ever talk to you about money?
- Have you ever felt richer or poorer than your friends? How did that make you feel?
- How were your parents at handling money?
- Do you consider yourself a spender or a saver? Why?
- What's your charitable-giving philosophy?
- Financially speaking, where do you see yourself in five to 10 years to come?
- Are you willing to live below your means for a while in order to have something better later in life?

This unit therefore, is designed to guide you answer the above questions and finding

an appropriate ways of managing finances. It will equip you with knowledge and skills as well as attitudes that will enable you to manage money. Under this unit, you will learn how to analyze financial needs effectively; determine ways to decrease expenses through reuse, recycling, reduction, and repair; develop personal budgets; setting saving goals; assess the various sources of finance; cut costs through reducing, recycling, repairing and reusing; develop strategies to manage debts; keep basic personal financial records; and develop plans to manage their finances.

Introductory activity: Importance of Coins.

Read the case study below and answer the questions that follow.

Every month, Kalisa and his cousins would go for the family meal at their grandparents' house. They would always wait excitedly for the moment their grandfather would give them a few coins, "so you can buy yourself something. Then all the children would run out to buy different toys, and sweets. The grandparents, aunts, uncles, and parents commented that, behaving like this, the children would never learn to manage their money. So they proposed a special test, in which their children would have to show over the course of a year and observe just how they could manage to manage those few coins.

Some of the children thought that they would save their money, but Kaneza and Mucyo, the two youngest kids, paid no attention, and they continued spending it all on sweets. Every time, they would show off their sweets in front of the other children, laughing and making fun of their cousins. They made Kamana and Manzi so angry that these two could no longer stand to keep saving their money. They joined Kaneza and Mucyo in spending whatever they had, as soon as possible, on sweets.

Kamali, on the other hand, had a will of iron. He saved and saved all the coins he was given, wanting not only to win the competition but also to achieve his dreams of being Entrepreneur, and at the end of the year he had collected more money than anyone. Even better, with so much money, he managed to buy a bicycle and gave it to a bicyclist for paying him every month. He was the clear winner, and the rest of his cousins learnt from him the advantages of saving.

When he was about to complete the third year of his plan, Kamali surprised everyone by turning up at the grandparents' house with a motorbike.

His dream is to buy many vehicles for transport services. And he always tells people how it is possible, with just a few coins well spent, how one can make his/her dreams a reality.

Referring to the story above and your knowledge about entrepreneurship skills and competences learnt before, answer the questions below.

- a. Who is supposed to save money?
- b. When are you supposed to save money?
- c. What are the best ways of saving money?
- d. Why do we need to save money?
- e. Explain the moral lesson that you learn from the above case study.

9.1. Need for Finance.

Activity 9.1

Observe the following figures and answer the questions that follow:



Questions

- a. Where does money come from?
- b. What do you understand by the terms "money" and "finance"?
- c. Explain different sources of income.
- d. Describe at least fifteen household expenses.

9.1.1. Need for money

In everyday life, human beings have different needs. Money is used in exchange when selling and purchasing different products and services. Money is not only needed to be used personally but also in business activities. Money buys goods

and goods buy money; but goods do not buy goods. ... Money is an asset (a store of value) which functions as a generally accepted medium of exchange, i.e., it can in principle be used directly to buy any good.

9.1.2. Accessing money

There are different sources of money such as working as self-employed or being employee. Money is gotten from different sources and is used according to the purpose of the owner. The best and secure way of accessing money is through saving. But based on the purpose of expenditure, especially when investing, money can be borrowed from different financial institutions such as credit and saving cooperatives, microfinance agencies, banks, etc.

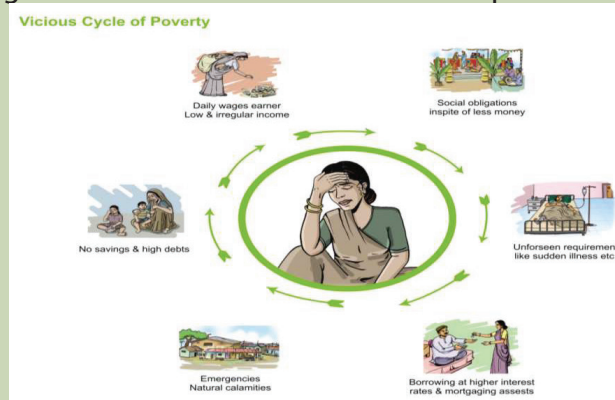
Application Activity 9.1

1. As a student of entrepreneurship, come up with different ways of getting money.
2. Differentiate wants from needs.
3. Make the total cost of all household expenses in your family.
4. Find out different ways to proceed for getting the money needed.

9.2. Financial fitness

Activity 9.2

Look at the images below and answer the followed questions



- a. What is the state of feeling of the person in the circle?
- b. Why do you think she is in that mood?
- c. What do you think should be done to be in good mood? Give clear explanations.

9.2.1. Becoming financially fit.

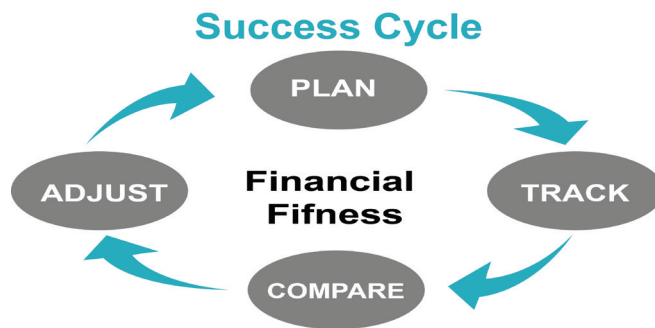


Figure 9.1: Success Cycle (Money 4 life).

Being financially fit means financial freedom. Financial freedom is found when one saves before spending and income is higher than expenses. In order to be financially fit, it requires to put into practice ways to decrease expenses through different ways such as reuse some used materials, recycling, reduction, repair and make financial plans for the future.

9.2.2. Decreasing spending

Financial planning is designed not to prevent your enjoyment of life but to help you obtain the things you want. Too often, however, people make purchases without considering the financial consequences. Some people shop compulsively, creating financial difficulties. You should detail your living expenses and your other financial obligations in a spending plan. Spending less than you earn is the only way to achieve long-term financial security.

Some practices of decreasing expenses

- Cut-down expenses relating to the things you want
- Retain expenses relating to the things you need
- Save before spending
- Track and record spending
- Compare expenses to income.
- Make a budget (spending and savings plan)

Make financial plans for the future

Personal financial planning is the process of managing your money to achieve personaleconomic satisfaction. This planning process allows you to control your

financial situation. Every person, family, or household has a unique financial position, and any financial activity, therefore, must also be carefully planned to meet specific needs and goals. A comprehensive financial plan can enhance the quality of your life and increase your satisfaction by reducing uncertainty about your future needs and resources.

The specific advantages of personal financial planning include:

- **Increased effectiveness** in obtaining, using, and protecting your financial resources throughout your lifetime.
- **Increased control** of your financial affairs by avoiding excessive debt, bankruptcy, and dependence on others for economic security. It can help you **avoid mistakes/ sidetracks**
- **Improved personal relationships** resulting from well-planned and effectively communicated financial decisions. Makes money work for you.
- **A sense of freedom** from financial worries obtained by looking to the future, anticipating expenses, and achieving your personal economic goals. Helps you make smarter decisions

The Financial Planning Process

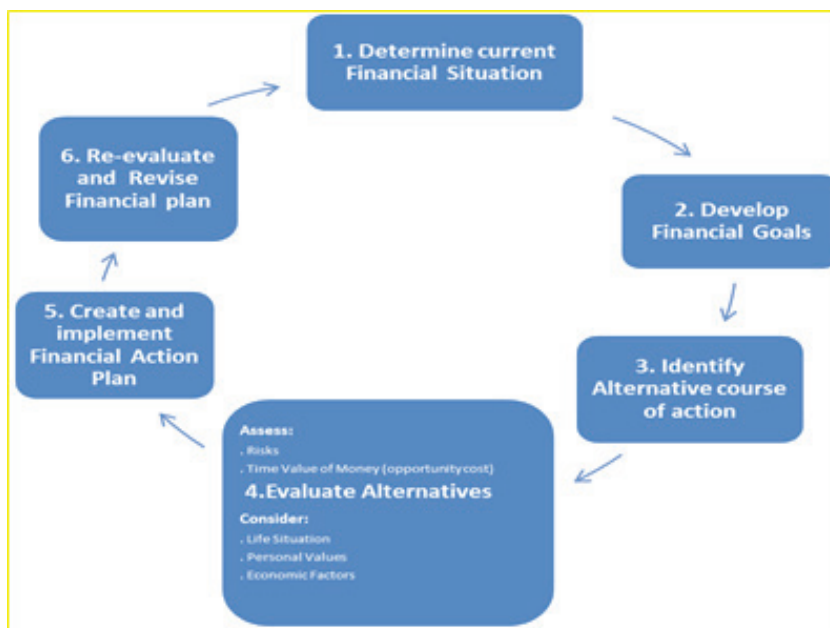


Figure 9.2: The financial planning process

1. Determining your current financial situation: In this first step of the financial planning process, you will determine your current financial situation with regard to income, savings, living expenses, and debts. Preparing a list of current asset and debt balances and amounts spent for various items gives you a foundation for financial planning activities.

- 2. Developing financial goals:** You should periodically analyze your financial values and attitude toward money. They will play a major role in shaping your financial goals. Analyzing your values involves identifying what beliefs you hold with respect to money and how these beliefs lead you to act in certain ways.
- 3. Identifying alternative courses of action:** Every decision closes off alternatives. For example, a decision to invest in stocks may mean you cannot take a vacation. A decision to go to school full time may mean you cannot work full time. Opportunity cost is what you give up by making a choice. This cost, commonly referred to as the trade-off of a decision, cannot always be measured
- 4. Evaluating alternatives:** Uncertainty is a part of every decision. Selecting a college or university major and choosing a career field involve risk. What if you don't like working in this field or cannot obtain employment in it? Other decisions involve a very low degree of risk, such as putting money in a savings account or purchasing items that cost only a few dollars. Your chances of losing something of great value are low in these situations.

In many financial decisions, identifying and evaluating risk is difficult. Some types of risk can affect everyone, such as interest rate risk or inflation risk. They arise from the financial and economic environment in which we live or from the products and services that we choose. Other risks are personal in nature, such as the risk of premature death or the risk of disability or loss of health.

When you travel, you often need a road map. Travelling the path of financial planning requires a different kind of map. Relevant information is required at each stage of the decision-making process. This book provides the foundation you need to make personal financial planning decisions. Changing personal, social, and economic conditions will require that you continually supplement and update your knowledge.

- 5. Creating and implementing a financial action plan:** In this step of the financial planning process, you develop an action plan. This requires choosing ways to achieve your goals. For example, you can increase your savings by reducing your spending or by increasing your income through extra time on the job. If you are concerned about year-end tax payments, you may increase the amount withheld from each pay cheque, file quarterly tax payments, or shelter current income in a tax-deferred retirement program. As you achieve your immediate or short-term goals, the goals next in priority will come into focus. To implement your financial action plan, you may need assistance from others. For example, you may use the services of an insurance agent to purchase property insurance or the services of an investment broker to purchase stocks, bonds, or mutual funds. Your own efforts should be geared toward achieving your financial goals.

6. Re-evaluating and revising the plan: Financial planning is dynamic process that does not end when you take a particular action. You need to regularly assess your financial decisions. You should do a complete review your finances at least once a year. Changing personal, social, and economic factors may require more frequent assessments. When life events affect your financial needs, this financial planning process will provide a vehicle for adapting to those changes. Regularly reviewing this decision-making process will help you make priority adjustments that will bring your financial goals and activities in line with your current life situation.

Application Activity 9.2

On the basis of your current situation or expectations for the future, identify two financial goals, one short-term and one long-term, using the following guidelines:

Step 1: Create realistic goals on the basis of your life situation.

A. Long-Term Goal

.....
.....

B. Short-Term Goals

.....
.....

Step 2: Explain how these short term goals are SMART goals.

- a. S:.....
- b. M:.....
- c. A:
- d. R:.....
- e. T:

C. What measures will you use to decrease expenses for achieving your financial goals?

D. How to achieve financial fitness?

9.3. Saving

Activity 9.3



- Referring to the illustration above, explain what is happening in each image.
- What are the consequences of overspending?
- Explain why it very important to save money.
- Where do you think you can you save money? Explain why?

9.3.1. Meaning of Saving

Saving is a conscious and deliberate way of setting aside a portion of the personal income for future use.

It is advisable to avoid overspending through the use of budget. Going through the process of putting together a monthly or annual budget can help to prioritize expenses and uncover areas where you may be able to free up more money used for savings and investments.

Obstacles to Saving

Procrastination. Delaying savings or putting savings off for another time;

Poor Spending Habits. Includes spending on unnecessary items; Impulse buying; hedonistic lifestyle

Culture of Dependency. Being over dependent on others.

Lack of Financial Literacy. Spending on liabilities or items that decrease in value over time; not knowing how your money will grow or work for you.

9.3.2. Saving goals

Because a person does not know what will happen in the future, money should be saved to pay for unexpected events or emergencies. Without savings, unexpected events can become large financial burdens. Therefore, savings helps an individual or family become financially secure. Money can also be saved to purchase expensive items that are too costly to buy with monthly income. Buying a new house, clothes, purchasing an automobile, or paying for a vacation, etc can all be accomplished by saving a portion of income. We usually save for:

- Basic needs,
- Household expenses,
- Education,
- Emergencies/safety,
- Retirement/security,
- Family wellbeing,
- Esteem,
- Self-actualization

9.3.3. Where to save

Some savers place their money in a jar, coffee can or a piggy bank which all is not safe and not encouraged. For short periods of time and small amounts of money, the piggy bank method may work, but long-term savers should use a safer method. It is wise to store money in financial institutions like banks depository institution. A depository institution is a business that offers financial services to people, such as savings and checking accounts. Unlike money stored at home which could be lost to a fire, burglary, or some other type of disaster, money stored in depository institutions is protected from loss.



Piggy Bank

Coffee Can

Jar

Figure 9.3. examples of where to save

Application Activity 9.3

1. Set three saving goals that you want to achieve in your future life
2. Explain different strategies for achieving the goals mentioned in (1) above.

Answer the questions by using the following table:

Time Frame	Saving Goals	Target Date	Total Cost	Monthly Savings Needed	Saving Strategies
Short-Term Goal					
Medium-Term Goal					
Long-term Goal					

9.4. Managing debts

Activity 9.4

After finishing secondary school, Mugisha had saved 50,000Frw from. He decided to invest in poultry farming in his village. He bought 4 laying eggs hens and the remaining money was used for cleaning, clearing where to keep the hens and feeding them. After one year, Mugisha found that the hens were growing in number; he decided to expand his business by investing more money for more benefits. He joined Bank of Kigali for borrowing more money to invest in his poultry farming. He used well his loan and then after the second year he managed to sponsor himself to the University for Animal Health Studies to acquire more skills and competences in poultry keeping. He is now a farming entrepreneur in the district where he lives. After reading the above story about Mugisha, answer the following Questions

1. Explain the Reasons why Mugisha went to Bank of Kigali
2. Explain strategies that you think Mugisha used having his loan settled and benefited in growing his business
3. What lessons do you learn from Mugisha's experience?

9.5. Good loans v/s bad loans, benefits and risks of borrowing,

Good loans v/s bad loans

Loan is the money borrowed from different sources either for buying needed goods and services or for investing. Loan can be either good or bad. Good loan is the one that is well performed. It means that the borrower pays well the loan and benefit from it and the lender is well repaid with having the desired profit. When the loan is not well performed, it means that it is not well repaid or even completely failed to be repaid.

Money can be borrowed from financial institutions such as banks, microfinance agencies, or even from credit and saving cooperatives. It can also borrowed from the people who have it but in this case no interest should be requested, when contrary individual personal borrow money with interest, it is a kind of financial malpractice that is taken as criminal and it is punishable by criminal laws.

Benefits of borrowing

When you borrow money from a bank or other lender you enter into a contract with them which governs the repayment. When you borrow money most lenders will offer you collateral in form of payment protection insurance. This gives you protection in case you are suddenly unable to pay, for example due to ill health, an accident or loss of a source of income. It can cover car finance, personal loans, credit cards and store cards, catalogue debts and mortgages.

Risks of borrowing

People get into debt for a variety of reasons and it is not always their fault. Sometimes overspending or bad budgeting is the cause of debt. Sometimes, it's just bad luck and unexpected change of circumstances. Debt is something that can affect anyone at any time. For example the loan guarantee can be used to repay loan and the borrower become very poor.

It is an advice that if you find you are having trouble meeting your payments do not panic and don't ignore the problem. Get to grips with your finances, review your budget and take action before it gets out of control. Contact lenders and tell them about the problem. If in doubt seek advice.

9.6. How to manage a debts

Maintaining control over your credit-buying habits will contribute to your financial goals. The overuse and misuse of credit may cause a situation in which a person's debts far exceed the resources available to pay those debts.

Everyone with even a little bit of debt has to manage their debt. If you just have a little debt, you have to keep up your payments and make sure it doesn't get out of control. On the other hand, when you have a large amount of debt, you have to put more effort into paying off your debt while juggling payments on the debts you're not currently paying.

Ways of debt management include the following;

1. Know who and how much you owe.

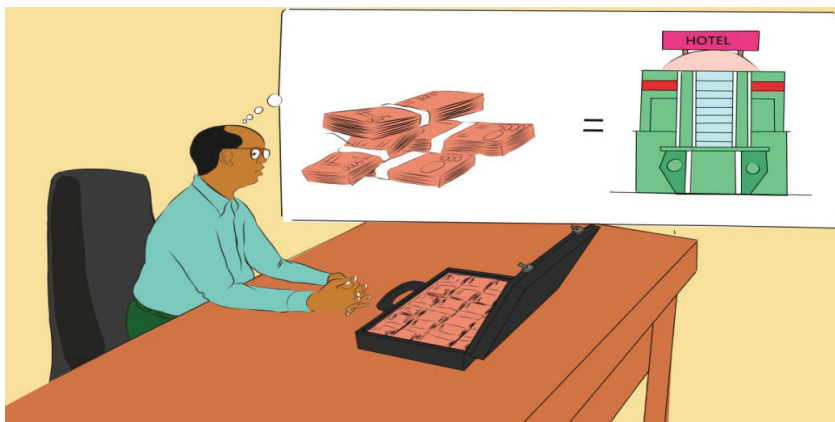


Figure 9.4. debt management

Make a list of your debts, including the creditor, total amount of the debt, monthly payment, and due date. You can use your credit report to confirm the debts on your list. Having all the debts in front of you will allow you to see the bigger picture and stay aware of your complete debt picture.

Don't just create your list and forget about it. Refer to your debt list periodically, especially as you pay bills. Update your list every few months as the amount of your debt changes.

2. Pay your bills on time each month.

Late payments make it harder to pay off your debt since you'll have to pay a late fee for every payment you miss. If you miss two payments in a row and your interest rate and finance charges will increase.

If you use a calendaring system on your computer or Smartphone, enter your payments there and set an alert to remind you several days before your payment is due. If you miss a payment, don't wait until the next due date to send your payment, by then it could be reported to a credit bureau. Instead, send your payment as soon as you remember to.

3. Create a monthly bill payment calendar.

Use a bill payment calendar to help you figure out which bills to pay with which paycheck. On your calendar, write each bill's payment amount next to the due date. Then, fill in the date of each paycheck. If you get paid on the same days every month, like the 1st and 15th, you can use the same calendar from month to month. But, if your paychecks fall on different days of the month, it would help to create a new calendar for each month.

4. Make at least the minimum payment.

If you can't afford to pay anything more, at least make the minimum payment. Of course, the minimum payment doesn't help you make real progress in paying off your debt. But, it keeps your debt from growing and keeps your account in good standing. When you miss payments, it gets harder to catch up and eventually your accounts could go into default.

5. Decide which debts to pay off first.

Use your debt list to prioritize and rank your debts in the order you want to pay them off. You can also choose to pay off the debt with the lowest balance first.

6. Pay off collections and charge-offs.

You can only pay as much on your debt as you can afford. When you have limited funds for repaying debt, focus on keeping your other accounts in good standing. Don't sacrifice your positive accounts for those that have already affected your credit. Instead, pay those past due accounts when you can afford to do it. Be aware that your creditors will continue collection efforts on your account until you bring the account current again.

7. Use an emergency fund to fall back on.

Without access to savings, you would have to go into debt to cover an emergency expense. Even a small emergency fund will cover little expenses that come up every once in a while.

8. Use a monthly budget to plan your expenses.

Keeping a budget helps ensure you have enough money to cover your monthly expenses. Plan far enough in advance and you can take early action if it looks like you won't have enough money for your bills this month or next. A budget also helps you plan to spend any extra money you have left after expenses are covered. You can use this extra money to pay off debt faster.

9. Recognize the signs that you need help.

If you find it hard to pay your debt and other bills each month, you may need to get help from a debt relief company, like a credit counseling agency. Other options for debt relief are debt consolidation, debt settlement, and bankruptcy. These all have advantages and disadvantages so weigh your options carefully.

Application Activity 9.4

Based on the knowledge from financial fitness, saving and managing debts and setting saving goals, answer the following questions:

1. Kamana has taken a loan to grow his business. He recently missed a few weeks of work due to illness. This resulted in lost pay of his business sales and he has fallen behind in paying his loan. What actions would you recommend for Kamana?
2. Set strategies that can help Kamana to settle the loan.

9.7. Record-keeping and budgeting

Activity 9.5

1. Make a list of all important documents/records you think should be kept at your home.
2. Give reasons why each of the mentioned documents/records should be well kept.
3. Where do you think those documents should be kept and why?

9.7.1. Basic record-keeping

Personal documents, household records and important legal papers accumulate continually. A recordkeeping system will help you organize the important information concerning your household financial affairs and keep track of your personal finances and hard-to-replace documents.

An important benefit of keeping orderly records is that you can retrieve document payments when required, such as to prove payment of child support, medical bills to insurance companies, or to obtain warranty coverage. Also you can document losses for fire damage or theft for insurance claims. Recordkeeping can help you save time and money while giving you peace of mind.

1. Setting up a record keeping system includes four steps:
2. Gather and organize financial information.
3. Decide where each type of record should be kept in a home file or safe deposit
4. Organize the records kept in your home file and place appropriate records in a safe deposit
5. Review and discard unneeded records.

Examples of some records to be kept

- Personal papers such as birth, marriage and death certificates, adoption papers, passports, citizenship papers, etc.
- Automobile and other titles
- Certificates of deposit or bank savings certificates
- List of insurance policies and their numbers
- Property records, title and deeds
- Records of home improvements
- Legal papers, leases and contracts
- Copy of household goods inventory with photos or
- Names and addresses of your financial advisors and financial institutions
- Copy of financial plans, net worth statements
- List of checking and savings accounts by financial institution
- Etc.

9.7.2. What is budgeting?

Budgeting is the process of setting targets, covering all aspects of expenses and income. Budget informs how much one can spend to achieve financial goals.

Budgeting system shows how much can be spent, and gives managers a way to check whether they are on track. The following are steps in budgeting:

1. Set financial goals

- **Identify and write them down**
 - i. Long term (1-5 years)
 - ii. Short term (within a year)
- **Make them achievable, practical, and owned by everyone**
 - i. Keep them in the fore front
 - ii. Journal the process
 - iii. Celebrate their completion
- **Write them into your monthly budget**
- **Adjust them as necessary**

2. Estimate your income

- Make a list of each income stream that you receive on a regular basis each month. The key is to only include that income you get every month.
- Include both monthly wages earned from your job(s) as well as monthly supplemental income (i.e. child support, disability, etc.)
- Mark down the date these are received.
- Calculate the monthly income total.
- Record, but do not include any periodic income you may receive at this point.

3. Record what you spend

- Review the previous month's check book ledger, bank statements etc. and record you're spending and income.
- Record what you spend for the next month and write down what your actual expenses and income.

4. Budget for actual and unexpected expenses

Actual Expenses: Identify fixed expenses (i.e. rent, scholastic materials and school dues, transport payment, food, entertainment, etc). Record the monthly payment deadline and plan according to your payday date.

Unexpected expenses: Unexpected expenses are those expenses that are not planned. The costs used in unforeseen circumstances.

5. Review and evaluate monthly

- Review on a monthly basis, especially when you begin the process.
- Evaluate the budget against your personal financial goals.
- All monthly deficits need to be addressed immediately
- All surplus experienced needs to be added to savings

- Consider operating on a cash envelope system
- Do not get discouraged.

Types of budget

There are mainly three types of Budget such as:

- i. **Balanced budget.** It's a budget where the expected income is equal to expected expenditure in a given financial year.
- ii. **Surplus budget.** It's a budget where the expected income is more to expected expenditure in a given financial year.
- iii. **Deficit budget.** it's a budget where the expected income is less to expected expenditure in a given financial year.

Other types of budget include;

- a. **Income Budget:** it's a budget that sets minimum target for desired revenue level to be achieved over a period of time.
- b. **Expenditure Budget:** it's a budget that sets a maximum target for costs.
- c. **Profit Budget:** it's a budget that sets a minimum amount of money for the profit to be achieved over a period of time.

Profit Budget is a function of income budget and expenditure budget. The higher the income budget, the lower expenditure and the higher the profit.

9.4.1. Personal Budgeting

A personal budget is a sum of money that is made available to someone who needs to achieve personal financial goals.

A Personal Cash Budget is useful for anyone who wants to know where their money is going. Completing a personal budget gives greater control over personal expenditure and lets you determine where savings could be made for larger items, such as to build up a sum of money for future investments or retirement.

Start by getting organized. Find bank statements, bills and receipts. These will help you see where your money is being spent (rent, mortgage, hire purchase, telephone, power, insurance, groceries and so on).

Creating a personal budget

- Recognize your income
- Track your expenses;
- Figure out the amount of money you're spending;
- What do you have to spend?
- What are you spending on that is not a necessity?

Example of budget statement

Items	January	February	March
Income	120,000Frw	150,000Frw	200,000Frw
Household costs	50,000Frw	50,000Frw	50,000Frw
Other costs	30,000Frw	40,000Frw	30,000Frw
Total expenditure	80,000Frw	90,000Frw	80,000Frw
Balance	40,000Frw	60,000Frw	120,000Frw

Application activity 9.5

Budget statement of Mr. Mugisha

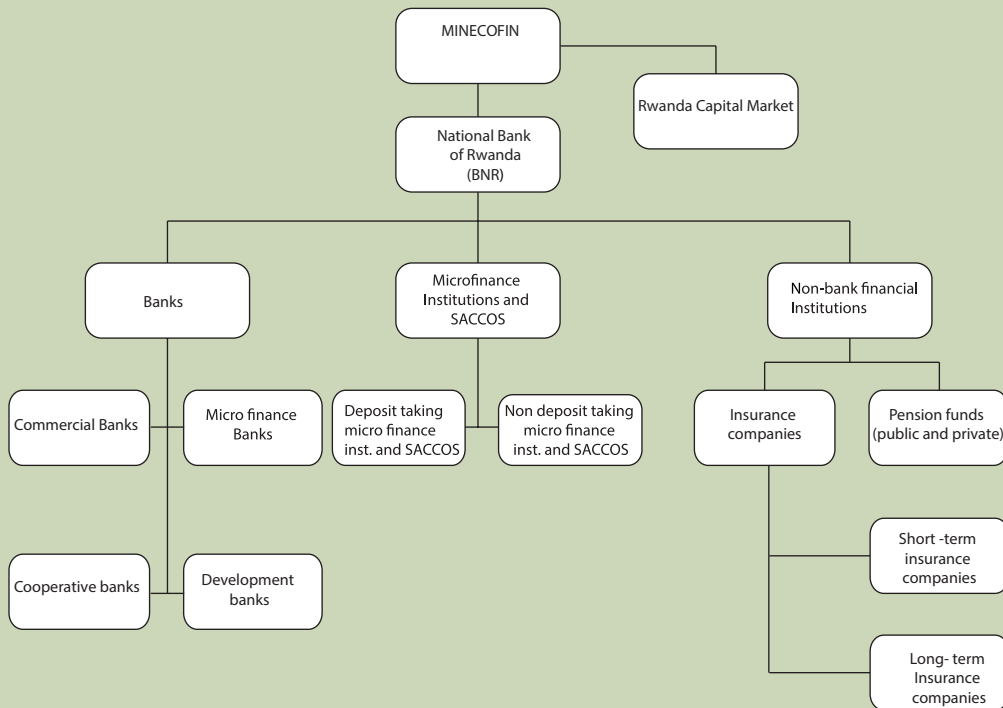
Items	January	February	March
Income	200,000Frw	250,000Frw	
Household costs		60,000Frw	90,000Frw
Other costs	30,000Frw		60,000Frw
Total expenditure	100,000Frw	100,000Frw	
Balance	100,000Frw	150,000Frw	120,000Frw

1. Complete the above budget statement of Mugisha
2. Each month Kayiranamura and Muhire have lengthy discussions about their household spending. They do not understand why they are continually short of money even though they both have good salaries. What actions might be taken to avoid personal and financial difficulties?
3. Help them to make a six months budget if each one is paid 200,000Frw month with the purpose of saving at least 100,000Frw per month.
4. What are the records that can you advise them to keep for their expenses management?

