

**ENTREPRENEURSHIP
STUDENT'S BOOK FOR
SENIOR SIX**

Kigali, January 2019

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FOREWORD

Dear student,

Rwanda Education Board is honoured to present to you this Entrepreneurship book for Senior Six 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. NDAYAMBAJE Irénée

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 Teachers guide for senior six. It would not have been successful without active participation of different education stakeholders.

I owe gratitude to different Universities and schools in Rwanda that allowed their staff to work with REB in the in-house textbooks production project. I wish to extend my sincere gratitude to lecturers, teachers and all other individuals whose efforts in one way or the other contributed to the success of writing of this textbook.

Special acknowledgement goes to the University of Rwanda which provided experts in design and layout services, illustrations and image anti-plagiarism..

Finally, my word of gratitude goes to the Rwanda Education Board staff particularly those from Curriculum, Teaching and Learning Resources Department who were involved in the whole process of in-house textbook writing.

Joan Murungi,

Head of CTRLD

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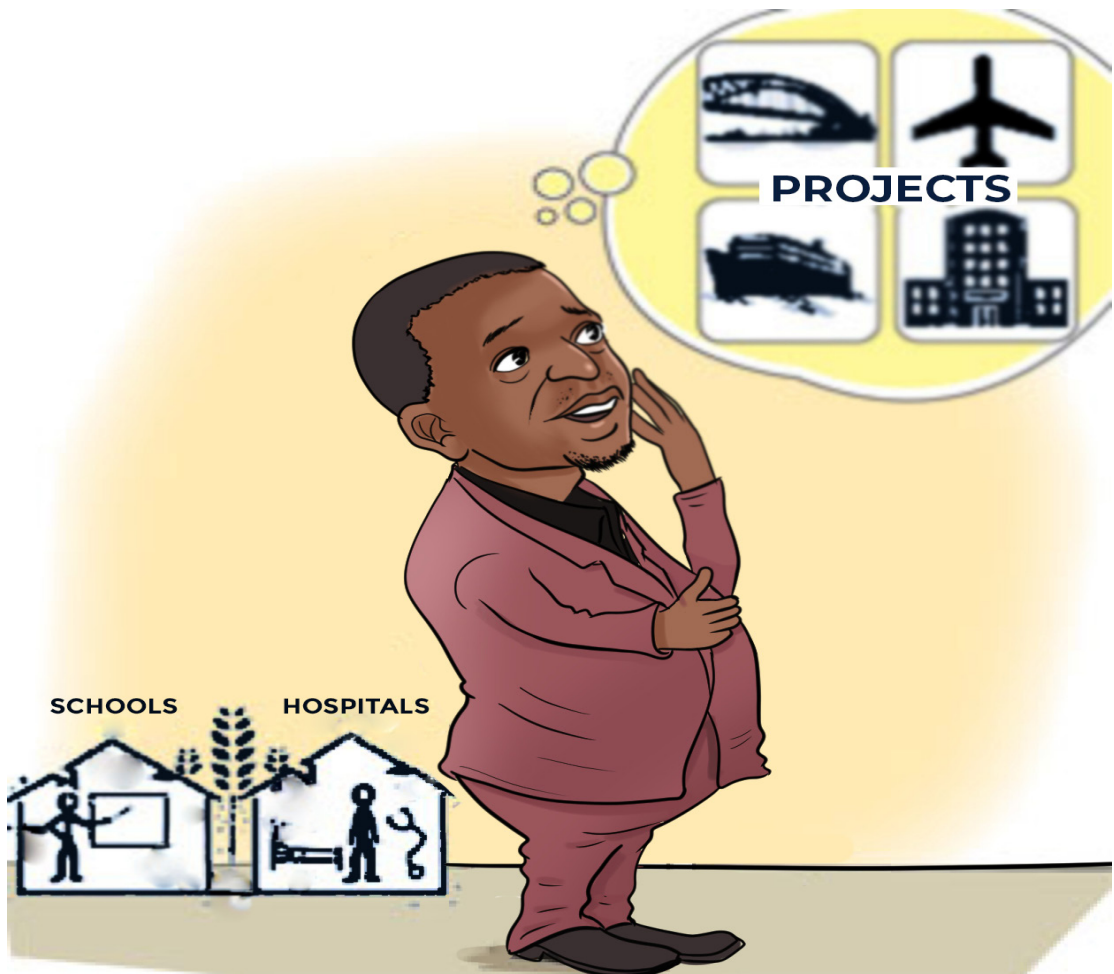
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UNIT 1
**SOCIO-ECONOMIC
DEVELOPMENT**

Unit 1: SOCIO-ECONOMIC DEVELOPMENT



Key Unit Competency: Evaluate the contribution of entrepreneurship towards socio-economic development

Introduction

In Rwanda and the world over, there are a lot of talks about the future of work. Much of the time, these conversations are fuelled by the concern many people share as they try to understand the impact the new technologies will have on our industries. They tend to reduce these discussions to twofold arguments; how smart machines will do extraordinary things to improve our lives, or how this or that innovation will make human labor obsolete, creating a jobless dystopia. Both conclusions strike as somewhat specious. It's not that these concerns aren't valid, but they oversimplify a more complex phenomenon.

But why and how does entrepreneurship fuel economic growth? On the surface, the answer seems intuitive: entrepreneurs create businesses and new businesses create jobs, strengthen market competition and increase productivity. In Rwanda, entrepreneurship is becoming part of our identity and self-image. It's non-limited, too; both sides of social economic aspect, business development and the political spectrum celebrate entrepreneurial activities as a source of economic growth and development. Entrepreneurism is seen as a route to upward mobility a way for people to build wealth.

However, it's important to understand that for entrepreneurs to bring new ideas to life, they need access to education and a level-playing field on which to compete. Economic growth suffers when entrepreneurial activity is unevenly spread socio-economically. Under the right conditions, entrepreneurs have an incredible power: they help people prosper economically, and they also serve society as they help engineer innovative solutions to problems and challenges related to unemployment and low standards of living.

Introductory activity:

Observe and analyze the pictures below and answer the following questions;



Figure 1. 1(a) Kigali's aerial view of 1968



b) Kigali the city of hope

Rwanda is a fast developing country in terms of social, economic infrastructural and technological advancement as well as in other aspects of life. Referring to the above two pictures {Figure 1.1 (a) and (b)}.

Questions

- How do you compare the two pictures in terms of development?
- Describe the factors which might have caused the differences in the two pictures regarding the wellbeing of people?
- What do you think could be the contribution of entrepreneurs in the differences depicted in the two pictures above in terms of people's welfare?
- What changes have you observed in your locality over the past five years and the potential negative effects of entrepreneurs towards those changes?
- Referring to your community, what do you understand by social economic development?

1.1 The Meaning of Social Economic Development

Activity 1.1

In senior 2, unit 1 you described the role of an entrepreneur in socio-economic development and Senior 2 unit 3 you also analyzed the contribution of the various types of work to socioeconomic development while in senior 3 in unit 4 you analyzed different forms of enterprises. Referring to your prior knowledge:

- a. What do you understand by “Socio-economic Development”?
- b. What are the factors that may have affected the socio-economic development of your locality?
- c. What are the indicators of the socio-economic development you have seen over the past five years in your locality?

Social-economic development: it is a process of social economic transformation in a society. Development is a gradual process through which there is a persistent increase both in quality and quantity of goods and services that are enjoyed by the people in a community or a country. E.g. having schools in a community may not be sufficient, but the quality of teachers who teach in such schools is also very vital. The scholastic materials available in schools are also important.

Eating food is essential but eating food with required body building nutrients is more vital etc. If an occurrence in a community leads to negative effects, then that occurrence is said to bring about underdevelopment. E.g. the cutting down of forests may help some people to get money in the short run but may lead the community to suffering in long as a result of drought.

The changes could be both positive and negative. Positive changes lead to the advancement of the society and the negative ones lead to stagnation or decline of the society’s social and economic wellbeing.

Application Activity 1.1

Analyse the photo and the case study below and answer the questions that follow;



Figure 1.2 E^{se} URWIBUTSO/SINA GERARD Company

Ese RWIBUTSO/SINA GERARD Company certified since 2007 is currently supporting more than 3,000 local farmers to grow crops and fruits. As a result, the farmers get seeds, technical advice and assistance as well as a secure market of their products from the company. It is also committed to strong community training, with clear practical training programs for farmers that include demonstration fields.

The company has different activities which include:

- Fruits and vegetables processing
- Agriculture and animal husbandry
- Restaurants
- Shops
- Construction
- Carpentry
- Schools
- Eco-tourism

Ese URWIBUTSO / SINA GERARD Company undertakes special projects which are critical to the economic and social development of local communities.

That is why it takes pride in the promotion and development of the community of RULINDO District and its surrounding. This is done by creating various socio-economic actions like the agribusiness activities, provision of employment, construction of schools, etc. Those who study veterinary have livestock which helps them in doing their experiment and on which they practice surgery which helps them in knowing what are animals sick of practically not only in theory.

Those who study agronomy also have modern gardens which they use in their studies by cultivating them and controlling what they saw until the harvest and production. Enterprise URWIBUTSO/SINA GERARD Company is committed to corporate social responsibility, promoting local development, distribution of cows to the local population with the system of mass redistribution of calves and heifers, creating job opportunities and training for farmers, and environmental protection.

1. Describe some of the changes in terms of development that you have observed in order to make your community a better place than it is now.
2. Explain how some ways of conducting entrepreneurship may holdback development rather than promoting it.

1.2 Factors and indicators of socio-economic development

Economic development is not possible without growth, but growth is possible without development because growth is the increase in the Gross National Product (GNP).

1.2.1 Factors for socio-economic development

Different societies have undergone socio-economic transformation while others have not. The presence of different factors of socio-economic development in an area shows that such an area is developed or is developing and also determines a pace at which it can develop. The factors that determine socio-economic development may include:

- i. Level of technology.** It is a determinant because better technology means better goods and services at lower prices. Technology also enables people to get better shelter, medical facilities, education, transportation and generally better standard of living. Communities with better level of technology experience fast socio-economic development.

- ii. Level of entrepreneurship.** Communities with high level of entrepreneurship tend to experience faster socio-economic development than those without entrepreneurship. This is because entrepreneurs create employment opportunities which increase people's income. Entrepreneurs produce goods and services, establish medical facilities and other products which improve people's standard of living. Entrepreneurs also pay taxes to the government which increases the government revenue. The government uses such revenue to provide education, security, medical care, infrastructure and other public expenditures.
- iii. Investment climate.** It refers to the conditions under which investors in a particular country operate. A good investment climate means that the conditions in the country favor investors. These conditions include favourable taxes, proper laws, economic and political stability. When the investment climate is stable, entrepreneurs create more goods and services, give job opportunities, and generally the socio-economic development will be obviously seen.
- iv. Education system.** Education is a key determinant of socio-economic development. Education eliminates unproductive beliefs, and myths, give people skills to produce goods and services and others earn money/income, live hygienic, disease free life, etc.
- v. Availability and use of resources.** The resources that lead to the socio-economic development may be human, natural or financial. The human resources in form of skilled people provide labor to produce goods, start businesses, provide services like education, medical care etc. Natural resources like fertile soil, timbers, fish and minerals generate income, promote industries and earn government foreign exchange.
- vi. Financial resources.** This is in terms of access to finance which help to start and expand existing enterprises develop infrastructures, and buy goods and services. Availability of these resources determines the socio-economic development of a community or a country.
- vii. Level of savings.** Savings refer to the financial resources set aside in the present time to use them in the future. When money is saved and accumulated can then be invested which lead to the socio economic development.
- viii. Population growth rate.** Population growth refers to the increase in the number of people in a given area at a time. When the population is growing rapidly, it means there are more people per unit area. A rapidly growing population increases demand for goods, services and shelter and making it an opportunity for enterprises to produce goods and services to satisfy this growing population other infrastructures. The combination of these factors may lead to socio-economic development.

ix. Customs and traditions. Some customs and traditions promote the socio-economic development. This is because some of them encourage education and more effective medical care and generally keep people more modern. Such positive customs and traditions promote people's socio-economic development.

x. Social and physical infrastructure Good roads, schools, hospitals, telephone systems and other infrastructures significantly determine the rate of socio-economic development in an economy. Such social and physical infrastructure makes business easy; improve health services, education, distribution of goods and services and general wellbeing.

xi. Political climate. Political climate is a key determinant of socio-economic development. A society that is characterized by political stability and social harmony can achieve socio-economic development. Political stability makes people secure to organize their business enterprises; produce more commodities and hence socio-economic development.

1.2.2 Indicators of Socio-economic development

Socio-economic development involves increased goods and services, better health, education, security, shelter, better distribution of resources and generally better standard of living. Some indicators of socio-economic development are the following:

i. High GDP per capita: GDP is Gross Domestic Product. It is the total value in money terms of all goods and services produced within a country in a given year. If the GDP is increasing, it implies that there are more goods and services being produced and available to the people which in return signifies a better standard of living.

ii. High real Gross National Product (GNP) per capita is one of the indicators of social economic development in terms of an increase in the economic real national income over a long period of time. Real national income refers to the country's total output of final goods and services in real rather than monetary terms thus a country with high GNP per capita signifies a better standards of living.

iii. High level of literacy: Literacy is the ability to read and write. Literacy rate is a crucial measure of a country's human capital. It shows the country's ability to use human being in the production of goods and services, understand government programs and communicate.

iv. Life expectancy: Life expectancy refers to expected number of years someone expects to live at birth. Socio-economic development enables people to enjoy good health, nutrition, work and generally wellbeing. The higher life expectancy is therefore an indicator of socio-economic development.

- v. High level of employment** (Occupation structure of labor force) Employment level is another indicator of socio-economic development. The higher level of employment shows more income for people and more income means better standard of living.
- vi. Availability of goods and services:** when more goods and services are available, people are able to enjoy a variety of items at a reasonable price; this improves the standard of living.
- vii. Developed infrastructure:** Better and accessible infrastructure such as roads, networks, schools, communication, hospitals, electricity and water etc. all indicate the socio-economic development
- viii. Improved security** (Political stability): Security is important for people since they can move freely carrying out different business activities. This in turn lead to improved standard of living among people. If there is insecurity, then socio-economic status is low.
- vii. Improved health facility:** Health facilities in form of clinics, hospitals and other medical services are indicators of socio-economic development. A society with better health facilities enjoys a higher level of socio-economic development in the country.
- viii. Improved shelter:** Good and decent shelter indicate socio-economic development of a given area. When more people have access to shelter, then there is socio-economic development in the country.
- ix. Access to clean water:** Clean water is important for life since people get free from diseases. Healthy people tend to get involved in different productive activities which contribute much to socio economic development of a given community.
- xii. Consumption per capita:** This is the average amount of money consumed in a country. If it is low, then there is low development in the country; and when it is high the development is also high. The consumption rate is a major determinant of standards of living. If the population consumption per capita is high, it means they have a vision to consume a variety of goods and services thus an indication of socio economic development.

Application Activity 1.2

With examples in your community; briefly discuss the social economic changes that took place over the past five years.

1. Reflect on your community and describe at least 2 people or enterprises and how they have contributed to social economic development.
2. Every last Saturday of the month, all Rwandans participate in “*umuganda*” (community work day). Imagine in your sector the Umuganda was organised and hosted by your Cell and as entrepreneurship student you have been invited to address the congregation after Umuganda. The theme is “Promoting social economic development in our Sector”
 - a. Briefly share with the congregation a presentation about the contribution of “*umuganda*” towards the social economic development of your area.
 - b. Discuss the different challenges to social economic development of your community.
 - c. Suggest and briefly explain possible

1.3 Role of entrepreneurship in socio-economic development

Activity 1.3

Analyse the case study below and answer the questions that follow;

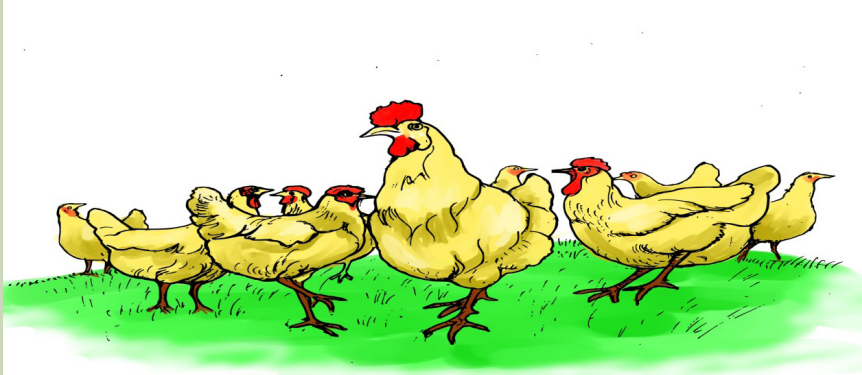


Fig 1.3: Poultry farm belonging to the progressive farmer leads to the socioeconomic development

MIZERO is the poultry farm owner located in rural area which has transformed the village in the following ways:

- Improvement of the social and economic life for his family.
- Creates employment opportunities to local citizens and so helping them to change their standard of living.
- Supplies eggs to the local communities which are an important source of nutrients with high quality protein.
- Reduces malnutrition in the village as a result of cheap supplied eggs.
- Villagers can use the farm manure in their field in order to increase the local production then increase the farmer's revenue.
- The business and employees pay taxes which increase the government revenue.
- He becomes a role model for the population surrounding his farm.

Questions;

- a. From the case study, describe briefly how MIZERO has contributed to the socio-economic development of his region.
- b. Explain briefly the impact of creating agri-business

Entrepreneurship has an important role to play in the development of the country.

It is one of the most important engines to economic development. The number and the competence of entrepreneurs largely affect the economic growth of the country since through entrepreneurship, different jobs are created; communities are developed to mention but a few.

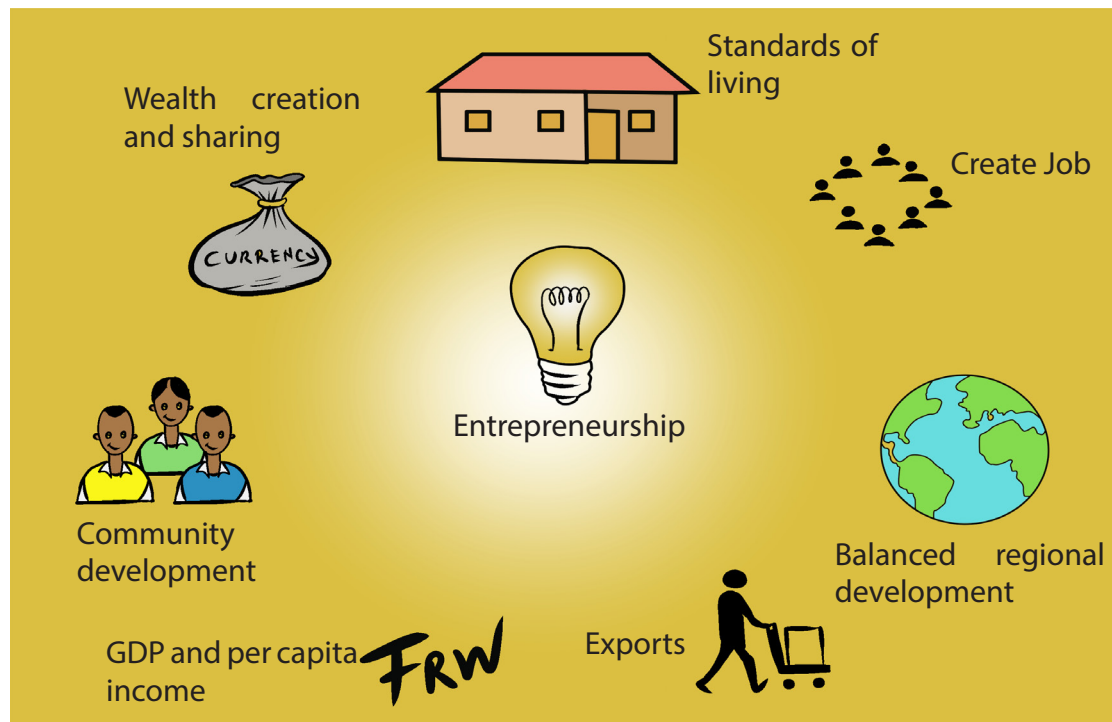


Figure 1.4: Role of entrepreneurship in an economy

Entrepreneurship helps in the process of socio-economic development in the following ways:

Creates employment opportunities. Entrepreneurship creates employment directly (own job) and indirectly (for other persons). Directly, by self-employment as an entrepreneur, and indirectly by starting many industrial units that offer jobs to people; thus entrepreneurship is the best way to fight against unemployment. Entrepreneurship has a vital role to play in creating small firms which are important sources of new jobs.

Enterprises that start at a small scale end up employing hundreds and thousands of people directly. This means that people earn salaries and wages from the enterprise. Indirectly, employment is created when people employed also employ others or people who are providing goods and services employ their own workers to help them produce goods and services.

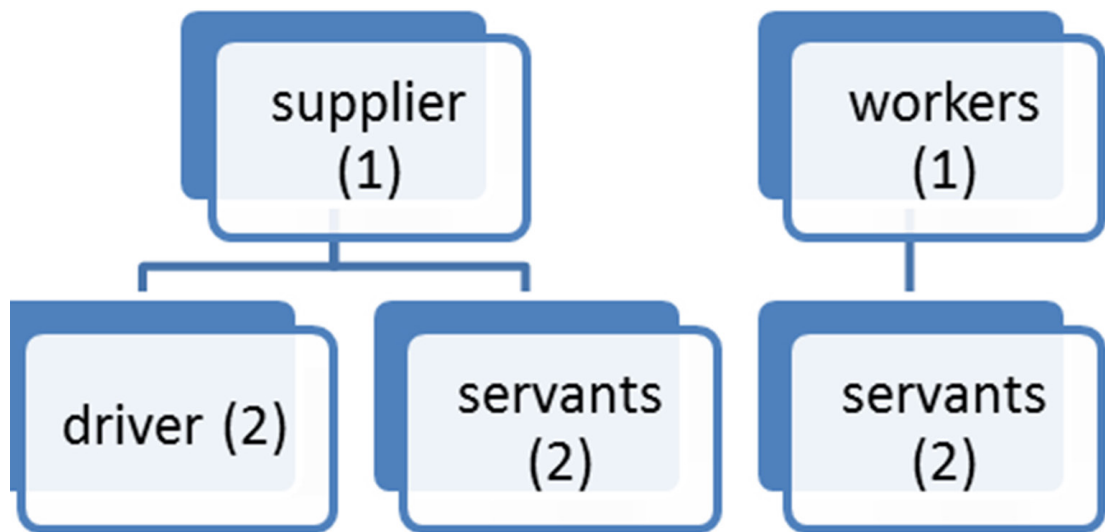


Figure 1.5 Direct and indirect employment

Example: Mahoro opened a restaurant. He has employed a manager, an accountant, cashier, waiters, waitresses and the cleaners. These are directly employed by Mahoro. Kayijuka supplies food staffs to Mahoro’s INJIRUREBE Restaurant. For Kayijuka to do this, he has employed a driver and more workers in his farm. These workers and the drivers are not employed by Mahoro’s INJIRUREBE restaurant but they got their jobs indirectly because of Mahoro’s INJIRUREBE restaurant.

Increases Government revenue (Business Taxes). Government imposes taxes as a means of raising revenue to finance its expenditures. Government requires money to pay government officials and civil servants, construct roads and the bridges, build and equip schools and hospitals, and finance all other services that are provided by government. Government gets this money from different ways which are fees, taxes, dues and other revenues from different services. There would be no good roads, schools, hospitals and civil servants like teachers, doctors and police would have no salaries if there was no tax.

Such services therefore, are provided by the government from the tax revenues collected from the entrepreneurship activities and hence lead to socio-economic development.

1.3.1 Other contributions of entrepreneurship to socio-economic development include the following:

Social responsibility

Entrepreneurs engage in corporate social responsibility programs and help the communities. They sponsor sports activities, medical facilities, support schools and other community programs. This promotes socio-economic development in those communities within the country.

- i. Provide variety of goods (products) and services.** Enterprises produce goods and services that are used on daily basis. Without entrepreneurship, there would be scarcity which in turn would lead to high prices and generally low standard of living. Clothing, medicines, sugar, textbooks and many other goods and services are provided by entrepreneurs.
- ii. Utilization of natural resources.** Entrepreneurship makes possible the use of natural resources and transforms them into usable products. Without entrepreneurs, resources like minerals, sand, fish, timber, oil, and others would stay unutilized. By effective utilization of such resources, entrepreneurship contributes to socio-economic development.
- iii. Environmental protection.** Entrepreneurship is a source of environment protection. Entrepreneurs come up with energy saving products like solar energy, gas, etc. They produce and distribute environment friendly packaging products, smoke free generators and many others.
- iv. Research and development (Creativity and innovation).** Entrepreneurs engage in research and lead to the development of new products. Entrepreneurs take risk to invest in research like in latest advances in medicine, electronics, ICT and even security systems which have been developed. Obviously, these developments are a big factor in socio-economic development.
- v. Infrastructure development.** Entrepreneurs put up the infrastructure to facilitate their enterprises but in the process lead to socio-economic development. For example, when a road is built to transport raw materials, other people use the same road to access schools and hospitals etc. This is an indication that, entrepreneurship leads to socio-economic development
- vi. National Income.** National income consists of the total value of all final goods and services produced in the country accruing to an economy in one accounting year. Goods and services produced are for consumption within the country as well as to meet the demand of exports. An increased number of entrepreneurs is required to meet this increasing demand for goods and services. Thus, entrepreneurship increases national income.

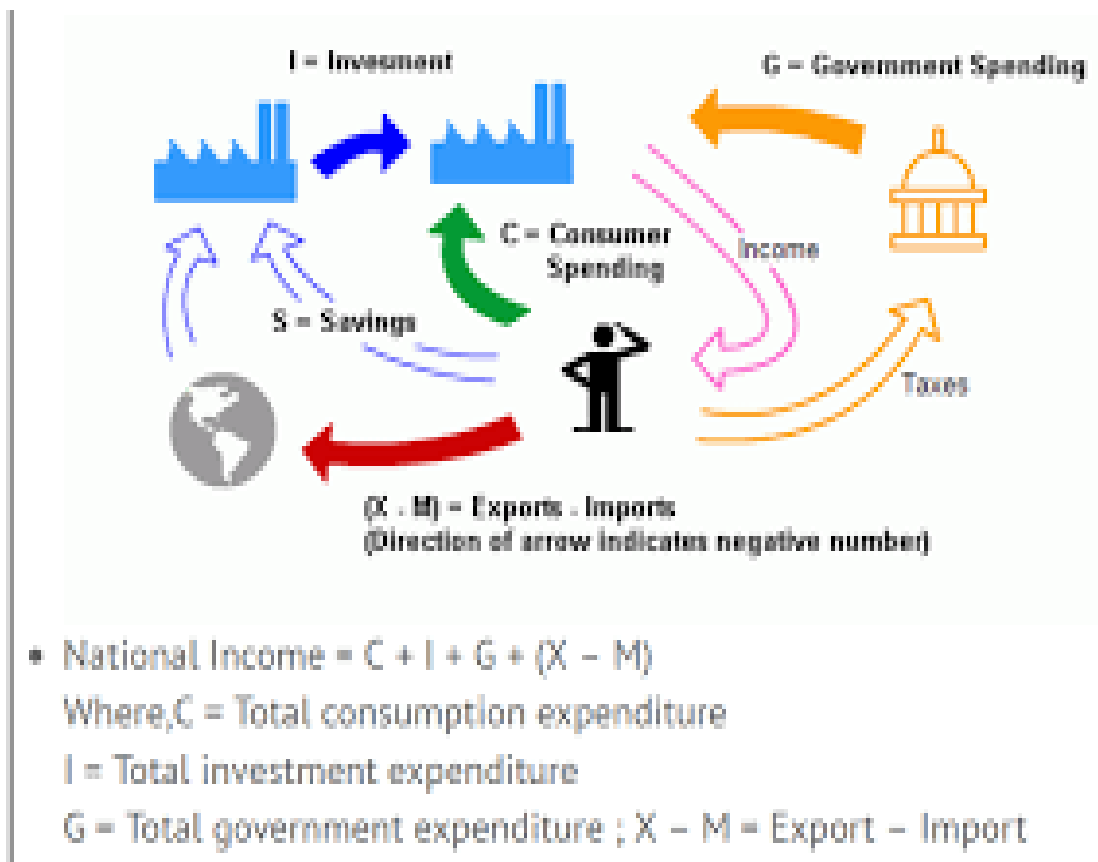


Figure 1.6: The National Income

vii. Wealth Creation and Sharing. Entrepreneurs establish the business entity, where they invest their own resources and attract capital (in the form of debt, equity, etc.) from investors, lenders and the public. This mobilizes public wealth and allows people to benefit from the success of entrepreneurs and growing businesses. This kind of pooled capital that results in wealth creation and distribution is one of the basic imperatives and goals of economic development.

viii. Balanced Regional Development. Entrepreneurs set up new businesses and industrial units which help regional development by locating them in less developed and backward areas. The growth of industries and business in these areas leads to infrastructure improvements like better roads, airports, stable electricity and water supply, schools, hospitals, shopping malls and other public and private services that would not otherwise be available.

ix. Standard of Living. Increase in the standard of living of people in a community is yet another key goal of economic development. Entrepreneurs do this not just by creating jobs, but also by developing

and adopting innovations that lead to improvements in the quality of life of their employees, customers, and other stakeholders in the community. For example, automation that reduces production costs and enables faster production will make a business unit more productive, while also providing its customers with the same goods at lower prices.

- x. Exports.** Any growing business will eventually want to get started with exports to expand their business to foreign markets. This is an important ingredient of economic development since it provides access to bigger markets, and leads to currency inflows and access to the latest cutting-edge technologies and processes being used in more developed foreign markets. Another key benefit is that this expansion will lead to more stable business revenue during economic downturns in the local economy.

1.3.2. How Entrepreneurship affects negatively/retard social economic development.

Entrepreneurship is said to affect negatively to a society's development if the following happens:

- i. Exploitation of workers through underpayment, delayed payment, deductions in form of unjustified penalties etc.**
- ii. Exploitation of natural resources without considering the posterity;** as we exploit the resources for our survival today it is also important to think about the generation to come. Some resources are limited in nature such that when they are used without care for the future, the generation to come may not have what to live on.
- iii. Using defective weighing scales;** some entrepreneurs use defective scales and exploit their customers through under weighing of quantities.
- iv. Breaching of contracts** when we realize that we stand to benefit less.
- v. Corruption:** Entrepreneurs usually do businesses through improper channels eg bribing leaders to do illegal activities.

Application Activity 1.3

1. Reflect on your community and discuss the visions of Socio-economic development in your respective localities
2. Increasing youth employment is central to Rwanda`s employment policy in the context of Rwanda vision 2020 and job strategy. Mention at least 2 prominent entrepreneurs from your locality and discuss how they have contributed to the community development.
3. Explain the problems the society would face if such entrepreneurs were not operating in the community
4. Some entrepreneurial activities hinder socio-economic development. By use of the entrepreneurial practices below, briefly explain how they can hamper socio-economic development.
 - Improper packaging.
 - Out competing small scale entrepreneurs.
 - Harmful products like expired products.
 - Pollution from factories industries.
 - Income inequality.
 - Advanced technology that creates unemployment.
 - Industrial accident.
5. Discuss the role of entrepreneurship in employment creation.

1.4. Meaning of environment and society, their types and components

Activity 1.4

1. What do you think about the environment and the society?
2. In your own understanding, discuss the relationship between environment and society.

1.4.1 Meaning of environment

“Environment”, this word has a great importance in our life. Environment means everything that is around us (an individual or a business or an institution). It refers

to both abiotic (physical or non-living) and biotic (living) environment. Environment mainly consists the following components: **atmosphere, hydrosphere, lithosphere and biosphere**. The survival of an individual person or a business is largely influenced by the environment. Anything that negatively affects the environment affects the individual person, a business or institution as well.

The environment can be divided into the following different types:

Physical environment: This consists of all geographical features/topography such as rocks, soil, mountains, hills, drainage systems, plateaus.

Biological environment: This consists of ecology that is to say plants and animals of any kind both on land and in water.

Cultural environment: This consists of society, economy and politics. The most important thing about the cultural environment is that it cannot be physically represented, but it is there anyway. The study of this aspect environment is taken by economists, socialologists, politicians and other such people.

Social environment: Reflects the traditions one grew, lives in, and the community with whom the individual interacts. The economic environment refers to the set of factors that surrounds the organism involving monetary, natural, and human resources that influence the behavior of that particular organism.

Political environment involves conflicting interactions between other organisms, often resulting in the formation of alliances or coalitions and used to resolve the conflict and achieve the goals of the allies or their influential members.

N.B: If a society's activities are not well managed they may lead to environmental degradation. Such activities may result into soil erosion, deforestation, air pollution etc.

1.4.2 Business environment

Activity 1.4

1. What do you think about the environment and the society?
2. In your own understanding, discuss the relationship between environment and society.

Business refers to an economic activity that involves production and selling of goods and services covering risks with an aim/objective of making profit.

Business environment is the combination of internal and external factors that influence a company's operating situation. The business environment can include factors such as: clients and suppliers, its competition and owners, improvements in technology, laws and government activities, market, social and economic trends.

1.4.3. Types of Business environment and their components

The environment of a business enterprise falls under different categories namely, the **internal environment** and **external environment**.

- i. Internal environment:** The internal business environment is made up of the factors and resources within the business enterprise itself which affect the way the enterprise operates. The internal environment can be controlled by the management of the enterprise. The internal business environment comprises of both tangible and intangible resources.

Intangible resources	Tangible resources
<ul style="list-style-type: none"> • Distribution channels • Marketing strategies • Management procedures • Financial systems • Public image reputation • Research and development 	<ul style="list-style-type: none"> • Workers • managers and equipment • Financial facilities • Communication equipment • Distribution trucks.

These factors can affect the business operations negatively or positively but they can be controlled by the management of the enterprise.

- ii. External Business Environment:** The external environment of a business is made up of those factors and the conditions outside the business which affect the business operations. The business enterprise always has limit control over the external environment. The external business environment may be categorized into the following environment:

- a. Economic Environment:** Economic environment includes the type of economic system that exists in the economy, the nature and structure of the economy, the phase of the business cycle (e.g., the conditions of boom or recession), the fiscal, monetary and financial policies of the Government, foreign trade and foreign investment policies of the government. These economic policies of the government present both the opportunities as

well as the threats (i.e. restrictions) for the business firms.

- b. Social and Cultural Environment:** Members of a society have important influence over business firms. Activities of business firms may harm the physical environment and impose heavy social costs. Besides, business practices may violate cultural ethics of a society. For example, advertisement by business firms may be nasty and hurt the ethical sentiments of the people. Businesses should consider the social implications of their decisions. This means that companies must seriously consider the impact of its actions on the society. When a business firm in their decision making take care of social interests, it is said to be socially responsible.
- c. Political and Legal Environment:** Businesses are closely related to the government. The political philosophy of the government wields a great influence over business policies. In the economic sphere, the public sector plays a vital role in economic development. Besides, the private sector should be controlled by a suitable government policy under various types of regulatory policies which influence the directions in which private business enterprises has to function.
- d. Technological Environment:** The nature of technology used for production of goods and services is an important factor responsible for the success of a business firm. Technology consists of the type of machines and processes available for use by a firm and the way of doing things. The improvement in technology raises total factor productivity of a firm and reduces unit cost of output.
- e. Demographic Environment:** Demographic environment includes the size and growth of population, life expectancy of the people, rural-urban distribution of population and educational levels of labor force. All these demographic features have an important bearing on the functioning of business firms. Since new workers are recruited from outside the firm, demographic factors are considered as parts of external environment. The skills and ability of a firm's workers determine to a large extent how well the organization can achieve its mission. The demographic environment also affects both the supply and demand sides of business organizations.
- f. Natural Environment:** Natural environment is the ultimate source of many inputs such as raw materials, energy which business firms use in their productive activity. Natural environment includes geographical and ecological factors such as minerals and oil reserves, water and forest resources, weather and climatic conditions, etc.
- g. Ecological environment:** Driven by the motive of profit maximization, businesses can cause irreparable damage to the exhaustible natural

resources, especially minerals and forests and pollution of environment. Countries including Rwanda have now become conscious of the adverse effects of depletion of exhaustible natural resources and pollution of environment by business activity. All these environments have a direct bearing on how the business operates its strategies, policies and costs. A change in any of these environments is likely to have far reaching impact on the operations of the business enterprise.

1.4.4 Dependence of the business on the natural environment

Businesses greatly depend on the natural environment in many different ways, some of which include the following:

- i. Sources of raw materials:** Most of the raw materials used in the manufacture of goods and services are derived from the natural environment. Such raw materials include: wood or timber, water for drinks, gas, coal, oil petroleum, skins, hides, minerals such as lime stone, copper, iron, gold, silver etc.
- ii. Provides transport:** The natural environment provides the business with transport networks such as road, water, and air transport which help to transport raw materials to the business premises and finished products to the market plus labour to and from the business premises
- iii. Disposal grounds for waste from the business environment:** the natural environment serves as the disposal ground for waste products such as smoke, rubbish, industrial fumes and oils etc.
- iv. Home for business:** Land provides ground on which business premises or buildings (structure) are built as well as being a home to other businesses that survive on land, like farming both for crops and animals.

1.4.5 Dependence of society on business

The society depends on the business in the following ways:

- i. Provision of goods and services.** Business provides goods and services that satisfy the needs of people in society. Such needs include both basic and secondary needs like food, shelter, medical care, and clothing. Such needs are satisfied by different services which include: education, medical, manufacturing, trading, agribusiness etc.
- ii. Provision of employment opportunities:** Business provides employment opportunities to the society, both self and paid employment for example, people who work in factories, hotels, restaurants, etc. This increases people's standards of living.
- iii. Supporting community development programs/Corporate social responsibility:** Business usually contributes towards community development programs by making donations and also directly getting

involved in these programs. Example: construction of schools, hospitals; providing of clean and safe water etc.

- iv. Payment of taxes:** Businesses support the society through paying taxes which are used to provide essential services such as health, education, security, roads etc. Such services benefit the business community and the society in general.
- v. Cleaning and protecting the environment:** Businesses protect the environment through recycling used products and by-products back into the production process and making useful products out of them. Businesses also participate in environmental and cleaning programs schools, cleaning public parks and streets as well as planting trees and protection of wetlands.
- vi. Market produce:** Businesses buy raw materials from the members of the community enabling them to obtain market for their products and get income.
- vii. Some businesses provide a** means of saving the human environment from harmful products. For example, companies that process garbage into manure help to make society enjoy a healthy environment.
- viii. Some businesses provide social services** such as Schools (provide education), hospitals (health services).

1.4.6 Dependence of business on society or benefits from society

There is a direct relationship between business and the society in the following ways:

- i. Provision of market:** The products of businesses are bought and consumed by members of society thereby providing demand and market for the businesses.
- ii. Provision of capital:** Businesses need capitals for purchasing fixed assets such as furniture, motors, vehicle, machines, and construction of business premises and for running the day to day operations. This is provided by the society through loans offered by financial institutions and individual money lenders.
- iii. Source of labor:** Businesses acquire labor, both skilled and unskilled, for running business operations and producing goods and services from the society.
- iv. Provision of security:** For businesses to operate effectively, it requires peace and stability to prevail in the area of operation which society provides through the army and local defense forces. Society also offers acceptance which is important for successful establishment and smooth operation of the business.

v. Provisions of raw materials: Members of the community sell different raw materials like agricultural raw materials to the businesses that are used to produce goods and services.

vi. Land as a factor of production: Many businesses use land owned by members of the society which they rent or occupy on leasehold.

1.4.7 Responsibility of the business towards the natural environment

It is the responsibility of the business to care for and protect the natural environment by optimizing the use of energy, ensuring effective use of materials and creating replacement for instance by planting trees, encouraging re-use and recycling of products and by-products and also incorporating the principle of sustainable use and development of natural environment. It is important therefore for entrepreneurs to carry out regular environmental checks and inspection to identify those activities that harm the environment such as constructing in wetland and lumbering, such that they are avoided or taken carefully in a manner that will not harm the environment. This will help to reduce negative environment effects of the business operations by:

- Recycling used products.
- Cleaning the environment and the reducing pollution.
- Cutting or reducing harmful emissions like carbon dioxide.
- Checking harmful influents and ensuring of proper usage and disposal.
- Developing technologies which demand less of natural resources and produce better products.
- Educating consumers on usage and disposal on their products
- Using bio-gradable materials example packaging materials.
- Asking consumers if they need some of the packaging materials.

1.4.8 Responsibility of the business towards society

It is important that businesses exercise some responsibilities towards society to enhance the positive effects or check the negative effects. Businesses can do the following for the society:

- Production of goods and services.
- Payment of taxes.
- Contribution towards community development programs.
- Proper disposal of waste products.

Application Activity 1.4

1. Discuss various components of environment.
2. Explain briefly the effects of entrepreneurial activities on environment and society.
3. Describe different types of the environment.

1.5. Possible negative effects of business activities on different types of environment and their components



Figure 1.7: Pollution from a factory. The production processes of some enterprises

Activity 1.5

From your community identify some possible negative effects of the business activities on the society and environment.

1.5.1 Effects of business on the natural environment

Businesses affect the natural environment through their requirements such as land, raw materials and agrochemicals, products like sugar, cloth, medical care etc. and by-products such as noise, rubbish, gases, effluents, industrial wasted oils, molasses from sugar production.

1.5.2 Business requirements that affect the natural environment

The most common business requirements that affect the natural environments negatively include the following:

- i. Land** is required for setting up businesses; construction of business premises, and for installation of machinery for business operation and extraction of raw materials. Many business operations require large piece of land which lead to clearing of vegetation like forests, and wetland which adversely affects the environment.
- ii. Machinery and equipment** for productive operations; these affect the environment through their emissions causing air and water pollution and also produce noise and vibrations. These affect workers and health of people living within the business locality.
- iii. Packaging materials:** example: packaging products affect the drainage system and soil texture.
- iv. Disposal:** Ground for waste products or rubbish created through consumption and production operations which create and emit toxic chemicals. These affect the environment negatively endangering both aquatic and non-aquatic life.
- v. Agro-chemical requirement:** These are particularly for agribusiness and include chemicals and artificial fertilizers used to control pests and diseases and improve soil fertility. These affect human and animal life when dissolved in the water or rainfall, finding way into the water table.
- vi. Human resource requirements:** These manage businesses which misuse the environment in various harmful ways such as lumbering, mineral extracting, and also create waste products.

1.5.3 Forms of negative effects of business on the natural environment

The business affects the natural environment through:

- i. Pollution:** Businesses emit a lot of carbon dioxide, smoke, ozone depleting gases, dust, sulfur dioxide that pollute the air which is dangerous for animal and plant respiration. Manufacturing businesses also pollute water by releasing their effluents into water ways and drainage systems hence endangering human and plant life. The noise produced by manufacturing firms is also pollution.
- ii. Deforestation:** Some businesses use trees in their operations for production of goods and services like carpentry workshops, agricultural businesses, construction businesses and households clear large tracks of forests to make farms, roads, and railways. Such activities destroy the forests thus causing deforestation which in turn changes weather patterns, reduces rainfall and fertility.

- iii. Depletion of resources:** Businesses use a lot of natural resources in their operations for example fish processing businesses deplete fish resources, and quarrying businesses also destroy and degrade land. Some of these resources are self-renewable but the rate at which they are exploited exceeds the rate of renewal yet man's effort to replace them is also very minimal.
- iv. Vibration:** This is a result of movement and running of heavy industrial machines. These vibrations greatly trigger land slides, leading to the collapse infrastructure.
- v. Land or soil degradation,** this refers to spoiling of soil fertility, soil nutrients composition (organic and inorganic) and the soil resulting from different usage like overgrazing, over cultivation, deforestation, quarrying, and contamination by disposal of harmful waste products (industrial wasted oil and chemicals).
- vi. Wet/land destruction:** The creation of land for business sites and settlement, construction of business structure and installation of machinery leads to encroachment on wetlands hence destroying the natural water catchment areas and the purification process.
- vii. Displacement of people:** The establishment of businesses displaces people which affect the balance of the ecosystem causing population pressure in some places and hence affecting the natural environment.

1.5.4 Other negative effects of business on people

Any good business must be guided by *the three Ps of investment: Profits, People and Planet*. Most businesses only stop at profits and end up affecting people and the planet. Besides the natural environment (planet) other negative effects of business on people include the following:

- i. Expired goods** that are harmful to people's health; this is common with such goods as food, drink and medicine. This applies to animal's health as well.
- ii. Poisonous products** like narcotic drugs harm people's mental and physical health;
- iii. Immoral behaviors** like prostitution spring up in areas operating bars and casinos;
- iv. Drunkenness** is one effect of business on people that is difficult to eradicate;
- v. Unethical business practices** may slowly become a norm and acceptable: cheating in weights and measures, adulterated goods and other bad practices;
- vi. There may be **over-exploitation** of workers by businesses chasing profits;
- vii. Businesses selling stolen goods** encourage robbery in society;

viii. Spread of infectious diseases such as HIV/AIDS and other related diseases is easy from such businesses and long distance transportation, bars, hotels and lodges.

Application Activity 1.5

Referring to your respective localities, mention the entrepreneurial activities that are causing or are likely to cause environmental degradation; in detail, explain how each activity identified can or is affecting the environment.

1.6. Managing and preventing the negative effects of a business on different types of environment and their components

Activity 1.6

Sometimes business activities negatively affect the environment and society: what do you think could be the strategies that can be used to reduce the negative effects of entrepreneurship on the environment.

The reducing of the negative effects of business on the natural environment requires a joint effort by the entrepreneurs and the government or society through taking some of the following measures :

- i. Recycling used products and by-products:** By-product of the production process and used products should be recycled back into the production process to be made useful by using them to produce goods and services shredding papers can be recycled to get fragile product like trays. This will help to reduce the rate of population caused by the careless disposal of waste.
- ii. Waste treatment and proper waste disposal:** Entrepreneurs should always treat waste materials to purify them and choose proper waste disposal grounds that do not affect the environment negatively and also enlarge animals and plant life.
- iii. Environment friendly packaging materials:** Entrepreneurs should also choose proper packaging materials like paper bags or cloth in case of plastic which affect the soil structure
- iv. Reforestation:** Refers to re-planting of trees to replace those that have been cut so that the natural environment balance is not disturbed. This should be encouraged to reduce the effect of deforestation on climate, soil fertility and water catchment.
- v. Covering soil:** This may involve terracing, planting trees (afforestation) and

other ways that can be used to cover the soil to ensure that it is not left bare. Organic manure may be used to replace the depleted soils.

- vi. Use biological pest and disease control:** Agribusiness entrepreneurs should be encouraged to use biological disease control instead of chemical in their farming process, farm yard manure and other natural fertilizers. Chemicals pollute the land and affect human, plant and animals.
- vii. Development of new raw material saving technologies:** Entrepreneurs should be encouraged to invest in research to develop new technologies that save raw materials and have improved methods of production that do not pollute the environment.
- viii. Environmental education or protection sensitization campaigns:** An interdisciplinary approach should be used in and out of the school to sensitize both the young and adults about the importance of living in a protected natural environment and the consequences of living in the degraded environment and also how they can protect the environment
- ix. Compulsory environment impact assessment:** The government should undertake compulsory environmental impact assessment before licensing businesses such that businesses with potential dangers of the environment are known in advance and also majors to minimize such dangers are devised in advance.
- x. Setting environmental standards:** The government should ensure that environment standards are set by the environmental protection bodies such as Rwanda Environment Management Authority (REMA), and also ensure that effective supervision and monitoring is carried out to ensure that the businesses respect the set environmental standards and regulations. Businesses should be requested to contribute funds for environmental protection and conservation programs such as cleaning of towns and setting up the garbage collection centers and tree planting.
- xi. Encouraging sustainable use of natural resources:** The resource exploitation rate needs to be checked to avoid over exploitation and resource exhaustion especially for the natural resources such as forests, fish etc. Strict laws should be put in place and implemented regulating the exploitation of resources like about type and size on fish net, laws encouraging replanting after cutting down trees etc.
- xi. Optimizing energy use:** Using of energy saving system in production processes and homes should be encouraged together with use of other alternative energy sources in place of wood fuel that do not degrade the natural environment like solar electricity, biogas, hydro-electricity etc. this calls for government involvement to reduce and stabilize prices of these alternatives energy forms to make them affordable to the people and business.

xii. Laws against pollution: Government should enforce laws to penalize businesses that use machinery that pollute the environment. Even very old vehicles that emit a lot of fumes should be banned.

Application Activity 1.6

Briefly, explain how the entrepreneurs and the government or the society provide a joint effort to reduce the negative effects of business on the natural environment

1.7. Entrepreneurs and social responsibility/Proactive social responsibility

Activity 1.7

Observe the extract below and answer the questions that follow;



Figure 1.8 community health activities

Bank of Kigali sponsored Special Olympics sports competition, specially designed for people with cognitive delays. We believe that with sports activities such as these, the Special Olympians develop mental, physical, and social skills leading to more independent living. More so, Special Olympian families get to recognize that their children with intellectual disability are worthy human beings with a lot to offer.

The Bank has for the past two years been one of main sponsors of Ulinzi walk which aimed at creating public awareness against breast cancer and emphasizing early detection as the best protection. The initiative also encourages solidarity in facing cancer by demonstrating public ownership of the cancer burden in order to stimulate intervention of the needed changes.

The Bank acknowledges the need for a healthy society in order for Rwanda to achieve its vision 2020 goals. The Bank has supported Friends of Africa a campaign focusing on increasing returns on investment in the fight against HIV/AIDS, Tuberculosis and Malaria, diseases that have been among the leading causes of death in Sub Saharan Africa.

1. Identify the enterprises which are involved in these different activities
2. Discuss different ways businesses have proactively contributed to the social and environmental context.
3. What benefits can an enterprise achieve by supporting these activities?
4. What achievements will the participants gain in involving in these different activities?

Pro-active socio-responsibility

Pro-active social responsibility is commonly called *corporate social responsibility* and it refers to initiative taken by a business to give back to the community. It normally takes various forms, depending on the community needs. The following are ways through which businesses give back to the community

- i. Promoting other local businesses through Cross networking especially non-competing companies of similar markets.
- ii. Participating in Holiday Food Drives. During the holidays, many businesses encourage employees to bring in unopened non-perishable canned and boxed foods that can be donated to local food banks to help hunger stricken areas.
- iii. Sponsoring youth sport teams.

- iv. Holding contests. Business can support the community while also encouraging employees to have fun by holding a contest. Each employee chooses a local charity and instead of prizes, money goes to the charities chosen by the winners.
- v. Sponsoring a participant(s) in a local marathon, especially if you can support your own employees who are participating in such events.
- vi. Building houses to disadvantaged residents.
- vii. Offer Your Skills through teaching classes on entrepreneurship to local residents or offering to teach a specialized skill that could be of value to those who have been out of the workforce for a while.
- viii. Encouraging employees to volunteer by offering paid time off for volunteering.

Application Activity 1.7

- a. As a manager of the small enterprise, you have saved 1,000,000 Frw to spend on social responsibility. Identify five urgent problems affecting the community and explain how you can use that saving to come up with solutions to the above problems.
- b. Explain the importance of corporate social responsibility.

Skills Lab Activity 1.8

Read and analyse the case study and answer the given questions

Amahoro Ltd a medium size enterprise deals in manufacturing of soap, cooking oil and sweets. It employs many people from the community and also pays taxes to the government as expected.

It has huge plants and machinery that make the manufacturing or processing of named products above. The industry's wastes and emissions are not well always air. People in the neighbourhood complain of noise from the industry during operations.

Questions;

1. How important is the above industry to the society?
2. What issues are observed in the above case study?
3. As students of entrepreneurship, how would you advise the industry to solve the above issues?
4. As an aspiring entrepreneur who wants to start up a business or have been running an active business club, what do you or would you put in the place to make sure the environment is well protected?

End of Unit Assessment

1. Explain the positive and negative effect a cement factory to be located in your sector is likely to have on the natural environment
2. Explain what you can do to reduce the negative effect of your business activities on the natural environment.
3. Why is it necessary for an entrepreneur to take care of the natural environment?
4. Identify and explain the responsibility of business to society and the environment
5. Differentiate between the economic environment and the legal environment of a business
6. Discuss the role of entrepreneurship in socio economic development
7. Briefly explain how the following external business environment factors may negatively affect business activities
 - a. Economic environment
 - b. Legal environment
 - c. Natural environment
 - d. Society
8. Observing what is surrounding you in your community, explain the changes that you have seen in regard to socio economic development
9. In your community, examine the major indicators of socioeconomic development.



UNIT 2

Environment Impact Assessment (EIA)

Unit 2: Environment Impact Assessment (EIA)



Key Unit Competency: To be able to analyze EIA as a tool for prevention and control of the social economic development impacts on the environment

Introduction

In the previous unit socio- economic (social and economic development), you were able to assess the role of economic activities on the environment. You noted that as a result of all economic activities such as building infrastructure (i.e., roads and pipelines, mines, and tourism facilities etc.), the natural surrounding environment can be affected in one way or the other. This is evident when we consider the results of large-scale development like open-pit mines, hotels for thousands of people and large hydroelectric dams that often have irreversible impacts on the environment and the livelihoods of people because of large-scale deforestation, excessive water use, habitat destruction and resettlement.

Because of the big relationship that exists between the natural and human environments, it is very important to try to assess the environmental and social impacts of economic activities, projects and planned developments that may affect the quality of the environment and impact well-being. As the human population

continues to increase and natural resources become more limited, it is important to have mitigation measures of solving environmental challenges arising from economic activities and thus the need to have EIA.

This unit is therefore designed to help you be responsible and to ensure that all environmental matters are taken into account quite early in the project planning process while taking into consideration traditional aspects like impact on local people, biodiversity, etc. It will equip you with knowledge and skills as well as attitudes that will enable you come out with appropriate EIA reports for the projects you intend to start. It will also help you predict the effects of proposed activity/project on the environment and on social economic development.

Introductory activity 2.1

EIA Case Study:

The government of Rwanda through Rwanda Environment Management Authority (REMA) and EIA guidelines expects entrepreneurs to be cautious and careful with goods produced, the technology used, the materials used for the production and their probable impact on the human health and the environment. If the product/project does not meet the requirements of the standard it is not permitted for further production and the owner will have to change the technology and the structure of the product.

With the ever increasing rates of urbanization and population growth rates the economic activities if not well addressed are bound to impact negatively on the environmental attributes of the project areas and its surroundings. Kigali being the capital city of the country, it continues to have the most economic activities and population. With the above economic situation, the economy and the environment are bound to be affected negatively and positively and thus entrepreneurs intending to start any project have to prepare appropriate Environmental Impact Assessment reports showing most sustainable and cost effective way of mitigating any negative impact that may arise as a result of the implementation of the proposed project.

