**MINEDUC**

**KICUKIRO DISTRICT**

**E.S KANOMBE/ EFOTEC**

**ENTREPRENEURSHIP**

**Student’s Book for Senior six**

**COMBINATIONS PCB, MEG, MCB**

Prepared by Frantz PHANOUEL REAGAN/ EFOTEC

E-mail: Francephanouel@gmail.com

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**COURSE LINE-UP**

**UNIT 1:** SOCIO-ECONOMIC DEVELOPMENT

**UNIT 2:** ENVIRONMENTAL IMPACT ASSESSMENT

**UNIT 3:** CUSTOMS PROCEDURES

**UNIT 4:** FINANCIAL MARKETS

**UNIT 5:** FINANCIAL STATEMENTS

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**UNIT 8:** OPERATIONAL BUSINESS PLAN FOR AN ENTERPRISE

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**UNIT 10:** WORK HABITS AND BEHAVIOUR

**UNIT 11:** WORK SAFETY AND HEALTH.

**UNIT 1: SOCIO-ECONOMIC DEVELOPMENT**

**1.1. Meaning of socio-economic development**

* **Economic growth** refers to increase in goods and services produced in the country during a given period of time mainly one year.
* **Economic development** refers to the general improvement of the standard of living of people within a country.
* **Socio-economic development** refers to the increase of goods and services and the general improvement of the standard of living of people.

**1.2. Indicators of socio-economic development**

1. Reduced income disparities/ difference/ inequality
2. High GDP figures
3. High level of literacy
4. Availability of goods and services
5. Access to clean water
6. Successful implementation of new technologies
7. Sustainable economic growth
8. Improved standards of living for the population

Reduced mortality rate

1. Improved life expectance
2. Low unemployment level
3. Reduced malnutrition and under-nutrition for the population

Justice and equality of all people before the law

1. Human right respect
2. Personal and institutional security
3. Improved school enrolment (low level of illiteracy)
4. Availability of efficient social services such as health centres, schools, recreational places, markets, etc.
5. Availability of infrastructures like roads, electricity, water, etc.
6. Provision of community development programs e.g. GIRINKA, one cup by child, VUP, shelter provision for disabled and poorer people etc.
7. Relatively reduced poverty

**1.3. Factors influencing socioeconomic development**

1. **Availability of natural resources** used by entrepreneurs and the country to increase the production of goods and services.
2. **Capital accumulation** including liquid money and other assets which are useful in production process. They mobilize saving and investment which pull up the national production/ income
3. **Technological progress** influences the effectiveness and efficiency of production sectors and hence contribute significantly to increase in output/ income of the population, say income of the country.
4. **Improvement in quality and quantity of labor** which influence the productivity and efficiency of an industry (sector of production) and even their income.
5. **Entrepreneurship** either for local or foreign investors providing employment and increase the production of goods and services.
6. **Employment level** when employment rate is high, people get income and contribute positively in the national economy while in case of high unemployment rate, people suffer from poverty and the country’s economy is worsened.
7. **International trade efficiency** involving the choice of specialization and international exchange determining the profit and loss earned from the international trade using available resources
8. **Population growth and economic growth**: when the population increase at the same proportion to the production, the country is in equilibrium but if growth in population is greater than increase in production, it is a problem where people will meet hunger. On the other hand, when increase in population is less that increase in production, the country experiences socioeconomic development quickly.
9. **Economic stability** including stable prices, less fluctuating inflation, exchange rates etc. which attracts investors and hence provide employment to local people and conduce to economic growth through increased production.
10. **Conducive government policies** including motivating tax system, anti-corruption services etc. which attracts investors (see the advantages of high investment in the country).
11. Customs and traditions
12. Level of savings, etc.

**1.4. The role of entrepreneurship in socioeconomic development**

1. **Economic growth**: creating and running a business increases the production of goods and services.
2. **Population satisfaction**: the business created by entrepreneurs provide goods and services needed by the population and hence avoid any problem which can arise from lack of those products.
3. **Employment provision**: the businesses created by entrepreneurs provide employment to the population which serves as source of income.
4. **Provision of market to local producers** contribute significantly to socioeconomic development since it helps those producers to get money from what they produce and hence access what they do not produce.
5. **Pay taxes which are main sources of government revenu**e used to provide social services and infrastructures conducting to the socioeconomic development.
6. **Contribute to local development programs** e.g. community work organized by an organization
7. **Use of idle resources** increases the production of the country (economic growth) and hence stimulates the socioeconomic development.
8. **Creativity and innovation** may bring new products which can be solution to some existing barriers to development. E.g. MORINGA is used to produce medicaments, growing/ trading crops which provide new sources of scarce vitamins.
9. **Socio cohesion and development**: it intensified mainly through cooperatives where people know each other, improve their social relation and economically develop.
10. **Social influence**: when an entrepreneur succeeds to run a profitable business, other people may take it as model and then imitate or gat motivated to run the same or new business which will help them to leave lower socioeconomic level to adopt the improved one.
11. **Improve standard of living** in the sense where people will get the increased purchasing power from the employment they will get from the business and in the availability of goods which were scarce before.
12. **Extended life expectance**: new businesses provide goods containing new sources of needed vitamins and some services which help people to postpone their death including health care services like pharmacies, convenient means of circulation (transport), etc.

**1.6. BUSINESS SOCIAL RESPONSIBILITIES AND NATURAL ENVIRONMENT**

Social responsibilities of organization/ business

Organization/business is ethically responsible towards the following publics:

**(i) Customers**

1. Responsibilities towards customers are mainly those of providing a product or service of a quality that customers expect.

* Dealing honestly and fairly with customers.
* The right to be informed of the true facts of the buyer-seller relationship i.e. truth in advertising and the content of products e.g. in food labeling.
* The right to safety and health protection: safe products, health warnings, product labeling and so on.
* Good price

**(ii)The community/Society**

A business only succeeds because it is part of a wide community. It should be responsible for:

* Upholding the social values of the community.
* Contributing towards the well-being of the community e.g. by sponsoring
* local events and charities etc. Example BRALIRWA, MTN, TIGO…
* Responding constructively to complaints from local resident or politicians.
* Maintaining sustainable presence in the community, in terms of exploitation of labor and business relationship, impacts on the environment and use of resources.
* Conserving the environment in which the business operates.
* Provision of employment to the society members should be a priority.
* Should be in position to respond to society’s call for any emergency in its means.
* Supporting education for poor people

**(iii) Employees**

* Fair pay.
* Safe and healthy working conditions.
* Learning/development opportunities.
* Commitment to equal opportunity and non-discrimination.
* Support for employee welfare i.e. benefits, counseling and so on, where required.
* Provision of good working relations with employees.
* Giving rewards to excellent performers.
* Ensuring job security for employees.
* Trainings and education
* Health insurance
* Social facilities
* Good salaries

**(iv) Suppliers.**

* It should not use its power unscrupulously say to force the supplier to lower his prices under threat of withdrawing business.
* The organization should not delay payments to suppliers beyond the agreed credit period. .All information obtained from suppliers and potential suppliers should be kept confidential.
* All suppliers should be treated fairly, including giving potential suppliers a chance to win some business and maintaining long-term relationships that have been built up over the years.
* **(v) Competitors**
* Some responsibilities should also exist towards competitors. Responsibilities regarding competitors are by no means solely directed by social conscience or ethics however there is also a great deal of law surrounding the conduct of:
* Fair trading.
* Monopolies.
* Anti-competitive practices.
* Abuses of a dominant market position.
* Restrictive trade practices.

**(vi) Government**

* Payment of taxes is a must of all entrepreneurs. Entrepreneurs should avoid any unethical behavior like under declaring and withholding information when it comes to documenting their operations for taxation purposes.
* The entrepreneur should also meet production standards in terms of quality and quantity.
* Follow government policies on business organization
* Contribute to research and development of the country.
* Contribute to the national effort to build a better society.

**(vi) Entrepreneurs / Shareholders.**

* Protecting the interest of shareholders or entrepreneurs group for business survival.
* Safeguarding the capital of the shareholders. Provide reasonable dividends (returns) on their investment.
* The business should develop and improve itself in order to expand its financial independence.
* Management should work to ensure that the business’s public image is up lifted so that entrepreneur(s) enjoy self-esteem or recognition.
* Management should guide and control the property of the business organization.
* The business must improve financial well-being of shareholders

**NATURAL ENVIRONMENT**

The word ‘**environment**’ general means the surroundings. The environment of a business refers to the visible and invisible, natural and artificial surroundings of a business that directly or indirectly affects its operations.

**BUSINESS ENVIRONMENT**

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

1. 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. This internal business environment comprises of both tangible and intangible resources.

|  |  |
| --- | --- |
| **Tangible resources** | **Intangible resources** |
| -workers  -managers and equipment  -financial facilities  -communication equipments  -distribution tracks | -distribution channels  -marketing activities  -management procedures  -financial systems  -public image reputation |

1. EXTERNALBUSINESS ENVIRONMENT

The external environment of a business is made up of those factors and conditions outside the business which affect the business operations. The external business environment may be categorized into the following environments.

* **Economic environment**: includes competitors, consumers, financial institutions, government agencies, commercial and industrial laws, the economic system, employment and labour, inflation levels, interest rates, modes of transport, information and communication, etc
  + **Social environment**: it includes religion, customs and traditions, social events, fashion, entertainment, social stability, etc
  + **Political environment**: includes fines and penalties on business, business laws, government incentives, taxation, political stability, international relations, etc
  + **Legal environment**: business laws within the country
  + **Technological environment**: changes in technology
  + **Natural environment**: includes forests, soils, water bodies, air, wild animals/birds, marine life, etc
* **Role of society to business/ how the business benefits from society**
* -Provision of market to the business
* -Provision of labor
* -Provision of security to the business
* -Provision of raw materials
* -Provision of transport network
* -Provision of disposal sites for waste materials
* -Provision of land for business activities
* -Provision of initial or additional capital for the business
* **Role of Business to Society/How the society benefits from business**
* -Provision of employment opportunities
* -Provision of products (goods and services)
* -Payment of tax to the government
* -Contribution to community development programmers
* -Provision of social services i.e. roads, health services, etc
* -provision of market for society’s output i.e. agricultural produce, craft materials, etc
* -Acts as a center for developing/ training local manpower
* -Helps students and researchers in carrying out study out activities
* **EFFECTS OF BUSINESS ON THE SOCIO-ENVIRONMENT**
  + **Positive effects**
    - Provision of employment opportunities.
    - Contribution to community development programs.
    - Source of revenue through government taxation.
    - Provision of social services i.e. roads, health services, etc.
    - Provision of market for society’s out-put i.e. produce, craft materials, etc
    - Provision of different products (goods and services) to society.
    - Act as a center for developing / training local manpower.
    - Helps students and researchers in carrying out study activities.
    - More variety of goods produced to consumers
    - Reduced price due to competition
  + **Negative effects of the business on the natural environment**
    - Pollution of Water, air, land and acoustic pollution
    - Land degradation
    - Deforestation
    - Exhaustion of non-renewable resources like minerals
    - Over fishing/ over harvesting
    - Loss of bio-diversity
    - Global warming
    - Excessive use of infrastructure and utilities
    - Desertification
    - Loss of wild life
    - Displacement of people
    - Vibrations
    - Degradation of our culture and norms because of Western films and fashions
* **Measures to address negative effects of business on the environment**
  + Appropriate waste treatment
  + Use proper packaging materials which do not degrade the soil
  + Creation awareness on the part of the people on nature management
  + Protecting the natural resources including land, water, minerals, oil, fauna and flora.
  + Choice of raw materials and other input that have less or no degradation effects on the environment.
  + Put appropriate warning labels on packaging materials
  + Reforestation (is the planting of trees to replace those that have been cut)
  + Afforestation (is the practice of planting trees in an area)
  + The entrepreneurs in agro-business should avoid high use of chemicals in their farming process.
  + Those engaging in keeping animals for meat and milk should consider quality other than quantity (avoid over grazing and pastoralism.)
  + Other forms of energy should be employed to reduce on wood fuel usage e.g. the use of solar energy, electricity…
  + Disposal of waste products should be made in specific places other than disposing waste everywhere which harmful to the environment.
  + Through sensitization of the communication on proper usage and disposal of waste products
  + Mulching
  + Irrigation
  + Terracing
  + Formulation and reinforcement of environment standards to be observed by all business in the course of their operations

END OF UNIT 1

**UNIT 2: ENVIRONMENTAL IMPACT ASSESSMENT**

**Environmental impact** is the effect a project has on the environment and natural resources. These effects may be positive or negative, which could produce costs or benefits.

**Environmental Impact Assessment (EIA)**; The systematic evaluation of a project to determine its impact on the environment and natural resources.

**1.1 HISTORICAL BACKGROUND AND CONTEXT OF EIA IN RWANDA**

* Environmental challenges in Rwanda date back several decades. Environmental problems are manifested in the context of poverty and socio-economic development efforts meant to improve the welfare of people.
* During the colonial period, conservation and establishment of protected areas and reserves was started.
* Today, to effectively manage environmental challenges such as soil erosion, deforestation, wetland drainage, water degradation, climate change and the loss of biodiversity, government of Rwanda established 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.
* One of REMA’s principal functions is to oversee the conduct of EIA and take a decision on proposed development projects to be undertaken by both public and private sectors.
  + **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.
* The Organic Law (Article 67) requires that projects, programmes and policies that may affect the environment shall be subjected to environmental impact assessment before obtaining authorisation for implementation.
* Article 69 gives REMA legal authority to oversee the conduct of EIA.
  + **INTERNATIONAL CONTEXT OF EIA**
* EIA process operates within and towards the global concept of sustainable development. It is intended to achieve benchmarks and embrace commitment to international environmental conventions agreed upon in Ramsar (1971), Vienna (1985), Montreal (1990), Rio (1992), Kyoto (1998), and Stockholm (2001) 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 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.

**1.4 OBJECTIVES, ROLES AND BENEFITS OF EIA IN RWANDA**

Generally, benefits of EIA are;

1. Enabling incorporation of environmental considerations in design and site selection for a project or development activities.
2. Providing information beneficial to decision making.
3. Enhancing responsibilities of relevant parties in the development process.
4. Fighting and minimizing environmental damage.
5. Avoiding costs and delays in implementation of projects that would arise from unanticipated environmental problems.
6. Making development projects more financially and economically efficient.
7. Making an active contribution to sustainable development.

**1.5 ROLES AND RESPONSIBILITIES OF DIFFERENT STAKEHOLDERS IN EIA**

Many relevant parties take part in EIA process as indicated below.

**a) REMA**

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 recommended by EIA studies.

**b) 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.

**c) EIA Experts**

EIA experts are professionals registered with REMA to undertake impact studies. They help the developer to carry out EIA, design mitigation measures, prepare EIA report, design environmental management and monitoring plans.

**d) Lead Agencies**

Lead agencies such as government ministries or departments have the responsibility for management and protection of environmental resources, public health and socio-economic development. They provide valuable technical information to EIA experts during EIA studies and are involved in the review process.

**e) The Public**

Communities have a right to take part in the EIA process. Public participation allows important social and environmental problems to be identified and gain consensus on nature and adequacy of proposed mitigation measures and recommendations.

The role of the public in the EIA process includes contributing information and advice to EIA studies during scoping and public hearing process.

**f) International Funding Organisations**

All international funding organisations require EIA for projects they are to fund.

**g) Academic Institutions**

Members of academic institutions are commonly co-opted on EIA Technical Committees. They also institutionalise environmental education in their curricula.

**1.6 EIA PROCESS**

Detailed below are steps in the EIA process.

**2.1.1 Project Application and Registration by REMA**

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.

**2.1.2 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.

**2.1.3 Scoping and Terms of Reference**

Scoping is the initial step of the Environmental Impact Study phase and involves input of relevant Lead Agencies, stakeholders and the developer to obtain their comments on what should be included in the study and what alternatives should be considered. Scoping is a role of the developer through EIA experts.

**2.1.4 Environmental Impact 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.

**2.1.5 Submission of EIA Report to the Authority**

After a developer has reviewed the EIA report and, if necessary, written an addendum, these documents, which should be signed by the EIA experts, are submitted by the developer to REMA. The developer shall submit at least five copies of the EIA report to the Authority.