9.8. Exploring savings and loans in Rwanda

Activity 9.6

Structure of the Rwandan Financial Sector, 20



Source: BNR Financial stability Report, 2011

After reading very well the above structure answer the following questions:

1. Based on what you know, explain each level in the structure?
2. Where do you think loans can be more found among those institutions? Explain your answer.
3. Give examples of different electronic banking categories used in banking institutions especially commercial bank.

9.8.1. Financial structure and Institutions in Rwanda

The financial institutions in Rwanda have been summarized to include the following: Ministry of Finance and economic planning, National Bank of Rwanda, Rwanda banking, and Non-Banking Financial Institutions.

In banks there are Commercial banks, microfinance banks, Cooperative Banks and Development Banks.

The National Bank of Rwanda was founded in 1964 and has the mandate to supervise the financial sector.

Objectives of the central bank

- To maintain financial system stability with a view of encouraging and promoting the development of the productive resources of Rwanda.
- To promote the access to finance whilst strengthening a stable and sound financial system through licensing of banks, insurers, pensions schemes, microfinance institutions, forex bureaus, and credit reference bureaus.

Mission is to ensure price stability and sound financial system

Vision to become a world-class central bank

Management of National Bank of Rwanda

The Bank is headed by the Governor who is appointed and dismissed by the Presidential Order and the Vice Governor who is appointed and dismissed by a Prime Minister's Order.

Activities of National Bank of Rwanda

For the Bank to achieve its missions, it shall perform the following duties:

- To define and implement the monetary policy
- To organize, supervise and regulate the Foreign exchange market
- To supervise and regulate the activities of financial institutions notably banks, micro finance institutions, insurance companies, social security institutions, collective placement companies and pension funds institutions
- To supervise and regulate payment systems
- To mint and manage money
- To hold and manage official foreign exchange reserves
- To act as State Cashier
- To carry out any other task that this law or any another law may assign to it

List of licensed banks-June 2017

I. Commercial Banks

1. Bank of Kigali Ltd
2. I&M Bank Ltd
3. COGEBANQUE Ltd
4. KCB Bank Rwanda Ltd
5. Ecobank Rwanda Ltd
6. BPR Atlas Mala
7. Equity Bank Rwanda Ltd
8. Access Bank (Rwanda) Ltd
9. Bank of Africa Rwanda Ltd
10. Guarantee. Trust Bank (Rwanda) Ltd
11. Crane Bank Rwanda Ltd

II. Microfinance banks

1. Unguka Bank Ltd
2. Urwego Bank Ltd
3. Commercial Bank of Africa (Rwanda) Ltd
4. AB Bank Rwanda Ltd

III. Development Bank

Development Bank of Rwanda Ltd

IV. Cooperative Banks

Zigama css

9.8.2. Understanding ATMs (debit and credit cards).

Automatic Teller Machine (ATM) card is used to access a computer that allows a bank customer to get cash, make deposits or transfer money between accounts. ATMs are found in banks and many other convenient locations and can be used 24 hours a day, seven days a week. However, when an account holder uses an ATM card at an ATM that is from a different bank, there is usually a fee charged for the transaction.

Credit Card: You borrow money from a credit card issuer and you pay later (with interest, if you do not pay the balance in full and on time).

Debit Card: Your own money is taken directly from your checking account to make the payment. It acts like a check, but it's faster and more convenient.

Debit card is a "pay now" point-of-sale transaction card that replaces cash and checks. Debit card transactions are deducted electronically from a cardholder's savings or checking account. Debit cards differ from ATM cards because they can be used to make purchases, and they differ from credit cards because they are not loans.

Advantages and disadvantages of ATMS

ADVANTAGES	DISADVANTAGES
<ul style="list-style-type: none">• It's convenient to use in a wide variety of places in stores, on the phone or online.• You can better manage your budget using your monthly statement with the details of all of your purchases.• It is safer than carrying a lot of cash.• You are not responsible for charges if your card is stolen as long as you report it immediately.• You can build your credit history.	<ul style="list-style-type: none">• If you make a late payment, do not pay the balance in full, or exceed your credit limit, you will have to pay extra in fees and interest.• Credit cards can lead to debt and negatively affect your credit history if it is not managed properly.• If you do not track your purchases, it can be difficult to know how much you spend in one month until your statement arrives.• The terms and conditions can be confusing and, in some cases, they are only available in English.

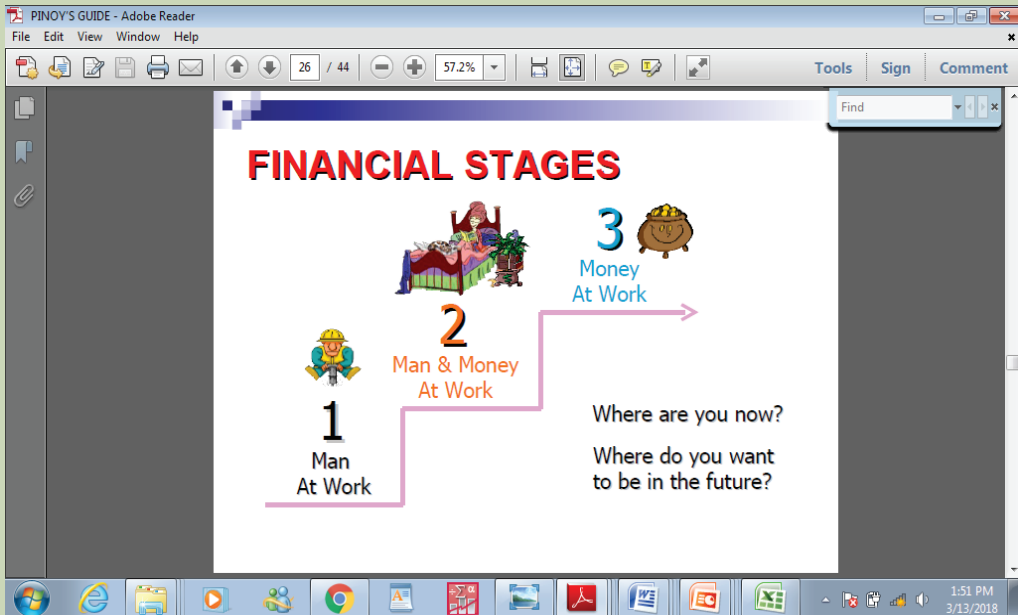
Activity 9.6

Make a list of financial institutions that are found in your community where you live.

1. Choose one financial institution that you know and that you can work with when needing to take loan and explain why.
2. Make field trip and visit where there is financial institution that use ATM and request for a convenient bank officer to answer the following questions:
3. How is ATM used?
4. What are the advantages of using ATM Cards?
5. Differentiate Credit Cards from Debit Cards?

9.9. Financial fitness plan

Activity 9.7.



Analyze the above illustration and answer the following Question:

1. Under guidance of the above illustration, explain different strategies in sequential order for having financial freedom

9.9.1. Preparing personal financial fitness plans

Steps in financial planning

1. Set family goals together;
2. Set a time frame for achieving family goals;
3. Discuss and determine how each member will contribute to achieving family goals;
4. Remind everyone of their commitment from time to time; and
5. Monitor whether the family is achieving its goal or not.

Setting a time frame for each goal

Start by answering the following questions:

- **Education.** When will all the children/siblings finish high school or college?
- **Housing.** When can you buy your own home or at least make the down payment for a new home?

- **Retirement.** At what age do you plan to retire?
- **Health and Protection.** Do all the children have the required vaccinations? Do all adults have family health plans?
- **Savings & Investment.** How much & until when should you save? Where and how much to invest?

Setting up and using a budget involves six basic steps:

1. The first step is to **establish your financial goals:** short, mid and long-term.
2. Next, you should **examine your current financial position.** What is your household income, monthly and annually? How much do you spend? How much is left over for savings and other purposes? What and how much is your debts?
3. The third step is **to write out a monthly budget** for each of 12 consecutive months, itemizing expenses in various categories and estimating how much you can reasonably expect to spend in each category.
4. Now **relate your budget to your overall financial planning.** How much money do you expect to have left over after expenses? How will this money be allocated among your financial goals? Following the budget you have set up, how long will it take you to reach each goal?
5. Throughout each month, **make regular entries of your actual expenditures** in each expense category. At month end, total the amounts in each category, and match these figures against your original estimates. At year-end, total the monthly amounts for the year.
6. Finally, **review and revise the budget to keep it useful and up-to-date.** At the end of every month, measure your performance against the budget targets. Midway through the year, review the budget categories and estimates and, if they need adjustment, make the necessary changes. At year-end, repeat this review and prepare a new 12-month budget with revised estimates of income and expenses.

9.9.2. Giving Advice to others

After being financially fit and have put into practices different process of becoming financially free you can help other as **Financial Counselor** and give advice about financial development based mainly on Planning, Saving and Investing.

Your financial future is in your hands. The following tips for financial fitness can be helpful to you:

- **It's up to you.** Remember, you are responsible for your money. Keep a budget, review it regularly and make sure you include a plan for regular savings. By

knowing what you earn and what you spend, you'll know where you stand and where you're heading.

- **Be realistic:** Don't spend more than you earn, and only borrow what you can realistically afford to repay.
- **Plan ahead:** Map your financial future, including how you plan to fund your retirement.
- **Keep track:** Keep records of all your financial transactions together in one place – from bank statements to investment statements. Check your statements regularly, and talk to your financial institution if there are any inconsistencies, or if there is anything you don't understand.
- **Protect your assets:** Make sure you've got adequate *insurance* – to cover your belongings, your income and your health.
- **Understand investment:** Understand the basics of investments, including *future wellbeing*. Remember that high returns generally equal high risk and only take on a level of risk that you feel comfortable with. Do an annual 'health check' on your investments.
- **Know the cost:** Know what your financial products are costing you – ask questions if you don't understand the fine print and shop around to find the products that best suit your needs. Don't sign up for anything you don't fully understand.
- **Be cautious:** Be wary of investments offering a high return with little or no risk. If it sounds too good to be true, it probably is!
- **Get expert advice:** Seek professional and qualified financial advice when it counts (eg. buying a house, planning for retirement, insurance, *investing* and tax issues) and get a second opinion if you feel unsure.
- **Educate yourself:** Take the time to teach yourself more about finance and don't be embarrassed to talk about money with people you can trust.

Application Activity 9.7



Starting by today, it doesn't matter how small your savings contribution is, try to save. Go to the bank of your interest as chosen in the questions before and open a student account. Before opening, ask the Bank officer the following questions:

1. What is a student Account?
2. What are the benefits of that account?

After opening the Account, continue to save the amount of money gotten and put into practice the Financial Plan and budget designed in the previous questions.

3. Explain how you will use that account for achieving to financial fitness in your five years from now.

Skills Lab Activity 9.8

- For any business activity of your choice, suggest strategies or how you will cut costs/expenses using the 4Rs (reducing, recycling, repairing and reusing)

End of Unit 9 Assessment

1. Read the following dialogue and answer the questions that follows;

Does what you know now about money management, affect your future?

- **Of course what you know today affects tomorrow**
 - You couldn't drive a car without a license
- **That's why you need to begin learning about how to spend your money wisely today**

How does your attitude toward money change as you age?

- **Five-Year-Old:**

Come On mom, can I have some money to buy that ring?

- **Fourteen-year-old:**

- Mom I want 10,000Frw to buy that designer label top and those cool pants.


- **Eighteen-Year-old:**
 - Shoot, I know how i can get money for college. I'll ask mom.

- **Forty-Year-Old**

I need to save for my retirement. No excessive spending.

Questions

- With examples explain how your money management affects your future wellbeing.
 - When do you think can a person start to save? Explain your answer.
 - Design a financial plan of your choice then do the following:
 - Explain the strategies of achieving that financial plan
 - Analyze that financial plan and make a budget for it
2. Based on the financial knowledge that you have about planning, saving and investment, advise someone seeking your financial guidance so that s/he may be financially fit.



UNIT 10
ACCOUNTING
PRIME BOOKS

UNIT 10: ACCOUNTING PRIME BOOKS



Accounts	Dr	Cr
1.Cash	XXX	
2.Commission		XXX
3.		XXX
4.		
TOTALS	XXX	XXX

Key unit competency: To be able to record accounting transactions

Introduction

Accounting is an ancient art, as old as money itself. In the beginning, accounting has been elementary. The modern system of accounting owes its origin to **Fra Luca Bartolomeo de Pacioli, (commonly known, Luca Pacioli), an Italian mathematician**, who lived in 1447–1517. Luca Pacioli codified rather than invented the system of accounting and he is widely referred to as the “Father of Accounting and Bookkeeping”. Even in our country, businesses development and different activities either in public or in private sector have clearly indicated the need of Accounting and Bookkeeping. The Rwandan system of accounting is as scientific and systematic

just as in the developed countries.

Most organizations if not all run on information. A family, a church, a school, a hospital or governments, and of course, people who own their own businesses must keep records none of them can operate without record of such information especially monetary one. Accounting is therefore considered as the art of handling record, analyzing and interpreting accounting information.

The chances are that no matter what kind of job you take when you graduate, you will need to know how to keep records. When you study record keeping, you will be learning how to keep many different kinds of records. After you have learned to record accounting transactions, you will be able to take care of both your personal or even organization and business affairs.

It is in this vein that most of companies either private or public recruit professionals accountants to help them in such activity. Accounting requires application of different skills and tools to measure the business performance. In order to assess the business' performance, there is a need to provide answers to many questions such as:

- i. What does the business own?
- ii. What does the business owe?
- iii. Whether the business has earned profit or suffered loss over a period?
- iv. What is the business' financial position? Is it better off or moving towards bankruptcy?

To find answer to the above questions, this unit will enhance your understanding of business transactions, accounting systems namely single entry and double entry, books of original entry namely general journals and special journals and trial balance where, errors will be discussed and corrected accordingly. This information will be useful in recording accounting transactions and draw trial balance to verify if transactions have been correctly recorded, if not, then correct errors.

Introductory Activity: A Case study

In our daily life, we have many professions and careers to be engaged in. Some people become teachers, medical doctors, other people become engineers and yet others work as priests, pastors or sheikhs and traders, agriculturists etc. In the business world, some of the mostly heard of professionals are accountants. What accountants do is very important for every business enterprise because accountants help manage the finances of an enterprise.

As an entrepreneur, you need not to be an accountant but you need to have basic knowledge of accounting. The need to know the basics of accounting is crucial even if you are running a small enterprise and cannot afford to employ a full time accountant.

Knowledge of accounting also helps you make informed decisions, because accounting is the language of business.

Questions

From this case study, answer the following:

1. What do you think accountants do?
2. What do you think the accounting is for?
3. Is it necessary for entrepreneurs to have the basic knowledge of accounting? Justify your answer?

Recall that Accounting is the art of recording, classifying, summarizing, interpreting and reporting business transactions in a significant manner in terms of money while bookkeeping is the art of recording business transactions in a set of books of accounts.

Accounting is the language of business.

The main purpose of language is communication of ideas. Similarly, is the purpose and role of accounts for a business. A businessperson has to keep a systematic record of the financial activities of his firm so that he/she can know the financial position. What the business owns are assets and what it owes are the liabilities. It is necessary for every businessperson to know where he/she stands in many respects:

- i. What he/she owns?
- ii. What he/she owes?
- iii. Whether he/she has earned profit or suffered loss over a period?

- iv. What is his/her financial position? Is he better off or moving towards bankruptcy?

10.1. Business Transactions

Activity 10.1

1. What do you think businesses do on their daily basis?
2. What may be the positive impact of selling on cash and credit basis?
3. Identify any business either nearest your school or in the community. Visit that business and find out how it records its daily Business Transactions.

Business transactions refer to any dealing between two or more parties that involves exchange of value. It may involve exchange of goods and services for money or goods and services. There are always two or more parties to a business transaction, a party that gives out value and the other party that receives it .

10.1.1. Types of business transactions

1. Cash transaction: Cash is money in form of coins and paper notes. Cash transaction refers to any dealing between two or more people that involves exchange of goods and services for immediate payment in terms of money (cash).

It is also defined as business activity carried out with immediate payment of money on spot in exchange. Note that cash transaction involves cash sales and cash purchases.

a. Cash purchases: A cash purchase is a transaction where goods and services are bought and money is paid immediately or payment for them is made on spot.

b. Cash sales: A cash sale is a transaction where goods and services are sold and payment for them is made on spot.

2. Credit transaction: A credit transaction is business dealing between two or more parties involving exchange of goods and services where payment for them is made at a later date. It can also be defined as a business activity carried out with a view to defer payment to a specific future date. Credit transactions include credit sales and credit purchases.

a. Credit purchases: A credit purchase is a transaction where goods and services are bought and payment for them as promised or made at a future date.

b. Credit sales: A credit sale refers to selling of goods or services and payment for them is promised or expected at a future date.

1. Installment transaction: This is a system that allows a customer to pay a certain portion of the price of the goods or services on the day he/she takes them and promises to pay the remaining amount in agreed portion at regular intervals until the whole amount is settled. Installment transaction can be under hire purchase or deferred system.

10.1.2. Steps for transaction analysis

Accounting transaction analysis can be broken down into six steps:

1. Is the transaction an accounting transaction?

In order to be identified as an accounting transaction, the transaction must relate to the business and involve a monetary amount. For example, the signing of a rental agreement is not in itself an accounting transaction as there is no monetary amount involved. However, the payment of a deposit under the rental agreement is an accounting transaction, it relates to the business, and there is a monetary amount involved.

2. Which ledger accounts does the transaction affect?

Identify which accounts the transaction is going to affect. For example, the cash payment of rent for the accounting period is clearly going to affect the cash account and the rent expense account.

3. What account type does each of the accounts involved belong to?

Each account can be identified with an account type, assets, liabilities, capital/equity, income/revenue or expenses. Using the rent example, the cash account would be identified as an asset account, and the rent expense account is identified as an expense account.

4. Is the balance on each account going to increase or decrease as a result of the transaction?

In the example used above, cash is going to leave the business when the rent is paid, so the cash account should decrease. The amount of rent paid is going to increase, so the rent expense account should increase as a result of the transaction.

5. Will this increase or decrease lead to each account being debited or credited?

The purpose of identifying the type of account in step 3 above, is to make it easier to decide whether an increase or decrease requires the account to be debited or credited.

Remember, the extended accounting equation is:

- **Assets + Expenses = Liabilities + Capital/Equity + Income/Revenue**

Items on the left hand side of the equation are increased by a debit and decreased by a credit; items on the right of the equation are increased by a credit and decreased by a debit.

6. What is the amount to be entered into each account?

Identify from the source documents the monetary amount to be entered for each account.

Accounting Transaction Analysis Table

The accounting transaction analysis described in the six steps above, is best set out in table format to ensure that important considerations about the transaction are not overlooked.

In the above example, suppose the cash payment for the rent was the amount of 4,000, using the six step process we have the following analysis of the transaction.

1. This is an accounting transaction as it relates to the business and involves a monetary amount.
2. The accounts involved are the cash account and the rent expense account.
3. The two accounts types are an asset account (cash) and an expense account (rent).
4. Cash is decreased and rent is increased by the transaction.
5. A decrease to an asset account is a credit; an increase to an expense account is a debit.
6. For each account the monetary amount is 4,000

This can then be summarized in the accounting transaction analysis table as follows:

Transaction: Payment of rent expense for the period

Accounts	Type	Change	Dr or Cr	Amount
Cash	Asset	Decrease	Credit	4,000
Rent	Expense	Increase	Debit	4,000

10.1.3. Accounts affected by the transaction

There are five (4) accounts in accounting that are affected by business transactions

1. Assets accounts,
 2. Capital accounts,
 3. Liability accounts,
 4. Expenses accounts,
 5. Income accounts,
- **Assets:** These are resources controlled by the organization/entity that arise from past transactions or events and from which future economic benefits are expected to flow (inflow) to the firm/enterprise.

Example, if a business sells goods on credit then it has an asset called a **debtor**. The past event is the sale on credit and the resource is a debtor. This debtor is expected to pay, so that economic benefit will flow towards the firm i.e. in form of cash once the customer pays.

Assets are classified into two main types:

i. Non-current assets/fixed assets

Non-current assets are resources acquired by the business to assist in earning revenues and not for resale. They are normally expected to be in the business for a period of more than one year. E.g.

- Land and building;
- Plant and machinery;
- Fixtures, furniture, fittings, and equipment;
- Motor vehicle, etc.

ii. Current assets/non-fixed assets

Current assets are resources not expected to last for more than one year. They are in most cases directly related to the trading activities of the firm. E.g.

- Stock of goods for purpose of selling;

- Trade debtors'/ account receivable;
- Cash at bank;
- Cash in hand

Note: When assets increase, you debit that asset account and vice-versa (when assets reduce, you credit that asset account)

- **Liabilities:** Liability is obligation of a business as result of past events settlement of which is expected to result to an economic outflow of amount from the business.

E.g. when a business buys goods on credit, then the firm has a liability called a creditor. The past event is the credit purchase and the liability being the **creditor**. The firm will pay to the creditor and therefore there is an outflow of cash from the business.

Liabilities are classified into two main classes:

i. Non-current liabilities or long term liabilities

Non –current liabilities are obligations that are expected to last or be paid after one year. This includes long-term loans from bank or other financial institutions.

ii. Current liabilities

Current liabilities are obligations that last for a period of less than one year and therefore will be paid within one year. E.g.:

- Trade creditors or account payable (owed amounts as a result of buying goods on credit)
- Other creditors (owed amounts for services supplied to the firm)
- Bank overdraft (amounts advanced by the bank for a short-term period)

Note: When a liability increases, you credit that liability account and vice-versa (when liability reduces then, you debit that liability account)

- **Capital:** Capital is the residual amount on the owner's interest in the firm after deducting liabilities from the assets.

Recall the accounting equation:

Assets = Liabilities + Capital

Then,

Capital = Assets – Liabilities

The accounting equation can be expressed in a simple report called the “balance sheet”

Note: When capital increases, you credit capital account and vice-versa (when capital reduces, you debit that capital account)

- **Income:** income account shows income received by the business from its operations and from elsewhere. It contains all cash and credit sales, different fees, commissions, grants that have been received by the business.

Note: When income increases, you credit that income account and vice-versa (when income reduces, you debit that income account)

- **Expenses account:** This account records the expenses of the business and this can be categorized as follow:
 - Cost of goods sold (raw materials, direct labor)
 - Administrative expenses like salaries, rent, depreciation, operating expenses etc.
 - Selling expenses like advertising, promotion, discount, etc

Note: When expense increases, you debit that expense account and vice-versa (when expense decreases/reduces, you credit that expense account)

Application Activity 10.1

1. Discuss the disadvantages of selling on credit to a business
2. Differentiate the debtor’s obligations from those of creditors
3. Briefly, discuss the types of accounts
4. Using the steps of transaction analysis, evaluate what would happen if the cash receivable for renting business assets was 60,000Frw?

10.2. ACCOUNTING SYSTEMS

Activity 10.2.1

1. What do you understand by accounting?
2. Consider any school canteen keeper or even a retailer who properly records his/her transactions. Which system do you think that school canteen keeper uses in record keeping?

10.2.1. Types of book keeping

There are two types of book keeping; namely

- a. **Single entry system**
- b. **Double entry system**

1. **Single entry system of bookkeeping**

An entry refers to the business' process of entering some financial information in an account.

Single entry system is a system or a method where transactions are recorded once in the books of accounts. Incomes and expenses are recorded but changes in assets and liabilities are not recorded. The transactions are recorded in the cashbook only and they are not posted to the ledger for the second recording. Only cash in (revenues) and cash out (expenses) are recorded.

When all transactions have been fully recorded, both the debit and credit columns are totaled, then, the totals are shown after underlining the last amounts on the same row. The total is then underlined with double lines. The difference between the two sides is then added to the smaller side as balance carried down (bal. c/d) or balance carried forward (bal. c/f) so that both columns balance. The balance c/d or c/f is then placed below the totals but on the opposite side (if it was on the debit, then placed on the credit side and vice-versa). This balance is then known as the balance brought down or forward (bal b/d or b/f) to start the following period.

- If there is use of bal.c/d, you should use bal. b/d consistently.
- If you use bal .c/f, you should use bal. b/f as well. Make sure that this is followed through the accounting practice.

Advantages of the single entry system

1. It is very simple and straightforward. It is at times referred to as self-employment accounting because it does not require trained accountants to handle;
2. Single entry bookkeeping saves times because you need to record each transaction only once;
3. Single entry system is usually less expensive to maintain than double entry system. It does not require the services of a trained person;

4. Single entry system is suitable for small businesses because they cannot afford the cost of double entry.

Limitations of single entry system

1. Comparing the current operations of the business with the previous records may not be possible because of unsystematic record keeping;
2. A trial balance cannot be extracted to check on the arithmetic accuracy of the entries in the ledger;
3. Profits and losses cannot be determined because it is hard to prepare a profit and loss account in the normal way;
4. The financial position of a business is not determined because the information on assets and liabilities is not complete;
5. Theft and other losses are less likely to be detected.

Application Activity 10.2.1

1. Is single entry system important in accounting? Justify your answer
2. Discuss what would happen if accounting would only use this system.

2. The double entry system of book keeping

Activity 10.2.2

1. What do you understand by double entry system?
2. What do you understand by an account?

Double entry principle

Double entry is a system of keeping records, which involves making two entries for every transaction. It is one of the most important principles in accounting. This principle stresses that for every transaction; there should be both a debit entry and a corresponding credit entry. The double entry system is derived from the double entry principle, which is also known as the **Golden rule** that states “every debit entry must have a corresponding credit entry and vice-versa”.

T-accounts, crediting and debiting

Debiting and crediting of accounts is best seen in the T-accounts. T- Accounts divide each account into two sides; the left hand side called the debit side and the right hand side called the credit side. The effect of transaction is recorded on the

appropriate side of that account based on the double entry rules explained above.

1. Debiting an account: is the process of recording a transaction on the debit side of an account

2. Crediting an account: is the process of recording a transaction on the credit side of an account

Type of account	Increase	Decrease	Normal balance
Asset	Debit (Dr)	Credit (Cr)	Debit (Dr)
Liability	Credit	Debit	Credit
Capital	Credit	Debit	Credit
Revenue/income	Credit	Debit	Credit
Expenses	Debit	Credit	Debit

N.B - Debit is shortened as **(Dr)**

- Credit is shortened as **(Cr)**

Thus, from every transaction, at least two accounts are involved. Then, these questions must be answered:

1st question: What are these two accounts to be affected or involved?

2nd question: What type of account are they?

3rd question: What account is to be debited and what account is to be credited?

10.2.2. An Account

Refers to the record or statement in the ledger where transactions of similar nature are expressed in financial or monetary terms as recorded in chronological order.

Note: The name or title of an account must always be indicated at the top of T-account.

Debiting an account means increasing or decreasing the value of the account depending on the nature of account.

Crediting an account means reducing or increasing the value of an account by a way of a credit entry depending on the nature of that account

Column format or open format

Each side of the column comprises of the date, details, folio, and amount. The debits are entered on the left side and the credits on the right side.