Questions :

Referring to the above case study, answer the following questions.

- a. What do the Environmental Impact Assessment guidelines expect entrepreneurs to be observant of?
- b. In what ways can the projects started in Kigali affect the economy positively?

- c. What are likely negative effects of the business activities or projects to the environment and Kigali community at large ?
- d. What strategies would you propose to the entrepreneurs in Kigali to mitigate the likely challenges as a result of the projects started ?
- e. Write a simple Environmental Impact Assessment report of the business idea you intend to start in your community.

2.1 Meaning of Environmental Impact Assessment (EIA)

In this section, you will learn about the most common definitions and objectives of EIAs, together with a brief history and examples to illustrate why Environmental Impact Assessments are important. This will help you to gain a basic understanding and the purpose of EIA.

Activity 2.1

Analyzing the below picture and using the background knowledge from the introductory activity above answer the questions that follow.



Figure 2.1: Radical terracing on steep slopes in Rwanda. Source: REMA, 2007

While entrepreneurs are undertaking economic activities or setting projects, they have to be cautious to reduce adverse effects on the environment and human beings. This can be done by replacing and/or modifying planned activities to reduce negative impacts for example in the above picture where terraces are used to reduce soil erosion and other environmental effects.

Questions,

- a. What do you understand by Environmental Impact Assessment?
- b. Explain the major purpose of Environmental Impact Assessment.

2.1.1 Meaning of EIA

An environmental impact assessment (EIA) is a systematic process for identifying, predicting and evaluating the environmental effects of proposed actions and projects. This process is applied prior to major decisions and commitments with particular attention given to preventing, mitigating and offsetting the significant adverse effects of proposed undertakings.

2.1.2 Historical background & Context of EIA in Rwanda.

Environmental challenges in Rwanda date back several decades. Recently, the Government of Rwanda has undertaken strong commitment to understand its current and future environmental challenges as a necessary step in the pursuit for sustainable development. Today, to effectively manage environmental challenges, EIA was adopted to effectively manage environmental challenges such as;

- Soil erosion,
- Deforestation,
- Wetland drainage,
- Water degradation,
- Climate change and the loss of biodiversity

The national environmental challenges are exacerbated by the;

- Low levels of environmental awareness
- Inadequate technical & human resources
- Low intra-sectoral coordination on environmental issues

Thus, these EIA guidelines should serve as a protocol for use by various stakeholders involved in the conduct of environmental impact assessment.

2.1.3 National Policy on EIA

The Constitution of the Republic of Rwanda adopted in June 2003 ensures the protection and sustainable management of environment and encourages rational use of natural resources.

Various initiatives were taken by the Government of Rwanda (GoR) to address the environmental issues; they include;

- Formulation of environmental policy (2003);
- Enactment of environmental Organic Law No. 04/2005 of 08/04/200 (2005);
- Establishment of Rwanda Environmental Management Authority (REMA), under Organic Law No.04/2005 of 08/04/2005 Article 64, to coordinate and oversee all aspects of environmental management for sustainable development.
- Other various socio-economic development policies and strategies such as “Rwanda Investment and Exports Strategic Action Plan, 2005-2007”.

Vision 2020” call for a well regulated environment management system that takes into account principles of sustainable development while at the same time contributing to poverty reduction.

2.1.4. International Context of EIA

EIA process operates within the global concept of sustainable development and embrace commitment to international environmental conventions particularly:

- United Nations Conference on the Human Environment (Stockholm 1972);
- United Nations Conference on Environment and Development (UNCED 1992);
- The world Summit on Sustainable Development (WSSD 2002);
- African Ministerial meeting on Environment held in Durban, South Africa (1995) to all of which, Rwanda is a party

EIA is an invaluable tool for environmental management in a trans-boundary context, playing role in information dissemination between Rwanda and neighbouring countries and widening the scope of understanding of environmental impacts beyond its borders. EIA process in Rwanda provides a pretext and basis for future international cooperation and conflict resolution concerning environmental impacts at a regional level.

2.1.5 Objectives, Roles and Benefits of EIA in Rwanda



Figure 2.2: Environmental sustainability

The main objective of EIA is to promote sustainable development and ensure that environmental issues are given proper priority. This is in line with that is fully committed in its pursuit for sustainable development with the objectives of enhancing living standards of people in a short period of time and obtaining true benefits to sustainably balance human needs with nature for today's and future generations.

The objectives of EIA are four fold;

- To provide a national standardized process for development authorization,
- To protect Rwanda's natural environment from potentially significant and avoidable impacts caused by development projects,
- To invoke environmental consciousness and responsibility for all development activities in Rwanda.
- To facilitate efficient and modern development activities whilst considering the needs of present and future generations

The **aims** of EIA are divided into two categories of planning, namely;

- **Immediate Aim:** To inform the process of decision-making by identifying potentially significant environmental effects and risks of development proposals.
- **Long-Term Aim:** To promote sustainable development by ensuring that development projects do not undermine critical resources and ecological

functions or the well-being, lifestyle and livelihood of communities and people who depend on them.

To address these aims, the strategy of EIA process can be divided into two categories of action:

- **Short-Term Strategy:** Assess project proposals by identifying environmental risk, potential impacts and mitigation and monitoring measures.
- **Long-Term Strategy:** Assess the ongoing impacts of projects through environmental monitoring after the project has been approved and implemented.

Roles of EIA

Adaptation of EIA in Rwanda hinges on its importance as:

- i. A key component of a more systematic and objective approach to environmental issues;
- ii. Provides a framework for promotion of efficient decision-making in project approval;
- iii. Enables implementation of environmental safeguards to mitigate significant negative impacts;
- iv. Avoid ecological damage and large-scale irreversible loss of natural resource.
- v. An invaluable tool for environmental management in a trans-boundary context;
- vi. Provides a basis for future international cooperation and conflict resolution concerning environmental impacts at a regional level.
- vii. Provides a basis for future international cooperation and conflict resolution concerning environmental impacts at a regional level.

Benefits of EIA

- i. Enabling incorporation of environmental considerations in design and site selection for a project or development activities.
- ii. Providing information beneficial to decision making.
- iii. Enhancing responsibilities of relevant parties in the development process.
- iv. Mitigating and minimizing environmental damage.
- v. Avoiding costs and delays in implementation of projects that would arise from unanticipated environmental problems.
- vi. Making development projects more financially and economically efficient.
- vii. Making an active contribution to sustainable development.

2.1.6 EIA Development Planning

The concept of sustainable development requires EIA to be expanded beyond projects level. The detail of environmental information necessary depends on the relevant needs of decision makers. For example, in policies and development plans, one needs general and qualitative environmental information to identify major environmental problems, without dealing with specific impacts.

When implementing project level Environmental Impact Assessment is necessary to identify specific impacts and technical information of the project. Since it is important that EIA must be carried out not only at project level, but also for masterplans for development of regions, sectors, provinces, cities and industrial zones, Strategic Environmental Assessment is a vital tool in such cases. For effective integration of decision making with sustainable development criteria, SEA has proven an effective tool in restraining environmental degradation at national and global level

2.1.7. Strategic Environmental Assessment (SEA)

SEA is the assessment of impacts of policies, plans, programmes which are higher than the project level. It involves impacts identification and analysis of development programs or policies in order to establish potential cumulative effects on environment over the long-term.

SEA is undertaken much earlier in the decision-making process than EIA. It is therefore seen as a key tool for sustainable development. Strategic Environmental Assessment aims at incorporating environmental and sustainability considerations into strategic decision making processes, such as the formulation of policies, plans and programs.

Application Activity 2.1

Case study

Due to the different economic, political, social and environmental changes in today's economy, there's need for proper planning for any economic activity to be implemented. Entrepreneurs are expected to follow proper EIA guidelines so as to avoid environmental, human and economic risks.

Rwanda's government through REMA ensures the protection and sustainable management of environment and encourages optimal use of natural resources. Different stakeholders have different functions to perform in order to execute proper EIA procedures.

As a student of entrepreneurship, you have been approached by MUTESI Chantal who is planning to start a project of brick laying in her society. Advise her on the following.

- a. What measures should she take to mitigate the likely environmental challenges caused by her project?
- b. Why does she need to do EIA for her project?

2.2. Environmental Impact Assessment (EIA) Process

Activity 2.2

1. Think about the different natural resources in your community, how have the people used them in a way that is not sustainable and environmentally friendly?
2. If a big project is to be started in your community, what concerns would you have? Given the above concerns, write a simple report to REMA at your district summarizing and showing assessment of environment and social impacts of the project once started with the proposed mitigation measures.

Introduction

This section covers the steps of the EIA process. In this section you will learn the different steps of EIA process that help decision makers to understand if their impacts on the environment and well-being are severe enough or significant.

If the EIA process is successful, it identifies alternatives and mitigation measures to reduce the environmental impact of a proposed project. The EIA process also serves

an important procedural role in the overall decision-making process by promoting transparency and public involvement.

The EIA process aims to assess and inform development decisions by mandating a consideration of project alternatives and ways to prevent, mitigate, and control potential negative environmental and social impacts. This generally involves a number of steps, including project screening, scoping, assessment, impact management, EIA report development, public participation, review, decision, and monitoring.

a. Project Application and Registration

The first step of the EIA process is a developer submitting an application for EIA of a proposed project to REMA in form of a project brief. REMA registers the project brief as the developer's formal application for an EIA. The purpose of a project brief is to provide sufficient information on the project to enable the authority and lead agencies establish whether or not the proposed activities are likely to have significant environmental impacts, and also determine the level of EIA required (screening). If adequate mitigation measures are identified in the Project Brief, this may eliminate the need for a full EIA and the project may be approved with or without implementation conditions.

At a minimum, a project brief submitted to the authority shall contain the following information:

- i. Name, title and address of the developer.
- ii. Name, purpose, objectives and nature of project, including attributes such as size of project, design, activities that shall be undertaken during and after the establishment of the project, products and inputs, sources of inputs, etc.
- iii. Description of the proposed project site and its surroundings and alternative sites, if any, where the project is to be located.
- iv. Description of how the proposed project and its location conform to existing laws, regulations and policies governing such project and the use of the site/area proposed for its location.
- v. Any likely environmental impacts that may arise due to implementing various phases/stages of the project and proposed mitigation measures thereto.
- vi. Description of any other alternatives, which are being considered (e.g. technology, construction and operation procedures, sources of raw materials, handling of wastes etc, decommissioning/closure and site restoration).
- vii. Any other information that may be useful in determining the level of EIA required.

b. Screening

Screening, carried out by the Authority is a process of determining impact level of a proposed project, which then determines extent of the EIA study.

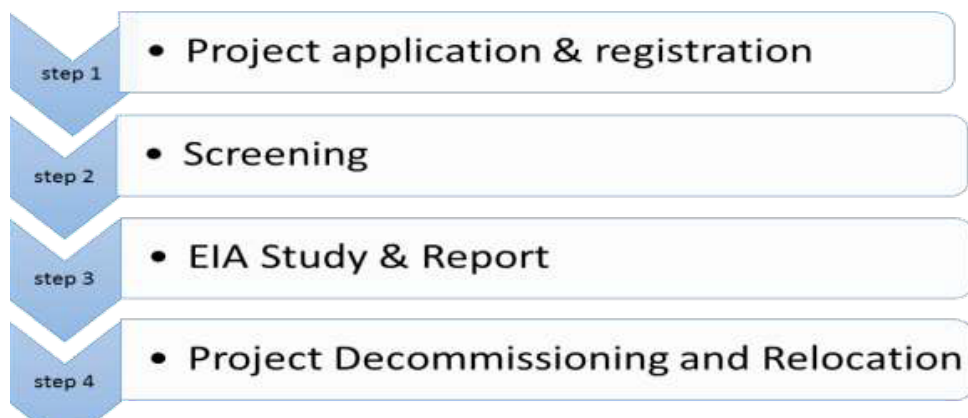
Screening enables early identification of environmental issues of major concern and incorporation of appropriate mitigation measures. Screening also enables identification of potential impacts on natural resources (whether the project would result in direct or indirect negative or positive impacts to natural resources), excessive resource consumption and waste generation.

c. EIA Study and Report

Environmental Impact Study phase is the investigative stage of the EIA process for which a developer hires EIA experts. This phase begins by a developer selecting expert(s) among a list of EIA experts provided by the Authority. If REMA disapproves of the selected expert(s), because their expertise is not suited to the scope of the proposed study, the developer will be required to choose again. If the developer's second choice is disapproved, then the Authority shall appoint EIA expert(s) it considers best suited to undertake the study and develop an Environmental Impact report, which is submitted to the developer. The developer and EIA experts shall work together throughout the environmental impact study (EIS) phase to develop adequate measures to mitigate negative impacts and enhance positive ones.

d. Project Decommissioning and Relocation

Upon project completion or when seeking relocation, a developer should prepare a decommissioning plan and submit it to REMA for approval. The decommissioning plan should include but not limited to assessment of existing environmental conditions, all proposed engineering works, mitigation activities associated with the removal of project facilities and proposed restoration measures.



Primary source: Figure 2.3 summary of EIA process

Application activity 2.2

1. Given the project you intend to start, write a project brief to be submitted to the authority?
2. What are the benefits of EIA process?

2.3 Roles of Stakeholders in EIA Process

Activity 2.3

Referring to activity 2.3 about Mutesi Chantal,

1. What stakeholders will be involved in her project and why?
2. How can she involve her community in the project she intends to start?

2.3.1 Roles and Responsibilities of different Stakeholders in EIA

This section will help you understand the role of stakeholder participation in EIA process. It shows the role of all those with a stake in the outcome of a project and how their involvement helps in planning and management of EIA process. The stakeholders share information and knowledge, and may contribute to the project, so as to enhance the success of the project and hence ultimately their own interests.

a. REMA (Rwanda Environment Management Authority)

Mandated by law, REMA has a responsibility to organise the EIA procedure by undertaking screening, guiding developers on assessment procedures, conducting public hearings, reviewing EIA reports based on the terms of reference (TOR) and taking decisions on approval or disapproval of proposed projects. The Authority is also responsible for monitoring implementation of environmental protection measures.

Roles of REMA

- i. Receive and register EIA Applications (project briefs) submitted by developers,
- ii. Identify relevant Lead Agencies to review Project Briefs and provide necessary input during screening,
- iii. Review Project Briefs and determine project classification at screening

- stage,
- iv. Transmit Project Briefs to relevant Lead Agencies and concerned Local Governments to provide input on Terms of Reference (TOR),
 - v. Publicise Project Briefs and collect public comments during development of TOR,
 - vi. Approve EIA Experts to conduct EIA studies.

a. Developers

The developer has direct responsibility for the project and should provide necessary information about the project at all stages of the EIA process. Developers hire experts to undertake EIA studies on their behalf and answer questions about potential impacts and proposed mitigation recommendations at public hearings. Developers have the responsibility to implement the environmental management plan including mitigation measures as proposed in the EIA report and carry out subsequent environmental monitoring and auditing.

Roles of Developers

- i. Prepare and submit EIA applications (in form of Project Briefs) to REMA,
- ii. Hire experts to undertake EIA studies on their behalf,
- iii. Prepare and append an addendum (*Environmental Impact Report Addendum*) to the EIA report (if necessary),
- iv. Submit the EIA report, Environmental Management Plan and the EIA Report Addendum (if applicable) to the Authority,
- v. Participate in public hearings and also implement terms and conditions (if any) REMA attached to approval of their projects.

a. Lead Agencies/Line Ministries

Lead agencies such as government ministries or departments +Lead agencies have the responsibility to take part in EIA of projects under their sectors. They provide valuable technical information to EIA experts during EIA studies and are involved in the review process.

Roles of Lead Agencies/ Line Ministries

- i. Participate in screening at the request of REMA,
- ii. At the request of REMA, review Project Briefs so as to advise on Terms of Reference,
- iii. Ensure that their own projects adhere to EIA requirements,
- iv. Ensure that private-sector projects in fields over which they have jurisdiction

- comply with EIA requirements,
- v. At the request of REMA, they can serve on REMA's Technical & executive committee.

Application activity 2.3

There has been a concern in your community about how entrepreneurs involve the general community during planning and implementation of their projects. Given the project you intend to start in your community, show how you would involve the community to be part and parcel of EIA process.

2.4 EIA PROCEDURE

Activity 2.4

For EIA report to be finally submitted to the authorities (REMA offices of a given district), there is a process that developers have to go through. Given your knowledge and background about EIA so far, what process should one go through while preparing the EIA report?

EIA Procedure

In this section, you will learn about the steps of EIA process and you will be able to understand how it informs development decisions. You will also be able to recognize that for sustainable development and optimal use of resources to occur, entrepreneurs need to provide alternatives and ways of preventing, mitigating and controlling potential negative environmental and social impacts of their projects.

EIA in Rwanda consists of the following procedures;

- a. Project Brief Submission and Registration.** As a first step in the EIA process, a developer proposing to start a project shall notify REMA in writing by submission of a Project Brief. The purpose of a Project Brief, which is to provide information on the proposed activity so as to enable REMA and Lead Agencies establish whether or not the activity is likely to have significant impact on the environment, and thus determine the level of EIA necessary.
- b. Scoping and consideration of alternatives.** The responsibility for scoping is done by developers (or their EIA experts) in consultation with Lead Agencies and all relevant stakeholders. Scoping is intended to establish important issues to be addressed in the environmental impact and eliminate the irrelevant ones. After scoping, REMA approves the terms of reference that would be used for carrying out the environmental impact study.

- c. Baseline data collection and Analysis of Initial State.** Baseline data describes status of existing environment at a location before intervention of the proposed project. Site-specific primary data on and around a proposed site should be collected by experts conducting the environmental impact study to form a basis for future environmental monitoring.
- d. Impact prediction and analysis of alternatives.** Impact prediction is a way of forecasting the environmental consequences of a project and its alternatives. This action is principally a responsibility of an EIA expert. For every project, possible alternatives should be identified and environmental attributes compared. Alternatives should cover both project location and process technologies. Alternatives should then be ranked for selection of the most optimum environmental and socio-economic benefits to the community. Once alternatives have been analysed, a mitigation plan should be drawn up for the selected option and is supplemented with an Environmental Management Plan (EMP) to guide the developer in environmental conservation.
- e. Public hearing.** After completion of EIA report, the public must be informed and consulted on a proposed development. REMA may, if it deems necessary, conduct a public hearing before EIA reports are appraised by its technical committee. Any stakeholders likely to be affected by the proposed project are entitled to have access to unclassified sections of the EIA report and make oral or written comments to REMA. REMA shall consider public views when deciding whether or not to approve a proposed project.
- f. Decision-making.** During the decision-making and authorization phase, EIA documents submitted to the Authority are reviewed by two decision-making committees: a technical committee and an executive committee constituted by REMA. If the project is approved, the developer will be issued with an EIA certificate of authorization, which permits implementation of the project in accordance with the mitigation measures in the EIA report and any additional approval conditions.
- g. Environmental Monitoring.** Monitoring should be done during both construction and operation phases of a project. It is done not just to ensure that approval conditions are complied with but also to observe whether the predictions made in the EIA reports are correct or not. During implementation and operation of a project, monitoring is a responsibility of the developer and REMA.

2.5 Practical Activity on designing EIA reports of projects

According to REMA, the EIA report should entail the following;

- i. Executive summary of the EIA report which should be brief and focus on following matters:
 - Name and location of the project;
 - Name of the developer
 - Name of the agency preparing EIA report;
 - Main impacts identified;
 - Mitigation recommendation
 - Environmental monitoring plan
- ii. Objectives of the project, including ideas, intentions and particular objectives.
- iii. Description of the proposal and its alternatives. In this part, it is necessary to describe in detail the proposed project and its alternatives including those not subjected to pre-feasibility study or feasibility study.
- iv. Discussion on the proposal and its relation to relevant policies, laws and programmes (sectoral and regional). In this section, the proposal must be shown to be in line with policies, laws, institutional framework and development strategy of Rwanda.
- v. Impact assessment that includes assessment of all impacts to the local population and measures to avoid and mitigate impacts.
- vi. Evaluation and comparison of alternatives and selection of one that is environmentally suitable that shows impacts with largest effects, measures for avoiding, mitigating and managing them and environmental improvement opportunities.
- vii. Impact management and environmental monitoring plan (EMP). This is a plan for monitoring and management of impacts during the implementation and operation of the project, where the responsibilities between the state and investor are differentiated.

Skills Lab Activity 2.5

The government is running a youth empowerment program aiming at making youths start strong viable and sustainable projects in their communities. One of the conditions is that for the youth to qualify for the program is to develop EIA report of the project that will be supported. Using the above information (about EIA report), write a simple EIA report for the project you would present to the government to win the above support.

End of unit assessment

Part A (Multiple choice questions) choose the most appropriate answers

1. EIA is defined as (select one):
 - a. A process of identifying, predicting, and evaluating the likely impacts of a proposed project or development to define mitigation actions to reduce negative impacts and to provide positive contributions to the natural environment and well-being.
 - b. A report written by government representatives on the planned development impacts of environment, socio-economic issues and culture.
 - c. Project life-cycle assessment.
2. What is essential in an EIA? (Select all that apply):
 - a. That it allows decision makers to assess a project's impacts in all its phases.
 - b. That it allows the public and other stakeholders to present their views and inputs on the planned development.
 - c. That it contributes to and improve the project design, so that environmental as well as socioeconomic measures are core parts of it.
3. What is the purpose of the "screening" step of EIA? (Select all that apply);
 - a. To assess the quality of the project design.
 - b. To facilitate informed decision making by providing clear, well-structured, factual analysis of the effects and consequences of proposed actions.
 - c. To determine whether a full EIA is needed.
4. Which type of project usually requires an EIA? (Select all that apply):
 - a. Small housing building.
 - b. Dams and reservoirs.
 - c. Industrial plants (large scale).
 - d. Community garden development.
 - e. Irrigation, drainage, and flood control (large scale).
 - f. Mining and mineral development (including oil and gas).
 - g. Port and harbour development.
 - h. Development of wells in the community.
 - i. Reclamation, resettlement and new land development;

- j. Thermal and hydropower development.
 - k. Outdoor recreation.
5. EIA is usually required for a development project when (select all that apply):
- a. Large changes are expected in the environment.
 - b. Limited impacts are expected in the environment.
 - c. A small area is expected to be affected by the project
 - d. There are potentials for transboundary impact.
 - e. Many people are likely to be affected by the project.
 - f. No cumulative impacts are expected.
 - g. There are protected areas in the project area of influence
6. What specific aspects does a good EIA report and review include? (Select all that apply);
- a. Assessment, mitigation measures and related plans.
 - b. Terms of reference (TOR).
 - c. A generalized set of assumptions about the project benefits described in highly technical terms.
 - d. A satisfactory prediction of the adverse effects of proposed actions and their mitigation using conventional and customized techniques.
 - e. Information that is helpful and relevant to decision making.
7. What kind of monitoring is referred to when we speak of monitoring a development project (select all that apply?)
- a. Monitoring indicators that measure the impacts on the environment and communities as a result of the development project.
 - b. Ensuring the fulfillment of all the commitments made in the approved EIA.
 - c. Keeping track of changes that may happen in the environment and communities because of the project and other local and/or global changes, such as changes in livelihoods due to economic crisis or migration, differences in water availability due to drought, etc.
 - d. Keeping track of the political context, to ensure that the project retains its licence.

c. Part B (True/False questions)

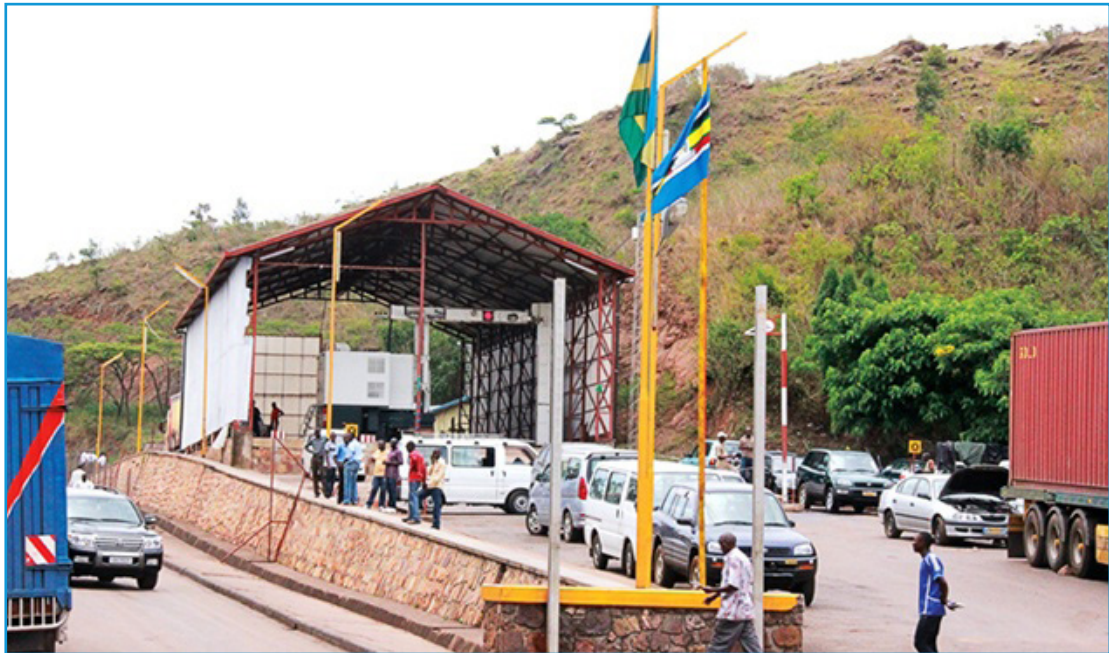
1. Frequency of monitoring will be determined by the nature of the project. True or false?
2. A good quality EIA might still lead to the planned development not being permitted to go ahead based on the identified impacts. True or false?
3. The EIA Report is compiled by the designated government agency. True or false?





UNIT 3
CUSTOMS AND PROCEDURES

Unit 3: CUSTOMS AND PROCEDURES



Source: *A one Stop Border Pot (OABPS)* by Hope Magazine Posted 28th April 2016

Key Unit Competency: Developing an ethical understanding of Rwandan Customs system.

3.1 Meaning of Customs and Customs declaration

Activity 3.1

Referring to the photo below and using on your previous knowledge on customs, answer the questions that follow;

Introductory activity.

The government of Rwanda has reinforced a policy of obligatory deductions for imported and exported products; it is possible for the Government to tax products which are not manufactured in the country. Based on your previous knowledge about Rwandan customs, gained from S.3 unit 6 as well as knowledge about taxes in the economy gained from S. 5 unit 3, answer the following questions:

- a. In your own understanding, what is meant by customs and customs declaration.
- b. Briefly explain the different types of customs declaration.
- c. What are the objectives of the customs service department?
- d. Identify partners involved in the process of customs declaration.
- e. Give examples of exported and imported commodities in Rwanda.
- f. Mention some customs exempted commodities in Rwanda.
- g. Discuss the various documents/forms that are used in customs declaration.
- h. Explain the procedures followed in customs declaration.



Costoms offices.

Questions

- Explain the term customs.
- In your understanding, what do you think normally happens at the Customs?
- “Goods to declare”. Based on this statement, what do you think customs declaration means.

Customs: Is the government agency entrusted with enforcement of law and regulations to collect, protect import-revenue, to regulate and document flow of goods in and out of the country. Customs are also referred to as the official organization or department responsible for collecting taxes on goods especially on goods leaving or entering the country and preventing illegal trade.

Customs declaration Is a statement showing goods being imported and exported on which duty will have to be paid. It is a necessary document to facilitate the acceptance, verification and payment of taxes before the goods can be handed over to the importer; or **Customs declaration:** is the practice used by customs officers to clear goods into a country and levy tariff including clearance procedures such as documentation and inspection, method of determination of goods clarification, and method of assigning its value as the base for an Advalorem tariff.

3.2. Objectives of the Customs Services Department

Activity 3.2.

Do you think it is important for Rwanda to have a customs services department? Give reasons for your response.

The primary function of customs services department is to assess, collect and account for import duties and taxes due on imports. Apart from its fiscal responsibilities, customs services department is responsible for the following:

- a. Enforcement of customs legislation and other relevant laws;
- b. Facilitation of legitimate trade;
- c. Protection of society from illegal entry and exit of prohibited goods;
- d. Compilation of trade statistics for economic planning
- e. Take all actions necessary to identify and combat evasion of duties and to combat fraud in its many forms;
- f. Ensure efficiency and effectiveness of the customs services department through enhanced management controls, training, increased accountability and the expansion of computerization.

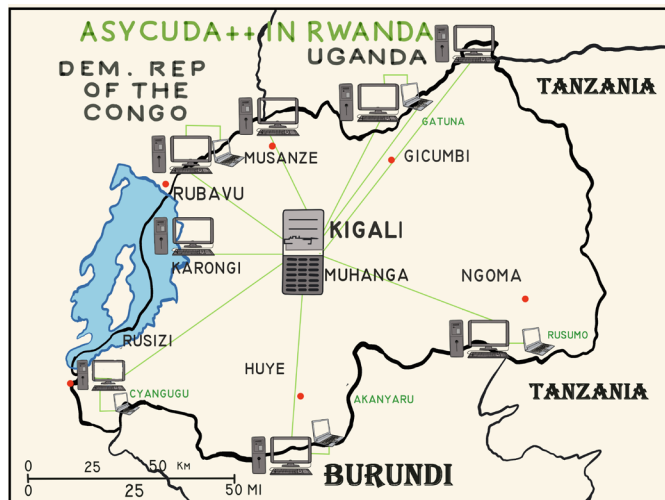
Application Activity 3.2

Discuss the objectives of customs service department

3.3. Customs Offices in Rwanda

Activity 3.3.

Based on your previous knowledge on customs and taxation in Rwanda and referring to the map below, answer the following questions;



Border posts in Rwanda –RRA

Questions;

- Mention the main customs offices in Rwanda located on the map above?
- Mention any other customs offices in Rwanda you know that are not mentioned above.
- Why do think there are many customs offices in Rwanda?

Customs Offices

The history of taxes in Rwanda indicates that tax legislation was inherited from colonial regimes. During the Second Republic, the administration and accountability of taxes in Rwanda was initially under the Ministry of Finance and Economic Planning. This was later on vested into Rwanda Revenue Authority (RRA) that was established by law N^o 15/15 of 8th November 1997.

The authority was established by the Government to restore, to improve its resource mobilization capacity and strengthen the main economic institutions of the country while providing the public with better quality and courteous services, In bid to mobilize more resources, the authority is therefore required to assist taxpayer in understanding and meeting their tax obligation.

3.4 Types of customs declaration and goods that may be exported and imported in Rwanda

Activity 3.4.

Basing on your knowledge acquired in previous classes, conduct research from the library /internet and answer the following questions;

1. Explain the term export customs declaration?
2. Briefly explain on the following different types of customs declaration;
 - i. Export.
 - ii. Import.
 - iii. Temporary importation.
 - iv. Warehouse.
 - v. Transit.

3.4.1 Export customs declaration

This is an official document declaring designated goods or service produced in one country to another which is called C17 form. Export of goods often requires involvement of customs authorities. An export's counterpart is an importer.

Goods that may be exported in Rwanda

Activity 3.4

1. What commodities may be exported and imported to and from Rwanda?
2. Explain the process of exporting and importing goods through customs in Rwanda?

Export Procedures

Goods for exportation other than goods to which the provisions of regulations 132, 133, 134 and 135 apply shall be entered using form C17 Form.

- **Policy statement: The Department shall endeavour to facilitate the** exportation of goods from Rwanda subject to such terms and relevant authorities in respect of goods being exported may lay down conditions as; Goods may only be exported or accepted for carriage for export after such declaration or other acceptable documentation has been delivered to customs by the exporter or agent, and duly processed.

- **Prohibitions and Restrictions of exports:** The goods specified in Part A of the Third Schedule are prohibited goods and the exportation of the goods is prohibited (Section 70 (1)) of the East African Community (EAC), Capital Market Authority (CMA). The goods specified in Part B of the Third Schedule are restricted goods and the exportation of the goods, save in accordance with any conditions regulating their exportation, is prohibited ((Section 70 (2)) of the EAC, CMA. Customs Officers must therefore ensure that regulations in force for the control of restrictions and prohibitions of exports of any particular goods are observed.
- **Required Customs Procedure Codes.**
 - a. **Goods for Commercial Use:** Goods for commercial use intended for export must be entered on Customs declaration. The Customs procedure code to be entered will depend on the nature of the goods to be exported as per Customs Procedure Codes.
 - b. **Travellers Samples and Temporary Exportations:** Where goods are being exported as samples or being exported for purposes of repair or replacement due to faulty manufacture, a duly completed declaration must be presented to Customs. Failure to do so may result into full duty being collected on such goods upon return to Rwanda.
- **Re-exportation of Goods**

Prohibited and restricted exports generally: The office charged with the responsibility of monitoring exports should scrutinize supporting documents such as Invoice, Consignment Notes, Packing List, Certificate of Origin and Certificate of Quality. Once satisfied with the way information has been entered and that the goods are not being exported contrary to export control regulations, the declaration should then be assessed, payment of processing fees and any other fees processed in ASYCUDA++ system followed by issuance of receipt and release order to the clearing agent.

3.4.2 Import customs declaration

Is a government document declaring designated goods or service produced to be moved or sold into the country from other countries. In order to facilitate trade, RRA customs services department adopted some special regimes.

Importers Procedures: In order to facilitate trade, RRA Customs Services Department has adopted some special regimes. This includes, Direct Delivery, Clearance on Truck, and Quick Release Regime offloads and Re-load of goods.

Quick Release (Q.R): There are two types of Q.R special regimes; namely:

a.Quick Release with Deposit. This is where goods can be granted quick release after payment of the deposit, such goods include:

- Perishable goods.
- Factory machinery spare parts or other factory material that may stop the functioning of the factory in case of shortage.
- Goods with doubtful origin in case investigations are being conducted on the certificate of origin
- Fragile goods that can be damaged when offloaded e.g. glasses.
- Goods that are not off loaded in Kigali due to Contracts between the importer and the transporter e.g. Malt for BRALIRWA offloaded at GISENYI.

Procedure for Quick Release with Deposit

- Clearing agent should fill the prescribed application form clearly specifying reasons for request of this special regime.
- The application request should be addressed to the Commissioner for Customs and Excise.
- The clearing agent submits the approved form to the special regime desk for processing.
- If the application is approved, the Clearing agent prepares a provisional declaration and submits a copy to Special Regime Team office to calculate the correct amount to be deposited.
- After payment of the deposit, the Head of Special Regime Team allocates special regime officer to accompany the consignment and conduct physical examination at the importer's premises.

b.Quick Release without Deposit

This is where the goods are granted Q.R special regime without payment of the deposit. These goods include the following:

- Goods exempted from payment of duties and taxes.
- Goods that belong to the Government of Rwanda.
- Bank coins and notes.

Procedure for Quick Release without Deposit

- The Clearing agent fills the prescribed application form clearly specifying reasons for request of this special regime.
- This application should be addressed to the Head of Central Operations Division.

- If the application is approved, the Clearing agent prepares a provisional declaration and submits a copy to Special Regime Team office.
- The Head of Special Regime Team allocates special regime officer to accompany the consignment and conduct physical examination at the importer's premises.

Clearance of goods on truck ("Distinguished Service Cross D.S.C")

Goods, which can be granted this regime, fall into:

- Identical goods that can be easily identified and verified when loaded on the trucks e.g. sugar, rice, goods that are not allowed in the public warehouse due to their nature e.g. Cement, Salt
- Heavy and bulky items that can be easily identified and examined when loaded on the trucks e.g. Machines, rolls for making iron sheets...

Procedure for Clearing of goods on truck

- The clearing agent fills a prescribed form applying for "D.S.C" special regime. This application form, accompanied by the manifest is submitted to cargo control office.
- Cargo controller or warehouse team leader (depending on where the truck is parked) verifies the goods and establishes whether "D.S.C" regime should be granted or not, based on the nature of the goods. Submits a detailed report to the commissioner for customs & excise
- The commissioner's decision is returned to the cargo controller who notes the granted regime. The clearing agent prepares the declaration, which is submitted to the cargo controller for verification of goods and taxes and duties due. When verification is done, the agent pays taxes and duties and then goods are released.

3.4.3. Temporary importation.

Is the import of goods into another country or territory for a limited period of time; such goods are generally not subject to tariffs or similar fees, though they must leave the country within a certain period of time.

Temporary importation means that goods may be used in the country without payment of duty or VAT under certain conditions and re-exported afterwards in the same state as they were in at import.

Conditions that apply

- Temporary importation regime granted to International Organizations governed by a specific convention ratified by the Republic of Rwanda;
- Temporary importation regime granted to Institutions or persons not governed by any specific Convention with the Republic of Rwanda;

Required documents

- Arrival notice where applicable;
- Bill of lading or Airway Bill;
- Original invoices;
- Packing list of the imported goods;
- A letter of guarantee to cover the duty and taxes on the goods signed by the organization and the line Ministry; the convention ratified by Republic of Rwanda and any other document that may be required by the Customs.

Note: With exceptions to goods imported under specific conventions, goods under the temporary admission procedure with partial relief shall be subject to payment of duties and taxes, upon expiration of six (6) months within the Customs territory.

The following supplies are exempted from Value Added Tax;

- 1. Water supply services.** The supply of main water and sewerage services made for non-profit motive, excluding sewerage pump out services.
- 2. Health supplies.**
 - The supply of health and medical services.
 - Articles designed for use by the disabled.
 - The supply or importation by eligible persons, of equipment and drugs to hospitals and health centres.
 - Supply or importation of drugs and medical equipment made by persons recognized by Rwandan laws, for medical use, by patients and disabled persons.
- 3. Educational services.**
 - Educational services provided to pre-primary, primary or secondary students.
 - Educational services provided by social organizations, to students and other youths, meant for promoting the social, physical, educational or spiritual development of the members otherwise than for profit.
 - Educational services provided to vocational and to other tertiary institutions.
 - Educational materials supplied directly to learning institutions.
 - The eligible bodies for this exemption shall be those recognized by the laws of Rwanda as public institutions, not for profit social organizations and any

other form of voluntary or charitable institution.

- Books, newspapers, journals, cassettes and diskettes used as educational materials.

4. Transport Services.

- Transportation of persons by road in a bus or coach licensed under the roads and road traffic law and having a seating capacity for fourteen or more adult persons.
- Transportation of persons by air or any scheduled flight.
- Transportation by railway.
- Transportation of persons or vehicles by boat.

5. Transfer of property.

- The sale or lease of an interest in land.
- Sale or transfer of a building or part of a building, flat or tenement meant for residential purposes.
- The renting of, or other grant of the right to use, accommodation in a building used - predominantly as a place of residence of any person and his family, if the period of accommodation for a continuous term exceeds 90 days.

3.4.4 Warehousing.

A warehouse is a commercial building for storage of goods. Warehouses are used by manufacturers, importer, exporter, wholesalers, transport businesses, customs, etc. Warehouses allow transport optimization along the supply chain, and allow companies to work with an optimal inventory (economic order quantity) regarding service quality.

Types of warehouses

- 1. Private Bonded Warehouses:** A Bonded warehouse is a building, installation or area approved by and under the supervision of customs where goods may be stored under the conditions laid down by the provisions in force. Private operators are allowed to operate bonded warehouse. An aspirant has to apply to the Commissioner of Customs clearly indicating the nature of the warehouse you want to operate.

Here are a few things you need to know about private bonded warehouse

- The Customs need to approve all goods that are to be warehoused
- The license to operate a bonded warehouse is valid for one-year renewable.
- Companies or individuals applying for the first time to operate a bonded

warehouse are not limited to a certain period of time to accomplish all the formalities but those requesting for the contract renewal are allowed only one-month period.

2. Public bonded Warehouses

The Public bonded warehouses are buildings and equipment therein, or area for deposition of warehoused goods by any person and that are approved for that purpose by customs. The manifest cargo/control system is designed to ensure that all goods that arrive under the transit system at GIKONDO parking lot are correctly accounted for.

The control of goods in all public warehouses is the responsibility of the Customs Department of the Rwanda Revenue Authority (RRA). The physical handling of cargo is the responsibility of cargo handling companies like MAGERWA, KOBIL, and TOTAL. These companies have their own stock record systems.

Unwarehousable Goods

The following are examples of goods which are unwarehousable:

- Salt;
- Cement;
- Match Box;
- Acids for trade and business;
- Ammunition for trade and business;
- Any other goods which the Commissioner may gazette; Etc.
- Chalk;
- Fireworks;
- Dried fish;
- Perishable goods;
- Combustible or inflammable goods except petroleum products for storage in approved places; Explosives;

Requirements in order to qualify to operate a Bonded warehouse

• Licensing Requirements

As a necessary condition you must fulfill the following conditions in order to qualify to operate a Bonded warehouse:

- i. You must be a Rwandan citizen or a permanent resident or an investor registered under Rwanda Development Board (RDB);
- ii. You need to possess a trade license issued in Rwanda;
- iii. You need to possess a Tax Clearance Certificate

For the Commissioner of Customs to consider your request you need to;

- Complete an application form issued by Customs;
- Submit a plan of the premises as required by Customs;
- Meet the standards set by customs based on the nature of goods and activities of the bonded warehouse;
- Execute a bond equal to duties and taxes due on goods to be warehoused (Bank/ Insurance guarantee);
- Pay a license fee during one-year period.

Minimum Requirements for the Warehouses

To qualify for a License to operate a bonded warehouse you will need to ensure that the following minimum requirements are available at bonded warehouse:

- Fence-structured premises should be at least 2 meters high;
- The premises should have concrete or cemented ground/floor;
- Should provide a suitable office with all facilities for Customs and other stakeholders;
- Should have a computerized system in place capable of generating arrival notice of goods and stock record of warehoused goods;
- Should have systematic procedure of entry and exit of goods in the warehouse;
- Possession of electronic weighing machines approved and certified by competent authority; possession of elevating equipment's, machines and materials where applicable; Stack and arrange the goods in the bonded warehouse in a proper way in order to ease verification by the customs officers; Provide lock and key for securing the doors of the bonded warehouse;
- Provide all necessary labor and materials needed for treatment, sorting, packing, examining, weighing and storing the goods; Ensure the insurance of warehoused goods;
- Parking space for vehicles; Safety equipment for the security of workers and warehoused goods; lights for security purposes;
- The premises should have a single entrance;
- In case the bonded warehouse is under rental contract, the contract should at least be equivalent to the bond agreement period of one year.

Suspension and Cancellation of a License

The Commissioner General of Customs reserves the right to suspend or cancel a license in case you fail to comply with the customs law and subsidiary legislations that regulate operations of bonded warehouse;

- Failure to comply with the minimum requirements for setting up a warehouse.
- Act fraudulently in dealing with customs and clients or if there is no longer a need for a bonded warehouse in the area in which it is located;

Note. Where the bonded warehouse is suspended, customs may lock and seal the bonded warehouse during the period of suspension.

3.4.5 Customs transit

Transit refers to the movement of goods entering or leaving the country's borders under Customs control.

- **Transit Documentation:** Documentation is done by a clearing agency on behalf of the importer/exporter. Clearing Agencies present transit declarations (IM 8) to Customs through the Bureau or Remote DTI. Agencies must be careful while filling the documentation form, especially on section indicating the correct country of destination and the exit office. Here is an example: if the country of destination is Democratic Republic of Congo then the possible codes of offices of destination are 31GC, 41MU, 41CY, 41BU.
- Registered transit declarations with supporting documents are presented to Customs through the Acceptance desk and follow the approved Declaration Processing Path.
- **Customs Operations:** Customs examine the documentation to establish the correct bond amount to be debited and generate a Transit document (T1) from the declaration lodged by the Clearing Agent if it meets all the requirements during entry examination. The transit document (T1) contains summarized information from the IM8 declaration and constitutes the actual transit transaction generated.
- At its generation, all appropriate blank fields are filled in and the T1 is then registered and a T1 registration number is generated with serial D. At this stage, Customs automatically debit the Transit bond account of the clearing agency at registration of the Transit document (T1).
- **Transit Guarantees:** All types of transit are designed to ensure that any charges due on goods are secured. This is achieved through a system of guarantees and the key personnel in this regard are the principal and the guarantor. A guarantor is an individual or firm or any other body that is eligible to contract a legal third person (normally a bank or an Insurance company). He/she is responsible for payment of duties and other charges to which the principal has become liable as a result of any irregularity concerning the transit declaration.
- The principle is responsible of goods from point of entry to destination office. In transit the principle has to provide a guarantee in order to ensure payment of any customs due or charges, which may be incurred in respect of the goods.

- **Change of destination and Re-routing of T1:** This is the customs procedure under which goods in transit change the office of destination. It is granted upon application on the customs approved form by the importer or his clearing agent. If the reason is found appropriate, the office of destination is rerouted electronically.
- In cases where a truck uses the wrong office of exit/clearance, the T1 can be re-routed to the correct destination after all the necessary formalities have been done.
- **The re-routing of T1's:** It is done only for T1 that has not yet been validated at the initial office of destination.
- **Trans-shipment:** This is the customs procedure under which goods are transferred under customs supervision from the importing means of transport (vehicle) to another means of transport.
- Goods may not be unloaded or transshipped from their means of transport except with written authorization from customs and in the presence of Customs officers. Unloading or transshipment must take place according to the conditions determined by Customs and in accordance with the legal provisions in force.
- On completion of Trans-shipment exercise, the new seal is endorsed on documents and put on the truck by customs.

Application Activity 3.4

1. Describe the steps process related to customs procedures
2. Explain the documents fulfilled in temporary importation regime granted to International Organizations governed by a specific convention ratified by the Republic of Rwanda
3. Explain the differences between warehouse and warehousing customs
4. Give the documents used for goods which are in transit
5. Explain the term trans-shipment

3.5. Customs exempt goods

Activity 3.5

In Rwanda there are goods and services that are not charged customs duties.

1. Mention some of the goods and services you think should not be charged duties in Rwanda
2. Why do you think some goods and services should not be charged duties in Rwanda?

The exemptions on goods and services

The following categorizes exempt goods and services which includes;

- Fish, fresh vegetables, fertilizers used in agriculture health service and supplies eg drugs, medicine and materials for the disabled.
- Education services and supply of education materials to learning institutions, books, journals, cassettes, discs
- Machinery for industries;
- Raw materials for industries;
- Building and finishing materials imported by an investor fulfilling the requirements determined by an order of the Minister in charge of finance;
- Refrigerating vehicles, tourist vehicles, ambulances, fire-extinguishing vehicles, hearses;
- Vehicles and movable property and equipment for foreign and Rwanda's
- Diaspora investors and their expatriate staff;
- Equipment for tourism and hotel industry and relaxation places appearing on the list determined by an order of the Minister in charge of finance;
- Goods and services meant for free economic zone;
- Medical equipment, medicinal products, agricultural, livestock, fishing equipment and agricultural inputs;
- Equipment in education field;
- Equipment's information, communication and technology (VAT Law) etc.

The following goods and services are intended for persons of a special category:

- Goods and services intended for diplomats accredited to Rwanda that are used in their missions;
- Goods and services intended for international organizations that have signed agreements with the Government of Rwanda;

- Goods and services donated to local non- governmental organizations, which have been acquired through funding by countries or international organizations that have signed agreements with the Government of Rwanda and for being used for agreed upon purposes;
- Goods and services intended for projects funded by partners that have signed agreements with the Government of Rwanda.”

The following goods and services shall be exempted from value added tax:

- Transportation services by licensed persons:
- Transportation of persons by road in vehicles which have a seating capacity of fourteen (14) persons or more;
- Transportation of persons by air;
- Transportation of persons or goods by boat;
- Transportation of goods by road;
- Lending, lease and sale :
- Sale or lease of land;
- Sale of a whole or part of a building for Residential use ; etc.

Application Activity 3.5

Explain the term “customs exempt goods”

1. What do you understand by customs exemption?
2. Name any five customs exempted goods in Rwanda

3.6 Partners in the process of customs declaration

Activity 3.6

From your prior knowledge, what are the partners and shareholders in customs declaration?

The following are the main partners involved in customs declaration:

- International Civil Aviation Organization,
- International Maritime Organization
- Universal Postal Union,
- United Nations Conference for Trade and Development,

- The United Nations Educational, Scientific and Cultural Organization,
- United Nations / Economic Commission for Europe,

Inter Governmental Organizations

- Organization for Economic Co-operation and Development (OECD),
- Organization for Security and Co-operation in Europe (OSCE),
- The World Bank, International Trade Center (ITC)

International Cooperation

- The European Union (EU),
- European Free Trade Association (EFTA),
- International Standards Organization (ISO),
- International Air Transport Association (IATA),
- Global Facilitation Partnership for Transportation and Trade (GFP),
- The International Road Union (IRU).
- The Bureau International des Containers et du Transport Intermodal (B.I.C.), Global Express

The following are main Stakeholders involved in customs declaration:

- **Customs administration:** It manages all the operations in collaboration with the customs agent in charge.
- **Warehouse:** refers to a designed space to receive and records goods
- **Customs warehouse:** It is a warehouse where goods are stored waiting to be cleared. e.g: MAGERWA
- **Rwanda Standards Board RSB:** It verifies and accredits the conformity of the quality goods and services following the international norms/ standards
- **Transport Companies:** Include national and international transport companies
- **Customs Agent** also called **declarant:** refers to an agent who is in charge of customs declaration for importer's account who pays him/her agreed fees.
- **Rwanda National Police:** It is a unit of national police in charge of protecting rights of customs administration. It sues customs and fiscal infractions. e.g. Rwanda Protective Department

Application Activity 3.6

Who are the customs partners regarding customs procedures?

3.7. Documents used in customs declaration

Activity 3.7

1. Explain what do you understand by documents as used in customs declaration?
2. State at least three types of customs declaration documents you know in Export and Import of goods.

Documents in customs Declaration: they are used to declare what goods have been brought on to the nation, as some may have limit or customs excise tax or are banned from entry. These may include:

1. **Transaction Invoices:** is a non-negotiable commercial document issued by a seller to a buyer.
2. **Transport documents:** are documents which show information about cargo that is being transported. Transport documents lie at the heart of international trade transactions. These documents are issued by shipping line, airline, international trucking companies, railroad, freight forwarder all logistics company.

There is a type of transport document for each model of transport:

3. **CMR:** the CMR (Convention relative au Contrat de transport international de Marchandise par Route) transport document is an international consignment note used by drivers, operators and forwarders that govern the responsibility and liabilities of the parties to a contract for the carriage of goods by road internationally.
4. **Air waybill:** is a transport document used for air freight. An air waybill (AWB) is a non-negotiable transport document covering transport of cargo from airport. It indicates only acceptance of goods for carriage. This document is prepared by IATA Transport Agent or the airline itself and is addressed to the exporter, the airline and the importer.
5. **Bill of Lading:** is a transport document for sea freight. Bill of lading B/L is used by the agent of a carrier to shipper, signed by the captain, agent, or owner of vessel.
6. **Import license:** An import license is a document issued by a national government authorizing the importation of certain goods into its territory.
7. **Packing list:** is a more detailed version of the commercial invoice but without price information.

- 8. Certificate of origin:** show that goods in particular shipment have been wholly obtained, produced, manufactured or processed in a particular country.
- 9. Certificate of analysis:** is a document which confirms that specific goods have undergone specified testing with specified results and adhere to product specification and standard of production.
- 10. Goods arrival notice:** is a document sent by a carrier or agent to the consignee to inform about the arrival of the shipment and number of packages, description of goods, the weight, and collection charges (if any)
- 11. Assessment Notice:** is a document issued by a taxing authority specifying the assessed value of a property.
- 12. Certificate of Fumigation:** is the proof that wooden packing materials issued in international sea freight shipping e.g wooden pallets and crates, wood, wool etc. Have been fumigated or sterilized prior the international shipment
- 13. Goods invoice:** is a document sent by a seller to a buyer. It specifies the amount and cost of goods that has been provided by a seller.
- 14. Payment receipt:** is a simple document that shows that payment was received for in exchange for goods or services.
- 15. Phytosanitary certificate:** is a certificate stating that a specific crop was inspected a predetermined number of times and a specified disease was not found or a certificate based on an area surveillance stating that a specific disease, as far as known, does not occur in the area of production.
- 16. Warehouse handling fees invoice:** is a document given by a warehouseman for items received for storage in his or her warehouse which services has evidence of title to the stored goods.
- 17. Import Declaration Form (IDF). (from the Importer);** Importer's Tax Identification Number (TIN) and Value Added Tax (VAT) numbers; Duties and Taxes Exemption Certificates.

Application Activity 3.7

Describe different documents involved in customs declaration.

3.8 Declaration forms in customs

Application Activity 3.8

From your prior knowledge answer the following questions:

1. Explain the meaning declaration form?
2. Mention the different types of the declaration forms you know

3.8.1 Declaration form

Is a form that is required by most nation countries when a citizen or a visitor or goods are entering that nation's borders, called import. The purpose of the import form is to declare what goods are being brought into the nation, as some countries may have import quota (limits), customs excise taxes, or bans from entry on some goods or quantities of goods. The form is also used to calculate any applicable tariffs or duties

3.8.2 Types of declaration forms

There are two forms of declaration:

- 1. Customs arrival card or a lading card** when traveling with your goods. The traveler or family members are required to complete the form, sign it, and then submit it to the custome and/or border protection official before arriving into the nation. Most nations require declaration of alcoholic drinks, tobacco product, animals, fresh food, plant material, seeds, soils, meats etc
- 2. Commercial invoice or a Pro-forma invoice, or an import declaration form, or a re-export declaration.** If not traveling with the goods, which are shipped, one must use other customs declaration forms. Incoterm on these forms define the shipment and customs declaration. Also, the forms normally require the traveler to note the **country of origin** of the goods and may sometimes require a certificate of origin. These forms can also be used when hand carrying goods across a border. Errors on the forms can cause delays or confiscation of the goods. For that reason, importers often use a customs brokerage to clear goods through customs.

Application Activity 3.8

Case study

An International trade enterprise has imported the following products outside Rwanda:

Oil from Tanzania, Sugar from Kenya, cement from Zambia; upon arrival at the customs, he was told that the importer should pay customs duties in regard to importation procedures.

In line with the case study above, describe the different documents which can be used for the declaration of goods at the customs.

3.9 Verification and payment of customs duties

Activity 3.9

- Based on your research in the library/internet what do you think about the document to be submitted to RRA in clearing and paying for the product in the state warehousing?

The importer must submit the necessary documents at the nearest Customs branch office; alternatively, the importer may appoint a clearing agent to do the clearance on their behalf. Clearances can also be done electronically. Customs clearance procedures can be found at the E-Regulations Rwanda website.