**2.1.6 EIA Report Review, and Decision-Making**

Review of EIA documents submitted to the Authority enables subsequent decision-making on either approval or disapproval of a project.

**1.7 EIA CERTIFICATE OF AUTHORIZATION**

REMA shall issue a Certificate of Authorization after a proposed project is approved. This document is legally binding and authorizes the developer to implement a proposed project, subject to any terms and conditions stipulated.

**1.8 Environmental Auditing and Monitoring**

* Environmental monitoring refers to regular collection of environmental data at the project site while environmental auditing is a systematic documentation, periodic and objective evaluation of protection and management of the environment.
* Both REMA and the developer (or an EIA Expert contracted by a developer) shall be responsible for environmental monitoring and auditing.

**1.9 Roles of REMA**

* 1. Receive and register EIA Applications (Project Briefs) submitted by developers,
  2. Identify relevant Lead Agencies to review Project Briefs and provide necessary input during screening,
  3. Review Project Briefs and determine project classification at screening stage,
  4. Transmit Project Briefs to relevant Lead Agencies and concerned Local Governments to provide input on Terms Of Reference (ToR),
  5. Publicise Project Briefs and collect public comments during development of ToR,
  6. Approve EIA Experts to conduct EIA studies,
  7. Receive EIA documents submitted by a developer and verify that they are complete,
  8. Transmit copy of EIA Reports to relevant Lead Agencies, Local Governments and Communities to review and make comments,
  9. Review EIA reports and make decision on approval, organize and conduct public hearings, appoint an officer from Authority to chair public hearings, receive public comments and compile public hearing reports,

**END OF UNIT**

# **UNIT 3: CUSTOMS PROCEDURES**

## 3.1. Meaning of Key terms

**Customs:**

It refers to tax that must be paid to the government when goods are imported or exported in or from other countries

**Customs declaration:**

It is a set of operations carried out by a customs clearance agent to facilitate the Payment of taxes

* Customs declaration documents facilitate the acceptance, verification and payment of taxes before goods can be handed over to the importer.

## 3.2. Types of Customs Declaration:

* 1. **Export:** Involves the sale of goods outside national territory of a country of origin.
  2. **Import:** Involves bringing goods from foreign country and be consumed within the national territory of an importer.
  3. **Temporary importation:** It is an intermediary stage between importation and consumption
  4. **Warehousing:** It is the storage of goods in store house before consumption and awaiting the complete customs declaration.
  5. **Transit:** Goods that are being transported from one place to another

## 3.3. Export and Import of Rwanda.

**A. Major imports for Rwanda**

Oils products: Petroleum,

Foodstuffs: Rice,

Cosmetics and skin lotions

Electronic equipment: Computers, Telephones, cooking tools

Military weapons

Clothing: Second hand clothes, new fashion styles from Europe and Asia

1. **Major exports for Rwanda**

Cassava flour

Tea and Coffee

Mineral products: gold, wolfram, silver, Iron

Security service in international peace keeping missions

Human capital expats: Technicians, researchers, etc.

## 3.4. Partners in the Process of Customs Declaration

The following are main Stakeholders involved in customs declaration:

* Revenue Authority.
* Bureau of Standards
* Clearing and forwarding agencies.
* Warehousing agency, and security bodies.

1. **Customs administration:** It manages all the operations in collaboration with the customs agent in charge.
2. **Warehouse:** refer to a designed space to receive and records goods
3. **Rwanda Bureau of Standards:** It verify and accredit the conformity of the quality goods and the international norms/ standards
4. **Transport Companies:** Include national and international transport companies
5. **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.
6. **Customs Police:** It only sues customs and fiscal infractions.

It is a unit of national police in charge of protecting rights of customs administration.

e.g. Rwanda Protective Department

1. **Customs warehouse:** It is a warehouse where goods are stored waiting to be cleared. e.g: MAGERWA

## 3.5. Necessary Documents in Customs Declaration.

The main Necessary documents for the declaration of goods at customs are the following, but additional documents are explained:

* Transaction invoices.
* Transport documents.
* Import license.
* Packing list.
* Certificate of origin and Certificate of analysis.

1. **Import License*:*** *gives the authorization to import goods by determining the value that the customs will refer to.*
2. **Certificate of origin:** *It shows the origin of goods*
3. **Analysis certificate:** *It confirms the quality of goods delivered by a laboratory of the country of origin that attest the conformity with the requirements and international standards*
4. **Parking list:** *details of articles contained in the bill of lading and consigned on the commercial invoice*
5. **Transport letter:** *Refers to a document of identification of goods from the origin to the destination*
6. **Commercial invoice:** *It shows the value of commercial goods by items, gross weight, price per unit and total price.*
7. **Transport invoice:** This is an *accounting paper attesting the fees charged on the transportation of goods.*
8. **Vehicle inspection certificate:** *It shows that vehicle has undergone technical tests before its shipping and it can be transported to its destination.*
9. **Vehicle transportation document:** This *is prepared for cargo transported by train or by vehicle*
10. Arrival declaration note, etc.

## 3.6. Means of Payment for Goods in Customs

There are four methods of payment for goods in customs:

* **Cash payment:** receipt is issues by a custom tax collector
* **Bank Payment:** A bank system is set up for collecting taxes on behalf of customs administration
* **Electronic payment:** Electronic cards are used during collection of taxes for the customs administration
* **Prepayment:** The automatic withdrawal of goods imported, provided verification is carried out at the residence country of origin

## 3.7. Role of customs procedures

* Customs procedures improve trade compliance and facilitation.
* Customs procedures help to ensure observance of laws.
* Customs procedures help to protect economic interests.
* Customs procedures help to take measures to protect the rights and interests of citizens and businesses.
* Customs procedures help to prevent frauds and misappropriation of resources

# **UNIT 4: FINANCIAL MARKETS**

## 1. Financial Markets

It is an arrangement of possible buyers and sellers of financial securities such as bonds and treasury bills, commodities and other fungible items.

They are markets that are used to raise finance through stocks/shares, bonds, bills of exchange, foreign currency, etc. Examples of financial markets include: capital markets, derivative markets, money markets, and currency markets, etc.

**2.** **Types Financial Markets**

There are four main types of financial markets, namely:

* Physical assets markets Vs. financial asset markets,
* Spot Markets Vs. futures markets,
* Money markets Vs. capital markets, etc.

### **4.2.1. Physical Assets Markets Vs. Financial Asset markets,**

1. **Physical Assets**

A **physical asset** is an item of economic, commercial or exchange value that has a tangible or material existence. For most businesses, physical assets usually refer to cash, equipment, inventory and properties owned by the business.

Examples of such physical assets include land, buildings, machinery, plant, tools, equipment, vehicles, gold, silver, or any other form of tangible economic resource.

1. **Financial Assets**

Financial assets are intangible, meaning that they cannot be seen or felt and may not have a physical presence except for the existence of a document that represents the ownership interest held in the asset.

Examples of such financial assets include stocks, bonds, funds held in a bank, investments, accounts receivable, company goodwill, copyrights, patents, etc.

**Difference between Financial vs Physical Assets**

The main **difference between** the two is that **physical assets** are tangible and **financial assets** are not.

### **4.2.2. Spot Markets Vs. Futures markets,**

1. **SPOT MARKET**

It is the market where assets are sold for cash and delivered immediately

.e.g: The foreign exchange (FOREX) market.

Spot markets are influenced solely by supply and demand.

* It is also called **“**Cash market or the Physical market**”**

1. **FUTURES MARKET**

They are financial contracts giving the buyer an obligation to purchase an asset (and the seller an obligation to sell an asset) at a set price at a future point in time. It is also called**“Futures contracts”**

The assets often traded in futures contracts include commodities, stocks, and bonds. Grain, precious metals, electricity, oil, meat, orange juice, and natural gas are traditional examples of commodities, but foreign currencies, emissions credits, bandwidth, and certain financial instruments are also part of today's commodity markets.

Futures contracts are standardized, meaning that they specify the underlying commodity's quality, quantity, and delivery so that the prices mean the same thing to everyone in the market.

### 3. MONEY MARKETS

It is a financial market that gives investors access to short term debt instruments such as treasury bills of less than one year. They are mainly accessible for large corporations and financial institutions.

1. **Instruments of Money markets**

The main instruments of Money are:

* Treasury bills: a short term government security with maturity date of less than one year.
* Bank overdraft
* Short term loans
* Promissory note
* Bills of exchange
* Trade credit: A customer who purchase goods on credit and promise the supplier to be paid later.
* Certificate of deposit
* Banker: an individual who is engaged in the business of banking

### 4. CAPITAL MARKETS

They are markets in which long- term financial securities are traded. Stockexchange markets and bond markets are two types of capital markets that provide financing through the issuing of shares or bonds respectively that mature between 2- 30 years to clear. Capital markets provide companies and government access to long term funding for expansion and development.

1. **Capital market instruments**

* Bonds:
* Equity: *Net worth of a person / company resulting from Assets- Liabilities*
* Stock/Shares: *This is a combination of several shares of a person or a company*.
* Debenture: *It is a corporate bon/ debt instrument that is not secured by physical assets or collateral security. They are backed by creditworthiness and reputation of the issuer.*
* Collective investment schemes: *a fund operated by a trust company or a bank and handles a pooled group of trust accounts to create a larger, well diversified pool.*
* Instruments creating or acknowledging indebtedness,
* Government owned market instruments,
* Instruments entitling to shares, etc.

1. **Capital market participants:**

The participants of capital market are:

* Stock exchange,
* Stockbrokers,
* Dealers,
* Sponsors, and collective investment schemes

1. **Functions of Financial Markets**

The roles of financial markets are explained:

1. **Financing trade:**

Money markets encourages financing both internal as well as international trade. Commercial finance is made available to the traders through bills of exchange. The acceptance houses and discounts markets help in financing foreign trade.

1. **Financing industry**

Money markets contribute to the growth of industries in two ways:

* Money market helps the industries in securing short term loans to meet their working capital requirements through the system finance of bills, commercial papers, etc.
* Capital markers provide industries with long term loans

1. **Stimulate Profitable investment**

Money markets enable the commercial banks to use their excess reserves in profitable investment. The excess of reserves of commercial banks are invested in near- money assets ( e.g: Short term bills of exchange) which can easily be converted into cash and yield profits to commercial banks in returns.

1. **Helps in mobilizing savings**

Capital markets help in mobilizing savings and channeling them into productive investments. Consequently, it encourages capital formation and promotes the economic growth of the country.

1. **Promotes economic growth of a country**

The various constituents of capital markets direct funds into productive investment channels.

1. **Help to the Central bank**

Money market helps the central bank in two ways:

* The short-run interest rates of the money market serves as an indicator of the monetary and banking conditions in the country and guide the central bank to adopt an appropriate banking policy.
* Money market helps the central bank to secure quick and widespread influence on the sub- markets helping to achieve effective implementation of its policy.

1. The capital markets bring together the savers as lenders and investors as borrowers
2. **CAPITAL MARKET AUTHORITY**(CMA)

**Responsibilities of C.M.A**

1. CMA ensures that only competent and credible professionals are licensed to serve the market
2. CMA ensures that all prospectuses of issuers have adequate disclosures for decision making
3. CMA ensures that there periodic reports and all price sensitive information are released once they are available, etc.

**Differences between Money Markets and Capital Markets.**

|  |  |  |
| --- | --- | --- |
| **Major Points** | **Money Markets** | **Capital Markets.** |
| **Participant** | Institutional participants like RBI, banks, financial institutions and finance companies. Individual investors are permitted to transact but do not normally do so. | Financial institutions, banks, corporate entities, foreign investors and ordinary retail investors from the members of the public. |
| **Instruments** | Short term debt instruments such as T-bills, trade bills reports, commercial paper and certificate of deposit. | Equity shares, debentures, bonds and preference shares etc. |
| **Duration** | Instruments usually have a maximum tenure of one year and may even be issued for a single day. | Deals in medium and long term securities such as equity share and debentures |
| **Safety** | Minimum risk and are safer since the issuers mostly are the agencies of the Government and also because of the shorter duration. | Riskier because of the long duration and may be the issuing companies fail to perform as per the projection shown during issue. |
| **Investment Outlay** | Transactions require huge sums of money and are quite expensive | Do not require a huge financial outlay. The value of units of securities is generally low. |
| **Expected return** | Less | High for long duration earnings are through dividend and bonus shares. |

# **UNIT 5: FINANCIAL STATEMENTS**

* 1. **Meaning of Financial Statement**

They are final accounts prepared to find out the profit or losses made by the business at the end of the financial or trading period. They are prepared after preparing a trial balance

It involves:

* The income Statement
* The balance sheet that shows the financial position of an enterprise
* The statement of Cash flow or Cash flow Statement

# **THE INCOME STATEMENT**

It is a statement of the trading account and the profit and loss account. It is prepared before the balance sheet. It is a lot of revenues and expenditures arranged so as to produce figures for gross profit and net profit for a specific period of time.

It contains the trading account which shows the gross profit and the profit and loss account which shows net profit of a business

* It shows the revenues (incomes) and expenditures (costs) of a business at a particular date.
* It helps to know if the business is making profit or losses
* It helps to the tax authorities to determine amount of corporate tax a business pays.

1. **TRADING ACCOUNT**

It is the account in which gross profit or loss on trading is calculated taking into account purchases and sales. It is prepared after a trial balance

**Gross profit**: is the excess of sales over the cost of goods sold before paying off the operating expenses.

Gross profit= Net sales- Cost of goods sold

1. **Components of the Trading Account**

**Opening Stock:** Value of the unsold goods available in the business at the beginning of a new trading period.

It may include: stock of raw materials, semi- finished goods and finished goods.

It is shown on the debit side of trading account

**Purchases:** refers to the purchase of finished goods for resale in the case of trading concern and the purchase of raw materials in the case of manufacturing concern.

It is shown on the debit side of trading account

**Purchase Returns (*Return*s *Outwards*):** Goods previously bought by the business or entrepreneur but have been returned to the supplier. *Net purchase= Purchase – Purchase returns*

**Direct Expenses added to the purchases:**

* ***Carriage inwards****: There are transport costs incurred to bring the goods in business. Carriage, cartage and freight paid for bringing the goods are considered as carriage inwards.*

*They are added to the purchase in trading account*

* ***Wages****: Wages and salaries paid to workers may be treated as direct expenditures and debited to trading account. They should not be debited to trading account.*
* ***Duty and clearing:*** *Import duty, excise duty, dock dues ,etc. paid on purchase of goods must be debited to trading account.*
* ***Other Direct expenses:*** *These are expenses like factory expenses, factory rent, and factory insurance, there are debited to trading account.*
* *Import duties charged on Purchases*

**Closing stock:** Refer to the balance or stock of unsold goods remaining in the business at the end of trading period. It is credited to the trading account or deducted on the debit side.