Dr				Cr			
Date	Details	Folio	Amount	Date	Details	Folio	Amount

- From the above columns, the title is the name of the account, which is written on top of the account and at the Centre as shown above;
- The date column records the date when the transaction took place;
- The details or particulars column gives a brief explanation and records the name of the other account affected by the same transaction(s);
- Folio column or reference column shows the page number of the other account affected by the same transaction where the corresponding double entry was recorded;
- Amount column shows the financial or monetary value of the transaction.

Application Activity 10.2.2

1. Describe the rule of debiting and crediting
2. Discuss the importance of using double entry

10.3. BOOKS OF ORIGINAL ENTRY

10.3.1 JOURNALS

Activity 10.3

Identify one business at school or in your community. Visit that business and find out if the business keeps any records. Identify the records that are kept and the kind of business information such records capture. Identify the required records that this business needs to keep to be able to earn desired profit.

Meaning of a journal

A **journal** is a daily book of original entry used in recording the day-to-day transactions of the business. These are books where transactions are first recorded before they are posted to the ledgers (accounts). The data used to write up these books is got from the source documents like invoice, pay slips, voucher.

There are two categories of journals and these are:

1. The general journal

2. Special journals

Types of special journals include;

- i. Purchases journal /purchases day book
 - ii. Sales journal /sales day book
 - iii. Purchases return journal/return outwards book/journal
 - iv. Sales return journal/return inwards book/journal
- **The General Journal:** This is a subsidiary book, which is used to record transactions, which cannot be entered in other subsidiary books e.g. sales and purchase of fixed assets. In other words, general journal is used to record transactions of unclassified nature. It explains the type of entries that will be made in the ledger accounts giving the reason for these entries in the narrative.

Uses / functions of a journal

1. It is used to record the purchase and sale of fixed assets on credit;
2. It is used in correction of errors made in other subsidiary books;
3. It is used to record opening entries. Opening entries represents all those items a business begins with;
4. It is used to record closing entries. These include transfers from one account to another in the ledger;
5. It is used to record bad debts and depreciation;
6. Bad debts are part or all debts, which debtors either fail or refuse to pay;
7. Depreciation simply means loss of value of the assets of the business.
8. It is used to record provisions and reserves;
9. Provisions are part of profits set aside to meet losses arising from specific causes e.g. provision for discount allowed;

Reserves are part of profits that are set aside to meet losses arising from unspecific causes e.g. death, sickness and accident;

10. It is used to record other types of transactions that have no specific subsidiary books.

Advantages of using journals

1. It is the diary of the business in which events are recorded as they occur;
2. It is a book of prime entry for correction of errors;
3. It is a book of summaries for the business;
4. It acts as a book of explanation for the business. After every transaction is entered, a brief explanation/ description is made;
5. It reduces risks of transactions being omitted as that of making only a single entry;
6. It shows the financial position of the business by comparing the debit side to the credit side;
7. It makes it easy to detect errors since all entries are listed in order of dates and supported by a simple explanation of the transaction.

Lay out of the general journal: This indicates the following:

The date: This is a column for the year, month and date

Details /particulars: For names of two accounts affected

Debit and credit: These are two cash columns for debit and credit amounts respectively.

Format of a general journal

Heading: (e.g. General journal)

Date	Details/particulars	Folio	Debit (Frw)	Credit (Frw)

Rules of Journal Entries

- Debit the receiver and credit the giver.
- Whenever an asset is bought, we are supposed to debit that particular asset account.

- Whenever an asset is sold we credit that account (asset).
- While making entries in the journal we start with accounts to be debited and those to be credited later.

Example:

Make the necessary journal entries to record the following transactions in the books of George 2010.

April 1st: Sold a car for 12,000,000Frw on credit to Eric

5th: Bought a new building on credit 13,500,000Frw from David

15th: Purchased a computer on credit at 4,000,000Frw from Johnson

GEORGE'S GENERAL JOURNAL FOR APRIL 2010

Date	Details/particulars	Folio	Debit (Frw)	Credit (Frw)
1 st April 2010	Eric	L1	12,000,000	
	Motor vehicle (Sale of a car to Eric on credit)	L2		12,000,000
5 th April 2010	Building David	L3	13,500,000	
	(Purchase of a building on credit)	L4		13,500,000
15 th April	Computer	L5	4,000,000	
	Johnson (Purchase of computer on credit)	L6		4,000,000

- If an asset is sold for more than its book value: e.g. if a car had been bought at 12,000,000Frw and is sold at 12,200,000Frw to Mugisha on 16th April, making a profit of 200,000Frw. the journal would look as bellow:

Journal entries

Date	Details/particulars	Debit (Frw)	Credit (Frw)
16 th April	Mugisha Motor vehicle Profit and loss a/c (Sale of a car on credit)	12,200,000	12,000,000 200,000

- If the car was sold to Mugisha at a loss of 500,000Frw on 16th April, then the entries would look as follows:

Date	Details/particulars	Debit (Frw)	Credit (Frw)
16 th April	Mugisha Profit and loss Motor vehicle (Being a car sold on credit)	11,500,000 500,000	12,000,000

- **Special Journals:** these are journals that are used to record specific business transactions they include the sales journal, purchase journal, return in ward and the return out ward journal.

1. Purchases journal/purchases day book

Purchases daybook/journal is a daybook that records all the credit purchases of the business before being posted to the ledger. It is a list of credit purchases from purchases invoice in the order which they happen (their chronological order naming the creditors or suppliers and the value of the credit purchases for any period).

When recording transactions in the purchases daybook, it should be noted that fixed assets bought or sold on credit are not recorded in this book. They are recorded in the general journal. Each page of the purchases daybook has a number that helps in posting the transactions to the ledger. The net amount to be paid to each creditor is posted to the credit side of each creditor's individual account in the purchases ledger.

Format of a purchase journal

Date	Details/particular	Folio	Invoice number	Amount

Example

The following information relates to the books of Akeza for year 2011

1st March bought goods on credit from Mukasa invoice number 06: 48,000Frw

5th March bought goods on credit from Bikorimana 36,000Frw

10th March received an invoice from Mutabazi 50,000Frw

15th March bought on credit from Munezero number 110:26,000Frw

25th March credit purchases from Kwizera 34,000Frw

Required: Prepare Akeza's purchases daybook
 Post the information into the purchases ledgers
 Post into the purchases account in the general ledger.

Akeza's Purchases Day Book for the Month of March 2011

Date	Details	Folio	Invoice number	Amount (Frw)
1 st March	Mukasa	L2	06	48,000
5 th	Bikorimana	L3		36,000
10 th	Mutabazi	L4		50,000
15 th	Munezero	L5	110	26,000
25 th	Kwizera	L6		34,000

Total to be transferred to purchases account in general ledger 194,000

Dr Mukasa's Account Cr

Date	Details	Folio	Amount	Date	Details	Folio	Amount
31 st March	Balance c/d		48,000	1 st March	Purchases	L1	48,000
			<u>48,000</u>				<u>48,000</u>
				1 st April	Balance b/d		48,000

Dr Bikorimana's Account

Cr

Date	Details	Folio	Amount	Date	Details	Folio	Amount
31 st March	Balance c/d		36,000	5 th March	Purchases	L1	36,000
			36,000				36,000
				1 st April	Balance b/d		36,000

Dr Mutabazi's Account

Cr

Date	Details	Folio	Amount	Date	Details	Folio	Amount
31 st March	Balance c/d		50,000	10 th	Purchases	L1	50,000
			50,000				50,000
				1 st April	Balance b/d		50,000

Dr Munezero's account

Cr

Date	Details	Folio	Amount	Date	Details	Folio	Amount
31 st March	Balance c/d		26,000	15 th March	Purchases	L1	26,000
			26,000				26,000
				1 st April	Balance b/d		26,000

Dr Kwizera's account

Cr

Date	Details	Folio	Amount	Date	Details	Folio	Amount
31 st March	Balance c/d		34,000	25 th March	Purchases L1		34,000
			34,000				34,000
				1 st April	Balance b/d		34,000

General ledger

Dr				Purchases account				Cr			
Date	Details	Folio	Amount (Frw)	Date	Details	Folio	Amount	Date	Details	Folio	Amount
31 th March 2011	Total sundry creditors		194,000	31 st March	Balance c/d		194,000				
			<u>194,000</u>				<u>194,000</u>				
1 st April	Balance b/d		194,000								

N.B: All ledger accounts in the purchases journal are credited except in the general purchases ledger.

2. Return outwards/ purchases returns journal

This is the book in which goods returned by the business/entrepreneur to the supplier/creditor and their value are recorded in chronological order. It records or lists the names of suppliers/creditors and the value of the goods returned to each. It records entries supported by the credit notes received from suppliers or creditors.

When entrepreneur returns goods supplied to him or her on credit, the supplier issues a credit note to the entrepreneur to reduce the amount charged on him or her on the original invoice. Individual entries are posted on the debit side of the creditor/supplier's account in the purchases ledger and the total to the credit side of the returns outwards

Reasons why goods may be returned

An entrepreneur or buyer may return goods previously bought due to a number of reasons some of which include the following:

- In case they are supplied in the excess of the amount ordered for. This distorts the business budget as it demands payment beyond planned expenditure;
- In case they are defective or expired;
- If they are not of the size and quality ordered for;
- When they do not match with the purchases order placed (when they are different from the quotation);
- In case the goods get damaged while being transported by the supplier or any transporter contracted by the supplier, they will be returned;
- When goods are supplied at a higher price than that agreed on before placing the order.

Format of a return outward journal

Date	Details	Folio	Credit note number	Amount (Frw)

Example:

1. Kimironko wholesalers returned goods to the following suppliers during the month of November 2010 and received credit notes from suppliers.

2nd Nov. returned 5boxes of tiptop bread to hot loaf limited because it had grown molds each box 16,000Frw, credit note number 96;

6th returned two bags of sugar to **Scoul limited** each 100,000Frw it was wet credit note number 98;

22nd returned 5boxes of soap to **Mukwano company** because it was damaged @ box 80000Frw credit note number 100.

28th received a cred it note from **Sam** number 47 for juice which was expired worth 30,000Frw

Required: Prepare KimironkoWholesaler's purchases returns daybook
Post the information into the purchases returns ledgers

Post into the purchases returns accounts in the general ledger.

Purchases Return Journal/Return Outward Journal for Kimironko Wholesalers for the Month of November 2010

Date	Details	Folio	Credit note number(incoming)	Amount (Frw)
2 nd November 2010	Hot loaf limited 5 boxes tiptop bread@16000	PL2	96	80,000
6 th	Scoul limited 2 bags of sugar @ 100000	PL3	98	200,000
22 nd	Mukwano company 5 box of soap @80000	PL4	100	400,000
28 th	Sam juice	PL5	47	30,000
30 th	Totals to be transferred to the return outwards account in the general ledger			710,000

Purchases ledger/ Creditors' ledger

Dr Hot Loaf Limited Account				Cr			
Date	Details	Folio	Amount	Date	Details	Folio	Amount (Frw)
2 nd November	Return outwards	L1	80,000	30 th Nov	Balance c/d		80,000
			<u>80,000</u>				<u>80,000</u>
1st December	Balance b/d		80000				

Dr Scoul Limited Account Cr

Date	Details	Folio	Amount (Frw)	Date	Details	Folio	Amount (Frw)
6th Nov	Return outwards	L1	200,000	30 th Nov	Balance c/d		200,000
			<u>200,000</u>				<u>200,000</u>
1 st December	Balance b/d		200,000				

Dr

Mukwano Company Account

Cr

Date	Details	Folio	Amount	Date	Details	Folio	Amount (Frw)
22 nd Nov	Return outwards		400,000	30 th Nov	Balance c/d		400,000
			<u>400,000</u>				<u>400,000</u>
1 st December	Balance b/d		400,000				

Dr

Sam's Account

Cr

Date	Details	Folio	Amount	Date	Details	Folio	Amount (Frw)
28 th Nov	Return outwards		30,000	30 th Nov	Balance c/d		30,000
			<u>30,000</u>				<u>30,000</u>
1 st December	Balance b/d		30,000				

General ledger

Dr				Return outwards account			Cr
Date	Details	Folio	Amount	Date	Details	Folio	Amount (Frw)
30 th Nov	Balance c/d		710,000	30 th	Totals purchases returned		710,000
			<u>710,000</u>				<u>710,000</u>
				1 st December	Balance b/d		710,000

3. Sales day book/ sales journal

This is a book of original entry where credit sales are first recorded before being posted to the ledger accounts. It records credit sales made by the business in their chronological order. The information used to record transactions in sales daybook is obtained from the copies of the sales invoices sent to the customer (s) who buy goods on credit from the business.

The individual entries in the sales journal are posted to the debit side of the customer/ debtor's accounts in the sales ledger and the total is posted on the credit side of the sales account in the general ledger.

Format of a sales day book

Date	Details/particular	Folio	Invoice number	Amount

Example:

1. Enter the following transactions into the sales daybook of Alain. Post them to sales ledger and show the transfer in the general ledger in month of January 2016 and balance off all accounts:

5th Jan: Credit sales to Peter 10,000Frw

6th Jan: Issued an invoice to Tom 20,000Frw

9th Jan: Credit sales to Mubiru 16,000Frw

17th Jan: Gave out an invoice to Emma 10,000Frw

ALAIN'S SALES DAY BOOK FOR THE MONTH OF JANUARY 2016

Date	Details	Folio	Invoice number	Invoice details	Amount(Frw)
5 th Jan	Peter	SL1			10,000
6 th Jan	Tom	SL2			20,000
9 th Jan	Mubiru	SL3			16,000
17 th Jan	Emma	SL4			10,000
31 st Jan	Totals to be transferred to the sales account in the general ledger				56,000

b. Sales ledger/Debtors' ledger

Dr				Cr			
Peter's Account							
Date	Details	Folio	Amount (Frw)	Date	Details	Folio	Amount (Frw)
5th Jan 2001	Sales		10,000	31st Jan	Balance c/ d		10,000
			<u>10,000</u>				<u>10,000</u>
1st Feb	Balance b/d		10,000				

Dr **Tom's Account** **Cr**

Date	Details	Folio	Amount (Frw)	Date	Details	Folio	Amount (Frw)
6 th Jan	Sales		20,000	31 st Jan	balance c/d		20,000
			<u>20,000</u>				<u>20,000</u>
1 st Feb	Balance b/d		20,000				

Dr **Mubiru's Account** **Cr**

Date	Details	Folio	Amount (Frw)	Date	Details	Folio	Amount (Frw)
9 th Jan	Sales		16,000	31 st Jan	balance c/d		16,000
			<u>16,000</u>				<u>16,000</u>
1 st Feb	Balance b/d		16,000				

Dr **Emma's Account** **Cr**

Date	Details	Folio	Amount (Frw)	Date	Details	Folio	Amount (Frw)
17 th Jan	Sales		10,000	31 st Jan	balance c/d		10,000
			<u>10,000</u>				<u>10,000</u>
1 st Feb	Balance b/d		10,000				

General ledger

Dr **Sales account** **Cr**

Date	Details	Folio	Amount (Frw)	Date	Details	Folio	Amount (Frw)
30 th Jan	Balance c/d		56,000	31 st Jan	Total sundry debtors		56,000
			<u>56,000</u>				<u>56,000</u>
				1 st Feb	Balance b/d		56,000

4. Sales return journal or return inwards book

This is the book in which goods returned by the customer are recorded before being posted to the ledger accounts. It records the name of each debtor/customer who has returned goods previously bought on credit and the value of the goods returned by each in a chronological order.

The information recorded in returns inwards book is obtained from the credit notes issued to the customers who return the goods. When goods bought by customer (s) on credit are returned, a credit note is issued to the customer (s) to reduce the amount charged in the original sales invoices. The business normally accepts these returned goods to maintain good reputation and customers.

Format of return inwards journal

Date	Details	Folio	Credit note number (outgoing)	Amount (Frw)

Example:

The following goods were returned to Gakuba wholesalers and thereafter credit notes were issued to customers.

Jan 1st 2013 Mugisha and company limited returned two rolls of cotton material because they were not of the right colour. 100,000Frw credit note number 97.

8thJan St. Michael primary school returned 2 dozens of books because they were of poor quality each 18,000Frw credit note 101

Required:

Record the above transaction in the sales return book, post to the personal account in the sales ledger and transfer the transactions to the general ledger.

Solution:

Gakuba Wholesaler's Return Inwards Journal

Date	Details	Folio	Credit note number (outgoing)	Amount (Frw)
2013 Jan 1 st	Mugisha company 2rolls of cotton@100,000 each		97	200,000
8 th Jan	St. Michael primary school 2 dozen of books @18,000 each		101	36,000
31st January	Totals to be transferred to the return inwards account in the general ledger			236,000

Sales ledger

Dr				Mugisha's account			Cr
Date	Details	Folio	Amount (Frw)	Date	Details	Folio	Amount (Frw)
31 st Jan	Balance c/d		200,000	1 st Jan	Return inwards		200,000
			<u>200,000</u>				<u>200,000</u>
				1 st Feb	balance b/d		200,000

Dr				St Michael primary school's account				Cr
Date	Details	Folio	Amount (Frw)	Date	Details	Folio	Amount (Frw)	
31 st Jan	Balance c/d		36,000	8 th Jan	Return inwards		36,000	
			<u>36,000</u>				<u>36,000</u>	
				1 st Feb	balance b/d		36,000	

General ledger

Dr

Return inwards account.

Cr

Date	Details	Folio	Amount (Frw)	Date	Details	Folio	Amount (Frw)
30 th Jan	Sales returns		236,000	31 st Jan	balance c/d		236,000
			<u>236,000</u>				<u>236,000</u>
1 st Feb	Balance b/d		236,000				

Application Activities 10.3

1. The following transactions were extracted from the books of BASASA enterprise limited for month of July 2003. In "000,000" Frw

1 st	Bought goods on credit from Santu	300
2 nd	Bought goods on credit from Tom	340
3 rd	Sold goods on credit to Ssali	430
5 th	Some of the goods were returned to Santu	30
8 th	credit sales to Mwangiwere worth	52
10 th	Ssali returned some goods worth	230
11 th	Bought some goods from Musa on credit	630
14 th	Sold some goods on credit to Mukasa	360
16 th	Credit purchases from Goba were	230
19 th	Some goods were returned to Tom	90
21 st	Mukasa returned goods worth	450
23 rd	Credit sales to Muta	320
25 th	Credit purchases from Dan	210
27 th	R eturned some goods to Goba	250
28 th	Muta returned goods worth	190
29 th	Credit purchases from Sam	530

31st Returned goods to Sam worth 350

You are required to prepare BASASA enterprise Limited's

- i. Purchases day book
 - ii. Sales day book
 - iii. Return out ward book
 - iv. Return inward book
2. The following details relate to the books of Karekezi and sons limited for the month of May 2017
- 1st Received an invoice from peter numbered 02, amounting to 30,000Frw
- 2nd Received an invoice from John numbered 05, amounting to 34,000Frw
- 3rd Issued an invoice to Phillip numbered 01, amounting to 43,000Frw
- 5th Received a credit note from peter numbered 011, amounting to 3,000Frw
- 7th John issued a credit note for expired goods 012, amounting to 23,000Frw.
- 9th Issued an invoice to Michael 02, amounting to 23,000Frw
- 10th Issued a credit note to Phillip 030, amounting to 5,200Frw
- 9th Issued an invoice to Michael 02, amounting to 23,000Frw
- 10th Issued a credit note to Phillip 030, amounting to 5,200Frw
- 11th Received an invoice from Okyani 042, amounting 63,000Frw
- 15th Issued an invoice to Denis 03, amounting 36,000Frw
- 16th Got a purchase invoice from Joseph 055, amounting 4,500Frw
- 18th Returned goods to John and received a credit note 066, amounting to 32,000Frw
- 20th Issued a credit note to Denis 025, amounting to 4,500Frw
- 23rd Gave out a sales invoice to Philip 043, amounting to 32,000Frw
- 25th Received a purchases invoice from Okyani 07, amounting to 20,000Frw
- 27th Received a credit note from Joseph 059, amounting to 13,000Frw
- 30th Issued a credit note to Denis 033, amounting to 6,000Frw

You are required to prepare Karekezi and sons Limited's

- v. Purchases day book
- vi. Sales day book
- vii. Return out ward book
- viii. Return inward book

10.4. THE CASH BOOK

Activity 10.4

1. What do you understand by the term cashbook?
2. Explain any two form of cashbook that you know

The cash book is defined as a book which records all receipts (cash and cheques from customers and debtors or other sources), and all the payments (to creditors or suppliers and other expenses) for a particular financial period.

A cashbook is one of the subsidiary books or books of original entry. It is a subsidiary book because entries are posted from it to ledgers. It has two sides i.e. the left side denoted Debit and the right side denoted Credit. This means that if a debit entry is made within a cashbook a corresponding credit entry is to be made in the respective ledger account. Similarly, if a credit entry is made in the cashbook then a debit entry is made in the respective ledger account.

There are four forms of cashbook i.e.

- Single column cash book
- Two columns cash book
- Three columns cash book
- Petty cash book

Note: Only cash transactions are recorded in cash books and credit transactions are recorded in other various journals.

1. SINGLE COLUMN CASH BOOK

This is one with only one amount column on either side. It is like a cash account; this type of cashbook is mainly used by small businesses that do not have bank account or which do not normally carry out transactions involving cheques. It records only

cash receipts and cash payments.

Format of a single column

Dr			Title	Cr			
Date	Details	Folio	Amount (Frw)	Date	Details	Folio	Amount(Frw)

Example:

Mrs. Kazimoto carried out the following transactions during the month of February 2013

1 st Feb	she started a business with	1,500,000 Frw
3 rd	Bought furniture worth	1,000,000 Frw cash
4 th	Bought raw materials for	50,000 Frw cash
5 th	Paid wages and salaries	30,000 Frw
9 th	Paid rent	50,000 Frw
12 th	Received a commission of	100,000 Frw cash
21 st	Received cash from Sandra	200,000 Frw
28 th	Bought a computer	300,000 Frw in cash

Required:

Using above information prepare a single column cashbook and balance it off

Kazimoto's
Single Column Cash Book as per
February 2013
Dr

Cr

Date	Details	Folio	Amount (Frw)	Date	Details	Folio	Amount (Frw)
Feb 1 st	Capital	L1	1,500,000	3 rd	Furniture	L3	1,000,000
12 th Feb	Commission	L7	100,000	4 th	Raw materials	L4	50,000
21 st Feb	Sandra	L8	<u>200,000</u>	5 th	Wages and salaries	L5	30,000
				9 th			
				28 th	Rent	L6	50,000
				28 th	Computer	L9	300,000
					Balance c/d		<u>370,000</u>
	Total		<u>1,800,000</u>				
1 st March	Balance b/d		370,000				
							<u>1,800,000</u>

2. TWO COLUMN CASH BOOK

The two columns cashbook is referred to as the double columns cashbook. This is a cashbook, which has both cash account and bank account each side.

Cash account: This is an account that records receipts and payment of cash. Receipts are debited while payments are credited.

Bank account: This is an account that records deposits into the bank and withdraws from the bank. Deposits are debited while withdraws are credited to the bank account.

It is called a two columns cash book because it has two columns on each side where the amount is recorded

Note: Two columns cash has columns for date, detail/ particulars, folio, cash and bank for both credit and debit sides.

1. The cash column represents cash account while the bank column represents bank account.
2. The particulars column states the name of the account in which double entry will be recorded in the ledger.
3. The debit side records all receipts and the credit side records all the payments.

Format of two columns cashbook

Dr			Title		Cr				
Date	Details	Folio	Cash (Frw)	Bank (Frw)	Date	Details	Folio	Cash (Frw)	Bank (Frw)

Example:

Desire had the following transactions in the month of January 2013

1st Jan cash at hand 200,000Frw

Cash at bank 1,700,000Frw

5th Jan received a Cheque from peter 300,000Frw

7th Jan cash purchases 300,000Frw

10th Jan cash sales 400,000Frw

11th Jan paid Musoni by cheques 190,000Frw

15th Jan bought stationery for use in cash 40,000Frw

Paid rent by Cheque 200,000Frw

20th Jan received payment by Cheque from Aaron 600,000Frw

30th Jan paid Gasirabo by Cheque 100,000Frw.

Required:

Prepare desire's two columns cashbook with the above transactions and dully balance it.

Books of Desire

Two-Column Cash Book for the Month of Jan. 2013

Dr

Cr

Date	Details	Folio	Cash (Frw)	Bank (Frw)	Date	Details	Folio	Cash (Frw)	Bank (Frw)
1 st	Balance b/d	L1	200,000	1,700,000	7 th	Purchase	L3	300,000	
					11 th	Musoni	L5		190,000
5 th	Peter	L2		300,000	15 th	Stationery	L6	40,000	
10 th	Sales	L4	400,000		15 th	Rent	L7		200,000
20 th	Aaron	L8		600,000	28 th	Gasirabo	L9		100,000
			600,000	2,600,000	31 st	Balance C/d		260,000	2,110,000
						Total		600,000	2,600,000
1 st Feb	Balance b/d		260,000	2110,000					

Posting entries from the Cash Book to the Ledger Accounts to complete double entry

All entries, except contra entries and balances, are posted to the appropriate accounts in the ledger to complete double entry. All debit entries are posted to the credit side of the ledger account named in the particulars/details of the cash book. All credit entries are posted to the debit side of the ledger account named in the particulars/details of the cashbook.

Special Entries in the Two Columns Cash Book

There are entries in the 2-columns cashbook that require special consideration and these include:

Contra Entries

Contra entries are entries of transactions, which complete their double entry within the cashbook. This means that there is both credit and debit entries for every transaction in the cash book. Contra entries are clearly indicated by letter "C" placed in the folio column.

There are two types of contra entries in the cashbook i.e. Cash paid into the bank or cash taken from the business and banked. These are recorded using contra entry form

- i. Cash withdrawal from the bank for business use or office use. The double entry is recorded as follows:
DEBIT cash column
CREDIT bank column
- ii. Deposit of cash into the bank; this transaction is contra and its entries will be:
DEBIT the bank with cash in detail column
CREDIT the cash account with Bank in detail column

Note:

- Cash sales paid directly into the bank is not a contra entry so it is recorded on the debit side of the cashbook in the bank column.
- Drawing for personal/private use. Drawing refers to the money or cash removed out of the business by the owner for private or personal use. This action reduces the cash of the business. Drawings in form of cash from the business for personal use are NOT contra entries. It affects the cash account or bank account

Example involving contra entries:

From the details given below write up a two columns cashbook of PETER as per January, 2016 and balance off at the end of the month

June 1st started a business with 70,000Frw in the bank.

2nd Paid for furniture using a cheque 8,000Frw

5th Cash sales 12,500Frw

6th Paid for postage by cash 450Frw

7th Received a cheque from Binno 8,200Frw

9th Withdrew cash from the bank 6,300Frw for business use

12th Ssali paid us in cash 1,400Frw

16th Paid wages in cash 2,200Frw

18th Paid Mutema by cheque 2,900Frw

20th Drawings 2,700Frw

23rd Paid electricity account by cheque 1,700Frw

26th Lini paid us by cheque 7,700Frw

28th Paid sundry expenses by cash 1,000Frw

30th Sold goods for cash 4,800Frw

Peter's Two Column Cashbook as per January, 2016

Dr					Cr				
Date	Details	Folio	Cash	Bank	Date	Details	Folio	Cash	Bank
1 st	Capital	L1		70,000	2 nd	Furniture	L2		8,000
5 th	Sales	L3	12,500		6 th	Postage	L4	450	
7 th	Binno	L5		8,200	9 th	Cash	C1		6,300
9 th	Bank	C1	6,300		16 th	Wages	L8	2,200	
12 th	Ssali	L7	1,400		18 th	Mutema	L9		2,900
26 th	Lini	L12		<u>7,700</u>	20 th	Drawings	L10	2,700	
30 th	Sales	L14	<u>4,800</u>		23 th	Electricity	L11		1,700
					28 th	Sundry exp	L13	1,000	
					31 st	Bal c/d		<u>18,650</u>	<u>67,000</u>
	Total		<u>25,000</u>	<u>85,900</u>				<u>25,000</u>	<u>85,900</u>
1 st Feb	Bal b/d		18,650	67,000					

The information means that there will be no ledgers for the 9th in the bank account because letter "C" indicates contra entry and therefore double entry is complete.