The importer must also be registered as importer and exporter. Before the payment of customs duties, there is the declaration of commodities which has the following process:

- **Clearing through customs:** Clearing through customs is the implementation of necessary formalities so that commodities can be consumed, exported or put under other customs regulations.
- **Clearance of goods on truck (“D.S.C”):** Goods, which can be granted this regime, fall into:
 - i. Identical goods that can be easily identified and verified when loaded on the trucks e.g. Sugar, Rice etc.
 - ii. Goods that are not allowed in the Public Warehouse due to their nature e.g. Cement, Salt etc.
 - iii. Heavy and bulky items that can be easily identified and examined when loaded on the trucks e.g. Machines, rolls for making iron sheets etc

Procedure

- i. The clearing agent fills a prescribed form applying for “D.S.C” special regime. This application form, accompanied by the manifest is submitted to Cargo Control office.
- ii. Cargo Controller or Warehouse Team Leader (depending on where the truck is parked) verifies the goods and establishes whether “D.S.C” regime should be granted or not, based on the nature of the goods.
- iii. Submits a detailed report to the commissioner for Customs & Excise
- iv. The Commissioner’s decision is returned to the Cargo Controller who notes the granted regime.
- v. The clearing agent prepares the declaration, which is submitted to the

- cargo controller for verification of goods and taxes and duties due.
- vi. When verification is done, the agent pays taxes and duties and then goods are released.

The documents that are required in Clearance of goods on truck examination are the following:

- i. Arrival notice of a commodity;
- ii. A commercial invoice;
- iii. Transport invoice;
- iv. Certificate of origin;
- v. Certificate of quality;
- vi. Waybill.
- vii. Certificate of inspection for a car;
- viii. Identification of the importer.

After the examination of all these documents, the customs officer makes his declaration testifying that the commodity can be consumed and affixes a validation stamp.

Verification of a stored commodity

This is about physical verification of a commodity put in a warehouse, its location, etc.

It is the arrival notice that guides the controller in his/her work; In this step, the declaring officer replaces the importer.

The purpose of the verification is to confirm not only the existence of the commodity, but also its value and the respect of the customs legislation by the importer. At the end of the verification, the controller signs on the verified documents.

This verification is carried out by technicians who verify the conformity of data at their disposal and the customs law. These are the people who confirm the exact value of a commodity, its state and tax together with customs duties to be paid.

Payment of the invoice

In reality, this invoice is settled at the beginning of clearing through customs operations. In this step, the issue is to confirm the payment of the bill and the making of the bill. This allows a delivery of the commodity to its owner.

Application Activity 3.9

1. Explain clearly the steps/process in clearing and paying customs duties
2. Mention the documents that are required in verification for customs duties

3.10 Administrative practices for taking goods out of customs

When the customs operations are finished and the payment of fees is completely done, the customs give the authorization of withdrawing goods.

It is then the duty of the owner of the warehouse to proceed for operations of balancing the documents and giving the authorization of goods to be loaded in a vehicle supplied with the entering bill and formal withdrawal (Exit form).

There exist also related services like the Rwanda Board of Standards and the customs police that carry out the inspection of documents to confirm the withdrawal authorization.

Skills Lab Activity 3.12

Read the following scenario and answer questions that follow:

Umutoni is a major trader who exports her products to Uganda; she has to clear her products at Katuna border with customs office.

- a. Describe some of the departments she has to deal with during customs declaration.
- b. Describe some of the documents she is likely to use during declaration.

End of Unit 3 Assessment:

1. Identify a business project you can operate after school. For this project identified, explain how the business will contribute to promote export of the products to the foreign countries. List and explain what you can do to encourage entrepreneurs to go for delivering their products out of Rwanda.
2. Identify some of the measures to help people develop a positive attitude towards customs declaration.
3. Identify some challenges encountered at customs department



UNIT 4
FINANCIAL MARKETS

Unit 4: FINANCIAL MARKETS



Key Unit Competency: To be able to evaluate the role of financial markets

Introduction

The financial market plays the key role in the economy by stimulating economic growth, influencing economic performance of the actors, and affecting economic welfare. A financial market brings buyers and sellers together to trade in financial assets such as stocks, bonds, commodities, derivatives and currencies. The purpose of a financial market is to set prices for global trade, raise capital, and transfer liquidity and risk. Some examples of financial markets include the stock market, the bond market and the real estate market. Financial markets can also be broken down into capital markets, money markets, primary markets and secondary markets.

Financial markets and capital are often used interchangeably; although these definitions of the terms overlap somewhat! Whilst often or not those two terms are used synonymously, in reality a distinction also exists. «Financial Markets» pretty well provides an umbrella term underneath which other, more specialised markets sit.

Basically, capital market is a part of financial market. Any overlap is generally sorted out by local definitions made and hopefully enforced by the local regulator. For most practical purposes the physical markets have evolved to specialise in certain products (or 'financial instruments') to avoid confusion.

This unit aims at helping to explore more about financial markets operation as one of the strategies of linking investors and lenders. It will explain more on capital market instruments and how one is protected in capital markets, evaluates the role of financial markets in general and in Rwanda. The unit highlights the following:

- Whether Rwanda has financial markets in her financial system.
- The roles of financial market in the mobilization of domestic resources for investment.
- Discusses the challenges and constraints that impede the development of an effective domestic financial market in general and Rwanda in particular.
- How the government of Rwanda regularly issues to the public, both Treasury Bills and Treasury Bonds.

Introduction activity:

Referring to the picture and case study below answer the questions that follow ;



Figure 4.1: The home of Manirafasha and his wife Akimana

Manirafasha and his wife Akimana are modern farmers in rural area. They own different assets and have for long accumulated huge sums of money. Manirafasha's family is comprised of the father, the mother and their 2 children ; a daughter and son who are completing their secondary school studies.

Manirafasha and his wife Akimana are planning to retire from their farming activities and are also getting worried of their future when they will no longer be able to perform their farming activities in a few years to come. When their children came back from school where they also study entrepreneurship subject, they advised their parents to think how they can sustain their income in the near future and continue to meet their basic needs through investing their money into more secured investment projects.

- Referring to your own family, your community and Mr. and Mrs. Manirafasha's family, why do you think families should worry about their future financial capacities and well being ?
- What changes in terms of productivity do you observe from farmers and other workers in your community when they reach in seventies of age ?
- Referring to the above scenario, describe different alternatives investment projects that you would advise the family to invest their money in.
- Referring to the country's saving policy, where would you advise the family to invest and why ?

4.1 Meaning and functions of financial Market

Activity 4.1

Use the pictures below to answer the questions that follow 9.6



- Describe what you think the people in both pictures are doing.
- Do you find any relationship of their activities?
- What do you understand by financial market?

A financial market is a market in which people and entities trade financial securities, commodities, and other fungible items of value at low transaction costs and at prices that reflect supply and demand. Securities include stocks and bonds, and commodities include precious metals or agricultural goods.

Financial markets facilitate:

- The raising of capital (in the capital markets)
- The transfer of risk (in the derivatives markets)
- Price discovery

- Global transactions with integration of financial markets
- The transfer of liquidity (in the money markets)
- International trade (in the currency markets),

Financial Markets are used to match those who want capital to those who have it. Typically, a borrower issues a receipt to the lender promising to pay back the capital. These receipts are securities which may be freely bought or sold. In return for lending money to the borrower, the lender will expect some compensation in the form of interest or dividends. This return on investment is a necessary part of markets to ensure that funds are supplied to them.

Application Activity 4,1

- a. What do you understand by financial markets?
- b. Explain the role of financial market

4.2 Types of financial markets

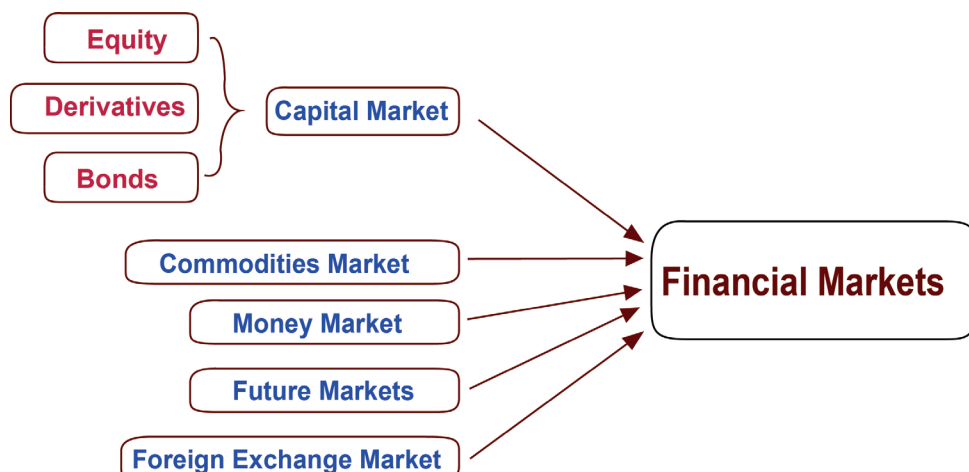


Figure 4.3: types of a financial markets

Activity 4,2

Identify different types of financial markets that you know

The types of financial market are:

- i. **Physical asset markets versus financial assets markets:** **Physical assets markets** are for physical products such as wheat, autos, real estate, computers, and machinery whereas **financial asset markets**, on the other hand, deal with stocks, bonds, notes, and mortgages. Financial markets also deal with derivative securities whose values are derived from changes in the prices of other assets eg convertible bond.
- ii. **Spot markets versus futures markets:** **Spot markets** are markets in which assets are bought or sold for “on-the-spot” delivery (literally, within a few days) whereas **futures markets** are markets in which participants agree today to buy or sell an asset at some future date.
- iii. **Money markets versus capital markets:** **Money markets** are the markets for short-term, highly liquid debt securities whereas **capital markets** are the markets for intermediate or long-term debt and corporate stocks.
- iv. **Primary markets versus secondary markets:** **Primary markets** are the markets in which corporations raise new capital whereas **secondary markets** are markets in which existing, already outstanding securities are traded among investors.

Application Activity 4,2

Kamana is a senior 4 student who inherited a very big house in Kacyiru Sector and 50,000,000 Frw from his late grandmother with whom he was living. He is planning to invest his money in a financial market and he is seeking your advice on an alternative solution. Help him identify the ideal financial market he will have to join and explain the reason you would advise him to join that market.

4.3 Capital market

Activity 4,3

By use of the photo below answer the questions that follow Activity 9.6

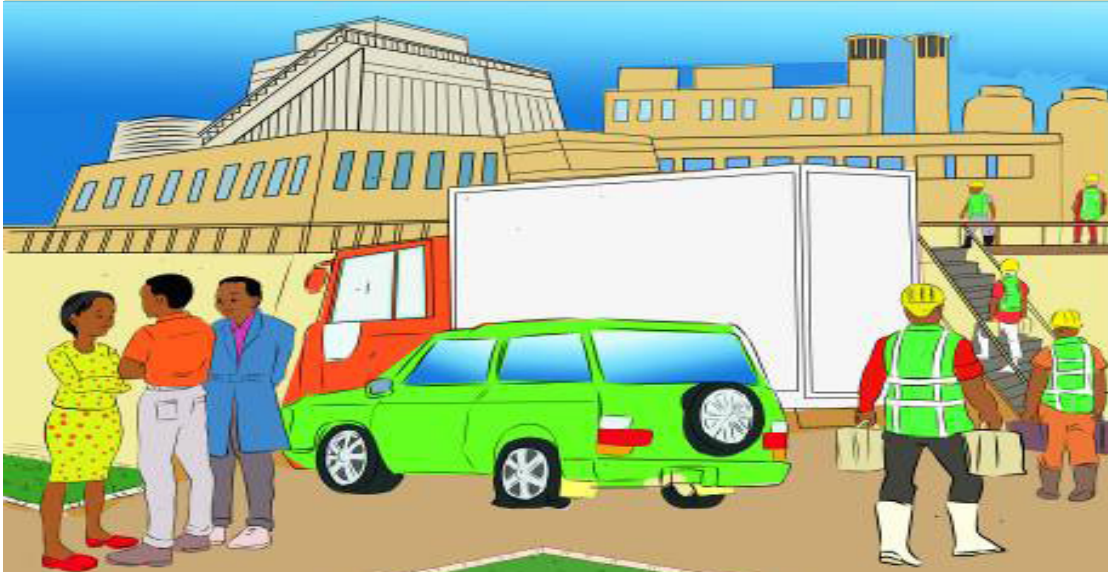


Figure 4.4: Kigali Friends Supply Ltd's industry

It was back in 2008 when Kigali Friends Supply Ltd were facing economic crisis as it was unable to meet their growing need. Kigali Friends Supply Ltd Company was a well established company with many employees and different branches across the country and it was known by many people as it had built good reputation for better service and quality products. Every person would appreciate to work with the company. None would understand the reason behind the difficult time the company was facing.

The truth was that the company invested much money in expansion to meet the growing market need using all its reserves and money borrowed from the bank expecting that the sales trend of the time will remain constant. It was a surprise for the company to learn that the world was facing a serious economic crisis which the company didn't envision and the market demand for the company's products and services started declining increasingly. This time was the difficult time for the company as it was unable to meet its contract obligations due to shortage in working capital. Employees were worried of the future; suppliers also. There was pressure from the bank to repay the loan

Questions;

- a. Explain the source of money used by the company to expand its business.
- b. Identify the problems faced by the company.
- c. Where else do you think the company could have borrowed money to finance its investment that would have saved it from the world economic crisis?
- d. What do you understand by capital market? What are its functions?

4.3.1 Meaning of capital market

A capital market is a place in which financial securities are traded by individuals and institutions/organizations. The capital market is further divided into primary and secondary market. A capital market is a place in which financial securities are traded by individuals and institutions/organizations. It can be a primary market where initial public offers (IPOs) take place or a secondary market where IPOs are traded subsequently.

Primary market: The primary market is the market for new issuers or where new capital is raised. It is the market where securities are sold for the first time. At the primary market sale proceeds of the securities offered flow directly from the buyers or investors to the issuers of the securities.

Secondary market: The secondary market is the market for trading securities that have been sold or issued in the primary market and already in the hands of the public. Once securities have been successfully issued in the primary market, they are subsequently traded in the secondary market.

4.3.2 Functions of Capital Market

Capital market is very important as it plays a significant role in the national economy. A developed, dynamic and vibrant capital market can immensely contribute for speedy economic growth and development.

Let us get acquainted with the important functions and role of the capital market.

- i. Mobilization of Savings:* Capital market is an important source for mobilizing idle savings from the economy. It mobilizes funds from people for further investments in the productive channels of an economy. In that sense it activates the ideal monetary resources and puts them in proper investments.

- ii. Capital Formation:** Capital market helps in capital formation. Capital formation is net addition to the existing stock of capital in the economy. Through mobilization of ideal resources, it generates savings; the mobilized savings are made available to various segments such as agriculture, industry, etc. This helps in increasing capital formation.
- iii. Provision of Investment Avenue:** Capital market raises resources for longer periods of time. Thus it provides an investment avenue for people who wish to invest resources for a long period of time. It provides suitable interest rate returns also to investors. Instruments such as bonds, equities, units of mutual funds, insurance policies, etc. definitely provides diverse investment avenue for the public.
- iv. Speed up Economic Growth and Development:** Capital market enhances production and productivity in the national economy. As it makes funds available for long period of time, the financial requirements of business houses are met by the capital market. It helps in research and development. This helps in, increasing production and productivity in economy by generation of employment and development of infrastructure.
- v. Proper Regulation of Funds:** Capital markets not only helps in fund mobilization, but it also helps in proper allocation of these resources. It can have regulation over the resources so that it can direct funds in a qualitative manner.
- vi. Service Provision:** As an important financial set up capital market provides various types of services. It includes long term and medium term loans to industry, underwriting services, consultancy services, export finance, etc. These services help the manufacturing sector in a large spectrum.
- vii. Continuous Availability of Funds:** Capital market is place where the investment avenue is continuously available for long term investment. This is a liquid market as it makes fund available on continues basis. Both buyers and seller can easily buy and sell securities as they are continuously available. Basically capital market transactions are related to the stock exchanges. Thus marketability in the capital market becomes easy.

Application Activity 4,3

Government of Rwanda is supporting capital market operations.. With the help of examples; explain the benefits of investing through capital market in Rwanda.

Activity 4,4

Observe the picture below, and answer the question that follows;



Figure 4.5: People queuing to buy shares at Initial Public Offer (IPO)

Blairwa and Bank of Kigali- BK are two among many companies that started to trade their shares. On Initial Public Offer (IPO) of each company, Uwimana and her husband Kalisa bought shares in both companies worth 10,000,000 Frw. Now the family is in need of paying schools fees for their child who is studying at university of Rwanda. Explain the procedure to get back their money?

4.4 Stock exchange

4.4.1 Meaning of stock exchange

The word “Stock Exchange” is made from two words ‘Stock’ and “Exchange”. Stock means part or fraction of the capital of a company, and Exchange means a transferring of the ownership; representing a market for purchasing and selling. Thus, we can describe the stock exchange as a market or a place where different types of securities are bought and sold. Securities traded on a stock exchange include shares issued by companies, unit trusts, derivatives, pooled investment products and bonds. As the stock exchange deals in all types of securities, it is known as ‘securities market’ or ‘securities exchange’ also.

A stock exchange is a secondary market of securities because the trading happens only for the securities that have already been issued to the public and now being

allowed to be traded on the floor of a stock exchange after getting listed with the stock exchange. The initial offering of stocks and bonds to investors is by definition done in the primary market and subsequent trading is done in the secondary market.

4.4.2 Functions of stock exchange

Stock exchange is one of the most important financial intermediaries and plays a very important role in the capital formation and economic development of the country. Given below are some important functions of stock exchanges from economic point of view:

- i. Marketability of Securities:** The stock exchange provides for easy marketability of securities as securities can be bought and sold conveniently on the floor of the stock exchange. The Stock Exchange provide companies with the facility to raise capital for expansion through selling shares to the investing public and on the other hand provides investors with a platform to trade these shares.
- ii. Price Determination and Continuity:** Since transactions take place regularly on a stock exchange there is continuity in the dealings. Supply and demand in stock markets are driven by various factors and this balance of supply and demand affects the price of stocks. These prices gets duly recorded and reported in the newspapers for the benefit of investing public. Besides, stock exchanges have defined rules and regulations to moderate price fluctuations to ensure continuity in buying and selling.
- iii. Mobilizing Surplus Savings:** Stock exchange is an integral part of the capital market of a country. When people draw their savings and invest in shares (through an IPO or the issuance of new company shares of an already listed company), this leads mobilization of funds to help companies finance their organizations. They facilitate the process by which the savings from all parts of country gets channelized as investment into industrial and commercial undertakings financing their capital requirements. This promotes business activity resulting in stronger economic growth and higher productivity levels of firms.
- iv. Barometer of the Economy:** The share prices fluctuate on stock exchanges as a result of underlying market forces. The intensity of buying and selling of securities and the corresponding rise or fall in the prices of securities reflects the investors' assessment of the economic and business conditions. Share prices tend to rise or remain stable when companies and the economy show signs of stability and growth whereas they might fall sharply at the time of an economic recession, stagnation, depression, or financial crisis. Change in security prices are known to be highly sensitive to changing economic, social and political conditions and hence act as a barometer of economic and business conditions.

- v. Mobility of Capital:** Investing in other businesses require huge capital outlay whereas investing in shares is open to both the large and small stock investors. Stock exchanges furnish an open and continuous market for small investors and their savings that are invested in securities are converted into cash for reinvestment in other securities. Thus, stock exchanges provide mobility to capital and facilitate sound investment. Savings are encouraged when people come to invest in stock exchange.
- vi. Profit Sharing and Resource Allocation:** As a result of stock market transactions, funds flow from the less profitable to more profitable enterprises. All type of stock investors whether they are individuals, professional stock investors, institutional investors earn capital gains through dividends and stock price increases. This enables them to share in the wealth of profitable businesses. Industries which have potentials of growth are able to attract the savings of people towards their ventures relatively more than those which have no such prospects. Thus, financial resources of the economy are allocated on a reasonable basis. Unprofitable and troubled businesses may result in capital losses for shareholders.
- vii. Speculation:** The stock exchanges are also fashionable places for speculation and bring equilibrium in the prices of securities which are bought and sold by speculators. In a financial context, the terms “speculation” and “investment” are actually quite inter-related because “investment” means the act of placing money in a financial vehicle with the intent of producing returns over a period of time. Speculators generally buy securities in anticipation of rise in the prices. As a result of their buying, prices do not decline as low as might have been the case without their buying and vice versa hence regulating excessive price fluctuations.
- viii. Liquidity:** This is the most important function provided by the stock exchanges. The capital investments are generally long term and if shareholder wants their investment back, in a physical scenario, it will result in winding up the company and selling its assets to discharge the money. Investors usually prefer liquidity of their investment. The stock markets facilitate and provide that assurance to investors. These are markets which facilitate buying and selling of securities assuring liquidity of investments which goes to serve the investor’s need.
- ix. Corporate Governance:** As stock exchanges facilitate ownership of companies to be help by a wide and varied scope of owners, companies generally tend to improve management standards and efficiency to satisfy the demands of these shareholders. To safeguard the interest of investors more stringent rules are imposed by public stock exchanges and the government on public corporations when compare to privately owned enterprises. Every stock exchange defined its own rules and regulations for the control of operations of the exchange. Only members are allowed to

deal in securities and make transactions. As the members have to transact their business strictly according to the rules, the investors' interests are safeguarded against dishonesty or malpractices. Traded public companies tend to have better management records than privately held companies.

Application Activity 4,4

1. What do you understand by the stock exchange?
2. Describe any four (4) functions of stock exchange.

4.5 Rwanda Capital Market Authority- CMA

4.5.1 Introduction

Capital Market Authority (CMA) is a public institution established by Law N°23 /2017 of 31/05/2017 responsible for developing and regulating the capital markets industry, commodities exchange and related contracts, collective investment schemes and warehouse receipts system. CMA was previously referred to as the Capital Market Advisory Council (CMAC) which was a council established by Prime Minister's Order of 28 March 2007 to initially guide the development of a Capital Market in Rwanda.

CMA's Vision: To be a key contributor to Rwanda becoming a competitive financial center through mobilization of long term capital.

CMA's Mission: To nurture wealth by facilitating the development of an orderly, fair, transparent and efficient capital market.

CMA's Core values: Good Governance, Knowledge, Creativity and Innovation.

4.5.2 Responsibilities of Rwanda Capital Market Authority

The Rwanda Capital Market Authority is responsible for:

- i. Implementing the Government policy on Capital Market;
- ii. Preparing draft policies on capital market;
- iii. Advising Government on policy relating to the capital market;
- iv. Promoting public awareness on the capital market and develop such market;
- v. Elaborating action plans and conducting studies in order for CMA to achieve its mission;
- vi. Formulating principles and regulations for the capital market;
- vii. Making regulations governing capital market business in accordance with the Law regulating capital market in Rwanda;

- viii. Controlling and supervising all capital market activities with a view to maintain proper code of conduct and acceptable practices on the capital market;
- ix. Registering capital market business and related instruments provided for by the Law regulating capital market in Rwanda;
- x. Issuing, suspending, and withdrawing licenses and approvals related to capital market business;
- xi. Seeking to achieve fairness, efficiency and transparency in the functioning of the capital market;
- xii. Protecting citizens and investors in capital market from unfair and unsound practices or practices involving fraud, deceit, cheating or manipulation;
- xiii. Monitoring, supervising, and take actions with regard to the compliance with this Law and regulations thereto related as well as with the Law regulating capital market in Rwanda and regulations thereto related;
- xiv. Co-operating and collaborating with other regulatory bodies in accordance with the provision of the Law regulating capital market in Rwanda;
- xv. Consulting concerned organs prior to making any decision to modify principles and regulations of the profession that may have impact on the functioning of the capital market;
- xvi. Keeping adequately and timely records of decisions made in the accomplishment of CMA mission;
- xvii. Accomplishing any other mission assigned by the Law regulating capital market in Rwanda.

4.5.3 Capital market business

In CMA act, capital market business refers to all business activities specified below:

- a. Dealing in capital market instruments;
- b. Arranging deals in capital market instruments;
- c. Safekeeping and administration of assets;
- d. Managing capital market instrument;
- e. Giving capital market advice;
- f. Using electronic means for giving investment instructions

4.5.4 Capital market instruments

- a. Shares:** A share is a unit of ownership in a limited company and gives the holder claim over any dividends that the corporation/company may pay on it in future and on its face/ residual value in case the company is liquidated or closed. Owners of shares are called shareholders and receive dividends

on their shares from the company's profits usually at the end of financial year.

b. Instruments creating or acknowledging indebtedness

- i. Debentures:** A debenture is a type of debt instrument that is not secured by physical assets or collateral. Debentures are backed only by the general creditworthiness and reputation of the issuer. Both corporations and governments frequently issue this type of bond to secure capital.
- ii. Debenture stock:** Loan contract issued by a company or public body specifying an obligation to return borrowed funds and pay interest, secured by all or part of the company's property. Certificates specifying the amount of stock, with coupons for interest attached, are usually issued to the lenders
- iii. Loan stock:** Loan stock is shares of common or preferred stock that are used as collateral to secure a loan from another party. The loan earns a fixed interest rate, much like a standard loan, and can be secured or unsecured. A secured loan stock may also be called a convertible loan stock if the loan stock can be directly converted to common shares under specified conditions and with a predetermined conversion rate, as with an irredeemable convertible unsecured loan stock (ICULS).
- iv. Bonds:** Bond is a debt instrument created for the purpose of raising capital. They are essentially loan agreements between the bond issuer and an investor, in which the bond issuer is obligated to pay a specified amount of money at specified future dates.
- v. Certificate of deposit:** A certificate of deposit is an agreement to deposit money for a fixed period with a bank that will pay you interest. You can choose to invest for three months, six months, one year or five years, etc. You will receive a higher interest rate for the longer time commitment

c. Government- owned capital market instruments

- i. Treasury Bills:** Treasury Bills (T-bills) are short term debt securities (one year or less) issued as a primary instrument for regulating money supply or raising funds via open market operations to finance the budget gap. T-bills are always issued through the country's central bank, and commonly pay no explicit interest but are sold at a discount, their yield being the difference between price and the par-value also called redemption value.
- ii. In Rwanda;** T-Bills are issued by auction on weekly basis with maturity dates of 28 days, 91 days, 182 days and 364 days. T-Bills market is announced via BNR website, each Monday for auction on Thursday (T), and settlements take place on Friday (T+1). The minimum purchase is 100,000 Frw. T-bills market is open for all investors (Banks, non Banks,

Insurance companies, Pension Fund, individuals, etc)

- iii. **Treasury Bonds:** A Treasury Bond/Government bond is a debt instrument issued by a national government through the Central Bank in its capacity of Government agent, generally with a promise to pay periodic interest payments and to repay the face value on the maturity date.
- iv. The terms on which a Government can sell bonds depend on how creditworthy the market considers it to be. Government bonds are usually denominated in the country's own currency. Bonds issued by national governments in foreign currencies are normally referred to as sovereign bonds, although the term "sovereign bond" may also refer to bonds issued in a country's own currency.

Application Activity 4.5

- a. Capital Market Authority in Rwanda played an important role in financial stability and the economic development of the country. Discuss the role played by Capital Market Authority.
- b. Describe the capital market instruments.

4.6 Capital market participants, benefits of investing through capital markets and how investors are protected

Activity 4.6

Muhizi is a famous farmer known to be exemplary in Gakenke District. He always receives visitors coming to learn from him how to invest in agriculture, especially in coffee and banana farming. Muhizi is married and has 3 children. It is now over 5 years when Muhizi started struggling searching for another business in which he can invest and secure a brighter future and prepare the good heritage for his children. Currently, he has been informed that there is a capital market in Rwanda. Muhizi is very interested and would like to invest in this new business.

- 1. Identify institutions and players who contribute in the good running of capital market business.
- 2. Explain the contribution of each player in the process of investing in capital market.
- 3. What will be the advantages for Muhizi to invest in capital market?

4.6.1 Capital market Participants

In capital market, there is a flow of funds from one group of parties (funds-surplus units) known as investors to another group (funds-deficit units) which require funds. However, often these groups do not have direct link. The link is provided by market intermediaries such as brokers, mutual funds, leasing and finance companies, etc. Players in capital markets can be divided into investors, issuers and intermediaries. The market intermediaries in Rwanda include the Rwanda Stock Exchange Market, licensed brokers, dealers, and sponsors. The regulator is the Capital Markets Authority.

- i. Investor:** An *investor* is a person or a legal entity that allocates capital with the expectation of a future financial return.
- ii. Issuer:** The term **issuer** refers to a legal entity (government, corporation, or investment trust) that develops; registers and sells securities to the investing public in order to finance its own operations.
- iii. Stock exchanges:** Stock exchanges basically serve as:
 - a.** Primary markets where corporations, government and other incorporated bodies can raise capital by channeling savings of the investors into productive ventures; and
 - b. Secondary markets** where investors can sell their securities to other investors for cash, thus reducing the risk of investment and maintaining liquidity in the system. Stock exchanges impose stringent rules, listing requirements, and statutory requirements that are binding on all listed and trading parties.
- iv. Stock brokers:** A stock broker is an agent who represents clients to buy or sell stocks and other securities. The term is applied to both companies that deal in securities and their employees, who technically are registered representatives working for the brokerage. A broker's primary service is to buy and sell stocks on an exchange for members of the investing public who wish to own part of a company. When anyone decides to participate in the stock market, a broker is usually the first place they go. An account is set up for the client through which he/she trades stocks. The broker accepts stock orders from the client and then executes these directly on the exchange. A business that engages solely in broker services interacts with the stock market for its clients only. Every transaction made affects a client's account. For this reason, a broker is often referred to as an "agent."
- v. Dealers and traders:** A stock market dealer trades equities under its own own. The business itself maintains stock holdings that are not in the name of any client. The dealer may actually be a client of another broker, so as to trade these stocks for its own account. However, unlike a "trader," who

maintains his/her own account with a broker that affects no one else, a “dealer” may use its portfolio to offer services to the public. “Market makers” are dealer businesses that continuously buy or sell certain securities from the public, using their own holdings for these transactions. Thus they are in the business of dealing securities independent of an exchange.

vi. Sponsors: sponsors can be a range of providers and entities supporting the goals and objectives of a capital market. Sponsors invest in private companies, create demand for publicly traded securities, underwrite mutual fund shares for public offerings, and issue exchange-traded funds, offer platforms for benefits and more.

4.6.2 Benefits of Investing through capital markets

A capital market is a place in which financial securities are traded by individuals and institutions or organizations. It can be a primary market where Initial Public Offers (IPOs) take place or a secondary market where IPOs are traded subsequently. The following benefits apply both to the primary and secondary markets:

- a. Access capital:** By issuing shares or debt directly to the public through the RSE private sector businesses and government can raise funds for expansion of existing business or new projects.
- b. Discover the value of its business:** By listing on the RSE issuers or owners of business are able to discover the price of their securities and therefore the value of their business. This enables them to realize the market worth of their wealth.
- c. Raise a company’s visibility and enhance its status with customers and suppliers at home and overseas:** A listing on the capital market raises the profile of a company through continuous media coverage. This is free publicity and enhances the product presence of the issuer among its customers.
- d. Have better bargaining position with financiers:** Increased capitalization of an issuer over time enables the issuer to raise capital at a lower cost due to their improved rating in the market.
- e. Enhance management practices:** The capital market requires a minimum level of disclosure and corporate governance and this encourages the quality of management practices.
- f. Foster employee motivation:** Listed companies may easily employ executive using stock option techniques.
- g. Benefits from Capital Market incentives:** New issuers take advantage of incentives provided to listed companies. This comes in the form of low costs and tax advantages to shareholders and owners of the business.
- h. Use of shares as currency:** Listed companies with known market value can use their shares as currency instead of cash when taking over other.

4.6.3 How investors are protected

Investor protection in capital market is aimed at providing fair play to investors. But it is not aimed at protecting an investor from his/her own errors of judgment or ensuring that he/she gets profits all the time. The law protects investors who have been victims of fraud, dishonesty and unfair practices. All investors face the normal market risks. The regulator in capital market is CMA. Investors are protected in the following ways:

- CMA ensures that only competent and credible professionals are licensed to serve the market.
- CMA supervises all members of RSE to ensure compliance with regulatory requirements.
- CMA ensures that prospectuses of issuers have adequate disclosure for decision making.
- CMA ensures that there are periodic reports and all price sensitive information are released once they are available.
- National public education and awareness campaigns create well informed investors.

Application Activity 4.6

1. Indicate the benefits of investing in Treasury Bonds.
2. Explain how investing through capital markets raises the visibility of the company.

4.7 How to invest in capital market

Activity 4.7

1. Based on the illustration below, describe the process of investing in Rwanda capital market.
2. Indicate 2 options of investing in capital market in Rwanda.
3. Identify 3 companies selling their shares in Rwanda Stock Exchange.

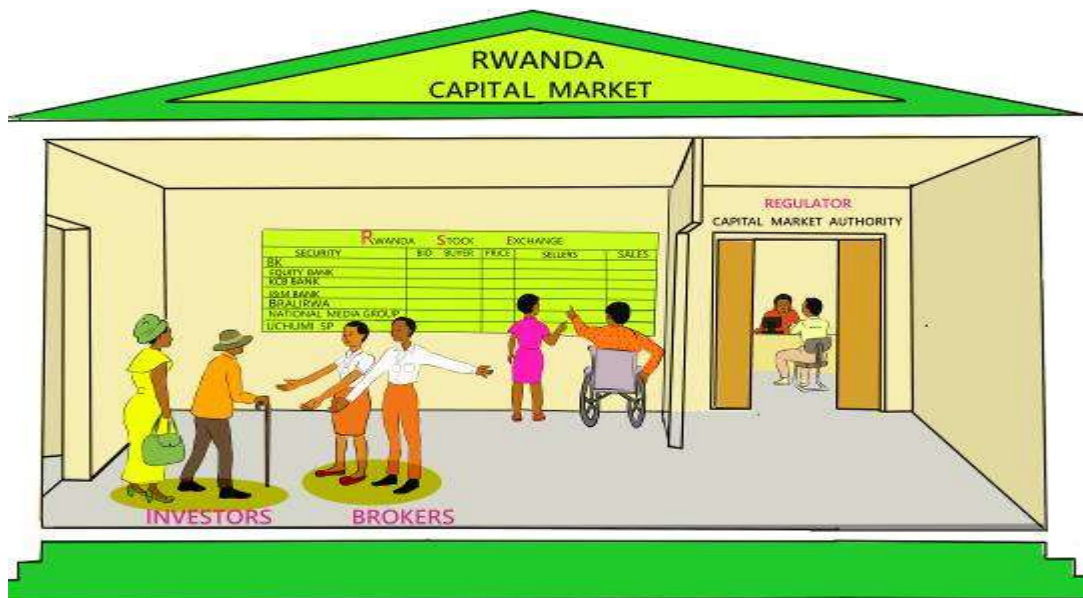


Figure 4.6: Capital market players and processes involved

4.7.1. Primary market and secondary market

The investments in the capital market may be either in the bonds or stocks. Investments in the stocks or bonds may be either investing in the new issues or in the existing securities. The Primary market is the market where securities are sold for the first time, while Secondary Market is the market where already existing securities are bought and sold through licensed brokers. The primary capital market handles the trading and investments in the new issues while the secondary capital market takes care of the trading of existing securities.

4.7.2. Primary Market Transaction Process:

- i. The issuer decides to raise capital through the Capital Market
- ii. Issuer appoints advisors, sponsors/co registrar/fiscal agents/sponsoring brokers
- iii. Issuer prepares draft prospectus or information memorandum
- iv. The issuer applies to CMA to list its securities on the market
- v. Issuer discusses the offer document with CMA and finalizes the prospectus or information memorandum
- vi. The issuer states the offer period and offers securities to the public
- vii. Public investors subscribe to securities during the offer period
- viii. Offer closes and publication of allotment results
- ix. Issuer is admitted to list on RSE

4.7.3 Secondary market transaction process

- i. Buying client or selling client approaches stockbroker, opens an A/C and pays for an order; either provides funds or gives securities to broker and broker acknowledges
- ii. If buying stockbroker has securities or sell order for securities sought or, required at ordered price, broker sells directly to the client
- iii. If buying broker has no selling orders for securities and or price given by sellers, the broker contacts the other brokers seeking securities required.
- iv. Buying stockbroker and selling stockbroker attends trading sessions at the trading floor. All stockbrokers attend the session and all report:
- v. traded securities –prices, volumes and securities
- vi. Buying orders outstanding positions –price, volumes and securities
- vii. Selling orders outstanding positions –price, volumes and securities
- viii. RSE (Rwanda stock exchange) compiles market report and distributes to the market and Public through the media.
- ix. On settlement day, the CSD (Central Securities Depository) clears the trades for settlement of securities against funds between stockbrokers and the change of ownership takes place at T+2 (trade date plus two days). The CSD is under the Central Bank of Rwanda.

Application Activity 4.7

Explain how a person can save and invest through the Treasury Bonds which raises money to finance the Government of Rwanda's development projects.

4.8. Procedures to join Rwanda stock exchange

Activity 4.8

Suppose that you are Managing Director of MUDASOBWA COMPANY LTD, manufacturing computers. As you want to expand your business in other countries, you decide to raise money by joining the capital market: RSE.

- a. Identify needed documents to register your company at RSE.
- b. Indicate basic requirements to sell or buy shares of companies listed in Rwanda Stock Exchange.

4.8.1. Requirements and process to join the Rwanda stock exchange

It is mandatory to open a Central Securities Depository (CSD) account in order to buy or sell shares of companies listed in Rwanda Stock Exchange. The Central Exchange Depository System can be compared to a bank where the records of all share holding of listed companies are kept. It is database where investors can open accounts called Central Exchange Depository or Central Securities Depository (CSD) and debit them with shares/bonds for the purpose of trading.

The Process of Opening a CSD Account is the following :

- You will need to identify the stockbroker of choice
- Provide two (2) recent passport size photographs
- Provide your original national identity card or passport together with a photocopy.
- If you are a company, you will need to provide an original certificate of incorporation together with a photocopy.
- If you are an organization registered in any other way e.g. Society, you will need to provide the original certificate of registration and photocopy.
- You will hand in sign the form in presence of your Stockbroker
- You will be left with the duplicate of account opening form your records.
- Your Stockbroker will provide you with your own CSD account number, to be kept confidential.
- You are free to open several CSD account with different stockbrokers.
- You can migrate from one broker to another simply by completing and signing the exchange transfer form. This form is available from your broker and must be signed by your current stockbroker and your new stockbroker.

4.8.2. Trading Operations

Rwanda Stock Exchange secondary trading is conducted through a dual process. Members trade in an open outcry trading session which is conducted at the RSE Secretariat through and over the counter market the following business day, where a member is allowed to buy or sell directly to clients in their offices. Equally, members are allowed to transact with other members either face to face via any other way of communication. During the designated trading floor sessions at the RSE secretariat, all members must report all their transactions that they conducted outside the official trading session.

Application Activity 4.8

1. What do you understand by CSD account?
2. Explain the role of Central Exchange Depository System in capital market.
3. Explain the process of opening a CSD account.

Skills Lab Activity 4.9

Read and analyze the Case Study below and answer the given questions

Mushanana is a business club operating in one of the schools in Rwamagana district. The club is worth 350,000Rwf which is share capital contributed by all the members of the club. The club consists of 100 members and is planning to expand the number of members as well have more projects. The club leadership has a challenge of raising more capital for the clubs well as making sure shares of members are well managed.

Questions

1. How much did each member of the club contribute to raise the business club capital?
2. What strategies can the club leadership put in place to raise more capital?
3. As an aspiring entrepreneur, what can you do to save for your future?

End of Unit 4 Assessment

1. Discuss the role of capital market on the financial market on the country's economy
2. Explain the role of stockbrokers in stock exchange process.
3. Summarize advantages of investing at the Rwanda Stock Exchange market.
4. Discuss the difference between primary capital market and secondary capital market.
5. Describe/explain the process of joining RSE.
6. Janet Wood, a U.S. Citizen, is considering making a \$50,000 investment in the bonds of the Bank of Kigali. The bonds are denominated in Frw.

If the Frw decline in value against the dollar after Janet buys the bonds,

- a. What will happen to Janet's investment ?
 - b. What other risks does Janet bear with this investment ?
 - c. If Janet's bank decides to buy the bonds, how could it better withstand the risks ?
7. Floruty, a company that went public in 2016, announced the sale of an additional 50 million shares of its common stock on April 1, 2018. Before deciding on the additional stock, Floruty analyzed how its stocks and bonds were trading in the secondary markets. Why did Floruty study the secondary markets if the additional shares of common stock were considered new issues, thus being sold in the primary markets ?
 8. Explain what might happen in the economy if there were no financial institutions.



UNIT 5

FINANCIAL STATEMENTS

Unit 5: FINANCIAL STATEMENTS



Key Unit Competency: To be able to prepare financial statements

Introduction

Finance is a word that brings good or bad memories to people. The reason behind such conception is that finance can be considered as the art of handling money. As you might know most organizations if not all run on money. Be it a family, a church, a school, a hospital, governments, none of them can operate without money. Everything we do has to be connected to money either directly or indirectly. We don't normally see finance when there is a new house that is coming up in our neighborhood. We neither see finance when our parents pay our school fees. But it is there, and without it most of the things that we do see would not exist. In order to solve most of the challenges that people or organizations face, money should be there.

In today's world, people in search of money are committed to being job creators instead of being job hunters. In so doing, they are rushing to starting their own business which requires them to use different financial management skills to successfully run them. The financial management requires application of different skills and tools to measure the business profitability. In order to assess the business profitability, there is a need to provide a number of answers to many numbers of questions that include the following:

- i. How much do I earn in terms of profit?
- ii. How worth is my business?
- iii. What is the flow of cash in my business?
- iv. How much did I invest in my business?

To find answers to the above questions, this unit will enhance your understanding of the main financial statements namely Income statements, balance sheet, cash flow statements' and statement of owners' equity and linkages between these financial statements.

This information will be useful in analysing financial performance by way of ratio analysis; the techniques used in analyzing the financial position of a company and, having gained that knowledge then to assist in interpreting current and potential future performance of the business.

Introductory activity:

The following are information obtained from the books of account of UWINEZA's business for the period ending June 30, 2010

She started the trading year with stock valued 1,000,000 Frw that she bought using her own saving of 850,000 Frw, loan from her friend 100,000 Frw and bank loan of 50,000Frw. During this year she sold goods on cash worth 7,000,000 Frw that she had purchased on 5,000,000 Frw; paid wages and salaries of 500,000 Frw; rent and rates of 360,000 Frw; postage and telephone 120,000 Frw and received rental fees of 1,200,000 Frw. If at the end of the year she had a stock valued at 1,200,000 Frw ;

Questions

- a. How much did she pay for purchase ?
- b. What are total expenses for Uwineza during this trading period ?
- c. How much did she earn from sales ?
- d. What is the amount of other income ?
- e. Did Uwineza make profit or loss during this trading period ?
- f. Identify assets of Uwineza and demonstrate that the accounting equation (Assets= Capital + liabilities) is justified.

5.1 Financial Statements

Activity 5.1

Analyse the JYAMBERE cooperative case study below and answer the questions that follow ;



Figure: 5.1. JYAMBERE cooperative rice farmers

JYAMBERE cooperative is a cooperative of 3,000 rice farmers that was established in 2010. The cooperative is collecting and selling the members' produce at a competitive price. Cooperative pay its member 250 Frw per 1 kg of paddy rice; pay 10 Frw per 1 kg for packaging and 20 Frw per 1 kg for transport to the market. Total monthly salaries of all cooperative staff are 300,000 Frw, monthly electricity cost is 20,500 Frw and other monthly overheads cost the cooperative 41,254 Frw. The last year cooperative has collected and sold 360 Tons of paddy rice at 315 Frw per 1 kg.

- How much money did the cooperative pay to its farmers?
- How much did the cooperative earn from sales of its rice?
- How much were total expenses?
- Develop a report to be presented to members in their Annual General Meeting

5.1.1 Meaning of Financial Statements

Financial statements are reports prepared by a company's management to present the financial performance and position at a point in time. Financial statements are output of the accounting system and are prepared by businesses or organisations

normally at the end of the financial year or trading period to find out the profit or loss made by the business and also to determine the financial position among other reasons. They also summarize data into a form that is useful for decision making. External users of accounting information like investors and creditors are more interested in the financial statements or final accounts than the books of accounts.

5.1.2 Importance Financial Statements

Financial statements are useful for the following reasons:

- To determine the ability of a business to generate cash, and the sources and uses of that cash.
- To determine whether a business has the capability to pay back its debts.
- To track financial results on a trend line to spot any looming profitability issues.
- To derive financial ratios from the statements that can indicate the condition of the business.
- To investigate the details of certain business transactions, as outlined in the disclosures that accompany the statements.

5.1.3 Types of financial statements and their purpose

There are four main types of financial statements, which are as follows: Income Statement, Balance Sheet, Cash Flow Statements and Statement of Owners Equity. Generally, the financial statements can be prepared from the trial balance. A balance sheet reports on a business financial position at a point in time. The income statement, the statement of owner's equity, and the statement of cash flows report on financial performance over a period of time.

Preparers and users determine the length of the reporting period. A one year reporting period is common. However, the semi-annual, quarterly, and monthly periods are also used depending on the needs. The one-year reporting is known as the accounting, or fiscal year.

Application Activity 5.1

Read the following scenario and answer the questions that follow:

Assume that during holidays you work in a supermarket within your community as a cashier. Your manager wants you to write each sale and to issue EBM receipt immediately when you collect cash.

Recently, because there were two consecutive public holidays, people rushed during lunch time to buy goods that they would use during that period since most shops will be closed. That event increased the number of customers to be served at the same time and the assistant manager asked you to avoid delays by taking customers' cash and making change without recording the sales or issuing a receipt. Because of the pressure, you accepted his suggestion.

At the end of the day, you are neither able to identify the sales nor able to tell who bought what items from your shop.

- a. By the end of two days, do you think that you will be able to determine the sales of each item and why?
- b. What do you think should be the financial information needed for you to prepare a good report after the two days?
- c. Who are the users of financial statements and why do they need them.

5.2 Income Statement

Activity 5.2.



Figure : 5.2. Tomato growing

Mr. DUSABE and his wife KEZA are in agribusiness where they grow Tomatoes on small farm. They paid laborers 4,500,000 Frw, paid tomatoes' transport to the market 1,000,000 Frw; bought seeds at 200,000 Frw and leased land for 1,000,000 Frw. This season, the harvest was good with 45 Tons of tomatoes harvested.

- How much did DUSABE and KEZA pay for their farming activities ?
- How much did DUSABE and KEZA earn from sales of their Tomatoes, if 1kg of tomatoes was sold at 250 Frw ?
- What is the difference between their income received and expenses incurred from sales of tomatoes in their farming activities ?
- What do you understand by an income statement ?
- Why do you think it is important for a business to prepare an income statement ?

Income statement is a financial statement that reports a company's financial performance over a specific accounting period. Financial performance is assessed by giving a summary of how the business incurs its revenues and expenses through both operating and non-operating activities.

After extracting a trial balance the next step is to determine the amount of profit that the business has made during the trading period. This is done by preparing two accounts namely :

- **Trading account** where the value of the gross profit or gross loss is determined by deducting the cost of goods sold from net sales i.e $\text{Gross Profit} = \text{Net Sales} - \text{Cost of Sales}$, or $\text{Gross Loss} = \text{Cost of Goods Sold} - \text{Net Sales}$
- **Profit and loss account** where the value of net profit or Net loss is calculated by deducting total operating expenses from the gross profits i.e $\text{Gross profit} - \text{total expenses}$.

a. Trading account

Trading account is an account which is prepared to determine the gross profit or gross loss of the business concern. It shows the revenues from sales, the cost of those sales or goods sold and the gross profit from for the specific period ended. It is prepared after the preparation of the trial balance.

Items found in a trading account

- a. **Sales:** Refer to the value of goods which were bought for resale and have been sold by the business. It is revenue earned from goods sold. They are entered in the trading account for the purpose of calculating gross profit or loss.
- b. **Sales return:** Value of goods that were previously sold but have been returned to the business.
- c. **Net sales** = Sales – Return inwards/ Sales Return
- d. **Opening stock:** Unsold goods in the business available at the beginning of the new trading period
- e. **Purchases:** Goods bought by the business for resale
- f. **Purchases return:** goods previously bought by the business for sale but have been sent back to the suppliers. This value is treated in the trading account and it is subtracted from the purchases to get the net purchases i.e. $\text{net purchases} = \text{purchases} - \text{return outwards/purchase returns}$
- g. **Carriage in wards:** refers to the cost of transporting the goods or bring the goods up to the premises. It forms part of the goods bought hence added to purchases the trading account.
- h. **Wages:** These are payments made directly for purchases activity. Only wages paid directly for purchases in trading account to determine the gross profit r gross loss. $\text{Net purchases} = \text{Purchases} + \text{Carriage Inwards} + \text{Wages} - \text{Purchases Return}$

- i. Closing stock:** Goods not sold by the business at the end of a trading period. It's included in the trading account and it is subtracted from the goods available for sale to get cost of sales. **Cost of Goods Sold (CoGS)** = Cost of Goods Available for Sale (CoGAS) - Purchase Return
- j. Drawings of goods:** Sometimes an entrepreneur may take physical items out of the business for private use this must be subtracted from the goods available for sale in the trading account. It should be noted that only drawings in form of goods that must be treated in the trading account. **Net purchases** = Purchases + Carriage Inwards + Wages - Purchases Return - Drawing of Goods. Hence; **Cost Goods Available for Sale (CoGAS)** = Opening Stock + Net Purchase
- k. Gross profit:** Excess of net sales over the cost of goods sold or cost of sales. It also refers to the total profit obtained by an enterprise before paying off the operating expenses. Thus **Gross profit** = net sales – cost of sales
- l. Gross loss:** This is excess of cost of sales over the net sales of the business. **Gross Loss** = Cost of Goods Sold - Net Sales

Format of a trading account

There are basically two formats that are used to prepare a trading account. i.e

- a. Horizontal
- b. Vertical format

(Horizontal T- format)

XYZ trading account for the year ending/.... /.....					
Dr				Cr	
Particulars	Frw	Frw	Details	Frw	Frw
Opening stock		xxx	Sales	xx	
Purchases	xxx		Less: Sales return	xx	
Add: Carriages	xxx		Net sales (A)		xxx
	xxx				
Less: Return outwards	xxx				
Net purchases		xxx			
Cost of Goods available for sale		xxx			
Less: closing stock		xxx			
Cost of Goods Sold (B)		xxx			
Gross profit c/d (A-B)		Xxx			
		Xxxx			xxxx
			Gross profit b/d		xxx

(Vertical format)

XYZ			
Trading and profit and Loss account for the year ended/...../.....			
Particulars	Amount (Frw)	Amount (Frw)	Amount (Frw)
Sales		xxxx	
Less: Sales returns		<u>xxxx</u>	
Net sales (A)			xxxx
Less COS			
Opening stock (B)		xxx	
Purchases	xxx		
Add: Carriage inwards	xxxx		
Less: Returns outwards	<u>xxxx</u>		
Net purchases (C)		xxx	
Cost of good available for sale (D=B+C)		<u>xxxx</u>	
Less: closing stock		xxxx	
Cost of goods Sold (E)			xxxx
Gross Profit = A-E			xxx

Note: - Gross profit= Net sales – Cost of goods sold

Example 5.2 (a)

From the following Trial Balance of the company M&N Ltd prepare the company's trading account for the year ended 31 December 2017 using a horizontal format.

M&N Ltd Company Trial Balance as on 31.12.2017

Particulars	Debit (Frw)	Credit (Frw)
Capital		25,000
Loans		5,000
Sales		35,000
Accounts Payable		4,000
Bills Payable		5,000
Purchase Returns		2,000
Dividends Received		3,000
Plant and Machinery	13,000	
Buildings	17,000	
Receivables	9,650	
Purchases	18,000	
Discount allowed	1,200	
Wages	7,000	
Salaries	3,000	
Traveling Expenses	750	
Freight	200	
Insurance	300	
Commission paid	100	
Cash on hand	100	
Bank	1,600	
Repairs	500	
Interest on loans	600	
Opening Inventory	6,000	
Total	79,000	79,000

Additional Data:

1. Closing Inventory 8,000 Frw
2. Depreciation on Plant and Machinery at 15% and 10% on Buildings
3. Provision for doubtful receivables 500 Frw
4. Insurance prepaid 50 Frw
5. Outstanding rent 100 Frw

Solution:**(Horizontal format)****M&N TRADING ACCOUNT AS AT THE END OF YEAR 31ST DECEMBER 2017**

Dr			Cr
Opening stock	6,000	Sales	35,000
Purchases	18,000		
Add: Wages	7,000		
Less: Return outwards	<u>2,000</u>		
Net purchases	23,000		
C.O.G.A.S	29,000		
Less: Closing stock	<u>8,000</u>		
C.O.G.S (B)		<u>21,000</u>	
Gross profit c/d		<u>14,000</u>	35,000
	<u>35,000</u>	Gross profit c/d	14,000

(Horizontal format)**M&N TRADING ACCOUNT AS AT THE END OF YEAR 31ST DECEMBER 2017**

Particulars	Frw	Frw	Frw
Sales			
Less cost of goods sold			
Opening stock		6,000	
Purchases	18,000		
Less: Returns outwards	<u>2,000</u>	16,000	
Wages		<u>7,000</u>	
Goods available for sale		29,000	
Less: Closing stock		<u>8,000</u>	
Cost of goods sold (CoGS)			<u>21,000</u>
Gross Profit			<u>14,000</u>

Gross profit is fourteen thousands Frw (14,000 Frw)

b. Profit and Loss account.

This is the final account or statement prepared by the business at the end of the trading period to determine the net profits or net loss of the business. It begins with the gross profit or gross loss transferred or brought down from the trading account.

Elements of a profit and loss account

- 1. Gross profits/loss** :This is transferred from the trading account as balance b/f
- 2. Supplementary income** : This refers to all income or revenue that business earns from other sources other than sales of goods and services. A business may earn income from; other sources apart from sales of goods and services and these incomes are treated in the profit and loss account by adding received them to gross profit. Example include discount received, commission received, rent received, bad debts recovered; etc.
- 3. Operating expenses** : These are the expenses incurred by the business on services that help in the normal operation and running of the business. Such expenses include ; transport, electricity, rent insurance/premium, carriage outwards salaries water bills, postage discount allowed, advertising, and communication. In the profit and loss account the total operating expenses are subtracted from the total income or gross income to get net profit or net loss.
- 4. Net profits**: Excess of gross profits over the expenses of the business at a given period of time thus

Net profit= Gross Profit +Supplementary Income – Total Expenses

Net Loss: Excess of operating expenses over the gross income at a given time

Net Loss = Operating expenses - Gross income, or

Net Loss = Gross loss + Operating expenses

There are two formats that can be used while preparing the Profit and Loss account which are :

- The T - format
- The Vertical format

The following is a template of Profit and Loss (P&L) account in T (Horizontal) format :

P&L Account for XYZ Ltd. Company for the period ending/...../.....