**Sales:** Value of goods sold by a business or revenue earned from selling.

**Sales Returns/*Returns inwards***: Goods previously bought but brought back to the business by the customers. Net sales = Sales- Sales Returns

**Presentation of Trading Account**

**Trading Account for the year ended as at 31 Dec ….**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **PARTICULARS** |  | **Rwf** |  | **Rwf** |
| **Income from Sales** |  |  |  |  |
| Sales |  |  |  | XXX |
| Less: Sales returns |  |  |  | XX |
| Net Sales |  |  |  | XXX |
| **Cost of Sales** |  |  |  |  |
| Opening stock |  | XXX |  |  |
| Add: Purchase |  | XX |  |  |
| Less: Purchase returns |  | XX |  |  |
| Net Purchase |  | XXX |  |  |
| Add: Direct expenses |  |  |  |  |
| Wages |  | XX |  |  |
| Carriage inwards |  | XX |  |  |
| Import duties |  | XX |  |  |
| Cost of Goods Available for Sale |  | XXX |  |  |
| Less: Closing stock |  | XX |  |  |
| Cost of Goods Sold/ Cost of sales |  | XXX |  |  |
| **Gross Profit** |  | XXX |  |  |

On the *debit side* of trading account:

1. Opening balance;
2. Purchase less returns;
3. Direct expenses incurred on goods or production

**Examples**

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

**Solution**

**Trading account for the year ended as at 31 Dec 2004**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Details / Particulars** |  | **Rwf** |  | **Rwf** |  | **Rwf** |
| ***a. Income from sales*** |  |  |  |  |  |  |
| Sales |  |  |  |  |  | 155,000 |
| Less: Sales returns |  |  |  |  |  | (-) 8,000 |
| *Net sales or turnover* |  |  |  |  |  | 147,000 |
| **b. Less: Cost of Sales** |  |  |  |  |  |  |
| Opening stock |  |  |  | 55,000 |  |  |
| Purchase |  | 140,000 |  |  |  |  |
| Add: Carriage inwards |  | 12,000 |  |  |  |  |
|  |  | 152,000 |  |  |  |  |
| Less: Purchase returns |  | (-)18500 |  |  |  |  |
| Net purchase |  |  |  | 133,500 |  |  |
| Total Goods Available for sales |  |  |  | 188,500 |  |  |
| Add: warehouse wages |  |  |  | 10,000 |  |  |
|  |  |  |  | 198,500 |  |  |
| Less: closing stock |  |  |  | (-) 85000 |  |  |
| Cost of goods sold |  |  |  |  |  | 113500 |
| **c. Gross profit** |  |  |  |  |  | **33,500** |

**Example no 2**

From the following information prepare a trading account for the year ended March 31, 2004.

Stock on 1st April 2003 20,000

Purchase 65,000

Return outwards 5,000

Sales 100,000

Return inwards 10,000

Stock on March 31, 2004 15,000

Carriage Inwards 6,000

Duty and clearing charges 4,000

**Solution**

**Trading account for the year ended March 31 March 2004**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |
| Opening stock | |  | 20,000 | Sales |  | 100,000 |  |
| add: Purchase | |  | 65,000 | Less : returns inwards | | ( 10,000 ) |  |
| Less: returns outwards | | | (5,000) |  |  | 90,000 |  |
|  |  |  | 80,000 | Closing stock | | 15,000 |  |
| Carriage inwards | |  | 6,000 |  |  |  |  |
| Duty and clearing charges | | | 4,000 |  |  |  |  |
| **Profit c/d** |  |  | **15,000** |  |  |  |  |
|  |  |  | 105,000 |  |  | 105,000 |  |

**Profit b/d 15,000**

**EXERCISES**

1. Rwanda Steel Ltd had the following information disclosed at the end of year 2013

|  |  |
| --- | --- |
| Opening stock | 600 |
| Purchase | 1,200 |
| Sales | 2,020 |
| Direct expenses | 50 |
| Purchases returns | 200 |
| Closing stock | 750 |
| Sales returns | 20 |

Required: Prepare the trading account for Rwanda Steel Ltd for the year ended 31 .12 .2013

1. On January 01.2014 URWIBUTSO Enterprise had the following information

|  |  |
| --- | --- |
| Opening stock | 18,240 |
| Purchase | 138,290 |
| Sales | 150,000 |
| Returns inwards | 2,000 |
| Returns Outwards | 1,500 |
| Closing stock | 21,360 |
| Wages | 2,500 |
| Carriage inwards | 2,000 |

Required: Prepare the trading account for URWIBUTSO Ese for the year ended 31 .12 .2014

1. NKUSI Enterprise had the following information at the end of December 2015

|  |  |
| --- | --- |
| Stock at 01.12.2015 | 10,000 |
| Stock at 31.12.2015 | 5,000 |
| Purchases during the month | 30,000 |
| Sales during the month | 60,000 |
| Wages | 500 |
| Returns Outwards | 1,700 |
| Carriage inwards | 1,100 |
| Returns inwards | 1,200 |

Prepare: NKUSI’s Enterprise trading account at the end of the month

1. **PROFIT AND LOSS ACCOUNT**

This is the account in which net profit and net loss on trading is computed. After ascertained the gross profit in the trading account, we add any other incomes earned in the course of trading such as discount received, rent received, interest received, etc. Operating expenses made in running the business are deducted from the sum to arrive at the net profit.

*Net profit* is therefore the excess of gross profit plus other income, over the total expenses incurred in operating the firm for the period under review.

***Net profit =*** *Gross profit (c /d) + other income – Operating expenses*

**Operating expenses** fall into three major categories namely:

* ***Administrative expenses***: comprising of office salary, and wages, office rent and rates, office lighting, electricity and power, office stationary, telephone, insurance, etc.…
* ***Selling and distribution expenses****:* comprising motor running expenses, advertisement, showroom and warehouse operating expenses, salesman, salaries and expenses, carriage on sales.
* ***General and financial expenses:*** Comprising of interest charges on loan and overdraft, bank charges, discount allowed sundry or general expenses.

**Format of Prof and Loss Account**

|  |  |  |  |
| --- | --- | --- | --- |
| **PARTICULARS** | **Rwf** |  | **Rwf** |
| ***Gross profit (b/d)*** |  |  | XX |
| Interest received /earned |  |  | XX |
| Commission received /earned |  |  | XX |
| Discount received /earned |  |  | XX |
| Rent received /earned |  |  | XX |
| Bad debtors recovery |  |  | XX |
| Interest on drawings |  |  | XX |
| **Total Income/ Revenues** |  |  | **XXX** |
| **Less: OPERATING EXPENSES** |  |  |  |
| *Salaries* | XX |  |  |
| *Travelling expenses* | XX |  |  |
| *Rent and taxes* | XX |  |  |
| *Printing and stationary* | XX |  |  |
| *Postage and telegrams* | XX |  |  |
| *Telephone charges* | XX |  |  |
| *Insurance* | XX |  |  |
| *Discount allowed* | XX |  |  |
| *Advertisement* | XX |  |  |
| *Commission allowed* | XX |  |  |
| *Carriage outwards* | XX |  |  |
| *Bad debtors* | XX |  |  |
| *Depreciation* | XX |  |  |
| *Interest on capital* | XX |  |  |
| ***Total Operating expenses*** | ***XXX*** |  |  |
| ***Net Profit (c/ d)*** | **XXX** |  |  |  |

The profit and loss account is a continuation of the trading account and thus the gross profit is carried down to the credit side of the profit and loss account.

Like the trading account, the profit and loss account can be prepared in either vertical or horizontal format. Vertical, which is the most recent and recommended format is shown below.

**Examples:**

1. 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 | 1,200 |
| Advertisement | 42,000 |
| Interest on bank Loan | 2,500 |
| Salesman's commission | 32,000 |
| Discount received | 5,000 |
| Rent received | 2,700 |

**Solution:**

1. **MUZUNGU Ismael Profit and Loss Account for the year ended 30 Sept 2004**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **PARTICULARS** |  | **Rwf** |  | **Rwf** |
| Gross profit brought down |  |  |  | 420,000 |  |
| Discount received |  |  |  | 5,000 |
| Rent received |  |  |  | 2,700 |
| Total Income/ Revenues |  |  |  | 427,700 |
| ***Less***: ***Operating expenditures*** |  |  |  |  |
| 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 |  | 1,200 |  |  |
| Advertisement |  | 42,000 |  |  |
| Interest on bank Loan |  | 2,500 |  |  |
| Salesman's commission |  | 32,000 |  |
| *Total Operating expenses* |  | *( 328,700 )* |  |
| **Net Profit (c/d)** |  | **99,000** |  |  |

1. Butare General Traders disclosed the following information at the year end of December 2011

|  |  |
| --- | --- |
| Purchases | 5,000 |
| Sales | 7,000 |
| Stock at01.12.2011 | 1,000 |
| Stock at 31.12.2011 | 1,200 |
| Returns Outwards | 500 |
| Sales Returns | 860 |
| Wages and Salaries | 500 |
| Rent and rates | 360 |
| Postage and telephone | 120 |
| Stationery and Printing | 160 |
| Rent received | 1,200 |

Required: Prepare the profit and loss account for Butare General Traders for the period ending 31.12.2011

**Butare General Trader’s Profit and Loss account at the year end of December 2011**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | | **PARTICULARS** |  |  | **Rwf** |  | **Rwf** | | Sales |  |  |  |  | 7,000 | | Less: Sales returns |  |  |  |  | 860 | | Net Sales |  |  |  |  | 6,140 | | **Less:** **Cost of Goods Sold** |  |  |  |  |  | | Opening Stock |  |  | 1,000 |  |  | | Purchase | 5,000 |  |  |  |  | | Less: Purchase Returns | 500 |  |  |  |  | | Net Purchase | - |  | 4,500 |  |  | | Cost of Goods Available for Sale |  |  | 5,500 |  |  | | Less: Closing stock |  |  | 1,200 |  |  | | Cost of Goods Sold |  |  |  |  | 4,300 | | **Gross Profit (c/d)** |  |  | **1,840** |  |  | | **Gross Profit (b/d)** |  |  |  |  | **1,840** | | **Add: Miscellaneous income** |  |  |  |  |  | | Rent received |  |  |  |  | 1200 | | Gross income |  |  |  |  | 3,040 | | **Less: Operating Expenses** |  |  |  |  |  | | Wages and Salaries |  |  | 500 |  |  | | Rent and rates |  |  | 360 |  |  | | Postage and telephone |  |  | 120 |  |  | | Stationery and Printing |  |  | 160 |  |  | | Total Operating Expenses |  |  | 1140 |  |  | | **Net Profit** |  |  | **1,900** |  |  | |  |  |  |

# EXERCISES

1. The following information was obtained from the business of KWITONDA as at 31.12.2012

|  |  |
| --- | --- |
| Gross Profit | 4,500 |
| Discount allowed | 120 |
| Discount allowed | 200 |
| Interest received | 900 |
| Repairs | 600 |
| Salaries and wages | 1,800 |
| Rent income | 700 |
| Insurance Premium | 560 |
| Electricity Charges | 100 |
| Transport | 340 |
| Carriage outwards | 250 |
| Discount received | 220 |

Required: Prepare KWITONDA’s Profit and loss account for the year ended 31.12 .2012

1. The following information were obtained from INYANGE Ltd Enterprise records as at November 2016

|  |  |
| --- | --- |
| Sales | 2,000,000 |
| Sales Returns | 800,000 |
| Returns inwards | 50,000 |
| Wages | 100,000 |
| Carriage Outwards | 80,000 |
| Returns Outwards | 60,000 |
| Stock at start | 440,000 |
| Salaries | 480,000 |
| Transport | 64,000 |
| Depreciation on motor vehicle | 30,000 |
| Discount received | 180,000 |
| Discount allowed | 70,000 |
| Rent income | 110,000 |
| Closing stock | 590,000 |

**Required: Prepare INYANGE Ltd ‘s Profit and loss account for the year ended 31.11.2016**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **PARTICULARS** |  | **Rwf** |  | **Rwf** |
| Sales |  |  |  | 2,000,000 |
| Sales Returns/ returns inwards |  |  |  | 50,000 |
| **Net sales** |  |  |  | **1,950,000** |
| Less Cost of sales |  |  |  |  |
| Opening stock |  | 400,000 |  |  |
| Add: Purchase | 880,000 |  |  |  |
| Wages | 100,000 | 900,000 |  |  |
|  |  | 1,300,000 |  |  |
| Less Returns Outwards |  | 60,000 |  |  |
| Cost of Goods Available for sale |  | 1,240,000 |  |  |
| Less: Closing stock |  | 590,000 |  |  |
| Cost of Sales |  |  |  | 650,000 |
| **Gross Profit** |  |  |  | **1,300,000** |
| Add: other Income |  |  |  |  |
| Discount received |  | 180,000 |  |  |
| Rent income |  | 110,000 |  |  |
| **Gross Income** |  |  |  | **1,590,000** |
| Less: Operating expenses |  |  |  |  |
| Salaries |  | 480,000 |  |  |
| Depreciation on motor vehicle |  | 30,000 |  |  |
| Transport |  | 64,000 |  |  |
| Carriage outwards |  | 80,000 |  |  |
| Discount allowed |  | 70,000 |  |  |
| **Total expenses** |  |  |  | **724,000** |
| **Net Profit** |  |  |  | **866,000** |

**ACCRUALS / OUTSTANDING AND PREPAYMENT ADVANCES**

1. **Accruals / Outstanding Areas**

These are expenses due but not yet paid for. So they are added to other expenses in the Profit and Loss account, and other expenses added to current liabilities in the balances sheet.

1. **Prepayment or Payments in Advance**

These are expenses paid for before the period for their payment matures. For example, salaries paid in advance. Payment in advance is an asset to the business.

1. **Depreciation:**

It refers to the loss in value of a fixed asset. It is considered as an expense and added to other expenses in the Profit and Loss account.

# **BALANCE SHEET**

It also refers to a list of balances arranged by value of assets, capital and liabilities to show the financial position on a specific date.

This is a list or sheet of the balance of all real and personal accounts that are not transferred to the trading and profit account.

Balance sheet serves the following purposes:

* To ascertain the nature of assets, capital and Liabilities of an enterprise.
* To find out the financial solvency of the business enterprise. To be solvent, Assets must exceed Liabilities
* It refers to a statement of assets, capital and liabilities of an enterprise at the end of a financial period.
* The balance sheet equation assumes that: **Assets = Capital + Liabilities # A= C+L**
* Balance sheet is prepared after the trading, profit and loss account considering the remaining balances in the trial balance.

## Components of Balance Sheet

The main components that make up the balance sheet are explained below:

1. **Assets:**

These are resources or properties owned by the business used to generate income or facilitate business operations.

They can be tangible (physical) like land, building, furniture, machinery and intangible (non physical) like goodwill, patent right, trademarks, etc.

According to their nature, two major categories of are fixed assets and Current assets.

1. **Fixed Assets**

They are properties of permanent nature than can be used in business for many years (two, five or ten) and not for sale. They cannot be converted into cash easily and quickly. They are listed first in the balance sheet starting with those the business will keep the longest, down to those which will not be kept so long.

* *Some**are* ***tangible***

**e.**g: *Land, buildings, plant, furniture, fixtures fittings, machinery, motor vehicles and equipment.*

* *Others are***Intangible *assets:*** Examples are:
* Goodwill: refers to reputation attached to a business
* Patents right: refers to privilege to use an invention for a number of years
* Copyright: publish a book or an article
* Trademarks.

Fixed assets look like the following:

|  |
| --- |
| **Fixed or Non-Current Assets** |
| Land and Building  *Furniture, fixtures and fittings,*  *Plant &machinery,*  *Motor vehicles and equipment*  Goodwill:  Patents/ Copyright:  Trademarks. |

1. **Current Assets:**

These are properties which can be converted into cash within a short period of only 1 year. They include items held for resale at a profit.

They are also called *Circulating, Floating or fluctuating* assets. For instance:

e.g: Stock/ inventory, debtors, cash at bank, cash at hand, raw materials, prepaid expenses, investments, etc.

* They are listed in increasing order of liquidity: that is, starting with the assets furthest away from being turned into cash, and finishing with cash itself.

Fixed assets look like the following:

|  |
| --- |
| **Current Assets** |
| Inventories  *debtors: Account receivables*  *Cash at bank*  *Cash in hand*  prepaid expenses,  Investments (temporary) |

1. **Liabilities:**

They are debts or amount of money owned by business to other people. They are financial obligations or claims of the enterprise that must be repaid.

Liabilities may be long term liabilities or current liabilities

1. **Long term Liabilities**: are debts, financial obligations and items that have to be paid after a long period of more than 1 year.

**e**.g: Long term bank loans, mortgages, bonds, debentures, etc.

1. **Current liabilities**: are debts, claims on the business by the outsiders that have to be paid in a short time of only one year.

e.g: Loan of one year, trade creditors, bank overdrafts, VAT, interest rates, suppliers, accrued rent, outstanding expense, bills payable, incomes received in advance, etc.

1. **Capital:** Money or resources invested in the business by the owner.