3. THREE COLUMNS CASHBOOK

The two columns cash book can be enlarged further and converted into a three columns cash book by including a separate column for recording discounts, (discount allowed and discount received) hence the expression of three columns cashbook. This statement means that a three columns cashbook has three columns for amounts on both debit and credit sides.

Discount allowed is an allowance extended to a debtor when he/she pays promptly. I.e. within a specified period of time and it is therefore debited in the cashbook as an expense while

Discount received is an allowance received from suppliers or creditors when the enterprise pays promptly and therefore it is credited in the cashbook as an income

Discounts: This is an allowance given to a trader/customer on goods purchased. It takes the following forms.

- i. Trade discount
- ii. Cash discount

Trade discount: It refers to a reduction in the usual price of a product that is given to customers who buy goods and services for resale. It is important to note that the net price is entered as sale value by the seller in the accounts. Equally, the net price is entered as purchase amount by the buyer in the accounts. **In other words, no entry is made for trade discount separately in books of accounts of the seller and buyer.** It has to be mentioned in the narration about the trade discount given on the list price.

Cash discount: This is a form of allowance given to the buyer by the seller to encourage him/her pay in time and to always pay cash promptly. Discounts can be received from the supplier/manufacturers or can be given away /allowed to the business customers.

Suppose a dealer has made a credit sale, offering one-month period of credit. The buyer is within his/her total right to make the payment on the last date of credit period allowed. So, the buyer can make the payment on 30thday from the date of purchase. To induce the buyer to pay before the expiry of credit period, seller may offer him 1% cash discount, if the payment is made within 15 days from the date of sale. So, here, the buyer can enjoy the cash discount by paying the seller on 15thday from the date of sale. If goods sold are 5,000Frw buyer can pay only 4,950Frw, after enjoying the cash discount of 50Frw. **Entry for cash discount is, invariably, made in the accounts of the seller as well as buyer.** Cash discount comes into picture as and when credit sales are made. There is no cash discount on cash purchases. Many students, it is observed during teaching, wrongly think that cash discount is allowed on cash sales. This is not the case.

Cash discount comes into picture as and when sales are made on credit. Cash discount and Trade discount may be allowed, simultaneously, in one transaction. Their purposes are different.

Example:

MUGISHA bought goods worth 500,000Frw and was allowed a trade discount of 5% and cash discount of 10%. How much did he pay for the goods?

Solution

Trade discount (for buying in bulk) = $\frac{5}{100} \times 500,000 = 25,000\text{Frw}$ (remember that this will not be recorded anywhere either in the books of the buyer or those of sellers)

$500,000 - 25000 = \underline{475,000\text{Frw}}$

Cash discount = $\frac{10}{100} \times 475,000 = 47,000\text{Frw}$

$475000 - 47500 = \underline{42,7500\text{Frw}}$

FORMAT OF A THREE COLUMNS CASH BOOK

Dr				Title		Cr					
Date	Particulars	F.L	D.A	Cash (Frw)	Bank (Frw)	Date	Particulars	F.L	D.R	Cash (Frw)	Bank (Frw)

Where D.A means Discount Allowed; D.R means Discount Received

Example:

Kigali traders limited had balances cashat hand 220,000Frw at bank 14,000Frw on 1st March 2004.

3rd received a cheque from Juma 12,000Frw less 5% discount.

4th paid cash to Okello 10,000Frw less 12.5% discount.

6th Karekezi paid his account of 40,000Frw by cheque less 3 ¼ % discount

8th bought goods by cheque 20,000Frw

15th paid Mukasa by cheque 19,000Frw having deducted discount 1,000Frw

17th paid Nakure by cheque 14,250Frw in full settlement of his account for 15,000Frw

20th cash sales 14,000Frw

21st paid cash into bank 120,000Frw

Required: Open up Kigali traders Limited's three columns cash book.

A THREE COLUMN CASH BOOK FOR KIGALI TRADERS LIMITED ON 31ST MARCH 2004

DR						CR					
Date	Details	FL	D.A	Cash	Bank	Date	Details	FL	D.R	Cash	Bank
1st Mar	Balb/d			220,000	14,000	4th	Okello		1,250	8,750	
3rd	Juma		600		11,400	8th	Purchases				20,000
6th	Karekezi		1,300		38,700	15th	Mukasa		1,000		19,000
20th	Sales			14,000		17th	Nakure		750		14,250
21st	Cash	C			120,000	21st	Bank	C		120,000	
						31st	Bal C/d			105,250	130,850
	Total		1,900	234,000	184,100		Total		3,000	234,000	184,100
1st April	balance b/d			105,250	130,850						

Dr				Cr			
Discount allowed account							
Date	Details	Folio	Amount(Frw)	Date	Details	Folio	Amount (Frw)
30th	Cash b/d		1900		Transfer to the profit and loss account		

Discount Received Account

Dr				Cr			
Date	Details	Folio	Amount (Frw)	Date	Details	Folio	Amount (Frw)
	Transfer to the profit and loss account			30th March	Cash b/d		3000

Notes 1: The discount columns are totaled but not balanced.

The total of the discount columns is taken to the discount account as they are found in the cashbook. This is done so because the discount columns in the cashbook are not part of the double entry. They are regarded as memorandum from which we get periodic totals to enter in the discount account.

2: While posting to ledgers, discount received remains on the credit side as income and discount allowed remains on the debit side as expenses.

FUNCTIONS OF A CASH BOOK

A cashbook serves the following functions:

- It is part of the ledger system since it contains the cash account and the bank account.
- It is the book in which cash receipts are recorded. Cash receipts are the amounts of money received in the business.
- The cash book is also used to record cash payments made in the business showing to whom it was paid and from which source.
- It records details of cash, discount allowed and received, and providing convenient totals at the end of the month.

4. THE PETTY CASH BOOK

A **petty cash book** is a minor /small cashbook used to record payments regarding minor/small expenses in a business. It is a further extension of the main cashbook.

A petty cash book is used because as the business expands, having several cash transactions daily, the cashbook becomes unnecessarily overcrowded. To avoid this overcrowding of information in the main cashbook, payments of relatively small amounts such as postage, small transport charges like tax hire, meals, purchase of stationery, daily wages, etc. are put in the petty cashbook.

The recording of small expenses payments is done by a person called a junior cashier/ petty cashier who receives money for spending from the senior cashier

Advantages of maintaining petty cash book

1. It relieves the main cashbook from being overcrowded with transactions as small transactions are recorded in the petty cashbook and only big transactions are entered in the main cashbook,
2. The chief cashier feels relaxed as he/she delegates some of the duties to the petty cashier, who will be charged with the responsibility of handling and recording small expenses,
3. Only totals are transferred to the general ledger in the respective expense account. This saves time and space,
4. The use of analysis columns helps the chief cashier (accountant) to analyze where money is being spent. This leads to greater control of expenditure.

THE IMPREST SYSTEM

This is a system by which the main cashier gives his/her junior (petty cashier) an adequate amount to meet his/her office requirements for a specific period e.g. a week, a month, etc.

After a given period, the main cashier checks the amount that has been spent and after being satisfied with the accountability, he/she gives the petty cashier an amount equal to that one spent in order to top up the petty cash to its original amount.

Therefore, at the beginning of each period, a balance of petty cash at hand is always fixed and is called "imprest amount". By definition **imprest amount** is a fixed amount of money given by the main cashier to the petty cashier at the beginning of each new trading/transaction period.

Advantages of using imprest system

- i. It checks on embezzlement of funds. This is simply because as the petty cashier makes expenses, the imprest amount keeps on reducing. It therefore

- becomes difficult for the petty cashier to reduce funds for personal interests,
- ii. The senior cashier is helped since he/she delegates some of the work to the petty cashier,
 - iii. It reduces overcrowding of the main cashbook. This is because the main cashbook is only used to record big and major transactions,
 - iv. It provides checkups since the petty cashier is not allowed without vouchers signed by authorities,
 - v. It minimizes misappropriation of funds as money in hands of the petty cashier is limited to the imprest and has to be accounted for in a given period of time,
 - vi. Extravagancy is checked by keeping watch on any amount refunded to the petty cashier period after period and every payment is accompanied by a voucher,
 - vii. It avoids cash crisis since the imprest amount is always greater than estimated expenditure, which enables the petty cashier to be on a safer side,
 - viii. It reduces unnecessary movements to the bank every time money is required. This is because the petty cashier is always given enough money to cater for minor expenses,
 - ix. The imprest system saves time for covering official expenses,
 - x. Authority is always recognized in making payments. This is because vouchers always have to be signed by authorities of the business/ organization,
 - xi. Since petty cash is issued in specified intervals, it enables the business to keep desired official standards,
 - xii. It promotes accountability there by creating efficiency and high degree of honesty. This becomes easy since cash in hand plus expenses paid for must be equal to the imprest amount.

Format of a petty cash book

Date	Details	Voucher number	Folio	Receipts	Payment	Analysis columns			
						Postage	Stationery	Traveling	Sundry

Note:

Analysis columns: The above is just an example of a petty cashbook but in most cases the analysis columns are provided in the question

Details /particulars column: This column is used to record the specific details on which the expenditure was made

Ledger account: This records transaction to creditors paid from petty cash

Stationery: Records expenses like pens, pencils, papers, stencils, ink etc

Postage: For payment on stamps, envelopes, letters and parcels, telephone charges and telegram

Reimbursement: This is the amount that is refunded to the petty cashier to top up the float to start another period.

Travelling expenses: For payment for the different means of transport used by the business

Sundry: These are expenses, which may not have been catered for in specific column analysis

Imprest /float: This is the amount kept by the petty cashier estimated to last for a given period

Voucher number: Every petty cash voucher contains a number, which acts as reference in order to avoid forgery

Note: Usually when business expands, therefore handling big transactions; it is not advisable to keep a lot of cash or money in the office for security reasons and convenience. A small amount of money therefore should be kept in the business to meet the day-to-day activities or small/petty expenses that are frequent. Only the summary totals are recorded in the cashbook.

How to record transactions in the petty Cashbook;

When recording transactions into a petty cashbook the following should be done

1. The amount of imprest received is debited in the cash book under the receipt column.
2. All payments made out of the petty cash are first entered in the payments column and then entered under the appropriate analysis column.
3. At the end of the period find the total of each analysis column and over all payment period made during the that period
4. Determine the cash balance not spent during the period and enter it under the payments column as balance brought down [b/d]
5. Add the total payments to the cash balance to get the imprest which should be written under both the payments column and the receipt column.
6. Transfer the cash balance left for starting period and enter it under the receipt column as balance brought forward [b/f]
7. Enter the total for the payments as reimbursement under the receipt column.

8. When posting transactions in the petty cash book all the totals in the analysis columns are transferred on the debit side of the respective accounts except the column for ledger account.

Example:

Rugina a petty cashier working with BK and company limited was issued with a cheque of 50,000Frw to be spent on minor expenses.

on 1st May 2004, the following transactions took place.

2nd May paid transport 1,500Frw and postage 2,000Frw

3rd May bought office stationery for 13,000Frw

4th May paid transport 2,500Frw and telephone 2,500Frw

7th May paid sundry expenses 5,500Frw

Required:

Record the above transactions in Rugina's petty cash book having analysis columns for telephone and postage, office stationery, transport and sundry expenses.

RUGINA'S PETTY CASH BOOK FOR THE MONTH OF MAY 2004

Date	Details	Voucher number	Folio	Receipt	Payments	Postage and telephone	Office stationery	Transport	sundry
1 st May	Imprest		C.B	50,000					
2 nd	Transport				1,500			1,500	
2 nd	Postage				2,000	2,000			
3 rd	Stationery				13,000		13,000		
4 th	Transport				2,500			2,500	
4 th	Telephone				2,500	2,500			
7 th	Sundry expenses				5,500				5,500
					27,000	4,500	13,000	4,000	5,500
31 st	Balance c/d				23,000				
				50,000	50,000				
1 st June	Balance b/d			23,000					
1 st June	Reimbursement			27,000					
				50,000					

Ledger accounts

Dr				Cr			
Postage and telephone account							
Date	Details	Folio	Amount (Frw)	Date	Details	Folio	Amount (Frw)
31 st	Petty cash book		4,500				

Dr				Cr			
Office stationery account							
Date	Details	Folio	Amount (Frw)	Date	Details	Folio	Amount (Frw)
31 st May	P.C.B		13,000				

Dr				Cr			
Transport account							
Date	Details	Folio	Amount (Frw)	Date	Details	Folio	Amount (Frw)
31 st	Patty cash book		4,000				

Dr				Cr			
Sundry account							
Date	Details	Folio	Amount (Frw)	Date	Details	Folio	Amount (Frw)
31 st May	Petty cash book		5,500				

Note: Balance them off.

P.C.B stands for Petty Cash Book

20th May Withdrew cash for business use 100,000Frw

27th May Obtained a loan by cash from the bank 300,000Frw

28th May Bought fixtures by cash 60,000Frw

Required: a. Prepare a 3-columns cashbook for Lucenge Traders Limited
b. Open up the relevant ledger accounts and balance them off.

10.5. LEDGERS

Application Activity 10.4

1. A company's petty cashier is given an imprest of 1,200,000Frw for a period of two weeks. The expenditures were as follows:

March 2 nd bought 2 reams of duplicating papers each at	60,000
3 rd May Paid transport to town	40,000
4 th May Bought accompaniments for staff	100,000
5 th May Bought 2 dozens of stencils each at	120,000
6 th May Paid for compound cleaners wages	60,000
8 th May Bought 10 brooms for compound cleaning each at	10,000
10 th May Paid for stamps and postage	50,000
11 th May Paid money for special hire taxi	12,000
12 th May Bought 3 dozen of Omo for cleaners each at	12,000
15 th May Bought ink for duplicating machine	150,000
17 th May Bought sodas for staff	120,000

Required:

- Open up a petty cashbook on imprest system with analysis columns for stationery, travelling, and general expenses
 - Balance the petty cash book and make relevant entries in the general ledger.
2. **The following information shows that transactions that were carried out by Lucenge traders limited in month of May 2010**

May 1st b/f 3,000,000Frw at bank and cash balance b/f 600,000Frw

3rd May Sold goods by cheque allowing a discount of 5% worth 200,000Frw

6th May Purchased goods by cheque receiving 6% discount for cash 800,000Frw

9th May Sold goods for cash allowing a discount 7% of 300,000Frw

11th May Paid rent for premises in cash 100,000Frw

12th May Banked cash 400,000Frw

13th May Paid transport by cheque 100,000Frw

14th May Cash purchases 120,000Frw

15th May Bought stationery paid by cheque 390,000Frw

16th May Sold goods by cheque allowing 8% discount for 400,000Frw

Application Activity 10.4

1. A company's petty cashier is given an imprest of 1,200,000Frw for a period of two weeks. The expenditures were as follows:

March 2 nd bought 2 reams of duplicating papers each at	60,000
3 rd May Paid transport to town	40,000
4 th May Bought accompaniments for staff	100,000
5 th May Bought 2 dozens of stencils each at	120,000
6 th May Paid for compound cleaners wages	60,000
8 th May Bought 10 brooms for compound cleaning each at	10,000
10 th May Paid for stamps and postage	50,000
11 th May Paid money for special hire taxi	12,000
12 th May Bought 3 dozen of Omo for cleaners each at	12,000
15 th May Bought ink for duplicating machine	150,000
17 th May Bought sodas for staff	120,000

Required:

- Open up a petty cashbook on imprest system with analysis columns for stationery, travelling, and general expenses
 - Balance the petty cash book and make relevant entries in the general ledger.
2. **The following information shows that transactions that were carried out by Lucenge traders limited in month of May 2010**

May 1st b/f 3,000,000Frw at bank and cash balance b/f 600,000Frw

3rd May Sold goods by cheque allowing a discount of 5% worth 200,000Frw

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12th May Banked cash 400,000Frw

13th May Paid transport by cheque 100,000Frw

14th May Cash purchases 120,000Frw

15th May Bought stationery paid by cheque 390,000Frw

16th May Sold goods by cheque allowing 8% discount for 400,000Frw

Activity 10.5

The average business person has so many matters to attend to and his/her transactions are so numerous that it is obviously impossible to attempt to remember everything that happens chronologically in journals. Using your prior knowledge related to book keeping and accounting what do you understand by the following terms used to analyse and classify information from the first entries?

- what is meant by a ledger

Meaning of Ledger

Business transactions must be recorded systematically. The place where they are recorded is called Ledger. **Ledger** is a book, which contains condensed and classified records of transactions transferred or posted from books of original entry. While the journal records all transactions in a chronological order, ledger accounts classify the transactions and record those that are similar in a single place in form of debits and credits. The process of transferring information from the books of original entry to the ledger accounts is called “posting”

Difference between ledger and journal

The journal and ledger are both important books of accounting. Then, their differences are as follows:

Journal	Ledger
1. Is the book of original entry	Is the book of second entry
2. Entries from journal end up in ledger	Ledger entries do not go back to the journal
3. Journal records transactions in a chronological order	Ledger records transactions in an analytical order
4. The unit of classification of data within the journal is the transaction	The unit of classification is account
5. The process of recording is called “journalizing”	The process of recording is called “Posting”
6. Examples: sales, purchases, sales return, purchases return, cashbook, petty cashbook and general journal	Examples: sales ledger, purchases ledger and general ledger

CLASSIFICATION OF LEDGER ACCOUNTS

Accounts are classified into:

- a. General ledger:** Are also called real and nominal accounts (impersonal accounts)
 - i. Real account:** Account for tangible items e.g. land, furniture, cash, etc...
 - ii. Nominal account:** Account for intangible items or expenses e.g. salaries, electricity, wages. etc
- b. Subsidiary ledger:** Are also known as sales ledger or debtors' accounts and purchases ledger or creditors' accounts.

Briefly, ledgers are classified into:

- a. Sales ledger,** which has the accounts of all the debtors,
- b. Purchases ledger,** which has the accounts of all the creditors
- c. General ledger,** which has all other accounts known as major accounts called control accounts i.e. other assets, liabilities, incomes, expenses and capital.

Note: The ledger has two main types of accounts

- **Personal**
- **Impersonal**

1. Personal accounts

These are those accounts that appear in the ledger in the names of a person as an individual and organizations. They constitute either assets or liabilities of business. ex John's, Abdallah's, Peter's accounts, XYZ Limited Company Account,

2. Impersonal accounts

These are accounts, which do not appear in the names of persons. They are accounts that appear in the names of things and are further divided into real and nominal accounts.

- **Real/property accounts:** These are accounts, which appear in the ledger in the names of property/tangibles e. g buildings, land, plant, machinery, etc.
- **Nominal accounts:** These are accounts, which appear in the ledger in the name of intangibles e.g. expenses, like salaries, wages, depreciation, bad debtors and gains in form of interest etc

An account may be presented in a "T" format or in a columnar format.

T- Format the account is divided into two equal parts i.e. the debit and credit sides.

Dr	Account Title	Cr

Note: The name or title of an account must always be indicated in the above T-account.

Debit side: Debit in accounting refers to any transaction of value added to an account. A debit entry indicates receiving of value, which leads to an increase of the value in assets and expenses accounts.

Crediting an account means reducing the value of an account by a way of a credit entry in assets and expenses accounts.

Column or format of open format

Each side of the column comprises of the date, details, folio, and amount. The debits are entered on the left side and the credits on the right side.

Dr				Cr			
Account Title							
Date	Details	Folio	Amount	Date	Details	Folio	Amount

- From the above columns, the title is the name of the account which is written on top of the account and at the Centre as shown above.
- The date column records the date when the transaction took place.
- The details or particulars column gives a brief explanation and records the name of the other account affected by the same transaction(s)
- Folio column or reference column shows the page number of the other account affected by the same transaction where the corresponding double entry was recorded.
- Amount column shows the financial or monetary value of the transaction

Example

On 16th March: Furniture was bought for cash 150,000Frw.

Dr				Cr			
Cash account							
Date	Details	Folio	amount	Date	Details	folio	amount
				16 th March	Furniture	L1	150,000

Dr				Cr			
Furniture account							
Date	Details	Folio	amount	date	Details	folio	amount
16 th March	Cash	L1	150,000				

Note: Cash purchase of goods

Dr: Purchase account

Cr: Cash / Bank account

Credit purchase of goods

Dr: Purchases a/c

Cr: Personal (creditor's) a/c

Sale of goods in cash/cheque

Dr: Cash account /Bank account

Cr: Sales account

Credit sales of goods

Dr: Debtor's a/c

Cr: Sales a/c

Purchasing of a fixed asset by cash or cheque

Dr: Asset a/c

Cr: Cash / bank a/c

Purchase of a fixed asset on credit

Dr: Respective asset a/c

Cr: Creditor's personal a/c

Sales of a fixed asset in cash / bank cheque

Dr: Cash / Bank account

Cr: Respective asset account

Sale of a fixed asset on credit

Dr: Debtor's respective a/c

Cr: Assets a/c

Withdrawal of cash from the business by the owner for his personal use

Dr: Drawings account

Cr: Cash account.

Withdrawing of goods by the owner for personal use

Dr: Drawing a/c

Cr: Stock a/c

Recording of returns in the ledger account using double entry

When goods have been returned by the business to the supplier

Dr: Supplier's a/c

Cr: Return outwards a/c

When the customer has returned back the goods

Dr: Returns inward a/c

Cr: Customer personal a/c

Example

1. AMOS started a business on 1st February 2004 with 600,000Frw cash, which was held in the Safe Custody of the office.

On 2nd Feb, he purchased shop premises by cash 340,000Frw.

On 3rd Feb, he purchased equipment by cash 16,000Frw

On 4th Feb he purchased goods by cash 20,000Frw

On 5th Feb, he bought goods for 100,000Frw and promised to settle the next month.

Required:

Record the above transactions by double entry

Dr Capital Account				Cr			
Date	Details	Folio	Amount	Date	Details	Folio	Amount
				1 st Feb	Cash	L1	600,000

Dr Cash Account				Cr			
Date	Details	Folio	Amount	date	Details	Folio	Amount
1 st Feb	Capital	L1	600,000	2 nd Feb	Premise		340,000
				3 rd Feb	Equipment		16,000
				4 th Feb	Purchases		20,000

Dr Premises Account				Cr			
Date	details	Folio	Amount	Date	Details	Folio	Amount
2 nd Feb	Cash		340,000				

Dr EquipmentAccount				Cr			
Date	Details	Folio	Amount	date	Details	Folio	Amount
3 rd Feb	Cash	L1	16,000				

Dr Purchases Account				Cr			
Date	Details	Folio	Amount	Date	Details	Folio	Amount
4 th Feb	Cash		20,000				
5 th Feb	Creditor		100,000				

Dr Creditor Account				Cr			
Date	Details	Folio	Amount	Date	Details	Folio	Amount
				5 th Feb	Purchases	L1	100,000

BALANCING OFF LEDGER ACCOUNTS

This is the adding of both the debit and credit sides in order to make the two sides equal. In balancing off an account, we try to add and establish a difference between the two sides of an account. When balancing off an account, the following steps are put into consideration:

- i. Add the two sides separately to find out the total of each
- ii. Subtract the smaller side from the bigger side
- iii. Record the differences on the smaller side and call it balance carried down (c/d)

- iv. Now both sides are equal
- v. Put balance c/d on the opposite side of the account and call it balance brought down (b/d)

Application Activity 10.5

1. With the help of an example, differentiate personal ledger from general ledger
2. Record the following transactions of Muhire' Business using double entry and balance them off.

2004 October 1st started a business with cash at hand 100,000Frw and cash at bank 200,000Frw.

Oct 2nd bought goods for resale and paid by a cheque 45,000Frw

Oct 3rd sold goods for cash 7,000Frw

Oct 7th paid a creditor Muberuka by cheque 10,000Frw

Oct 8th sold goods on credit to Karemera 15,000Frw

Oct 13th bought goods by cheque 30,000Frw

Oct 14th received cash from Karemera 15,000Frw

Oct 15th bought shop fittings by cash 19,000Frw

Oct 16th paid wages in cash 6,000Frw

Oct 16th paid carriage for goods in cash 4,000Frw

Oct 18th received a loan from Microfinance by a cheque 50,000Frw

Oct 24th sold goods to K.K.CO and received a cheque 21,000Frw

10.6. EXTRACTING A TRIAL BALANCE

Activity 10.6

1. At the end of her every accounting period, 31st December, Mukamana draws a list of accounts to check up if her records were properly recorded or otherwise; she takes correction measures in her books of accounts if not appropriately recorded.
 - i. Referring to what Mukamana does at her every end of accounting period, how do we call that exercise in accounting?
 - ii. What do you understand by trial balance?
2. Is the trial balance important in accounting? Justify your answer

Meaning of Trial Balance

In practice many entries will be made in the ledger in the course of the business period. Accuracy is essential but errors may creep in. At one glance you may not be

able to know the net effect of those entries. It is important therefore to periodically check on the entries to ensure that they are accurate. This check is known as the Trial Balance.

A trial balance is a list of the debit and credit balances extracted from the ledgers at a particular date. Or a trial balance is a list of all ledger accounts and their balances at a particular time with credit balances totaled separately from debit balances.

If the records have been correctly maintained based on double entry system, the totals of the credit and debit would be equal to each other.

Use of a trial balance

1. Used as proof of the arithmetical accuracy of the entries made in the ledger
2. Helps to know the assets and liabilities of a business by just looking at it
3. Used as a platform for preparing the final accounts which are prepared to determine the profit or losses of the business e.g. trading account and the profit and loss account this is because it identifies all the expenses and the incomes of business.

To extract a trial balance means the process of transferring the balances from the ledger account to the debit and credit columns of the trial balance. The debit balances are entered in the debit column while the credit balances on the credit column of the trial balance.

The two columns are totaled up and the totals should be equal. If they are not equal, it means a mistake had been made in the previous accounting books (journals, cash books and ledger).

How to draw a trial balance;

Step 1: Post all the journal entries to the appropriate ledgers.

Step 2: Balance all ledger accounts and determine the credit or debit balances for each ledger account.

Step 3: List all the ledger accounts with their debit or credit balances. Make sure the debit balances are in one column and the credit balances are in another column.

Step 4: Add up all the credit balances and add up all the debit balances

Step 5: The total of the debit balances should be equal to the total of the credit balances. If the totals are not equal, check the process all over again to identify the errors and correct them

Format of a trial balance

Particular	Debit (Frw)	Credit (Frw)
Any assets	Xxxx	-----
Any expenses	Xxxx	-----
Capital	-----	Xxxx
Any liability	-----	Xxxx
Any income	-----	Xxxx
Totals	Xxxx	Xxxx

N.B: Totals must be equal otherwise, errors have happened in ledger accounts

In the trial balance, the following should be considered while making list of accounts.

Fixed assets: Such as land, furniture, building, machinery, office equipment, motor vehicle, their balances are listed in debit column

Current assets: Such as opening stock, debtors, cash at hand, cash at bank, their balances are also listed in debit column.

Expenses: Which appear as debit balances include purchases, electricity, insurance, stationery, carriage inwards, rent payment, carriage outward, return inwards are also listed in debit column.

Losses debited: Bad debts, depreciation, discount allowed, drawings; their balances are listed in debit column.

Liabilities, which appear as credit balances include: capital, bank loan, creditors, bank overdrafts.

Return outwards, bad debts recovered, discount received, sales, subscriptions, interest received, donations, rents receivable, and commissions, their balances are listed in credit column.

NOTE: 1. Contra entries are not entered in the trial balance only balances brought down (b/d) are entered in the trial balance.

2. Balanced ledger accounts do not affect the trial balance (if both sides are balancing i.e. when nothing is brought down).

Examples:

The following balances were extracted from books of Claudine enterprises as at December 2008. Extract the trial balance from these.