Dr		Cr			
Operating expenses:		Gross profit b/d		xxxx	
Wages	xxxx	Add: Other Incomes			
Salaries	xxxx	Rent received	xxx		
Postage and telephone	xxxx	Discount received	xxx		
Carriage outwards	xxxx	Interest received	xxx		
Stationeries and printing	xxxx			xxxx	
Discount allowed	xxxx	Gross income			xxxx
Electricity	xxxx				
Insurance	xxxx				
Commission paid	xxxx				
Freight	xxxx				
E.t.c	xxxx				
Total O.E					xxxx
Net profit c/d					xxxx
					xxx
		Net profit c/d			xxx

In case the business has got a Net loss, it is recorded on credit side of the P&L account.

The following is a template of P&L account in (Vertical format) :

Particulars/Details		
Gross profit b/d	xxxx	
Add: Miscellaneous Income		
Rent received	xxxx	
Discount received	xxxx	
Interest received	xxxx	
Commission received	xxxx	
Gross income		xxxx
Less: Expenses		
Wages	xxxx	
Salaries	xxxx	

Postage and telephone	xxxx	
Carriage outwards	xxxx	
Stationeries and printing	xxxx	
Discount allowed	xxxx	
Electricity	xxxx	
Insurance	xxxx	
Commission paid	xxxx	
Freight	xxxx	
Interest paid	xxxx	
Total expenses		xxxxx
Net profit or Loss		xxxxxx

Example 5.2 (b) :

From the trial balance of M&N Ltd Company in example 5.2 (a) ;

Prepare the company's profit and Loss account for the year ended 31 December 2017.

(Horizontal)

M&N Ltd Profit and Loss Account for the year ending 31.12.2017

Dr		Cr	
Particulars	Frw	Particulars	Frw
Discount allowed	1,200	Gross Profit b/d	1 4,000
Salaries	3,000	Dividends received	3 ,000
Traveling expenses	750		
Freight	200		
Insurance 300	250		
Less: Prepaid (50)			
Commission paid	100		
Repairs	500		
Interest on loan	600		
Rent outstanding	100		
Provision for doubtful receivables	500		
<u>Depreciation</u>			
Plant & Machinery	1,950		

Buildings	1,700		
Net Profit c/d	<u>6,150</u>		
	17,000		17,000
		Net Profit b/d	6,150

(Vertical)

M&N Ltd Profit and Loss Account for the year ending 31.12.2017

Particulars	Frw	Frw
Gross Profit b/d		14,000
Add: Other income		
Dividends received	3,000	3,000
Total Income		17,000
Less: Expenses		
Discount allowed	1,200	
Salaries	3,000	
Traveling expenses	750	
Freight	200	
Insurance	300	
Less: Prepaid (50)	250	
Commission paid	100	
Repairs	500	
Interest on loan	100	
Rent outstanding	500	
Provision for doubtful receivables	1,950	
Depreciation	1,700	
Plant & Machinery		
Buildings		
Total expenses		<u>10,850</u>
Net Profit		<u>6,150</u>

Application Activity 5.2.1

1. From the following particulars relating to the firm of Raissa for year ending 31st December 2004, prepare her trading account.

Sales	155,000
Sales returns	8,000
Purchase	140,000
Purchase returns	18,500
Carriage inwards	12,000
Warehouse Wages	10,000
Opening stock 1Jan 2004	55,000
Closing stock 31 Dec 2004	85,000

2. From the following information relating to the business of Muzungu Ismael, for the year ended 30 Sept 2004, prepared his profit and loss account for the year ended.

Gross Profit	420,000
Salaries	14,000
Insurance	74,000
Rent and rates	27,000
General office expense	19,000
Carriage on sales	45,000
Printing and stationary	37,000
Electricity	12,000
Postage and telephone	8,000
Discount allowed	15,000
Bank charges	120
Advertisement	42,000
Interest on bank Loan	2,500
Salesman's commission	32,000
Discount received	5,000
Rent received	2,700

5.3 Balance sheet

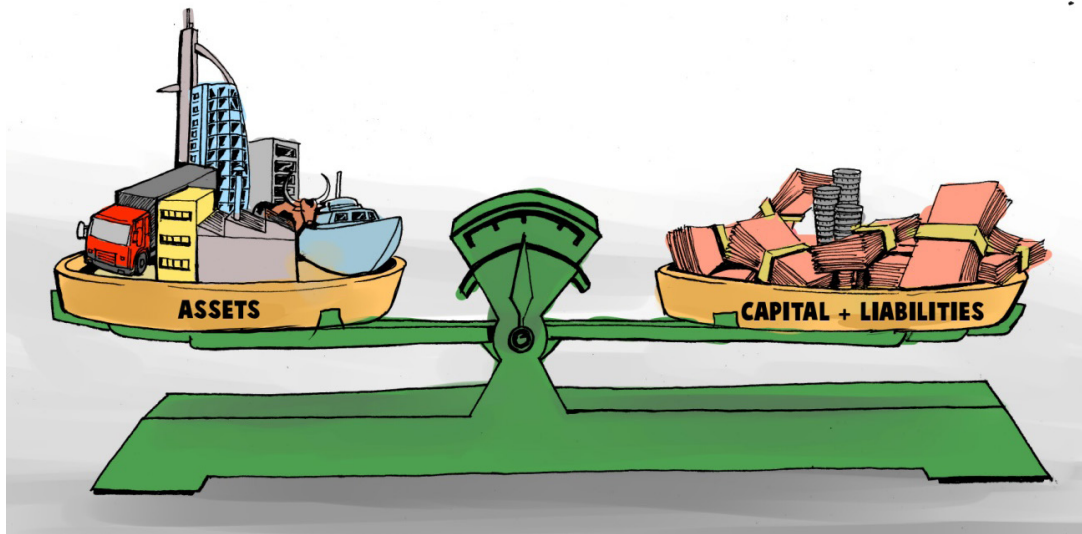


Figure : 5.3 Assets, Liabilities and Capital

Activity 5.3

Nyirawimana's business had the following transactions during the last month :

- Started business with cash 2,000,000 Frw.
- Purchase goods for cash 500,000 Frw and for credit from Uwineza 600,000 Frw.
- Purchased office equipment for cash 80,000 Frw.
- Paid office rent 10,000 Frw.
- Sold goods for cash 1,000,000 Frw
- Sold goods on credit to Kalisa for 160,000 Frw
- Bought insurance on cash for 50,000 Frw
- Salary due to her employee was 15,000 Frw
- The stock at the end of the month was 300,000 Frw

Questions

Using prior knowledge on prime books you acquired from Unit 10 in Senior 5,

- a. Identify what the business owns as at the end of the month.
- b. Identify what a business owes to outsiders as at the end of the month.
- c. How do we call what a business owns?
- d. How do we call what a business owes to outsiders?
- e. What do you understand by a balance sheet?
- f. What items/elements make up a balance sheet?
- g. Why do you think it is important for a business to prepare a balance sheet?

A **balance sheet** is a statement of assets and liabilities of a business organization at a given period of time.. It is a statement that shows what you own, what you owe, and what you are worth. At the end of each accounting period, every business organization prepares a Balance Sheet to have a clear understanding of its assets and liabilities, which indicate the financial position of the concern.

A **balance sheet** is also referred to as a financial statement which shows the financial position of the business as at a given date. It is prepared after the trading profit and loss account have been prepared. A balance sheet is not an account therefore, not part of the double entry but it is prepared basing on the **ACCOUNTING EQUATION**, which states that: **Assets =capital + liabilities**

5.3.1 Parts of a balance sheet.

There are three major parts of a balance sheet;

- Assets
- Liabilities
- Capital

Assets

These are possessions owned by the business and have got money value.

They are grouped into two;

- Fixed assets
- Current assets

- a. Fixed assets:** These are the possessions of the business which are of a durable nature bought for use in the business for a long period of time usually above one year. E.g land, equipment, machinery, fixtures and fittings, motor vehicle etc
- b. Current assets:** Possessions or properties of the business which last for a short time and usually changed into cash. Current assets keep on being converted from one form to another e.g stock of goods, debtors, and cash at hand. Cash at hand, prepaid expenses or expenses paid for in advance, outstanding income etc.

Liabilities

These are debts or amount of money that the business owes the outsiders. They are claims of outsiders on the business' assets. Properties/possessions that are used by the business and which must be paid back in future. There 2 types of liabilities:

- Long term liabilities
- Short term liabilities
 - a. Long term liabilities:** These are debts of the business that are expected to be paid after a long time usually after one-year e.g bank loans, debentures.
 - b. Short term liabilities/current liabilities:** These are debts of the business which are to be paid within a short time usually within a year. They are claims by outsiders of the business that are repaid within one accounting year e.g trade creditors, bank overdraft, outstanding expenses, prepaid income etc.

Capital

These are the resources invested by the owner or the entrepreneur in the business. Capital is also known as owner's equity. To start any business a person requires capita; which can be in form of money or other physical resources.

Types of capital

- a. Capital invested/initial capital:** This is the actual amount of money or other resources brought into the business by the owner when commencing a business.
- b. Owner's equity/net worth/equity:** This is the total amount of the resources in business that belongs to the owner at a given date. Owner's equity is the amount that remain in business after adding new investments and net profit and subtracting drawings or any loss made by the business therefore:
owner's equity = initial capital + new investments + net profit- drawings
 Total assets – Total liabilities
- c. Loan/borrowed capital:** This is total amount borrowed by the business in

form of long term liability i.e value of long term liability of the business therefore borrowed is the same as long term liabilities.

d. Fixed capital: This refers to the value of fixed assets in the business and given in the formula

Fixed capital = Total fixed assets.

e. Liquid capital: This refers to the total value of current assets inform of cash and those that can easily be changed into cash e.g cash at hand debtors

Liquid capital = Total current assets – closing stock

f. Working capital: This is the excess of current assets over the current liabilities of the business. It is the difference between current assets and current liabilities

WC = CA - CL

g. Capital employed: This is the value of the assets that contributed to a company's ability to generate revenue. It is the sum of total fixed assets and working capital of the business or sum of the owners' equity (capital owned and long term liabilities).

Capital employed = working capital + fixed assets/capital

Capital employed = capital owned + borrowed capital

Capital employed = total assets – current liabilities

h. Trading capital/gross capital employed: This is the total value of all the assets of the business. It is the sum of fixed assets and current assets

5.3.2 Balance sheet preparation

The Balance Sheet is prepared from the point of view of the business (as a separate entity, distinguished from its owners). Another way to understand a Balance Sheet is to consider it as a statement of sources of funds (i.e., liabilities) and utilization of funds (i.e., assets).

The balance sheet can be reported in two different formats: Horizontal format referred as account form and Vertical format referred as report form.

- **The Horizontal format** consists of two columns displaying assets on the left column of the report and liabilities and equity on the right column. You can think of this like debits and credits. The debit accounts are displayed on the left and credit accounts are on the right

An example of the balance sheet in horizontal format :

BALANCE SHEET AS AT/...../.....

Assets	Frw	Frw	Capital/ Owners' equity and Liabilities	Frw	Frw
Fixed Assets			Capital investment	xxx	
Land	xxx		Add: Net profit	xxx	
Building	xxx		Or less: Net loss	xxx	
Plant & machinery	xxx		Reserves	xxx	
Furniture & fixture	xxx		Less: drawings	xxx	
Premises	xxx		Net capital/ owner's equity		xxx
Equipment	xxx		Long term liabilities		
Total Fixed Asset.		xxx	Bank loan	xxx	
Current Assets			Mortgage	xxx	
Cash in hand	xxx		Total long term liabilities		xxx
Cash at bank	xxx		Current liabilities		
Closing stock	xxx		Bank overdraft	xxx	
Debtors	xxx		Creditors	xxx	
Prepaid expenses	xxx		Prepaid income	xxx	

Accrued income	xxx		Accrued expenses	xxx	
Total current asset		xxx	Total current liabilities.		xxx
Total Assets		xxx	Total liabilities		xxx

- **The Vertical format**, on the other hand, only has one column. This form is one of the most widely used today. By law, all public limited companies must publish their accounts in this form. Assets are always presented first, followed by liabilities and equity. In both formats, assets are categorized into current and long-term assets. Current assets consist of resources that will be used in the current year, while long-term assets are resources lasting longer than one year. Liabilities are also separated into current and long-term categories.

An example of the balance sheet in Vertical format :

BALANCE SHEET OF.....AS AT/...../.....

Assets	Frw	Frw	Frw
Fixed Asset:			
Long term investment		xxx	
Furniture & Fixture		xxx	
Plant & Machinery		xxx	
Building		xxx	
Land		xxx	
Total fixed assets			xxx
Current Assets:			
Closing stock	xxx		
Bills receivable	xxx		
Sundry Debtors	xxx		
Prepaid expenses	xxx		
Accrued income	xxx		
Cash in hand	xxx		
Cash at bank	xxx		
Total current assets		xxx	
Less: current liabilities			
Sundry creditors	xxx		
Income received in advance	xxx		

Out standing expenses	xxx		
Bills payable	xxx		
Bank overdraft	xxx		
Total current liabilities		xxx	
Working capital			xxx
Capital employed			xxx
Financed by capital & liabilities			
Capital:			
Opening balance			
Add: Net Profit		xxx	
Or Less: Net Loss		xxx	
Less: Drawing		xxx	
Net capital			xxx
Long term Liabilities			
Long - term loan			xxx
			xxx

Also assets and liabilities can be arranged according to their realizability and payment preference, which is called **liquidity order basis** or on the assumption that these will be sold and paid only on the liquidation of business which is called **the permanence/fixity basis**.

Example 5.

From the example 5.2a and 5.2b; present the balance sheet for M&N Ltd Company for the year ended 31 December 2017 in both horizontal and vertical format.

Solution: (oder of liquidity)

i. Horizontal format

M & N Ltd Company Balance sheet as on 31. 12. 2017

Assets	Frw	Frw	Capital and Liabilities	Frw	Frw
Fixed Assets			Current liabilities		
Plant & Machinery	13,000		Loan Current Liabilities	5,000	

Less: Depreciation	<u>1,950</u>		Accounts Payable	4,000	
Buildings	17,000		Bills Payable	5,000	
Less: Depreciation	1,700	15,300	Outstanding Rent	1 00	
Total fixed assets		2 6,350	Total current liabilities		1 4,100
Current Assets:			Owners' equity		
Cash on hand		100	Capital	2 5,000	
Cash at Bank		1,600	Add: Net Profit	6,150	
Accounts Receivable Net capital	9,650				3 1,150
Less: Provisions for doubtful	500	9,150			
Closing Inventory		8,000			
Insurance		50			
Total Current assets		18,900			
Total Assets		45,250	Total capital and liabilities		4 5,250

Vertical format

M & N Ltd Company
Balance sheet as on 31. 12. 2017

Assets	Frw	Frw	Frw
Fixed Assets:			
Plant & Machinery	13,000		
Less: Depreciation	1950	11,050	
Buildings	17,000		
Less: Depreciation	1,700	15,300	
Total fixed assets			26,350
Current Assets:			
Cash on hand		100	
Cash at Bank		1,600	
Accounts Receivable	9,650		
Less: Provisions for doubtful debts	500	9,150	
Closing Inventory		8,000	

Insurance		50	
Total Current assets		18,900	
Less: Current liabilities			
Current liabilities			
Loan Current Liabilities:	5,000		
Accounts Payable	4,000		
Bills Payable	5,000		
Outstanding Rent	100		
Total current liabilities		14,100	
Working Capital			4,800
Capital employed			31,150
<u>Financed by capital/ owners'equity</u>			
Capital		25,000	
Add: Net Profit		6,150	
Net capital			
			31,150

Application Activity 5.3

1. The following information was obtained from the books of Kaneza and Kamali Ltd Company as at 31 March 2010.

	Frw
Net profit	117,500
Capital	150,000
Creditors	40,000
Plant and Machinery	75,000
Motor Vehicle	50,000
Furniture and fittings	25,000
Debtors	60,000
Stock	35,000
Drawings	17,500
Cash at Bank	45,000

You are required to prepare the business balance sheet as at 31 March 2010 in both format (Horizontal and vertical)

2. The following was extracted from the books of Alexis traders Ltd as at 31st December 2011

Account Titles	Deb-its(Rw)	Credit(Rw)
Stock at 01.01.2011	50,000	298,000
Purchases	420,000	
Sales		557,500
Shop expenses	6,200	
Wages	33,500	
Telephone expense	500	
Travel Expenses	550	
Rent paid	750	
Debtors	10,100	
Shop fittings	40,000	
Capital		
Bank loan		150,000
Drawings	27,000	
Interest paid	4,500	1,120,000
Premises/ Equipment	200,000	
Bank	5,850	
Creditors		14,500
VAT		<u>2,000</u>
	799,000	799,000

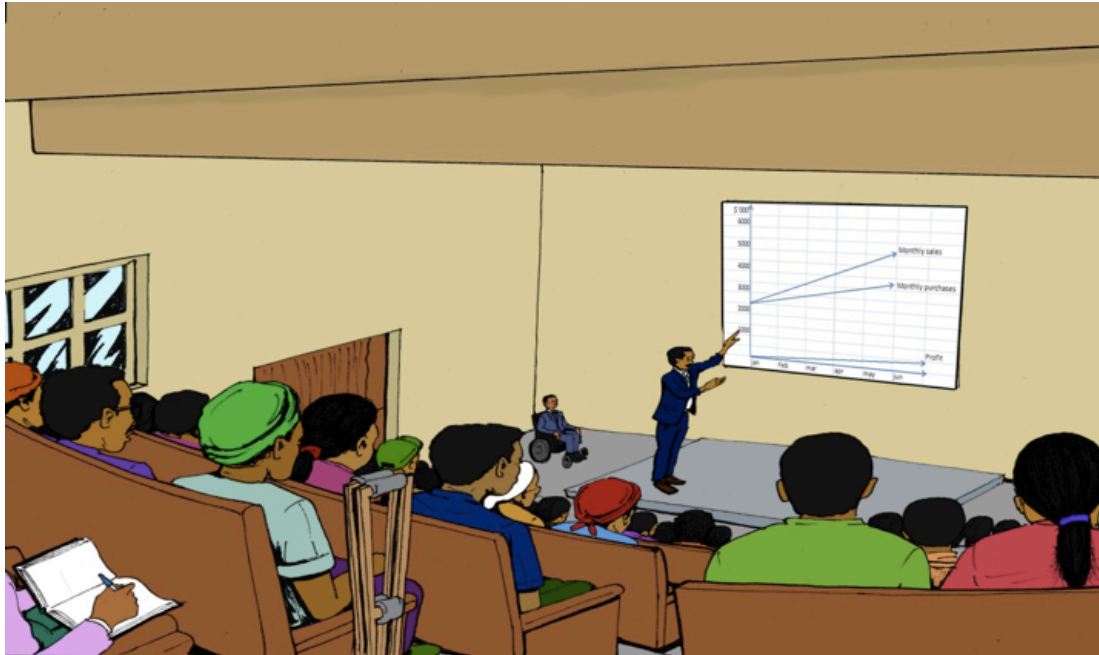
Additional Information:

- Stock at 31st December 2011 was valued at 42,000Rwf.

Required: Using a Vertical format,

- Prepare Alexis traders' Ltd trading, profit and Loss account for the year ended 31st December 2011

5.4 Interpreting Financial Statements/ financial statements analysis



Activity 5.4

Refer to the following trading, profit and loss accounts and balance sheet to answer the questions that follow:

Sales		7,000,000
Less Cost of goods sold		
Opening stock	2,300,000	
Purchases	4,800,000	
Less Closing stock	(2,100,000)	
COS		5,000,000
Gross Profit		2,000,000
Less: expenses		
Total Expenses		1,800,000
Net Profit		2 00,000

INEZA Balance sheet as 31 March 2017

	Frw '000'	Frw '000'
Non Current assets		
Buildings		11,000
Furniture and Fittings		5,500
Motor Vehicle		5,800
		22,300
Current assets		
Stocks	2,100	
Debtors	5,600	
Cash at bank	7,900	
Cash in hand	400	16000
		38,300
Financed by Capital and Liabilities		
Capital	30,600	
Add: Net profit	200	30,800
Non Current Liabilities		
Long term loan		5,000
Current Liabilities		
Creditors		2,500
		38,300

What is the percentage of Net profit to sales?

- Calculate the percentage of gross profit to sales
- How much net profit did 1Frw of capital earn?
- Calculate the percentage of current assets to current liabilities
- What do you understand by financial statements analysis?

5.4.1 Definition and purpose of financial statement analysis

Financial statement analysis is the process of reviewing and evaluating a company's financial statements, thereby gaining an understanding of the financial health of the company and enabling more effective decision making. It is an evaluative method of determining the past, current and projected performance of a company.

The purpose of financial statement analysis is to examine past and current financial data so that a company's performance and financial position can be evaluated and future risks and potential can be estimated. Financial statement analysis can yield valuable information about trends and relationships, the quality of a company's earnings, and the strengths and weaknesses of its financial position.

Financial analysis is done by use of financial ratios. *Financial ratios* are relationships determined from a company's *financial* information and used for comparison purposes. Ratio analysis is used to help different users of financial information to answer some of the questions they are interested in. It may raise several new questions such as:

- i. Is this company/my job safe?
- ii. Should i stop selling goods to this firm on credit?
- iii. Should i invest in this business Etc...

Below are some of the common ratios:

5.4.2 Liquidity ratio

These measure the ability of the enterprise to meet its short term maturing obligations. Therefore, they assess the level of current assets and current liabilities. These ratios include the following.

a. Current ratio

Current ratio =	$\frac{\text{Current assets}}{\text{Current liabilities}}$
-----------------	--

A high ratio means debtors, stock and cash are high. This shows an inefficient firm since funds is not used. A low figure means the business is not able to pay the current liabilities and vice-versa. Usually the ratio should be around 2:1 while comparing with other businesses, similar business should be considered.

Looking at the trend, a downward trend means there are liquidity problems vice-versa.

c. Acid Test ratio

Acid test Ratio =	$\frac{\text{Current assets- stock}}{\text{Current liabilities}}$
-------------------	---

The interpretation is similar to current ratio although here the assets that are hard to realize are removed. While calculating the acid test ratio inventories are excluded.

Usually the ratio should be around 1:1. This ratio is also known as *the quick ratio*.

d. **Cash ratio**

Cash ratio =	Cash + Cash equivalent
	Current liabilities

It indicates the cash available to pay the liabilities. It is more refined since it assumes that debtors may not pay their accounts on time and stock will take time to convert into cash.

5.4.3 Profitability ratio

There are ratios that indicate the ability of the business to generate enough profit or returns on the investment made. They measure commercial effectiveness of the business in generating profits. Those ratios measure the efficiency with which the firm is using its various assets/resources to generate return/profit

a. **Gross profit Margin**

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

Gross profit margin shows the percentage of gross profit per unit of sales i.e gross profit on each item sold and therefore the higher the ratio or percentage, the higher the gross profit per unit of sales. Similarly, the lower the percentage is the lower the gross profit per unit of sales.

b. **Gross profit Mark-up**

$$\text{Gross profit mark-up} = \frac{\text{Cost of goods sold}}{\text{Net Sales}} \times 100$$

Gross profit mark up, refers to gross profit expressed as a percentage of cost price. It is the ratio of gross profit to cost price of goods sold or cost of sales.

c. **Return on capital employed (ROCE)**

ROCE =	Operating profit (before interest and taxes)	x 100
	Total assets less current liabilities	

ROCE =	Net profit	x 100
	Capital employed	

Capital employed includes both capital (equity) and non-current liabilities. These are all the long term funds available for use by a business.

This ratio shows how efficient a business has used funds available to earn a profit. This ratio is very important to the business owners as it shows them the profitability of their investment. If the rate is very low, then the investment in business is not desirable and therefore money should be invested somewhere else, where the rate of return on capital is very high.

d. Return on Investment (ROI)

Shows how efficient management used total assets to earn profit

ROI =	Operating profit (before interest and taxes)	x 100
	Total assets	

e. Return on Equity (ROE)

This shows the return accruing to shareholders after interest payments to long-term creditors and taxes have been deducted.

Return on shareholders' equity =	Profit (after tax and interest and preference dividend)	x 100
	Shareholders equity (excluding preference shares)	

5.4.4 Debt to equity ratio

This is the ratio of total debt to the total equity of the business. It measures the extent to which the borrowed funds are covered by the business owners' funds.

Debt/equity ratio =	Total liabilities	x 100
	Total equity	

This ratio compares the amount invested by owners to that invested by other lenders. The higher the ratio, the higher the financial risk and vice versa.

5.4.5 Assets management ratio

This is also referred as Asset turnover ratio which measures how many (Frw) worth of sales a company can generate from its net assets. Net assets are non-current assets plus net current assets less non-current liabilities. In other words they equal to total equity.

$$\text{Total Assets turnover ratio} = \frac{\text{Turnover}}{\text{Total assets}} \times 100$$

Activity 5.4

The following information was obtained from the books of MANIRAREMA general trader for the year ended 31 July 2017.

Details Frw	
Opening	80,000
stock Closing stock	60,000
Purchases	260,000
Sales	600,000
Capital	500,000
Expenses	120,000
Current assets	100,000
Current liabilities	40,000

Question; Calculate the following ratios and make a report for the management that show your observations/ constataions of business' performance from obtained ratios and recommendations for improving their business performance:

- Gross profit mark-up percentage
- Acid test ratio
- Current ratio
- Gross profit Margin
- Net profit margin
- Stock turnover ratio
- Return on capital employed

5.5 Cash Flow Statements

Analyse the case study and answer the questions that follow ;

Activity 5.5



Figure: 5.4. Mutware's business

Mr. MUTWARE has been in business for the last 1 year. He was a non-governmental organization's employee before venturing into the business of logistics. For year end, he received financial statement from his accountant, a graduate from one of reputable business colleges in Rwanda. The following was his income statement and balance sheet as at December 31, 2017.

Mr MUTWARE

Trading, profit and loss account for the year ended 31 Dec. 2017

Particulars	Amount (Frw)	Amount (Frw)
Net sales		2,180,000
Less: Cost of sales		1,400,000
Gross Profit		780,000
Less: expenses		
Wages and salaries	60,000	
Discount allowed	15,000	
Electricity	25,000	
Depreciation of moto vehicle	400,000	
Loss on sale of moto bike	115,000	
Telephone charges	5,000	
Total Expenses		620,000
Net Profit		160,000

Mutware is confused by this report where he is told that he made a profit of only 160,000Frw and need more explanation.

- Identify where money was spent on and how much
- Identify where the business got money from and how much they got
- Calculate the difference between money received and expenses incurred. Is there any difference with the business' profit? Where do you think the difference is coming from?
- What is a cash flow statement?
- Cash flow statement activities are grouped into three sections. Identify them.
- Why do you think it is important for a business to prepare a cash flow statement?

Cash flows statement is a statement that provides valuable information about a company's gross payments and receipts and allows insights into its future income needs. Cash flow statement is important because:

- Cash from operating activities can be compared to the company's net income to determine the quality of earnings. If cash from operating activities is higher than net income, earnings are said to be of "high quality."

- This statement is useful to investors because, under the notion that cash is king, it allows investors to get an overall sense of the company's cash inflows and outflows and obtain a general understanding of its overall performance.
- If a company is funding losses from operations or financing investments by raising money (debt or equity) it will quickly become clear on the statement of cash flows

Cash inflow shows activities that result into cash coming into the business enterprise, i.e. sources of cash. For example; balance b/d, cash sales, debtors, share capital, interest earned, loans while

Cash outflow shows activities that result in cash going out of the business enterprise, i.e. uses of cash. For example, cash purchases, salaries, drawings, licenses, rent, taxes, etc.

Why is it necessary for an entrepreneur to make a Cash flow statement?

- It helps to identify the source of cash inflows in the business and also identify how cash was used
- It helps management in proper cash planning to avoid excess cash or cash deficits in the business
- It reports the total amount of cash used during a given period in long term investment activities such as purchase of fixed assets
- It shows the amount of cash received from various financing sources such as long term loans and sale of shares
- It helps management to avoid liquidity problems by anticipating when cash is expected to flow in and plan payments accordingly
- It helps investors to understand how a company's operations are running where its money is coming from and it is spent.

Preparation of Statement of Cash Flows

While preparing the cash flow, we will look at each section of the statement of cash flows and put them all together

Methods of cashflow statement

There are two Methods of cashflow statement

a. Direct method cash flow statement

The direct method for creating a cash flow statement reports major classes of gross cash receipts and payments (Cash inflow and cash outflow)

FORMAT OF CASH FLOW STATEMENT

Cash flow statement for the year ended as at...../ /.....

Details	JAN	FEB	MA	APR	MA	JU	JUL	AU	SE	OC	NO	DEC
cash inflows												
cash balance b/d	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX
Bank loan	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX
sales	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX
rent income	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX
Commission Rec	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX
Grants/subsidies	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX
Total cash in flows(A)	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX
cash outflows												
cash purchases	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX
Loan repayment	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX
salaries/ wages	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX
Taxes	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX
Total cash out flows(B)	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX
Cash balance c/d (A-B)	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX
Net position												XX

At the end of that given period, the business will have a surplus if cash inflows are more than the cash outflows or deficit if cash inflows are less than the cash outflows.

Example prepare Didi's cash flow for the month of January, February, March and April 2006, given the following information below:

- Cash balance b/d or b/f in January was 15000,000 Frw
- Monthly rent income was 5000,000 Frw
- Monthly credit sales to be paid in the next month were 4000,000 Frw
- Sold a business van in February 14,500,000 Frw
- Monthly commission received was 3000,000 Frw
- Monthly cash sales 10,000,000 Frw
- Monthly cash purchases 12,000,000 Frw
- Bought a truck in January 800,000 Frw
- Monthly salaries and wages 5000,000 Frw
- Bought machinery worth 15,000,000rwf, payment of 8,000,000 Frw was made in January and the balance was paid in two equal installments during

the month of February and March.

Solution

DIDI'S CASH FLOW STATEMENT FOR JANUARY, FEBRUARY, MARCH AND APRIL

Details	January	February	March	April
cash inflows				
cash balance b/d	15,000,000	7,200,000	23,200,000	24,700,000
Rent income	5,000,000	5,000,000	5,000,000	5,000,000
Credit sales		4,000,000	4,000,000	4,000,000
Sales of van		14,500,000		
Commission rec	3,000,000	3,000,000	3,000,000	3,000,000
Cash sales	10,000,000	10,000,000	10,000,000	10,000,000
Total cash in flows (A)	33,000,000	43,700,000	45,200,000	46,700,000
Cash outflows				
Cash purchases	12,000,000	12,000,000	12,000,000	12,000,000
Truck	800,000			
Salaries/ wages	5,000,000	5,000,000	5,000,000	5,000,000
Machinery	8,000,000	3,500,000	3,500,000	
Total cash out flows(B)	25,800,000	20,500,000	20,500,000	17,000,000
Cash balance c/d(A-B)	7,200,000	23,200,000	24,700,000	29,700,000
Net position				29,700,000

Exercise 1: Given the information below on central trading company ltd (for the month of April, May & June)

- On 1st April, 2005 Central Traders Company Ltd had a cash balance of 10,000,000 Frw.
- It expected monthly cash sales of 5000,000 Frw.
- Credit sales were 3,500,000 Frw per month and the payments would be made in the following months.
- Monthly rent income from some of its properties was expected to be 1,000,000 Frw
- Monthly purchases were 6,000,000 Frw.
- Monthly salaries and wages bills were projected at 800,000 Frw.

- A loan from Umwalimu Sacco was 10,000,000 Frw.
- Interest Monthly payment of 100,000 frw on the loan.
- Monthly raw material for 5000,000 Frw.

Required: Prepare central trading company's cash flow statement for the month of April, May, and June.

b. Indirect method cash flow statement

The indirect method uses net-income as a starting point, makes adjustments for all transactions for non-cash items, then adjusts from all cash-based transactions. An increase in an asset account is subtracted from net income, and an increase in a liability account is added back to net income. This method converts accrual-basis net income (or loss) into cash flow by using a series of additions and deductions

FORMAT OF INDIRECT CASH FLOW STATEMENT

Cash flow statement for year ended/...../.....

Cashflow from operating activities	FRW	FRW
Net income		xxx
Adjustment for:		
Depreciation /amortization	xxx	
Investment income	xxx	
Loss on sale of equipment	xxx	
Less: Increase in current assets	xxx	
Decrease in current assets	xxx	
Increase in current liabilities	xxx	
Less: Decrease in current liabilities	xxx	
Total adjustment		xxx
Net cash flow from operating activities		xxx
Cash flow from investing activities		
Cash received from issues of shares	xxx	
Cash received from dividend	xxx	
Less: Cash paid to shareholders(dividend)	xxx	
Net Cash flow from investing activities		xxx
Net cash position		xxx
Less: Cash balance at the beginning		xxx
Cash balance at the end		xxx

Example 5.4:

The Dells Company is preparing their annual financial statements for the year ended June 30, 2015. They have prepared the income statement, statement of retained earnings, and balance sheet. Now, we need to prepare the statement of cash flows.

a. Operating Section

For the operating section, we need the income statement. Dells Company income statement is below.

Dells Company		
Income Statement for Year Ended June 30, 2015		
	Frw	Frw
Sales		1,000,000
Cost of goods sold	600,000.00	
Salaries and wages expense	200,000	
Rent expense	40,000	
Depreciation expense	20,000	
Interest expense	3,000	
Loss on sale of equipment	7,000	
Total Expenses		870,000
Income before tax		130,000
Less: taxes		(60,000)
Net Income		70,000

To start the operating section, what do we need? We need net income, depreciation expense and any gains or losses (do not make this harder than it is — you must see the words “gain” or “loss” or do not consider it a gain or loss):

- Net Income is 70,000Frw
- Add depreciation expense 20,000Frw
- Add loss on sale of equipment 7,000Frw

Our statement of cash flows looks like this:

Dells Company		
Statement of Cash Flows for Year Ended June 30, 2015		
	Frw	Frw
Cash flows from operating activities:		
Net Income		70,000
Adjustments to reconcile net income to net cash:		
Depreciation expense	20,000	
Loss on sale of equipment	7,000	

Now we move on to the balance sheet for the CURRENT assets and liabilities. Notice the increase (or decrease) has already been calculated for you but if not, you would take the current year amount – previous year amount. If the current year is more, there is an increase and if the current year is less that is a decrease.

Dells Company			
Comparative Balance Sheet			
June 30 2015 and 2014			
	2015	2014	Increase (Decrease)
	Frw	Frw	Frw
Assets			
Current Assets:			
Cash	30,000	80,000	(50,000)
Accounts Receivable, Net	160,000	100,000	60,000
Merchandise Inventory	100,000	70,000	30,000
Prepaid Rent	20,000	10,000	10,000
Total Current Assets	310,000	260,000	
Property, plant, and equipment:			
Equipment	40,000	20,000	20,000
Accumulated Depreciation – Equipment	(60,000)	(50,000)	(10,000)
Total Property, plant, and equipment	340,000	150,000	
TOTAL ASSETS	650,000	410,000	
Liabilities and Equity			
Current Liabilities:			
Accounts Payable	50,000	40,000	10,000
Notes Payable – bank	-	50,000	(50,000)
Salaries Payable	10,000	20,000	(10,000)
Taxes Payable	30,000	20,000.00	10,000
Total Current Liabilities	90,000	130,000	
Stockholder's Equity:			
Common stock, 10Frw	300,000	100,000	200,000
Paid in capital in excess of par, Common	50,000	0	50,000
Retained earnings	210,000	180,000	30,000
Total Stockholder's Equity	560,000	280,000	
TOTAL LIABILITIES AND EQUITY	650,000	410,000	

We will use the current assets (other than cash) and the current liabilities (other than the notes payable bank that we will report in financing). Remember, we ADD decreases and SUBTRACT increases in current assets but in current liabilities we will ADD increases and SUBTRACT decreases.

- Accounts Receivable increased 60,000Frw so we will SUBTRACT 60,000Frw since this is a current asset
- Merchandise inventory increased 30,000Frw so we will subtract 30,000 Frw
- Prepaid Rent increased 10,000 Frw so we will subtract 10,000Frw
- Accounts Payable increased 10,000Frw but we will add 10,000Frw since this

is a current liability

- Salaries Payable decreased 10,000Frw so we will subtract 10,000Frw
- Federal Income Taxes payable increased 10,000Frw so we will add 10,000Frw

With this information, we can finish the operating section as follows:

Dells Company
Statement of Cash Flows for Year Ended June 30, 2015

Cash flows from perating activities		
Net Income		70,000
Adjustments to reconcile net income to net cash:		
Depreciation expense	20,000	
Loss on sale of equipment	7,000	
Increase in Accounts Receivable	(60,000)	
Increase in Merchandise Inventory	(30,000)	
Increase in Prepaid Rent	(10,000)	
Increase in Accounts Payable	10,000	
Decrease in Salaries Payable	(10,000)	
Increase in Income Taxes Payable	<u>10,000</u>	
Total adjustments		(63,000)
Net cash provided by operating activities		7,000
[7000 net income + (-63,000) in adjustment]		

What does this tell us about the company? It shows that the company was able to generate 7,000 Frw of cash from its day to day business operations. This could cause a concern since the company owes 90,000 Frw in the next year (see current liabilities on the balance sheet). But let's look at the other sections to see what else we can learn.

b. Investing Section

For the investing section, we will use the balance sheet and any additional information provided. On the balance sheet, the only long term asset we have comes from property, plant and equipment and is the Equipment account. During 2015, equipment was sold for 3,000Frw cash with an original cost of 20,000Frw and 10,000Frw of accumulated depreciation. Additional equipment was purchased for 220,000Frw cash. Let's look at these transactions:

- Equipment was sold for 3,000Frw cash (we do not need to know the rest of

the information as the important part is the amount of cash). Notice how the 10,000Frw book value of the equipment (20,000Frw cost –10,000Frw accumulated depreciation) less the 3,000Frw cash received is the loss reported on the balance sheet of 7,000 Frw. If we sold equipment, we receive cash so we will add the 3,000Frw cash.

- Dells purchased additional equipment for 220,000Frw cash so they paid cash. We will subtract the 220,000Frw cash paid.

The investing section would look like this:

Cash flows from investing activities:		
Cash received from sale of equipment	3,000	
Cash paid for new equipment	(220,000)	
Net cash used by investing activities		(217,000)

Notice how the net cash heading changed from provided in by the operating section to “used” by investing since the number is negative. Negative cash flow for investing arises because Dells Company sold old equipment and purchased new equipment with cash not with a loan!

c. Financing Section

For the financing section, we will use the balance sheet and the statement of retained earnings. On the balance sheet, we are looking at the notes payable – bank from the current liability section and any other long term liabilities.

If these balances increased, we can assume we received cash and if the balances decreased, we can assume we paid on the debt unless we are given **additional** information on the subject. Notes Payable is the only liability we haven’t already accounted for on the balance sheet. Next we look at the Equity section of the balance sheet. We have common stock, paid in capital and retained earnings. Common stock and paid in capital both increased — why does this account increase? It increases when we issue shares of common stock. We will assume Dells issued the stock for cash unless we are given additional information to the contrary. In our case, we are given no additional information so we will assume all increases or decreases involve cash. Lastly, we have retained earnings. What is involved in retained earnings? Let’s look at the statement of retained earnings to find out.

Dells Company

Statement of Retained Earnings For Year Ended June 30, 2015	
Retained Earnings, June 30 2014	180,000.00Frw
Add: 2015 Net Income	<u>70,000.00</u>
	250,000.00Frw
Deduct: Cash Dividends	<u>(40,000.00)</u>
Retained Earnings, June 30 2015	210,000.00Frw

Retained earnings include the beginning retained earnings + net income – dividends to get the ending retained earnings balance. What do we need for the statement of cash flows? We already accounted for net income in the operating section but we need to know dividends. We will assume cash dividends unless the information given tells us otherwise. In this case, it shows we paid cash dividends.

- Notes Payable – Bank decreased by 50,000Frw, we assume we paid cash of 50,000Frw in 2015 and we will subtract cash
- Common stock increased 200,000Frw and paid in capital increased 50,000Frw so the total cash received was 250,000Frw (200,000Frw + 50,000Frw) which will be added
- Cash dividends of 40,000Frw were paid and we will subtract cash

The financing section will look like this:

Cash flows from financing activities:		
Cash paid for notes payable	(50,000)	
Cash received from issuing stock	250,000	
Cash paid for dividends	(40,000)	
Net cash provided by financing activities		160,000

Now we know how Dells was able to purchase new equipment with cash, by issuing stock. This helped Dells in the current year but what about next year when they owe 90,000Frw? We need to put all 3 sections together to finish the picture.

d. Net Increase (Decrease) in Cash

The final part of the statement of cash flows is to calculate a Net Increase (or Decrease if negative) in Cash by adding the net cash from operating, investing and financing. Cash flows from Operating is 7,000Frw + Investing (217,000) Frw + Financing 160,000Frw which gives a net decrease in cash of (50,000) Frw. We then take this increase (or decrease) and add it to the beginning cash balance (which is the previous year cash balance from the balance sheet) to get a calculate Ending Cash Balance which should agree to the cash balance reported on the balance sheet for the current year. We can always check our work with a built in check figure of

ending cash! This last section would look like this:

Net Increase (or Decrease) in Cash		(50,000)
Cash Balance, 2014		80,000
Cash Balance, 2015		30,000
[80,000 2014 cash balance + (50,000 decreases)]		

So, the final cash flow statement will appear as follows:

Dells Company		
Statement of Cash Flows For Year Ended June 30, 2015		
Cash flows from operating activities:		
Net Income		70,000
Adjustments to reconcile net income to net cash:		
Depreciation expense	20,000	
Loss on sale of equipment	7,000	
Increase in Accounts Receivable	(60,000)	
Increase in Merchandise inventory	(30,000)	
Increase in Prepaid rent	(10,000)	
Increase in Accounts Payable	10,000	
Decrease in Salaries Payable	(10,000)	
Increase in Federal income Taxes Payable	10,000	
Total adjustments		<u>(63,000)</u>
Net cash provided by operating activities		7,000
Cash flows from investing activities:		
Cash received from sale of equipment	3,000	
Cash paid for new equipment	(220,000)	
Net cash used by investing activities		(217,000)
Cash flows from financing activities:		
Cash paid for notes payable	(50,000)	
Cash received from issuing stock	250,000	
Cash paid for dividends	(40,000)	
Net cash provided by financing activities		160,000
Net Increase (or Decrease) in Cash		(50,000)
Cash Balance, 2014		<u>80,000</u>
Cash Balance, 2015		<u>30,000</u>

Application activity 5.5

From the following balance sheet of XYZ Company, prepare the company's cash flow statement

XYZ		
Company Balance Sheets as at		
Assets	Year-End 30/12/ 2016 (Frw)	Year-End 30/12/2017 (Frw)
Cash	30,000	35,500
Marketable Securities	10,000	10,000
Accts Receivables	170,000	200,000
Inventory	160,000	180,000
Prepaid Expenses	30,000	20,000
Investments	20,000	50,000
Plant & Equipment	1,000,000	1,100,000
Less Accumulated	550,000	600,000
Net Plant & Equipment	450,000	500,000
Total Assets	870,000	995,500
Liabilities and Owner's Capital		
Accts Pay Depreciation	45,000	80,000
ST Bank Loans	100,000	100,000
Accrued Exp	35,000	30,000
LT Bank Loans	40,000	90,000
Owners Capital	650,000	695,500
Total Liabilities and Capital	870,000	995,500

Additional information:

Net income was 110,500 Frw, depreciation is 50,000 Frw, and the firm paid out dividends in the amounting of 65,000Frw

5.6. Statement of Owners Equity

Activity 5.6

Cooperative ABADAHIGWA KU MURIMO is a well-established cooperative which is operating in Rubavu district. The cooperative main activity is growing Irish potatoes but is also extending its activities in transport of its members' produce to cut off the cost they were incurring on transportation. During the year ended 31 December 2016 ; cooperative had bought 4 trucks worth 150,000,000 Frw (one hundred and fifty million rwandan francs) using long term loan worth 42,000,000 Frw (Forty Two million rwandan francs) and cooperative saving. Cooperative owned building valued at 64 Million rwandan francs and other assets valued at 11 million but farmers were not yet paid 6 million rwandan francs for the Irish potatoes supplied.

- a. Calculate the amount that cooperative's total assets and total liabilities as at that date.
- b. What is the total cooperative's equity as at December 31.2016.
- c. What do you understand by statement of owners' equity and why is it important ?
- d. How to prepare statement of owners' equity ?

5.6.1. Definition and importance

This is a financial statement that shows the changes in owner's equity during a given time period. It shows the equity balance at the beginning, additions and subtractions and ending balance.

It explains changes in equity from net income or net loss and from any owner investments and withdrawals over a period of time. Increases in owner's equity come from owner investments and net income. Decreases in owner's equity result from owner withdrawals or net loss.

Beginning capital+Additional investments+Net income (Net loss)- Owner withdrawals= Ending capital

5.6.2. Preparation

Step 1: Gather the needed information

The Statement of Changes in Owner's Equity is prepared second to the Income Statement. We will still be using the same source of information. Again, the most appropriate source of information in preparing financial statements would be the adjusted trial balance. Nonetheless, any report with a complete list of updated accounts may be used.

TWIYUBAKE Electronic Repair Services		
Adjusted Trial Balance as at 31-Dec-16		
Account Title	Debit (Frw '000')	Credit (Frw '000')
Cash	7,480	
Accounts Receivable	3,700	
Service Supplies	600	
Furniture and Fixtures	3,000	
Service Equipment	16,000	
Accumulated Depreciation		720
Accounts Payable		9,000
Utilities Payable		1,800
Loans Payable		12,000
Mr. Gray, Capital		13,200
Mr. Gray, Drawing	7,000	
Service Revenue	9,850	
Rent Expense	1,500	
Salaries Expense	3,500	
Taxes and Licenses	370	
Utilities Expense	1,800	
Service Supplies Expense	900	
Depreciation Expense	720	
Totals	46,570	46,570

Step 2: Prepare the heading

Like any financial statement, the heading is made up of three lines. The first line contains the name of the company. The second line shows the title of the report. In this case, it would be Statement of Changes in Owner's Equity, Statement of Owner's Equity, or simply Statement of Changes in Equity. Any of the three would be okay.

The third line shows the period covered. The report covers a span of time, hence we use For the Year Ended, For the Quarter Ended, For the Month Ended, etc. Some annual financial statements omit the "For the Year Ended" phrase.

TWIYUBAKE Electronic Repair Services
Statement of Changes in Owner's Equity
For the Year Ended December 31, 2016

Step 3: Capital at the beginning of the period

Report the capital balance at the beginning of the period reported – or the amount at the end of the previous period. Remember that the ending balance of the last period is the beginning balance of the current period.

TWIYUBAKE Electronic Repair Services	
Statement of Changes in Owner's Equity	
For the Year Ended December 31, 2016	
TWIYUBAKE, Capital - beginning	Frw 0

Note: Since the company started in December 1, 2016, the beginning balance of the capital account is zero. In the second year of operations, an amount would already be shown in the capital's beginning balance.

Step 4: Add additional contributions

Contributions from the owner increases capital, hence added to the capital balance.

TWIYUBAKE Electronic Repair Services	
Statement of Changes in Owner's Equity	
For the Year Ended December 31, 2016	
TWIYUBAKE, Capital - beginning	Frw 0
Add: Additional Contributions	13,200,000

Tip: You may need to refer to the journal to find out how much contributions were made by the owner. Other sources of information may also be used such as a log of owner's capital contributions.

Step 5: Add net income

Net income increases capital hence it is added to the beginning capital balance. Net income is equal to all revenues minus all expenses. We can also refer to the income statement we previously prepared for the amount.

TWIYUBAKE Electronic Repair Services	
Statement of Changes in Owner's Equity	
For the Year Ended December 31, 2016	
TWIYUBAKE, Capital - beginning	Frw 0
Add: Additional Contributions	13,200,000
Net Income	1,060,000

Step 6: Deduct owner's withdrawals

Withdrawals made by the owner are recorded separately from contributions. You can easily find it in the adjusted trial balance as "Owner, Drawings", "Owner, Withdrawals", or any other appropriate account. Withdrawals decrease capital, hence are deducted.

TWIYUBAKE Electronic Repair Services	
Statement of Changes in Owner's Equity	
For the Year Ended December 31, 2016	
TWIYUBAKE, Capital - beginning	Frw 0
Add: Additional Contributions	13,200,000
Net Income	1,060,000
Less: TWIYUBAKE; withdrawals	7,000,000

Step 7: Compute the ending capital balance

Compute for the balance of the capital account at the end of the period and draw the lines. One horizontal line means that a mathematical operation has been performed. Two horizontal lines (double-rule) are drawn below the final amount.

TWIYUBAKE Electronic Repair Services	
Statement of Changes in Owner's Equity	
For the Year Ended December 31, 2016	
TWIYUBAKE, Capital - beginning	Frw 0
Add: Additional Contributions	13,200,000
Net Income	1,060,000
Less: TWIYUBAKE; withdrawals	7,000,000
TWIYUBAKE capital ending	7,260,000

Conclusion

So there you have the preparation of a Statement of Changes in Owner's Equity. It is a report that shows the items that affect the capital or equity account. Simply, we are just presenting this formula in a formal report:

Capital, ending = Capital, beg. + Additional Contributions + Net Income/ profit - Withdrawals

where: Net Income = Income – Expenses

Application Activity 5.6

Kate's Fashion boutique is a fashion house in downtown Kigali that was started on January 15, 2015 with Kate's investment of 15,000Frw. During the 1st quarter of operation, the company made a profit of \$10,000 and Kate decided to withdrawal 5,000Frw from the company to pay for her living expenses. Prepare the statement of owner's equity for the quarter ended 14th April 2015.

Skills Lab Activity 5.6

1. Which transactions affect the profit of any business?
2. Bread and Baking Business is a business that operates in Nyamuragira sector. By December 2017, the business made the transactions below:

Cash sales: 21,000

Credit sales: 5,000

Beginning Stock: 30,000 (Flour)

Purchases: 15,000 (raw materials)

Ending inventory: 31000

Expenses:

- wages: 6,000
- Loan from school administration:15,000
- Water: 2,000;
- Telephone: 3,000;
- Rent: 30,000;
- License tax: 12,000

Prepare profit and loss account for Bread and Baking Business and ascertain whether it made a profit or loss?

3. What should an entrepreneur do to avoid making losses and increase profits?

End of unit assessment

1. On January 1, 2017 Madenge started a travel agency. The following events occurred during that first month.

- On January 2, Madenge invested 1 320 000 Frw cash and 100 000 Frw equipment in the business.
 - On January 3, Madenge paid 60 000 Frw cash for furniture for the travel agency.
 - On January 5, Madenge paid 50 000 Frw cash to rent the space for his business.
 - On January 7, he purchased additional equipment on credit amounting to 320 000 Frw
 - On January 8, Madenge started offering services in his business. Cash received from services provided in the first eight days (ended January 15) is 625 000 Frw.
 - On January 16, he provided services on account, the amount is 98 000 Frw.
 - On January 17, he received a cheque for services rendered the previous day on account.
 - On January 19, he paid 75 000 Frw to an assistant for working during the opening.
 - Cash received from services provided during the second half of January is 804 000 Frw.
 - On January 30, he paid 230 000 Frw part of the money he owed when he purchased equipment on account.
 - On January 31, Madenge made a 310 000 Frw cash withdrawal for personal use
- **Required**
 - i. Record the preceding transactions in a journal
 - ii. Post the transactions in a ledger and prepare the trial balance
 - iii. Prepare an income statement for January
 - iv. Prepare a statement of owner's equity for January
 - v. Prepare a balance sheet as of January 31
 - vi. Prepare a statement of cash flows

2.The following is trial balance of INGENZI Ltd as at 31 December 2012. Prepare the company's trading, profit and Loss account and a balance sheet for the year ended 31 December 2012

Particulars	Dr	Cr
	Frw	Frw
Stock 1 Jan 2012	18,160	
Sales		92,340
Purchases	69,185	
Carriage inwards	420	
Carriage outwards	1,570	
Returns outwards		640
Wages and Salaries	10,240	
Rent	3,015	
Communication	624	
Commission payable	216	
Insurance	405	
Sundry expenses	318	
Buildings	20,000	
Debtors	14,320	
Creditors		8,160
Fixtures	2,850	
Cash at bank	2,970	
Cash in Hand	115	
Drawings	7,620	
Capital		50,888
	152,028	152,028

Closing stock is Frw 12,000

- a. Calculate the following ratios and briefly give an interpretation of the results:
- Acid test ratio
 - Mark up
 - Gross profit margin
 - Stock turnover ratio
 - Return on capital employed
- b. From the above trial balance, prepare the statement of the owners' equity

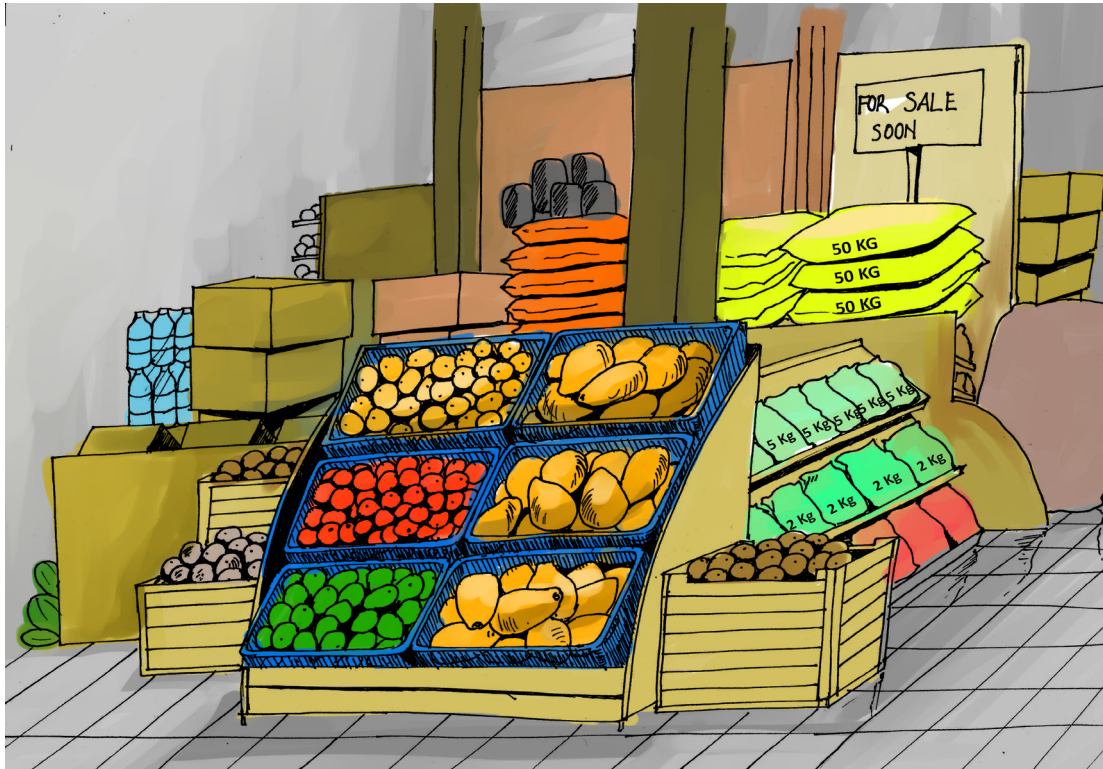




UNIT 6

STOCK CONTROL

Unit 6: STOCK CONTROL



Key unit competence: To be able to assess the need for proper inventory management

Introduction

All institutions, organizations and companies hold stocks. These are the stores of materials they keep until needed. An agricultural cooperative, for example, harvests rice and keeps it in stock until it sells it to customers; a factory keeps a stock of raw materials for its products; a television company has a stock of recorded programmes; a research company has a stock of information; a bank holds cash for its day-to-day transactions; a school stores didactic materials to be used by teachers. Whenever an organization has materials that it does not use immediately, it puts them into stock.