Owner’s Equity/Capital **=** Assets- Liabilities

**C = A – L**

The major types of capital include:

* **Borrowed capital =** Money in form of long term liabilities
* **Working Capital =** Excess of current assets over current liabilities

**=** Current assets - Current liabilities. This is also called **“Net current assets”**

* **Liquid Capital =** Total value of current assets in form of cash and near cash.
* **Capital Employed =** Fixed assets + working Capital, or

**=** Capital Owned + borrowed capital

* **Goss Capital Employed =** Fixed asset + Current Assets
* **Net Capital Employed =** Fixed Assets + Net Current Assets

## Preparation of the Balance Sheet

**Name of the Company**

**Balance Sheet**

**As at…. End of date./…. /Year**

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Assets** |  |  | Rwf |  | **Liabilities** | |  |  |  |
| **a. Fixed Assets** | |  |  |  | **a.** **Long term liabilities** | | |  | ( **XX )** |
| Land |  |  | XX |  | Bank loan of more than one year | | |  | XX |
| Buildings |  |  | XX |  | Mortgages | |  |  | XX |
| Furniture /Fixtures | |  | XX |  | Bonds |  |  |  | XX |
| Motor Vehicles | |  | XX |  | Debentures | |  |  | XX |
| Equipment | |  | XX |  | Preference shares | |  |  | XX |
| Patent/ Copyright | |  | XX |  |  |  |  |  |  |
| Goodwill |  |  | XX |  | **b. Current Liabilities** | | |  | (**XXX)** |
| Trademark | |  | XX |  | Loan of one year | |  |  | XX |
| Discount on shares | |  | XX |  | Trade creditors | |  |  | XX |
| Registration charges | | | XX |  | Bank overdrafts | |  |  | XX |
|  |  |  |  |  | VAT |  |  |  | XX |
| **b. Current Assets** | |  |  | Incomes received in advance | | | |  | XX |
| Stock/ inventory | |  | XX |  | |  |  |  |  |
| Debtors |  |  | XX |  | **Owners' Equity/ Capital** | | |  | (**XXX)** |
| Cash at Bank | |  | XX |  | Capital investment | |  |  |  |
| Cash in hand | |  | XX |  | Add: Net Profit | |  |  |  |
| Bills receivables | |  | XX |  | Less: Drawings | |  |  |  |
| Prepaid expenses | |  | XX |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |
| **TOTAL ASSETS** | |  | **XXX** |  | **TOTAL OF C+ L** | |  |  | **XXX** |

## Worked Examples

1. The following information was obtained from the books of RUGINA as at 31st December 2011.

Net capital 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

Cash at bank 45,000

Stock 35,000

Drawings 17,000

Required:

Prepare RUGINA’s balance sheet as at 31st December 2011

**RUGINA Enterprise**

**Balance Sheet as at 31st December 2011**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Assets** |  |  |  | Rwf |  |  | **Liabilities** | | |  | |  | Rwf |  |  |
| **a. Fixed Assets** | |  |  |  |  |  | **a.** **Long term liabilities** | | | | |  |  |  |  |
| Plant& Machinery | |  |  | 75,000 |  |  | Bank loan of more than one year | | | | |  | XX |  |  |
| Motor Vehicle | |  |  | 50,000 |  |  | Mortgages | | |  | |  | XX |  |  |
| Furniture& Fittings | |  |  | 25,000 |  |  |  |  | |  | |  |  |  |  |
|  |  |  |  | **150,000** |  |  | **b. Current Liabilities** | | | | |  |  |  |  |
| **b. Current Assets** | |  |  |  |  |  | Trade creditors | | |  | |  | 40,000 |  |  |
| Stock/ inventory | |  |  | 35,000 |  |  | **Owners' Equity/ Capital& Reserves** | | | | |  |  |  |  |
| Debtors |  |  |  | 60,000 |  |  | Capital investment | | | |  |  | 150,000 |  |  |
| Cash at Bank | |  |  | 45,000 |  |  | Add: Net Profit | | | |  |  | 117,000 |  |  |
|  |  |  |  | **140,000** |  |  |  | |  | |  |  | 267,500 |  |  |
|  |  |  |  |  |  |  | Less: Drawings | | | |  |  | -17,500 |  |  |
|  |  |  |  |  |  |  |  |  | | |  |  | **250,000** |  |  |
| **Total Assets** | |  |  | **290,000** |  |  | **Total of C+L** | | | |  |  | **290,000** |  |

1. The following transactions on Assets, capital and liabilities were extracted from the book of KALISA as at 31.12.011.

Capital 2,458,000

Land 1,600,000

Furniture 1,400,000

Stock (31st Dec.2011) 240,000

Debtors 800,000

Creditors 700,000

Cash at bank 190,000

Cash at hand 200,000

Bank loan (4 years) 1,000,000

Bank loan (2years) 800,000

Bank overdraft 320,000

Drawings 300,000

Net loss 548,000

Required

Prepare KALISA’s Balance sheet as at 31st Dec. 2011

**KALISA’s Balance Sheet as at 31st Dec. 2011**

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Assets** |  |  | Rwf |  | **Liabilities** | |  | | Rwf |
| **a. Fixed Assets** | |  |  |  | **Owners' Equity/ Capital** | | |  |  |
| Land |  |  | 1,600,000 |  | Capital investment | |  |  | 2,458,000 |  |
| Furniture |  |  | 1,400,000 |  | Less: Net Loss | |  |  | 117,000  1,910,000 |  |
|  |  |  | **3,000,000** |  |  |  |  |
| **b. Current Assets** | |  |  |  | Less: Drawings | |  |  | 300,000 |  |
| Debtors |  |  | 800,000 |  | **Net Capital (c/d)** | |  |  | **1,610,000** |  |
| Cash at hand | |  | 200,000 |  |  |  |  |  |  |  |
| Cash at Bank | |  | 190,000 |  | **a.** **Long term liabilities** | | |  |  |  |
|  |  |  | **1,430,000** |  | Bank loan( 4years) | |  |  | 1,000,000 |  |
|  |  |  |  |  | Bank loan( 2years) | |  |  | 800,000 |  |
|  |  |  |  |  |  |  |  |  | **1,800,000** |  |
|  |  |  |  |  | **b. Current Liabilities** | | |  |  |  |
|  |  |  |  |  | Trade creditors | |  |  | 700,000 |  |
|  |  |  |  |  | Bank overdraft | |  |  | 320,000 |  |
|  |  |  |  |  |  |  |  |  | **1,020,000** |  |
|  |  |  |  |  |  |  |  |  |  |  |
| **Total Assets** | |  | **4,430,000** |  | **Total of C+L** | |  |  | **4,430,000** |  |
|  | | | | | | | | | |

1. Below is a list of assets, liabilities and capital of Mr. MUHERWE as at 31st December 2016

Capital ….?

7-year bank loan 200,000

Plant & machinery 70,000

Furniture and fittings 150,000

Buildings 100,000

Land 80,000

4years bank loan 50,000

Creditor 10,000

Bank overdraft 20,000

Debtors 90,000

Stock 40,000

Cash at hand 60,000

Cash at bank 55,000

Motor van 120,000

Office equipment 15,000

Required:

1. Prepare Mr. MUHERWE’s Balance sheet as at 31st December 2016, and calculate the following:
2. Capital net worth/ owned
3. Working capital
4. Working capital ratio
5. Liquid funds
6. Liquid capital
7. Liquid capital ratio
8. Circulating capital
9. Capital employed
10. Borrowed capital

## Preparing the Final Accounts from the Trial Balance

* Go through the trial balance and write on each item the final account in which each appears
* Tick or mark each figure used and each item appears in the final account only once.
* The end of the year stock or closing stock is not shown in the trial balance but shown as note/ additional information after.
* All balances for nominal accounts are used to prepare the trading, profit and loss account
* The gross profit or loss generated in the trading account is taken to the profit or loss account.
* Net profit is transferred to the balance sheet and added to the capital/ owner’s equity
* After preparation of the trading, profit and loss account, the remaining balances are transferred to the balance sheet either as assets or Liabilities.

**Examples**

1. The following trial balance was extracted from MUKANKOMEJE ‘s books as at 30th September 2014.

MUKANKOMEJE ‘s Trial Balance as at 30th September 2011

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Account Titles** |  | **Debits(Rw)** |  | **Credit( Rw)** |
|  |  |  |  |  |
| Capital |  |  |  | 298,000 |
| Cash at hand |  | 24,000 |  |  |
| cash at bank |  | 220,000 |  |  |
| Stock( 1.10.2010) |  | 420,000 |  |  |
| Debtors |  | 160,000 |  |  |
| Creditors |  | - |  | 200,000 |
| Returns inwards |  | 10,000 |  |  |
| Sales |  | - |  | 1,120,000 |
| Purchases |  | 410,000 |  |  |
| Salaries |  | 80,000 |  |  |
| Water& Electricity |  | 12,000 |  |  |
| Postage |  | 4,000 |  |  |
| Drawings |  | 18,000 |  |  |
| Furniture & fittings |  | 150,000 |  |  |
| Motor van |  | 700,000 |  |  |
| Bank loan(4years) |  | - |  | 600,000 |
| Rent received |  | 34,000 |  |  |
| Office rent |  | - |  | 24,000 |
|  |  | **2,242,000** |  | **2,242,000** |

**Additional information:**

Stock at 30 September 2011 was 540,000Rwf

Required:

1. Prepare MUKANKOMEJE’ s trading, profit and loss account for the year ended 30th September 2011
2. Prepare MUKANKOMEJE’ s Balance sheet as at 30 September 2011
3. The following was extracted from the books of Alexis traders Ltd as at 31st December 2011

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Account Titles** |  | **Debits(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 |  |  |
| Rent paid |  | 750 |  |  |
| Telephone expense |  | 500 |  |  |
| Interest paid |  | 4,500 |  | 1,120,000 |
| Travel Expenses |  | 550 |  |  |
| Premises/ Equipment |  | 200,000 |  |  |
| Shop fittings |  | 40,000 |  |  |
| Debtors |  | 10,100 |  |  |
| Bank |  | 5,850 |  |  |
| Capital |  |  |  | 75,000 |
| Drawings |  | 27,000 |  |  |
| Bank loan |  |  |  | 150,000 |
| Creditors |  |  |  | 14,500 |
| VAT |  |  |  | 2,000 |
|  |  | **799,000** |  | **799,000** |

**Additional Information:**

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

Required: Using a Vertical format,

1. Prepare Alexis traders’ Ltd trading, profit and Loss account for the year ended 31st December 2011.
2. Prepare Alexis traders Ltd Balance Sheet as at 31st December 2011.
3. The following balances stood in the ledger of YOLAMU Mulaki on 31. 12.2004

|  |  |
| --- | --- |
| Cash in hand | 10,800 |
| Cast at bank | 38,790 |
| Petty Cash in hand | 1,350 |
| Stock on 01.01.2004 | 54,000 |
| Motor Vehicles | 270,000 |
| Sundry Debtors | 147,150 |
| Sundry creditors | 119,340 |
| Purchases | 351,900 |
| Purchase returns | 14,400 |
| Sales | 789,300 |
| Sales returns | 15,300 |
| Carriage in | 6,750 |
| Carriage out | 7,875 |
| Discount received | 15,750 |
| Discount allowed | 12,600 |
| Rent and rates | 36,000 |
| Wages and salaries | 162,000 |
| Printing and Stationery | 33,300 |
| Drawings | 22,500 |
| Telephone and telegraph | 5,625 |
| Office equipment | 90,000 |
| Furniture | 67,500 |
| Electricity bills | 6,525 |
| Water bills | 1,575 |
| Bank Charges | 540 |
| Insurance | 16,200 |
| Motor Expenses | 25,200 |
| General office expenses | 19,350 |

Required:

1. Re arrange the balances in a trial balance on 31.12.2004
2. Prepare a trading, profit and loss account for the year ending 31.12.2004
3. Prepare a balance sheet as at 31.12.2004

Note: Closing stock 31.12.2004 was 102,150 Rwf

**Solution:**

**YOLAMU MULAKI**

**Trial Balance on 31 December 2004**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Account Titles** |  | **Debit** |  | **Credit** |
| Cash in hand |  | 10,800 |  |  |
| Cast at bank |  | 38,790 |  |  |
| Petty Cash in hand |  | 1,350 |  |  |
| Stock on 01.01.2004 |  | 54,000 |  |  |
| Motor Vehicles |  | 270,000 |  |  |
| Sundry Debtors |  | 147,150 |  |  |
| Sundry creditors |  | - |  | 119,340 |
| Purchases |  | 351,900 |  |  |
| Purchase returns |  | - |  | 14,400 |
| Sales |  | - |  | 789,300 |
| Sales returns |  | 15,300 |  |  |
| Carriage in |  | 6,750 |  |  |
| Carriage out |  | 7,875 |  |  |
| Discount received |  | - |  | 15,750 |
| Discount allowed |  | 12,600 |  |  |
| Rent and rates |  | 36,000 |  |  |
| Wages and salaries |  | 162,000 |  |  |
| Printing and Stationery |  | 33,300 |  |  |
| Drawings |  | 22,500 |  |  |
| Telephone and telegraph |  | 5,625 |  |  |
| Office equipment |  | 90,000 |  |  |
| Furniture |  | 67,500 |  |  |
| Electricity |  | 6,525 |  |  |
| Water |  | 1,575 |  |  |
| Bank Charges |  | 540 |  |  |
| Insurance |  | 16,200 |  |  |
| Motor Expenses |  | 25,200 |  |  |
| General office expenses |  | 19,350 |  |  |
| Capital |  | - |  | 464,040 |
|  |  | 1,402,830 |  | 1,402,830 |

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** |  |  |  |  |
| Openning 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** |

YOLAMU MULAKI

Balance Sheet as at 31 December 2004

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **ASSETS** |  | Rwf |  | Rwf |
| **Non- Current Assets** |  |  |  |  |
| Furniture |  | 67,500 |  |  |
| Office equipment |  | 90,000 |  |  |
| Motor Vehicles |  | 270,000 |  |  |
|  |  |  |  | 427,500 |
| **Current Assets** |  |  |  |  |
| Closing stock |  | 102,150 |  |  |
| Debtors |  | 147,150 |  |  |
| Cast at bank |  | 38,790 |  |  |
| Cash in hand |  | 10,800 |  |  |
| Petty Cash in hand |  | 1,350 |  |  |
|  |  |  |  | 300,240 |
| **LIABILITIES** |  |  |  |  |
| **Less: Current liabilities** |  |  |  |  |
| Creditors |  | 119,340 |  |  |
| Net Current asses |  |  |  | 180,900 |
| Net Worth |  |  |  | 608,400 |
| **Financed by :** |  |  |  |  |
| Capital |  |  |  | 464, 040 |
| Add: Net Profit |  |  |  | 166,860 |
|  |  |  |  | 630,900 |
| Less: Drawings |  |  |  | (-) 22500 |
| Capital employed |  |  |  | 608,400 |
|  | | | | |

1. The following information was extracted from the book of account of MUSONI Enterprise as at 31.12. 2016.

|  |  |
| --- | --- |
| Cash at hand | 62,000 |
| Cash at bank | 130,000 |
| Buildings | 600,000 |
| Purchases | 330,000 |
| Sales returns inwards | 5,000 |
| Purchases Returns Outwards | 4,500 |
| Sales | 50,000 |
| Insurance | 4,000 |
| Rent | 30,000 |
| Creditors | 95,000 |
| Short term loan from Esther | 20,000 |
| Debtors | 110,000 |
| Stock (01.01.2016) | 100,000 |
| Furniture | 130,000 |
| Stock (31.12.2016) | 10,000 |
| Tax | 23,000 |
| Discount allowed | 80,000 |
| Discount received | 100,000 |

Required:

1. Calculate:
2. Goods available for sale
3. Cost of sales
4. Gross profit
5. Determine the:
6. Fixed assets
7. Current Assets
8. Current Liabilities
9. Compute the:
10. Working capital
11. Net profit
12. Net profit to sales ratio
13. The following information is available from the books of Quick Services Enterprises Ltd for the year ended 31st December 2015.

|  |  |
| --- | --- |
| Capital | 26,000 |
| Opening stock | 10,000 |
| Debtors | 9,000 |
| Sales | 48,000 |
| Sales Returns | 500 |
| Purchases | 30,500 |
| Purchase Returns | 600 |
| Wages and Salaries | 2,000 |
| Carriage on purchases | 100 |
| Creditors | 4,300 |
| Closing stock | 1,100 |
| Rent | 300 |
| Electricity | 120 |
| Commission received | 800 |
| Discount Allowed | 1,000 |
| Cash in hand | 8,000 |
| Furniture | 13,000 |
| Bank Overdraft | 6,000 |

Required:

## Prepare Quick Services’ trading, Profit and Loss account

## Extract the Balance sheet

## Calculate the following:

## Average stock

## Working capital

1. Rate of stock firm
2. Quick asset ratio
3. Gross profit ratio

## FINANCIAL ANALYSIS RATIOS

These are mathematical indicators calculated by comparing key financial information appearing in financial statement and analyzing those to find out reasons behind the business’s current financial position and its recent financial performance, a develop expectation about its future outlook/ life.