Capital	8,880,000
Purchases	7,000,000
Stock 01-jan 2008	1,550,000
Furniture	3,000,000
Debtors	1,050,000
Bank overdraft	750,000
Motor vehicles	5,200,000
Cash at hand	250,000
Return outward	150,000
Distribution expenses	400,000
Sales	9,500,000
Creditors	850,000
Salaries	1,400,000
Commission received	240,000
General expenses	520,000

CLAUDINE'S TRIAL BALANCE AS ON 31ST DECEMBER, 2008

Details/Particulars	Debit	Credit
Purchases	7,000,000	
Opening stock	1,550,000	
Furniture	3,000,000	
Debtors	1,050,000	
Motor vehicle	5,200,000	
Cash at hand	250,000	
Distribution expenses	400,000	
Salaries	1,400,000	
General expenses	520,000	
Capital		8,880,000
Bank over draft		750,000
Return out wards		150,000
Sales		9,500,000
Creditors		850,000
Commission received		240,000
Totals	20,370,000	20,370,000

Application Activity 10.6

1. The details below relate to Chantal traders who deal in T-shirts in Frw

1st Nov 2009 balance forwarded cash 700,000 and bank 145,000.

2nd Nov Bought goods for cash 130,000.

3rd Nov Bought goods from Mukamana on credit 100,000

5th Nov Cash sales 400,000.

10th Nov Bought furniture cash 200,000.

11th Nov Sales to Mr. Frog 105,000 on credit.

Frog returned some goods worth 15,000.

13th Nov Withdrew cash from bank for business use 230,000.

15th Nov Sold goods by cheque 500,000.

18th Nov We paid Mukamana's account in full.

21st Nov Banked cash 690,000.

25th Nov Mr.Frog paid his account cash 90,000.

28th Nov Sold goods and received a cheque in settlement 120,000.

Required:

Open up a cashbook, post the transactions to respective ledgers and extract a trial balance.

2. The details below relate to Gashora traders limited for the month of June 2013

1st June balance forwarded 700,000Frw cash at hand and 1,000,000Frw at bank

2nd June Bought goods on cash 130,000Frw

3rd June Purchased goods from Sam on credit 100,000Frw

5th June Cash sales 400,000Frw

10th June Purchased a computer cash 200,000Frw

13th June Sales to Kadogo 105,000Frw and gave an invoice

13th June Kadogo was issued with a credit note worth 15,000Frw

14th June Withdrew cash from the bank for personal use 230,000Frw

15th June Sold goods by cheque 500,000Frw

18th June Gashora trader paid Sam in full settlement of the debt

21st June Deposited cash in the bank cash 69,000Frw

25th June Kadogo settled his account in cash.

28th June Sold goods and received a cheque in full settlement 120,000Frw

Required:

- a. Journalize the above transactions.
- b. Open up relevant ledger accounts for the above transactions in the books of Gashora traders at the end of the month.
- c. Write- up the trial balance.

10.7. ERRORS AND ERROR CORRECTION IN A TRIAL BALANCE

Activity 10.7

Nyanja drew a trial balance of her Ubumwe Restaurant as on 31st December, 2017 and the debit and credit totals failed to balance.

- a. What do you think happened for the unbalanced trial balance?
- b. Is this a challenge? Justify your answer.
- c. If yes, what is she supposed to do to overcome that challenge?

One of the functions of the trial balance is to detect errors. The errors could be in the journals or ledgers. Balancing of the trial balance however is no guarantee that the accounts are free from errors. This is because there are certain errors that are not detected by the trial balance.

10.7.1. Errors in Trial Balance

a. Errors not detected/ not disclosed/ not revealed by the trial balance

These are a category of errors that do not prevent the trial balance from balancing, are not detected by the trial balance. This means that the balancing of a trial balance is no proof that there are no errors in the accounts. The following errors do not affect the equality of the trial balance totals.

i. Error of original entry: This is a type of error where the original figure entered in any account is not correct yet the double entry is made using that incorrect figure. It is an error made from source documents up to a trial balance. E.g cash sales of 23,000Frw is recorded both in cash account and sales account as 32,000Frw.

ii. Error of duplication: This is when a transaction is entered correctly in the books and the double entry is made in the right accounts and there after a certain time or date the same transaction is entered/recorded the second time observing the double entry correctly. One transaction is entered twice or more in the books of accounts.

iii. Error of principle: This is when an item is entered on the wrong account though it may appear on the correct side but in principle, it is wrong and then the double entry is observed. E.g purchase of a motor van posted to the expenses account or purchases account instead of Motor van account.

iv. Error of omission: This is where a transaction is completely omitted or left out of the books. This can be due to loss or misplacement of the source document. E.g an invoice may be misplaced, so there will be no record for the debit or credit entry of a transaction and as such it will not affect the agreement of the trial balance.

v. Compensating error: These are errors that cancel out each other. An error on one side of the trial balance is cancelled out by an equal error on the other side of a trial balance. Such errors cancel out and the trial balance balances. E.g if any account on the debit side is over added by 100,000Frw and by the same coincidence another account (side) is also over added by 100,000Frw. The two errors cancel out each other and the trial balance then balances.

vi. Error of commission: This is when a transaction is recorded in the double entry system but in the wrong personal account or other account.

- E.g sale of goods to Mugisha is recorded to (in) Mugabe's account (all are our customers).
- If an expense on fuel is incorrectly posted to the stationery account instead of being in travelling expense account.

vii. Error of complete reversal of entries: Under this, correct accounts are used but each item's figure is shown on the wrong side of the account. E.g if wages worth 10,000Frw is paid using cash and instead of crediting cash and debiting wages, the person records the transactions debiting cash and crediting wages.

b. Errors detected/ disclosed/ revealed by the trial balance

Errors revealed by the trial balance once committed, the totals of the debit side and credit side do not agree or cannot be equal, and hence the trial balance does not balance. These errors include the following:

1. Error in double entry: When the double entry system has been ignored, the resulting error will affect the trial balance. E.g if after selling goods for cash, and the cash account is debited but the sales account is not credited.

- 2. Recording or posting on the wrong side of the account:** Entry/entries to a wrong side of the account will make one side of the ledger to be greater than the other.
- 3. Error of data entry:** These are errors caused by wrong recording of figures. E.g if a debit in one account is 40,000Frw and the corresponding credit is recorded as 400,000Frw
- 4. Mathematical errors:** These are errors committed by wrong addition or subtraction of figures. These occur mostly when balancing off the ledgers.
- 5. Transposition of figures** e.g. writing 9,400Frw instead of 4,900Frw
- 6. Omission of the balance from the ledgers**
- 7. Balance figures confused due to poor hand writing**

10.7.2. Errors Correction

i. Correcting errors not affecting the trial balance

Correction of errors that do not affect the trial balance is done through the journals and must follow the double entry system or principle as explained below:

- In case a wrong account was credited, then the following correction should be made
 - **Debit the account wrongly credited**
 - **Credit the correct account**
- In case a wrong account was debited, then the following corrections should be made
 - **Debit the correct account**
 - **Credit the account wrongly debited**

Correcting error of original entry

For instance, the example where goods were sold to Eric on credit for 4,500Frw as per 10th March, 2018 but were recorded in sales journal as 5,400Frw. To correct this error of original entry, Eric's account will be credited with the difference between the two figures (900Frw) and the sales account will be debited with the same amount as shown in the journal entries below:

Date	Account titles and explanation	Debit (Frw)	Credit (Frw)
10 th May, 2018	Sales account	900	
	Eric's account		900
	(being correction of error original entry)		

Correcting error of duplication

For instance, the example where cash sales of 20,000Frw were made to Irakoze as per 10th March, 2017 and was correctly recorded in cash book but were also recorded again after a month as it was done on the 10th March, 2017. To correct this error of duplication, sales account will be debited using 20,000Frw while cash account will be credited using the same amount.

Date	Account titles and explanation	Debit (Frw)	Credit (Frw)
10 th June, 2017	Sales account	20,000	
	Cash account		20,000
	(Being correction of error of duplication)		

Correcting error of principal

For example, in the case where furniture worth 5,000Frw is bought and entered in the purchases account instead of the furniture account. Such an error of principal will be corrected by crediting the purchase account and debiting furniture account

Date	Account titles and explanation	Debit (Frw)	Credit (Frw)
	Furniture account	5,000	
	Purchase account		5,000
	(Being correction of an entry made in a wrong account)		

Correcting error of omission

If a source document earlier misplaced is recovered where goods were bought by cash for 2,000Frw as per 5th February, 2017 and the transaction was not recorded in the cash and the purchases accounts to correct this error of omission, cash account should be credited and the purchase account should be debited. The journal entries to correct this mistake would be as shown below:

Date	Account titles	Debit (Frw)	Credit (Frw)
5th February, 2017	Purchases account	2,000	
	Cash account		2,000
	(Being correction of an error of omission)		

Correcting error of commission

Let us take an example, where goods worth 3,400Frw were purchased from J. Peter and instead of crediting J. Peter's account, the amount was credited on S. Peter's account as per 14th December, 2017. To correct this error of commission, J. Peter's account should be credited and S. Peter should be debited as the following:

Date	Account titles and explanation	Debit (Frw)	Credit (Frw)
14 th December, 2017	S. Peter's account	3,400	
	J. Peter's account		3,400
	(being a correction of an error of commission)		

Correcting compensating error

For example, where an over add or overcast in the purchases account of 400Frw is cancelled by overcast or over add in the sales account of 400Frw as per 15th September, 2017, the journal entries to correct the above errors would be as follow. Here sales account is debited while a purchases account is credited.

Date	Account titles and explanation	Debit (Frw)	Credit (Frw)
15 th September, 2071	Sales account	400	
	Purchases account		400
	(being a correction of acompensating error)		

Correcting error of complete reversal entries

For example, where cash purchases of 800Frw as per 12th November, 2017 were paid and the bookkeeper debited the cash account and credited the purchases account instead of debiting purchases account and crediting cash account. Such errors are corrected by reversing the entry done. Here, the cash account should be credited with a double amount and the purchases account should be debited with the same amount.

Date	Account titles and explanation	Debit (Frw)	Credit (Frw)
12 th November, 2017	Purchases account	1,600	
	Cash account		1,600
	(being a correction of error of reversing amount completely in both account)		

ii. Correcting errors affecting the trial balance

Correcting errors affecting the trial balance requires the use of the **suspense account**. The suspense account is opened and the difference in the trial totals is posited to this account on the side with smaller totals. When the errors are discovered, they are corrected by double entry through the suspense account, correct these errors using the following:

1. a. In case of omission of an account to which a debit entry was to be made, the following should be made:
 - **Debit the account previously omitted**
 - **Credit the suspense account**
- b. In case of omission of an account to which a credit entry was to be made, the

following should be made:

- **Debit the suspense account**
- **Credit the account previously omitted**

2. a. In case any debit entry has been made on credit side, then to correct it do the following:

- **Debit that account with double amount**
- **Credit the suspense account with double amount**

b. In case any credit entry has been made on debit side, then to correct it do the following:

- **Debit double amount in a suspense account**
- **Credit that account with double amount**

3. a. In case of overcast /over addition on a debited account, then to correct it do the following:

- **Credit the account previously over added using over added amount**
- **Debit the suspense account using the same amount**

b. In case where an overcast/over addition on a credited account, then to correct it:

- **Debit the account previously over added by an overcast amount**
- **Credit a suspense using the same amount**

4. a. In case where an under cast on a debited account, then to correct it do the following:

- **Debit the account previously under cast/under estimated with the amount under estimated**
- **Credit a suspense account with the same amount**

b. In case where an under cast on a credit account, then to correct it do the following:

- **Debit a suspense account with an under cast amount**
- **Credit the account previously under cast using under estimated amount**

Example Johnson's trial balance as on 31st December, 2017 showed that the debit side totals exceeded the credit side totals by 400Frw. Subsequently, the following errors were discovered.

- The purchase were over added by 200 Frw
- An amount paid to Umulisa was debited to his account as 980Frw instead of 890 Frw
- The sales were under added by 110 Frw

Required:

Make the necessary journals entries to correct the above errors and prepare a suspense account showing correction of errors.

Dr	Suspense Account	Cr
Purchases	200	Difference in the trial balance totals 400
Umulisa	90	
Sales	110	

Dr	Purchases Account	Cr
	Suspense	200

Dr	Umulisa account	Cr
	Suspense	90

Dr	Sales Account	Cr
	Suspense	110

Date	Account titles and explanation	Dr	Cr
A	Suspense account	200	
	Purchase account		200
	(Being a correction of an overcast in purchases a/c)		
B	Suspense account	90	
	Umulisa account		90
	(Being a correction of an over cast in Umulisa's account)		

C	Suspense account Sales account (Being correction of an under cast in sales account)	110	110
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Application Activity 10.7

1. You are required to pass journal entries to correct the following errors as per 31st October, 2016:
 - a. Wages paid in cash 15,000Frw had been posted to salaries account
 - b. Purchases of motor Van of 4,000,000Frw has been posted to purchase account
 - c. Goods worth to 100,000Frw that were sold to Betty Uwera had been debited to Denyse Uwera's account
 - d. Goods purchased on credit from John for 7,400Frw were recorded in purchases daybook as 4,700Frw

Answer

Journal as per 31st October, 2016

Date	Accounts titles and explanation	Debit (Frw)	Credit (Frw)
A	Wages Salaries (Being correction of an error of wages debited to salaries a/c = error of commission)	15,000	15,000
B	Motor van Purchases (Being correction of an error of Motor van debited to purchases = error of principal)	4,000,000	4,000,000
C	Betty Uwera Denyse Uwera (Being correction of an error of amount debited to D.Uwera instead of B.Uwera = error of commission)	100,000	100,000

D	Purchases John (Being adjustment for an undercharge of purchases = error of original entry)	2,700	2,700
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2. Mugabo's trial balance on 31st December, 2017 showed a difference of 8,000Frw being a shortage on the debit side. Later on 15th January, 2018, all the errors from the previous year were discovered.
- The cheque of 15,300Frw paid to Mutoni had been in the cash book, but had not been entered in Mutoni's account.
 - The purchases account had been under cast by 2,300Frw
 - A cheque of 9,600Frw received from Herbert had been correctly entered in the cashbook, but had not entered in Herbert's account.

Required:

- Rectify the entries in the suspense account
- Open up ledger accounts
- Rectify the entries in the Journal

Answers

Dr	Suspense Account	Cr	
Herbert	9,600	Mutoni	15,300
Balance as T.B	8,000	Purchases	2,300

Dr	Herbert Account	Cr	
		Suspense	9,600

Dr	Mutoni Account	Cr
Suspense	15,300	

Dr	Purchases Account	Cr
Suspense	2,300	

Journal entries as per 31st December 2017

Date	Accounts titles and explanations	Dr (Frw)	Cr (Frw)
A	Mutoni Suspense (Being correction of debit entry previously omitted in Mutoni's account)	15,300	15,300
B	Purchases Suspense (Being correction of error of an under cast in purchases account)	2,300	2,300
C	Suspense Herbert (Being correction of credit entry previously omitted in Herbert account)	9,600	9,600

Skills Lab Activity 10.8

Case study on Business Club Transactions.

Agaciro is a business Club in one of the schools in Nyamasheke district. It has been in existence for three years and has had a profound effect to the community. The following transactions have happened in the named business club during the year 2018;

On 2nd of July, the club bought a second hand shoe making machine worth 150,000Frw

On 7th in the same month they sold shoes worth 45,000Frw

On 25th of August, the club made other sales of vegetables worth 8,000Frw

On 30th Aug, the club purchased 2 tins of paint worth 12000Frw

On 5th of Sept, customer Julius returned one pair of shoes worth 4500Frw

On 10th of Sept the club returned one tin of paint worth 6000Frw because it was expired

Questions

1. Draw the different types of journals identified according to the above transactions.
2. Record the above transactions in the appropriate journals
3. Highlight the importance of the different types of journals to the business club.

End of Unit 10 Assessment

1. Uwimana an auditor was employed by SINA Gerard to audit their book on December 31, 2017, he reported the following errors:
 - a. Purchases of goods from Johnson for 6,500Frw were entered in the books of John
 - b. Returns inwards book was under cast by 10,000Frw and was also return outwards book.
 - c. Rent received of 120,000Frw had been entered in error to the rent and rates account.
 - d. The purchase of goods from Juliet 3,250Frw was recorded neither in the purchases account nor in her personal account

Required:

Show the necessary journal entries to record the above errors

2. The trial balance of Bucyanayandi drawn on December, 2017 failed to agree. The credit side was exceeding the debit side by 25,050Frw a suspense account was opened. The following errors were later discovered
 - a. The owner had taken goods worth 7,000Frw for personal use, but no entry was made to record this fact.
 - b. A credit sale of goods for 940Frw to Mutesi was recorded correctly in the sales daybook, but was recorded as 490Frw in personal account.
 - c. The return outwards book was under cast by 10,000Frw
 - d. Goods worth 22,500Frw were returned by Gatsinzi. This was recorded in the return in wards book only.

Required:

- a. Pass the necessary rectification entries in the journal
- b. Show the suspense account the way it would appear following the correction of the above errors.
3. Using your knowledge in accounting both in S4 unit 10 (Initiation to accounting) and this unit (Accounting prime books) of S.5,

A. Pick up the Most Appropriate

- i. The prime function of bookkeeping is to:
 - a. Record economic transactions
 - b. Provide information for action.
 - c. Classifying and recording business transactions
 - d. Attain non-economic goals.

- ii. The following is the original form of accounting:
(a) Financial Accounting; (b) Cost Accounting
(c) Management Accounting; (d) Inflation Accounting
- iii. This system is universally followed in accounting:
(a) Single Entry System; (b) Double Entry System
(b) Cash Accounting; (d) Cost Accounting
4. In this system of accounting, entries are made only when cash is received:
(a) Cash accounting; (b) Double entry system
(c) Inflation system; (d) Deflation system
5. Management Accounting is a valuable aid to management in respect of:
(a) Presentation of accounting data; (b) Recording of accounting data
(c) Recording of costing data; (d) None.
6. The basic function of financial accounting is to:
a. Assist the management in performing managerial functions.
b. Record all business transactions.
c. Controlling business
d. Analysis and interpretation of financial data
7. Bookkeeping is mainly concerned with:
a. Preparation of financial statements
b. Recording financial data relating to business operations in books of accounts
c. Summarizing the recorded data
d. Interpreting the data for internal and external end users
8. Whether the following terms are synonymously used in accounts
(A) Receipt (B) Revenue
(C) Income
- These are the following options:
(a) A and B; (b) B and C
(c) A, B and C; (d) None
9. Answer using True or False;
i. Book-keeping is a part of accounting.
ii. Accounting is an exact science.

- iii. Approach for subjects “Accounting” and “Accounting for Managers” is one and the same.
 - iv. Amount owed to outsiders (excluding the proprietor) is called ‘Capital’.
 - v. Comparison of capital between two periods is an indication whether the business is profitable or not, if there is no introduction of capital or withdrawal in the form of drawings during the period of comparison.
 - vi. Trade discount is allowed only on cash sales and not on credit sales.
 - vii. Cash discount and trade discount are not allowed, simultaneously, in one transaction.
 - viii. Total assets minus capital is equal to liabilities.
 - ix. An increase in assets is necessarily due to profits.
 - x. Drawings’ reduces capital.
 - xi. Liabilities are decreased by losses and increased by profit
10. The following information relates to the business of Uwimana traders for the month of September 2012
- 1st Sept commenced a business with 120,000Frw half in the bank and half in cash
 - 2nd Sept bought land by cheque 100,000Frw
 - 4th Sept Bought goods for cash 60,000Frw
 - 6th Sept Bought furniture and paid a cheque of 40,000Frw
 - 7th Sept Sold some of the goods for cash 110,000Frw
 - 8th Sept Bought a mortal van from Nissan Rwanda and was issued with an invoice 90,000Frw
 - 13th Sept Bought goods from Okello on credit for 130,000Frw
 - 16th Sept Sales by cheque 90,000Frw
 - 17th Sept He returned some goods to Okello 30,000Frw
 - 21st Sept Drawing in cash 50,000Frw
 - 23rd Sept Paid Nissan Rwanda a cheque for their debt
 - 25th Sept Sold goods on credit to Jackie 120,000Frw
 - 25th Sept Jackie returned some goods 40,000Frw
 - 27th Sept Paid Okello the balance in cash
 - 29th Sept Sold goods for cash 80,000Frw
 - 30th Sept Jackie settled her debt in full using a cheque.

- Question:** 1. Open the ledger accounts to record the above transaction.
2. Balance off the accounts
3. Extract a trial balance as at 30th September 2012.

12. The following information was extracted from the books of John enterprises on the month of April, 2016 in Frw

April 1st: Balance b/d from March: cash at hand 4,800,000Frw, Cash at bank 6,500,000

Debtors: Ineza 1,200,000Frw; Rachelle 2,800,000Frw

Creditors: Alice 2,600,000Frw; Eric: 4,400,000Frwa

April 2: Ineza cleared his account by cheque after deducting 2.5% cash discount

April 8: Withdrew cash for business use worth 1,400,000

April 14: Received cash from Rachelle in full settlement of her account less 2% cash discount

April 20: Paid cash for wages worth 1,300,000Frw

April 28: Deposited cash into bank worth 1,000,000 Frw

April 30: Paid Eric by cash after deducting 2.5% cash discount

Required:

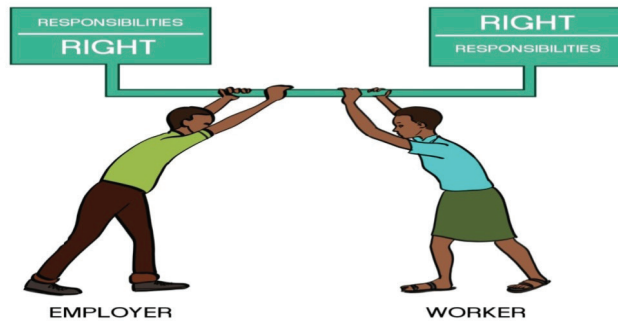
1. Determine the capital as at 1st April, 2016
2. Show the journal entries
3. Write up a three columns cashbook and balance it
4. Show/post discount accounts to the relevant ledger.



UNIT 11

RIGHTS AND RESPONSIBILITIES OF WORKERS AND EMPLOYERS

UNIT 11: RIGHTS AND RESPONSIBILITIES OF WORKERS AND EMPLOYERS



Key Unit Competency: To be able to exercise rights and responsibilities as an employee and employer

Introduction

Current changes in the nature of the workforce, organizational structures, and institutions of society underlie the considerable, and growing, worldwide orientation toward a workplace responsibilities and rights paradigm. Every business has a responsibility to ensure it follows the relevant rules and regulations. If you are an employer, make sure you do everything you can to get it right. Equally, as an employee, you should also be aware of your own responsibilities, as well what your rights are and what your employer should be doing with regard to. For example: payment, respect contracts, time off, working hours, etc.

- What is the difference between rights and responsibilities?
- What are the rights and responsibilities of the worker at the work place?
- What are the rights and responsibilities of the employer at the work place?

This unit is designed to equip you with appropriate ability to exercise rights and responsibilities as either an employee or an employer at workplace: these also include; identifying the universal human rights, differentiating between rights and responsibilities, describing the relationship between rights and responsibilities, advocating for rights and responsibilities of workers and employers at workplaces, etc.

Introductory activities:

1. What do you understand by terms “a right” and “a responsibility”?
2. Identify your own personal rights and responsibilities.
3. Explain the rights and responsibilities of workers.

11.1. Meaning of rights and responsibilities of workers and employers, and Universal Human Rights

Activity 11.1

UBUMWE Company limited is a business dealing in agricultural activities established in 2010 based in MAHAZA. After 4 years of operation, the company took an initiative of using its employment right of hiring and recruiting more ten new workers (employees) to help in achieving its objectives. On one hand, some of the main responsibilities of an employer is to clearly show the worker’s tasks, help him/her perform them by providing necessary materials to perform the tasks, and pay the worker for the work done. Besides, the earlier stated responsibilities of employers are to give rights to the ten recruited workers. The later have responsibilities of performing the tasks as instructed by the employer, respect work time, etc.

Referring to the above case, answer the following questions:

1. Explain the difference between rights and responsibilities.
2. What do you understand by rights of a worker?
3. Explain what you understand by responsibilities of an employer.
4. Identify the universal human rights that are most concerned about in entrepreneurship.

11.1.1. Meaning of rights and responsibilities of workers and employers

A right is a moral or legal entitlement to have or do something.

Workers’ rights or labour rights are a group of legal rights and claimed human rights having to do with labour relations between workers and their employers, usually obtained under labour and employment law. In general, these rights’ debates have to be done with negotiating workers’ pay, benefits, and safe working conditions.

A responsibility is a state or fact of being responsible, answerable, accountable for something within one's power, control, or management.

Employers and employees have responsibilities to each other; they should also expect their rights to be upheld. These rights and responsibilities relate to areas such as health and safety, the provision of terms and conditions of employment, equal opportunities and the right to be paid a minimum wage.

The health and safety at work acts set out responsibilities and rights for both employees and employers. Employees are expected to carry out their work in a way that has regard to the safety of others. Employers are expected to abide by a range of requirements governing such aspects as providing safe machinery and equipment, carrying out regular health and safety checks, ensuring the training of employees in health and safety issues, and carrying out a risk assessment to assess the dangers of particular work activities.

There are also specific regulations about the way in which potentially harmful substances should be used and stored. There are a number of requirements about the minimum temperature at work, and other aspects of working conditions.

11.1.2. Universal Human Rights

The universal human rights are basic rights and fundamental freedoms to which all human beings are entitled.

The Universal Declaration of Human Rights (UDHR) is a milestone document in the history of human rights. Drafted by representatives with different legal and cultural backgrounds from all regions of the world, the Declaration was proclaimed by the United Nations General Assembly in Paris on 10 December 1948 ([General Assembly resolution 217 A](#)) as a common standard of achievements for all peoples and all nations.

The Universal Declaration of Human Rights

Article 1: Right to equality: Human beings are born free and equal in dignity and rights. They are endowed with reason and conscience and should act toward one another in a spirit of brotherhood.

Article 2: Freedom from discrimination: Everyone is entitled to all the rights and freedoms set forth in this Declaration, without distinction of any kind, such as race,

color, sex, language, religion, political or other opinion, national or social origin, property, birth or other status.

Article 3: Right to life, liberty, personal security: Everyone has the right to life, liberty and security of person.

Article 4: Freedom from slavery: No one shall be held in slavery or servitude; slavery and the slave trade shall be prohibited in all their forms.

Article 5: Freedom from torture and degrading treatment: No one shall be subjected to torture or to cruel, inhuman or degrading treatment or punishment.

Article 6: Right to recognition as a person before the Law: Everyone has the right to recognition everywhere as a person before the law.

Article 7: Right to equality before the law: All are equal before the law and are entitled without any discrimination to equal protection of the law. All are entitled to equal protection against any discrimination in violation of this declaration and against any incitement to such discrimination.

Article 8: Right to remedy by competent tribunal: Everyone has the right to an effective remedy by the competent national tribunals for acts violating the fundamental rights granted him by the constitution or by law.

Article 9: Freedom from arbitrary arrest and exile: No one shall be subjected to arbitrary arrest, detention or exile.

Article 10: Right to fair public hearing: Everyone is entitled in full equality to a fair and public hearing by an independent and impartial tribunal, in the determination of his rights and obligations and of any criminal charge against him.

Article 11: Right to be considered innocent until proven guilty:

1. Everyone charged with a penal offense has the right to be presumed innocent until proved guilty according to law in a public trial at which he has had all the guarantees necessary for his defense.
2. No one shall be held guilty of any penal offense on account of any act or omission which did not constitute a penal offense, under national or international law, at the time when it was committed. Nor shall a heavier penalty be imposed than the one that was applicable at the time the penal offense was committed.

Article 12 : Freedom from interference with privacy, family, home and correspondence: No one shall be subjected to arbitrary interference with his privacy, family, home or correspondence, or to attacks upon his honor and reputation. Everyone has the right to the protection of the law against such interference or attacks.

Article 13: Right to free movement in and out of the country:

1. Everyone has the right to freedom of movement and residence within the borders of each State.
2. Everyone has the right to leave any country, including his own, and to return to his country.

Article 14: Right to asylum in other countries from persecution:

3. Everyone has the right to seek and to enjoy in other countries asylum from persecution.
4. This right may not be invoked in the case of prosecutions genuinely arising from non-political crimes or from acts contrary to the purposes and principles of the United Nations.

Article 15: Right to a nationality and the freedom to change it:

5. Everyone has the right to a nationality.
6. No one shall be arbitrarily deprived of his nationality nor denied the right to change his nationality.