This unit is designed to equip you with knowledge, skills and attitudes that will enable you to manage effectively stock and make an inventory, to comply with the standards, policies and procedures to be followed in the procurement of goods, services and works in supply chain management. Through this unit, you will learn how to use basic documents needed in stock management, how to conduct perpetual and periodical inventory, procurement procedures, as well as evaluation methods on supplied stock.

Introductory activity

Read the following story and answer the questions that follow;

Kamana is an ambitious entrepreneur, based in Rwamagana town. He is a famous shopkeeper, with the best quality of goods. Recently, he started to process maize and produce flour. This new business was very demanding to an extent that Kamana was obliged to hire an employee responsible for shop management, as he caters for maize processing business. Kamana became very busy, to the level that he was no longer able to carry out inventory control, monitor changes in the marketplace and cater for the needs of customers. So, designing, planning, executing, controlling, and monitoring of supply chain activities became responsibilities of the new employee. As the new employee was not experienced about procurement procedures, stock and inventory management as well as proper identification and follow up on clients' needs, there were often missing items in the stock, despite raised need by clients. On the other hand, a considerable number of goods were rejected due to the expiration and damage. After a while, Kamana just noticed that the number of customers and his revenues were decreasing.

Questions

1. What are the main causes of poor inventory control from the above story?
2. Identify main effects of poor stock management and inventory control on a given business.
3. What advise can you give to Kamana and his employee in relation to proper business management?
4. As an entrepreneur, what can you do in order to avoid incidents related to poor stock management in your business?

6.1 Meaning of stock, stock management and inventory

Activity 6.1

Suppose you are a top manager of a big organization such as a health center or a restaurant having a big number of clients who normally come at different time intervals, which owns different materials and assets used in the provision of its services. Since these assets have to be kept safely for the purpose of customer's satisfaction, and realization of organization's objective, you decided to hire some employees to carry out the required activities. Besides, as a manager before commencing your responsibilities, you were informed that shareholders need regular reports on the status of their business, including available assets.

Questions

1. Indicate basic initiatives that you will take to safeguard your organization's assets.
2. Identify key persons who will support you to implement those initiatives and their responsibilities.

6.1.1. Meaning of stock and inventory

In recent years it has become more common to use 'inventory' for both the list of items and the stock itself, and the two terms then become interchangeable. At the same time, organizations refer to their stock as stores, provisions, stockpiles, holdings, reserves, accumulated materials, banks, or a host of other names. However, some groups put slightly different interpretations on the terms. Accountants, for example, view 'inventory' as the amount of money tied up in stocks, rather than the stocks themselves, or it might be the total value of an organization's assets. To finance people, 'stocks' are a way of raising capital, in the sense of 'stocks and shares' – and have nothing to do with stores of materials. Usually, these differences are fairly obvious, but sometimes you have to be a bit more careful while using them. In this unit standard definitions shall be used, where:

- **Stock** consists of all the goods and materials that are stored by an organization. It is a store of items that is kept for future use.
- An **inventory on the other hand**, is a list of the items held in stock.

6.1.2 Importance of stock and inventory management in organizations

- **The main purpose of stock is to give a buffer (shield) between supply and demand.** This safety caution is essential to ensure the smooth running of operations. The amounts held have widespread effects on the performance of an organization. Without stocks, most operations are impossible.
- **Stocks allow operations to become more efficient and productive.** Stocks affect lead times and availability of materials thereby affecting customer service, satisfaction, and the perceived value of products.
- Stocks affect operating costs and hence profit, return on assets, return on investment and every other measure of financial performance.
- **Stock also helps in tracking of products:** for example; you may discover a product that is selling extremely well, which means you can order more of it and even test related products. Some other times, it's easy to lose track of which products are winners and which products you could probably do without. If you have large numbers of a product that has been on the shelves for months, it's a good indication that it's not popular and that you may have to slash prices to move the stock on.

- **Improvement of ordering process.** Stock taking highlights any shortages you weren't aware of and will prompt you to order more. For example, you may have had on record that you had a whole pallet of those super popular t-shirts, but stock take could reveal that a large portion were damaged in transit, or even stolen.
- **Helps in finding flaws in pricing strategies:** stock management is a great opportunity to analyze sales and profits and potentially revise any pricing strategies that aren't generating maximum profit.

6.1.3 Stock management and Inventory Control

Stock management is the practice of ordering, storing, tracking and controlling inventory. Stock management applies to every item a business uses to produce its products or services—from raw materials to finished goods. In other words, stock management covers every aspect of a business's inventory.

Stock management must include an inventory control system to ensure the accuracy of inventory records. The organization will not have the ability to make purchasing decisions without accurate inventory quantities. Maintaining a balance involves planning and forecasting, which may include preparing for unforeseen events such as failure of suppliers to meet the organization's deadlines. The marketing department, sales and purchasing must work together to determine the appropriate levels of stock to have on hand. Sales and marketing provide information such as sales forecasts to predict the amount of materials the company needs to meet demand. Purchasing must then consider lead times and supplier reliability when ordering materials for the company.

The sequence of stock replenishment and reduction to meet demand is repeated continuously in a **stock cycle**. Typically, each cycle has the following elements:

- An organization buys a number of units of an item from a supplier.
- At an arranged time, these units are delivered.
- Unless they are needed immediately, the units are put into storage, replenishing the stock.
- Customers, either internal or external, create demands for the item.
- Units are removed from stock to meet these demands.
- At some point, the stock gets low and it is time for the organization to place another order.

Usually deliveries from suppliers are relatively large and infrequent, while demands from customers are smaller and more numerous. The length of a stock cycle can vary between a few hours (like newspapers and milk which have frequent deliveries) and decades (like gold that is rarely passed on to customers).

Inventory control is the “coordination and supervision of the supply, storage, distribution, and recording of materials to maintain quantities adequate for current customer needs without excessive supply or loss.”

When it comes to wholesalers and distributors of durable goods, inventory control can be further defined as the process employed to maximize a company’s use of inventory. The goal of inventory control is to generate the maximum profit from the least amount of inventory investment without hindering customer satisfaction levels or order fill rates.

Inventory control also includes aspects of managing a company’s inventories: purchasing, shipping, receiving, tracking, warehousing and storage, turnover, and reordering.” Inventory control is such a critical piece of an organization’s operations and bottom line that it is too important to leave to human error or antiquated systems. That’s why so many companies opt to invest in inventory control systems, so that all of the components of inventory control are managed by one integrated system.

Application Activity 6.1

1. Describe the stock management system in your school
2. Explain the importance of inventory control in an organization

6.2 Necessary documents for stock management

Activity 6.2

Read the story below and answer questions that follow;

Kamanzi is a prosperous trader in Nyarugenge district and owns a very big business. He is considered an exceptional trader by many customers mainly because during scarcity of scholastic materials like reams of papers and exercise books, he is the only trader every parent refers to as he helps them find the needed materials for their children. Kamanzi is also exemplary in terms of stock management. This is attributed by the fact that he has employees who are well trained and manages his stock properly.

1. Mention the documents that can be used for proper stock management in Kamana’s business.
2. Under which circumstances can his employees record information?

The following are the necessary documents in stock management process:

- Material/ purchase requisition note

- Receipt note
- Return-outward note
- Return-inward note
- Stock sheet (Inventory form)

6.2.1 Purchase/material requisition

The purchase requisition is a document generated by a user department or storeroom personnel to notify the purchasing department of items it needs to order, their quantity, and the timeframe. It may also contain the authorization to proceed with the purchase. It is also called *purchase request or requisition*.

The purchase or material requisition Form in the procurement process plays an important role. It is a means whereby an employee of an organization can request materials or equipment. Once the employee of the organization has completed the Purchase/material Requisition and it has been authorized, they can then take it to the purchasing department for a Purchase Order to be created.

Some organizations utilize technology to manage requisitions and the requisition form is electronic and is simply a way of improving efficiency, with the form being completed online and then sent off to the relevant person in the purchasing department.

Although the use of purchase requisitions may seem slightly bureaucratic, they are very useful, not just in terms of the audit trail, with accountability for orders being shown, but they also provide the purchasing department with very clear instructions about what is required, the budget needed, when it should be delivered together with possible sources of supply.

Often the requisition will contain details of any cost codes that are required for budgeting purposes ; so, if an item is to be charged to a particular area of the budget then the purchasing department will be told which cost code to charge the items to, so it helps keep budgets up to date. Since this information will not be contained on the Purchase Order, it is a way of ensuring that the books are balanced and there are no over spends.

The Requisition should also contain details of the time scale for delivery, so if something is urgent, then this should be noted on the Requisition. It should not be assumed that the purchasing department will know that something is urgent ; it is up to the person who is completing the form to make arrangements for the order to be treated as such.

Example of Requisition

Name of the company : UBUMWE RESTAURANT

Unit : Kitchen

Date : 1/05/2018

Requisition N°: 1

N°	Items	Quantity	Estimated Unit Price	Estimated Total Price	Remarks
1.	Beans	10 kg	500 Frw	5,000 Frw	
2.	Cooking oil (mukwano)	4 liters	1500 Frw	6,000 Frw	
3.	Rice (pakista)	50kg	800 Frw	40,000 Frw	
4.	Sugar	25 kg	900 Frw	22,500 Frw	
	TOTAL PRICE				

Requested by (Names) : Muhinda

Signature :

6.2.2 Receipt note

The receipt note or Good Received note is the record of goods received at the point of receipt. This record is used to confirm that all goods have been received and often compared to a purchase order before payment is issued.

Example of Receipt note/Good received note

Goods Received Note

Requisition No: 1

Company: UBUMWE RESTAURANT

Name of requisitioning officer: Muhinda

Date: 1/5/2018

Delivery note No: 3

Handed over by: Manishimwe (Manager).

Date: ~~1/5/2018~~ 2018

Received by: Muhinda

Date: 1/5/2018

Item description	Unit of issue	Unit price (frw)	Quantity ordered	Total price (frw)	Unit price (frw)	Quantity delivered	Total price (frw)	Signature	Remarks
Beans	kg	500	10	5,000	600	8kg	4,800		
Cooking oil (Mukwano Vegetable oil)	liter	1500	4	6,000	1,300	5liters	6,500		One extra jerrican of 5 litres
Rice (Pakistan rice)	kg	800	50	40,000	800	50kg	40,000		
Sugar	kg	900	25	22,500	850	25	21,250		
TOTAL				73,500			72,550		

Name and signature of receiving officer: Muhinda 

Name and signature of supplier: Manishimwe

6.2.3 Return-outward note

Returns in accounting refer to the goods returned by a business to its suppliers or by a customer to a business. In one case, it is a sales return and in the other, it is a purchase return. The transaction in both cases is reversed and the concerned sale or purchase does not happen.

Return outwards refer to the goods returned by an organization to its suppliers. They are goods which were purchased from suppliers, however, because of being unsatisfactory or different reasons were returned to the suppliers. They are also called purchase returns.

Therefore a return outward note is a document that records goods returned by an organization to its suppliers also known to as purchase returns note.

Sometimes, it may be necessary to return few goods back to a supplier when an order is received. This may be due to poor quality, inaccurate quantity, untimely delivery or other reasons. Purchase returns reduce total purchases of an organization and the deduction is shown in the trading account. Suppose company B that manufactures sugar, receives 2 tons of sugarcanes from company A. Due to their poor quality, these 2 tons are returned to company A. The 2 tons are returns outwards or purchase returns for company B. A subsidiary book, namely purchase returns book is prepared to record all such entries. All returns are primarily recorded in the purchase returns book unless the returns are not frequent. In such case, they are recorded in the journal.

6.2.4 Return-in ward note

Return inwards are the goods returned to an organization by its customers. They are goods which were sold, but usually, because of being unsatisfactory, were returned by the customers. They are also called the **sales returns**.

A return in ward note is therefore a document that records goods returned a customer to the business also known to as sales returns note.

Suppose company B manufacturing sugar, receives 2 tons of sugarcanes from the company A, due to their poor quality, these 2 tons are returned to the company A. The 2 tons are returns inwards or sale returns for company A. Sales return reduces total sales of a company and the deduction is shown in the trading account. A subsidiary book called **sales** returns book is made to record all such entries.

6.2.5 Stock sheet /Inventory form

The stock sheet is a document that records regular movement of goods in the store. The storekeeper indicates the goods received or issued. The storekeeper determines the balance after the movement of purchases and sales of goods. Each exit and

entry of goods into stock must be justified with a relevant document such as receipt note and purchase requisition note.

Example of stock sheet

Name of company : Papeterie Umusanzu

Date : 1/05/2018

N°	Stock items	Initial			Received			Issued			Balance		
		Qty	P/U (Frw)	Total	Qty	P/U (Frw)	Total	Qty	P/U (Frw)	Total	Qty	P/U (Frw)	Total (Frw)
1.	Reams of papers	6	4,000	24,000	20	4,000	80,000	4	4,500	18,000	22	4,000	88,000
2.	Exercise books	100	160	16,000	0	-	-	20	200	4,000	80	160	12,800
3.	Pens	60	80	4,800	0	-	-	10	100	1,000	50	80	4,000
4.	Pencils	30	70	2,100	0	-	-	0	-	-	30	70	2,100
5.	Markers	0	-	-	50	100	5,000	10	150	1,500	40	100	4,000
6.	Staples	10	100	1,000	0	-	-	0	-	-	10	100	1,000
	TOTAL			47,900			85,000			24,500			111,900

NOTE: The tables given are general templates but can be adjusted depending on the type of organization.

Application Activity 6.2

1. Nyiraneza is a stock manager for SABANA LTD, a distributor of BRALIRWA products. On March 12th, 2018, SABANA LTD had the following items in the stock:

Items	Number of crates	Unit Price
Primus 72cl	12	8,100
Primus 33cl	6	8,100
Mutzig 65cl	4	10,100
Mutzig 33cl	0	10,200
Legend 30 cl	4	12,100
Amstel 33cl	8	14,100
Turbo King 33cl	1	10,200
Heineken 33cl	0	20,000
Soft Drinks 30cl	3	6,700
Soft Drinks 50cl	6	8,000

In the morning of March 12th, 2018, Nyiraneza made a Purchase order for the following items:

Items	Unit price (Frw)	Quantity ordered	Total price (Frw)
Primus 72cl	8,100	20	162,000
Primus 33cl	8,100	0	0
Mutzig 65cl	10,100	15	151,500
Mutzig 33cl	10,200	30	306,000
Legend 30 cl	12,100	6	72,600
Amstel 33cl	14,100	10	141,000
Turbo King 33cl	10,200	10	102,000
Heineken 33cl	20,000	5	100,000
Soft Drinks 30cl	6,700	30	201,000
Soft Drinks 50cl	8,000	0	0
TOTAL			1,236,100

BRALIRWA main stock supplied to SABANA LTD the following items on March 12th, 2018:

Items	Unit price (Frw)	Quantity delivered	Total price (Frw)
Primus 72cl	8,100	20	162000
Primus 33cl	8,100	0	0
Mutzig 65cl	10,100	15	151500
Mutzig 33cl	10,200	30	306000
Legend 30 cl	12,100	0	0
Amstel 33cl	14,100	10	141000
Turbo King 33cl	10,200	10	102000
Heineken 33cl	20,000	5	100000
Soft Drinks 30cl	6,700	30	201000
Soft Drinks 50cl	8,000	0	0
TOTAL			1,163,500

On the same day (March 12th, 2018), SABANA LTD sold the following items:

Items	Number of crates
Primus 72cl	15
Primus 33cl	6
Mutzig 65cl	6
Mutzig 33cl	0
Legend 30 cl	4
Amstel 33cl	8
Turbo King 33cl	1
Heineken 33cl	0
Soft Drinks 30cl	12
Soft Drinks 50cl	6

- Complete the receipt note and stock sheet for SABANA LTD on March 12th, 2018.
- Develop a purchase requisition (10 crates for each identified item) for SABANA LTD on March 13th, 2018, following the principle that the minimum stock level is 6 crates for each item.

6.3 Procurement procedures

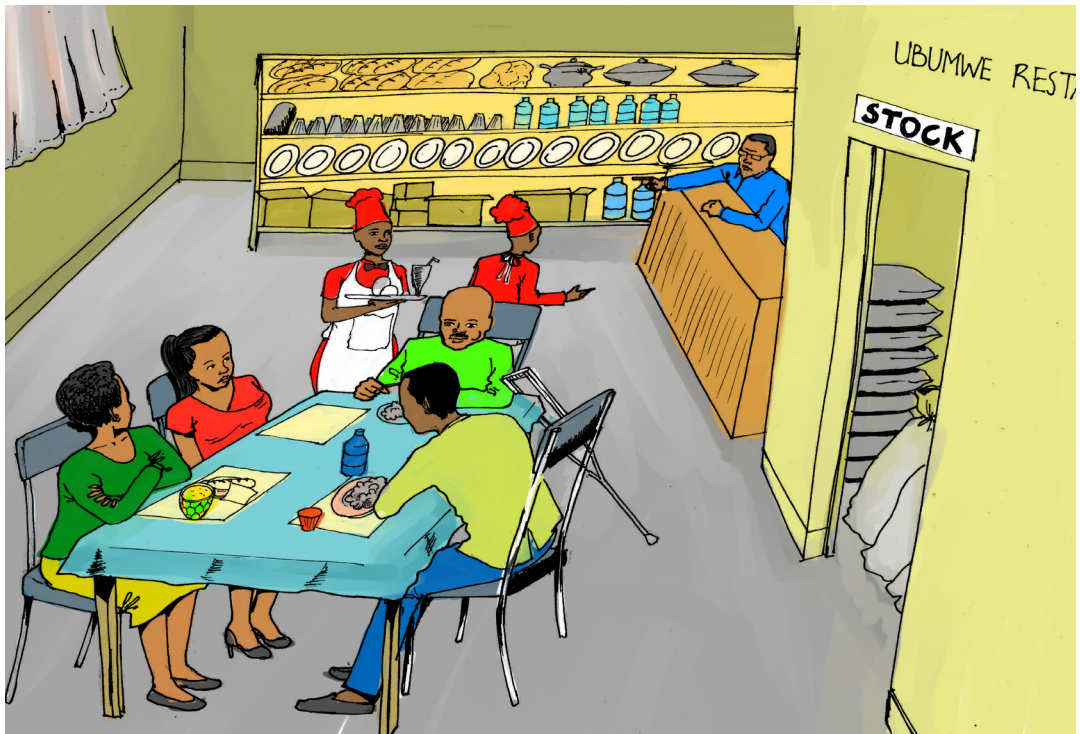


Figure 6.1: Procurement procedures in Ubumwe Restaurant

1. In your understanding, what is meant by procurement?
2. Describe the process through which the manager UBUMWE restaurant purchases food and other materials for his business

6.3.1 Meaning of procurement

Procurement is the process of finding, agreeing terms and acquiring goods, services or works from an external source, often via a tendering or competitive bidding process.

Procurement is the business management function that ensures identification, sourcing, access and management of the external resources that an organization needs or may need to fulfill its strategic objectives.

Procurement covers the complete range of events from the identification of a need for a good or service through to its disposal or cessation. It includes activities and events before and after the signing of a contract as well as the general management activities associated with a range of contracts such as:

- Pre-contract activities such as planning, needs identification and analysis, and sourcing,

- Post-contract activities such as contract management, supply chain management and disposal, and
- General activities such as corporate governance, supplier relationship management, risk management and regulatory compliance etc.

Procurement delivers a range of benefits. It not only seeks to reduce costs and to ensure supply, it also supports strategic organizational objectives such as market expansion and product innovation among others.

6.3.2 Procedures in procurement process.

Step 1 : Need Recognition : A business owner (or procurement department) must recognize that a product is needed in order to purchase it. That product can be either a brand new item, or one that is being re-ordered. In order to avoid running out stock and due to the costs involved in holding inventory, an organization will aim at holding the minimum amount possible while still being able to satisfy orders from its customers. The minimum inventory a company can afford to hold will depend on several factors, including the time between placing an order with a supplier and receiving it, known as the lead time. The minimum level or safety stock level is the level of inventory, below which the stock of materials should not be fall. If the stock goes below minimum level, there is a possibility that the production may be interrupted due to shortage of materials. In other words, the minimum level represents the minimum quantity of the stock that should be held at all times.

Step 2: Specific Need: If the organization has specific requirements for various products, the procurement department should be sure to be up-to-date on those requirements and order accordingly.

Step 3: Examination of Supplier Options (Source): Every business/organization needs to determine where to get their goods. Some organizations have an approved vendor's list while others are still trying to determine who the best suppliers are. For public procurement, the law provides guidelines to be followed. Once a supplier is chosen, organization should stick with that relationship and try to establish preferred pricing.

Step 4: Price and Terms: Once a supplier is chosen, organization should stick with that relationship and try to establish preferred pricing and specific terms (i.e. delivery).

Step 5: Purchase Order: The purchase order outlines the price, specifications and terms and conditions of the product or service and any other additional obligations. To assist in record keeping, purchase orders typically have the same number as the associated purchase requisition. Once the vendor accepts the purchase order, it becomes a binding contract on both the buyer and seller.

Step 6: Delivery: The transfer of the purchase order may be via email, or fax etc.

Step 7: Expediting: This stage addresses the timeliness of the service or materials delivered. Delays, for many businesses, are important. The purchase order will have expected delivery date information.

Step 8: Receipt and inspection: Once delivered, the receiving organization inspects and, subsequently, accepts or rejects the product. Rejection may be due to a damaged product.

Step 9: Invoice Approval and Payment: At this stage, three documents must match when the seller wants payment: the invoice, the receipt note and the original purchase order. This is known as three-way matching. If there is a discrepancy, it must be resolved before payment is made.

Step 10: Record Keeping: The receiving (buying) organization must keep good records. This means saving all relevant documents for every completed purchase.

Application Activity 6.3

1. Kalisa is an entrepreneur, wishing to start a new business in your location. As his advisor, you have shared the business idea and you have already identified the business opportunity. Now, you are requested to identify the needs for this business, potential suppliers and prepare purchase orders. Use the knowledge and skills gained so far to accomplish your mission.
2. Summarize the procurement process for building a clinic in your sector.

6.4 Perpetual and periodical inventory

Activity 6.4

1. Differentiate between perpetual and periodic inventories
2. Referring to your school, briefly explain how perpetual and periodical inventories are carried out by the accounting department.

The perpetual and periodical inventory systems give small business the flexibility about how to track its inventory. A perpetual system keeps an ongoing record of the inventory balance, and a periodic system records the amount every once in a while. Although both systems work, their differences should be kept in mind when choosing which one is best for your organization.

6.4.1 Perpetual inventory

Perpetual inventory is a regular system of recording and controlling the physical movements of stock and establishing its current balance. Under perpetual inventory system, inventory and cost of goods sold are updated for each sale/purchase and return transaction.

Perpetual inventory can also be seen as a method of accounting for inventory that records the sale or purchase of inventory immediately through the use of computerized point-of-sale systems and enterprise asset management software. Perpetual inventory provides a highly detailed view of changes in inventory with immediate reporting of the amount of inventory in stock, and accurately reflects the level of goods at hand. A perpetual inventory system constantly maintains the amount of inventory owned and sold.

The greatest benefit of this system is always having an accurate idea of how much inventory your company is carrying. At any time, you are able to check your balance sheet and see the total amount of inventory. Another advantage of a perpetual inventory system is its automation. Because the inventory balance is always maintained, your accounting system automatically counts and reconciles inventory. The number one item to think about regarding a perpetual inventory system is the cost because you need a software that communicates with every purchase and sales made. However, a perpetual inventory system is more expensive than other systems. Additionally, there are ongoing maintenance costs to consider to ensure the inventory system is running correctly.

The stock held is valued as follows:

Stock Value = Number of Items held x Cost per Item

6.4.2 Periodic Inventory :

Periodic inventory can be defined as a system of inventory in which updates are made on a periodic basis. The value of stock is determined by a physical counting on a specific date before the date of preparation of the final accounts. In a periodic inventory system, no effort is made to keep up-to-date records of either the inventory or the cost of goods sold. Instead, these amounts are determined only periodically, usually at the end of each month or year. This physical count determines the amount of inventory appearing in the balance sheet. The cost of goods sold for the entire year then is determined by a short computation.

A periodic inventory system is a method of occasionally counting inventory. The financial statements still track and report inventory ; however, knowing the exact amount of inventory at all moments is not a priority. Instead, inventory is reconciled on a monthly basis to get a sense of obsolescence, theft, and business activity.

The main benefit of a periodic inventory system is its simplicity. It requires less maintenance and is more affordable. However, a periodic system is most likely going to be manual. This means you have to count the amount in inventory at the end each month. In addition, the amount reported as your cost of goods sold is estimated. Therefore, a periodic inventory system sacrifices a bit of quality.

6.4.3 Differences between Perpetual and Periodic Inventory Systems

The following are the main differences between perpetual and periodic inventory systems :

- **Periodic inventory management** allows a company to know the beginning inventory and ending inventory within an accounting period, but it does not track inventory on a daily basis like perpetual system.
- **Inventory Account and Cost of Goods Sold** Account are used in both systems but they are updated continuously during the period in perpetual inventory system whereas in periodic inventory system they are updated only at the end of the period.
- **Purchases Account, Purchase Returns and Allowances Account** are only used in periodic inventory system and are updated continuously. In perpetual inventory system purchases are directly debited to inventory account and purchase returns are directly credited to inventory account.
- **Sale Transaction** is recorded via two journal entries in perpetual system. One of them records the sale value of inventory whereas the other records cost of goods sold. In periodic inventory system, only one entry is made.
- **Closing Entries** are only required in periodic inventory system to update inventory and cost of goods sold. Perpetual inventory system does not require closing entries for inventory account.

Application Activity 6.4

Nishimwe and Rugwiza are employees of TURAHEZA COMPANY LTD which has hardware stores in Huye and Kigali towns. Nishimwe is the manager of Huye branch, while Rugwiza is the manager of Kigali branch. In their daily work, Nishimwe records and controls the physical movements of stock. Every time she sales or purchases an item, she puts the report in the template that she has developed using excel software. For Rugwizwa, the stock manager of Kigali branch, the inventory control is done at the end of the month and the monthly stock value is determined.

Questions.

1. Determine whether the system used by these employees is perpetual or periodic and explain why.
2. Identify advantages of each system.

6.5 Valuation methods on supplied stock

Activity 6.5 Situation analysis Activity 9.6

AMBARUBERWE Limited bought a range of beachwear in the spring, with each item costing 15,000 Frw and retailing for 30,000 Frw. Most of the goods were sold but, by autumn, ten items remained unsold. These were put on the bargain rail at 18,000 Frw each. On 31 December, at the end of the store's financial year, five items remained unsold.

- a. At what price will they be valued at the end of year stock valuation?
- b. Twelve months later, three items still remained unsold and have been reduced further to 10,000 Frw each. At what price will they now be valued at the end of year stock valuation?

Introduction

The cost of unsold inventory is determined at the end of each accounting period. Inventory is valued usually at cost or at the market value, whichever is lower. Stocks are never valued at selling prices when selling prices are above cost prices. The reason for this is that selling prices include profit, and to value stock in this way would recognize the profit in the financial statements before it has been realized. The three common stock valuation methods are first-in, first-out (FIFO); last-in, first-out (LIFO) and Weighted Average Cost (WAC)..

6.5.1 FIFO

FIFO is the acronym for *First-In, First-Out*. FIFO is a cost flow assumption often used to remove costs from the inventory account when an item in inventory had been purchased at varying costs.

Under FIFO, the *oldest* cost of an item in inventory will be removed *first* when one of those items is sold. This oldest cost will then be reported on the income statement as part of the cost of goods sold. FIFO also means that the more recent costs of an item will remain in the Inventory account and will be reported on the balance sheet. If a company using FIFO method has four units purchased at different costs and in the following sequence: 6,000 Frw; 6,400 Frw, 6,500 Frw and 6,600 Frw, the company will report its cost of goods sold as 6,000 (the first cost).

6.5.2 LIFO

LIFO is the acronym for *Last-In, First-Out*. It is a cost flow assumption that can be used by companies in moving the costs of products from inventory to the cost of goods sold.

Under LIFO the latest or more recent costs of products purchased (or produced) are the first costs expensed as the cost of goods sold. This means that the costs of the oldest products will be reported as inventory.

It is important to understand that while LIFO is matching the latest or most recent costs with sales on the income statement, the company can be shipping the oldest physical units of product. In other words, the flow of costs does not have to match the flow of the physical units. This is why LIFO is a cost flow assumption or an *assumed* flow of costs. If the costs flowing matched the physical units flowing, it would be the *specific identification method* and there would be no need to assume a cost flow.

Let us illustrate LIFO with a company that has three units of the same product in inventory. The units were purchased at different costs and in the following sequence: 6,000 Frw; 6,400 Frw and 6,600 Frw. The company ships the oldest item (the one purchased for 6,000 Frw). However, under LIFO the company will report its cost of goods sold as 6,600 (the latest cost). Note that the last cost of 6,600 Frw is the first cost out of inventory—the LIFO assumption.

LIFO has become popular because of inflation and the fact that the income tax rules can permit companies to use LIFO. With LIFO a company is able to match its recent, more-inflated costs with its sales thereby reporting less taxable income than would occur under another cost flow assumption. Also, the matching of the latest costs with recent sales is a better indicator of the company's current profitability.

6.5.3 Weighted Average Cost method (WAC)

In Weighted Average Cost method (WAC or AVCO), the weighted average cost of items is calculated, using the formula:

$$\text{Weighted Average Cost} = \frac{\text{Total cost of goods in stock}}{\text{Number of items in stock}}$$

The weighted average cost is then used to value goods sold. A new weighted average cost must be calculated each time that further stocks are bought during the year.

Recording stock values

In order to be able to calculate accurately the price at which stocks of materials are issued and to ascertain a valuation of stock, a **stores ledger record** or **stock card** is used. Note that stock records are usually kept at cost price, not the selling price.

Example of stock card

Papeterie Umusanzu is a company selling office materials. One of the items stocked is reams of papers. To show how the stock card would appear under FIFO, LIFO and AVCO, the following data is used:

January 2018: Opening stock of 40 reams of papers at a cost of 3,000 Frw each

February 2018: Bought 20 reams of papers at a cost of 3,600 Frw each

March 2018: Sold 36 reams of papers

April 2018: Bought 20 reams of papers at a cost of 3,750 Frw each

May 2018: Sold 25 reams of papers

1. Stock card using FIFO:

Note: In the FIFO method, units issued at the same time may be valued at different costs. This is because the quantities received, with their costs, are listed separately and used in a specific order. There may be insufficient units at one cost, eg see the May issue, below.

Name of company: Papeterie Umusanzu

Item: Reams of papers

Date 2018	Receipts			Issues			Balance		
	Quantity	P/U	Total cost (Frw)	Quantity	P/U	Total cost (Frw)	Quantity	P/U	Total cost (Frw)
January	Balance						40	3,000	120,000
February	20	3,600	72,000	-	-	-	40 20 60	3,000 3,600	120,000 <u>72,000</u> 192,000
March				36	3,000	108,000	4 20 24	3,000 3,600	12,000 <u>72,000</u> 84,000
April	20	3,750	75,000	-	-	-	4 20 20 44	3,000 3,600 3,750	12,000 72,000 <u>75,000</u> 159,000
May				4 20 1 25	3,000 3,600 3,750	12,000 72,000 3,750			
Total	40		147,000	61		244,000	19	3,750	71,250

Note: In the 'Balance' columns, a new list of stock quantities and costs is started after each receipt or issue. When stock is issued, costs are used from the top of the list downwards.

2. Stock card using LIFO:

Name of company : Papeterie Umusanzu

Item: Reams of papers

Date	Receipts			Issues			Balance			
	2018	Quantity	P/U	Total cost(-Frw)	Quantity	P/U	Total cost(-Frw)	Quantity	P/U	Total cost(Frw)
January	Balance							40	3,000	120,000
February	20	3,600	72,000	-	-	-	40 20 60	3,000 3,600	120,000 <u>72,000</u> 192,000	
March				20 16 36	3,600 3,000	72,000 48,000	24	3,000	72,000	
April	20	3,750	75,000	-	-	-	24 20 44	3,000 3,750	72,000 <u>75,000</u> 147,000	
May				20 5 25	3,750 3,000	75,000 15,000	19	3,000	57,000	
Total	40		147,000	61		244,000	19		57,000	

3. Stock card using WAC (weighted average cost per unit)

In this method, each quantity issued is valued at the weighted average cost per unit, and so is the balance in stock. The complete list of different costs does not have to be re-written each time.

Name of company: Papeterie Umusanzu

Item: Reams of papers

Date	Receipts			Issues			Balance			
	2018	Quantity	P/U	Total cost(Frw)	Quantity	P/U	Total cost(Frw)	Quantity	P/U	Total cost(Frw)
January	Balance							40	3,000	120,000
February	20	3,600	72,000	-	-	-	40 20 60	3,000 3,600	120,000 <u>72,000</u> 192,000	
March				36	3,200	115,200	24	3,200	76,800	
April	20	3,750	75,000	-	-	-	24 20 44	3,200 3,750	76,800 <u>75,000</u> 151,800	
May				25	3,450	86,250	19	3,450	65,550	
Total	40		147,000	61		244,000	19		65,550	

Note: Weighted average cost is calculated by dividing the quantity held in stock into the value of the stock. For example, at the end of February, the weighted average

cost is $192,000\text{Frw} \div 60 = 3,200$, and at the end of April it is $151,800 \div 44 = 3,450\text{Frw}$.

The closing stock valuations at the end of May 2018 under the three methods show total cost prices of:

- FIFO: 71,250 Frw
- LIFO: 57,000 Frw
- WAC: 65,550 Frw

Application Activity 6.5

GASABO Bakery Limited makes cakes which are sold to supermarket chains. The company uses the first in, first out (FIFO) method for valuing its stocks. Complete the following stock card for wheat flour for December 2017:

STOCK CARD: WHEAT FLOUR									
Date 2017	Receipts			Issues			Balance		
	Quantity Kg	Cost per kg	Total cost Frw	Quantity Kg	Cost per kg	Total cost Frw	Quantity Kg	Cost per kg	Total cost Frw
Balance at 1 December							1,000	1,000	1,000,000
6 December	2,000	1,100							
10 December				2,000					
17 December	2,500	1,200							
20 December				1,500					
25 December				1,000					

Skills Lab Activity 6.6

Interview a resourceful person such as school bursar, accountant or an entrepreneur about the procurement process using the following questions:

1. Why does the business/school get into procurement process when they are buying materials?
2. What are the necessary documents involved in the procurement process?
3. What process does the business/school follow or go through during procurement?
4. Why does the business/school manager control a business inventory/stock?
5. What advice would you give me as an inspiring entrepreneur to be on procurement process or inventory management?

End of Unit 6 Assessment

1. What is the importance of stock and inventory management in organizations?
2. Differentiate between Return inwards and Return outwards.
3. Indicate 3 disadvantages of perpetual inventory system.
4. Identify 3 disadvantages of periodical inventory system.
5. Suppose you are selected to be the Head of Finance Unit in a newly established public hospital. Prepare a purchase requisition for your office materials.
6. Explain the relationship between purchase requisition and purchase order.
 - The following information is extracted in the books of a stock manager:
200 bags of 50 kg of cement are bought in January 2016 at a cost of 10,000 Frw each
 - 100 bags are sold in February
 - 80 bags are bought in March at a cost of 9,500 Frw each
 - 100 bags are sold in April
 - 150 bags are bought in May at a cost of 9,800 Frw each.

From this information, prepare stock cards for cement using:

- a. FIFO
- b. LIFO
- c. WAC



UNIT7

BUSINESS PLAN OF AN ENTERPRISE

Introductory activity

Imagine you have just finished senior six and that you have been invited for a 2 weeks none residential training workshop in Huye District for you to get a well-paying job. This is an important training workshop that you have been waiting for and you must attend. As you prepare for attending the workshop:

- What questions will you ask yourself?
- What answers should you find for each question raised?

Nº	Question	Answer

- What is the importance of asking yourself and answering the questions (in 1 and 2 above) before you set off for the journey to the workshop in Huye District?

7.1 Meaning of a business plan



Figure 7.1: A business plan developed from a business idea

Activity 7.1

As a student of senior six;

- Develop your personal plan daily, weekly, monthly and yearly activities.
- What do you plan to do after your studies and in your life?
- How and when do you plan to reach there?
- As an entrepreneurship student, interpret the meaning of figure 7.1 In relation to business plan.

7.1.1 What is a business plan?

A plan is a proposed or tentative course of action worked out beforehand for the purposes of accomplishing a goal. It can also be described as a thought out journey that would take you to your desired destination.

Ideally, planning is looking into the future and putting in place the means to reach that future. It is setting goals and how to achieve them, deciding on the end and the means to the end. We should all be concerned about the future because we will have to spend the rest of our lives there. Future outcomes are a function of today's decisions. For anyone starting a business, a business plan is a vital first step and every business requires a well-developed business plan.

The business plan is a planning tool that details the goals of the business and gives the owner a path to follow. It is a written summary of an entrepreneur's proposed business venture highlighting its goals and objectives, and his skills and abilities to implement it.

It helps the owner to make judgments and decisions on opportunities and threats by providing a framework to assess the options. A business plan describes how the business operates, how it is managed, how it interacts in the marketplace, how it functions financially and what its strengths and weaknesses are.

7.1.2. Why and when to write a business Plan?

a. Why write a business plan?

Businessplan serves in the following ways:

- 1. To Attract Investors.** Whether you want to shop your business to venture capitalists, or attract angel investors, you need to have a solid business plan. A presentation may pique their interest, but they'll need a well-written document they can take away and study before they'll be prepared to make any investment commitment. Be prepared for your business plan to be scrutinized; both venture capitalists and angel investors will want to conduct extensive background checks and competitive analysis to be certain that what's written in your business plan is indeed the case.
- 2. To Test the Feasibility of Your Business Idea.** Writing a business plan is the best way to test whether or not an idea for starting a business is feasible, other than going out and doing it without having a plan. In this sense, the business plan is your safety net; writing a business plan can save you a great deal of time and money if working through the business plan reveals that your business idea is untenable.
- 3. To Give Your New Business the Best Possible Chance of Success.** Writing a business plan will ensure that you pay attention to both the broad operational and financial objectives of your new business and the details, such as budgeting and market planning.

4. To Secure Funding, Such As Bank Loans. Having a business plan gives you a much better chance of getting the money you need to keep operating or to expand. You're going to need both operating and start-up capital to start a new business and you have no hope of getting any money from established financial institutions such as banks without a well-developed business plan.

5. To Make Business Planning Manageable and Effective. A business plan is essential if you're thinking of starting a business, but it's also an important tool for established businesses. Viable businesses are dynamic; they change and grow. The company's original business plan needs to be revised as new goals are set.

b. When to write a business plan.

A business is not something static. The business can change over time as the business develops, and any particular business may have multiple business plans as its objectives change. Sometimes people often make the mistake of thinking of a business plan as a single document that you just put together when you're first starting out and then set aside.

A business plan should be written when thinking of going into business, that is;

- Before starting a business
- When updating the business is required. For example from plastic to metal products
- When new information is obtained .For example, changing colours and size of the products as a result of consumer's complaints.
- When new experiences are gained. Probably regarding new methods of production

Application Activity 7.1

Case study

Mugabo had a business idea of buying and selling boiled eggs in his village where all people in this village were doing poultry farming. Mugabo has got a loan of 30,000Frw from Umurenge Sacco- Gatumba and bought eggs, boiled them and started selling them but unfortunately he didn't find any consumers to buy eggs. After two days, all eggs were damaged and lost his capital. Through this case study answer the following questions:

1. What do you think is the source of the loss of Mugabo's capital?
2. Advise Mugabo on the challenges faced by his business.
3. Show Mugabo the importance of writing a business plan for his business.

7.2 Users of a business plan and how they use it.



Activity 7.2

Think of a feasible business of your interest and identify who will be the users of your business plan and explain how it will be used.

Users of a business plan include but not limited to the following;

- a. **Business owners.** As the owner, you already know the obvious reasons, but there are so many other good reasons to create a business plan that many business owners don't know about. Such important reasons include;
 - i. **To create a new business.** Business owners use a plan to establish the right steps to starting a new business, including what you need to do, what resources will be required, and what you expect to happen. This helps the entrepreneur to mobilize and coordinate resources.
 - ii. **To better understand your competition.** Creating the business plan helps you to analyze the competition. All companies have competition in the form of either direct or indirect competitors, and it is critical to understand your company's competitive advantages.
 - iii. **To better understand your customer.** Why do they buy when they buy? Why don't they when they don't? An in-depth customer analysis is essential to an effective business plan and to a successful business.
 - iv. **To enunciate previously unstated assumptions.** The process of actually writing the business plan helps to bring previously "hidden" assumptions

to the foreground. By writing them down and assessing them, you can test them and analyze their validity.

- v. To assess the feasibility of your venture.** How good is this opportunity? The business plan process involves researching your target market, as well as the competitive landscape, and serves as a feasibility study for the success of your venture.
- vi. To document your revenue model.** How exactly will your business make money? This is a critical question to answer in writing, for yourself and your investors. Documenting the revenue model helps to address challenges and assumptions associated with the model.
- vii. To determine your financial needs.** The business plan creation process helps you to determine exactly how much capital you need and what you will use it for. This process is essential for raising capital for business and for effectively employing the capital.
- viii. To reduce the risk of pursuing the wrong opportunity.** The process of creating the business plan helps to minimize opportunity costs. Writing the business plan helps you assess the attractiveness of this particular opportunity, versus other opportunities.
- ix. To help you research and really know your market.** What are the most important trends in your business? What are the greatest threats to your business? Is the market growing or shrinking? What is the size of the target market for your product/service? Creating the business plan will help you to gain a wider, deeper, and more nuanced understanding of your marketplace.
- x. To plot your course and focus your efforts.** The business plan provides a roadmap from which to operate, and to look for direction in times of doubt. Without a business plan, you may shift your short-term strategies constantly without a view to your long-term milestones.
- xi. To position your brand.** Creating the business plan helps to define your company's role in the marketplace. This definition allows you to concisely describe the business and position the brand to customers, investors, and partners.
- xii. To judge the success of your business.** A formal business plan allows you to compare actual operational results versus the business plan itself. In this way, it allows you to clearly see whether you have achieved your strategic, financing, and operational goals (and why you have or have not).

b. The Government agents

- The business plan made by entrepreneur helps the government to assess the viability of a business to determinate specific incentives like tax exemptions, credit guarantees and subsidies that the government may give to the

entrepreneur.

- The business plan helps the government to plan for infrastructures and other services that it may want to put up.
- With business plan, the government ensures which tax a business should be taxed.
- In some cases, the entrepreneur may want to borrow money from financial institutions like, banks; Such loans require the government to guarantee such basing on how good a business plan is.

c. The Managers

The importances of business plan to managers are as follows:

- Business planning is important to managers because the whole point of management is to allow a business to operate more efficiently and to be able to achieve its goals. If there is no business plan, managers cannot do these things. In order to help a business, achieve its goals, managers need to be able to spell out where the enterprise wishes to go and how it wishes to get there. They must decide for example, whether and how the business wishes to expand. They must decide how that expansion could best be carried out. If there is no business plan, decisions will be taken each day based simply on immediate needs. This will not allow the business to move forward in an organized and purposeful way towards its future goals. Such a business is unlikely to succeed because it would have long range plan.
- Business plan helps managers allocate scarce resources appropriately. The business plan helps managers to understand the priorities of the organization and ensures that the available resources can meet the most important processes adequately.
- Business plan enables managers to make the decision about the direction of different projects and processes. It enables managers to control the different aspects of their projects and processes to ensure each task stays on course.
- Business plan also provides the framework for measuring the progress of the different processes and tasks. It enables managers to stay informed with regard to how the process are being conducted and how far they are from their goals.

d. Employees

The business plan is important to the employees of the business in the following ways:

- The business plan helps the workers to determine production targets that they have to achieve within set periods. A business plan helps every employee

to know what is expected of each.

- The business plan gives the employees assurance about the duration of their employment. It gives them job security because they know the expected life cycle of the business.
- The organizational plan helps define tasks and responsibilities of each of the workers and so helps reduce conflict. Each worker is able to know what is expected of him/her, who immediate supervisor is and the chain of command in the business.
- The business plan helps employees to know the mission and vision of enterprise.

e. Financial institutions

A well prepared business plan is vital when approaching any financial institution for finance. It helps them to assess whether it is appropriate to lend money to the business based on revenue projections and other information included in the business plan. Almost all the banks expect you to submit a business plan along with your loan application. The following are what most financial institutions look for:

- Most financiers will closely look and verify the following parts of your business plan: The **balance sheet** is probably the first thing your loan officer will turn to. The balance sheet records your assets, liabilities and capital. Existing companies show a starting balance as a result of all past activities. Start-ups need a balance sheet that reflects starting capital, early start-up expenses, assets either purchased or required, and existing liabilities.
- Along with the balance sheet, they'll look very carefully at the **profit or loss and the cash flow**, which should be very closely related to the balance sheet and to each other. For existing companies, there should be evidence of steady cash flow in the past. That would show up in the historical balances. For both start-ups and existing companies, loan officers are going to expect realistic monthly cash flow for the next 12 months. Bankers know that profits aren't always enough to guarantee cash flow, so they'll look for an understanding of real business flows like accounts receivable and inventory.
- Bankers will also look for hard evidence of **founders and managers who know their business**. That comes first in the descriptions of the backgrounds of the management team but also shows up in information about the business model, company history, locations, products and services, and strategy.

f. Investors

A business plan attracts investors. A formal business plan is the basis for financing proposals. The business plan answers investors' questions such as: is there a need for this product/service? What are the financial projections? What is the company's exit strategy? Whether it's a startup or not, investors need to see a business plan before

they decide whether or not to invest. They will expect the plan to cover all the main points.

Application Activity 7.2

Muberarugo has recently finished her studies; and she would like to start a small business to offer service like Mobile money services and M2U (Me to you) in her village. After writing her business plan she finds that she needs more capital to run her business. Identify how this business plan will help her get funding for her business.

7.3 The structure of a business plan

Activity 7.3

- Describe the necessary information that must be included in business plan.

Business plans vary in content according to their intended purposes, but the basic format remains the same. It consists of three elements: First, discuss the business model and describe your products and services. Then place the business in its industry and discuss your intended marketplace, including your target customers and how you'll reach them, beating your competition. Last, relate these plans to the real world, discussing your contingency plans and finishing off with spreadsheets detailing your anticipated sales, costs of doing business and resulting profits.

Though, formats may vary, clarity is the most important quality of any business plan. For a business plan to do the above, it should have the following components:

1. Cover page

The cover of the business plan is often the first impression of a business for interested parties or investors. The purpose of a cover is to tell the reader what document is about. Your cover should say the words business plan and should include :

- Name of the owners and his contact details, date and business name
- Company logo
- Business address including: Location, telephone, fax, email and company website,
- Other important contact information

Every business plan should begin with a simple cover sheet. The cover sheet should leave no question for readers since there are other competing businesses.

1. Table of contents

All pages of a business plan should be correctly numbered and the table of contents should include page numbers. Be sure to list headings for the major sections as well as for the important subsections. The table of contents allows to easily refer to sections within the plan. It is a quick overview of the document's content.

2. Executive summary

The purpose of executive summary is to summarize the key points of a business plan for its readers, saving them time and preparing them for the upcoming content. It gives an overview or summary of all the other sections or key elements of the business plan. The executive summary is often called the most important part of the business plan because once it is well organized; it entices the reader to read the rest of the business plan.

The executive summary should be the first section of a business plan after the table of contents, though it is typically written last after all the other sections.

Basically, an executive summary discusses the following items:

- a. Business name, address and contact person.**
- b. Business idea and goals.** This section provides an overview of the business project, what product or service is being sold and what the entrepreneur's goals are. It also indicates where the business expects to be in a year's time and later.
- c. Legal form e.g sole proprietorship, partnership, company.**
- d. Marketing.** This part looks at how the products or services of business will be sold. Who will be the main target markets (customer groups)? And what are the main elements of the proposed advertising and promotion strategy for the firm?
- e. Operations.** This is concerned with where the business will be located. How many staff will be needed and how they will be managed.
- f. Finances.** How much money is required to finance the plan, where will such capital be obtained from and how it will be repaid. How much profit the firm is expected to make by the end of the business plan time period?

Application Activity 7.3

Think about any small business that you can do in your vacation.

- a. Create the cover page of your business plan.
- b. Prepare the executive summary for your business.

7.4 Business description

Activity 7.4

Suppose you have a dream to start your small business after studying. Describe that small business you want to open.

The business description section of a business plan is another section, coming after the executive summary. The business description outlines vital details about your company, such as:

- a. The name of a business:** This is the official name of your business as registered in the country where you do business.
- b. Contact address:** This is the contact anyone can use to ask some information about your business. It may be a phone number, email, website, fax and the location address of the business, etc.
- c. Legal form:** A legal form of business refers to businesses allowed by the government to be run by business entrepreneurs. The business owner must choose the legal structure of his business. e. g. sole proprietorship, partnership, company, cooperative, etc.
- d. Types of business:** The type of business refers to the nature of business like agribusiness, manufacturing; trading, service, etc.
- e. Description of the business idea and market:** This section includes the following;
 - **Information about the owner:** The first item in a plan should be written in the description of business owner background, including name, address, email, phone number, education, family status, sex etc
 - **Mission statement.** A clear mission statement that represent the purpose of your business;
 - **Objectives.** An outline of what you want to accomplish in the mediate future based on the data in the rest of the business plan as well as future growth goals.
 - **Vision statement** about how you envision the future of the company.
 - **Business location.** Where is the business / company and its headquarters?
 - **Business history.** When did the business start or when do you plan to start if it's a new business. What inspires you to start the business ?
 - **Products or services and target market.** A brief overview of what you plan to sell and to whom.
 - **Description of market** which include geographical area, type of customers,

size of total market, description of the competitors, market share for the new business, etc.

- The analysis of strengths, weaknesses, opportunities and threats (SWOT analysis).

SWOT Analysis of the business means:

- Strengths of the business** are things within the business that give it advantage over other businesses such as product quality, convenient and good location, qualified personnel, good customer service, sufficient working capital, robust and adequate production capacity, modern technology, skilled motivated staff, etc.
- Weaknesses of the business** are things within the business that limit its capacity and competitiveness such as poor product quality, poor product image, insufficient working capital, inadequate production capacity, having outdated technology, having unskilled staff, small distribution network, etc.
- Opportunities of the business** are things outside of the business that are likely to benefit the business such as high population growth rate, international and national events, invention of new technology, new favourable government policies (e.g. waiving of income taxes from educational institutions and farmers), favourable changes in consumer tastes and preferences, possibility of securing a big order, reduction in poverty levels, etc.
- Threats to the business** are things outside the business that are likely to negatively affect the business such as entry of new competitors, political instability, world insecurity or terrorism, increased taxation, unfavourable government policy, changing customer tastes and preferences, etc.

Application Activity 7.4

Suppose you want to open a restaurant in your home area,
Set the mission and vision statement of your restaurant
Set any three objectives of your business

7.5 Marketing Plan

Activity 7.5

- Suppose you want to start a bakery business, where you plan to make bread and different cakes and sell them in your village.
 - a. Describe the nature your product.
 - b. Who will be your target customers?
 - c. How will you promote your products in order to reach your customers?

A **marketing plan** is a business document outlining market strategy and tactics. It's often focused on a specific period of time (12 months) and covers a variety of marketing related details, such as costs, goals and action steps.

For a business to grow, it also needs a *marketing plan*. The right *marketing plan* identifies the following:

1. Who your target customers are;
2. How you will reach them, and finally;
3. How you will retain your customers so that they repeatedly buy from you.
4. When done properly, the marketing plan will be the roadmap to follow in order to get unlimited customers and dramatically improve the success of the organization.

The key elements of any successful marketing plan include:

- a. Product description:** A portion of a marketing plan should describe the type of business you run, including a list of the products and services you offer to potential customers. It is a detailed description of the product or service. It includes the denomination specification (size, colour, quality) of the product, packaging and after sales service.
- b. Customer description, demand/ need for the product, competition**
 - i. Customer description:** Before you can begin marketing your product or service, you have to know the type of customers you are trying to attract to your business. Outline your target market by listing characteristics such as age, income, education level, geographic local, marital status, lifestyle, hobbies and interests. This information can help you pinpoint the most effective media to use when you are marketing to your target clients.
 - ii. Demand/Need for the product:** This entails uniqueness of the business from existing businesses. It looks at the extent to which a particular business is different from the others. The most important item in this section is a description of why your product or service is better than or is likely to be better than that of its competitors.
 - iii. Competition:** Regardless of the size of the business, you likely have competitors who offer products and services that are similar to what your business provides. There is a need for every entrepreneur to identify who their competitor is, by name, listing the types of products and services they offer, the types of customers they target and take note of the tactics they use to attract and retain customers. This information will help him/her to develop his/her own marketing strategies and tactics.
- c. Current production:** In this section, you compare the quantity that you can produce to the market and to your competitors (your capacity to produce

all products or services needed to the market). This section includes:

- Capacity to produce,
 - What quantity you plan to produce in order to satisfy the market and compare to competitors;
- d. Price:** The pricing strategy portion of the marketing plan involves determining how you will price your product or service; the price you charge has to be competitive but still should allow you to make a reasonable profit. You can charge any price you want to, but for every product or service there is limit to how much the consumer is willing to pay. Your pricing strategy must consider the last amount the customer is willing to pay.