Financial ratio analysis is very useful tool because it simplifies the process of financial comparison of two or more businesses. Ratios make the financial statement comparable both among different businesses and a cross different periods of a single business.

1. Advantages Financial Ratio Analysis

Financial ratio analysis is a useful tool for users of financial statement. It has the following advantages:

1. It simplifies the financial statement
2. It helps in comparing companies of different size with each other.
3. It helps in trend analysis which involves comparing single company over a period.
4. It highlights important information sin simple from quickly. A user can judge a company by just looking at few numbers instead of reading the whole financial statement.
5. **Categories of Financial Ratios**

The important categories of financial ratios include the following:

* Profitability ratio,
* Liquidity ratio,
* Efficient ratio /Debt to equity ratio,
* Asset management ratio,
* Efficiency ratios also called Assets Utilization ratios,,
* Cash flow ratios,
* Market valuation ratios
* etc

1. **Profitability Ratio**

They are financial metrics that are used to assess a business’s ability to generate earnings compared to its expenses and other relevant costs incurred during a specific period of time.

It measures the ability of a business to earn profit for its owners and indicates the company’s performance

There are three main ratios that can be used to measure the profitability of a business:

* The Gross Profit Margin
* The net profit Margin
* Return on Capital Investment
* Return on Sales/ROS
* Return on Equity/ ROE
* Return on Investment/ ROI
* Return on Assets

1. **Gross Margin or *Gross Profit as Percentage of Sales***

It measures and tells about the profitability of goods and services. It tells you how much it costs you to produce the products. It is calculated by dividing Gross Profit by Net sales and multiplying quotient by 100.

Gross Margin =

**Example:**

1. Imagine that you run a company that sold $50,000,000 in running shoes last year and had a gross profit of $7,000,000. What was your company’s gross Margin for the year?

Gross Margin = = = 0.14\*100 = 14%

1. For the month ended March 31, 2011, company X earned revenue of $744,200 by selling goods costing $503,890. Calculate the gross margin profit ratio of the company.

Gross Margin Profit ratio= ($744,200 - $503,890) / $744,200 = 0.32 or 32%

1. Calculate the gross margin ratio of a company whose cost of goods sold and gross profit for the period are $8,754,000 and $ 2,423,000 respectively.

Solution:

The revenue is not provided, so:

Revenue = Gross profit + Cost of Goods sold = $8,754,000 + $ 2,423,000 = $ 11,177,000

Gross Margin ratio = $ 2,423,000/ $ 11,177,000 = 0.22 or 22%

**Analysis:**

* It means that for every dollar in shoe sales, you earned 14 percent in profit but spent 86 % to make it.
* For small retailers, it gives impression of pricing strategy of the business. Igher gross margin ration means that the retailer charges higher prices on goods sold

1. ***Net Profit as Percentage of Sales***

The formula is =

1. **Return on Investment**

It measures the gain or loss generated on an investment relative to the amount of money invested. It is calculated as net profit by total Assets

ROI = \*100 and Simple ROI = \* 100

Examples:

1. If the net profit to an enterprise is $100,000 and its total assets are $300,000. What is the retun on Investment?

ROI = = = 0.33 or 33%

1. An investor buys 1,000 worth of stock and sells the shares two years later for $1,200. The net profit from the investment would be $200.

The ROI would be as : ROI = = \*100 = 20%

* A good return on Investment is 5:1
* ROI is usually used for personal financial decisions, to compare a company’s profitability or to compare the efficiency of different investments.
* Investors can use ROI to calculate a return on a stock

1. **Return on Assets**

It measures how efficiently the company produces income from its assets.

It is calculated as:

Return on Assets =

Example: Imagine that you are the manager of a large company that manufactures steel. Last year , the company had net income of $25,000,000 and the total value of its Assets such as plant, equipment and Machinery , totaled $135,000,000. What is the return on Assets last year?

Return on Assets (ROA) = = = 0.185\*100 = 18.5%

This means that you generate 18.5 percent of income for every dollar your company holds in assets.

1. **Return on Equity :**

It measures how much a company makes for each dollar that investors put into it.

Return on Equity=

Example: Imagine that your social medial company just went public last year, resulting in a total investment of $ 100,000,000. Your company’s net income for the year was $10,000,000. What is the Return on Equity?

Return on Equity=

= = 0.10\* 100 = 10%

Your company is generating a dime in profit for every dollar invested.

1. ***Return on Capital Employed “ROCE”***

It shows the reasons why people invest their money in a business depend on adequate return on capital. It is used to provide an overall picture of profitability.

ROCE =

This ratio illustrates that what is important is not simply how much profit has been made but how well the capital has been employed.

The business (X) has made far better use of capital, achieving a return of Rwf  ***……***% net profit for every Rwf 100 invested.

1. **Return on Sales (ROS)**

It tells you what percentage of income you generated from sales is available to retain as earnings for future investment or for dividends to be redistributed to your shareholders.

Return on sales =

1. **Liquidity ratios**

It asses a business’s liquidity or solvency, i.e. its ability to convert its assets to cash and pay off its obligations without any significant difficult ( delay or loss of value). They explain the financial position of an enterprise.

It includes these types: Current ratio, Quick or acid test ratio, Cash ratio, and Cash conversion cycle

1. **Current ratio**

It is a liquidity and efficiency ratio that measures a firm’s ability to pay off its short term liabilities with its current assets (cash, cash equivalent and marketable securities).

It compares current assets with current liabilities in the same period

Current ratio =

This ratio is stated in numeric format rather than in decimal format

A company with larger amount of current cash will more easily be able to pay off current liabilities when they become due without having to sell off long term, revenue generating assets.

Banks would prefer a current ratio of at least 1 or 2, so that all the current liabilities would be covered by the current assets.

**Analysis:**

* It helps investors and creditors understand the liquidity of a company and how easily that company will be able to pay off it current liabilities.
* i.e: a current ratio of 4 would mean that the company has 4 times more current assets than current liabilities
* A higher current ratio is always more favorable that a lower current ratio as a company can more easily make current debt payment.
* It also sheds light on the overall debt burden of the company. If the company is weighted down with a current debt, its cash flow will suffer.

**Example:**

Dalia is applying for loans to help her dream of building a boutiques selling shop. The bank asks her the balance sheet so that they can analyze the current debt levels. According to Dalia’s balance sheet, she reported: current liabilities of 100,000 and only current Assets of 25,000.

Dalia current ratio is calculated as Current ratio = = Current ratio = = 0.25

Dalia only has enough current assets to pay off 25 percent of her current liabilities. This shows that Dalia is highly leveraged and highly risky. Since Dalia‘s ration is so low, it is unlikely that she will get approved for her loan.

1. **Quick Asset ratio or Acid Test ratio**

It shows that, provided creditors and debtors are paid at approximately the same time, whether the business has sufficient liquid resources to meet its current liabilities.

Acid Test ratio =

= =

If quick assets are not given/ unknown nor detailed in balance sheet:

* Quick Asset ratio =
* Higher quick ratios are more favorable for companies because it shows that there are more quick assets than current assets.

Example:

1. a) Let assume MUKIRE clothing store is applying for a loan to remodel the storefront. The bank asks MUKIRE for a detailed balance sheet, so it can compute the quick ratio. MUKIRE’s balance sheet included the following accounts;

* Cash $10,000
* Receivables $5,000
* Inventory $5,000
* Stock investment $ 1,000
* Prepaid taxes $ 500
* Current Liabilities $15,000

The bank can compute MUKIRE’s quick ratio like this:

= = = 1.07

* Quick ratio of 1 indicates that quick assets equal current assets.
* An acid ratio of 2 shows that the company has twice as many quick assets than current liabilities.

b) Instead MUKIRE’s balance sheet only included these accounts:

* Inventory $5,000
* Prepaid taxes $ 500
* Total current assets $ 21,500
* Current liabilities $ 15,000

The bank can compute his quick ratio like this:

Acid Test/ Quick ratio = = = 1.07

**Analysis:**

It is a liquidity ratio that measures the ability of a company to pay its current liabilities when they come due with only quick assets. Quick assets are current assets that can be converted to cash within 90 days or in the short term such as cash, cash equivalents, short term investment, or marketable securities and current account receivables.

It measures the liquidity of a company by showing its ability to pay off its current liabilities with quick assets without having sold of any long term or capital assets.

1. **Asset Management Ratios or Turnover ratios**

It attempts to measure the firm’s success in managing its assets to generate sales. It assesses the efficiency of operations of a business. They try to find out how effectively the business is converting inventories into sales and sales into cash, or how it is utilizing its fixed assets and working capital. They are good indicators of proper inventory management.

It key ratios include:

* Inventory turnover ratio
* Fixed asset turnover ratio
* Working turnover ratio
* Days sales in inventory
* Receivables/ payables turnover ratios, etc.

1. **Assets Turnover ratio**

It is an efficiency ratio that measures a company’s ability to generate sales from its sales by comparing net sales with average total assets. This ratio shows how efficiently a company can use its assets to generate sales.

It is the ratio of the value of a company’s sales or revenues generated relative to the value of its assets.

**Assets Turnover ratio** =

Average total assets are usually calculated by adding the beginning and ending total asset balance s together and dividing by two based on a two year.

**Analysis**

* A higher ratio is more favorable: It means that a company is using its assets more efficiently.
* Lower ratio means that a company is not using its assets efficiently and most likely has management or production problems
* It gives investors and creditors an idea of how a company is managed and uses its assets to produce products and sales.
* A ratio of 1 means that the net sales of a company equal the average total assets for the year.

**Example:**

POSITIVO’s tech company is a tech startup company that manufactures a new tablet computer. POSITIVO is currently looking for new investors. The investor wants to know how well POSITIVO uses its assets to produce sales, so POSITIVO has to show financial statements. Here is what financial statement reported:

* Beginning Assets $50,000
* Ending assets m$100,000
* Net sales $25,000

The **total** **Assets turnover ratio** = = = 0.33

POSITIVO’s ratio is only 0.33. This means that for every dollar in assets, POSITIVO only generates 33 percent. In order words, POSITIVO’s start up is not very efficient with its use of assets.

1. **Inventory turnover ratio**

It is a ratio showing how many times a company’s inventory is sold and replaced over a period of time.

* Inventory Turnover ratio =
* Cost of goods sold = Beginning inventory + Cost of Goods manufactured – Ending inventories

It is calculated as sales (or Cost of goods sold) divided by average inventory

Example:

1. Calculate inventory turnover and days inventories outstanding for AB, inc. based on the information given below:

Opening inventories $25,00

Closing Inventories $30,00

Cost of Goods manufactured $245,00

Solution:

* Cost of goods sold = $25,00 + $245,00 - $30,00 = $240,00
* Average inventories = = = $27,500
* Inventory turnover ratio = = 8.73
* Days inventories outstanding= = 41.8

Analysis:

* It is used to assess how efficiently a business is managing its inventories
* A higher inventory turnover indicates efficient operations yet can result in stock out costs
* A low inventory turnover compared to the industry average and competitors means poor inventories management. It may be either a slowdown in demand or over stocking of inventories. Overstocking poses risks of obsolescence and result in increased inventory holding costs.
* It may be useful in conducting a trend analysis of stock

**Debt to Equity Ratio or Debit/Equity ratio**

This is calculated by dividing a company’s total liabilities by its stockholders ‘equity, is a debit ratio used to measure a company’s financial leverage.

Debt to Equity ratio =

Example:

Assume a company has $ 100,000 of bank lines of credit and a $ 500,000 mortgage on its property. The shareholders of the company have invested $1.2 million. Here is how you could calculate the debt to equity ratio.

Debt to Equity ratio = =

A debt to Equity ratio of 1 would mean that investors and creditors have an equal stake in the business assets. A lower D/E ratio usually implies a more financially stable business.

Companies with higher D/E ratio are considered to be more risky to creditors and investors than companies with a lower ratio. Unlike equity financing debt, must be repaid to the lender. Sine debt financing also requires debt serving or regular interest payments, debt can be a far more expensive for of financing than equity financing.

It shows the percentage of company financing that comes from creditors and investors. A higher debt to equity ratio indicates that more creditor financing (bank loans) is used than investor financing (shareholders).

D/E ratio indicates how much debt a company is using to finance its assets relative to the value of shareholders’ equity.

## CASH FLOW STATEMENT

It is a detailed description of the amount of cash being received and spent in form of payments or other disbursements by the business in a given period of time, say, a month or a year.

* Cash flow plan shows the sources and uses of funds in the business.
* It is used by the management and accounting personnel, potential lenders/ creditors , potentials investors , suppliers or contractors.
* The information used to construct the cash flow statement comes from the balance sheet and the income statement for the period.

### **Importance of Cash Flow Statement**

The following indicate the role of cash flow plan:

1. Cash flow statement/ plan provides information on the sources of cash, uses of cash and changes in cash balances.
2. Cash flow statement shows the ability of the business to repay loans acquired and the best time of repayment
3. Cash inflows statement helps to know if the uses of funds can be met by the available resources of funds or whether there will be a shortage and the need for external financing.
4. It indicates the amount of future cash inflows expected: sources and uses.
5. It provides information on the liquidity (cash) and solvency (ability to meet short term financial obligations).
6. It enables the entrepreneur to determine the short term sustainability of the business.
7. It provides information for evaluating changes in assets, Liabilities and equity/ capital invested in business.

## Contents of a Cash Flow Plan/ statement

A cash flow statement has three major parts:

1. **Cash inflow or Sources of cash**

It consists and shows where money or cash will come and flow into the business.

e.g: - Sales, donations, debtors and loans from banks

- Rent income, borrowing from friends

- Grant from the government, dividends, share of capital, etc.

1. **Cash Outflows or Uses of cash**

It contains and shows where cash of the business will be spent in form of payment out.

e.g: - Purchases of goods & Services

- Salaries and wages of workers

- Rent

- Administrative expenses

- Interest paid on loan

- Fees for Utilities (Water & electricity)

- Payments to share holders

- Fines and Commissions

1. **Net Cash Position**

It is the residual cash balance / position of the business after deducting cash outflow from cash inflows.

**Net Cash Position = Cash inflows - Cash Outflows -**

The net cash position can be categorized into:

* **Cash Surplus:**  When cash inflows is greater than cash Outflows
* **Cash Deficit:** When cash Outflows is greater than cash inflows

## Measures to avoid a deficit in the cash flows

* Increasing sales by carrying out sales promotion
* Delaying some cash expenditures
* Borrowing some more money
* Reducing some expenditure like the wage and salaries bills
* Monitoring and controlling of cash inflows and outflows.
* Ensuring that credit sales payments are made with in the same month.
* The wage should not be paid in advance if workers are willing to accept delay.