Article 16: Right to marriage and family:

7. Men and women of full age, without any limitation due to race, nationality or religion, have the right to marry and to found a family. They are entitled to equal rights as to marriage, during marriage and at its dissolution.
8. Marriage shall be entered into only with the free and full consent of the intending spouses.
9. The family is the natural and fundamental group unit of society and is entitled to protection by society and the State.

Article 17: Right to own property:

1. Everyone has the right to own property alone as well as in association with others.
2. No one shall be arbitrarily deprived of his property.

Article 18: Freedom of belief and religion: Everyone has the right to freedom of thought, conscience and religion; this right includes freedom to change his religion or belief, and freedom, either alone or in community with others and in public and private, to manifest his religion or belief in teaching, practice, worship and observance.

Article 19: Freedom of opinion and information: Everyone has the right to freedom of opinion and expression; this right includes freedom to hold opinions without interference and to seek, receive and impart information and ideas through any media and regardless of frontiers.

Article 20: Right of peaceful assembly and association:

1. Everyone has the right to freedom of peaceful assembly and association.
2. No one may be compelled to belong to an association.

Article 21: Right to participate in government and in free elections:

1. Everyone has the right to take part in the government of his country, directly or through freely chosen representatives.
2. Everyone has the right of equal access to public service in his country.
3. The will of the people shall be the basis of the authority of government; this will shall be expressed in periodic and genuine elections which shall be by universal and equal suffrage and shall be held by secret vote or by equivalent free voting procedures.

Article 22: Right to social security: Everyone, as a member of society, has the right to social security and is entitled to realization, through national effort and international co-operation and in accordance with the organization and resources of each State, of the economic, social and cultural rights indispensable for his dignity and the free development of his personality.

Article 23: Right to desirable work and to join trade unions:

1. Everyone has the right to work, to free choice of employment, to just and favorable conditions of work and to protection against unemployment.
2. Everyone, without any discrimination, has the right to equal pay for equal work.
3. Everyone who works has the right to just and favorable remuneration ensuring for himself and his family an existence worthy of human dignity, and supplemented, if necessary, by other means of social protection.

4. Everyone has the right to form and to join trade unions for the protection of his interests.

Article 24: Right to rest and leisure: Everyone has the right to rest and leisure, including reasonable limitation of working hours and periodic holidays with pay.

Article 25: Right to adequate living standard:

1. Everyone has the right to a standard of living adequate for the health and well-being of himself and of his family, including food, clothing, housing and medical care and necessary social services, and the right to security in the event of unemployment, sickness, disability, widowhood, old age or other lack of livelihood in circumstances beyond his control.
2. Motherhood and childhood are entitled to special care and assistance. All children, whether born in or out of wedlock, shall enjoy the same social protection.

Article 26: Right to education:

1. Everyone has the right to education. Education shall be free, at least in the elementary and fundamental stages. Elementary education shall be compulsory. Technical and professional education shall be made generally available and higher education shall be equally accessible to all on the basis of merit.
2. Education shall be directed to the full development of the human personality and to the strengthening of respect for human rights and fundamental freedoms. It shall promote understanding, tolerance and friendship among all nations, racial or religious groups, and shall further the activities of the United Nations for the maintenance of peace.
3. Parents have a prior right to choose the kind of education that shall be given to their children.

Article 27: Right to participate in the cultural life of community:

1. Everyone has the right freely to participate in the cultural life of the community, to enjoy the arts and to share in scientific advancement and its benefits.
2. Everyone has the right to the protection of the moral and material interests resulting from any scientific, literary or artistic production of which he is the author.

Article 28: Right to a social order that articulates this document: Everyone is entitled to a social and international order in which the rights and freedoms set forth in this Declaration can be fully realized.

Article 29: Community duties essential to free and full development:

1. Everyone has duties to the community in which alone the free and full development of his personality is possible.
2. In the exercise of his rights and freedoms, everyone shall be subject only to such limitations as are determined by law solely for the purpose of securing due recognition and respect for the rights and freedoms of others and of meeting the just requirements of morality, public order and the general welfare in a democratic society.
3. These rights and freedoms may in no case be exercised contrary to the purposes and principles of the United Nations.

Article 30: Freedom from state or personal interference in the above rights:

Nothing in this declaration may be interpreted as implying for any state, group or person any right to engage in any activity or to perform any act aimed at the destruction of any of the rights and freedoms set forth herein.

Application Activity 11.1

Discuss the relationship between rights and responsibilities of workers and employers

11.2 Rights and responsibilities of workers

Activity 11.2



Figure 11.1: Some rights of a worker or employee

Read the following extract, and answer the questions that follow,

Employment law covers all rights and obligations within the employer-employee

relationship whether current employees, job applicants, or former employees. Because of the complexity of employment relationships and the wide variety of situations that can arise, employment law involves legal issues as diverse as discrimination, wrongful termination, wages and taxation, and workplace safety. Many of these issues are governed by applicable federal and state law. But, where the employment relationship is based on a valid contract entered into by the employer and the employee, state contract law alone may dictate the rights and duties of the parties.

- a. Describe any 3 rights of workers in a business.
- b. Explain any 4 responsibilities of the workers in the business.

Employees have the right to:

1. Be given by the employer the agreed work and this, under those conditions, at the time and place as agreed;
2. To implement the work contract signed with the employer;
3. To be paid by the employer the agreed remuneration regularly and in due time;
4. To be affiliated by the employer to the social security scheme;
5. Enjoy the rights that are provided for workers with dependents by the law;
6. To enter into a performance contract with the employer based on collective negotiation within the establishment;
7. Work in a respectful, inclusive work environment free of discrimination;
8. A safe and healthful workplace;
9. Ask employer to correct dangerous conditions;
10. Receive training from employer;
11. To be given the needed means for the execution or completion of the work;
12. To benefit from all legal provisions related to the work.

The responsibilities of the worker (Art.48, Labour law)

According to the article 48 of Labour law in Rwanda, the worker has the following principal responsibilities:

1. To personally carry out the duties of his/her position: The worker must personally execute the contract of employment in the time, place and under conditions agreed between the parties. He/she is not competent to request a third party to do his/her job or to assist him/her without the consent of

the employer even when the remuneration of the third party will be paid by the employee or gratuitous.

2. To respect the employer's or his/her representative's orders when given so as to have the work done.
3. To abstain from all that might threaten his/her security or that of his/her companions or third party, or jeopardize his/her dignity and the one of his/her colleagues.
4. To respect workplace rules, regulations, policies and legislation prescribed by the establishment, its branch or the place where he/she is to do his/her work
5. To keep in good conditions tools given to him/her and give them back to the employer at the time the work is completed.
6. Treating clients, coworkers and the public with respect and dignity.

Application Activity 11.2

The following are rights and responsibilities of workers. Basing on your understanding and skills, tick the following statements where appropriate;

Activity	Right	Responsibility
Follow instructions given by the employer		
Receive fair pay at the correct time		
Do a good job and finish on time		
Arrive on time and stay until the work day has ended		
Do all work in a safe manner and be careful of other people		
Have time for regular breaks		
Work in a safe workplace		
Use all equipment safely		
Respect the equipment and materials from the workplace		

Be provided protective clothing or equipment		
Be given clear information about the job and expectations		
Have the right equipment and materials to do the work properly		
Have a positive attitude about his/her work		

11.3. Rights and responsibilities of employers

Activity 11.3

Assume that you are selected by RITCO; one of the biggest and famous transport companies in Rwanda to train company’s administrative and managing staff on the rights and responsibilities of employer.

Discuss what will be entailed in your training presentation as the rights and responsibilities of employers to make sure that employees’ rights and responsibilities are not violated by their employers.

The employer has the following principal rights:

- **Hiring rights:** The employers have the right to hire the workers in accordance with proper procedures and to expect reasonable performance from their employees.
- **Firing an employee:** Basing on some legal reasons and after official warnings, the employer has the right to fire an employee. Some legitimate reasons for firing a worker include:
 - Poor performance/productivity problems
 - Gross misconduct/unprofessionalism at work
 - Stealing
 - General layoffs, etc.
- **To see his orders respected:** An employee is required to respect the orders of the employer or his/her representative when given in furtherance of work, but the level of devotion required of an employee should not exceed his obligations. In as much as the employee owes the entirety of his professional activities to the enterprise, nonetheless, outside his working hours, it is lawful for him to perform any activity of

a professional nature which is not harmful to the proper execution of his obligations as per the terms of his contract of employment.

- **To see his work well executed:** The employer has the right to see the work wholly done by the worker in the time, place and under conditions agreed between the parties.
- **To see all legal provisions in his favour being respected:** The employee is required to respect all obligations contained in the contract of employment. If the employee is in breach of his/her contractual obligation, he may be liable to indemnify the employer.
- **The employer has the following main responsibilities:**
 - To give to the workers the agreed work conditions;
 - To ensure the responsibility of implementing the work contract signed on his/her behalf;
 - To supervise the worker and make sure that the work is done in suitable conditions as far as security, health and dignity of the worker are concerned;
 - To pay the worker the agreed remuneration regularly and in due time;
 - To avoid whatever may hamper the company's functioning, its workers and the environment;
 - To affiliate workers to the social security scheme;
 - To make those workers with dependents enjoy the rights that are provided for by the law;
 - To enter into a performance contract with the worker based on collective negotiation within the establishment;
 - Ensuring no discrimination in the workplace;
 - Provide a workplace safe and free from hazards;
 - Provide training to employees;
 - Provide competent supervision, etc.

Application Activity 11.3

Think about a business, organization or any other institution in your home locality employing workers. Answer the following questions:

- a. Discuss the responsibilities of the employer (business/organization employing workers)
- b. What rights do employers expect their employee to provide?

Skills Lab Activity 11.4

For the business you intend to start in your community;

- i. How will you ensure that the rights of workers are observed?
- ii. What will be the responsibilities of different workers that you will employ?
- iii. As the employer, what will be your responsibilities?
- iv. How will you ensure workers have performed their responsibilities?

End of Unit 8 Assessment

Circle the correct answer for each statement.

1. Universal human rights include the following:

- a. The right to education
- b. The right to shelter
- c. The right to practice the religion of your choice
- d. All of the above
- e. None of the above

2. Rights and responsibilities are the same for employers and employees

- a. True b. False

3. In Rwanda, an employer does not need to:

- a. Provide regular breaks for employees
- b. Maintain a safe workplace
- c. Pay employees the agreed-upon wage on time
- d. Pay for employee's transportation to work

4. In Rwanda, an employee has the responsibility to:

- a. Respect and follow directions given by the employer
- b. Avoid hazards at the workplace
- c. Keep equipment in good working order
- d. Show up on time
- e. All of the above

- 6. The Rwandan labor law protects workers against harassment, intimidation and violence.**
- a. True b. False
- 7. Women should not report sexual harassment by their supervisors because they will lose their job.**
- a. True b. False
- 8. Rwandan labor law protects adults, not youth.**
- a. True b. False





UNIT 12

TEAM LEADERSHIP

Introductory activity (Self-assessment)

There is no right or wrong way to answer this assessment. It is for your own use during this unit. You will read an element of competence listed in the left column. Think about yourself: do you think you can do this? How well? Read the statements across the top. Put a check in column that best represents your situation. At the end of this unit, you will take this assessment again.

My experience	I have no experience in doing this.	I know a little about this.	I have some experience doing this.	I have enough experience in this.	I am confident in my ability to do this.
Knowledge, Skills and Attitudes					
Describe characteristics of effective leaders					
Demonstrate leadership in my personal life and with others, at work or in the community					
Promote group cooperation					
Help others accomplish a task by providing guidance & leadership					
Describe my own leadership style					
Follow necessary steps to successfully					
solve problems – identification; information gathering; generating, choosing and evaluating a solution					

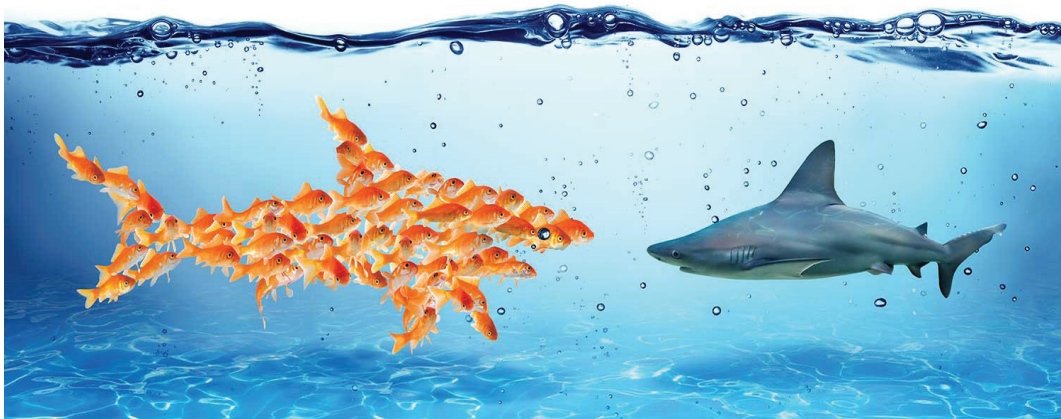
12.1. Meaning of: - Team - Teamwork - Leadership

Activity 12.1

Read the following paragraph and answer questions that follow.

Think about a time when you have been a leader. It can be a leader of anything, a group task at school, home or in your community, at a job, being a leader on a sports team...

- a. How did you like playing that role?
- b. What made it difficult or easy for you?
- c. Based on your experience described above, what do you understand by:
 - i. Team
 - ii. Teamwork
 - iii. Leadership



Secondary source: Fig. 12.1: Team, Teamwork and Leadership

Team

A team is a group of individuals working together to reach a common goal

It can also be seen as a group of people with different skills and different tasks, who work together on a common project, service, or goal, with a meshing of functions and mutual support.

Teamwork

Teamwork is the collaborative effort of a team to achieve a common goal or to com-

plete a task in the most effective and efficient way. This concept is seen within the greater framework of a team, which is a group of interdependent individuals who work together towards a common goal (From Wikipedia, the free encyclopedia)

Leadership

Leadership is the art of motivating a group of people to act towards achieving a common goal.

This leadership definition captures the essentials of being able to inspire others and being prepared to do so. Effective leadership is based upon ideas (whether original or borrowed), but will not happen unless those ideas can be communicated to others in a way that engages them enough to act as the leader wants them to act.

Put even more simply, a leader is the inspiration and director of the action. He or she is the person in the group that possesses the combination of personality and leadership skills that makes others want to follow his or her direction. (By Susan Ward, Updated July 17, 2017).

Application Activity 12.1

Read the following statements to identify a team, teamwork and leadership, and give reasons to support your response

- a. Nkusi playing football against Musoni
- b. Mukamana the Head prefect passing on instructions from the teacher on duty to a group of students on the activity they are to do
- c. Nkusi and Niragire playing football against Rugwiro and Mutesi
- d. A group of five students reading their books in the library
- e. Mukamana the Head prefect giving instructions to a group of fellow students with whom they are going to represent the school in a debate competition
- f. A group of five girls reading science magazines in the library preparing for a science competition against another class.

12.2 Qualities of an effective leader

Activity 12.2 Inspiring Leaders

- Referring to your community, or country, name any three (3) examples of leaders who you think are inspiring (famous people or people from your community).
- Describe the characteristics/qualities you think make those leaders inspiring or effective.



Secondary source: Fig. 12.2: Qualities of a good leader

- What makes an effective leader?

To help you improve your leadership skills, here are examples of what makes a great leader.

- Determination:** A great leader has a never-ending determination. He/she is the first one to initiate an idea and the last one to give up. It is because of a leader's determination that projects are started and completed successfully.
- Flexibility:** A great leader can adapt to any situation. He/she sees the

situation from many different angles and can adjust himself accordingly.

- c. Resourcefulness:** Generally, leaders do not always get what they want easily. But since effective ones are creative, they think of ways to get what they want. Besides, they collaborate with the employees to fully utilize the available resources in achieving the organizational objectives.
- d. Creativity:** He/she is characterized by critical thinking coming up with effective ways of doing things right that do not require a lot of time, effort or money but ending up successfully.
- e. Self-confidence:** People will follow a leader who believes in him or herself. This does not mean being arrogant; rather, it means trusting in yourself and your abilities.
- f. Positive Attitude / Optimism:** A great leader has a positive outlook and tries to make the best out of everything.
- g. Responsible:** A great leader understands that whatever happens in his/her team (whether good or bad) is his responsibility. He/she does not take all the credit for work well done and does not blame others when there is failure.
- h. Good Communication Skills:** What makes a leader great is his ability to communicate effectively with his team. A good leader understands that people do not understand messages in the same way so is always confirming if what s/he has said or has heard is understood.
- i. Consistency / Reliability / Accountability:** A great leader is dependable, always does his/her best, takes action & delivers good results.
- j. Planning Ahead:** A good leader knows what is up ahead. He has good judgment in predicting what may happen in the future and can make work decisions based on that.
- k. Patience:** A great leader is able to wait, to continue doing something despite difficulties, or to suffer without complaining or becoming annoyed. Patience is enduring under difficult circumstances, exhibiting endurance when under strain, especially when faced with longer-term difficulties.

- l. Being objective** : A good leader does not take sides but is open to different opinions. Personal feeling or opinions do not influence him/her in considering and representing facts
- m. Perceptive** : A good leader has an awareness of the people s/he is leading. He/she has intuitive, understands people he/she is leading or situations and shows sensitivity

Briefly, what makes a great leader is a mix of these qualities and many more others. A person does not necessarily need to possess all the qualities but one should at least strive to develop many of them

Application Activity 12.2

Read the following extract from "Rwanda. **A remarkable turn around of a nation, 2014, page 9)** and answer questions that follow.

To produce the desired outcomes, structural advantages have to interact the agency – social organisation and leadership. Luckily for Rwanda, at the heart of its success has been the focused political leadership to guide the country through various reforms. President Paul Kagame and his colleagues in RPF have exhibited extraordinary political foresight and skills at navigating local difficulties and international pressures to steer the nation to success. Yet, Rwanda's achievements are not singularly because of the intrinsic values of its political party, the RPF – however, important these maybe. Rather, they have largely been because of RPF's ability to build a broad-based collaborative relationship with other political parties and social forces in the country to sustain the momentum for progressive change.

- a. Do you describe RPF as a team? Give reasons to support your response
- b. From the extract, why do you think RPF has a good leadership
- c. Do you describe President Paul Kagame as an effective leader? Support your response with four qualities from the extract

12.3 Leadership Styles

Activity 12.3

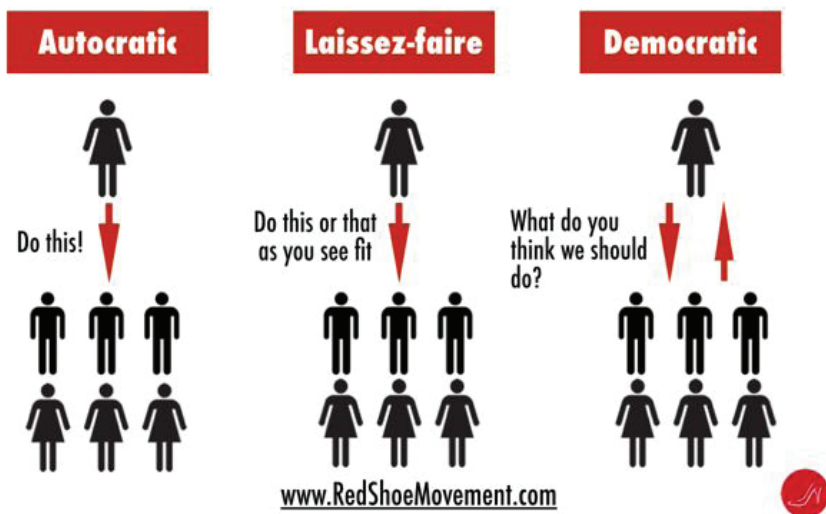
Analyze the Leadership styles below and answer questions that follow:

- The “Authoritarian” Leader/ Autocratic style/Authoritarian
- The “Persuading” leader;
- The “Consulting” Leader;
- The “Joining” Leader;
- The transformative leader;

Required

- Explain the meaning of each leadership styles above
- Think and give examples of people you know who tend to lead or have led in each of the leadership style explained above.
- Describe when each leadership style would be appropriate to use

Leadership Styles



Secondary source: Fig. 12.3: leadership style

As a leader, it is important to understand the different styles of leading. The style you choose will depend on the context in which you are working in, the people you are working with, their needs and expectations, whether or not you have a deadline, the

task, etc. The following are the most typical leadership styles:

a. The “Authoritarian” style

- Identifies a problem, considers alternative solutions, chooses one of them, and then tells followers what they are to do.
- May or may not consider what the group will think or feel about the decision, but they clearly do not participate in the decision-making.
- Assigns roles.
- Relies primarily on his or her own judgment.

b. The “Persuading” style

- Like the “Authoritarian” leader, he/she makes the decisions without consulting the group. Instead of simply announcing the decision he or she attempts to persuade the group members to accept the decision.
- Describes how the decision fits everyone’s interests.

c. The “Consulting” style

- Gives the group a chance to influence the decision from the beginning.
- Presents the problem and relevant background information, then asks the members for their ideas on how to solve the problem.
- May offer a possible solution for the group members’ reaction.
- Selects the solution the members regard as most promising.

d. The “Joining” style:

- Participates in the discussions as “just another” member agreeing in advance to carry out whatever decision the group makes.
- Encourages group decisions.
- Allows for individual recognition.
- Tends to guide, not rule.

e. The transformative style

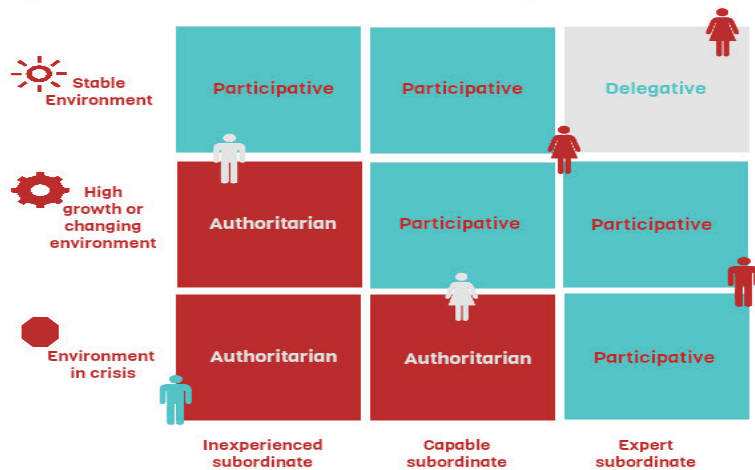
- Leader identifies the needed change,
- Creates a vision to guide the change through inspiration, and
- Executes the change with the commitment of the members of the group.

Appropriateness of each leadership style.

leadership styles



There is no one right style of leadership



The leadership style that you use depends on the needs of the person you are leading and the needs of the environment.

Secondary source: Fig. 12.5: Application of leadership style

- a. **The Authoritarian and Persuading styles of leadership are most prevalent:**
 - In large groups,
 - In passive groups,
 - In groups, which seldom meet,
 - At times when a quick decision or deadline must be met.
- b. **The Consulting style of leadership is most effective and/or prevalent:**
 - In large groups,
 - In motivated groups,
 - In organized groups
- c. **The Joining style of leadership is most prevalent and /or effective:**
 - In small groups,
 - In highly motivated groups,
 - In groups that can deal with a less structured environment. There might be a lot of brainstorming, trying things out but switching direction as needed, etc.,
 - In groups, which have a relatively high need for independence,

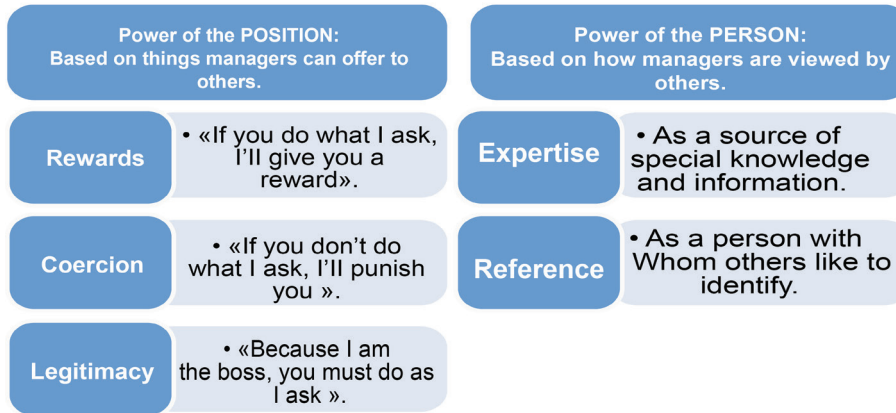
- In groups where the members have the necessary knowledge and experience to deal with the problem,
 - In groups where the members expect to share in decision-making.
- d. The Transformative style of leadership is most effective and/or prevalent:**
- In teams with different strengths and weaknesses.
 - When you want team members to work through a problem and arrive at a solution themselves (rather than giving them the answer or direction straight away).
 - When you want to get your team to engage through providing direction and motivation
 - When you want to get your teams' respect by being honest, trustworthy, and driven.

Application Activity 12.3

1. Analyze the scenarios below, and determine which leadership styles is more appropriate for the scenario and give reasons to support your choice.
 - a. You are at the workplace and suddenly the building where the finished products are stored catches fire.
 - b. In the finance department, workers are complaining that the rules and regulations in their department are not favorable to all and therefore, need to be changed.
 - c. In your department, as a leader you want to introduce computers because you believe they will improve on the efficiency of the workers but they feel computers are not necessary, as it is a wastage of the company's money.
 - d. Recently, there have been changes in government policies that automatically affect the performance of the business. You as the managing director are to lead senior management to come up with strategies to counter the effects of the new policies?
 - e. At school, all the classrooms are dirty and need to be cleaned.
 - f. Implementing government programs such as "Umuganda"
2. Which leadership style is most appropriate and give reasons to support your response.

12.4 Source of power in Leadership

Sources of Power Used by Leaders



Secondary source: Figure 12.6: Source of power in leadership

Activity 12.4.

Referring to your community, identify leaders you know and describe how you think they acquired their power into leadership.

The five Types of Power in Leadership

Power means many different things to different people. For some, power is seen as corrupt. For others, the more power they have, the more successful they feel. For even others, power is of no interest at all. John French and Bertram Raven identified the five bases of power in the early 1960's through a study they had conducted on power in leadership roles. The study showed how different types of power affected one's leadership ability and success in a leadership role.

The five bases of power are divided in two categories:

A. Formal Power

- Coercive:** Coercive power is conveyed through fear of losing one's job, being demoted, receiving a poor performance review, having prime projects taken away, etc. This power is gotten through threatening others. For example, the Sales Manager who threatens sales folks to meet their goals or get replaced.
- Reward:** Reward power is conveyed through rewarding individuals for compliance with one's wishes. This may be done through giving

bonuses, raises, a promotion, extra time off from work, etc. For example, the supervisor who provides employees comp time when they meet an objective she sets for a project.

- c. **Legitimate: Legitimate power** comes from having a position of power in an organization, such as being the boss or a key member of a leadership team. This power comes when employees in the organization recognize the authority of the individual. For example, the CEO who determines the overall direction of the company and the resource needs of the company.

B. Personal Power

- a. **Expert: Expert power** comes from one's experiences, skills or knowledge. As we gain experience in particular areas, and become thought leaders in those areas, we begin to gather expert power that can be utilized to get others to help us meet our goals. For example, the Project Manager who is an expert at solving particularly challenging problems to ensure a project stays on track.
- b. **Referent: Referent power** comes from being trusted and respected. We can gain referent power when others trust what we do and respect us for how we handle situations. For example, the Human Resource Associate who is known for ensuring employees are treated fairly and coming to the rescue of those who are not.