The most common question small business people have about the pricing strategy section of the marketing plan is “How do you know what price to charge?” Basically, as an entrepreneur you set your price through a process of calculating your costs, estimating the benefits to consumers, and comparing your products, services and prices to others that are similar. Set your pricing depending on how much it cost to produce your product or service and adding a fair price for the benefits that the customer will enjoy. Examining what others are charging for similar products or services will guide you when you are figuring out what a fair price for such benefits would be.

The pricing strategy you outline in your marketing plan will answer the following questions:

- What is the cost of your product or service? Make sure you include all your **fixed costs** (these remain constant at all levels of output for example rent, insurance premium, top management salaries) and **variable costs** (these change with changes in output for example cost of labour and materials, electricity). You may also need to include transport costs, administrative costs and selling costs.
- How much are customers willing to pay?
- What are competitors’ prices?
- What is your price? How does the pricing for your product or service compared to the market price of similar products or services?
- Explain how the pricing of your product or service is competitive. For instance, if the price you plan to charge is lower, why are you able to do this? If it’s higher, why would your customer be willing to pay more? This is where the strategy part of the pricing strategy comes into play; will your business be more competitive if you charge more, less or the same as your competitors and why? Marginal for discount,
- What kind of return on investment or net profit are you expecting with this

pricing strategy and within what time frame? Etc.

e. Sales forecast for next 12 months: Generally, the primary goal of the marketing plan is to get people to buy your products or services. The sales and distribution part of the marketing plan details the following;

- i. How is your product or service going to get to the customer? For instance, will you distribute your product or service through sales representatives, retail, the mail, website? Describe your distribution channels and the cost relating to distribution;
- ii. Describe your after sale service and how it compares with that of your competitors.
- iii. Compile a sales budget in which you reflect number of units to be sold per product, sales prices and turnover. Be very clear about where the sales are generated, list for example, how many units you will sell to which customers/customer groupings as per their indications. Prepare a monthly sales budget for the first year of operation and annually for the first year.
- iv. Give a break down for your selling expenses, e.g. transport, mission, advertising...etc.

v. Business location or business place: This section lays out the distribution plan for the product or service. It includes all activities and entities responsible for getting the product or service to the customers. The aim of place in the marketing plan is to make sure that the product is available at the right place, at the right time, in the right quantities.

f. Promotion: Promotion includes a description of the planned actions to inform customers about the opening of new business (e.g. printed information, brochures, posters, newspapers articles, radio advertisements, opening ceremony, etc.). There is also a need to determine the message that you want to send to the targeted audience. Therefore, an entrepreneur/business owner has to look at these promotion possibilities and decide which one to emphasise in his/her marketing plan. Promotion includes the following;

- i. **Advertising.** The best approach to advertising is to think of it in terms of media and which media will be most effective in reaching your target market. Then you can make decisions about how much of your advertising budget you're going to spend on each medium.
- ii. **Sales promotion.** If it's appropriate to your business, you may want to include sales promotion activities into your advertising and promotion plan, such as: offering free samples, offering credit facilities, offering discounts, product displays at the point of purchase, product

demonstrations, that is, showing how the product works.

iii. Marketing materials: Every business will include business cards, brochures, and fliers in their promotion.

iv. Publicity. This is all about making people or the media spread awareness about your business. Publicity can be done in the following ways :

- Press releases, that is, written, audio taped or videotaped news sent out or released by the business to the public about its products and activities.
- Product launches
- Special events, including community involvement
- Writing articles in magazines or news papers
- Testimonials, that is, written recommendation from a celebrity or satisfied customer witnessing about the performance, quality and value/benefits of the product.

v. Tradeshow. Tradeshow can be incredibly effective promotion and sales opportunities where you reach a wide section of customer if you go to the right trade shows

Application Activity 7.5

- After your study, you want to start bakery business. Prepare a marketing plan for that business.

7.6 Organisational plan

Application Activity 7.6

This part describes the form of business ownership, the lines of authority and accountability for members of the new venture. It includes items such as:

- Form of ownership.
- Identification of business partners or principal shareholders.
- Authority of principals.
- Management team and background.
- Roles and responsibilities of members of the organisation.

Skills Lab Activity 7.6

Prepare the business description and marketing plan sections of a business plan for business activity of their choice.

End of Unit 7 Assessment

1. In your opinion, explain the meaning of business plan.
2. After your studies you have a dream to start a small business and you have just started writing your business plan. Explain how Rwanda Revenue Authority can use that business plan.
3. You have just established a mushroom growing business in your home area. You intend to launch your business to create community awareness. Prepare your launch program.
4. Describe three challenges that a new enterprise might face.
5. A business that fails to plan will plan to fail, Discuss.
6. Explain the term “marketing mix” as could be used in business planning.



UNIT8

OPERATIONAL BUSINESS PLAN FOR AN ENTERPRISE

Unit 8: OPERATIONAL BUSINESS PLAN FOR AN ENTERPRISE



Source: (<https://www.google.com/search?q=operational+business+plan+for+an+enterprise+image&tbm>)

Key Unit Competency: To be able to prepare a business plan for an enterprise.

Introduction

An operational plan in a business plan is a description of how the work will be done, the flow of work from input to end results, including the machines which will be used. It is analysis of the projected needs for producing or buying the proposed goods and services.

The operating plan is the section of your business plan where you dig into more nuts and bolts of your business, areas like: production, manufacturing, inventory and distribution. In other words, this is the time where you put aside the conceptual aspects of your business to make yourself busy in terms of writing out the details of how you're going to make your product, store it, and then ship it out to your customers.

The major aspects to look into in operational plan will vary based on the kind of business to be carried out. For instance, if you are starting a retail business, you will want to think about things like inventory and distribution while a software company may be more focused on securing office space and computer equipment.

This unit is the continuation of a business plan which was covered in unit 7. For any business product or service to reach to the final customers, operational techniques have to be thought of. This section therefore, focuses on description of a production plan, costs involved and risks expected among others.

Introductory activity

- Assume after finishing your studies, you plan to open a bakery business that produces and sells bread.
 - a. Identify the necessary required cost to start your business.
 - b. Describe the factors you will consider in location of your business premises.
 - c. Explain the production process you will undertake in bread production.

8.1 Production plan

Activity 8.1

- Suppose you want to open a bakery in your village.
 - a. Describe where you want to locate your business and explain why?
 - b. Specify the nature of equipment required in the production process of your products.
 - c. Describe and estimate the raw materials required in your business.

Production plan is the guideline to create and monitor output of a product and how that output affects other parts of a business plan such as marketing, sales and logistics. A production plan is used to maximize the efficiency of company resources and to establish benchmarks for future projects

The production plan is the planning of production and manufacturing modules in any company or industry. It utilizes the resources allocation of activities of employees, materials and production capacity, in order to serve different customers. The planning process includes ensuring that you procure enough raw materials, labor resources and items such as packaging to achieve the required production.

This is an analysis of the projected needs for producing or buying the proposed products and services. Under this stage, the entrepreneur needs to consider a number of aspects and answer relevant questions relating to the following aspects.

8.1.1 Location of the business



Figure 8 1: An entrepreneur contemplating on the location for his business

Location is the place where a firm decides to site its operations. A business needs to decide on the best location. Picking the right location is a big step towards ensuring that your business has customers. The choice of business location affects your income, your expenses, etc.

Factors to consider in deciding the location of the business

There are basic factors to consider which include:

- 1. Distance to your customers and suppliers:** Transportation costs are usually a large component of total supply chain costs. Generally, the further you are from your customers and suppliers, the higher the transportation costs will be.
- 2. Access to the transportation network.** Operating an effective supply chain is contingent upon having good access to your transportation network. This may include alternate transportation methods. Depending on your commodity, you will rate modes of transport differently. As an example, a courier may require close proximity to an airport, whereas a grain producer would require close proximity to a trans loading facility.
- 3. Security.** The location of a business can increase the probability of being affected by insecurities. So, it's better to choose a location which is more secure and safe for your business.
- 4. Labour availability.** Understanding the labour market situation in the area will assist in determining projected labour costs and the availability of workers with the skills you require. In addition, transportation access to your facility for your staff is very important.

8.1.2. Type, nature and capacity of equipment

Machinery can be tools or equipment that the business uses to produce the products. Besides describing the equipment necessary and how much of it you need, you also

need to include its worth and cost, and explain any financing arrangements. In case of bakery, these may include ovens, mixers, cutters, rollers, knives, weighting scale, baking trays, etc.

Production capacity deals with output and how a manufacturer balances raw materials, machinery, labor and storage to match demand for its products. Decisions about production capacity can be strategic and operational, long and short term. Factors affecting production capacity interrelate to such a level that a change to one potentially affects all.

8.1.3. Production process and layout

An entrepreneur should describe and document each step of the production process and ensure that the steps are executed accordingly. There is a need to do an outline of day to day business operations, such as the hours of operation, and the days the business will be open. If the business is seasonal, be sure to say so. In this part these questions will guide the entrepreneur:

- What kind of production process will be followed ?
- Is this the best process to be followed ?
- Does it take into consideration quality control procedures ?
- How long does it takes to produce a unit ?
- When will you be able to start producing your product or service ?
- Include factors that may affect the time frame of production and how you will deal with potential problems such as rush orders.

8.1.4. Sources of raw materials and other suppliers

Raw materials refer to the basic materials either natural (minerals, timber, cotton for cloth, clay for bricks, etc) or artificial (plastic, nylon, etc) from which products are made through a transformation process.

When you are in a business especially at the production level, you need to have answers for the following questions:

- What raw material inputs are required for the product ?
- How much raw materials are needed per product cycle ?
- Where are you going to get the raw materials you need to use to produce your product or service ? Are they always available ? Explain what terms you have negotiated with the suppliers.
- What are your procurement (acquisition) strategies ? For example, how often will you order and what level or amount of inventory will you maintain to ensure smooth flow of the production process ?
- Is there any alternative source of raw materials ?

- Will you buy them on cash or credit basis and if on credit how long is the credit period ?
- What is the cost of the raw materials and the cost of transporting them ?

8.1.5. Production staff/ labour requirements

This part of a business plan explains or describes the personnel needs of the business, that is, management team and staff, their recruitment, remuneration and retention and how business ownership is structured.

Staff or employees are the persons who work for the business in return for a wage or salary. They may be skilled, semi-skilled and unskilled. The following questions will be examined:

- How many employees will your business need?
- Do you need full-time or part time staff ?
- What kind/type of labour do you need ?
- What kind of skills and knowledge should they possess or their qualifications ?
- What kind of work should they do ?
- How much will they be paid ? This looks at the salary scales for these workers.
- Whether they are readily available and their payment ;
- What fringe benefits or allowances will be given to them ? specify whether housing, medical, education, lunch, transport allowances is to be given etc ?
- What labour and safety standards must be met ?
- How are they to be recruited ?
- What personnel development or staff training programmes are to be conducted ?

8.1.6. Quality control

Quality refers to the ability of a product or service to satisfy the needs of customer. It is related to the characteristics of a product that make it fit for the purpose for which is meant to serve.

For a product to be considered of quality, the producer should recognize certain standards depending on the needs of the customers. Quality is relative for example one customer may consider a computer with camera as of good quality while another customer may consider a computer with a floppy disk to be of quality hence quality varies between customers.

Quality control (QC) is a procedure or set of procedures intended to ensure that a manufactured product or performed service adheres to a defined set of quality

criteria or meets the requirements of the client or customer. The following methods can be used to control quality in the production process:

- Selection of better raw materials.
- Provision of a good storage for both raw materials and finished products.
- Carrying out market research to know what consumers want.
- Using production machines or equipment for reducing human errors.
- Using skilled staff in production process.
- Regular supervision of production process.

It is important to note at this point that the entrepreneur has to specify how quality will be controlled to avoid defects and poor quality products and the measures that have been set up to ensure production of quality goods and services.

8.1.7 Production utilities required

The utilities or business support services are goods and services which are needed to support the production process and operational business. Availability of such utilities or business support services helps the business or enterprise to efficiently function and effectively meet the needs of its customers through production of the required products and services. Such utilities include electricity, water, telephone, transport, communication, banking, insurance, security, etc. In this part the following questions should guide the entrepreneur in utility selection:

- What kind of utilities are required? what is its source, reliability and cost?
- Will the business require electric power ? What is the projected electrical consumption per month?
- Is it available? If not, what is the cost of installing a power line connected to the business?
- Will the business require water ? if so, is it available? Etc.

8.1.8. Packing materials

Packaging refers to the process of wrapping, crafting, filling or compressing of products to protect them from spoilage, breakage, leakage, pilferage and contamination in the process of transit, storage and use. Packaging makes products easy to handle and also attractive to customers.

The entrepreneur should ensure that it easy to use, open, be of practical use and have instructions that can easily be followed and understood. The entrepreneur should be guided by the following questions:

- How will the products be packaged ?

- Where will the packaging materials be bought from ?
- Who are the suppliers of packaging materials ?
- Are the materials readily available ?
- How much do the packing materials cost ?
- How much packing materials will be required per product cycle ?
- How much inventory (kept in store) will be required to meet the next product delivery regularly ? Etc.

Application Activity 8.1

- Consider a product of your choice and describe its production process and identify the required raw materials.

8.2 Business operation and costs plan

Activity 8.2

1. Suppose after your studies you plan to run a bakery business, estimate the costs required to start your business.
2. Mention the sources of money for your bakery business.

8.2.1. Start-up costs

All business start-ups have unique financial needs. Some businesses can be started with little money while other businesses require large investments in equipment, inventory and other start-up costs. If someone wants to start a business he/she must be aware that a certain amount of money is needed during the start - up process of a business for payments before the business begins, to earn its own income. This money is called start-up capital or start-up costs. It has two types:

a. Investment capital or pre-operation payment: This means money that a person starting a business will have to pay before his business starts operating. The money needed for these payments is invested in the business as long as the business is operating. Pre-operation investment capital is spent on buying land, constructing a workshop, building a house for business, purchasing machinery, tools, equipments, office furniture, legal fees, water connection, electricity connection and telephone communication, publicity and advertisement costs, market research costs, licenses fees and insurance fees, machine and equipment installation fees, etc.

b. Working capital or initial operation payment: These are payments that

take place when the business starts to operate to cover immediate expenses until revenues from sales flow back into the business. This time between starting business operations and when sales revenue flows back depends on the nature of the business.

- c. As the business expands, the working capital needs to be increased because the business may not be able to replace every article sold and more so some customers may place big orders and ask for credit facilities for which payment may not be made on time.. Therefore, working capital has to be increased to keep the business running and at the same time serve such customers and retain them.

The distinction between these two categories of payments depends on the time when payments are made; either before the business starts to operate (investment capital) or after it has started (working capital). The start-up capital therefore is the sum of the expenditures for the investment items and the working capital. The future entrepreneur need to have this amount of money by: using his/her own savings, finding partners and negotiating loans with banks.

8.2.2. Sources of capital for a business

The possible sources of funds to start the business include:

- i. Personal savings or Equity financing:** Personal funds or equity capital is money raised by a company in exchange for a share of ownership in the business. Ownership is represented by owning shares of stock. Equity financing allow business to obtain funds without incurring debt, or without having to repay a specific amount of money at a particular time.
- ii. Partners or shareholders: Selling part of the business to others:** This can be done in number of ways such as getting partners to inject in some money or selling shares to outsiders either informally or formally through the capital market system by converting the business into a public limited liability company.
- iii. Contribution from Family and Friends:** One can acquire money from his/her family and friends. In some incidences, a family member can lend you money that you will have to pay at an agreed period or it can be capital given to you freely may be from your parents to start a business.
- iv. Borrowing from lending institutions:** The option of borrowing is used when equity funding is not enough. You can borrow money through:
 - a. Banks:** When borrowing from banks, bank officials are normally interested in the business plan and they pay special attention to the projections of sales/income, production costs, projected working capital, balance sheet

and cash flow. The financial plan therefore should be convincing enough and should show the lenders that the business is worth financing.

- b. Cooperatives:** Entrepreneurs just starting their businesses therefore may not be easily helped by banks but can use funds from cooperative societies where they have membership since interest rates are even lower than those of banks
- c. Government scheme and other financial institutions like insurance companies, among others.

8.2.3. Sales plan

The primary goal of the marketing plan is to get people to buy your products or services. The sales plan as part of the business plan details how this is going to happen. A sales plan is a strategy that sets out sales targets and tactics for your business, and identifies the steps you will take to meet your targets. A sales plan will help you to:

- Define a set of sales targets for your business
- Choose sales strategies that are suited to your target market
- Identify sales tactics for your sales team
- Activate, motivate and focus your sales team
- Budget and clarify steps you will take to achieve your targets
- Review your goals periodically and improve your approaches to sales.

8.2.4. Monthly cost forecast

A forecast is the act of predicting business activity for a future period of time. Typically, it is a projection based upon specific assumption, such as targeted prospects or a defined sales strategy. For example, a sales proforma in a business plan is considered a forecast. So, a cost forecast is a process you can use to adapt cost planning to constantly changing circumstances.

A business starter has to forecast the total costs of his/her business for at least one year in order to find out whether the planned sales cover the costs or not. All costs that occur in a business can be put into the following categories: Materials costs, Staff costs, Capital costs, utilities costs etc.

A monthly cost forecast plan on the other hand is an instrument that allows the entrepreneur to estimate how much cash is expected to enter the business and how much has to be paid out every month. It helps a business person to avoid her/his business running out of cash. The monthly cost forecast should be updated each month with data from the record keeping in order to immediately identify deviations

from the cash flow plan.

An example of a monthly cost forecast for 2017

Cost per category	J	F	M	A	M	J	J	A	S	O	N	D
Staff costs:	100,000	80,000	100,000	300,000	200,000	100,000	100,000	400,000	100,000	50,000	25,000	100,000
Material costs:	30,000	70,000	60,000	20,000	70,000	100,000	45,000	160,000	36,000	50,000	10,000	70,000
Utilities costs	20,000	10,000	40,000	60,000	20,000	35,000	20,000	15,000	13,000	20,000	17,000	20,000
Operational costs (staff+material+utilities)	150,000	160,000	200,000	380,000	290,000	235,000	165,000	575,000	149,000	120,000	52,000	190,000
Capital costs:												
Loan (plus interest)	40,000	40,000	40,000	40,000	40,000	40,000	40,000	40,000	40,000	40,000	40,000	40,000
Depreciation	30000	10%										
Total capital costs	30000	30000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000
TOTAL COSTS(OPERATIONAL+Capital)	180,000	190,000	230,000	410,000	320,000	265,000	195,000	605,000	179,000	150,000	82,000	220,000

4.

Application Activity 8.2

1. Think of a business of your own choice that you can operate after studies and develop a sales plan for it.
2. Calculate the total monthly cost forecast for year 2019 of your bakery business.

8.3 Financial plans



Figure 8 2: Some basic tools for preparing financial plans

Activity 8.3

MUHIRE Shop Ltd sells furniture to hotels. The following data refers to the budgeted cash payments and receipts for the six-month's period ending 30 June 2018.

- i. Bank balance on 1 January 2018 is judged to be Frw175, 000 overdrawn.
- ii. Sales for the six months are budgeted as follows:

S/N	Months	Amount (Frw)
1	January	425,000
2	February	375,000
3	March	400,000
4	April	275,000
5	May	375,000
6	June	350,000

- 30% are paid during the month of sale
- 20% are paid one month after sale
- 50% are paid two months after sale.

iii. The following payments are budgeted to be:

S/N	Item	Amount of every month
1	Water	1,800 Frw
2	Rates of security	2,500 Frw
3	Heating and lighting	4,000 Frw
4	Electrics materials	1,000 Frw
5	Hygiene	1,500 Frw

iv. Two machines are budgeted to be bought in February and March, the former costing 85,000 Frw and the latter costing 100,000 Frw.

v. Purchases of raw materials each month are budgeted as follows:

S/N	Months	Amount (Frw)
1	January	140,000
2	February	200,000
3	March	220,000
4	April	180,000
5	May	200,000
6	June	175,000

Purchases are paid one half in the month of purchase and the other half in the following month.

Questions;

- Complete a budget for the half year ended 30 June 2018.
- Explain why budgets are important for organizations

A financial plan is a document that describes your current financial status, your financial goals and when you want to achieve them, and strategies to meet those goals. It is a summary of a company's financial needs or goals for the future and how to achieve them. Financial planning for a business is the task of determining how the enterprise will afford to achieve its strategic goals.

Usually, an organization creates a financial plan immediately after the vision and objectives have been determined. The financial plan describes each of the activities, resources, equipment, and materials that are needed to achieve an organization's objectives as well as the timeframe.

A financial plan for a business can help managers determine if they can achieve the organization's goals. The financial plan is one of the first things created to help managers make decisions that are in the best interest of the organization. Developing a financial plan is critical to the success of any organization. It validates the business plan, by confirming that the objectives set are achievable from a financial point of view. It also helps the entrepreneur to set financial targets for the organization and reward staff for meeting objectives within the budget. The financial plan fits into the overall business plan of an organization.

The financial plan is the most important sections of the business plan, because any business person reading the business plan would want to know if the business will make profit, how much profit it will make and when it will make it. The financial plan contain the following documents:

- Start-up budget
- Trading, profit and loss statement
- Financial forecast or cash flow plan
- Opening balance sheet
- Payback period and
- Return on investment

Before preparing these statements however, you need to gather some of the financial data needed to prepare them. You must establish the cost of starting and operating the business which means computation of start -up and operating budgets of the business.

8.3.1 Start-up budget

The startup budget of a business plan shows the expected sources of money and how the money will be spent. It shows how much money is required to start the business and on what activities and items it will be spent. Different businesses have different needs and so have different start-up budgets. Starting a small business

requires a small budget compared to a big business.

A **start-up budget** is an itemized list of income and expenses for a new business, which often covers the period up to commencing operations and perhaps a small amount of time after operations have commenced.

If you are an aspiring entrepreneur, then the first step of new business creation and start-up is to figure out how much money it will take to turn your idea into an actual, operating business entity.

When it comes to calculating your start-up costs, there are three main goals to keep in mind:

- i. You need to figure out the costs associated with getting your business moving.
- ii. It will help you to be aware of any need for additional financing
- iii. **You need to also be in touch with your living expenses and debt obligations while you are going about building your business.** It may take a while before your new business will be generating an income, and there is always the possibility that it won't be successful. There is also a need to make good research to ensure your estimates are as accurate as possible and talk to people that have done similar businesses to get good information and experience.

An example of Startup budget for Jane's company

JANE Co. Ltd Start up Budget	
SOURCE OF FUNDS	Amount
owner's funds	200,000
Loan from family member	50,000
Loan from Kalisa	100,000
Loan from Cooperative "Abisangijabiro"	35,000,000
Total Amount	35,350,000
Planned use of funds	
Buying a land	1000,000

Buildings	5000,000
Equipment and machinery	150,000
Office furnitures and fittings	250,000
Water connection	20,000
Electricity connection	10,000
Installation of generator	30,000
Insurance	20,000
Marketing and promotions	200,000
Cash in Bank(operating capital)	80,000
Total expenses	6,760,000

The total expected funds should be equal to the planned expenditure. If the expenditure is higher than the expected funds, then you remain with a deficit. This means you will not have enough money to pay for all the planned activities to start the business. If the income cannot be raised, then you have to adjust and reduce on the expenditure.

8.3.2 Trading, Profit and Loss Statement

Trading, profit and loss statement or Income statement is a financial statement or report showing the profit or loss for a business during a certain period, as well as the incomes and expenses that resulted into this overall profit and loss. The amount of the profit or loss for a business during a certain period indicates the financial performance of the business and therefore shows whether or not your business is profitable at that point in time.

It is computed based on the formula below: **Revenue – Expenses = Profit/Loss.**

A trading, profit and loss statement usually covers a year; however, this statement may be drawn up for shorter periods, such as one month, three months (quarters) or six months. The period of time that is covered by the income statement (and other financial statements) is called the accounting period.

A regular 12-month accounting period does not necessarily have to begin on the first day of the year and end on the last. Accounting periods can, for example, run from March 1st to February 28th, or July 1st to June 30th of the following year. The choice of the accounting period rests with the enterprise itself.

While established businesses normally produce an income statement each quarter, or even once each year, for the purposes of the business plan, an income statement should be generated more frequently –monthly for the first year.

A trading, profit and loss statement helps to determine whether a business is operating at a profit or a loss for a given time period of one month to one year. There are five specific steps to calculating the trading, profit and loss statements:

- i. Sales or revenue:** Including sales for cash and credit
- ii. Cost of goods sold:** This is the price paid by the business for merchandise sold; it can be computed by adding the value of the goods purchased during the period to the initial stock, and then subtracting the value of the stock on hand at the end of the period.
- iii. Gross profit:** Calculated by subtracting the cost of goods sold from sales.
- iv. Expenses:** This includes labor costs and other costs of operating the business.
- v. Net profit:** Amount remaining when the expenses are deducted from the gross profit.

An example of an income statement

YOLAMU MULAKI

Trading and Profit and Loss account for the year ending 31 December 2004

Income	Rw	Rwf
Sales		789,300
Sales returns		15,300
Net income from sales		774,000
Less: Cost of sales		
Opening Stock	54,000	
Add: Purchases	351,900	
carriage inwards	6,750	
	412,650	
Purchase returns	14,400	
Cost of Goods Available for Sales	398,250	
Less: Closing stock	102,150	
Cost of goods sold		296,100
Gross Profit		477,900
Add: Other incomes		

Discount received		15,750
Total income		493,650
Less: Operating expenses		
Carriage out	7,875	
Discount allowed	12,600	
Rent and rates	36,000	
Wages and salaries	162,000	
Printing and Stationery	33,300	
Telephone and telegraph	5,625	
Electricity	6,525	
Water	1,575	
Bank Charges	540	
Insurance	16,200	
Motor Expenses	25,200	
General office expenses	19,350	
Total Expenses		326,790
Net Profit		166,860

Note: Net purchases	=	Purchases	–	Return outwards
Goods available for sale	=	Opening stock + Carriage + Net purchases		
Cost of sales	=	Goods available for sale – Closing stock.		
Gross profit	=	Net sales – Cost of sales.		

Financial forecast or Cash flow plan

Generally, companies can't function without sufficient cash flow. **Cash flow** is the money that comes in and goes out of a company. It is the generation of income and the payment of expenses. Cash inflows result from either the generation of revenue through the selling of goods and services, money borrowed, or money earned through investments.

If more cash is coming into the company than leaving the company, you are experiencing **positive cash flow**. But if more cash is leaving the company than coming into the company, then you are experiencing **negative cash flow**. Keep in mind that just because you are experiencing negative cash flow for the moment doesn't mean you are going to suffer a loss, because cash flow is dynamic. Cash flow is reported on the company's **cash flow statement**, which is also called a statement of cash receipts and disbursements.

A cash flow is calculated in different ways for different purposes. Some methods that are commonly used are discussed below:

- **Free cash flow (FCF)** measures how much cash you generate after taking into account capital expenditures for such things as buildings, equipment, and machinery. The formula is:

$$FCF = \text{Operating Cash Flow} - \text{Capital Expenditures}$$

You can usually find the information necessary to perform this calculation on your cash flow statement. Let's look at an example.

Let's say that your company earned 15,000,000Frw in revenue last year. When you add up all the capital expenses paid for your factory, equipment, and machinery, it totals 7,000,000Frw.

Now, let's figure out the FCF:

$$FCF = \text{Operating Cash Flow} - \text{Capital Expenditures}$$

$$FCF = 15,000,000\text{Frw} - 7,000,000\text{Frw}$$

$$FCF = 8,000,000\text{Frw}$$

You should note that if the number derived from the equation was negative, it means that you had negative cash flow. In other words, more money was spent on capital expenditures than was generated by operations.

- **Operating cash flow (OCF)** is the measure of your company's ability to generate positive cash flow from its core business activities.

Formula:

$$OCF = \text{Earnings before Interest and Taxes} + \text{Depreciation} + \text{Amortization} - \text{Taxes}$$

Let's take a closer look at the equation. **Earnings before interest and taxes (EBIT)** is the revenue left over after subtracting the cost of production, selling, general expenses, and administrative expenses. It's a measure of your operating profit before interest and taxes are deducted.

Depreciation is an accounting practice where you deduct the cost of a tangible capital asset, such as machinery or real estate, over a period of time, while **amortization** is where you deduct the cost of an intangible capital asset, such as a patent, over a period of time. The information needed to perform the calculation can be found on your company's cash flow statement.

Example;

Your company's EBIT IS 2,000,000Frw this past year, and it took 1,500,000Frw in depreciation expenses and 1,000,000Frw in amortization. It paid taxes of 500,000Frw.

What is your company's operating cash flow?

OCF = EBIT + Depreciation + Amortization – Taxes

OCF = 2,000,000Frw + 1,500,000Frw + 1,000,000Frw – 500,000Frw = 4,000,000Frw:

Note: Net cash flow (NCF) is the difference between your company's inflow of cash and outflows of cash in a given period of time.

Financial forecasts assist you to meet your business goals. They are a future prediction of your business finances, as compared with statements, which provide details of actual results or progress.

Predicting the financial future of your business is not easy, especially if you're starting a business and don't have a trading history. However, forecasting and making adjustments frequently will enable you to become more accurate.

Monthly or weekly forecasts may be necessary when starting your business, experiencing rapid growth, or having financial difficulties. Regular forecasts allow you to closely monitor your finances and develop strategies to fix problems before they become major issues.

Monthly or quarterly forecasts may be more appropriate for a stable, established business.

Financial forecasts may include:

- a. Start up Cost:** Whether starting a new business or purchasing an existing one you will need to factor in start-up costs
- b. Sales:** Estimating the sales your business will generate over the forecast period can be difficult. If you are starting a new business you can base your estimates on market research and industry benchmarks. For an established business, take into account previous sales data over the same time period. You will also need to consider the current market and other economic conditions.
- c. Expenses:** An expenses forecast estimates your ongoing operational costs over a period of time. Business expenses may include (amongst others) rent, insurances, vehicles, advertising, employee wages, and accounting and legal fees. If you are starting a new business, base your forecast on market research and industry benchmarks.
- d. Cost of goods sold (COGS):** If you sell physical products you will need to forecast how much it costs to produce or stock them. The COGS forecast relates to your sales forecast. If you are forecasting an increase in sales, the cost of producing the goods will also increase (you will need to purchase more components or stock).

To forecast COGS, you will need to include all the direct costs associated with production and preparation for sale. These may include: The wholesale cost of buying completed goods, raw materials or parts, packing, insurance, commissions paid on sales as well as direct labour costs used to manufacture of product.

An example of a financial forecast/ cash flow plan

XYZ LTD

Cash flow statement for two years

Details	Year 1 (2006)	Year 2 (2007)
Cash inflows		
Bal b/f	50,000,000	129,266,500
Bank loan	70,000,000	-
Income from sales	327,600,000	327,600,000
Total cash inflows	447,600,000	456,866,500
Cash out flows		
Interest on loan	11,200,000	8,960,000
Loan payment	14,000,000	14,000,000
Fixed costs	36,832,400	36,782,400
Variable costs	256,301,100	257,607,900
Total cash outflows	318,333,500	317,350,300
Net cash position	129,266,500	139,516,200

If the cash flow plan shows that the business is likely to run out of cash during any of the subsequent months, the entrepreneur can try taking the following measures:

Increasing cash inflow through:

- Increasing sales
- Giving less customer credit
- Using a bank overdraft
- Selling an investment item
- Asking a friend or family for money

Decreasing cash outflow through:

- Reducing operational costs
- Identifying a cheaper supplier
- Negotiating supplier credit
- Negotiating an extension of the loan period

8.3.3 Opening Balance sheet

A balance sheet is a financial statement or report which indicates what you own and what you owe on any given day in the life of a business. The financial figures on the balance sheet change from day to day because money is always coming in and going out of the business.

The purpose of preparing the balance sheet includes the following:

- To ascertain the nature and value of assets of a business
- To ascertain the nature and amount of liabilities of a business
- To find out the financial solvency of the business or enterprise. An enterprise is considered to be solvent if its assets exceed the liabilities.

A balance sheet is the financial report that lists all of the accounts of a company along with their balances. This report follows the formula:

Assets = Liabilities + Capital or Owner's equity

The balance sheet simply shows assets, liabilities and capital and these are its components or contents. In general, however, the balance sheet has two parties: the assets and liabilities.

- Assets:** They are resources or properties owned or possessed by a business that aid in the generation of income or facilitate business operations. They are what a company owns, such as cash, equipment, buildings and inventory or stock. Assets are categorized according to their nature into two major types:
 - **Current assets:** They are possessions or properties of the business that have short useful life of only one year and get used up or change form during the day to day operations of the business. They can be easily changed into cash.
 - Current assets include cash at hand, cash at bank, debtors (what people owe you) and inventory or stock, raw materials, prepaid expenses, etc.
 - **Fixed assets:** These are possessions or properties that can be used or benefit the business for many financial/accounting years and are not meant for sale. Their useful life extends beyond one year, example two, five or ten years and above. They cannot be changed into cash easily (within twelve months). They include land, buildings, machinery and equipment, motor vehicles, furnitures, etc.

- b. Liabilities:** These are debts or amounts of money owed by the business to the outsiders or simply the claims on the business by outsiders. They are financial obligations of the business enterprise that must be repaid. They are what a company owes. Liabilities are classified into two types:
- **Current or short term liabilities:** These are debts or claims on the business by outsider's payable with a short time, usually one financial year or accounting period. They are expected to mature and be paid within the year when they are incurred. Examples, trade creditors, bank overdrafts, outstanding expenses, one-year short term bank loans, VAT, etc.
 - **Long term liabilities:** These are debts or financial obligations that are payable over a long period of time, usually after one year. Examples include long-term bank loans, bonds, debentures, mortgages, etc.
- c. Owner's equity** is how much money company owners have invested in the business.

An example of a balance sheet

Assets	Liabilities and owner's equity	
Fixed assets Land Motor vehicle Equipment Office furnitures Total fixed assets	Capital Long-term liabilities Bank loans Current liabilities Trade creditors Accruals Total liabilities	
Current assets Stock Debtors Cash Bank Total current assets		
Total assets		Total liabilities and owner's equity

Note: You can choose the format you want to use to prepare the balance sheet either T-Format / horizontal format or the vertical format.

8.3.4. Payback period and Return on investment

1. Payback period

Payback period is the time in which the initial cash outflow of an investment is expected to be recovered from the cash inflows generated by the investment.

Payback period refers to the *period* of time required to recoup the funds used in an investment, or to reach the break-even point. For example, a 100,000Frw investment made at the start of year 1 which returned 50,000Frw at the end of year 1 and year 2 respectively would have a two-year *payback period*. It is one of the simplest investment appraisal techniques.

The formula to calculate payback period of a project depends on whether the cash flow per period from the project is even or uneven. In case they are even, the formula to calculate payback period is:

Payback Period =	Initial Investment
	Cash Inflow per Period

When cash inflows are uneven, we need to calculate the cumulative net cash flow for each period and then use the following formula for payback period:

Payback Period = A +	B
	C

In the above formula,

- A is the last period with a negative cumulative cash flow;
- B is the absolute value of cumulative cash flow at the end of the period A;
- C is the total cash flow during the period after A

Both of the above situations are applied in the following examples.

Decision Rule: Accept the project only if it's payback period is less than the target payback period.

Examples

Example 1: Even Cash Flows

The enterprise C is planning to undertake a project requiring initial investment of 105,000,000Frw. The project is expected to generate 25,000,000Frw per year for 7 years. Calculate the payback period of the project.

Solution

Payback Period = Initial Investment ÷ Annual Cash Flow = $105,000,000\text{Frw} \div 25,000,000\text{Frw} = 4.2$ years

Example 2: Uneven Cash Flows

Enterprise C is planning to undertake another project requiring initial investment

of 50,000,000Frw and is expected to generate 10,000,000 in Year 1, 13,000,000Frw in Year 2, 16,000,000Frw in year 3, 19,000,000Frw in Year 4 and 22,000,000Frw in Year 5. Calculate the payback value of the project.

Solution:

(Cash flows in millions)		Cumulative Cash Flow
Year	Cash Flow	
0	(50)	(50)
1	10	(40)
2	13	(27)
3	16	(11)
4	19	8
5	22	30

$$\begin{aligned}
 &\text{Payback Period} \\
 &= 3 + (|-11\text{M}| \div 19\text{M}) \\
 &= 3 + (11\text{M} \div 19\text{M}) \\
 &\approx 3 + 0.58 \\
 &\approx 3.58 \text{ years}
 \end{aligned}$$

2. Return on investment

Return on Investment (ROI) is a performance measure, used to evaluate the efficiency of an investment or compare the efficiency of a number of different investments.

ROI measures the amount of return on an investment, relative to the investment’s cost. To calculate ROI, the benefit (or return) of an investment is divided by the cost of the investment. The result is expressed as a percentage or a ratio.

The return on investment formula:

$$\text{ROI} = (\text{Gain from Investment} - \text{Cost of Investment})$$

Or

$$\text{ROI} = \text{Net profit/Net worth}$$

In the above formula, “Gain from Investment” refers to the proceeds obtained from the sale of the investment of interest. Because ROI is measured as a percentage, it can be easily compared with returns from other investments, allowing one to measure a variety of types of investments against one another.

Breaking down of Return on Investment

ROI is a popular metric because of its versatility and simplicity. Essentially, ROI can be used as a rudimentary gauge of an investment's profitability. The calculation is not complicated, relatively easy to interpret, and has a range of applications. If an investment's ROI is not positive, or if other opportunities with higher ROIs are available, these signals can help investors eliminate or select the best options.

For example, suppose **Izere** invested 100,000Frw in Popcorn in 2014 and sold his shares for a total of 120,000Frw one year later. To calculate his return on his investment, he would divide his profits (120,000Frw – 100,000Frw = 20,000Frw) by the investment cost (100,000Frw), for a ROI of 20,000Frw /100,000Frw, or 20%.

With this information, he could compare his investment in Popcorn with his other projects. Suppose Izere also invested 200,000 in Bakery in 2015 and sold his shares for a total of 280,000Frw in 2018. The ROI on Izere's holdings in Bakery would be 80,000Frw/200,000Frw, or 40%. (See Limitations of ROI below for potential issues arising from contrasting time frames.)

Limitations of ROI

Examples like **Izere's** (above) reveal some limitations of using ROI, particularly when comparing investments. While the ROI of **Izere's** second investment was twice that of his first investment, the time between Izere's purchase and sale was one year for his first investment and three years for his second.

Izere could adjust the ROI of his multi-year investment accordingly. Since his total ROI was 40%, to obtain his average annual ROI, he could divide 40% by 3 to yield 13.33%. With this adjustment, it appears that although Izere's second investment earned him more profit, his first investment was actually the more efficient choice.

ROI can be used in conjunction with Rate of Return, which takes in account a project's time frame. One may also use Net Present Value (NPV), which accounts for differences in the value of money over time, due to inflation. The application of NPV when calculating rate of return is often called the Real Rate of Return.

Application Activity 8.3

1. Assume you want to start a business, make your start-up budget for your business.
2. Refer to capital you have planned to put in your bakery business, Calculate your Return On Investment.
3. Using your start-up budget that you have done early, prepare your opening balance sheet for your bakery business.

8.4. Risk Assessment and Contingency Plan

Activity 8.4

- You plan to start your small business to sell phones and offer services like cafeteria, mobile money (Airtel money, MTN mobile money and Tigo cash) and deliver electricity (cash power) in high mountain region where many people ignore how to use phones and IT equipment. Identify and discuss on all possible risks that may occur in your business.

8.4.1 Risks related to business

Understanding risk is vital when you are starting, running and growing your business. The process of identifying risks, assessing risks and developing strategies to manage risks is known as risk management. A risk management plan is an essential part of any business as it helps to understand potential risks to your business and identify ways to mitigate them or recover from their impacts.

There are many different types of business risk

Internal and External Risks: An understanding of the internal and external risks in business management is necessary as part of the planning. Generally, internal risks are easier to identify and manage while external risks are more elusive.

a. Internal Risks

These are internal factors which affect the business but are within a company's control and sometimes occur as a result of improper systems put in place or the lack thereof. The hidden costs of transportation delays, warehousing and misaligned strategies among business partners can often hinder the major cost benefits of global sourcing.

When looking internally, risks to the business may involve the financial solvency of the company, the ability for the company to have required equipment and other resources on hand in time to support the business. Personnel issues such as the sickness or unanticipated termination of a key team member also can be considered as internal risks to the project.

Internal risks can also involve infrastructure problems such as the availability of servers, software, and IT support as well as more elementary ingredients such as the supply of electricity to team members. Obviously, the volatility of essential infrastructures will vary depending on the location of the team, so it may or may not warrant consideration during the risk assessment process.

b. External Risks

External risks are outside the control of the project team and its host organization. Because of this, external risks are generally more difficult to predict and control. Factors such as a key vendor going bankrupt, economic upheaval, wars, crime, earthquake, floods and other events may directly impact the project's effectiveness. Some risk may be difficult to foresee such as a mine in a foreign country providing essential elements for the project being taken over by a revolutionary government. This kind of event directly threatens the project, but often takes project managers by surprise because of a deficient analysis of external threats.

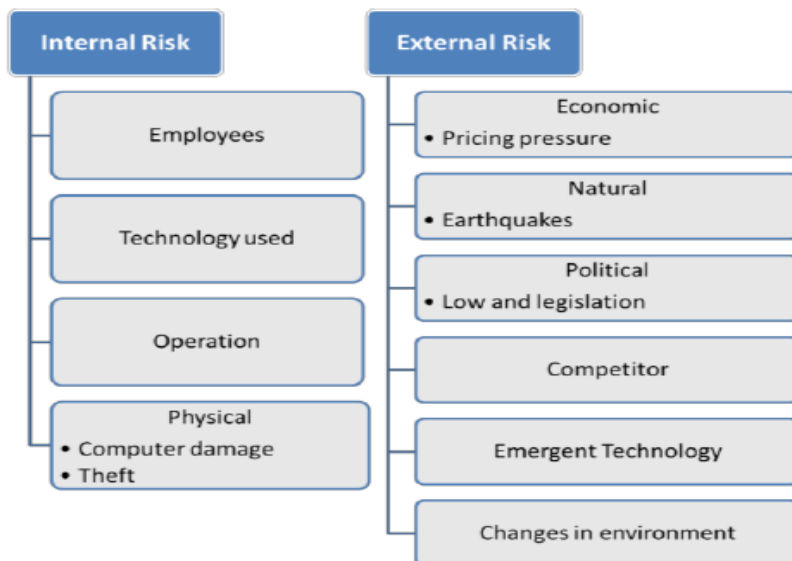


Figure 8 3: Internal and External risks

8.4.2. Procedure strategies to reduce/avoid the risks

Entrepreneurs face typical business risks but can reduce these risks and their personal liability through focusing on specific risk-reduction measures.

Generally, businesses of all sizes face risks regarding development of products, manufacturing them, selling them, earning a profit on these operations and managing growth. If the entrepreneur is a sole proprietor, s/he faces additional personal liability risks and financial risks from guaranteeing business loans. Risk management techniques include risk reduction, risk transfer and risk avoidance.

An entrepreneur therefore can apply these techniques to the business and personal risk she/he faces:

- i. Select a business structure that limits personal liability. Change your business structure from a sole proprietorship in which you are personally liable for business operations to a corporation or limited liability company

- where you have limited liability.
- ii. Transfer risk to insurance companies by insuring against major risks such as damage to your facilities, product liability, injuries to customers or suppliers and death or incapacity of company principals.
 - iii. Perform a risk analysis by evaluating the consequences of risky activities, the likelihood of the consequences occurring and the benefits of the risky activities. Avoid risk by not carrying out activities that have severe and likely consequences and low benefits.
 - iv. Transfer the risk of activities with severe and likely consequences but high benefits to other parties. Create a new, independent company to carry out these activities or assign them to suppliers or partners.
 - v. Reduce risk from product failure and warranty claims by implementing a quality assurance program. Develop a system of reporting from customer service to identify problems. Structure the quality assurance program to document production tasks and product testing. Link the problems reported by customer service to specific failures in production or testing procedures and institute corrective action.
 - vi. Reduce risk of surprises in operating results by keeping accurate records and instituting effective controls. Put in place a system that limits who can authorize specific actions and how much they can spend. Implement a reporting system that gives you key information about company performance. Evaluate the controls and reporting system by comparing actual practice and performance to the control procedures and the reported information.
 - vii. Reduce financial risk by managing your accounts receivable to minimize outstanding balances and identify poor credit risks. Implement credit and payment standards, specifying which credit scores and payment records are acceptable. Evaluate customer payments and ask for advance payment from customers who don't meet the standards.
 - viii. Reduce financial risk by keeping outstanding loans and financing needs to a minimum. Control growth at a rate that the company can finance internally. If the company can't pay off some loans, replace short-term credit with long-term, fixed-rate loans.

8.4.3 Contingency plan

A contingency plan is a course of action designed to help an organization respond effectively to a significant future event or situation that may or may not happen. A *contingency plan* is sometimes referred to as «Plan B,» because it can be also used as an alternative for action if expected results fail to materialize.

Contingency planning aims at preparing an organization to respond well to an emergency and its potential humanitarian impact. Developing a *contingency*

plan involves making decisions in advance about the management of human and financial resources, coordination and communications procedures, and being aware of technical and logistical responses. Such planning is a management tool, involving all sectors, which can help ensure timely and effective provision of humanitarian aid to those most in need when a disaster occurs.

The guidelines to create a Business Contingency Plan:

- 1. Determine what main risks are likely to encounter your business:** Ideally, there is a need to figure out what types of disasters are most likely to affect your business depending on its type and location and plan accordingly.
- 2. Preparation of an evacuation plan:** There is a need to go over with the personnel and post it conspicuously throughout your business premises. Personnel need to know when to evacuate, what they should do when they're notified of an evacuation, what routes are available out of the building(s), and should also know who is responsible for checking to see whether everyone is out safely.
- 3. Create a communications fan-out system:** There is a need to ensure that if something happened at your business, there is a person responsible for notifying each person who works there. In this case there is a need to ensure that phone and email contact lists are up to date and that the people responsible for contacting others have printed lists as all technology fails sooner or later and usually at the most inconvenient time. Also decide who will be responsible for communicating with the public and how (updating the business website, posting on social media, press releases, signs in the windows, radio announcements etc.) in case the need arises.
- 4. Be sure that your on-site emergency kits are complete and up-to-date:** This Emergency First Aid Kit Checklist for Businesses shows exactly what first aid kits for small businesses need to contain. Depending on what types of disasters may happen in your area, you may want to add other supplies. For example, one gallon of water per person per day is one of the recommended supplies on this list of Emergency Supplies for the Retail Store.
- 5. Take steps to protect your business data:** Your business data is your most valuable asset. If it was stolen or destroyed, would your business be able to quickly get up and running again or even carry on at all? Therefore, data protection is one of many advantages of switching your business to cloud computing.
- 6. Ensure your business carries adequate insurance:** Fire insurance is the type that springs to mind, but fire is certainly not the only possible disaster your small business could experience. Besides other obvious physical disasters such as flooding or wind damage etc. might affect the business choosing the proper type of insurance to cover your risks and having good,

up-to-date insurance coverage will go a long way towards getting your small business up and running again if disaster strikes.

7. Check out local programs and resources: Your city or town or village may have contingency plans/disaster response plans in place or provide resources that will make it easier for you to put your own plan together. For instance, MIDMAR offers information about emergency preparedness for some locations in Rwanda where it sensitizes people to buy and install *Umurindankuba* (lightening rod/conductor) near their houses (for example in Rutsiro district, Nyaruguru district and especially in the high mountain region) on its website and offers training workshops on the topic.

Note: Investigate and find out what contingency plan is available in your town or village before you start writing your own business disaster plan.

8. Keep your business contingency plan handy: The entrepreneur has to keep his/her disaster plan in an easily accessible place and make sure everyone who needs to know where it is knows its location.

9. Use Your Business Social Media: Your business website and social media platforms like Facebook, Telegram, WhatsApp and Twitter are excellent ways to communicate with customers and business associates in the case of an emergency. Don't let your customers wonder if you are open or not when disaster strikes, a quick post on Facebook can keep them up to date.

Contingency planning therefore, requires an investment of time and resources, but if you fail to do it or if you do it poorly the costs could be significant if a disaster happens. A well thought out business contingency plan can mean the difference between your business's survival and failure if disaster strikes. A fire, a flood, a hard drive failure or data theft - any or all of these could put your business out of commission. Taking the time to do some business contingency planning will help ensure that your business is able to resume operations in the shortest possible time.

Application Activity 8.4

Refer to the risks identified in activity 8.4, suggest the strategies you would put in place to mitigate those risks and prepare a contingency plan.

8.5 Action plan

Activity 8.5

- As a student who will finish secondary school in this year, plan to start your small business in your sector. Identify all your business activities needed and showing their expected time to complete them in order to start that business.

An action plan is a document that lists what steps and actions must be taken in order to achieve a business goal. A business action plan is a document prepared to guide you on the tasks you should do whenever you want your business to grow, expand and maximize profits. The action plan can be used by employers, employees, or other business associates. The business action plan has some advantages and it is advisable to have one for your business.

The purpose of an action plan is to clarify what resources are required to reach the goal, formulate a timeline for when specific tasks need to be completed and determine what resources are required and the costs needed. Action plans are relevant in business because they help a person to know how they will work to achieve a particular goal or how to respond to the circumstances that may arise in future.

One of the major benefits of having a business action plan is, it helps the business person to comprehend the tasks they are needed to perform to accomplish their business goals. It helps in splitting the goals into small and achievable parts so that they will end up achieving the goals in the end.

A business action plan is needed before a firm starts or when setting the goals that you aim at achieving in a particular period. With a well-documented and detailed business plan, you will be able to set and achieve your business goals. For startups, having an action business plan is one of the best things they can have. It ensures that they are on the right track and they can track their progress from the start.

8.5.1. Functions of action plan

A business plan without a viable action plan is like a ship without a steering wheel or a car without a driver. Because business requires staying on course toward a long-term goal, it's essential to have a plan that you can follow. The reason to create a successful action plan is making it ambitious enough to achieve growth and profit, but realist enough that your business doesn't overextended itself.

The functions of action plan are the following:

- The action plan acts as a guide or timetable to the entrepreneur to make sure he/she fulfills the plans and achieves results. It like a timetable that is followed by the business to implement its plans.
- The action plan helps to coordinate resources of the business so that resources available in the right place at the right time.
- The action plan helps to avoid wastage. One of the greatest hazards moving forward without an action plan is the risk of wasting time, energy, money and other resources.
- The action plan helps to identify road blocks in advance or expected challenges so as to take appropriate steps to overcome them.
- Writing action plan help you to learn your own business, your competitor and your business location.

- The action plan locates sources of information and resources needed for the business.

Therefore, a well-developed action plan can serve as a blueprint for the project manager to break a large project down into smaller, more manageable **SMART** (Specific, Measurable, Attainable, Realistic and Time-based) goals.

8.5.2. Preparation of an action plan.

Action plan may seem detailed and tedious compared to earlier phases of business plan which often seem creative in nature.

The organization's commitment to business plan is commensurate to the extent that the organization completes action plans to reach each business goal and includes numerous methods for verifying and evaluating the actual extent of implementation of the action plan

Main steps in preparation of an action plan;

- **Setting clear objective:** There is a need to set a motivating goal but challenging enough to stimulate the work plan. There is also a need to be precise about what you want to achieve.
- **List the benefits you would gain by achieving your goal.**
- **Start with what you will do now:** There is no point in having an action plan that will start in six months' time.
- **Define clearly the steps you will take.** Think of all the possible things you could do to take you closer to achieving your goal, no matter how small. Break down any large steps into smaller components, so it doesn't seem so difficult to achieve.
- **Identify the end point for each step and** give yourself a small **reward** for achieving it.
- **Arrange the steps in a logical, chronological order and put a date by which you will start each step:** Put these dates into your diary or onto a calendar. Try to set yourself weekly goals: what research you will do into jobs, what skills you will concentrate on learning etc. It's also a good idea to get into the habit of planning a timetable each evening listing your tasks for the next day or two
- **Review your progress.** Keep a diary or blog of your daily activities and record your progress as things happen: this keeps your plan as concrete as possible. A good time to start your review is about two weeks after you have begun. Review how far you have got towards your objective, identify any mistakes you made and what you can learn from them, look at any new ideas or opportunities that may have presented themselves and then revise your plan to incorporate these.

An example of an action plan

Business Implimentation / Action Plan

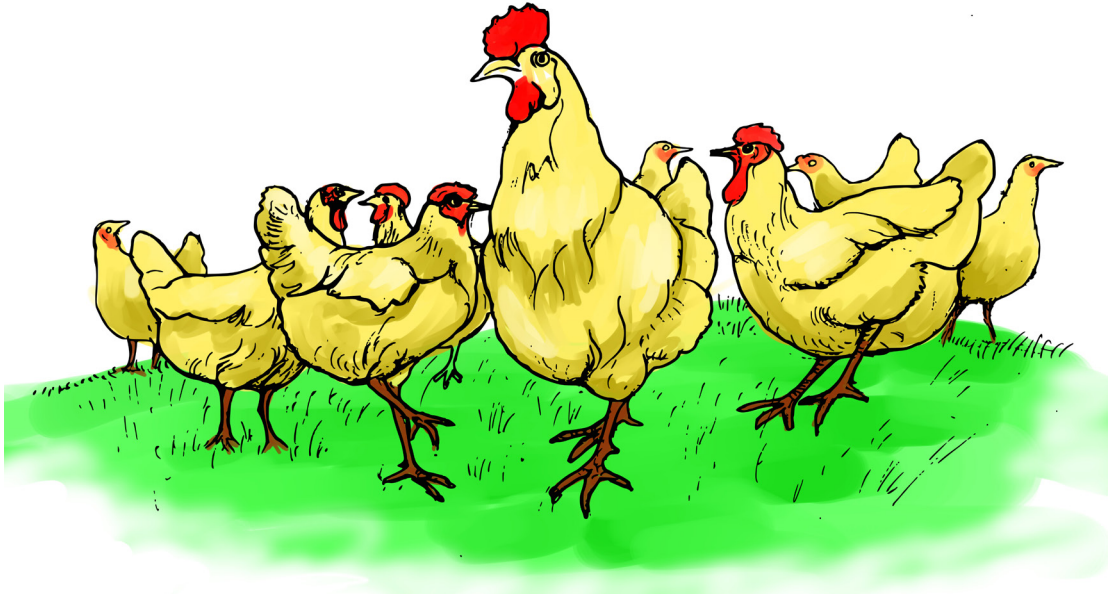
NO. OF ITEMS	ACTIVITY/ITEM	TIME	IMPLEMENTATION OFFICER
1	Carry out the feasibility study to determine the viability of the project	1 month	Entrepreneur/market research firm
2	Formulation of a business plan	2month	Entrepreneur
3	Loan application process	1month	Entrepreneur
4	Selection of the business site and purchase of land	1month	Entrepreneur
5	Construction of premises and offices	8month	Construction firm
6	Purchase of machinery& equipment	2months	Entrepreneur and engineer
7	Installation of machinery	2month	Engineer
8	Recruitment of human resource	2month	human resource manager
9	Training of employees	2month	Human resource manager
10	Production testing	1 month	Production manager
11	Commercial production	2weeks	Production manager
12	Marketing of products	Continuous	Production manager
13	Official production launch	1 day	All departments

Application activity 8.5

You have a dream to start your small business where you want to open a coffee and tea shop. Prepare an action plan for your business.