Cash Flow Management

* Having a cash surplus is the most preferred net cash position
* Cash receipts and cash payments must match ant ensure at worst a zero net balance.
* Giving cash discount to customers to motivate them to settle their payments due in time.
* Improving on the efficiency of preparing and sending customer’s invoice
* Reducing the period it takes for payments from clients
* Adopting a system of prompt billing so that the client receives their bills due on time

Exercises

1. The following information relates to MUNYESHYAKA Enterprises transactions for the month of November and December 2017.

|  |  |  |
| --- | --- | --- |
| **Transactions** | **November (Rwf)** | **December (Rwf)** |
| Purchase of assets | 2,000 | 2,500 |
| Payment of wages | 90 | 1,000 |
| Receipt from sales | 1,000 | 1,500 |
| Loan | 3,000 | 2,000 |
| Repayment of loan installment | 500 | 4,500 |
| Payment of rent | 60 | 70 |
| Purchase of raw materials | 1,000 | 1,500 |
| sales refreshment | 2,560 | 3,000 |
| Taxes | 100 | 120 |
| Debtors | 300 | 350 |
| Creditors | 160 | 150 |
| Acquisition of furniture | 180 | 170 |
| Grants from friends | 200 | 140 |
| Disco dance collections | 4,000 | 4,500 |
| Sales of old furniture receipt | 120 | 100 |
| Rates | 150 | 160 |
| Transport expenses | 100 | 90 |
| Installation of new machinery | 250 | 200 |
| Cinema collections | 160 | 200 |
| Electricity bills | 70 | 72 |

Required:

1. Prepare MUNYESHYAKA Enterprises cash flow statement for the two months.
2. State the cash position of MUNYESHYAKA Enterprises for the two months

**Solution:**

1. **MUNYESHYAKA Enterprises Cash flow statement for November and December 2017**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Details** | **November 2017 (Rwf)** | | **December 2017 (Rwf)** | | |
|  |  | |  | | |
| **a. Cash inflows** |  |  |  |  | |
| Cash balances b/f |  |  | 6,770 |  | |
| Receipt from sales | 1,000 |  | 1,500 |  | |
| Sales refreshment | 2,560 |  | 3,000 |  | |
| Debtors | 300 |  | 3,500 |  | |
| Grants from friends | 200 |  | 140 |  | |
| Disco dance collections | 4,000 |  | 4,500 |  | |
| Sales of old furniture receipt | 120 |  | 100 |  | |
| Loan | 3,000 |  | 2,000 |  | |
| Cinema collections | 160 |  | 200 |  | |
| *Total Cash inflows* | **11,340** |  | **21,710** |  | |
| **b. Cash Outflows** |  |  |  |  | |
| Purchase of assets | 2,000 |  | 2,500 |  | |
| Payment of wages | 90 |  | 1,000 |  | |
| Repayment of loan installment | 500 |  | 450 |  | |
| Payment of rent | 60 |  | 70 |  | |
| Purchase of raw materials | 1,000 |  | 1,500 |  | |
| Taxes | 100 |  | 120 |  | |
| Creditors | 160 |  | 150 |  | |
| Acquisition of furniture | 180 |  | 170 |  | |
| Rates | 150 |  | 160 |  | |
| Transport expenses | 100 |  | 90 |  | |
| Installation of new machinery | 250 |  | 200 |  | |
| Electricity bills | 70 |  | 72 |  | |
| *Total Cash Outflows* | **4,660** |  | **6,482** |  | |
| **Net cash Position = Sum (a) - Sum ( b)** | **6,770** |  | **15,228** |  | |
| 1. The net cash position MUNYESHYAKA Enterprises in November is a Surplus of 6,770 | | | | |  |

1. Given the following information below on RUSIZI Trading Company Ltd;

On 1st, April, CASSAVA Plant Company Ltd had a cash balance of 10,000 Rwf.

It expected Cash sales of 5,000Rwf per month.

Credit sales were to be 3,500rwf per month and payment would be made in the following month.

Monthly income from some of its properties was expected to be 1,000 Rwf.

Monthly purchases were 6,000Rwf.

The monthly salary and wage bill was projected to be 800 Rwf.

A loan from Umurenge SACCO 10,000Rwf in the month of April.

Interest monthly payment of 100 Rwf as on the loan.

Monthly raw materials for 5,000rwf.

**Solution**:

**CASSAVA Plant Company Ltd Cash flow statement for November and December 2017**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Details / Particulars** | | **April**  **2011 (Rwf)** | | **May 2011(Rwf)** |  | **June 2011 (Rwf)** |
| **a. Cash inflows** | |  | |  |  |  |
| Cash balance b/f | | 10,000 | | 14,100 |  | 11,700 |  |
| Cash sales | | 5,000 | | 5,000 |  | 5,000 |  |
| Credit sales | |  | | 3,500 |  | 3,500 |  |
| Rent income | | 1,000 | | 1,000 |  | 1,000 |  |
| Umurenge SACCO loan | | 10,000 | |  |  |  |  |
|  | | **26,000** | | **23,600** |  | **21,200** |  |
| **b.** **Cash Outflows** | |  | |  |  |  |  |
| Purchase | | 6,000 | | 6,000 |  | 6,000 |  |
| Salary and wages | | 800 | | 800 |  | 800 |  |
| Raw materials | | 5,000 | | 5,000 |  | 5,000 |  |
| Interest on loan | | 100 | | 100 |  | 100 |  |
| **Total cash Outflows** | | **11,900** | | **11,900** |  | **11,900** |  |
| **Cash b/d = Cash inflows - Cash Outflows** | | 14,100 | | 11,700 |  | 9,300 |  |
| **Surplus** | |  | |  |  | **9,300** |  |
| **Net Surplus** | |  | |  |  | **9,300** |  |
|  |  | |

1. Prepare SINZI ‘s cash flow statement for the month of January, February, March and Apr: l given the following information:

Cash balance b/f in January was 15,000rwf

Monthly rent income was 5,000 Rwf

Monthly credit sales to be paid in the next month were 4,000Rwf

Sold a business van in February 14,500Rwf

Monthly commission 3,000Rwf

Monthly cash sales 10,000Rwf

Monthly cash purchases 12,000Rwf

Bought a truck in January 800,000Rwf

Monthly salaries and wages 5,000Rwf

Bought machinery worth 15,000Rwf payment of 8,000Rwf was made in January and the balance was paid in two equal installments during the month of February and March.

1. Given the following information of Nyanza Supermarket.
2. On 1st April 2013 Nyanza supermarket had a cash balance of 10,000,000Rwf
3. It expects cash sales of Rwf 5,000,000 per month.
4. Credit sales were to be Rwf 3,500,000 per month and payments would be made in the following month.
5. Monthly rent Income from some of its properties was expected to be Rwf 1,000,000
6. Monthly purchases were Rwf 6,000,000
7. The monthly salaries and wage bill was projected at Rwf 800,000
8. Nyanza Supermarket planned to purchase a welding machine in April at Rwf 12,000,000 and paid Rwf 5,000,000 in cash. The balance was to be paid in two equal installments in the following months.
9. Interests of Rwf 100,000 on the outstanding loan were paid on 30th April2013 the next two months it will never be paid.

Required:Prepare a monthly cash flow statement for three months period (15 marks).

# **UNIT 6: STOCK CONTROL**

## Meaning of Stock, Stock Management and Inventory

## INVENTORY

It is any stock of goods that an enterprise keeps to meet its future requirements of production and sales.

This consists of the goods for resale, work- in- progress, and raw materials that are held at a point in time.

### Principle types of inventory

# The main types of inventory are the following:

* Stock of raw materials and supplies
* Stock of consumables (Supplies)
* Work in progress: unfinished goods
* Finished goods

1. **Stock of raw materials and supplies**

It represents goods kept by a manufacturing enterprise for being utilized in the production process.

1. **Stock of Consumables (Supplies)**

It includes tools and consumables which are consumed in the production of goods and services.

1. **Working in progress: Unfinished goods**

It represents the semi- finished goods. They include those materials that have been put in the production process but have not yet been converted into finished goods.

1. **Finished goods**

It represents the completed stock of goods awaiting and ready to be sold.

These are final output of the production process.

### **NECESSARY DOCUMENTS FOR STOCK MANAGEMENT**

The following are the necessary documents for stock management:

* Receipt note,
* Material/ purchase requisition note,
* Return-outward note,
* Return-inward note,
* Stock sheet (Inventory form)

1. **Receiving slip or Goods received note**

It is a duplicate of the delivery order which must be signed by the customer to confirm that goods have been accepted and delivered to him/ her.

When the enterprise takes the delivery of commodities in the presence of the deliverer agent, it must:

* Control the number and state of the delivered parcels, and issue reserves, if need be.
* Preserve the delivery order and give its duplicate (deliver slip, dated and signed) to the deliverer.

1. **Material purchase requisition note**

It is a document addressed to the various departments within the organization by the headquarter administration.

1. **Return-outward note**

It is a document which keeps a record of the returned goods for outside.

The person returning the goods sends a debit note to the supplier informing him that he is debiting the letter’s account with the value of the goods returned.

1. **Return-inward note**

It is a document which records the internal returns of goods sold by the business.

The trader sends a credit note to the customer informing him that he has credited the letter’s account with the value of goods being returned.

1. **Stock sheet or Stock record Card**

It 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: receiving slip and purchase requisition note.

It is ruled as follow:

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Date** | **Details** | **Received** | | | **Issued** | | | **Balance** | | |
|  |  | **Qty** | **P/U** | **Total** | **Qty** | **P/U** | **Total** | **Qty** | **P/U** | **Total** |
|  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |

## PROCUREMENT

It means to give an order to a supplier to deliver goods or services under some conditions (date, place of delivery and methods of payment) in order to add more goods in the stock or purchase new products.

### **Stages and Procedures of Procurement in a Business**

The following are procedures of procurement and detailed explanation of stages of procurement.

* Determining minimum stock level,
* Placing an order,
* Invoice receipt,
* Invoice payment,
* Goods’ transport,
* Goods’ receipt,
* Goods’ value

1. **Determining Security stock level:**

This is the minimum stock that allows the enterprise to wait for the deliveries while avoiding the risk of stock shortage.

1. **Identification of a purchase need: Purchase order**

Purchase need is organized systematically to avoid shortage of the stock and made with palacing purchase order.

1. **Placing Order**

All necessary elements considered in placing order must be known

1. **Follow up:**

It is an inspection made by the supplier up to the stage of delivery of goods and verification of the goods received by the storekeeper during the delivery process.

1. **Presentation of an Invoice**

* The quantity and types of goods paid for must match with the deliver order and receiving slip.
* The cost per unit charged by the supplier must correspond with the purchase order price offered by the procurement officer.

The supply’s invoice serves as a control tools. The storekeeper uses the invoice for arithmetic control

1. **Receipt of goods**

When receiving goods, the storekeeper and the receiving committee must verify the quantities and qualities of goods ordered for.

## INVENTORY VALUATION

There are two categories of inventory valuations in business.

1. **Perpetual inventory:**

It is a regular system of recording and controlling the physical movements of stock and establishing its current balance.

1. **Periodic Inventory:**

The value of stock is determined by a physical counting on a specific date before the date of preparation of the final accounts.

### **Difference between Periodic inventory and Perpetual inventory**

|  |  |
| --- | --- |
| **Periodic Inventory:** | **Perpetual inventory:** |
| It is based on physical stock taking | It is based on records |
| It provides data periodically such as once in a year. | It provides data on running basis and thus facilitates the preparation of final statements at shorter interval. |
| It does not provide basis for control | It provides basis for control by investigating the discrepancies arising from comparisons of physical stock book value. |
| It is a simple and economical method of taking inventory and can be adopted in small enterprises. | It is expensive as it requires a lot of recording. It can be adopted by big companies only. |

### **Methods of Stock Valuation**

There are three methods of stock valuation, namely:

* LIFO (Last in, First out),
* FIFO (First in, first out),
* Weighted average cost (WAC)

1. **FIFO: First in, First Out**

When using this method, the earliest goods purchased are totally sold before selling the goods purchased recently. The closing stock comprises the latest purchase.

1. **LIFO: Last in First Out**

When using this method, the latest consignments of goods manufactured are sold first.

The closing stock is valued at the cost of the earliest lot on hand and the cost of goods sold is based on the cost of recently purchased goods.

### **W Exercises**

1. Study the information extracted in the books of a storeman and prepare the stock card using all methods of valuations of inventory.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Year 2008** | **Bought** | **Rwf** | **Year 2008** | **Sold** | **Rwf** |
|  |  |  |  |  |  |
| January | 10 at Rwf 30 each | 300 | May | 8 at Rwf 50 each |  |
| April | 10 at Rwf 34 each | 340 | November | 24 at Rwf 60 each | 400 |
| October | 20 at Rwf 40 each | 800 |  |  | 1,440 |
|  | 40 Units | 1,440 |  | Units 32 | 1,840 |

A quick check by the storeman showed that there were still 8 units in inventory at 31.12., which confirms what the records show above.

**Solution: Using FIFO basis**

**Stock card using FIFO Method during February 2017**

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Details** | **Received** | | | **Issued** | | | **Balance** | | |
| Qty | U.P | T.P | Qty | U.P | T.P | Qty | U.P | T.P |
| Bought | 10 | 30 | 300 | - | - | - | 10 | 30 | 300 |
| Bought | - | - | - | - | - | - | 10 | 30 | 300 |
| 10 | 34 | 340 |  |  |  | 10 | 34 | 340 |
| Sold | - | - | - | - | - | - | 2 | 30 | 60 |
|  |  |  | 8 | 50 | 400 | 10 | 34 | 340 |
| Bought |  |  |  |  |  |  | 2 | 30 | 60 |
|  |  |  |  |  |  | 10 | 34 | 340 |
| 20 | 40 | 800 |  |  |  | 20 | 40 | 800 |
| Sold |  |  |  | 2 | 60 | 60 | - | - | - |
|  |  |  | 10 | 60 | 600 | - | - | - |
|  |  |  | 12 | 60 | 720 | 8 | 40 | 320 |
|  |  |  | 24 Units |  |  |  |  |  |
| **Closing Stock** |  | | | | | | **8 Units x 40 Rwf = 320 Fr** | | |

Thus the closing inventory at 31December 2008 at cost is valued under FIFO at Rwf 320

**Solution: Using LIFO basis**

**Stock card using LIFO Method during February 2017**

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Details** | **Received** | | | **Issued** | | | **Balance** | | |
| Qty | U.P | T.P | Qty | U.P | T.P | Qty | U.P | T.P |
| Bought | 10 | 30 | 300 | - | - | - | 10 | 30 | 300 |
| Bought | - | - | - | - | - | - | 10 | 30 | 300 |
| 10 | 34 | 340 |  |  |  | 10 | 34 | 340 |
| Sold | - | - | - | - | - | - | 10 | 30 | 300 |
|  |  |  | 8 | 50 | 400 | 2 | 34 | 68 |
| Bought |  |  |  |  |  |  | 10 | 30 | 300 |
|  |  |  |  |  |  | 2 | 34 | 68 |
| 20 | 40 | 800 |  |  |  | 20 | 40 | 800 |
| Sold |  |  |  | 20 | 40 | 800 | - | - | - |
|  |  |  | 2 | 34 | 68 | - | - | - |
|  |  |  | 2 | 30 | 60 | 8 | 30 | 240 |
|  |  |  | 24 Units |  |  |  |  |  |
| **Closing Stock** |  | | | | | | **8 Units x 30 Rwf = 240 Fr** | | |

Thus the closing inventory at 31December 2008 at cost is valued under LIFO at Rwf 240

**Solution: Using Average cost Method (AVCO)**

**Note:** Using this approach you recalculate average after every receipt of a batch of a new inventory and then use it as the cost of next batch sold.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Date** | **Received** | **Issued** | **Average cost Per unit of Inventory held** | **Number of Units in Inventory** | **Total value of inventory** |
| 2008 January | 10 at Rwf 30 |  | Rwf  30 | 10 | 300 |
| April | 10 at Rwf 34 |  | 32**\*** | 20 | 640 |
| May |  | 8 at Rwf 32 | 32 | 12 | 384 |
| October | 20 at Rwf 40 |  | 37 **\*\*** | 32 | 1,184 |
| November |  | 24 at Rwf 37 | 37 | 8 | 296 |

Thus the closing inventory at 31December 2008 is valued under AVCO at Rwf 296

\*. In April, this is calculated as follows: inventory 10x F 30 = 300F + Inventory received (10x 34) = 340 F, Total = 640 F. You then divide the 20 units in inventory into the total cost of that inventory, i.e. Rwf 640 20 = Rwf 32

**\*\***. In October, this is calculated as follows: Inventory 12x Rwf 32 = Rwf 384 + inventory received (20 x Rwf 40) = Rwf 800 = 1,184 Rwf. There are 32 units in inventory, so the average is Rwf 1,184 32 =Rwf 37.

1. In the month of February 2017, we managed to carry out the following movements in our store:

On 1st: Initial stock 6500 kg for 20,800Rwf

03: Received 70, 000kg for 227,500Rwf, receiving slip No: 3.