Application Activity 12.4

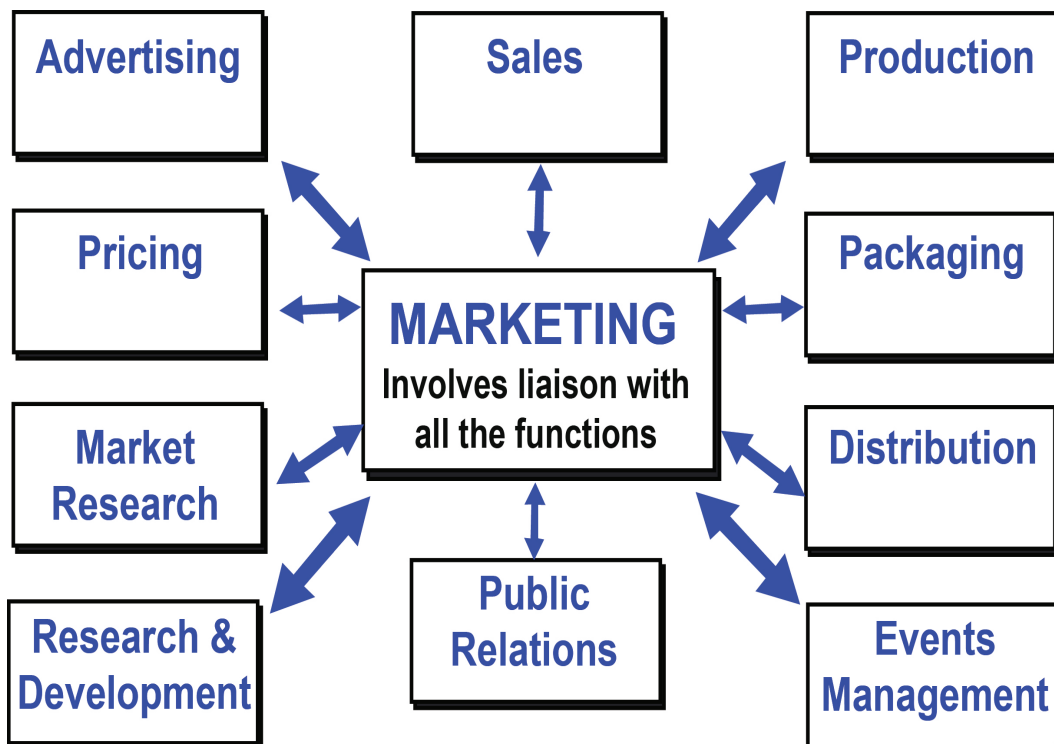
Read the scenarios below and identify which source does the leader derive his/her power and give reasons to support your answer.

1. Mahoro is a junior manager in one of the privately owned hotels in Kigali city. She is a very good worker but her boss is always threatening her with demotions, pay cuts, layoffs, and terminations if she does not give in to his sexual demands.
2. Niyokwizerwa is a manager in one of the biggest customer care companies in the city. Her employees admire her leadership abilities such as allowing them to make decisions in certain work situations, the way she talks to the customers and therefore, has affected the employees' performance, as she has become a point of reference for their behavior.
3. Gakuru is a well-loved head teacher at a certain school in Western province. His staff love him because he always gives them monetary awards, wage or salary increases, bonuses, plaques, certificates, and gifts, praise, positive feedback, recognition, more responsibility including a rise in status, and even a well-timed 'thank-you.'
4. Benimana is a secretary in one of the law firms in Kigali. One day her boss' Uwamariya had to file a case with the court by the end of the day or their client loses the right to file the lawsuit, which happens to be worth millions of Rwandan francs. The boss' word processing program crashed, and thinks she may have lost the legal complaint. The court clerk's office closes in less than one hour, not nearly enough time to redraft. The boss approaches you to see if you can do anything.
5. Iyakaremye is a junior officer in the national army of Rwanda. He says in the army; an order is an order. All junior officers have to perform commands from high-ranking officers without questioning.

12.5 Leadership and team requirements

Activity 12.5

1. In your community, there are a number of teams and all sorts of leadership.
 - a. Identify any one team you think has a good leadership and give reasons to support your response.
 - b. Identify any one team you think has a bad leadership and give reasons to support your response.
 - c. What do you think are the requirements for teams to be successful?



Secondary source: Fig. 12.8: Strategies to develop team work

Characteristics of a successful team.

We are all familiar with the myth; the entrepreneurial giants of the world people such as Elon Musk and Bill Gates had to fight their way to the top, single-handedly and against all odds. However, such success stories mislead. Behind each successful individual is a team. Indeed, good teams are at the heart of every thriving business.

At one time or another in your life, you have been reminded that teamwork makes the dream work or that there is no "I" in team. On the other hand, maybe you have been encouraged to be a team player and sacrifice for the team.

There are very few if not any who are not expected to work in or at least be part of a team. In the workplace, teamwork can mean the difference between success and failure. Organizations that place emphasis on team building and ensure they hire employees who fit their collaborative culture create an environment where everyone's contributions are recognized and valued, which in turn drives productivity and success. Below are characteristics of successful teams;

10 Characteristics Of Successful Teams

1 Clear Goals

Necessary so that all Team Members understand the purpose & vision of the team.



2 Defined Goals

To understand their Job Function for Leaders to tap into the skills & talents of Group members



3 Open & Clear communication

Effective communication will keep a Team informed & Focused. Important to focus on hearing message before forming our own conclusions



4 Effective Decision Making

Awareness of Various decision making method can help a team members make efficient decisions. Team members should select a method that works best for them



5 Balanced Participation

Full involvement of team members are valued & sought. Important when leaders define what type of participation they expect from members



6 Valued Diversity

Diversity of thinking , idea generating , problem solving & experiences help to create an effective team



7 Managed Conflict

Important that issues aren't ignored & avoided in a group. Team have to find ways to communicate differences & seek common goals



8 Positive Atmosphere

An effective Team has an open climate with each other & aren't afraid to take risks. Honesty , Accessibility ,acceptance & dependability that builds the trust



9 Cooperative Relationships

Team members want to work together for the good of the team & understand that combining the skills of numerous people will produce something that could not b created alone



10 Participative Leadership

Leadership is shared among team members at various times

Secondary source: Figure: 12.9: Characteristics of successful teams

Application Activity 12.5

Read the following activity and answer questions that follow.

You are the president of your school business club. The District Youth leader has advised you that for your club to win the upcoming competitions, the club should have an overall impact on the school and community. Club membership should comprise students from S1 to S6, but S4 & 5 members are not willing to accept students from other classes. They claim that the new members will simply enjoy current club achievements, and they will not bring much since most of the work has been done, and projects are already running; the club is not united as well.

As the president:

- a. What should you do to ensure the club is united?
- b. What characteristics are required for the club to be successful?

12.6 Strategies for working together/developing a team

Team working is vital in any given business, which have to achieve challenging targets with limited resources. Before a team can perform effectively, team members have to learn to trust one another and find ways to work cooperatively to achieve their common goals. Managers can help this process along by implementing strategies that develop team cohesion

The ability to work as part of a team is one of the most important skills in today's job market. Employers are looking for workers who can contribute their own ideas, but also want people who can work with others to create and develop projects and plans.

Activity 12.6

Think of a situation at work, school or home where there is a new/unfamiliar task for everyone to accomplish. People are required to get themselves organized to accomplish it. This particular task will need leaders to emerge to assume responsibilities, manage people and the communication process for the success of the given activity.

Assume you are selected as the leader,

- a. Describe some strategies you will use to have the people accomplish the task.
- b. How would you feel as a leader when you were communicating and people were not listening or trying to offer suggestions and instructions at the same time?
- c. What would be your strategy for better communication as a leader?
- d. As a leader, what would you expect from the members to be able to accomplish the task?
- e. As a leader, how can you encourage group cooperation?

Strategies for developing team work



Fig. 12.10: Requirements of a Successful team

Leaders can employ different strategies while bringing people to work together and developing teamwork:

- Work with the team to develop a common goal.
- Nurture sense of belonging; focus on what team members have in common.
- Help team members work together to efficiently solve problems
- Encourage members to set aside personal goals and desires for the benefit of the team.

- Treat team members fairly and equally.
- Structure the work of the team in a simple & logical fashion; distribute work fairly.
- Manage team efficiently so that work proceeds in a timely manner.
- Create an environment that supports and rewards openness, creativity, trust, mutual respect and a commitment to provide high quality services.
- Value Everyone's Contribution.
- Encourage discussion.
- Ensure all team members understand that their ideas & opinions are equally important & relevant.
- Encourage people with different abilities & personalities to work together.
- **Value Everyone's Contribution:** Team members have different skills and experience and so each team member must be given an opportunity and feel that their contributions are valued.
- **Empower Team Members:** Delegating authority and empowering the team to make decisions is more likely to pull together members together and work collaboratively to achieve business goals.
- **Resolve Conflict within the Team:** Constructive conflict among team members is a sign of a healthy team. However, unhelpful arguments and conflict should be tackled for the team to stay focused.
- **Celebrate Team Successes:** When the team achieves a milestone or target, you should encourage team members to celebrate their success together act as an incentive to reach the next milestone or target.

Leaders can also encourage teams to work independently by ensuring that team members:

- Are aware of strengths & weaknesses?
- Are able to set their own goals?
- Are able to act according to goals.
- Take responsibility for their action.
- Are able to avoid opinions and behavior that block change

As a leader, this means that you need to support members in helping them to understand their own individual strengths and find support in their colleagues.

Team members do the following to strengthen team spirit:

- Consult each other
- Help each other

- Complement each other
- Encourage and motivate each other

Application Activity 12.6

Scenario

Read the scenario below and answer questions that follow:

Robbery of construction site materials

As a manager at construction site, you realized that some of the site materials are progressively missing unknowingly. Then you decided to call all workers for a meeting on how to resolve the problem. Among your team are the following:

Muganwa: A domineering person who wants to take over the discussions and lead the group. He thinks he has all the answers and do not want to waste time having everybody share their ideas.

Kwitonda: A disagreeable person who has a negative attitude and resistant towards all ideas.

Umuhoza: A harmonious person who always try to make people feel relaxed and constantly trying to smooth things out between people who are disagreeing.

Mbaraga: An encouraging person who wants to make sure that everybody is heard, regardless of his or her background or ideas. Pulls group members into the conversation.

Barafinda: A person who gets very excited and loves to brainstorm and share extravagant ideas that are not always realistic.

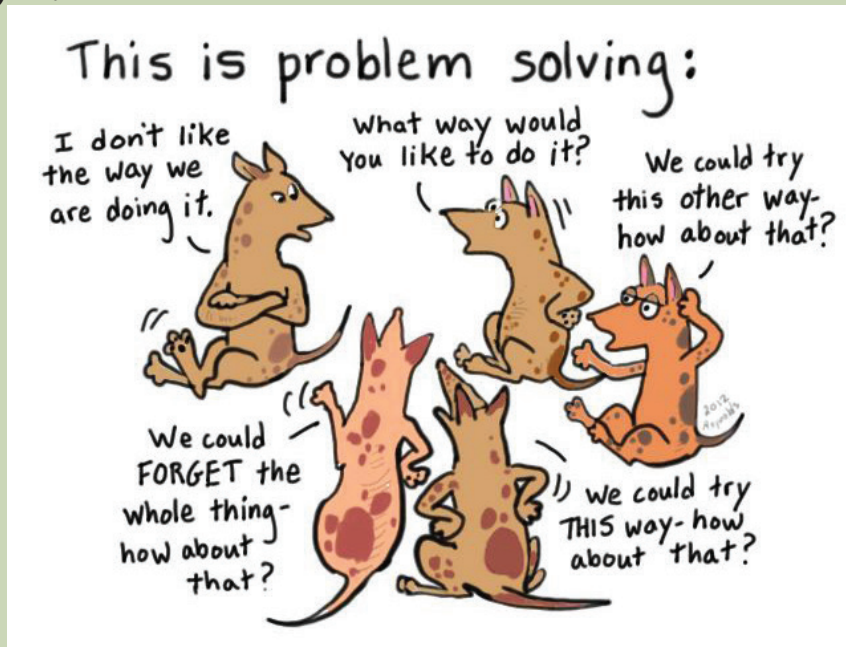
Niyokwizerwa: A taskmaster who is always very organized and likes to stay focused on the task. She keeps bringing the group back to the practical actions that need to be taken to accomplish the task

Questions:

- Which leadership style would you apply in solving the problem?
- Explain any strategies you would employ to ensure team work.
- What advice would you give to your team members to foster team spirit?

12.7 Leading Problem Solving and Decision Making

Activity 12.7



Secondary source: Fig. 12.11: Problem solving (Posted by Cheryll Tay, 09 Oct 2014)

- Analyze the illustration above about problem solving. Do you think the members will solve their problem and get a solution? Give reasons to support your response.
- Think of a problem that your friend or relative has had at work, with family or friends.
 - What was the problem and what caused it?
 - What did you do about it?
 - Did you go through any steps while solving the problem? If yes, which steps? If no, why do you think it is not necessary to go through steps?

What is problem solving?

(Henry Kaiser (American industrialist, 2018)

Having good, strong problem solving skills can make a huge difference to your career.

Problems are at the center of what many people do at work every day. Whether you're solving a problem for a client (internal or external), supporting those who are solving problems, or discovering new problems to solve, the problems you face can be large or small, simple or complex, and easy or difficult. A fundamental part of entrepreneurs' role is finding ways to solve them. Therefore, being a confident problem solver is important to your success. Much of that confidence comes from having a good process to use when approaching a problem. With one, you can solve problems quickly and effectively. Without one, your solutions may be ineffective, or you will be stuck and do nothing, with sometimes painful consequences.

Problem solving steps

There are six basic steps in solving a problem:

1. **Define the problem:** keep emotions aside and state the problem
2. **Get more information about the problem at work** - firm supervisor, colleagues, written materials.
3. **Generate many ideas on how to solve the problem:** there is often more than one solution!
4. **Choose a solution:** should be acceptable to all involved.
5. Implement the solution.
6. **Evaluate the solution:** Has the problem been solved?

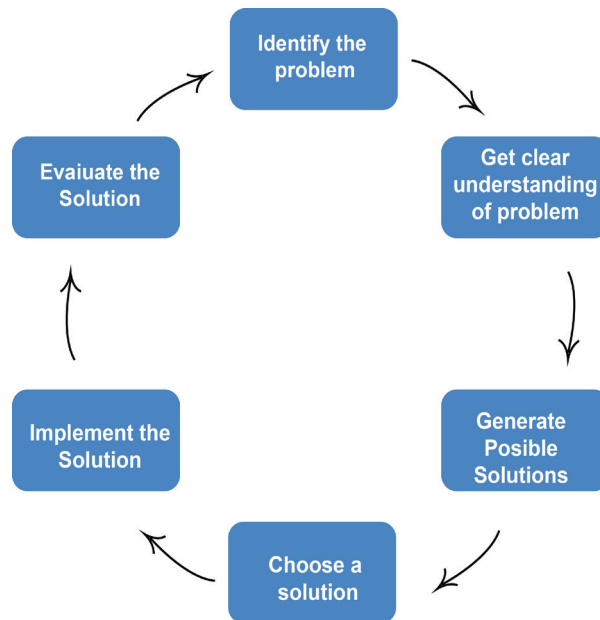


Fig.12.12: Problem-Solving Steps

REAL Solution

A solution that is acceptable culturally is not necessarily win/win. It is win/win when both parties feel happy with the solution and that solution is 'real'.

As far as possible all problem solving should result in a win/win solution. When a problem does not end in a win/win solution, then there is no durable solution as there is often resentment, a desire for revenge and a hatred for the person who 'won' if you 'lost'.

Therefore, a solution should be:

- R** **Realistic:** applicable not only in theory but also in practice
- E** **Effective:** the solution is an answer to the problem
- A** **Acceptable:** the solution is accepted by all of those involved
- L** **Logical:** the solution is not based on emotion but is fair

Source (Inter-Agency Peace Education Program Skills for Constructive Living Facilitator's Manual for Community Workshops. Published in 2005 by the United Nations Educational, Scientific and Cultural Organization)

Problem Solving Tips

- Often there is more than one solution to a problem. Be open to different possibilities!
- Your experiences, culture and background will influence the solutions you think of.
- Avoid making assumptions.
- Never give up!
- Be prepared to listen openly to different points of view.
- Focus on the solution you want, not on things that cannot be changed.
- Remember to use your good listening, speaking and cooperation skills when problem solving with others.

Application Activity 12.7

Read the scenarios provided and apply the problem-solving steps to find a solution for each scenario given below:

Scenarios for Problem Solving Steps

Scenario 1: Uwera is head of a child headed household. She has been raising her younger sisters. She has small part time jobs. She sells tomatoes, bananas and cleans houses. Uwera is worried because she does not earn enough money to pay for rent and for school fees for her younger sisters.

Help Uwera solve her problem.

Scenario 2: You work at a construction site. You notice that tools are disappearing from the worksite on a regular basis. What do you do?

Scenario 3: Two boys and three girls, all orphans of AIDS, live together. They are free from HIV. People do not want to go close to them or help them, as they fear they will contact HIV because their parents died of AIDS.

As a leader of the community, how will you handle the problem?

Scenario 4: Ntaganzwa and Niyigena both work in accounting department. Ntaganzwa was hired a few months ago and Niyigena has been with the company for eight years. Ntaganzwa, while being a proficient worker, tends to wait until the last minute to get his work done. Niyigena works more steadily and keeps on top of her work daily. Niyigena complains that she feels she has to worry now

about his work and her own. In addition, because they rely on each other's tasks, she is uncomfortable with waiting until an hour or so before a deadline when they are forced to collaborate.

Because of the conflict, Ntaganzwa is missing more work and you suspect it is because he wants to avoid Niyigena and her wrath/anger.

What advice do you give to Niyigena?

Skills Lab Activity 12.8

Read and analyse the scenarios below and answer the questions that follow:

Scenario 1: Cut on the dotted lines, mix the slips of paper so they are not in order, and give each group a copy of all the cut up slips of paper. Their task is to match the name of the leadership style with the example.

Scenario 2: Mushimiyimana is the leader of an organization that provides computer services. She has realized that there is a problem with the way they advertise their business. Sitting at her desk, she lists some approaches they can take to improve their communications. She then tells the other employees what they need to do without asking for anyone else's ideas.

Scenario 3: Abatoni is the manager of a catering service called Best Bakery. They have been asked to prepare cakes for an upcoming wedding of the daughter of a political leader. She decides that coconut cakes will be the best and calls the staff together to discuss the order. She informs them of the order and then launches into a speech about all the advantages of making coconut cake. Others express an interest in making vanilla cakes but in the end Abatoni convinces them coconut is best.

Scenario 4: Karamuzi is the owner of a successful auto mechanic workshop. A customer has brought a vehicle in that has multiple problems. He asks his team

Scenario 5: Kwesi runs a tailoring business in town. He has 5 employees. With an upcoming holiday, they have many orders to fulfill. Kwesi gathers all the employees

to get their opinions on how to best manage the process so they can meet the deadlines. In the end, they decide together to divide tasks amongst themselves. Kwesi and two others were tasked with cutting and shaping the cloth while the other tailors would do the sewing. In the end they managed to keep all of their customers satisfied.

Akimana is one of the leading members of the community youth association in a rural area. Following the illness of several community members, she decided it was necessary for community members to have better access to potable water. During weekly youth association meetings, she shared her vision and got others interested in resolving the problem. Together they researched different possibilities such as working with local government offices to mobilize resources to install a borehole (pipe drilled down to access clean water). During their association meetings, Akimana always recognized the effort each individual was making.

Eventually the youth were able to mobilize the resources necessary to access clean water. The youth and the community members were all inspired by her commitment and hard work to make it happen.

1. Describe the leadership styles applied in the scenario giving reasons to support your answers.
2. Justify whether this was the most appropriate style to applied.

End of Unit 12 Assessment

1. Circle an answer for each statement.
 - i. Leaders should always make decisions on their own without getting input from others who are not leaders.
 - a. True
 - b). False
 - ii. Effective leaders:
 - a. Are creative
 - b. Have self confidence
 - c. Are flexible
 - d. Have a positive attitude
 - e. All of the above
 - iii. A leader should choose one style of leadership and always stick to it – authoritarian, persuading, consulting, or joining.
 - a. True
 - b. False
 - vi. When giving instructions to a group of people, you should:
 - a. Repeat the question
 - b. Ask if the question is clear
 - c. Ask someone to say the question back to you in their own words
 - d. All of the above
 - e. None of the above
2. Your class visits the community to identify any problem affecting the community members and come up with a solution to the identified problem.

Questions:

- a. You need to choose a leader to help the team reach its goal, what kind of leader would you propose for your team?
- b. What style of leadership would you advise the leader to apply as he/she leads your team to reach its goal?
- c. What do you think the new leader should do in order to lead a successful team?

- d. What advice would you give the leader in order to strengthen teamwork or working together towards reaching your goal?
3. Read and analyze the following scenarios and decide which leadership style is depicted
 - a. Juliet is the leader of an organization that provides computer services. She has realized that there is a problem with the way they advertise their business. Sitting at her desk, she lists some approaches they can take to improve their communications. She then tells the other employees what they need to do without asking for anyone else's ideas.
 - b. Sheja is the manager of a catering service called Best Bakery. They have been asked to prepare cakes for an upcoming wedding of the daughter of a political leader. She decides that coconut cakes will be the best and calls the staff together to discuss the order. She informs them of the order and then launches into a speech about all the advantages of making coconut cake. Others express an interest in making vanilla cakes but in the end, Abena convinces them that coconut is best.
 - c. Jean de Dieu is the owner of a successful auto mechanic workshop. A customer has brought a vehicle in that has multiple problems. He asks his team to assess the problems and get back to him with possible solutions. A few hours later they have a meeting to discuss what they have found and what they propose. They have a discussion, Jean de Dieu gives some advice and the team begins to repair.
 - v. To be successful, teams need:
 - a. Different goals
 - b. Vague roles and tasks
 - c. Trusting relationships among team members
 - d. All of the above
 - e. None of the above
 - vi. To develop team spirit, develop a common goal and make sure all team members feel they have something to contribute.
 - a. True
 - b) False

- vii. Problem solving steps include:
- Defining the problem and getting more information
 - Generating ideas on how to solve the problem
 - Choosing, implementing and evaluating a solution
 - All of the above
 - None of the above
- viii. You are leading a team to accomplish a task that is more difficult than you expected. You should:
- Give up in order to stop wasting valuable time
 - Listen to only those team members who agree with your opinions
 - Maintain a positive attitude and encourage others to participate
 - Focus on one solution
- xi. Real leaders include only those who are famous.
- True
 - False
- x. Promoting group cooperation means encouraging people to be open to the ideas of others.
- True
 - False
- d. Peter runs a tailoring business in town. He has 5 employees. With an upcoming holiday, they have many orders to fulfill. Peter gathers all the employees to get their opinions on how to best manage the process so they can meet the deadlines. In the end, they decide together to divide tasks amongst themselves. Kwesi and two others were tasked with cutting and shaping the cloth while the other tailors would do the sewing. In the end they managed to keep all of their customers satisfied.
- e. Keza is one of the leading members of the community youth association in a rural area. Following the illness of several community members, she decided it was necessary for community members to have better access to potable water. During weekly youth association meetings, she shared her vision and got others interested in resolving the problem. Together they researched different possibilities such as working with local government offices to mobilize resources to install a borehole (pipe drilled down to access clean water). During their

association meetings, Keza always recognized the effort individuals was making. Eventually the youth were able to mobilize the resources necessary to access clean water. The youth and the community members were all inspired by her commitment and hard work to make it happen.

4. Read the following passage and answer questions that follow.

Ntwali started a business selling general merchandise in his community. He is renting the place where his business operates. Ntwali paid his property owner three months' rent in advance but never asked for receipt. After two months, his property owner says he wants the rent for the two months. Ntwali is perplexed and tries to remind the property owner that he paid his rent for three months. The property owner denies and asks Ntwali for proof of the payment which he does not have. Ntwali is stuck, does not know what to do while the property owner threatens to evict him if he does not pay his rent.

Questions:

Referring to the problem solving steps, help Ntwali resolve the above problem.





UNIT 13
CONFORMITY
ASSESSMENT IN
BUSINESS

UNIT 13: CONFORMITY ASSESSMENT IN BUSINESS



Key Unit Competency: To be able to Justify the need for conformity assessment to business

Introduction

Most products or services are regulated in some way, normally to make sure that health, safety and environmental requirements are met. Even if products are not regulated, the marketplace will still often require products to meet a particular standard.

There are a series of procedures that ensure these requirements or standards are met. Products are normally tested or inspected by appropriate laboratories or inspection bodies. Providers of goods and services often need to have management systems that are independently certified. These testing, inspection, and certification activities are collectively known as conformity assessment.

The government, consumers and the business community rely on the assurance given by conformity assessment bodies to protect public health, safety and, welfare and the environment. Credible conformity assessment also supports the government's obligations under international trade agreements.

This unit is intended to equip you with knowledge and skills as well attitudes that will enable you appreciate the importance and necessity of conformity assessment in business; and the need for quality assurance and quality management in business.

ABBREVIATIONS AND ACRONYMS

NQTL	-	National Quality Testing Laboratories
RAS	-	Rwanda Accreditation Services
RADA	-	Rwanda Agriculture Development Authority
RARDA	-	Rwanda Animal Resources Development Authority
RHODA	-	Rwanda Horticulture Development Authority
RDB	-	Rwanda Development Board
RBS	-	Rwanda Bureau of Standards
SPS	-	Sanitary and PhytoSanitary (Measures)

Introductory activity

Read the following extract and answer questions that follow.

Adapted from Rwanda Quality Policy, October 2010

Conformity assessment activities such as; (certification of products, management systems, personnel, testing and inspection services) for the technical regulations or market place may be provided by conformity assessment service providers (certification bodies, laboratories and inspection bodies) in both private and public domains that demonstrably fulfil the requirements of the relevant international standards or are accredited by Rwanda Accreditation Services (RAS) or another internationally recognized accreditation body

In order to provide conformity assessment services to the Regulators, the Industry and especially to the SME (Small and Medium Enterprise) sector, the Government establishes, maintains and continuously improves the conformity assessment service providers and all quality infrastructure related institutions in the public domain. These include inspection agencies, calibration laboratories, testing laboratories and certification bodies.

In addition, regarding public testing activities, in order to optimize resources, minimize duplication of duties, wastage of resources on equipment and reagents and better coordination of Rwanda quality control testing laboratories scattered in different institutions; these laboratories are put under one management to form a National Quality Testing Laboratories (NQTL) under the

National Standards Body. It provides testing services to the public and private sectors to prove compliance of products and services to technical regulations, standards, other markets or customer requirements. NQTL shall seek accreditation to facilitate international recognition of Rwanda's testing services.

In the area of certification, the Certification Unit under RBS is upgraded to form a National Certification Services (NCS), which provides product and system certification services other than those falling under Sanitary and Phytosanitary (SPS) certification, which are handled by the Ministry responsible for Agriculture and Animal Resources Agencies as the designated competent authorities.

- a. In your understanding, what does conformity assessment mean?
- b. Briefly explain the activities involved in conformity assessment.
- c. Explain the importance of accreditation for certification services and testing laboratories.
- d. Describe the importance of conformity assessment for health and safety of consumers, fair trade and market access (local, regional and international).

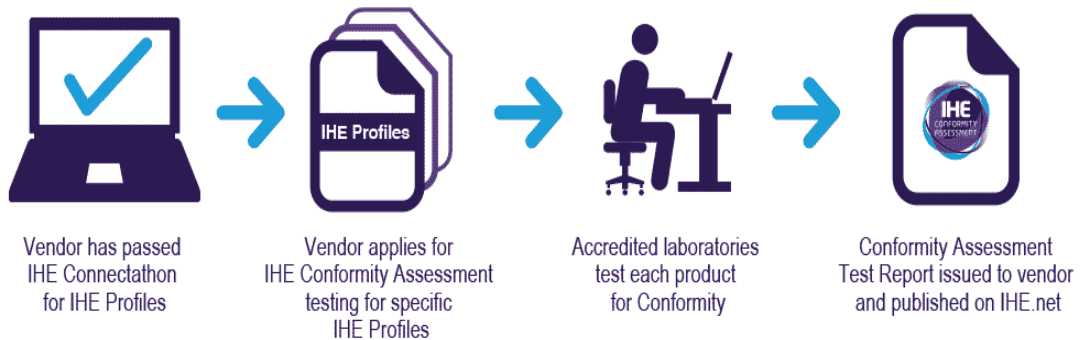
13.1 Meaning of conformity assessment in business

Activity 13.1

Basing on your knowledge gained from S.4 about standards, quality control and management, answer the following questions.