8.6. Sample of a business plan

A POUTLY PROJECT PROPOSAL REQUESTING FOR FUND



A POUTLY PROJECT PROPOSAL REQUESTING FOR FUND

Submitted By:

AKEZA R. Elsie
and
MUNEZERO D. Purity

Presented on: April 16th, 2018

XYZ POULTRY PROJECT



PROPOSAL

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1. EXECUTIVE SUMMARY

This is a poultry Project specifically designed for eggs production. It is planned to start with 2015 layer birds. The Total project cost for the poultry project alone shall be 1, 456,041 Frw broken down as; 12,600 Frw for construction, 1,400,000 Frw for purchase of the chicks, 204,60.3 Frw for poultry feeds, vaccines and drugs and other poultry accessories for 18 months. For capacity building, water and electric installation, administrative costs and labor cost for 18 months. It is assumed that only 80% production shall be realized, which means 1,620 trays of eggs shall be realized per month for 12 months on average. The primary customers for the eggs shall be prominent egg traders within and around Kigali City. The minor customers shall be the egg venders who usually boil 10 to 15 trays of eggs and vend it at pubs, market places and streets. The reason for the target market is that egg production in Rubirizi and Nyacyonga cannot meet market demands.

To increase the sustainability of XYZ Poultry enabling it to continuously support its mission, helping to improve the social economic welfare and vulnerability of the Youths in Ndera Sector, Gasabo District. In order to realize the above results, the following main activities must be implemented:

- i. Contract the services of a builder to construct a chicken house
- ii. Select and train youths, especially those out of school, to support the project
- iii. Procure and rear chickens to lay eggs to be sold for consumption
- iv. Continuously monitor and evaluate activities to ensure objectives are met.

If these activities are implemented, it will create a great impact in the lives of the project beneficiaries. In the first place, the project will create employment for at least 30 youngsters currently not employed in any productive venture. This employment will give them an alternative way to generate income and thereby decreasing their risk of transmitting and contracting HIV/STDs especially girls. In the second place, it will provide **XYZ Poultry** a secure source of funding for its program activities, allowing it to continuously sustain 20% of its current activities

In spite of these goals, XYZ Poultry lacks the financial resources necessary to realize this project. The project seeks 1, 050,000 Frw to aid in the start-up of this income generating project.

2. INTRODUCTION

Project Profile

XYZ Poultry is a project not affiliated/related to any religious, political, or social grouping, but born out of the need to work with teenage youth(s). It seeks to facilitate the youths to initiate and create income generating projects, and as we

all as creating development initiatives to employ them. It was started by **AKEZA R. Elsie & MUNEZERO D. Purity** in February 2018 to respond to the needs of Youths who were destitute because of the various socio-economic reasons.

3. PROBLEM STATEMENT / PROJECT LOCATION

The problem at hand is that in many cases the project finds itself in financial needs particularly in addressing the physical, material and educational needs of the youth despite the fact that the project has a land (3 hectares), with water storage facilities. These locally available resources could be turned into a viable income generating project. In addition, some of the youth out of school are unemployed in productive venture so as to support themselves. This has not only put the project at a high risk of relying on donor funds to meet its basic needs, but also it will put some of the youth especially girls at an extremely high risk for contracting HIV and other STDs.

Against this background, we consultatively came up with the poultry project as income generating project as supplementary sources of income to XYZ Poultry. Furthermore, the project seeks to provide income generation projects for the youth, giving them an alternate way to support themselves and their dependents.

4. VISION

To be a passionate people extending God's grace and hope in every community.

The **XYZ Poultry** aims at becoming a reference of quality in food for future generations, working as a team in a socially responsible manner and using all our resources to respond correctly to the new demands raised by the market. Our work is focused on the constant development of new products and services, including all the processes that lead us to achieve an end product with functional capacity and a high nutritional standard, without incurring any extra expense for consumers.

Our aim is to continue to consolidate our market positioning through the growth of our customer portfolio, offering customised service and anticipating their demands. Continuous research, the development of new lines of work and new product presentations will allow us to improve our competitiveness and continue to be a company of reference in terms of quality and food safety. We intend to optimise our business results by promoting teamwork and professionalism, and upholding our social commitment to the ongoing development of our products and services in a sustainable manner, and with greater guarantees for the end user.

5. MISSION STATEMENT/GOAL:

Its mission is to promote an environment in which the youths are cared for, supported, bodily, mentally, socially, morally, spiritually and with an emphasis on education, nutrition and social support to facilitate a meaningful life.

We will provide quality products for human consumption, certified in accordance with the strictest quality and food safety standards. Our commitment to continual development and innovation has allowed us to maintain a high competitive level and satisfy the needs of our final consumers. We strive to ensure that our customers grow with us in a setting of ongoing improvement, through joint efforts and by establishing bidirectional communications between them and our staff. We exert a proactive attitude, seeking the consolidation and recognition of our business project and maintaining our commitment to the sustainable development of our environment and a respect for nature.

6. VALUES

For sustainability, XYZ Poultry has adopted a series of values and undertakings which are shown in its day-to-day operations, and are defined through the following aspects:

- Customer focus
- Teamwork
- Commitment to achieving results
- Sustainability
- Interest in people
- Corporate Social Responsibility
- Quality and Food Safety
- Uprightness

7. OBJECTIVES

General Objective

To increase the sustainability of **XYZ Poultry** to continuously support its mission, promoting educational and health programmes within the youths.

Specific Objectives

- To establish a business, raising and selling chicken and eggs (poultry products) and use its profits to help support the activities of **XYZ Poultry**
- To improve the economic welfare of the youths employing them to run and support the “poultry farming project”.
- To train the youths who have no opportunities to continue for secondary education in business and management so that they may successfully support their needs.

8. ACTIVITIES

- Procure materials for constructing a permanent poultry house with favorable conditions for raising chickens and eggs
- Contract builders to build a structure (poultry house) for raising chicken and eggs
- Contract the services needed for the installation of electricity
- Contract the services needed to install a water system
- Procure 2,000 chicks and the necessary food and supplies needed to support them
- Recruit and hire the agriculture extension officer to provide veterinary services to layer birds and to support the needs of the project
- Train selected the Youth, with the help of partner projects, in business, management and poultry farming
- Monitor and evaluate the activities of the poultry farm and its overall impact to its target group and XYZ Poultry as a project, reviewing the management of the project and the sale of poultry products

9. JUSTIFICATION OF THE PROJECT:

The project is a three-fold strategy, in that it seeks to create a viable income generation project for XYZ Poultry, giving it an alternate way to support its daily activities and to improve the welfare of the Youth. The project will produce poultry products for sale and the proceeds will not only assist the project to meet the basic necessities of life for the youths such as medical care and scholastic materials, but also reduce the financial costs the project spends on buying these products for daily consumption. And it has been proved that poultry products are a cheap source of the protein which is vital in maintaining the immune system of HIV positive persons for as long as possible. This will be a great help to some of our youths who are living with HIV aids.

Second, the project seeks to create employment opportunities to some of the youth so that they cater for themselves and to some extent their dependents. With respect to multiplier effect, the activities of this project will be scaled up by non-members. Or the project will be a model for future income generation projects within the community and will be replicated by both XYZ Poultry and other indigenous Non-Government Project too in other localities.

10. TIMELINE FOR IMPLEMENTATION OF ACTIVITIES FOR 2014-2015

Core Activities	1 st Quarter Apr-Jun 2014			2 nd Quarter Jul-Sept 2014			3 rd Quarter Oct-Dec 2014			4 th Quarter Jan-Mar 2015			Persons Responsible
	1	2	3	1	2	3	1	2	3	1	2	3	
Procure materials to construct poultry house	■												XYZ Poultry
Contract builders for poultry house,	■	■											XYZ Poultry
Contractor for electricity installation			■										XYZ Poultry
Contractor to construct well and water system			■										XYZ Poultry
Recruit project staff to manage the poultry project		■											XYZ Poultry
Training of project staff in poultry farming			■										XYZ Poultry
Procure chicks			■										XYZ Poultry
Procure supplies – poultry feed, vitamins, heaters			■										XYZ Poultry
Vaccinations				■									Extension officer
Rear chicken (daily monitoring)				■	■	■	■	■	■	■	■	■	XYZ Poultry
Sell eggs (daily monitoring)								■	■	■	■	■	XYZ Poultry
Evaluate activities	■	■	■	■	■	■	■	■	■	■	■	■	XYZ Poultry

Matheus” and in modern Hotels.

Institutional framework and linkages

In the first place, XYZ Poultry will partner with the Department of Agriculture in Rwanda Agricultural Board (RAB) which has expatriates in agriculture and animal husbandry. The project will partner with poultry projects in Rubirizi in Kanombe Sector, Kicukiro District which are also involved in poultry farming activities. The project will draw on the experiences of these people to help in the training and development of this project as it progresses. These relationships will help to ensure this project is successful.

Implementation

The project will be executed by the AKEZA. R. Elsie & MUNEZERO D. Purity. However, it will set up a separate project committee which will be responsible for the day to day coordination and implementation of the project activities. It will also be responsible for planning, supervising, monitoring and reviewing all project activities.

Implementation of the project activities will call for close collaboration with a wide range of partners such as potential buyers of poultry products, sellers of animal feeds, agricultural District department, Rwanda Agricultural Board (RAB) and the project funders.

This will enhance the opportunities for the realization of the broad goals and objectives of this project.

Monitoring and evaluation

General Monitoring and evaluation will be an ongoing activity throughout the project life. Monitoring will be routinely done through meetings monthly reports, check lists, surprise visits and support supervision visits. These reports shall indicate the constraints and challenges in the implementations and necessary adjustments that had been taken. Progress evaluation will be done through use of monthly quarterly reports, steering committee meetings, annual report, registry records, work plans indicating planned and accomplished activities, functional accountability for project resources including equipment, facilities, assets and activities.

Progress monitoring and evaluation will help the project team to assess the extent to which implementation is meeting the set objectives. This will enable the project team to revisit the objectives and priorities and to find ways and means of improving the performance and better resource used

Financial Management of the project

Finances accruing to this project will be entered into the proper books of accounts

when received. A special Account in the name of the project will be opened to cater for only project funds. To ensure effective control, management and monitoring of project funds, no single signatory will be allowed to access project funds, and the signatories of this account will be three. Under the consent of the three and approval of the committee funds will be withdrawn from the bank and utilized for the intended purpose.

Books of accounts will be audited regularly through external auditors. After auditing the project accounts, the auditors will submit an audit report, which will satisfy the donors and the stakeholders that correct and proper books of accounts have been maintained.

There will be the project committee which exercises budgetary control over project finances. This will be exercised through the comparison of expenses estimated in the budget with actual expenses incurred during the period.

Project Profit Projection

It is assumed that only 80% production shall be realized, which means 374 trays of eggs shall be realized per week for 12 months. That is to say 54 trays X 30 days X 12 Months = 19,440 trays of eggs in one year. A tray of eggs goes at 1540 Frw. This means gross revenue of **29,937,600** Frw shall be realized from the sale of eggs.

The off layers at the end of production shall be sold at 2800 Frw each, raising additional revenue 5600 Frw. This implies that total gross revenue of 35537.6 Frw shall be realized at the end of the production cycle in 18 months, and this implies a net profit of 12417.3 Frw shall be made at the end of 18 Months.

Project sustainability

In the initial stage, the project will be sustained by the founder's and a loan funds. However, in the long run the project will finance itself. Part of the funds will be used to execute the project while another percentage will be re-invested in the poultry business to expand the project, hence increasing sales and profits.

Through a capacity building workshops, the project staff will be empowered with skills in treatment of layers and have appropriate knowledge on feeds.

13. THE POULTRY BUDGET

ITEM	QUANTITY	UNIT COST (Frw)	TOTAL COST (Frw)
Chicken	2000	700 per chick	1,400,000
Fowl run (construction)			12,600

Chicken feeds			20,460.3
Chick mash	104x 50 kgs	18,550	1,929.2
Growers mash	640 x 50 kgs	13,090	8,377.6
Layers mash	480 x 50 kgs	13,090	6,283.2
Vaccines			3,590.3
Other expenses			2,800
GRAND TOTAL			1,456,040.6

CONCLUSION

Now poultry business is a very popular business in Rwanda and in Gasabo District in particular. This business does not require huge capital and it requires small amount of investment needed to start it. Although the business has many existing competitors in the market, but more still, we have a high chance to succeed because the existing competitors can't fulfill the customers demand. They are also failing to meet the customers need in the perspective of service care. So, we believe that choosing this business is our right decision.

Application Activity 8.6

1. Suppose your friend wants to start a business of selling eggs, prepare for him a business plan which he will present to Umurenge Sacco-Kabeza in order to borrow money.
2. Assume you want to open a bakery business in your area, identify all activities required in your business and prepare the action plan to be followed.

Skills Lab Activity 8.7

Prepare the production plan, business operation and Costs Plan, and Financial plan for the business activity they chose in lab 7

End of Unit Assessment

1. Suppose your mother wants to start a hotel business, based on your knowledge and skills gained from entrepreneurship subject,

Prepare for her the following:

- a. Production plan
 - b. Action plan
2. Explain the various components of a financial plan
 3. Explain the guidelines followed in business contingency planning.
 4. Mention the elements of a business plan
Prepare a business plan for your school business club.



UNIT9

QUALITY ASSURANCE AND QUALITY COMPLIANCE IN BUSINESS

Unit 9: QUALITY ASSURANCE AND QUALITY COMPLIANCE IN BUSINESS



Key unit Competency: To be able to establish an effective quality compliance system in business activities

ABBREVIATIONS AND ACRONYMS USED IN THIS UNIT

COMESA	-	Common Market for Eastern and Southern Africa
EAAB	-	East African Accreditation Board
EAC	-	East African Community
IAF	-	International Accreditation Forum
ILAC	-	International Laboratory Accreditation Cooperation

ISO	-	International Organization for Standardization
NIB	-	National Inspectorate Board
RSB	-	Rwanda Standards Board
NQTL	-	National Quality Testing Laboratories
NMO	-	National Metrology Organization
NMI	-	National Metrology Institute
RAS	-	Rwanda Accreditation Services
RADA	-	Rwanda Agriculture Development Authority
RARDA	-	Rwanda Animal Resources Development Authority
SQMT	-	Standardization, Quality Assurance, Metrology and Testing

Introduction

In Unit 8 (S1), you were introduced to the basic concepts of standardization, you analysed the need for metrology, quality testing and accurate measurement in unit 8(S2) while in S3 unit 10, you covered the requirements for acquiring a certification mark for a given business. In S5 unit 12, you were able to appreciate that there is need for conformity assessment in business. This unit will help you appreciate that doing businesses requires entrepreneurs to conform to the required accreditation, quality and metrological standards.

As a result of entrepreneurship and all economic activities such as banking, insurance, building infrastructure (i.e. roads and pipelines, mines, and tourism facilities etc.), the economy and the people can be affected in one way or the other. This therefore requires entrepreneurs to be keen with what and how they produce hence need for effective quality management, assurance and compliance.

When customers feel satisfied with what is being offered to them in terms of quality, they're more likely to give you their repeat business. Consistent quality and assurance in business takes hard work, attention to detail and systems for monitoring and assessing whether your products meet the standards you have set for your business. Quality control is an ongoing process that touches stage of business from purchasing of raw materials, manufacturing and to distribution.

Do you know why we have certain measurements /weights in business products and services ? For instance have you ever wondered why entrepreneurs sell products in

certain measurements like liters, small or medium sizes and in kilograms ? These are questions that can only be answered if you learn more about metrology. This unit as well is designed to help you analyse the significance of metrology in business and to understand how measurements affect business and the lives of people.

Introductory activity

Quality assurance and Compliance Case Study:

The government of Rwanda through Rwanda Standards Board is mandated to provide National standards and conformity assessment guidelines that entrepreneurs/traders ought to follow during production and sell of their goods and services. These guidelines help entrepreneurs to be cautious and careful with the quality and measurements of raw materials used, goods produced and the technology used. If your business conforms to the required quality management, assurance and compliance standards, it reduces the mistakes and inconsistencies that could make these goods unsafe. If you manufacture a food product, your quality control processes should monitor temperature and foreign bodies to decrease the likelihood that you will make someone sick. Ensuring customer safety saves your business money and averts damage to your reputation.

One of the ways that the business can strengthen its quality is by listening to its customers and incorporating their feedback in the business processes and production systems. Product quality issues that customers normally report should be tracked and managed through a rigorous process of investigation and resolution. These and more processes help the business to continually enhance customer satisfaction. It's also important that businesses are genuine in their measurements of goods produced and sold.

Questions

Referring to the above case study, answer the following questions.

- a. What does the National Standards and conformity assessment guidelines expect entrepreneurs to do ?
- b. What are likely negative effects the business may face if customers are not satisfied as a result of wrong measurements of the goods bought ?
- c. Explain the benefits a business will attain if there is an effective quality management, assurance and compliance standards ?
- d. What strategies would you propose to the entrepreneurs to implement to ensure the safety of their customers ?
- e. Design a simple quality management system of the business idea you intend to start in your community.

9.1 Meaning and background of metrology

Activity 9.1



Figure 9.1 Measuring tape



Figure 9.2 Weighing scale

While entrepreneurs are producing products and services, they take into account different measurements of raw materials, or products. These measurements can be according to depth, length and weight. This Measurement plays an important role in providing a basis for fair and accurate trade, optimization of production, fostering consumer and business confidence in products and in the development of new technologies and innovation.

Using the background knowledge for example from what you studied in S2 about metrology, quality testing and measurements, and by analyzing the pictures and paragraphs above;

- a. What do you understand by the term Metrology in business?
- b. Explain the major purpose of metrology in business.

9.1.1. Meaning of Metrology

This section covers the meaning and background of metrology as well as the importance and applicability of metrology in business activities.

Metrology is defined as the *science of measurement*. It is a science of precision and measurement that includes measurement of quantities like width, length, depth, angles of the related products.

9.1.2. Background of Metrology

Effective metrology has always been one of the key foundations of successful manufacturing. Today due to high demands for more advanced manufacturing techniques, lean and agile business structures, ever tighter specifications and a boom in new measuring equipment and technologies, It's time to update old knowledge and make metrology add value in business, cutting out the waste often hidden across multiple business budgets and cost centers especially time. Businesses have to use the right technology and appropriate measurements that conform to the regulatory standards and as well meet customers' needs. This would reduce costs and make metrology relevant work for the businesses.

In the past the main reflection of metrology activity in society was weights and measures, the inspection of measurement devices used in day to day trade but today all the weights and measurements have to take into account the regulatory standards set by the government and customers' needs and preferences. There is a lot of creativity today towards how products are measured in terms of shape, color, height, length and other necessary product requirements.

9.1.3. Current situation

Rwanda Standards Board (RSB) is mandated to provide metrology services in the country. It has been offering a number of services in legal and industrial metrology since October 2007. These services are provided in six laboratories (Mass, Dimensions, Pressure, Volume, Electricity and Temperature laboratories). These laboratories do not have sufficient equipment to carry out all the required work and some measurements such as force, energy and transformer, Radio Frequency

and Microwave, Time, Flow, Photometry, Acoustics, Radiations, High Frequency and Chemical Metrology do not have equipment and are not carried out.

In the field of Legal Metrology, inspections, verification and calibration (reverification) of equipment used in trade like fuel dispensers, scales and other weighing equipment is regularly done by personnel from the laboratories on a basic scale as well as health and safety related equipment. Type approval of the measuring equipment is not currently done.

The Constitution of the Republic of Rwanda adopted in June 2003 ensures the protection and sustainable management of environment and encourages rational use of natural resources.

Analysis of current situation and possible options

Globally, the National Metrology Infrastructure consists of three distinct and separate metrology establishments representing three categories of metrology stated below:

1. A National Metrology Institute (NMI) responsible for scientific and industrial metrology;
2. A Legal Metrology Department (LMD) or Weights and Measures Department; responsible for Legal Metrology and;
3. Private Calibration Services (PrCS) and/or Public Calibration Services (PuCS covering calibration and instrument testing.

Application Activity 9.1

For the business you intend to start in your community, what different measurement standards would you emphasize?

What strategies would you implement to make sure that the environment you are operating in is safe ranging from production processes, packing of materials or products and measurements?

9.2. Metrology and its Types, Its Application in Business activities and Importance of accurate Measurements

Introduction

Under this section you will cover the types of metrology in business, applications of metrology in business activities as well as the importance of accurate measurements in business and life. You will be able to appreciate the role of metrology in life.



Figure 9.3, Use of measurements in business

Activity 9.2

- What do you observe in the above illustrations?
- What lessons do you learn from the above illustrations?
- Why should buyers of given products make sure that products bought conform to the right measurements?

9.2.1 The Types of Metrology

1. Scientific Metrology: it deals primarily with Research on definition and realization of measurement standards. It looks at establishment of units of measurement, unit systems, and quantity systems. The units of measurement sets standards adopted conventionally and by law, of the

definite magnitude of a physical quantity. On the other hand, the unit's systems are composed of the traditional systems, metric systems, and the natural systems. There are also some unit systems that are derived from a set of fundamental units. The quantity systems are the standard systems used in the control of measure, net weight, or number of constant quantity packed goods.

Moreover, scientific metrology goes beyond just the establishment of units, and includes the realization of these standards to the users in the society; and the development of new methods in measurement.

- 2. Industrial Metrology:** this deals with the satisfactory safe keeping and dissemination of measurement units to Industry and Laboratories. Applied metrology is rather specific in its applications, which are primarily various industrial processes including manufacturing among others. This type of metrology intends to establish the importance of measurement in the industry. It also ensures the appropriateness of measurement instruments including the maintenance, quality control, and proper calibration of these instruments.
- 3. Legal Metrology:** it is responsible for enforcement of trade, safety and health measurement regulations, and type approval of measurement instruments. It also embraces the regulation of pre-packages for retail goods. When there are clear and appropriate rules and regulations pertaining to measurement, and measurement instruments as well, the consumers are definitely protected and guaranteed that fair trade is observed.

9.2.2. Applications of Metrology in Business activities

Metrology is important to every area that has measurement of a value or quantity as part of its makeup or production process. For example, Inyange industry located in Masaka sector in Kabuga that produces high quality mineral drinking water, fruit juices, milk and other dairy products have different measurements in different units for these products. The volume and quantity of these products must be measured for uniformity, standards, taxation and royalty purposes. The accuracy of all of these measurements will determine also the efficiency of customer's satisfaction and with which revenues will be collected.

9.2.3. Importance of accurate measurements in business

Measurements are so often taken for granted and we sometimes do not appreciate the grand importance measurements play in our lives. Measurements fall into the categories of weight, area, volume, length and even temperature.

The specifications for business products or services must confirm to the right and accurate measurements in terms of size and texture. To make sure each and

every product or service meets these specifications, the entrepreneurs must take into account all aspects of the production, starting with ingredients. They have to create a set of instructions, or procedures, to control production. These might include procedures for inspecting the process of production. For example, in the production of juice, sugar as an ingredient must be accurately measured to make sure it conforms to the acceptable tolerance and satisfaction of customers, this would require the industry/business to have quality control department to ensure quality control systems are being followed and applied.

The importance of accurate measurements in business may include the following;

- i. **Safety reasons;*** for any product made if less or more expected ingredients are used, the product may be catastrophic and harmful to the people. Accurate measurements of the ingredients and raw materials while making products must be observed.
- ii. **Consumer protection;*** measurement, and goods packed by measure, has generally replaced number and simple measures (bucket, plate etc.) as the basis of transaction for a wide range of consumer commodities and products. The increased consistency of these measurements, when adequately controlled, has significantly reduced disputation, and fraud and increased the efficiency of the marketplace.
- iii. **Meeting customer's preferences;*** for example, when it comes to clothes, proper size and measurements as per customers' preferences must be taken into consideration. Customers would want to put what suits them according to their preferred size.
- iv. Accurate measurements **help entrepreneurs to make proper decisions.*** For example, if the quantity of what customers need is over estimated while making decisions, it may lead to losses as much resource would have been wasted in producing more than what customers need.
- v. **Effective stock control;*** accurate measurements of quantity to sell by individual businesses provides accurate and effective stock control to facilitate the ordering of new stock.
- vi. **Building image;*** if the business is well known for producing products that conform to accurate measurements for example producing accurate weights of goods, it builds high image and reputation to the business.
- vii. **Transportation capacity;*** accurate measurements help in estimating proper weights of different vehicles with different capacities ought to transport. Otherwise if too much weight of products is transported, mechanical problems to the vehicle may arise.

Applicatin Activity 9.2

As members from the same community, you want to start a project or a business that will help transform peoples' lives. Using your knowledge and skills about metrology;

What factors would you take into account while apportioning different sizes of products to make?

How would you ensure that there are accurate measurements of ingredients used while making products and that the products made conform to the right standard measures?

9.3. Quality Management, Assurance and Compliance

Introduction

This section covers the key elements of managing quality in a business that is; quality assurance, management and compliance. Through this section, you will be able to reorganize the relationship that exits between quality assurance, compliance and management.



Figure 9.4 Showing quality measurements standards

Activity 9.3

- a. Given your background knowledge and skills about stock control and standards in business, define the following terms;
 - i. Quality compliance
 - ii. Quality assurance
 - iii. Quality management
- b. What relationship exists between quality control, compliance and management?
- c. Think about businesses that exist in your community, how have they failed to observe quality expectations?

9.3.1. Quality Management

Quality management can be defined as the managing structure, responsibilities, procedures, processes, and management resources to implement the principles and action lines needed to achieve the quality objectives of an organisation.

Quality Management is essential part in business process that business owners or managers ought to pay attention to while running their businesses. In managing quality, entrepreneurs or business leaders don't only focus on quality, price and profits but also focus on their core customer base in order to build and maintain market share through continuous improvement of products and services.

In a total quality management (TQM) approach, businesses must understand who their current customers are (and are not), noting their key needs and requirements and keep these expectations at the forefront of their strategy and processes. This principle should extend to internal clients, as well, treating coworkers as customers and satisfying their demands.

Quality management aims at achieving the following;

- i. Satisfying customers by ensuring customer feedback is incorporated in management process and procedures while producing products.
- ii. Continual improvement of products, services, working environment, staff development, and management and production processes.
- iii. Reduces wasted products, repeated or corrective work and unnecessary processes.

9.3.2. Quality Assurance

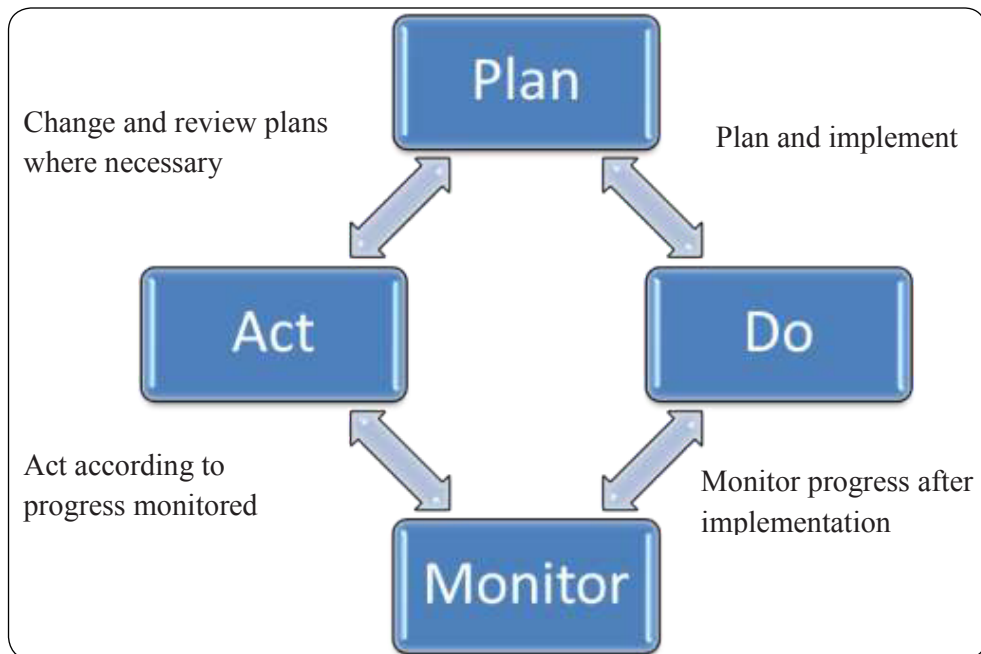


Figure 9.5 Quality assurance planning cycle

This illustration above shows a quality assurance system the business can apply to ensure quality assurance in day to day business activities/processes.

Explanation of Figure 9.5

- 1. Plan:** This involves a set of activities set by the business to ensure the business achieves quality expectations.
- 2. Do:** After planning stage, set quality activities are implemented in day to day activities of the business.
- 3. Monitor:** This stage involves monitoring progress of the implemented activities meant to achieve quality. This helps the business to ascertain whether the set quality standards are meant.
- 4. Act:** This stage involves acting according to the results got after implementation. It is the stage that informs the entrepreneur whether he/she needs to change or review plans.

Quality assurance is the systematic effort by a business to ensure that its end product (s) satisfies its intended use, meets customers' expectations, and is produced consistently with zero defects.

If the businesses have no systems in place to control business processes or measure

customer satisfaction, then they are not sure of what customers need, decisions to change what they are doing to maintain or increase market share will always be biased. The business will continue to operate in the future the way it has been in the past, and it will thrive, stagnate, or fail, and you will have no clue as to why it did any of those three things.

The driving force behind all quality control systems is customer feedback. Without the customer, you have no business. Unless the customer is satisfied with your product, you will not have a business for long. Unless you know what the customer wants and expects, you cannot possibly deliver it and therefore businesses have to ensure products made and sold satisfy customers' needs and expectations by creating a rigorous quality assurance system that is inclusive of customers' feedback.

Quality Assurance Procedures

The business has to make sure that products made or services provided are fit for purpose (be fit for their intended purpose). Remember quality assurances are businesses processes and procedures involved in making sure a product or a service consistently complies with the customers' expectations.

The following are procedures the business can undertake to ensure the products made or services provided are quality assured;

- i. Customers' input;** customers' feedback must be taken into consideration for the business to assure quality of products/services produced.
- ii. Current specifications of products;** the business sets product or service specifications/particulars that will be applied to ensure quality is achieved. These particulars can be according to customers' tastes and preferences.
- iii. Inspection;** this involves activities set by the business to ensure the set quality standards are achieved for example use of quality assurance team to inspect and support members towards achieving set standards.
- iv. Monitoring and Evaluation;** this involves activities that are done to monitor progress of the quality standards set. This helps the business to make the decision on whether to review quality standards set for the business or continue implementing.
- v. Complying with regulatory standards as set by the regulatory body;** the business has to ensure that they apply in the business procedures the right standards set by Rwanda Standards Board.

9.3.3. Quality Compliance

Compliance is either a state of being in accordance with established guidelines or specifications, or the process of becoming so. Businesses in Rwanda, for example in their production processes have to comply with with specifications created by

a standards body (Rwanda Standards Board). Compliance encompasses efforts to ensure that organizations/businesses are abiding by both industry regulations and government legislation. In this case, minimum quality limits have been set and the businesses must make changes in manufacturing to reach those minimums.

Businesses as well have to create minimum work compliance systems that translate into a better, safer workplace where people are better at their jobs. Businesses have to create a safe working environment for employees and demonstrate that the employees' health and well-being are important.

9.3.4. Relationship between Quality Assurance, Compliance and Management.

It is important for businesses to pay close attention to Quality Assurance (QA), Quality Compliance (QC) and Quality Management (QM) since they form an integral part of the business' success. Customer satisfaction and maintenance (customer retention) rely heavily on the applicability of the quality assurance, compliance and management in production and management processes.



Figure 9.6 Relationships between QA, QM and QC.

Looking at the above illustration, quality assurance and compliance must be managed and controlled by the given quality control department of the business. The illustration shows that if businesses have clear processes of managing quality and abide to laws and guidelines set by regulatory body (RSB), then there is quality management.

The relation between the three in terms of standards means that quality management system is comprised of quality assurance and compliance activities that ensure the establishment of a set of quality policies and objectives which act as guidelines within an organization or business.

9.3.5. Quality Management system

A quality management system (QMS) is a formalized system that documents processes, procedures, and responsibilities for achieving quality policies and objectives.

For businesses to be able to promote quality standards in their businesses, they need to develop quality management system. This system becomes part and parcel of business culture and it's monitored by the business' quality control team. The

following is a quality management system that can be used by business to promote and ensure quality of their products or services:

- i. Define and document necessary components of quality management system:** This would include key guidelines and elements of what the business per takes as quality for example which kind of raw materials will have to be used.
- ii. Define the quality policy:** This includes the business' mission that is what customers want and value from the business. This should be given top priority in the business.
- iii. Quality objectives must be communicated to the team and well understood:** ISO requires that quality objectives are derived from quality policy and measured.
- iv. Define the product defect:** that is what contributes to poor quality, whenever such defects are seen they must be recorded and communicated accordingly.
- v. Develop the documents for the system:** This could be a manual that includes the necessary policies, procedures and forms. ISO 901 2008 requires that organizations have quality manuals.
- vi. Define the quality process:** this includes corrective and preventive action process, management review and communication process. In short this involves ways of solving given challenges to quality implementation.
- vii. Determine the training needs:** Entrepreneur must identify the gaps within the team so that the workers are trained and supported accordingly to meet and comply with quality standards.
- viii. Use the system.** This is the stage when the system is implemented accordingly.
- ix. Measure and monitor performance:** Measuring performance happens after implementation and would vary greatly from organization to organization depending on size, potential risk, and environmental impact.
- x. Take action that improves performance:** This is the last step that is implemented and when solutions to the risks are identified as per the quality process, they communicate them to the employees.

Application Activity 9.3

- a. Given the business that you want to start of your choice, what different measures will you implement to maintain quality in business?
- b. Develop a Quality Management System (QMS) of the above business.

9.4. Accreditation and its Role in cross Border Business

Introduction

This section covers accreditation, its role across borders and the role it plays in fostering trade. In this section you will learn about accreditation bodies at national, East Africa and international level. You will be able to assess the role of accreditation in facilitating, promoting and regulating trade across borders.

Activity 9.4

- a. Given your background knowledge on conformity assessment studied in S5, what is the meaning of accreditation in business?
- b. Why does government of Rwanda put strict and clear regulations governing the flow of goods and services within and across its borders?

Accreditation is one of the critical quality infrastructure elements that facilitate trade.

Accreditation is the process used by countries' regulatory body (RSB for Rwanda) to ensure that businesses/organizations maintain minimum standards of quality and integrity regarding measurement and certification requirements governing trade.

Accreditation of conformity assessment bodies provides the acceptance of tests results, inspection reports and certificates that accompany products and services traded across borders.

9.4.1. Accreditation in Rwanda

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.

In Rwanda standards board is the one in charge of accreditation.

Rwanda Standards Board

The board is responsible for certifying products for quality compliance to standards and ensures their control at all points of their production, marketing and consumption within the country. Responsible ministries like Ministry of health and infrastructure and REMA ensure that activities and projects conform to the required certification requirements.



Figure 9.7 Certification bodies under RSB as the accreditation body

9.4.2. East African Community Accreditation

The East African Community has issued regulations to enhance the operationalization of the EAC Standardization, Quality Assurance, Metrology and Testing Act (SQMT) of 2006. The SQMT regulations are geared towards facilitating regional trade.

The Regulations were approved by the Council of Ministers in November 2013 and are issued in line with Article 6 of the Protocol on Establishment of the EAC Common Market, with reference to Free Movement of Goods.

9.4.3. International Accreditation

Everyday commercial transactions and international trade rely on the support of standards, metrology and accreditation quality systems. Through international efforts to establish mutual recognition and harmonization across national borders in each area of standards and conformance, goods and services calibrated, tested, inspected or certified in one economy can be accepted by trading partners.

It is the primary purpose of regulatory bodies like international laboratory accreditation cooperation (ILAC) and international accreditation forum (IAF) to establish multilateral arrangements between their member accreditation bodies based on mutual evaluation and acceptance of each other's accreditation systems.

In this way the acceptance of products and services across national borders is made easier by removing the need for them to undergo additional tests, inspections or certification in each country into which they are sold.

9.4.4. Role of Accreditation across Borders

As international trade has grown, there is need for technical regulations, standards, testing, inspection, certification and accreditation procedures across all borders. This is meant to meet the legitimate requirements of quality and safety that consumers, businesses, regulators and other organizations demand of goods and services, whatever their country of origin.

Accreditation across borders plays a key role towards consumers and businesses in facilitating, regulating and promoting trade as seen below;

- i. Multilateral arrangements between national accreditation bodies have also helped make accreditation an internationally recognised 'stamp of approval' to demonstrate compliance against agreed standards and requirements and this means businesses spend less time tied up with bureaucracy.
- ii. International accreditation agreements help increase the choice of goods and services available on the market and help to ensure that these meet relevant standards of quality and safety, whatever their country of origin.
- iii. Holding accredited conformity assessment results shows credible evidence of conformance with national and international standards and regulations which can differentiate a business from its competitors.
- iv. As accreditation is recognised internationally, it can open doors overseas equally as well as those in the domestic market. Indeed, an increasing number of organisations in both the public and private sectors in domestic markets and overseas are specifying accredited testing, inspection or certification as a precondition to tendering for contracts.
- v. Accredited conformity assessment can also contribute to the operational efficiency of businesses in other ways, saving time and money by reducing bureaucracy and by helping with risk management and key aspects of decision-making. For instance, it can be used as a basis on which to make efficient and informed choices about domestic suppliers and promotes confidence in imports from other countries.

Application Activity 9.4

M and J Enterprises Ltd. is a medium sized business that is just starting. It's located in Muko sector in Musanze district and deals in Juice and water related products. The business requires obtaining certification marks for the products.

- a. As a student of entrepreneurship, advise M and J enterprises ltd. on which accreditation bodies they need to go through to obtain certification mark for their products at;
 - i. National level
 - ii. East African level
 - iii. International level
- b. Why does the business need to obtain certification mark for their products by the above accreditation bodies?

9.5. Practical Activity on Quality assurance

The government of Rwanda through the Ministry of Youths (as of April 2018) wants to promote youth led activities. The ministry wants to finance high level projects that are able to solve community problems. However, for the youth to qualify for this program, they have to develop quality assurance plans for the projects they intend to start. Using the above information, design a quality assurance plan for the project you would present to the government in order to be supported.

1. The following are the elements of the quality assurance plan that can be implemented by businesses;
 - i. Objectives of the quality assurance plan to be achieved.* This explains the main intentions the project wants to achieve in relation to managing quality for example ensuring the right and quality raw materials are used by securing them from the suppliers that are well known or accredited.
 - ii. Testing, inspection and examination of the project;* this includes activities that will be implemented to ensure that quality objectives are met. For example, having a quality control team that checks and monitors materials making sure they comply with the required quality standards.
 - iii. The steps in the process that establish the standard operating procedure of an organization;* For example, creating Environmental management plans. This includes what will be taken to make sure the environmental challenges resulting from the project activities are mitigated.
 - iv. Methods of measuring the achievement of the project; this includes the method that will be applied to measure the achievement of the quality*

planned goals. For example, the quality team can carry out a survey in the business checking the progress of the quality standards.

- v. **The allocation of responsibility and resources to be used in the quality assurance plans;** this includes who will be in charge of what and what resources will be needed to support the team to achieve the stipulated quality assurance planned activities.

An example;

Roles	Responsibility
Project Manager	Preparing, maintaining and executing the quality assurance plan
Project coordinator	Communicate and coordinate quality assurance planned activities
Others	Execute the planned quality assurance activities of the project

Skills Lab Activity 9.5

For a business activity of your choice, describe the process you will use/follow to ensure effective quality compliance.

End of Unit 9 Assessment

1. Ingabire, Sandra and Jean Claude are planning to start up a business in your sector; they approached you for more information on metrology in business activities.
 - a. First explain to them the different types of metrology
 - b. Having accurate measurements in business activities is very important. Justify the statement to the above people and show why they should feel confident to apply metrology in their business activities.
2. Explain the following concepts as used in metrology
 - a. Quality assurance
 - b. Quality compliance
 - c. Quality management
 - d. Quality management system
 - e. Accreditation
3. Explain the relationship between quality compliance, assurance and management
4. As a member of partnership business that you and the colleagues started in your community, you have been tasked to design for them a Quality Management System (QMS). Using your background knowledge and skills about quality management, design your business' QMS.
5. Describe the procedures that are embedded in quality assurance.
6. Explain how accreditation aids and promotes trade across borders.



UNIT 10

WORK HABITS AND BEHAVIOUR

Unit 10: WORK HABITS AND BEHAVIOUR



Key Unit Competence: To be able to apply for a job and maintain professional conduct at workplace.

Introduction

Succeeding in the workplace, calls for developing work habits that reflect a desire to help the organization. Managers and coworkers enjoy working with people who report to work every day, interact in positive ways, take pride in their work and complete their assignments on time. With a bit of extra effort, you can prove your value to your colleagues and your boss.

A solid foundation of good work habits sets a precedence of efficiency, productivity, reliability, and teamwork. Basic work habits can include cooperation, effective communication, following policy, organization, punctuality, regular attendance, and time management. Employees who utilize good work habits can extend their normal job duties and tasks by assisting their peers in an auxiliary role to optimize company efficiency and productivity to meet the bottom line (profitability)

Paul J. Fleyer Quotes "Good work habits help develop an internal toughness and a self-confident attitude that will sustain you through every adversity and temporary discouragement."

However, in several business organizations there are a category of employees who normally portray bad work habits and behavior like being uncooperative, deliberate refusal to meet deadline, constant conflicts with fellow colleagues, irregular attendance and bad time management. Such people are a normally stumbling block for the success of organizations. When such people are identified, the management has to take necessary measures to ensure that they adhere to the norms of the organization. This unit therefore is designed to help you analyze the characteristics of appropriate work behaviors and attitudes. Through this unit, you will also learn how to make an appropriate CV and application letter.

Introductory Activity

Kamaliza graduated from University of Kigali in 2016 where she acquired ample skills in computer Science. After graduating, she thought it would be easy for her to get a job. But due to stiff competition in the labor market, getting a job is not easy. She tried different positions in different places but all in vain, up to now she is still unemployed.

Besides, all her close friends have secured good paying jobs and they are living a decent life. Kamaliza is now frustrated and does not want even to meet her old friends.

Basing on the above story and your knowledge about choosing a suitable career gained from S3 as well as knowledge about career opportunities and communication skills from S4, answer the following questions:

- a. What advise can you give to Kamaliza given the situation she is in.
- b. What steps are normally followed in the process of finding a job?

10.1 Finding a job

Activity 10.1.1



Figure 10.1: Searching for an employment

In your community, identify different resources for finding employment.

Finding a job is one of the hardest and most stressful things one has to do since it requires much more efforts in information search, writing applications, preparing for interviews and the related.

It is a process that applies to almost every job seeker but it calls for perseverance and patience

However, to some people it may take a short period of time while others it may take a long period. Today, because of stiff competition in the labor market, job seekers need to be open minded and updated in matters related to job search. Besides, finding a job, also calls for excellent skills in application writing as well as better interview techniques.

10.1.1 Finding employment information

When one is looking for a job, there is a range of information sources and supports to help him/her in the search process. Are you looking for a job for the first time? Do you want to change the current job and you are looking for another one? Below are guiding sources for finding employment information.



Figure:10.2: Sources of Job information

1. **Newspapers:** Newspapers are often the first place people turn when they start their job search. It makes sense since newspapers are a good place to find local openings. For example job advertisements from Imvaho nshya, the New Times etc.
2. **Through Media:** One can also search jobs through Media like Radio, television etc.
3. **Potential work places:** This can be through Notices, announcement etc.
4. **Internet:** There are plenty of reliable job sites and social networking communities available on the internet. The Internet has become a great source for finding job openings. It's free, easy and may be done from a library or the comfort of your home computer. Job seekers normally use internet channels like Tohoza.com, Mucuruzi.com, Umurimo.com, jobs in Rwanda to look for job advertisements.
5. **Government agencies and offices:** Some government agencies provide Information on jobs, career, and consultancy. Forexample; Akazi in Rwanda found on (<http://recruitment.mifotra.gov.rw>), Youth Employment Systems (YES) Rwanda, established by Kigali City Employment Service Centre (KESC)

to contribute to the Government target by offering information on job vacancies, Training information Internship information, Self-employment, Job matching career guidance etc.

- 6. Non-government organizations, especially those that focus on youth development:**
- 7. Cooperatives: Many worker cooperatives are set up with a primary goal of providing formal and decent employment for their members;**
- 8. Recruitment agencies:** For example; Mara jobs, Winafrica, Musanze Employment Service Centre (MESCC) which provides job vacancy information and links to job seekers. (www.musanze.gov.rw or www.musanze.lmis.gov.rw), etc.
- 9. Networking:** It is a process of systematic meeting and talking with people who may be able to provide you with information that may lead to a job of your interest. A network is made up of people you know like family, friends, school, etc. It also involves giving and receiving information, ideas, referrals and recommendations from different people. The bottom line is that an application that is received with a recommendation from a friend or current employee has a much stronger chance of getting the job than someone who blindly responds to a classified advertisement.

Note: While the above job sources may sound simple, combining them together in a mass “market yourself” campaign will prove successful.

10.1.2 Writing Curriculum Vitae (CV) and an Application Letter

Finding a job requires quite a lot of aspects among which CV and application letter writing are part. It is imperative to point out that a well written CV together with a proper application letter contributes much in finding job. A good job application letter and a CV are always tailored to the vacancy you are applying for.

Activity 10.1.2

- a. What is the difference between a CV and an application letter?
- b. Describe the type of information found in the Curriculum Vitae

Meaning of a CV

The letters CV stand for **curriculum vitae** which in Latin means “**Course of life**”. When used in a job seeking context, a **CV** is a brief history of your education, work experience and activities, skills, accomplishments and any other information relevant to getting a job. It is an alternative to writing a **Resume** (is a written compilation of your education, work experience, credentials, and accomplishments. CVs are thus

much longer than resumes, and include more information, particularly related to academic background) to apply for a job.

Nowadays, many organizations prefer online applications. So, an applicant is required to follow the guidelines given and attach/upload the PDF copies of your identification (ID card) and required degree together with other relevant documents.

Meaning of an Application Letter/Cover Letter

An application letter also referred to as Cover letter is a letter to an employer expressing your interest in a job or area of work and highlights why you are qualified for the work. Effective application letters explain the reasons for your interest in the specific organization and identify your most relevant skills or experiences.

Your application letter should let the employer know what position you are applying for, what makes you a strong candidate and why they should select you for an interview. This letter should not be more than one page.

Writing a CV

Curriculum Vitae vary depending on one's field and experience, but there are many general format and style guidelines one can follow when creating a CV. There are also certain sections most people include in their CV.

Here are tips for both how to format your curriculum vitae and what to include :

CV Writing and Format Tips

- 1. Include relevant information only:** Your CV should not include all details about your life. Keep it simple, clear and neat
- 2. CV Length:** While resumes are generally one page long, CV is longer. Most CV are at least two pages long, and often much longer.
- 3. Font and Size:** Do not use ornate fonts that are difficult to read ; Times New Roman, Arial, Calibri, or a similar font is best. Your font size should be between 10 and 12 points, although your name and the section headings can be a little larger and/or bolded.
- 4. Format:** However, in deciding to organize the sections of your CV, be sure to keep each section uniform. For example, if you put the name of one organization in italics, every organization name must be in italics. If you include a sentence or two about your accomplishments in a position, fellowship, etc., make a bullet list of each accomplishment. This will keep your CV organized and easy to read.
- 5. Be accurate:** No spelling or grammatical errors. Be sure to edit your CV before sending it. Check spelling, grammar, tenses, names of companies and people, etc. Have a friend or career services counselor check over your

CV as well.

6. **Be consistent:** punctuation, highlighting, verb tense, spacing etc. should be verified.
7. **Spells out acronyms** the first time it appears, put the acronym in parentheses and then use the acronym after that.

Elements of Curriculum Vitae

Not all Curriculum Vitae look the same. But there are general sections that have to be included in almost all CV. However, one may choose to include only some sections because others do not apply to his/her background or industry. Include what seems appropriate for your area of specialty. In your CV you can include :

1. **Contact Information:** At the top of your CV, include your personal identification/name and contact information (address, phone number, email address, etc.).
2. **Education background:** This may include the school/institution attended, dates of study, and degree received.
3. **Work Experience:** List relevant work experience ; this may include non-academic work that you feel is worth including. List the employer, position, and dates of employment. Include a brief list of your duties and/or accomplishments.
4. **Skills**
 - Professional competencies relevant to the position for which you are applying.
 - Computer Skills:
 - Language Skills:
 - Etc
5. **References:** In this part, include people who knows you and who might be contacted in case they need any information about you.

Lastly, end by certifying that the information is from the best of your knowledge.

Writing an application letter

An application letter will be the first correspondence you are going to have with your possible boss. The employer will definitely judge you on your application letter if you are worthwhile being interviewed. Always remember that any job competition is very tough. Therefore, your application letter must stand out because employers usually deal with hundreds of job applications for a single position.

Devote time in the body paragraphs to tell the employer more about your experience and qualifications. Explain why you're the best candidate for that particular post.

- **Start your letter by adding your contact information at the top.** You want to make it as easy as possible for your prospective employer to contact you and know who you are. Before you begin your letter, make sure that you have the proper letterhead.
 - i. Name
 - ii. Address
 - iii. Phone number
 - iv. Email address
 - v. Personal website (if you have one)
- **Include the company's information.** After you include your information, you need to include the title of the employer to whom you are applying for the job, the name of company and address. By including the contact information of the company to which you are applying, you are showing that you have taken the time to write a specific letter or application to this company, and have done your research on the hiring manager for the position.
- **Address your letter to the person whom you are writing.** To begin your letter, you want to be formal and start with a proper address. Once again, a simple "Dear Manager, Director" etc. This will depend on the information given from the advertisement.
- **Salutations:** These are greetings used in a letter. Eg Dear Sir/Madam, Dear Mr...../Mrs...../Ms...../Dr....., etc.
- **Subject line:** It indicates the title or the position being applied for.
- **Body of the letter:** Think of this section as having three distinct parts.
 1. In the **first paragraph**, you'll want to mention the job you are applying for and where you saw the job listing.
 2. The **next paragraph(s)** are the most important part of your letter. Remember how you gathered all that information about what employers was seeking, and how you could meet their needs? This is where you'll share those relevant details on your experience and accomplishments.
 3. The **third and last part of the body of the letter** will be your word of appreciation to the employer; you can also offer follow-up information.
- **Complimentary Close :** Complete your letter with a polite close, such as «Best» or «Sincerely,» followed by your signature and your name.

Notice: When you apply online in e-Recruitment, follow the structure/format provided to you

Sample of an application letter

Name
Address
Telephone number
Email Address

Month, Day, Year
Title of the authority receiving the application
Name of Organization
P. O. Box Address

Dear Mr. /Ms. /Dr. General Director

Subject line: Include the title /position you are applying for

Opening paragraph: State what position you are applying to; how you learned of the organization or position, and basic information or qualifications about yourself.

2nd paragraph: indicate why you are interested in the type of work; demonstrate that you know enough about the position to relate your background to the position. Mention specific qualifications which make you a good fit for the employer's needs. This is an opportunity to explain in more details relevant items in your CV/resume. Refer to the fact that your CV/resume is enclosed. Mention other enclosures if such are required to apply for a position.

3rd paragraph: Indicate briefly why you're so passionate about the opportunity you're applying for. State that you would be glad if you are granted a job. Thank the employer for her/his consideration in advance.

Sincerely,

(Your handwritten signature)

Your name typed

Application Activity 10.1

Assume MTN is looking for a cashier and advertises in the New Times. Prepare a CV and an application letter to apply for that position.

10.2 Interviews Process and Techniques

Activity 10.2

Observe the picture and answer questions below;



Figure 10.3: A job applicant being interviewed

1. Assume you are the interviewee in the above interview, which techniques you will use in order to succeed.
2. Describe the process involved in interview process.

10.2 1 Interview process

A job interview is an opportunity for the employer to find out more about you, your education, work background, interests, hobbies and personality and for you to find out more about the employer/business/company/organization and the specific job to which you are applying for.

An interview is a major tool for selection process which is set up by the employers to know in detail about the candidates. It is a formal verbal interaction between the employers and the prospective candidates which helps the employers in extracting as much information as possible about the candidate.

In general, there are three main parts of the interview:

- 1. Opening:** This part involves greetings, introductions, and it is where the employer states purpose of interview.
- 2. Body of the interview:** This is the major part of the interview process where the interviewee is asked questions by interviewers to elicit information in relation to the post.

In the process of questioning, interviewers should ensure that clear questions are asked and the interviewee is given time to respond. To be able to answer well, the interviewee should also listen attentively to questions and respond accordingly.

Common questions asked in interviews may include;

- a. Tell me/us about yourself
- b. What qualities and skills do you have that will help you perform this job?
- c. What previous experiences do you have that are related to this position?
- d. Are you familiar with this company/business/organization?
- e. What do you know about this company/organization?
- f. What are your strengths and weaknesses?
- g. What makes you fit for this position?

- 1. Closing the interview:** In closing the interview, ask whether the candidate has anything more to tell you about his candidacy or any questions about the job/employer. Thank the interviewee for turning up for the interview. The interviewee should also thank the interviewer and also expresses interest and enthusiasm regarding the next step.

10.2.2 Interview techniques

An interview is an integral part of the recruitment process. Interviews range from conversations lasting a few minutes to several formal meetings, sometimes with more than one interviewer. The interview process allows you to demonstrate that you are the right candidate for the job. The better prepared you are, the more relaxed and comfortable you will be when the interview questions begin.

Getting the most out of interviewing is a combination of preparation, suitable questioning and listening.