04: 50,000kg of goods issued with issue note No: 10

10: Received 40,000kg being worth of 134,000Rwf, receiving slip No: 4.

12: 65,000Kg of goods issued, issue note No: 11

20: Received 50,000kg for 174,500 Rwf, receiving slip no: 5

22: 44,000kg of goods issued note No: 12

Prepare: Prepare the stock card using FIFO Method and LIFO

**Stock Card using FIFO Method during February 2017**

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Details** | **Received** | | | **Issued** | | | **Balance** | | |
| Qty | U.P | T.P | Qty | U.P | T.P | Qty | U.P | T.P |
| Initial stock |  |  |  |  |  |  | 6500 | 3**.**2 | 20800 |
| Receiving No. 3 | - | - | - |  |  |  | 6500 | 3**.**2 | 20800 |
| 70,000 | 3.25 | 227,500 |  |  |  | 70,000 | 3**.**25 | 227,500 |
| Issue note No.10 |  |  |  | 6500 | 3.2 | 20800 | - | - | - |
|  |  |  | 43500  50,000 | 3.25 | 160,000 | 26500 | 3**.**25 | 86125 |
| Received No. 4 | - | - | - |  |  |  | 26500 | 3**.**25 | 86125 |
| 40,000 | 3.35 | 134,000 |  |  |  | 40,000 | 3**.**35 | 134,000 |
| Issued No. 11 |  |  |  | 26500 | 3.25 | 86125 | - | - | - |
|  |  |  | 38500  40,000 | 3.25 | 125,125 | 1500 | 3**.**35 | 5,025 |
| Receiving No. 5 | - | - | - |  |  |  | 1500 | 3**.**35 | 5,025 |
| 50,000 | 3,49 | 174,500 |  |  |  | 50,000 | 3**.**49 | 174,500 |
| Issued No: 12 |  |  |  | 1500 | 3.35 | 5,025 | - | - | - |
|  |  |  | 42,500  44,000 | 3.49 | 148,325 | 7500 | 3**.**49 | 26,175 |
| **Final stock** |  |  |  |  |  |  | **7500** | **3.49** | **26,175** |

**Stock Card using LIFO Method during February 2017**

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Details** | **Received** | | | **Issued** | | | **Balance** | | |
| Qty | U.P | T.P | Qty | U.P | T.P | Qty | U.P | T.P |
| Initial stock | - | - | - | - | - | - | 6500 | 3**.**2 | 20800 |
| Received | - | - | - | - | - | - | 6500 | 3**.**2 | 20800 |
| 70,000 | 3.25 | 227,500 |  |  |  | 70,000 | 3**.**25 | 227,500 |
| Issued | - | - | - | - | - | - | 6500 | 3**.**2 | 20800 |
|  |  |  | 50,000 | 3.25 | 227,500 | 20,000 | 3.25 | 65000 |
| Received |  |  |  | - | - | - | 6500 | 3**.**2 | 20800 |
|  |  |  |  |  |  | 20,000 | 3.25 | 65000 |
| 40,000 | 3.35 | 134,000 | - | - | - | 40,000 | 3**.**35 | 134,000 |
| Issued |  |  |  | 40,000 | 3**.**35 | 134,000 | - | - | - |
|  |  |  | 20,000 | 3.25 | 65000 | - | - | - |
|  |  |  | 5000  65,000 | 3.2 | 16000 | 1500 | 3.2 | 4800 |
| Received |  |  |  |  |  |  | 1500 | 3.2 | 4800 |
| 50,000 | 3,49 | 174,500 |  |  |  | 50,000 | 3**.**49 | 174,500 |
| Issued |  |  |  |  |  |  | 1500 | 3.2 | 4800 |
|  |  |  | 44,000 | 3.49 | 153,560 | 6000 | 3**.**49 | 20,940 |
| **Final stock** |  | | | | | | **1500** | **3.2** | **4800** |
| **6000** | **3.49** | **20,940** |

1. GUKORA Enterprise has spare parts in her store. The following shows the movements of these spare parts done in the month of march 2016:

March 01: Stock 2000 spare parts costing: 594,000Rwf

March 05: Invoice of the goods issued: 600 spare parts

March 18: Invoice of the goods issue: 300 spare parts

March 22: Receiving slip: 3000 spare parts, costing 906,000rwf

March 25: invoice of the goods issued 500 spare parts.

Required:

1. Prepare the stock card using FIFO method and using LIFO Method

**GUKORA Enterprise Stock Card**

**Using FIFO Method during March 2016**

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Details** | **Received** | | | **Issued** | | | **Balance** | | |
| Qty | U.P | T.P | Qty | U.P | T.P | Qty | U.P | T.P |
| Initial stock | - | - | - | - | - | - | 2000 | 297 | 594,000 |
| Issued |  |  |  | 600 | 297 | 178,200 | 1,400 | 297 | 415,800 |
| Issued |  |  |  | 300 | 297 | 89,100 | 1,100 | 297 | 326,700 |
| Receiving | - | - | - |  |  |  | 1,100 | 297 | 326,700 |
| 3000 | 3020 | 906,000 |  |  |  | 3000  4,100 | 3020 | 906,000 |
| Issued |  |  |  | - | - | - | 600 | 297 | 178,200 |
|  |  |  | 500 | 297 | 148,500 | 3000 | 3020 | 906,000 |
| **Final Stock** |  | | | | | | **600** | **297** | **178,200** |
| **3000** | **3020** | **906,000** |

# **UNIT 7: BUSINESS PLAN FOR AN ENTERPRISE**

## Meaning of a Business Plan

It is said that, he who fails to plan is planning for failure

**Business Plan**

It is a formal document that shows how a business shall be started and operated over a given period.

It shows how a business proposes to operate, where it is going to get the business finance, its location, customers, the production target, the time table of activities, marketing techniques, and the expected return on investment.

**Users of a business plan**

* The business owner
* The government agents
* Managers
* Employees
* Financial institutions
* Investors

**Purpose of a business plan**

Having a business plan helps to:

* Clarify the direction of the business.
* Ensure the efficient use of resources.
* Provide a way of measuring progress.
* Support effective decision making.

## Why do you need a strong business plan?

* Business plan attracts investors use a business plan as a milestone to achieve its objectives
* Bankers use it as assurance for Securing additional loans
* Business plan helps to test business ideas
* Business plan helps to determine your financial needs: materials and funds needed
* Business plan acts as a tool of monitoring business process
* Business plan shows the feasibility and viability of the business
* Business plan helps financiers to determine whether to give loans or not
* Business plan helps financiers to determine duration of and terms of loans

## Importance of a Business Plan to different Stakeholders

* 1. **Importance of a business plan to an entrepreneur**
* It helps in adequate preparation of the business
* It helps an entrepreneur in defining specific goals and objectives which are helpful in measuring the business success
* It encourages an entrepreneur to be and remain concentrated/ focuses on the business success
* It facilitates the entrepreneur in monitoring the business basing on the set goals and objectives
* It acts as a time table for business implementation
* It hinders the entrepreneur from being exploited for instance by the government through tax
* It facilitates him in accessing financial assistance from the lender
* It facilitates easy decision making since the cash inflows and cash outflows are predetermined
* It eases his work since his employees will refer to it (business plan) to know the business targets, their duties, responsibilities and remuneration
* It defines goals and objectives
* It attracts financiers and investors
* Helps the entrepreneur to focus on planned activities by balancing income and spending.
  + - 1. **Importance of a business plan to government**
* Determines incentives for the business
* Plan for infrastructures and other services
* Provide necessary guarantees for loans
* The government ensures which tax a business should be taxed
  + - 1. **Importance of a business plan to employees**

1. Assurance about job security
2. Determine production targets
3. Define tasks and responsibilities
4. Help to know the vision and mission of enterprise

## Types of Business Plan

The main types of business plans are:

**1. Feasibility plan:**

This is a very simple plan. It includes a summary, mission statement, keys to success, basic market analysis, and preliminary analysis of costs, pricing, and probable expenses. This kind of plan helps the entrepreneur to decide if the business is viable or not.

**2. Start-up plan:** this is a business plan written before starting a business.

It explains the steps and expectations (projections) for a new business.

It covers all standards topics of a business plan but when it comes to the financial part, since the business has not started operating. All the financial statements are projected that is, what is expected.

**3. Internal plans / operational plans:** They are intended for internal use by management.

They are more detailed on implementation, dates, deadlines, and responsibilities of teams and managers.

**4. Strategic plan:** It is also an internal plan but it focuses more on top level management decisions

**5. Growth plan / expansion plan:** this is usually a plan for a particular department of function of the business.

## Steps in preparing a business plan

When preparing a business plan, the following steps should be followed:

1. Select a business type to engage in. e.g, trading, manufacturing, agribusiness, service business, etc.
2. Conduct market survey for the selected business type
3. Gather other relevant data. e.g, cost of equipment, machinery, environment protection regulation, raw materials, selling and administrative requirements, etc.
4. Draft a business plan
5. Discuss the drafted business plan with a person with knowledge or experience in similar business
6. Finalize your business plan by preparing an action plan for implementation

## Components of business plan

The structure of a business plan is headed by the following components

* Cover page,
* Table of contents
* Business description
* Name of business,
* Contact address,
* Legal form of business
* Type of business,
* Description of the business idea and market,
* Information about the owner
* Statement of mission, goals and objectives
* Marketing plan
* Executive summary

**1. Executive Summary**

As the most important part of the business plan this section should be prepared last.

It must include the following essential information:

* The companies’ strategies for succeeding
* A concise account of management
* Team’s qualifications that make the company successful
* A brief description of the market and how the product is differentiated from that of the Competitors
* A description of the product or service offered
* Key historical and forecasted financial data such as annual revenue and net income for five years
* An estimate of the amount of funds needed
* A statement of how money will be used and how lenders or investors will get their money back.

**2. General description of the business**

This section describes:

* The type of business planned
* Name of the business
* The needs of the market the business intends to satisfy
* The competitive advantage of the business which makes it different from other business
* The analysis of Strength, Weakness, Opportunity and Threats (SWOT) of the business

1. **Statement of mission, Goals and Objectives**

**a. Mission statement**

This expresses or articulates the unique contribution the company plans to offer to the society in which it operates. It is the core purpose that differentiates the organization from the others in the same industry.

Examples of mission statement:

* “We exist for provision of value for money product”
* “To provide uncompromised quality product to our customers”

**b. Goals**

These are medium and long term intentions of what the organization wants to achieve based on the mission statement.

e.g: to increase market share, to minimize overall cost, to increase productivity, to maximize profit and minimize losses.

**c. Objectives**

Objectives are quantified specific targets set which moves the firm to achieve its goals.

Objectives are always SMART i.e. Specific, Measurable, Achievable/ Attainable, Reliable and Time bound.

Objectives are expressed in quantified form whereas goals are not.

Example of objectives:

* To increase the market share by 13% by the end of 2012
* To reduce production cost by 4% by the next 2 years
* To increase sales by 5% within the next 3 months

1. **Marketing plan**

It should be built from the results of the marketing research and the specific value proposition of the product or service.

Components of the Marketing plan:

* Product description,
* Customer description, Demand/need for the product, Competition,
* Current production,
* Price and Promotion
* Sales forecast for next 12 months,
* Business location,
* Distribution channel that will be used
* Forms of advertisement and Pricing strategies to be used**,** how the price will be determined
* Position of competitors: SWOT analysis:

# **UNIT 8: OPERATIONAL BUSINESS PLAN FOR AN ENTERPRISE**

## Production plan

It consists of projected needs for manufacturing the proposed product.

It is then necessary to assess whether production at this scare is technically feasible.

## Components of a Production Plan

The following are main elements of a production plan:

* Business premises and plant location
* Type, nature and capacity of equipment / machinery required
* Production process and layout: *Competing technologies and innovation*
* Plan for inventory management: *Sources of raw materials and other supplies:eg: raw materials, work in progress and finished goods*
* Production staff/Labor requirements i.e. *skilled, semi-skilled or unskilled and the details of their remunerations.*
* Quality control and ongoing service: *describe your philosophy and approach to quality control.*
* Production Utilities and office consumables: i.e. *electricity, water, office supplies, furniture, etc*.
* Packing materials/equipment required: *i.e. source of supply, quantities needed, terms and conditions of suppliers, etc.*

**Business operation and Costs Plan:**

* Start-up costs
* Sources of capital
* Sales plan,
* Monthly cost forecast

## FINANCIAL PLANS

It is a statement that indicates the balance sheets, income statements and cash flow statements for the previous three years, along with five years’ cash flow, income statements and balance sheets forecasts.

It indicates costs of your business: seed capital, sales forecasting along with cost of operations, selling and administrative costs and cash flow may be sufficient.

* 1. **Components of a financial plan**

The following are parties and elements of a financial plan:

* Expected source of finance
* Start-up budget: Capital & Expenditure
* Trading, Profit and Loss statement
* Financial forecast /cash flow plan
* Opening Balance sheet
* A breakeven point analysis
* Payback period,
* Return on Investment
* Working capital requirements e.g. raw materials, direct labor cost, overhead costs, operating cost, etc against the expected sales.
* Research and development cost. General and administrative expenses e.g. salaries for administrative and support personnel, communication expenses, rent, etc.
* Inventories i.e. estimate the level of inventory needed to support our estimate sales volume.
* Accounts receivable i.e. estimated length of time between a sale and collection of related receipts.
* Account payable i.e. estimated period over which you expect to pay your bills.

## ACTION PLAN / Schedule of Activities

It laid out sequence of steps and actions to be undertaken, the period it will last and if possible the person responsible so as to achieve business goals.

* 1. **Importance of an Action plan**

1. The action plan acts as a guide or timetable to the entrepreneur to achieve goals.
2. An Action plan co-ordinates efficient use of resources of the business
3. An Action plan is used in financial resources utilization
4. An Action plan is used in implementation of planned activities
5. An Action plan specifies workers’ responsibilities and tasks are traced and allocated
6. An Action plan helps to monitor and evaluate work in progress
7. It helps to identify road blocks in advance or expected challenges
8. Locate sources of information and resources needed for the business
9. It helps to discover business challenges and how to solve them

**Preparation of Business Action Plan**

Here is example and model of action Plan for a Bakery making Project

|  |  |  |  |
| --- | --- | --- | --- |
| No : | Activity/ Items | Time | Implementing officer |
| 1 | Carry out a feasibility study to determine viability of the project | 1 month | Entrepreneur/ market research firm |
| 2 | Formulation of business plan | 2 months | Entrepreneur/ research firm |
| 3 | Capital/ loan application process | 1 month | Entrepreneur |
| 5 | Purchase of machinery and equipment | 2 months | Entrepreneur/engineer/ |
| 6 | Construction of factory premises and offices | 8 months | Entrepreneur/ construction firm |
| 7 | Installation of machinery and equipment | 2 months | Factory engineer |
| 8 | Recruitment of human resources | 2 months | Human resource manager |
| 9 | Specialized training of employees | 1 months | Human resource manager |
| 10 | Production testing | 2 weeks | Production engineer/ manager |
| 11 | Commercial production | 1 month | Production manager |
| 12 | Marketing of product | Continuous | Marketing department |
| 13 | Official product launch | 1 day | Entrepreneur/ all departments |

* 1. **Organization, Management and Administration Plan**

It describes members of management team and the background as well as needful additional key people.

It is an outline of an organizational structure/chart and management team.

It gives details of management qualifications, special skills and abilities, experience, remuneration, etc.

1. Elements of Organizational Plan

a) The legal structure of the business: sole proprietorship, partnership, corporation or Limited Liability Corporation.

b) Resumes and biographies of key players on management team and their qualifications.

c) It shows staffing projection data i.e. people in each section to be employed in the next few years

d) Decisions on the numbers or types of workers that are required to operate the proposed business

e) Decisions on equipment to be procured should be considered.

f) Selling and administration expenses.

g) Compensation i.e. salary, bonuses... that you offer to the key members of the management team.

h) Outside advisors: formal Board of Directors or an informal group of counselors

# 

# **UNIT 9: QUALITY ASSURANCE AND QUALITY COMPLIANCE IN BUSINESS**

## Metrology

## It is defined as the study of measurement. The main reflection of metrology activity in society be the weights and measures, the inspection of measurement instruments used in day to day trade.