- a. Explain the meaning of , quality testing and certification
- b. Describe the relationship between, quality control, inspection and certification.
- c. Explain the meaning of certification, quality control, quality assurance and quality management.
- d. If you were planning to produce juice to sell in your community, what processes/activities would you observe/do to ensure the quality of your products?
- e. How do you call such activities or processes identified above in d)?

Conformity assessment



Secondary Source: Fig. 13.1. IHE Europe (Integrating the Health care Enterprise), 2018.

The ISO/IEC Guide 2:1996 definition of conformity assessment is “any activity concerned with determining directly or indirectly that relevant requirements are fulfilled.” In more tangible terms, conformity assessment refers to a variety of processes whereby goods and/or services are determined to meet voluntary or mandatory standards or specifications.

Conformity Assessment involves sampling, inspection, testing and certification as a means of giving assurance that the product, process, system, body or person does conform to the requirements of standard(s) or technical regulation(s).

Most products or services are regulated in some way, normally to make sure that health, safety and environmental requirements are met. Even if products are not regulated, the marketplace will still often require products to meet a particular standard.

There are a series of procedures that ensure these requirements or standards are met. Products are normally tested or inspected by appropriate laboratories or inspection bodies. Providers of goods and services often need to have management systems that are independently certified. These testing, inspection, and certification activities are referred to as conformity assessment.

Conformity assessment:

- The conformity of a product is assessed before it is placed on the market.
- It needs to demonstrate that all legislative requirements are met.
- It includes testing, inspection and certification.
- The procedure for each product is specified in the applicable product legislation.

Objectives of the conformity assessment procedure:

- To demonstrate that a product being placed on the market complies with all legislative requirements.
- The procedure should ensure confidence of consumers, public authorities **and manufacturers regarding the conformity of products.**

Major activities used for conformity assessment

Conformity assessment is the name given to the processes that are used to demonstrate that a product, service or management system meets specified requirements. These requirements, and the processes to be followed to be able to demonstrate these requirements, are contained primarily in ISO standards and guides.

Conformity assessment covers one or more of the following activities:

- a. Certification:** Where the certification body gives written assurance that, a product, service or management system conforms to specific requirements.
- b. Inspection:** Where the certification body examines a wide range of products and report on such parameters as quality, fitness for use and continuing safety in operation.
- c. Testing:** Where the certification body tests a product against specific criteria and reports on the results. These results are used to determine the performance of the product.

Accreditation: is the process where an authorized body gives formal recognition that someone as having a particular status or of being qualified to perform a particular activity .

Application Activity 13.1

You are planning to start a company producing juice in your community. Describe the conformity assessment activities with an example that will be used to demonstrate whether the product (juice) is fulfilling specified requirements giving an example

13.2 Quality testing in conformity assessment.

Activity 13.2

Case study of Kamanzi the businessperson

Kamanzi a 25 old boy comes from a rich family and had a dream of becoming a businessman. Last year, he graduated from a business school and his parents decided to give him capital to start a business. He was impressed since his dream would become true. He finally started a juice processing business. However, Kamanzi did not follow properly the rules and regulations that govern the starting of a given business. One day the inspection body came to his business and realized that he was selling waterly juice and was not using proper packaging materials and some bottles of juice were found expired. His business was closed for one month but after complying with the required standards, it was opened again. Kamanzi is now a happy business man.

Required:

- a. From the above story ,what do you think these terms mean:
 - i. Inspection
 - ii. Quality testing
- b. Why do you think Kamanzi's business was closed?
- c. Why is it important for a product to be tested before it reaches the final user.
- d. Describe the relationship between laboratory test and quality control.

Quality Testing

Quality Testing in the context of ISO 17000 standard is intended for identifying one or more characteristics of the object of conformity assessment, which is carried out according to the specified procedure of an activity or process. During testing, test method developed into test procedures is applied. The test result is presented in the form of the test report.

Quality testing in relation to conformity assessment of the finished product is verification that the product meets the properties known in advance and expected for the product. In addition, the term testing is also used in the case where unknown characteristics are found by measuring, namely in the identification and evaluation of properties of raw materials or materials.

Testing and Testing Laboratories

Quality Testing is a highly professional activity carried out in test laboratories. These are conformity assessment bodies with special technical equipment and staff, which may be organizations or their sections.

Types of testing laboratories and their status

There are a number of testing laboratories, which differ in their position, purpose, scope of tests, ranking, etc. These testing laboratories are grouped into three as:

a. Technological testing laboratories,

These testing laboratories are part of the management and inspection elements of the production processes, and do not fulfil the function of impartial and independent body. When assessing the conformity, these laboratories act as entities of the first party, the producer.

b. Testing laboratories involved in the process of placing a product on the market,

These testing laboratories are independent bodies with competence certificated by accreditation in accordance with the standard ISO 17025, which act in conformity assessment as typical entities of a third party. Certification bodies in certification of

products, or authorized or notified entities in assessing conformity of products in the regulated sphere rely upon the activities of these testing laboratories.

c. Testing laboratories working outside the business area

These testing laboratories, operating outside the scope of activities of the first two groups. They include special testing laboratories at research institutions and universities, within the framework of supervisory organizations, but also small private testing laboratories performing specialized measurements in various areas. Even for these laboratories, it is typical to have their competence and objectivity confirmed by an accreditation.

Assessment of competence and performance of testing laboratories (laboratory safety, quality control)

The quality of testing laboratories can be assessed in different ways. The most commonly used and almost universally recognized standard for confirming their competence is accreditation. It is a universal method of evaluation, based on an assessment of compliance with the requirements specified in ISO 17025 standards.

The requirements for testing laboratories specified in the standard can be generally divided into two groups following the two aspects below:

a. By the level of systematic provisions of quality assurance testing activities;

- At the level of system requirements, testing laboratories are required to have:
- A clear organizational structure with clear definition of its legal status and specified scope of activity,
- Accountable management with clearly defined reporting relationships and specified responsibilities and competencies of staff,
- Established policy and quality objectives,
- Prepared documentation of its QMS and specified functional procedures of its assessment.

b. By the level of technical competence in providing the required services.

From the standpoint of securing technical competence, a testing laboratory is primarily required to have:

- Sufficient technical equipment matching the performed tests,
- Qualified and periodically trained test staff,
- Developed test procedures, including methods of their quality assurance,
- Adequately ensured compliance with the metrology requirements.

Note: This approach to evaluation is a comprehensive assessment of the quality management system (QMS) in the laboratory.

Test results

Testing, or conducting tests, is practical identification of properties (characteristics) of the concerned subject by conformity assessment. In principle, it is the case of the determination of characteristic qualitative features or quantitative measurement of the subject quantities, wherein a number of different test methods elaborated into test procedures are applied. The test result is then presented in the form of the test report.

Application Activity 13.2

1. Define the following terms.
 - i. Quality testing
 - ii. Testing laboratories
3. Name and differentiate the groups of testing laboratories
4. What do testing laboratories required to have to meet the requirements specified in ISO 17025 standard by:
 - i. the level of systemic provisions of quality assurance testing activities
 - ii. the level of technical competence in providing the required services
4. What is the relationship between Quality Assurance, Quality Control and Testing?

13.3. Certification in conformity assessment

Activity 13.3

Read and answer the following questions

1. What do you understand by the following terms:
 - a. Conformity assessment
 - b. Certification in conformity assessment
 - c. Certification schemes
 - d. Surveillance
 - e. Accreditation

According to the definition stated in ISO 17000, **certification** is a certificate issued by a third party relating to products, systems or persons. To explain this brief definition, we can characterize certification as a procedure by which a third party – certification body – provides confirmation that during the examination of the corresponding object of conformity assessment (product, system, person), it showed its compliance with specified requirements.

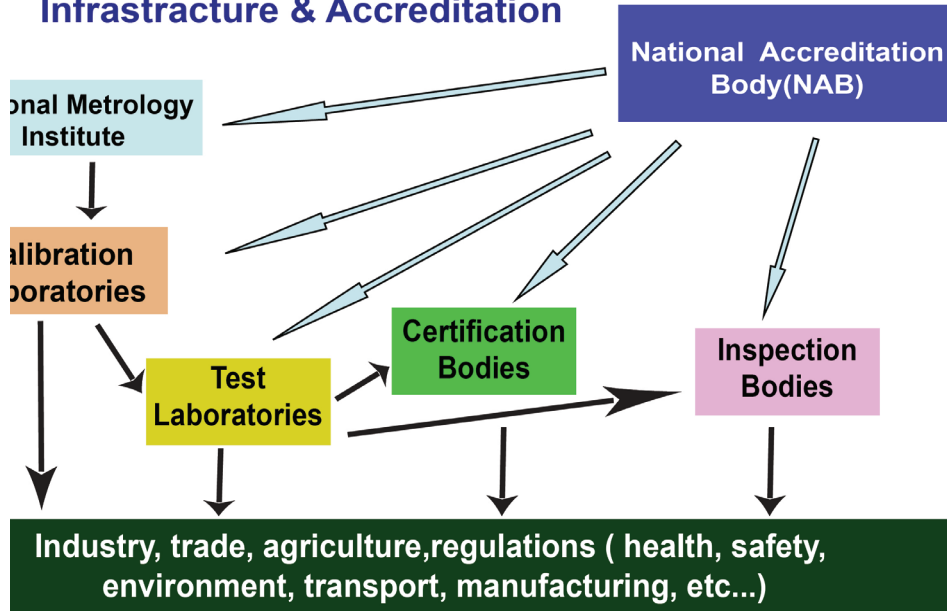
This definition of the concept of certification therefore implies the need for the existence of:

- A third party, i.e. a competent certification body (the first party is considered to be the supplier and the second party the customer);
- Specified requirements, e.g. precise needs or expectations, which are to be assessed, which are stated either in legally binding regulations (laws and various technical regulations), or in generally accepted, however, legally binding form (standards, procedures, certification schemes etc.);
- Confirmation, i.e. the statement attesting conformity, usually issued in the form of a written document – a certificate.

Certification is applicable in relation to all objects of conformity assessment except for conformity assessment bodies themselves, which, are accredited.

Certification schemes and related process

National Conformity Assessment Infrastructure & Accreditation



Secondary Source: Fig.13.2. [International Recognition System for Accreditation - ppt video ...SlidePlayer](#)

Certification schemes provide assurance (through a certification mechanism) that certain characteristics or attributes of the product or its production method or system, laid down in specifications, have been observed

The development of certification schemes is driven mainly by factors such as societal demands for certain characteristics of the product or its production process on the one hand, and operators' desire to ensure that their suppliers meet specified requirements, on the other hand.

Product certification or product qualification is the process of certifying that a certain product has passed performance tests and quality assurance tests, and meets qualification criteria stipulated in contracts, regulations, or specifications (typically called "certification schemes" in the product certification industry).

Certification schemes are typically written to include both the performance test methods that the product must be tested to, as well as the criteria that the product must meet to become certified.

A certification scheme is a set of documents and tools defining how to certify that a given product or service meets specific criteria. In particular, it includes:

- A methodology
- Certification requirements
- An evaluation process
- Evaluation tools
- The process and criteria for qualifying evaluation laboratories.

Certification process

A product might be verified to comply with a specification or stamped with a specification number. This does not, by itself, indicate that the item is fit for any particular use. The person or group of persons who own the certification scheme (i.e., engineers, trade unions, building code writers, government, industry, etc.) have the responsibility to consider the choice of available specifications, choose the correct ones, set qualification limits, and enforce compliance with those limits. The end users of the product have the responsibility to use the item correctly. Products must be used in accordance with their listing for certification to be effective.

The Certification Journey



Secondary Source: Fig. 13.3. Certification process (Certification Europe, 2018)

Product certification is often required in sensitive industry and marketplace areas where a failure could have serious consequences, such as negatively affecting

the health and welfare of the people or person using that product. For example, certification is stringent in sensitive product areas. Examples include food, pharmaceuticals, healthcare products, dangerous goods, and products that have RF emissions such as computers and cellular telephones.

The process for certification of a product is generally summed up in four steps:

a. Application (including testing of the product)

In many instances, prior to applying for certification, a product supplier will send a product to a testing laboratory (some certification schemes require the product to be sent out for testing by the product certifier instead). When the product to be certified is received at the testing laboratory, it is tested in accordance with the laboratory's internal procedures and with the methods listed in the test standards specified by the certification scheme. The resulting data collected by the testing laboratory, and is then forwarded either back to the manufacturer, or directly to the product certifier.

b. Evaluation (does the test data indicate that the product meets qualification criteria)

The product certifier then reviews the product supplier's application information, including the testing data. If the certifier's evaluation concludes that the test data shows that the product meets all required criteria as listed in the certification scheme, and the decision maker(s) of the product certifier concur with the evaluation, then the product is deemed "certified" and is listed in a directory that the Product certifier is required to keep. ISO Guide 65 requires that the final decision to grant or not grant certification be made only by a person or group of persons not involved in the evaluation of the product.

c. Decision (does a second review of the product application concur with the Evaluation)

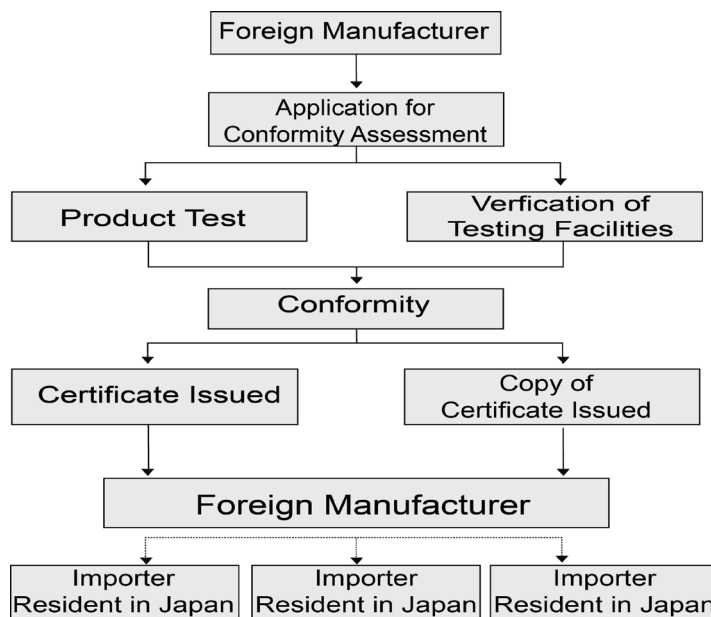
Products often need periodic recertification, also known as surveillance. This requirement is typically identified within the certification scheme that the product is certified to. Certification bodies may require product suppliers to perform some sort of surveillance activity, such as pulling sample products from the marketplace for testing, in order to maintain their "listed" or "certified" status. Other examples of

Surveillance activities include surprise audits of the manufacturing plant, supervision of the manufacturing and/or testing process, or a simple paperwork submittal from the supplier to the product certifier to ensure that the certified product has not changed. Other causes for recertification may include complaints issued against the product's functionality, which would require removal from the marketplace, and expiration of the original certification. These lists of examples are by no means all inclusive.

d. Surveillance (does the product in the marketplace continue to meet qualification criteria)

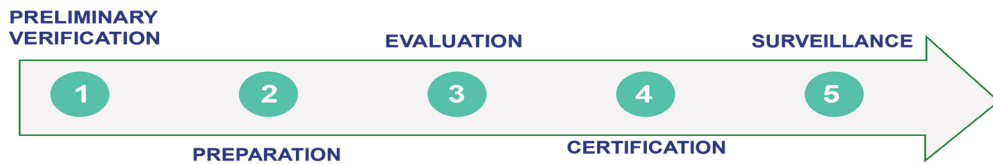
Some certification schemes, or the product certifiers that operate those Schemes, may require that the product supplier operate a Quality Management System registered to ISO 9000, or that the testing be performed by a laboratory accredited to ISO 17025. The decision to set these requirements is most often made by the person or group which owns the Certification Scheme.

The Conformity Assessment Process (Import/Export inspections)



Secondary Source: Fig. 13.4. Conformity Assessment Process

While the specific process may differ depending on the country, all conformity assessment programmes require you to follow a broad 5-step process in order to clear your goods through customs:



Secondary Source: Fig.13.4. COTECNA July 01, 2017 Import and Export (Cotecna is a leading provider of testing, inspection and certification services founded in 1974 in Switzerland)

Step 1: Preliminary verification: Following the receipt of the request of the applicant, the relevant standards required for its execution are identified. Then, the competences required are verified if they are available and which procedures should be applied, which can be a combination of sampling, laboratory analysis and audit. In summary, the first step allows to define the “who, how and when” as follows:

- Receipt of the request
 - Documentation review
 - Decision on what needs to be done, which route to choose (A, B or C)
 - Definition of the scope of work:
 - Identification of the standards
 - Interpretation of the standards
 - Identification of required competencies
 - Definition of procedures to apply
 - Quotation
- 2. Preparation:** Cotecna is in charge of providing the necessary instructions to the involved parties (inspector, laboratory and auditor) and verifies that the parties are able to carry out the required tasks that have been decided in step 1. This could involve the following actions:
- Sampling
 - Laboratory analyses (internal or partner)
 - Factory audit

- Pre-shipment inspection
- 3. Evaluation:** This is the technical analysis of the file, and the evaluation of the results. Strictly speaking, this is the assessment of conformity. At the end of this step, conclusions are recorded in a report, where all detected non-conformity is recorded.
 - 4. Certification:** This is when the decision to certify is made, which is documented and signed off by the person who made this decision. Generally, the technical committee, the Regional Office, an expert, or even a director makes it. Ultimately, the certification decision is materialized with the issuance of a Certificate of Conformity (COC) or a Non-Conformity Report (NCR).
 - 5. Surveillance:** This is the continuous conformity assessment of certified products with regard to requirements of the importing market. This is performed randomly, in different manners such as:
 - Random loading supervision
 - Arrival verification
 - Surveillance of quality management systems
 - Control audits of manufacturing process
 - Regular inspections
 - Random product laboratory testing
 - Control of factory production registry

It is to be noted that the frequency and extent of surveillance are generally defined jointly with the authorities responsible for the setup of the Verification of Conformity program. In the absence of precise requirements, Cotecna operates its surveillance verifications punctually and randomly.

Conformity assessment activities in Rwanda : The overall objective of conformity assessment services is to demonstrate the quality of products and services

independently from the manufacturer or the supplier. Hence, conformity assessment service providers shall pay attention to national needs, be transparent, recognized and non-discriminatory and avoid unnecessary barriers to trade.

Conformity assessment service providers may be private or public and may be used both for commercial and regulatory purposes.

Inspection: According to international best practices, a responsible authority could employ its own inspectors or an independent recognized inspection body could be subcontracted to carry out the work in the implementation of standards and technical regulations, concentrate on issuing guidelines and monitoring activities.

Currently, the following institutions are involved in inspection activities in Rwanda:

- i. **Rwanda Standards Board (RSB):** RSB inspects imports and exports for quality compliance to standards and ensures their control at all points of their production, marketing and consumption within the country. This is done through import inspection at border posts, industrial inspection and market surveillance activities.
- ii. **Ministry of Agriculture and Animal Resources agencies:** Rwanda Animal Resources Development Authority (RARDA), Rwanda Agricultural Development Authority (RADA) and Rwanda Horticulture Development Authority (RHODA) carry out plant protection and animal health inspections, as well as controls of agrochemicals.
- iii. **The Ministry of Health.** The Ministry of Health inspects food supplements, food hygiene, medical products and establishments.
- iv. **The Ministry of Infrastructure (MININFRA) and Local Government Authorities:** The Ministry and Local Government Authorities inspect buildings, roads, bridges and other civil engineering structures.
- v. **Rwanda National Police:** Rwanda National Police carries out inspections of motor vehicles for roadworthiness.
- vi. **Rwanda Development Board (RDB):** RDB inspects hotels and food establishments.
- vii. **Rwanda Environmental Management Authority (REMA):** REMA inspects projects, activities and products that may cause environmental degradation. Among products inspected are prohibited products that can pollute the environment such as prohibited chemicals and gases.

Testing: Testing is an important technical tool used in conformity assessment for consumer protection, environmental conservation, trade facilitation and public or private procurement processes.

Rwanda has quality control laboratories located under different institutions which include: Rwanda Bureau of Standards (Biochemical and Materials Testing laboratories); Ministry of Infrastructure (National laboratory of Public Works); Ministry of Agriculture (Plant health and Seeds Laboratory, Veterinary Laboratory); Ministry of Health (Labophar, National Reference Laboratory), National Police (Forensic laboratory and Centre for Technical Controls); Rwanda Geology and Mines Authority (OGMER) (mineral quality control), medical laboratories

Certification

RSB
Rwanda Standards Board

CERTIFICATE OF CONFORMITY

Certificate No.: .../RSB/DG/CER/PCE/16-17

Awarded to
Company name.....
under product certification scheme

The Rwanda Standards Board hereby certifies {Name of a certified Product} that was tested, its production process assessed and found to comply with the requirements of the standard mentioned below:

Standard:
.....

Scope of Application:
.....

Issued on
.....

Valid until
.....

Name:
Director General

Secondary source: Fig. 13.5. Certificate of Conformity (Rwanda Trade Portal28/03/2018)

Certification assists consumers to make informed decisions about the products and services, and enables suppliers to achieve market place acceptance.

The Rwanda Bureau of Standards is operating voluntary product and system certification schemes through offering Quality Marks to products and systems

complying with relevant Standards. Private certification bodies are also allowed in Rwandan market and have been providing especially system certification services.

The agencies under the Ministry of Agriculture; the Rwanda Animal Resources Development Authority, the Rwanda Agricultural Development Authority and the Rwanda Horticulture Development Agency also provide certification for plant and animal health of exported products and certify veterinary drugs and other veterinary inputs.

The Tea Board Authority (OCIR THE) and the Coffee Board Authority (OCIR CAFÉ) certify tea and coffee for export respectively.



Secondary Source: Fig. 13.6. Sample Certificate of Conformity (Spiruline Corporation March 6, 2018)

Application Activity 13.3

Read and answer the following:

1. Your friend operates a bakery and wants to expand the market of her products to neighboring countries and overseas. She is unaware about the process the products go through to be confirmed for selling the foreign markets. Explain briefly the process/steps to her.
2. What is the role of the following institutions involved in inspection activities in Rwanda:
 - a. Rwanda Bureau of Standards (RBS)?
 - b. Ministry of Agriculture and Animal Resources agencies?
 - c. The Ministry of Health?
 - d. The Ministry of Infrastructure (MININFRA) and Local Government Authorities?
 - e. Rwanda National Police?
 - f. Rwanda Development Board (RDB)?
 - g. Rwanda Environmental Management Authority (REMA)?

13.4. Accreditation

Activity 14.4

Read the following and answer questions

1. What do you understand by:
 - a. Accreditation
 - b. Accreditation in conformity assessment
3. Why is it important to have accreditation in conformity assessment?

To make the conformity assessment constitute a highly most reliable system, it has to be carried out by authorized and adequately competent entities. During its application, accreditation has become a generally accepted manner, confirming that the various conformity assessment entities are sufficiently credible, impartial and independent in their decisions, and that the results of their activities can be considered reliable.

Generally, the term “accreditation” refers to official recognition that a subject of accreditation is competent to carry out specific activities.

In relation to the issue of conformity assessment, the standard ISO 17000 specifies the concept of accreditation in more detail as “Attestation issued by a third-party related to a conformity assessment body, conveying formal demonstration of its competence to carry out specific tasks in the field of conformity assessment”.

A third party, i.e. the entity that carries out accreditation and recognizes the competence of the accredited body is a so-called accreditation body. There could be numerous accreditation subjects, that is conformity assessment bodies, for example testing and calibration laboratories, certification bodies, inspection bodies, proficiency testing providers; specific tasks include testing, calibration, certification, inspection, organization of ILCs programs, etc.

Importance and Benefits of Accreditation in conformity assessment

If the above-mentioned basic principles of accreditation activities are complied with, the greatest benefits of accreditation can be seen in the following areas:

- Accreditation primarily means increasing confidence in compliance with the required quality level of services provided by accredited bodies;
- Regular supervision of the observance of accreditation criteria carried out by the accreditation body leads to the development of quality management systems with accredited entities;
- There is significant pressure to constantly improve the quality of services provided by accredited bodies, to increase the skills of their staff and to improve technical equipment of these entities;
- Accreditation brings a positive economic effect, both in terms of accredited bodies and their customers, as well as from the perspective of the public interest;

Application Activity 13.4

- How can Rwanda benefit from carrying out accreditation activities in conformity assessment?

13.5 Importance of conformity assessment

Activity 13.5

Read the following passage and answer questions that follow

Conformity Assessment is the demonstration used to show that a product, service, system, person or body meets specified requirements. These requirements most likely reside in a standard in order to keep a product, service, system, person or body safe and compliant across borders. A key component to adopting these standards is whether it can be translated throughout the industry. An Internationally recognized standard enables consistency and coherence of conformity assessment and promotes trade across borders.

In today's world, each day millions of products are traded across borders, and it is imperative for many of today's products to require testing for conformance with specifications and compliance with safety or government regulations. The government, consumers and the business community rely on the assurance given by conformity assessment to protect public health, safety and welfare and the environment. Credible conformity assessment also supports the government's obligations under international trade agreements.

For this reason, conformity assessment has become a critically important aspect of conducting business in the global marketplace. The need for conformity assessment is often directly related to the impact of nonconformity. The more severe the consequences, the more likely it is that society requires proof that a product or system performs, as it should.

Required

- a. Explain why conformity assessment is important in:
 - i. International trade
 - ii. Healthy and safety of customers
 - iii. Promoting fair trade and market access

Conformity assessment and accreditation are important parts of the nation's quality infrastructure. By providing confidence in goods, services, management

systems and people, they make a significant contribution to the economy, health and safety, and environment.

In today's world, each day millions of products are traded across borders, and it is imperative for many of today's products to require testing for conformance with specifications and compliance with safety or government regulations.

Conformity assessment involves a set of processes that show your product, service or system meets the requirements of a standard.

Undergoing the conformity assessment process has a number of benefits:

- It provides consumers and other stakeholders with added confidence.
- It gives your company a competitive edge.
- It helps regulators ensure that health, safety or environmental conditions are met.
- It enables producers to demonstrate that their product(s) meet relevant design and safety standards.
- It gives consumers confidence when selecting products in the marketplace.
- It gives the company a competitive edge
- It helps regulators ensure that health, safety or environmental conditions are met, such as pollution or noise
- It allows for Government to protect their populations from unnecessary risks
- Insurers want to know that equipment will not cause loss of life or damage
- Through conformity assessment, manufacturers are confident that their products or services meet required criteria;
- It is significant to suppliers as they feel secure in the knowledge that the product or service they are offering for sale meets necessary criteria and can be confidently used for the purpose intended;
- Consumers through conformity assessment are assured that the products or services purchased meet the necessary requirements and are suitable for the purpose intended; and regulators can use it to ensure health, safety and environmental requirements are met.

Application Activity 13.5

1. Do you think conformity assessment is important to Rwanda?
2. Give reasons to support your answer

Skills Lab Activity 13.6

Given the experience you have attained in this unit,

3. Why would some products fail to conform to the required standards?
4. Do all the products have same certification requirements? (Why?)
5. What are the certification requirements for a product to be put on the market?
6. What is the importance of conformity assessment to customers?

End of Unit 13 Assessment

1. Your school organized a business club competition where different students had to exhibit their products. You are among the judges



Photo courtesy of EDUCATE! EXCHANGE 2016-17

Secondary source: Figure: 13.7. Learners display products from their clubs

Questions:

1. Basing on your background knowledge on conformity assessment;
 - a. Explain the key issues you will focus on to ensure the products meet the required competition standards.
 - b. Explain why it is important to have teams go through the above steps identified.

- c. If the teams want to start businesses to sell their products on the market (local and regional), what advice would you give them so as to have their products conform to standards?
 - d. Explain why it is important for them to have their businesses meet the conformity assessment.
2. Explain the importance of conformity assessment for health and safety of consumers, fair trade and market access.
3. Explain the importance of accreditation for certification services and testing laboratories.

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