Before the interview

- Learn as much as you can about the organization or business to which you are applying for a job: What do they do? Where? Size? Who are their clients? etc.

- Think about how your previous work experience, schooling and activities will help you perform the job to which you are applying.
- Dress appropriately for the interview: neat, clean clothing and shoes.
- Allow plenty of time to get to the interview.
- Write down questions you may have for the interviewer.
- During the interview
- Greet the interviewer. Speak slowly, clearly and distinctly in a confident voice.
- Think before speaking.
- Be respectful.
- Listen carefully: One of the most neglected interview skills is listening. Make sure you listen attentively and respond accordingly.
- Be a good listener: Wait until the interviewer has finished talking before you respond.
- Stay calm.
- Ask the interviewer to repeat or re-phrase a question if you have not fully understood it.
- If you do not know the answer to a question, be honest and let the interviewer know why.
- Be honest in your answers but present any negative experiences in a positive light or as lessons learned.
- Present yourself as being confident that you can do the job.
- Thank the interviewer.

After the interview

Thank the interviewers and after sometime make a follow up to find out if you were considered for the next step for example you can inquire through an email.

Application Activity 10.2

Case study: An Interview with Mutesi

Mutesi has applied to be a cashier in one of the supermarkets in her district. She has prepared and sent in her CV showing different experiences she has acquired as a cashier. She has practiced answering questions she thinks might be asked. She is confident in her ability to handle the duties of the cashier.

One week before her interview, Mutesi got a call from the owner of the supermarket, requesting her to prepare for the interview which was scheduled in two weeks to come. Without panicking, she quickly got on the internet to research how she could best show her skills. She approached her relatives and friends for advice on how best she can approach the interview.

On the day of the interview, she was very confident, clear and was able to sell her skills successfully. She was able to demonstrate several things that ultimately made her the best suited for the job. She showed the interviewer that she understood the challenges facing the retail, wholesale businesses and the competitors that the supermarket could capitalize on. Finally, she proved that she understood the business she wanted to enter in and that her skills were appropriate for the position.

Read the above case study and answer the questions that follow;

1. What did Mutesi do to prepare for her interview?
2. During her interview what skills did she demonstrate that made her the suitable candidate?

10.3 Appropriate Workplace Behaviors and Attitudes

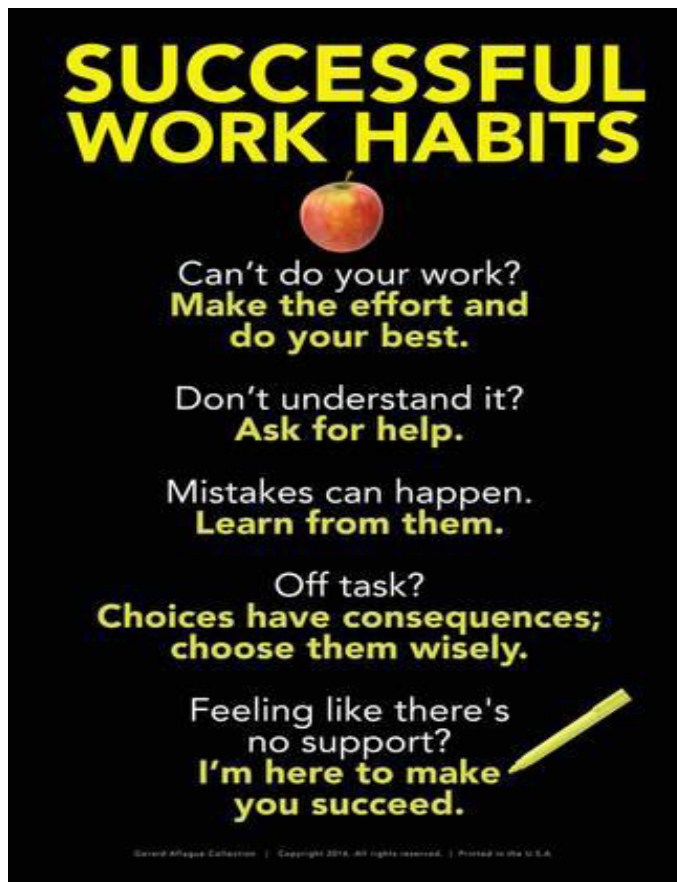


Figure 10.4: Standards of behavior and attitude at work

Activity 10.3

- Basing on experience related to any kind of work you have done at school or in your community, What habits and behaviors were required of you to do the work successfully?
- Considering the behaviors and attitudes you exhibited to succeed in the above work, what do you think is the meaning of work behaviors and attitudes?

Every place of work has a different atmosphere, a different environment, a different ethos. An efficient and harmonious working environment is created largely by the way people behave in the workplace. This includes the behaviour of employees, employers and to some extent, even customers and clients.

Behavior is an action or reaction that occurs in response to an event or internal stimuli (i.e., thought). Work behavior is the behavior one uses in employment and is normally more formal than other types of human behavior. This varies from profession to profession, as some are far more casual than others.

On the other hand, Attitude is a feeling, belief, or opinion of approval or disapproval towards something. A simpler definition of attitude is a mindset or a tendency to act in a particular way due to both an individual's experience and temperament. Typically, when we refer to a person's attitudes, we are trying to explain his or her behavior. Attitudes are a complex combination of things we tend to call personality, beliefs, values, behaviors, and motivations. As an example, we understand when someone says, "She has a positive attitude towards work" versus "She has a poor work attitude." When we speak of someone's attitude, we are referring to the person's emotions and behaviors. (*Attitudes and perception by Jeffrey Pickens, PhD*)

Work attitude means a feeling, belief or an opinion about a particular activity. At work place some people may feel uncomfortable towards doing certain type of work or may not be interested in helping others. Such attitudes reduce productivity and team work at work.

Proper workplace behavior and attitude contribute much to the success of a given organization. Work behavior and attitude include the following;

- **Dressing neatly and appropriately for the work:** If wearing a uniform make sure it is clean and neat; clothes should not get in the way or prevent you from doing your work; it should not be distracting to you or others.
- **Keeping time and managing it well:** Attendance and punctuality are essential to keep your job. Let your supervisor know if you are going to be late.
- **Speaking to co-workers in a positive and respectful manner**
- **Being honest:** Being honest will gain you the respect of co-workers.
- **Keeping discussions and interactions related to work:** Don't bring your personal problems to work or let them affect how you do your job or interact with others. Avoid topics or making comments that might make others feel uncomfortable.
- **Staying positive:** Don't complain or be pulled into negative discussions about work. Rather, approach problems positively and help to think about how to improve the situation.
- **Being respectful of others and your environment:** Take proper care of equipment, put things back where they belong and keep the environment tidy.
- **Being a team player:** Participate proactively and respectfully and listen to the ideas of others as well.

- Respecting the roles and contribution of others.
- **Believing in yourself and what you do:** Being positive about your job and how you do it will help you to succeed and achieve your goals.
- **Open mindedness.** This involves having increased receptiveness to new ideas.
- **Valuing new experiences.** This calls for desire to seek out and take on new challenges.
- **Desire for self-improvement.** To attain it, one should exercise continued learning as well as self-instruction.

Application activity 10.3

As an inspiring entrepreneur, identify appropriate work place behavior and attitudes you will re-enforce in your business.

10.4 Time Management skills

Activity 10.4

Case study

Nkundimana is a senior S5 student and the chairperson of Rutoma secondary school; as the students' leader he leads 2-3 meetings in a week and he is always on time. During the course of the week, He wakes up at 5:00am to prepare for the day and to do personal revision. His peers refer to him as a good time manager and he is also one of the best students academically. He attributes his good time management skills to the personal timetable that he consistently respects in his day to day activities.

Use the above case study to answer the following questions:

- Was Nkundimana a good time manager? Justify your answer.
- What advantages are associated with being a good time manager?



Figure: 10.5 Time management guidelines

Time management is the process of planning and exercising conscious control of time spent on specific activities, especially to increase effectiveness, efficiency or productivity. It is a juggling act of various demands of study, social life, employment, family, and personal interests and commitments with the finiteness of time. Using time effectively gives the person “choice” on spending/managing activities at their own time and expediency. Time management is the ability to use your time wisely and appropriately.

It is managing oneself in relation to time. It is setting priorities and taking charge of the situation and time utilization. It means changing those habits or activities that cause waste of time. It is being willing to adopt habits and methods to make maximum use of time.

Time management can also be seen as the development of processes and tools that increase efficiency and productivity for a person/student or a business organization. Time management does not just happen for any one, it’s a skill that must be worked on, and that most people find it a lifelong challenge.

Time management skills include :

- **Setting goals :** When trying to manage or planning for your time, you should think about what you really want to achieve/accomplish within a given period of time. When setting goals, rely on the SMART goal-setting process. SMART stands for Specific, Measurable, Attainable or achievable, Realistic and Time bound.

- i. Specific:** Identify your goal clearly and specifically.
 - ii. Measurable:** Include clear criteria to determine progress and accomplishment.
 - iii. Attainable:** The goal should have a 50 percent or greater chance of success.
 - iv. Relevant/Realistic:** The goal is important and relevant to you.
 - v. Time bound** Commit to a specific timeframe.
- **Prioritizing:** This means generating a list of tasks you need to do in order to reach your goal(s). Put your list of tasks in order of importance or logical progression. Prioritizing what you need to do in a day, week, month, etc. This means that you need to scale up tasks depending on the level of urgency.
 - **Making decisions:** Making proper decisions helps in taking important choices among many alternatives given and thus fostering time management.
 - **Planning and Scheduling:** Identify the strategies which can be used for planning and scheduling what you need to do.

You can do a calendar of activities where you show the date, activity which must be done, who will do the activity and the observations.

Mr. Claude is planning to start up a poultry project, below is an example of the timetable/schedule of when different activities for the project will happen;

Activity	Date (during months of Aug and September 2018)	Lead/Responsible person for the activity	Observations
Carrying out a feasibility study about the project	10 th Aug	Owner	done
Identifying the appropriate place to construct	15 th Aug	Owner	Not yet done
Buying of raw materials to use	22 nd Aug	Owner	
Starting the construction	27 th Aug-7 th Sept	Owner	
Buying chicks and their feeds	21 st September	Owner	

Note: These skills can be applied in your personal life and at work.

There are many benefits of good time management skills. At work, there may be improved job performance and possible promotions as a result. In your personal life, you may have a better marriage, more family time, more time with friends, less debt and less stress.

- **Analysis :** A vital part of having a successful time management strategy is self-analysis. To develop your time management skills you need feedback but in the case of time management there is no one to monitor your efforts at using time effectively other than yourself. For this reason, set aside a few minutes each day to evaluate how your time plan is working. Determine whether tasks have been accomplished or not, and figure out why.
- **Awareness:** To be successful at time management, it is necessary to be strategic. This involves several steps. First, you plan - in this instance, plan how you will use your time. Second, you monitor - is this working? Am I achieving what I planned to do? How am I enjoying this? How difficult is it? Third, you analyze - why did or didn't this plan work? If it did work, you look at where or how else effective strategies can be used. If the plan didn't work, you develop new strategies and try them out. The common denominator of all these steps is awareness of the importance of time management, of how you are using your time, and of what works or doesn't work for you.
- **Information:** Learning to manage time is an ongoing process. The more aware you are of how other people use their time, the more quickly you will see and pick up new strategies. The bigger your repertoire of time management strategies, the easier it will be to adapt to new challenges. Keep your eyes open, listen when people talk about how time is used, and keep trying out new methods and techniques. The ability to manage time effectively is a very valuable asset to have in the working world.

Application activity 10.4

Keza has been having issues with managing time at the carpentry workshop where she works. She has approached you to help her start managing time appropriately. What time management strategies would you advise her to adopt?

10.5 Personal qualities that help one to manage time

Activity 10.5

In your opinion, identify some elements that can help you to balance your work and personal life.

Certain personal qualities can help you become a better time manager: They include:

- **Good organizational skills :** A person with great time management skills can adapt to new problems and readjust as needed to complete an

assignment. This combination of planning, scheduling, strategy, delegation, and adaptability are the kinds of traits that make an employee dependable, and employers look out for that. Here are some organizational skills related to time management:

- i. Creating and keeping deadlines
 - ii. Delegation
 - iii. Goal setting and meeting goals
 - iv. Decision making
 - v. Managing appointments
 - vi. Team management, Etc.
- **Self-discipline:** Self discipline is the ability you have to control and motivate yourself, stay on track and **do** what is right. Self-discipline at the workplace is a positive effort which helps in developing set ways for our thoughts, actions and habits. It is an art of self-control and self-reliance, which empowers a person to stick to his/her decisions and propels the individual towards achieving the set goal.
 - **Motivation:** Motivation are Internal and external factors that stimulate desire and energy in people to be continually interested and committed to a job, role or subject, or to provide an effort to attain a goal.

Motivation results from the interaction of both conscious and unconscious factors such as the intensity of desire or need, incentive or reward value of the goal, and expectations of the individual and of his or her peers. These factors are the reasons one has for behaving a certain way.

- **Being focused on accomplishing tasks and not getting distracted :** There is a need to eliminate distractions, concentrate, have a plan that is always objective. Start your day with writing down what you need to do, when do you need to do it, what do you need to achieve. When you have a plan, when you have a schedule, it is that much easier to focus and to stay focused. Finally take regular breaks for relaxing.

- **Balancing work and personal life**



Figure 10.5: Balancing work and personal life.

Balancing work and personal life is very important in keeping a job. Being able to strike a balance between your professional and personal life can help you become more productive. You must be able to communicate and manage time effectively at home and at work for helping to create this balance.

The balancing act takes careful planning and preparation, but it is possible. There is a need to make plans with the people in your life. The following will guide you in balancing work and personal life;

- **Set priorities.** To successfully balance between professional and personal life you need to understand where your priorities lie. Review your list and rank the items starting with: as the most important, and the second most important etc. Your rankings will show where your priorities lie. In that way you can be sure to make an effort to incorporate these top priorities into your daily and weekly schedules.
- **Be inventive.** Regardless of how hard you try, there will be some times when one or the other becomes more demanding in your life. Learn to be creative and think up possible ways you can meet the urgent priority while still attending to the other.
- **Manage procrastination.** Procrastination is a major obstacle that could be standing in your way of striking a good balance. You may see your professional and personal life seeping into one another because you often wait until the very last minute to get things done. This causes you to end up working late, or being distracted at work by personal tasks.
- **Learn to say “no”.** It may seem rude or selfish at first, but, with practice, you may find that selectively turning down different projects or opportunities is quite freeing. Say “yes” to those requests that meet your top priorities and that do not constrain your already packed schedule.
- **Timing tasks.** Time management requires you to know how long something takes. This is easier if you break a larger project down into smaller tasks. Often, one or two of these will take longer than you expect. It may be aspects of starting and finishing tasks that take longer than expected. Plan for all stages, and find out how much time you need to allocate for each stage

Application activity 10.5

- Describe the basic qualities that can help you manage time.

10.6 Developing a career plan

Activity 10.6

1. Explain the meaning of career and career plan.
2. Why do you think it is important to develop a career plan in your life

- **Individual assessments of abilities, interests, career needs, and goals:** It is basically a process of self-exploration and analysis. Individuals are frequently guided by self-assessment exercises.

The self-assessment process is basically viewed as an individual responsibility; however, organizations can aid in this process by providing the employee with materials and opportunities for self-exploration and analysis.

- **Organizational assessments of employee abilities and potential:** A key issue in career counseling sessions is whether an employee's goals are realistic in terms of organizational possibilities and organizational assessments of employee abilities and potential. Accurate assessments of employee abilities and potential are important to both the organization and the individual.

Organizations have several sources of information for making assessments of employee abilities and potential. First is selection of information, including ability tests, assessment center test, interest inventories, and biographical information such as education and work experience. Second is current job history information, including performance appraisal information, records of promotions and promotion recommendations, salary increases, and participation in various training and development programs. Organizations have traditionally relied on performance appraisal data as the primary basis for assessing employee potential.

- **Career Information within an Organization:** Before realistic goals can be set, the employee needs information about career options and opportunities. This includes information about possible career directions; possible paths of career advancement; and specific job vacancies. In organizations with informal career planning programs, employees learn about career options and opportunities from their supervisors within the context of developmental performance appraisal interviews. Organizations with more established career planning programs make greater use of workbooks, workshops, and even recruiting materials to communicate career options and opportunities.
- **Career counseling to set realistic goals and plan for their attainment:** It is in counseling sessions, typically with supervisors and managers in developmental performance appraisal interviews, that most employees explore career goals and opportunities in the organization. Supervisors and managers need accurate assessments of employee abilities and potential, as well as information about career options and opportunities in the organization.

Below are some helpful steps to guide you in developing a career plan customized to your interests and ambitions.

- **Identify your career options:** Develop a refined list of career options by examining your interests, skills, and values through self-assessment. Narrow your career options by reviewing career information, researching companies, and talking to professionals in the field. You can further narrow your list when you take part in experiences such as job shadowing, volunteering, and internships.
- **Setting goals:** Now that you've identified your career options, develop an action plan to implement this decision. Identify specific, time-bound goals and steps to accomplish your plan. Set short-term goals (to be achieved in one year or less) and long-term goals (to be achieved in one to five years)

Steps to reach the goals : In order to reach goals and keep resolutions in, take these five steps toward success :

- i. Choose a goal wisely:* setting a goal that is meaningful to you will increase your motivation to achieve it.
 - ii. Make it positive:* When you create a list of your highest values and then align your goals with them; you will have a sense of being on purpose and are more likely to be motivated naturally and become more consistent.
 - iii. Write it down:* After writing down your goal, keep it where you can see it. Let it serve as a daily reminder to help keep you motivated.
 - iv. Create a detailed action plan :** A successful action plan consists of breaking down goals into small, manageable steps. Before taking action, write out each action step you plan to take. Be as specific and detailed as possible.
 - v. Reward yourself :** Have a reward in place for when you accomplish your goal ; it can serve as a powerful motivator.
- **Pooling together necessary information needed** (CV, Application letter, etc.): **Develop your CV and application letter. Refine your career goals and strategy.** Regular updating of their resume will help jobseekers review their career plans periodically and define themselves in terms of skills set and competencies instead of merely job titles. Successful career development should eventually enable the jobseeker to find the best way to start a new career. The ultimate outcome of which will be the fulfillment of personal career goals, attainment of financial stability and achievement of work-life balance.

Application activity 10.6

- Develop a career plan of the career you intend to pursue in your life.

End of Unit 10 Assessment

Part 1 (Multiple choice questions) choose the most appropriate answers by ticking accordingly

1. Resources used to find work include:
 - a. Friends and family
 - b. Newspaper advertisement
 - c. Job notices
 - d. Writing a letter of application to a potential employer
 - e. All of the above
2. A CV should include:
 - a. Contact information
 - b. Skills summary
 - c. Work experience
 - d. Education
 - e. All of the above
3. During an interview:
 - a. Speak quickly so you can share a lot of information about yourself
 - b. Interrupt the interviewer once you have understood the question and have an answer
 - c. Present yourself as confident that you can do the job
 - d. Make up answers that aren't always true in order to present your-self positively
 - e. All of the above
4. During an interview when you are asked a question that you do not know the answer. You should:
 - a. Ignore the question and talk about something else
 - b. Tell the interviewer you do not know the answer and explain why
 - c. Keep quiet until the next question is asked
 - d. Make up an answer even if it is not completely true

- e. None of the above
5. Good time management involves:
- a. Planning
 - b. Prioritizing what needs to be done
 - c. Avoiding distractions
 - d. Staying focused on the task
 - e. All of the above
6. You work as a waiter in a restaurant. Fridays are usually busy and there is short of staff but you really want to go out dancing with your friends. You should:
- a. Not show up to work
 - b. Show up to work but leave early
 - c. Plan another evening for dancing with your friends
 - d. Tell your employer that you are sick
 - e. None of the above

Part 2 (True/False questions), Tick accordingly

7. A CV and an application letter are the same things.
- a. True b) FalsWe
8. When you disagree with a co-worker, it is better to avoid an argument by avoiding contact and not listening to his or her ideas.
- a. True b) False
9. To manage your time at work and make sure it does not interfere with your personal life, get work tasks done quickly, regardless of the quality of work you do.
- a. True b) False
10. Hard working, being on time, being respectful, and being honest will help you keep a job.
- a. True b) False

Part 3 (structured questions)

1. Nyaruguru district is looking for a lands officer, explain the process you will follow for applying on the position
2. Explain the difference between a CV and a Resume
3. What are the elements of a well written CV and application letter?
4. Identify and explain the elements of a career plan



UNIT 11

MONEY MANAGEMENT

are effectively managed at work:

- What is a business health and safety policy?
- What is the business's health and safety plan?
- What are the health and safety laws that the business has to comply with?
- Are health and safety aspects at work place always considered when operating procedures and work instructions are developed?
- Is health and safety always considered when planning, designing or purchasing new equipment or processes?

When it is time to respond during an emergency, knowing what steps to take can be crucial. If an emergency happens in the workplace, it could be your responsibility to provide help. Ensuring standard health and safety practices and regulations in the workplace is therefore an important practical step towards providing and maintaining a working environment that is safe and without risks to health.

Introductory Activity-Self-assessment

There are no right or wrong ways 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 tick in the column that best represents your situation. At the end of this unit, you will take this assessment again.

My experience	I don't have any knowledge about this	I know a little about this	I have enough knowledge to do this sometimes	I have a lot of knowledge to do this regularly	I have a lot of knowledge to practice this consistently & accurately
Knowledge, Skills and Attitudes					
Describe the importance of good personal care and healthy habits at work					
Identify the primary hazards found in workplaces					
Identify unsafe situations that could harm people while on the job					
Identify ways to prevent accidents and getting sick at work					
Respond appropriately if there is a safety hazard, an accident or an emergency at Work					
Practice health & safety laws in the workplace					

11.1.Safety and health at work

Activity 11.1

1. Think about the proverb found at the beginning of this unit “Inyamaswa idakenga yicwa n’umututizi” (When not cautious, an animal can be killed by an ordinary tree cutter). What is the relationship between the proverb and safety and health at work place?
2. Read the following habits for good health and think about your own health, and the ways in which we stay healthy. Put a tick in the appropriate column that describes your health habit.

Habits For Good Health	Always	Sometimes	Never
1. I get enough rest.			
2. I try to eat foods that are nutritious for me.			
3. I avoid smoking and drinking alcohol			
4. I brush my teeth every after a meal			
5. If I do not abstain, I practice safe sex.			
6. I strive to be clean and keep my surroundings clean.			
7. I take precautions against malaria.			
8. I avoid injuries when possible (e.g. wear helmet when riding moto)			
9. I treat minor injuries and illnesses promptly.			
10. I strive to have happy relationships.			
11. I avoid gossiping about others.			
12. I like to see others do well.			
13. I avoid thinking about myself in a negative way.			
14. I strive to look my best.			
15. I always wash my hands after visiting a toilet			
16. I always wash my body parts with clean water and soap			
17. I drink a lot of water every day			
18. I at least have 30 minutes physical exercise daily			
19. I wash fruits and other raw food before eating them			
20. I sleep under a mosquito net			

3. Why is it important to have good personal care and healthy habits at the workplace?

Positive health and safety practices

Workplace health and safety (WHS) is concerned with protecting the health and safety of all stakeholders in the workplace from exposure to hazards and risks resulting from work activities. Health and safety is important because it protects the wellbeing of employers, visitors, customers, work premises, products and the environment in general.

Best practice business owners not only recognize the basic value of good WHS, but see that extra efforts to ensure that its people are not harmed or made ill in any way at work (even at a minor level) is also an essential part of a truly excellent enterprise.

Best practices in organizations therefore believe that workplace health and safety has the following importances:

- Helps demonstrate to all stakeholders that a business is socially responsible,
- Protects and enhances an organization's reputation and credibility,
- Helps maximize the performance and/or productivity of employees,
- Enhances employees' commitment to the team/organization as a whole,
- Builds a more competent, happier and healthier workforce,
- Reduces business costs and disruption,
- Enables organizations to meet customers' WHS expectations, and
- Encourages the workforce in general to stay longer in active life.
- Protects staff from:
 - a. back pain and other musculoskeletal disorders
 - b. injuries from slips and trips
 - c. falls from heights
 - d. accidents involving vehicles at work
 - e. aches, pains and strain from using display screen equipment
 - f. the effects of noise and vibration
 - g. Work-related skin diseases, Etc.
- Saves insurance and legal costs: a good WHS can reduce your insurance premiums, as well as the costs of accidents that are not covered by your insurance, such as sick pay, production delays or repairs to plant or equipment.

Healthy Habits

- injuries from slips and trips

- falls from heights
- accidents involving vehicles at work
- aches, pains and strain from using display screen equipment
- the effects of noise and vibration
- Work-related skin diseases, Etc.
- Saves insurance and legal costs: a good WHS can reduce your insurance premiums, as well as the costs of accidents that are not covered by your insurance, such as sick pay, production delays or repairs to plant or equipment.

Healthy Habits

HEALTHY HABITS

You can resolve to develop healthy habits for 2008 and beyond. Experts tell us that the way we treat our bodies in the *first* half of life will affect how healthy we are in the *second* half.

Make an investment in your future by starting some healthy habits!

☆ I will wash my hands with soap often:

- before eating
- after using the restroom
- after coming home from school or other public places.



☆ I will cover my mouth when I sneeze or cough.

Coughing or sneezing into your elbow works well because it doesn't transfer germs to your hands.



Can you think of other healthy habits that you already practice every day?

☆ I will wear a helmet when I ride a bike or scooter — every time.

Helmets help protect you from serious brain injuries in a hard fall. Most brain injuries that result in death could have been prevented by wearing a helmet.



☆ I will buckle up every time I ride, either with a seatbelt or a booster seat.

Seatbelts are responsible for saving more than 15,000 lives a year. Kids who weigh between 40 and 80 pounds should ride in booster seats.



☆ I will cross only at crosswalks.

Before you cross, make sure you look left, right, and left again.



☆ I will get plenty of sleep.

Kids need a lot of sleep, because you do most of your growing while you're asleep. Make sure you wake up rested and ready for a new day.



☆ I will avoid cigarettes, alcohol and drugs.

This resolution has added bonuses:

- It won't cost you any money.
- It won't cost you any time.
- It won't cost you any energy.



Smoking and abusing alcohol and drugs harm the way your body works. For many people, these habits are **addictive**, or very hard to quit once they're started. The best strategy is to not start at all.



Figure 11.1: Good Healthy Habits

A healthy habit: is any behavior that benefits physical, mental, and emotional health. These habits improve overall well-being and make you feel good.

Healthy habits include but not limited to eating well, exercising, getting enough rest and avoiding harmful substances, etc

- **Get enough sleep.** In order to be a very healthy person, you need to consistently get enough sleep. A good night of sleep can improve your memory and concentration, boost your immune system, and help you cope with stress more easily.
- **Manage stress.** Stress can affect your mood and your physical health. It can cause anxiety, anger, and irritability as well as headaches, muscle pain, exhaustion, and sleeping problems. Establish firm boundaries with your co-workers and friends about taking on too many extra tasks.
- **Find time to relax.** Set aside time every day for self-care and relaxation. Make a routine for yourself, so that relaxation becomes a daily ritual. Don't schedule anything else during this time. Find a practice or activity that soothes you, such as taking a bubble bath or reading a book.
- **Meditate once a day:** Meditation may help you manage pain, reduce blood pressure, improve symptoms of depression and anxiety, and cope with daily stress.
- **Maintaining a healthy social life.** It is not just diet and exercise that lead to improved mood. Whether it is volunteering, joining a club, or attending a movie, communal activities help improve mood and mental functioning by keeping the mind active and serotonin levels balanced.
- **Maintain healthy eating habits:** To get all the nutrition the human body needs, you must eat a balanced diet including dairy, grains, protein, fruits and veggies, as well as fat. By doing so, you'll have a healthy and a fully functional immune system. Eating highly varied foods will also help insure you get all the vitamins, minerals, oils, and enzymes your body craves.
- **Get some exercise every day, even just a little.** This will not only make you feel better but also make you look better. Try walking if you cannot afford another as it is a great exercise.

Application activity 11.1

Assume you get employed after your studies, what advice would you give to your workmates to ensure appropriate safety and health in the workplace.

Healthy hygiene and sanitation practices

Hygiene is a set of personal practices that contribute to good health. It includes things like hand-washing, bathing and cutting hair/nails. Hand-washing is the single most important activity we can all do to encourage the stop of disease

Sanitation is the effective use of tools and actions that keep our environment healthy. These include latrines or toilets to manage waste, food preparation, washing stations, effective drainage and other such mechanisms.

All workplace environments need to be hygienic and safe for employees and visitors, even those which are not involved in the production and handling of food and personal products. A proper healthy hygiene and sanitation practice not only prevents the spread of illness but also contamination at workplace by germs.

Germs are very small organisms that can grow in the body and cause some infectious diseases. They can make you sick and are easily transferred. One can prevent germs and contamination through practicing proper healthy and sanitation.

Healthy hygiene and sanitation is very important for every workplace and below are some healthy hygiene and sanitation that can be practiced both at home and the workplace:

- i. **Protect water sources and use clean water** for drinking and washing. Boil water and store in clean containers.
 - ii. **Wash hands before preparing and eating food** Regular hand washing, particularly before and after certain activities, is one of the best ways to remove germs, avoid getting sick, and prevent the spread of germs to others.
- a. **One should always wash his/her hands:**
- Before, during, and after preparing food
 - Before eating food
 - Before and after caring for someone who is sick
 - Before and after treating a cut or wound
 - After using the toilet
 - After changing diapers or cleaning up a child who has used the toilet
 - After blowing your nose, coughing, or sneezing
 - After touching an animal, animal feed, or animal waste

- After handling pet food or pet treats
- After touching garbage

b. How should you wash your hands?

- Wet your hands with clean, running water (warm or cold), turn off the tap, and apply soap.
- Lather your hands by rubbing them together with the soap. Be sure to lather the backs of your hands, between your fingers, and under your nails.
- Scrub your hands for at least 20 seconds..
- Rinse your hands well under clean, running water.
- Dry your hands using a clean towel or air dry them.

iii. Washing and cooking food in addition to washing one's hands thoroughly, one should:

Wash food off before eating it so that you do not ingest germs through food.

Use a clean water source to wash off fruit and vegetables if you are going to eat, before preparing to eat or serve.

Cook the food thoroughly to get rid of germs that could be on the food.

iv. Wash dishes and store food. Germs can also be on dirty dishes and cooking pots and pans. Therefore:

Before and after using the cooking supplies (including utensils) you should wash these with soap and water (preferably hot water).

When you are storing food, try to make sure that it is sealed in a bag. If you see rat droppings in the food, you should throw it out. Rodents carry many diseases that can make you sick.

v. Personal hygiene. This refers to the cleanliness, appearance and habits of employees, which can occasionally be a sensitive issue for managers and business owners. Personal hygiene practices may include showering, using deodorant or perfume, grooming facial hair and hair-washing.

vi. Work area cleanliness: Workplace hygiene policies should also make provision for each employee to clean and maintain their own workstation or work areas. This could include regular cleaning of surfaces with disinfectant to reduce the risk of bacterial contamination, keeping the area tidy and free of clutter, etc

vii. Restroom facilities: The workplace hygiene policies and requirements should provide restrooms for all employees to be equipped with hot

and cold running water, hand soap, toilet paper and hand drying towels or equipment. This is to ensure that workers have the opportunity to practice personal hygiene after using the facilities.

viii. Kitchen: Hygiene policies for the kitchen area in a workplace environment need to cover regular cleaning and maintenance of utensils and equipment.

Application activity 11.2

1. Germs, or microbes, come from many different origins (including food itself). Complete the table below by filling in the prevention technique for each source of germs identified.

Sources of germs/contamination	Prevention Techniques
Contaminated kitchen surfaces	
Dust	
Insects, rodents and pets	
Dirty hands and dish wipers	
Raw foods	
Utensils and equipment	
Toilets	

2. Musore is in charge of preparing meals at his workplace. Recently there have been complaints of food contamination by some of the workers.

Advise Musore on what to do in order to prevent illness and contamination of the food at the workplace. Musore is in charge of preparing meals at his workplace. Recently there have been complaints of food contamination by some of the workers. Advise Musore on what to do in order to prevent illness and contamination of the food at the workplace.

11.3. Hazards in the Workplace



Activity 11.3

Analyse the picture below of a work place and answer questions that follow



Figure 11.2: Typical workplace (Entrepreneurship Teacher Manual for Secondary Schools, 2017)

Questions:

1. Name some of the things in the picture that make the above workplace not safe or harmful to people working there.
2. Briefly explain what you understand by the following terms as relates to health and safety at work
 - a. Hazards
 - b. Safety hazards
 - c. Chemical hazards
 - d. Biological hazards
3. What do you think can be done to make the workplace above safe?

Anything that presents a potential threat to employees, whether physical or psychological, can be classified as a *workplace hazard*. Hazards exist in every workplace. Identifying hazards at workplace is important to better be prepared to control or eliminate them and prevent accidents, injuries, property damage and downtime.

- a. **Safety Hazards:** Safety Hazards are unsafe working conditions that can cause injury, illness and death. Safety hazards are the most common workplace hazards. They include:

- Anything that can cause spills or tripping such as cords running across the floor;
 - Anything that can cause falls such as working from heights, including ladders, scaffolds, roofs, or any raised work area;
 - Unguarded machinery and moving machinery parts that a worker can accidentally touch;
 - Electrical hazards like frayed cords, missing ground pins, improper wiring;
 - Confined spaces.
- b. Chemical Hazards:** Are present when a worker is exposed to any chemical preparation in the workplace in any form (solid, liquid or gas). Some are safer than others, but to some workers who are more sensitive to chemicals, even common solutions can cause illness, skin irritation, or breathing problems. Beware of:
- Liquids like cleaning products, paints, acids, solvents – ESPECIALLY if chemicals are in an unlabelled container!
 - Vapours and fumes that come from welding or exposure to solvents.
 - Gases like acetylene, propane, carbon monoxide and helium.
 - Flammable materials like gasoline, solvents, and explosive chemicals.
 - Pesticides.
- c. Biological Hazards:** Biological Hazards include exposure to harm or disease associated with working with animals, people, or infectious plant materials. Workplaces with these kinds of hazards include, but are not limited to, work in schools, day care facilities, colleges and universities, hospitals, laboratories, emergency response, nursing homes, or various outdoor occupations.

Types of things you may be exposed to include:

- Blood and other body fluids.
- Fungi/mould.
- Bacteria and viruses.
- Plants.
- Insect bites.
- Animal and bird droppings.

d. Physical Hazards: A Physical hazard can be any factors within the environment that can harm the body without necessarily touching it.

They include:

Radiation: Including ionizing, non-ionizing (EMF's, microwaves, radio waves, etc.)

High exposure to sunlight / ultraviolet rays.

Temperature extremes – hot and cold.

Constant loud noise.

e. Ergonomic Hazards: Occur when the type of work, body positions and working conditions put a strain on your body. They are the hardest to spot since you don't always immediately notice the strain on your body or the harm that these hazards pose. Short-term exposure may result in "sore muscles" the next day or in the days following the exposure, but long term exposure can result in serious long-term illness. Ergonomic hazards include:

- Improperly adjusted workstations and chairs.
- Frequent lifting.
- Poor posture.
- Awkward movements, especially if they are repetitive.
- Having to use too much force, especially if you have to do it frequently.
- Vibration.

f. Work Organization Hazards: Hazards or stressors that cause stress (short term effects) and strain (long term effects). These are hazards associated with workplace issues such as workload, lack of control and/or respect, etc. Examples include:

- Workplace violence.
- Intensity and/or pace.
- Respect (or lack thereof).
- Flexibility.
- Social support or relations.
- Sexual harassment

Application activity 11.3

Analyse the pictures below and answer the following questions:

- a. Identify the potential work hazard
- b. Suggest ways the hazard can be controlled



Picture a.

Picture b.

Picture c.

11.4. Ways to make work safer

Activity 11.4

Refer to anyone potential hazard such as slippery floors, suggest how this workplace hazard can be reduced or eliminated?

Whether you work in a business, manage it, or own it, you all have the same goal of not letting anyone get hurt on the job. There is something each of us can do to make sure we all make work safer. One step at a time, we can make our workplaces better places to work.

The workplace can be made safer by following the methods:

Method 1: Remove the Hazard

The best control measure is to remove the hazard from the workplace altogether, or keep it isolated (away from workers) so it can't hurt anyone. This way, the workplace itself is safer, and all the responsibility for safety doesn't fall on individual workers. Here are some examples:

- Use safer chemicals, and get rid of hazardous ones
- Store chemicals in locked cabinets away from work areas
- Use machines instead of doing jobs by hand
- Have guards around hot surfaces

Method 2: Improve Work Policies and Procedures

If you can't completely eliminate a hazard or keep it away from workers, good safety policies can reduce your exposure to hazards. Here are some examples:

- Safety training on how to work around hazards
- Regular breaks to avoid fatigue
- Assigning enough people to do the job safely (lifting, etc.)

Method 3: Use Protective Clothing and Equipment

Personal protective equipment is the least effective way to control hazards.

Personal protective equipment (PPE): Employers have duties concerning the provision and use of personal protective equipment (PPE) at work. PPE is equipment that will protect the user against health or safety risks at work. It can include items such as respirators, protective clothing such as gloves, face shields, eye protection, safety helmets, gloves, eye protection, high-visibility clothing, safety footwear and safety harnesses and it also includes Respiratory Protective Equipment (RPE) that serve to provide a barrier between the wearer and the chemical or material PPE must be properly looked after and stored when not in use, e.g. in a dry, clean cupboard. If it is reusable it must be cleaned and kept in good condition.



Figure 11.3: Fire and wire maintenance in the workplace

11.5. Emergencies at work



Figure 11.4: Emergencies at work

No business owner expects an emergency or disaster - especially one that affects

Application activity 11.4

Hazard Scenes and Solutions

- Analyse the story/picture below and identify ways (Methods) to prevent the injury or hazard from happening again



1. Alphonsine is a 17-year-old dishwasher in a restaurant kitchen. To clean cooking pans, she soaks them in a powerful chemical solution. One day, as Marie was lifting three large pans out of the sink at once, they slipped out of her hands and back into the sink. The cleaning solution splashed all over the side of her face and got into her right eye. She was blinded in that eye for two weeks.

- a. Name any potential health hazards to Alphonsine at her workplace
- b. What strategies can you suggest to control or prevent such hazards?



2. Jacques works in the fields spraying pesticides on crops. After a few days of spraying, Jacques became very ill. His eyes burned, his chest hurt, he had difficulties breathing, and he felt dizzy. His friends took him to the health clinic but a week later he was still having chest pains and difficulties breathing.

- a. Name any potential health hazards to Jacques at his workplace
- b. What strategies can you suggest to control or prevent such hazards?



3. Safari was helping unload a big truck that supplies cement to the local area. He was under a lot of pressure from the boss to get the truck unloaded quickly. When he picked up one large and heavy sack, he slipped and fell. He tried to keep his balance so that he wouldn't drop the sack. He felt a very sharp pain in his lower back. He kept working because he was embarrassed to let anyone know how much he was hurting. The next day he couldn't come to work, he was in so much pain. He lost 5 days of work and his back still hurts.

- a. Name any potential health hazards to Safari at his workplace
- b. What strategies can you suggest to control or prevent such hazards?



4. Patrick is 18 years old. He is very proud to have gotten a job working as a waiter in a hotel restaurant. One day he slipped off some stairs while carrying a bowl of soup. He tried to stop his fall but burned his arm and a customer's back in the process. He also injured his back when he hit the stairs.

- a. Name any potential health hazards to Patrick at his workplace
- b. What strategies can you suggest to control or prevent such hazards?



5. Kassim works for a construction company that makes large office buildings. One day he arrived late and realized that the other workers were already up on the roof. With some supplies in his backpack, he quickly climbed the ladder as he did not want to get in trouble for being late. While scurrying up the ladder, he slipped and fell. He survived, but broke several bones in his back and spent three months in a cast.

- a. Name any potential health hazards to Kassim at his workplace
- b. What strategies can you suggest to control or prevent such hazards?

them, their employees, and their business personally. The best way to protect yourself, your workers, and your business is to expect the unexpected and develop a well-thought-out emergency action plan to guide you when immediate action is necessary.

Activity 11.5

1. Why is it important to recognize, prevent and handle different types of hazards at home and in the workplace?
2. What does workplace emergency mean?
3. Name any situations that may be taken as emergencies at your school or any workplace you are familiar with.
4. For any emergency situation identified above, what can be done to handle it?

Workplace emergencies

A workplace emergency is an unforeseen or unplanned situation that threatens your employees, customers, or the public; disrupts or shuts down your operations; or causes physical or environmental damage. Emergencies may be natural or manmade and include the following:

- Severe injury,
- Chemical spills,
- Earthquake,
- Severe storm,
- Workplace violence resulting in bodily harm and trauma,
- Floods,
- Fires,

Responding to emergencies at the workplace

- You are in charge of the health and safety of all employees in certain company in your community. What would you do or advice would you give to fellow workers in case of:
 - a. A fire outbreak
 - b. Chemical spill
 - c. Earth quake
 - d. Moving at night

e. Unhygienic practices at work

By its very nature, no one can predict an emergency. However, you can prepare for one. Employers need to take time to ensure they have the training and planning in place to effectively respond to an emergency. An emergency is defined as any unforeseen crisis that demands an immediate response.

Emergencies in the workplace can lead to:

- a. A disruption of work
- b. Harm to employees or customers
- c. Damage to materials, equipment, or facilities.

Below is how one can respond to the most common types of emergencies.

1. Earthquakes: During an earthquake, at work people will be at the greatest risk from collapsing ceilings, windows, light fixtures, and other falling objects. In case of an earthquake:

- Wherever you are when an earthquake starts, take cover immediately. Move a few steps to a nearby safe place if need be. Stay there until the shaking stops.
- Stay inside.
- Drop under heavy furniture such as a table, desk, bed or any solid furniture.
- Cover your head and torso to prevent being hit by falling objects.
- Hold on to the object that you are under so that you remain covered. Be prepared to move with the object until the shaking has finished.
- If you can't get under something strong, or if you are in a hallway, flatten yourself or crouch against an interior wall and protect your head and neck with your arms.
- Stay away from windows, and shelves with heavy objects.
- If you are in a wheelchair, lock the wheels and protect the back of your head and neck.
- Do not use elevators. If you have to evacuate the building, use stairways to leave the workplace.
- Be ready to rescue people who may fall victim to the earthquake.

Fire outbreak



Figure 11.5: Fire Safety Checklist

Fire is dangerous especially if employees don't know what to do and haven't received clear and concise training and instruction, and equally importantly, haven't taken part in routine and regular fire drills.

You may invite a local fire department representative to the workplace to help identify fire hazards and to discuss how you and your staff should respond to a fire in the workplace. Prevention is better than the cure.

Responding to a fire should start before the outbreak itself by:

- Reviewing your fire risk management
- Making sure that all staff is aware of any fire safety plans and procedures in place, along with the location of fire extinguishers, escape routes and assembly point(s)
- Holding regular fire drills and fire alarm tests so that staff is well aware of their escape routes and their responsibilities.

In case of fire in a workplace, follow the following basic steps:

- **Raise the alarm.** Anyone discovering a fire should raise the alarm immediately, regardless of how small the outbreak is or how innocuous it appears to be. Fires can develop very quickly and every second counts
- **Evacuate:** Evacuation should be prompt and calm, with everyone making their way to the designated assembly point
- Any hazardous machinery or processes should be shut down in line with the fire evacuation procedure for the site
- Do not stop to collect any personal belongings, and never use lifts in the event of fire. This is because the lift could stop working, trapping you inside, or the doors could open on the afflicted level and expose the occupants to flames, heat and toxic gases
- Head directly to the nearest emergency fire exit. Put your hand against any doors you go through to check that the fire is not on the other side, and the last person out should try to close doors behind them to prevent the fire spreading through the building's "fire compartments" and also to reduce the level of oxygen available in any room to feed the fire
- If the escape route is affected by smoke, drop down onto the ground and crawl, as the available air will be cleaner closer to the ground
- If the fire is small and controllable and you are trained in the use of a fire extinguisher, you may attempt to extinguish the fire.
- **Get to the Assembly Point** One of the most important steps in any fire evacuation plan is choosing an assembly point
- The location of the assembly point must be easily accessed by all exiting persons and should have safe access for the emergency services.
- Once you have exited the building, everyone should meet at the designated assembly point.
- A headcount (or nominal roll call) should be performed, making sure that any visitors are accounted for.
- You should not re-enter the building until told to do so by an attending Fire Officer
- Be sure to leave yourself a clear escape route and know how to recognize when the fire grows out of your control.
- Instruct a nearby employee to dial the emergency number
- If your alarm system is not equipped to automatically communicate with local emergency responders.
- If it's clear the fire cannot be controlled by a fire extinguisher, evacuate immediately.
- Do not wait around or attempt to manage the fire on your own.
- Follow established evacuation procedures and assist fellow employees along the way.

Release of hazardous substances

Hazardous substances are any substances dangerous to your health such as:

- Solvents
- Pesticides
- Paints
- Petroleum products
- Heavy metals

In case of release of hazardous substances or chemical spills:

- If you come into contact with a chemical spill in your workplace, first try to determine whether it is a low hazard or high hazard spill.
- Alert everyone in the area of the spill and evacuate to a safe location.
- If there is time, try to ventilate the area. If you have access to windows, open them completely.
- If there is a chemical fume hood in the area of the spill, open the face of the hood completely to begin the ventilation process.
- Notify the appropriate personnel or officials immediately, and try to secure the area of the chemical spill so no unauthorized personnel can come into contact with the spill
- Never touch the chemical spill without protective clothing and gloves, even if you do not perceive immediate danger.
- If you know of or suspect that flammable gasses or vapours may be involved, do not operate any electrical or motorized equipment, except to turn them off. Remove any sources of heat from the area of the chemical spill as well
- If someone has been injured during the course of the chemical spill, remove him or her entirely from the area so that they can get fresh air.
- Remove any items of clothing that may be contaminated.
- Get the person to a shower or other water source, and immediately flush their skin and eyes with clean water for at least fifteen minutes. After fifteen minutes of flushing with fresh water, use a gentle soap to clean their skin
- If you experience a chemical spill that is potentially an emergency or high hazard spill, you should take great care to avoid the area of the spill entirely. Emergency chemical spills are those that involves serious personal injury that requires immediate medical attention, cause uncontrollable volatility and fire hazards, cause airborne contamination, involves the contamination of a public area, involves any amount of metallic mercury being spilled, demands the use of a supplied air breathing mechanism, causes significant structural damage in the area of the spill, involves substances that are unknown, and involves a spill that will require a long and prolonged clean up

- Chemical spills classified as emergency or hazardous should only be treated by professionally trained individuals. If you come in close contact with this type of chemical spill, evacuate the area immediately. Try to isolate the area of the spill by locking any entrances to the area, or barricading the area with any materials you can find. If the chemical spill threatens to spread beyond the area, pull the nearest fire alarm to evacuate anybody who may be in the same building. If you are ever unsure as the nature of the chemical spill, it is a good idea to assume that the hazard level is high. Treat this type of chemical spill as a high hazard spill. Evacuate and secure the area, and contact the appropriate authorities immediately

Keeping safe at night

- Try to plan ahead. Make sure someone knows where you are going, who you are meeting and when you expect to return. Always plan how you are going to get home again
- Know your limit. Alcohol will dull your instincts and can lead to you making unsafe decisions
- Stay Alert! Avoid talking on your mobile phone or listening to music on your head-phones, as this will distract you from your surroundings and prevent you from hearing any potential danger signs
- Stick to busy streets if you can. Avoid poorly-lit areas, deserted parks, or quiet alleyways
- If you are socialising with a group of people, take care of each other and make sure everyone stays safe
- If you see someone else in trouble shout for help or call the police immediately. Don't ignore someone in trouble, but getting directly involved may aggravate the situation
- Always carry the telephone number of a trusted, licensed taxi or minicab company with you.
- Have your house keys ready before you get to your front door and carry them on your person rather than in your bag just in case
- If you are being followed, head towards a public place and text a friend to meet you or call the police. Shout and run if you feel that you are in danger
- Tell someone where you are going. Before you leave home, let someone know where you are going and when you expect to be back
- Charge your cell phone. Always have a fully charged cell phone with you. If you are in trouble, you can quickly call for help. You might also need your phone to use mapping or other functions to get you to your destination safely
- Carry a small flashlight. Keep a mini flashlight on your keychain, where it will always be with you. It will provide light in extra dark areas and give you more

confidence. Or learn to use the built-in torch on your phone. Travel with a friend or in a group. There truly is safety in numbers, as criminals are less likely to attack a group than an individual

- Be aware of your surroundings. Look around while you walk and pay attention to what is going on around you. It will give you an early warning if someone is looking to make trouble
- Stay in the well-lit areas. Walk or drive in well-lit, highly visible areas. Even if it takes you longer, stay on a well-lit route rather than taking shortcuts down dark roads or paths. Stick to streets populated with houses and shops rather than empty lots or vacant stores

Good Hygiene Practices in the Workplace

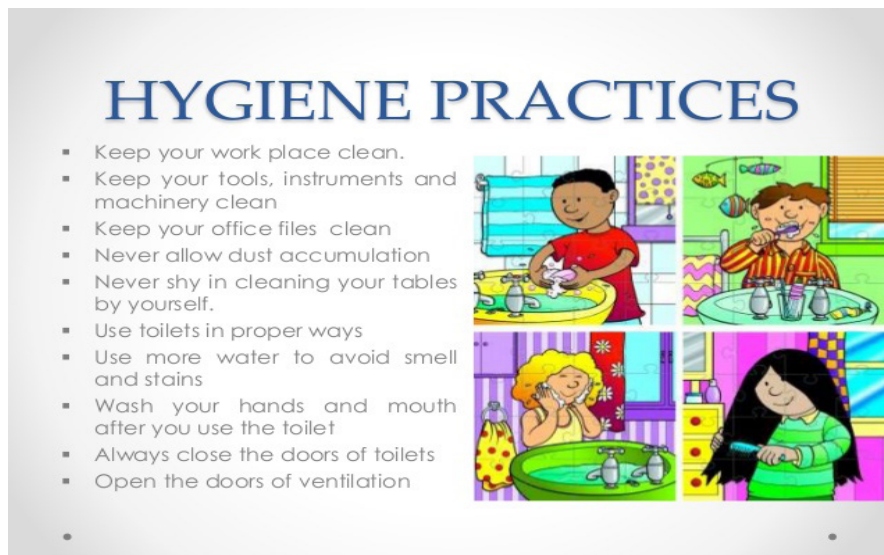


Figure 11.6: Hygiene Practices

The goal of management is to prevent accidental exposures caused by inhaling or ingesting hazardous substances. By consistently practicing good hygiene when working with hazardous substances, exposures caused by accidental cross-contamination can be prevented.

The best safety and health management practices involve not only the employer, but the individuals in the company buying into the health and safety culture.

Below are some of the hygiene practices that maybe enforced at the workplace:

- **Mandatory Hygiene Signs.** Workplace mandatory hygiene signs have been proven to have shown an increase in employee hygiene standards. These

signs should be placed in clear view of workers preparing food in the kitchens, and for those taking a bathroom break in the toilets.

- Smoke, eat, and drink only in designated areas away from areas where hazardous materials are used or stored. Small amounts of the substances may be present in the area, and smoking, eating, and drinking nearby will cause you to inhale or ingest the hazardous material. You should always wash before smoking, eating, or drinking if you have been working with hazardous materials. (now would be a good time to reference your substance abuse prevention program)
- Keep work clothes clean and in good condition. Holes or tears will allow hazardous materials to get on your clothes or skin, increasing the likelihood that you will be exposed to the substance.
- Do not mix contaminated clothing with your home laundry. Not only will cross-contamination occur, but it is possible to cause a fire if these clothes are laundered. Find out what to do with your contaminated clothing before you leave work. Many companies have an industrial laundry facility specifically for contaminated clothing.
- If you splash hazardous materials on your eyes, skin, or clothing, wash promptly in the proper manner, even if you have no apparent symptoms. The SDS (Safety Data Sheet) will provide information about what to do in case of splashes. Of course, the best time to look at the SDS is before you use the substance, not when an emergency happens. In the event of an injury, consult your E.M.S. or Medical Safety Program.
- Always wash before you apply makeup, lotion, lip balm, or gloves. Applying these to contaminated skin is likely to cause an accidental exposure.
- Remove contact lenses when working in an area where vapors are present. Contact lenses absorb substances from the air, causing eye irritation and other potentially serious conditions.
- Keep hazardous material storage areas clean. In case of a spill, the area should be cleaned according to proper spill control and clean-up procedures. Materials used to clean up the spill must also be disposed off properly.

Skills Lab Activity 11.5

You have been given a job as a restaurant manager after your senior six, describe the safety and health measures you would put in place for better services to clients and working conditions of workers.

End Unit Assessment

Read and answer the following questions

1. If you are inside a building and begin to feel the shaking of an earthquake, what should you do?
2. If you smell smoke and suspect a fire burning somewhere in the building, what should you do?
3. If an unknown chemical spills in your workplace, what should you do?
4. If you are working outside when a storm with lightening starts, and you can't get to shelter, what should you do?
5. A co-worker slips on a slippery floor and hits his head, losing consciousness. What do you do?
6. If a co-worker falls off a ladder and injure his back, what should you do?
7. Which is more hazardous, a sharp knife or a dull knife?
8. True or False? If you are caught in a fire you should stay close to the ground.
9. What are some security measures that can replace the chance of workplace violence?
10. What phone number should you call to report an emergency?
11. What should you do for a severe cut?
12. What should you do for a very serious second or third degree heat burn?
13. You are working on a construction site and a co-worker faints and falls into a trench. What do you do?
14. You are driving home from work. It is late and you are on a road in a remote rural area of Kigali. Your motorcycle breaks down. What should you do?
15. What are the steps for using a fire extinguisher?
16. Name 3 times where it is necessary to wash your hands.
17. What is at least one item that should be included in an emergency kit?
18. Name two things that should be an Emergency Action Plan.
19. If a chemical gets into your eye, what should you do?
20. If your clothes catch fire, what should you do?
21. Mention at least one factor that increases your risk of being robbed at work?
22. Mention two methods to clean water so that it becomes safe for drinking?
23. What should be used to put out a grease fire on a stove?
24. Name 2 personal hygiene practices that can prevent spreading germs when working in a restaurant.
25. What does the skull and crossbones symbol mean?

26. Wipe cooking services once at the end of every evening when working in a restaurant to avoid spreading germs. True or False?
27. What are some security measures that can reduce the chance of workplace violence?
28. How many exit routes should a workplace have?
29. Describe the possible workplace health hazards depicted by each symbol below



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