## It is expected to enforce, validate and verify predetermined standards for traceability (linking measurements made in practice to reference standards), accuracy, reliability, and precision of physical quantities.

## Consequently, these standards are verified and tested against a recognized quality system in calibration laboratories.

1. **Types of Metrology**
2. **Fundamental or Scientific** **Metrology**:

It focuses on the use of international units of measurement, unit systems, and quantity systems via a conventionally definite magnitude of a physical quantity. There also some unit systems that are derived from a set of fundamental units. e.g: 1kg = 1000grams

The quantity systems are the standard systems used in the control of measure, net weight, or number of constant quantity packed goods.

1. **Industrial Metrology**:

It establishes the importance of accurate measurement in industry. It also ensures the appropriateness of measurement instruments including the maintenance, quality control, and proper calibration (true value) of these instruments (beam balance).

Manufactured products are originally weighted, seized and packaged using appropriated and reliable calibrated instruments.

1. **Legal Metrology:**

It is about the protection of life, the environment, health and public safety, regulatory requirements of measurement instruments.

It ensures that consumers are protected and guaranteed that fair trade is observed through appropriate measurements instruments.

1. **Applications of Metrology in Business Activities**

* Metrology is used by firms, industries, Laboratories, wholesales and sellers. Before product be put on the market are measured and tested using measuring instrument. The standard weights or unit of measure is recorded.
* Ingredient contents of manufactured product are measured and mention on the cover
* When selling products to customers, kilos, litters, meters are used in relation to unity price
* Metrology governs financial transactions of foodstuffs, metering , cross border counting, bulk weighing in selling shops, warehouses,
* Metrology offers business with reliable product values that has measurement of value or quantity as part of its make up. This offers accurate information during taxation and royalty purposes
* The bulk of the application of metrology is to quantify and reduce the effect of manmade instrument, imperfections and finding new measurement methods that can reliable offers true values.
* Accurate measurements enable industries to be innovating and competitive in globalized world market. Via quality units, weights for meeting customers’ expectations using well calibrated measuring instruments.
* Metrology via accurate measurements system ensures that measurements can be on a coherent, appropriately accurate, transparent and internationally recognized basis on the world market of commerce, industry, science, international trade, health and safety, environmental and resources protection.
* Metrology provides guarantees, reliability of measurements for commercial use and prevent fraud in business activities.
* Food safety requires measuring operations that are vitally important to the public health.

## QUALITY MANAGEMENT, QUALITY ASSURANCE AND QUALITY COMPLIANCE

1. **QUALITY**

Itrefers to the ability of the product to meet with the customers’ requirement or fitness for the intended use. Quality for products is proved by fulfilling conformity of specification, being fit for purpose, has zero defects and produces customer satisfaction.

1. **Criteria attributes of quality Analysis**

These are ten elements as criteria of quality and they include the following:

1. **Design of the product:** This is physical appearance of the product and construction method
2. **Ergonomics:** This is the right size : length and width and weight of the product
3. **Aesthetics:** This is thegood looking indicated by effective Color and texture
4. **Reliability of the product:** The product performance to meet the satisfaction of buyers over many usage occasions.
5. **Durability of the products:** this refers to economic life of the product.
6. **Suitability of the product:** from the customers’ point of view: customers buy products to satisfy particular needs.
7. **Products specification:** This is the purpose of the products required for use.
8. **Easy handling:** Most customers prefer product which is user friendly
9. **Protection of customer’s interest**: customers want to be free from the fear of the products having potentially dangerous, toxic substances which may pose health hazards.
10. Market and services: does the product have demand and how this demand to be attended to?

## QUALITY MANAGEMENT

They are the operational techniques and activities and procedure that are used so as to fulfill the requirement of quality. This process attempts to minimize or eliminate discrepancies in product quality.

Quality management starts from the design of the products till the product of the right quality (as per customer specification, fitness for use) is delivered to the customer. Quality management ensures that an organization, product or services is consistent and reliable.

It has quality management four main components namely:

* Quality planning
* Quality assurance
* Quality control, and
* Quality improvement

1. **Quality Assurance/ Control**

It refers to ways of preventing mistakes or defects in manufactured products and avoiding problems when delivering solutions or services to customers in order to evaluate whether the products meet customers’ expectations and standards of quality.

It includes management of the quality of raw materials, assemblies, products and components, services related to production and management, production and inspection

Quality assurance works on two principles:

* Fit for purpose : the product should be suitable for the intended purpose”
* Right first time: mistakes should be eliminated.

1. **Steps for quality assurance**

Quality assurance is done through the following steps:

* Identify organizational goals
* Inspection of the outputs.
* Identify critical success factors
* Identify internal and external customers
* Customer feedback
* Implement continuous improvements.

1. **Steps of Quality Management for ensuring Quality Output**

* Determination of quality standards
* The design of the production systems
* Control action to ensure that the quality standards are working well and
* Inspection of the outputs.

1. **Factors which affects quality control or Ways of ensuring quality output in an enterprise.**

The control standards for ensuring quality output include the following:

1. **Quality in puts or raw materials:** When the quality of raw materials used is good the quality of out put / product is automatically assumed to be good and vice-versa.

i.e the enterprise uses quality of raw materials should be good for producing the good quality of product.

1. **Clear instruction to workers:** quality is all about having enough preparation right from the production process. If workers are availed with clear instructions on how to produce the required quality, then this can easily be achieved
2. **Proper inspection and supervision:** Entrepreneur has to monitor the production process to see whether their instructions are being followed by the workers.
3. **Clearness/ clear environment:** Clear environment under which products are produced will have an impact on the quality of final products.
4. **Meeting the technical specification:** quality and quantity should be achieved using the collect ratios while mixing raw materials as any change or alternation, the mixing will affect the quality and the quantity of the final product as well.
5. **Packaging:** packaging of product affects quality positively or negatively. This means that , its packaging materials and methods of packaging of product may affect its quality. If it’s packaged well, it will reduce spoilage and contamination.

**Example:** today customers prefer drinking water which is packaged in containers as compared to those in poly their bags due to fear of contamination by water born diseases.

1. **Storage facilities:** where some storage facilities for good are available and in good conditions, quality may be maintained. This is because goods may be produced in their good quality but end up getting spoilt in the course of storage.
2. **Use of appropriate technologies:** when the right types of technology is applied, then quality of product is expected to be high and vice-versa.
3. **Employing skilled labor:** when the employees of the firm are highly, then quality of the products is likely to be high and vice – versa.
4. **Worker’s condition:** if the workers condition (welfare, in terms of feeling, medical facilities, securities) are favorable, they will produce good quality product and vice –versa.

## ROLES OF QUALITY MANAGEMENT, QUALITY ASSURANCE AND QUALITY COMPLIANCE

**Question: Why should firms observe quality during the production?**

It is necessary to observe quality requirements during the production process because:

1. Quality compliance helps entrepreneurs to meet regulatory requirements, safeguarding health and safety of consumers.
2. Observing quality during production process safeguards health and safety of consumers
3. It can improve entrepreneur’s brand image of enterprise and reputation in the market.
4. It expands market share of the business through customer attraction
5. It ensures and encourages customers’ satisfaction and motivates them to keep coming back to the business for more purchases.
6. It helps an enterprise to prevent disposal of harmful wastes and increases productivity.
7. It helps to protect people's health against illness, and diseases
8. It promotes the respect of customs, beliefs and Culture.
9. It Prevents production and selling of harmful products, drugs and alcohol,
10. It prevents the selling of expired product
11. It enhances environment protection and sustainability
12. It enables enterprise to meet good standards required by the accreditation body (i.e: RBS & RDB)

### **Importance of Accurate Measurements**

Accurate measurement is important in the business because of the following reasons:

* + It offers the proper or right weights and sized measures.
    - It reduces overcharging on customers offer
  + It Increases public reputation/ images of the business
  + It ensures good business image in the society, etc.
  + It attracts and retains customers in purchasing frequently may quantities
  + Increases customers trust and purchasing power
  1. **STANDARDIZATION**

Refers to the process of bringing or make an established standard size, weight, quality to ensure safety and conformity for users out of dangers.

Standards are fundamental reference for a system of weights and measures, against which all other measuring devices are compared

It helps companies to cut costs by eliminating duplicated effort and allows a company to take advantage of economies of scale when purchasing supplies.

1. **Types of Standards**

* National standards
* Regional standards
* International standards

1. **Levels of Standards**

Basic standards, product standards, services standards, Process Standards, code of practice standards, and terminology standards, etc.

1. **Accreditation body (RSB) and its role in Cross-Border Businesses.**

There are two accreditation bodies in Rwanda, namely:

1. **Rwanda Development Board (RDB)**: mandate to authorize and licensing any business and product to be produced, manufactured and sold on Rwandan ground: It issues various business certifications.
2. **Rwanda Standards Board (RSB)** former **Rwanda Bureau of Standards (RBS).**

The roles and mandate of **RSB** in cross-border businesses are explained below:

* RSB develop and publish national standards
* RSB educates and sensitizes entrepreneurs to respect conformity assessment, to meet regulatory requirements, safeguarding health and safety of consumers and protection of environment.
* RSB is responsible for verification and calibration of equipment, auditing and certification of marketable products, quality assurance process, testing for quality compliance within a production unit, and exports.
* RSB disseminates information on standards, technical regulations related to standards and conformity assessment, metrology for setting up of measurement standards, verification among others.
* RSB builds customers’ confidence that products and services are certified to International Standards and have confidence that they are safe, reliable and of good quality.
* RSB is committed to providing standardization, conformity assessment and metrology services that improve competitiveness of Rwanda products and services within the region and internationally.
* RBS opens up doors on global markets equally for national entrepreneurs in the regional markets specifying testing and inspection of product quality, safety and health hygiene assessment.
* RBS makes the government to ensure that requirements for imports and exports are the same the over world, therefore facilitating the movement of goods, services and technologies from country to country.
* RBS confirms with International Standards on air, water and soil quality, on emissions of gases and radiation and environmental aspects of products contribute to efforts to preserve the environment and the health of citizens.

# **UNIT10: WORK HABITS AND BEHAVIOUR**

## FINDING A JOB

1. **Sources of employment or job information**

The resources for finding employment include the following:

* **Word of mouth:** from friends, family, former colleagues, professional contacts, etc.
* **Newspapers:** Advertisements, employment sections on umurimo.com, jobs in Rwanda, new times,
* **Radio and television:** Local radios, Kazi ni Kazi, Publications
* **Internet:** The new times newspapers, Rwanda Development Gateway, yahoo groups, etc.
* **Job notices/ Bulletins and other communication:** Churches, youth groups, clubs, associations, cooperatives, etc.
* **Government agencies and offices:** workforce Development authority(WDA) Public service Commission, District government Offices
* **Non-governmental Organizations focusing on Youth development**: Youth Employment Systems (YES), Compassion International, AVSI, ADRA, etc in Rwanda.
* **Networking:** Networking with people you know in the area you want to work, volunteering, interning, etc.
* **Potential work places**
* **Recruitment agencies**

1. **Analysis of Skills needed by Employers from workers as recruitment criteria**

Employers are looking for workers who are organized, committed, positive, hardworking, respectful and trustworthy. They like workers who are skilled, experienced and innovative. Team work, problem solving skills, Ability to work without supervision and good health is also essential.

## CURRICULUM VITAE (C.V) TEMPLATE

The CV has the following parts as headings:

1. **Contact Information**

* First and Last names:
* Residence Address:
* Mobile Phone:
* Email address:

1. **Education Background**

|  |  |  |
| --- | --- | --- |
| **Levels** | **Specialization** | **Awards** |
| University, if any |  |  |
| Vocational School Name/ VTC |  |  |
| Secondary |  |  |
| Primary |  |  |

1. **Skills Summary**

Indicate Key achievements, Skills and experiences relevant to the position for which you are applying

* Experiences: (Start by: I provided, I managed, I participated in.., I operated…etc.)
* Training Received:
* Computer Skills:
* Language Skills:

1. **Work Experience(If any..)**

* Name of business or activity:
* Date worked:
* Job Title:
* Responsibilities/ Achievement:

1. **Interest and Hobbies**

Indicate your interest games or sport of choice

**Reference persons:** Mention at least three persons who knows you very well

* Names: ………………………. Administrative Title: ………………………. Tel:..........................
* Names: ………………………. Administrative Title **…………………… Tel:.............................**
* Names: ………………………. Administrative Title **…………………… Tel:.............................**

“I declare that the information above is true to the best of my knowledge”

* 1. **INTERVIEWS TECHNIQUES**

**Before the interview**

* Learn as much as you can about the organization
* Dress appropriately for the interview: neat, clean clothing and shoes
* Think about questions you may have for the interview

**During the interview**

* Speak slowly and clear
* Think before speaking
* Be respectful
* Be a good listener: wait until the interviewer has finished talking before you respond
* Ask the interviewer to re- phrase a question if you have not fully understand
* Be honest in your answers, and present any negative experiences in a positive light
* Show confidence that you can do the job

**After the interview**

* Stay on phone line

## Appropriate Workplace Behaviors and Attitudes

The important appropriate workplace behavior and attitudes include the following:

1. Dress neatly and appropriately for the work
2. Be on time: attendance and punctuality are essential to keep your jobs. Let you supervisors know if you are going to be late
3. Manage time well: Focus on doing your work during your work hours, follow break times.
4. Speak to co- workers in a positive and respectful manner
5. Keep discussions and interactions related to work:

* Don’t bring personal problems to work or let them affect how you do your job or
* Avoid topics or making comments that might make others feel uncomfortable

1. Take proper care of work equipment and keep the environment tidy and clean.
2. Be a team player: participate proactively and listen to the ideas of others as well.
3. Be honest, etc.

## TIME MANAGEMENT

It is the ability to use your time wisely and appropriately.

* 1. **Steps for Time Management Skills**
* Setting goals and planning
* Prioritizing what you want to do in a day, week, month, etc.
* Making decisions about important decisions
* Having a calendar of daily activities / Scheduling what you need to do
  1. **Personal qualities that help a person to manage time**
* Good organizational skills
* Self-discipline
* Motivation: intrinsically or extrinsically driven to reinforcement of rewards, pride and praise
* Being focused on accomplishing tasks, etc.
* Balancing Work and Personal Life
  1. **Benefits of good time management**
* Time management helps to achieve individual objectives or goals
* Time management improves job performance
* Time management can result into possible promotions at work
* Time management ensures less debt and less stress at work
* Time management allows personal life to have a better marriage
* Time management helps to spent important time with friends
  1. **Barriers of Time management**

There are many things that can get a person off track in time management. These include:

* Disorganization
* Distractions by: noises, television, radio, and other things going on around you
* Interruptions caused by internet chart and telephone charting for a long time
* Inability to say no: taking on too many things at once
* Procrastination or Postponement of present activities on tomorrow or future dates.

# **UNIT 11: WORK SAFETY AND HEALTH**

## Positive Health and Safety Practices in the workplace

**Habits for Good Healthy**

* Get enough rest
* Good nutrition
* Avoid smoking and alcohol drinking
* Have always medical insurance: e.g: Mituelle de sante
* Sleep in bed net or super net to prevent malaria
* Take precaution to prevent injuries: e.g: Wear helmet when riding moto
* Get plenty of physical exercise, etc

**Hygiene Practice for Every Person**

* Daily showers or bath and washing hair
* Frequently washing hands and face
* Daily brushing and flossing teeth after very meal
* Washing hands before eating, breastfeeding and after bathroom, touching wounds, shoes and a sick person, Wearing clean clothes and shoes
* Hold a tissue or handkerchief over the mouth when coughing or sneezing, not a bare hand

**Important Health - Safety Practices and Sanitation in the workplace**

* Wash hand before preparing and eating food
* Wash regularly your body
* Wash dishes and store food
* Protect water sources, etc.
* Do not make any call while it is raining
* Keep clean toilet/ latrines and covered
* Use protective clothing and equipment

**Hazards in the workplace**

* Safety hazards
* Chemical hazards
* Biological hazards, etc.

**END OF YEAR!**