



# **ENTREPRENEURSHIP**

## **STUDENT BOOK**

### **YEAR 2**

**OPTIONS: ECLPE, SME, LE & SSE**





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# FOREWORD

Dear Student-teachers,

Rwanda Education Board is honored to present to you this Entrepreneurship book for year two which serves as a guide to competence-based teaching and learning to ensure consistency and coherence in the learning of entrepreneurship subject. The Rwandan educational philosophy is to ensure that you achieve full potential at every level of education which will prepare you to be well integrated in society and exploit employment opportunities. The government of Rwanda emphasizes the importance of aligning teaching and learning materials with the syllabus to facilitate your learning process. Many factors influence what you learn, how well you learn and the competences you acquire. Those factors include the instructional materials available among others. Special attention was paid to the activities that facilitate the learning process in which you can develop your ideas and make new discoveries during concrete activities carried out individually or with peers. In competence-based curriculum, learning is considered as a process of active building and developing knowledge and meanings by the learner where concepts are mainly introduced by an activity, a situation or a scenario that helps the learner to construct knowledge, develop skills and acquire positive attitudes and values. For effective use of this textbook, your role is to:

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

I wish to sincerely extend my appreciation to the people who contributed towards the development of this book, particularly to Educate! who provided financial support and REB staff who organized the whole process from its inception. Any comment or contribution would be welcome for the improvement of this textbook for the next edition.

**Dr. NDAYAMBAJE Irénée**

Director General, REB





# ACKNOWLEDGEMENT

I wish to express my appreciation to all the people who played a major role in the development of this entrepreneurship textbook for year two. It would not have been successful without the active participation of different education stakeholders. I owe gratitude to Educate! which allowed their staff to bring their expertise in the integration of skills lab pedagogy in all subjects especially the entrepreneurship textbooks and financial support provided in development of those books. Finally, my word of gratitude goes to the Rwanda Education Board staff particularly those from Curriculum, Teaching and Learning Resources Department who were involved in the whole process of in-house textbook writing.

**Joan Murungi**

Head of CTRLRD





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## INTRODUCTION

This textbook is part of school curriculum reform in Rwanda in particular how the curriculum is taught. It is hoped that this change will make what you learn in school more useful both at school and when you leave school.

In the past, the main reason for schooling was to obtain knowledge – that is facts and ideas about each subject. But nowadays the main reason due to changes that are happening in the environment and the job market is becoming more competitive therefore you should be able to use the knowledge you will obtain from this text book to develop competencies. These competencies include, ability to think for yourself, ability to communicate with others and to explain what you have learnt, as well as being creative in developing your own ideas, not just following those of the Tutor and the textbook. In this textbook, different approaches are used to help you to develop competences and make this textbook user friendly. Among these approaches are the following:

### Activity-based learning

These activities present you with instructions to follow that will help you to learn and discover others for yourself. You already have knowledge and many ideas based on the experiences you have had and your life within community. Some of the activities, therefore, require you to use the knowledge and ideas you already have.

In using this book, therefore, it is essential that you do all the activities and follow all the instructions. You will not learn very well unless you complete these activities provided. They are the most important part of the Textbook.

In some ways this makes learning more of a challenge. It is usually challenging to think for yourself than to copy what the Tutor tells you. But if you take up this challenge you will become a better person and become more productive and successful in your life.

### Group work

You can also learn a lot from other people in your class. If you have a problem, it can often be solved by sharing it with others. Many of the activities in the book, therefore, involve discussion. Your tutor will help to form and organize these groups in a conducive learning environment facing each other. You cannot discuss properly unless you are facing each other.





## Research

One of the objectives of the new curriculum is to help you discover for yourself. Some activities, therefore, require you to do research using Textbooks in the library, the internet if your school has access, or any other source such as newspapers and magazines etc. This means that you will develop skills of learning for yourself that can help you both when still in school and after school. Your tutor will help in case your school does not have a fully equipped library or internet.

## Skills lab

Entrepreneurship subject is more practical than theoretical that is why it requires time for skills lab which is a regular time on normal time table when student-teachers are required to complete learning activities working in manageable groups.

During skills lab activity student-teachers are given an opportunity to talk more and get more involved in the lesson than tutors. Student-teachers receive constructive feedback on work done (Tutor gives quality feedback on student presentations).

The Skills Lab prepares student-teachers to complete portfolio assignments on their own after classes. So, classroom activity should connect directly to the portfolio assignment and during the skills lab the tutor makes sure that he/she links the unit with the portfolio assignment, student's business club and back home projects.

## Icons

To guide you, each activity in the book is marked by a symbol or icon to show you what kind of activity it is. The icons are as follows:



### Introductory activity

This indicates thinking for yourself or groups discussion. You are expected to use your own knowledge or experience, or think about what you have read in the book, and answer questions individually or as a group activity.







## Thinking icon/Learning activity icon

This icon reminds you to link your previous knowledge with the topic you are going to learn. As a student feel free to express what you already know about the topic. What is most important is not giving the right answer but the contribution you are making towards what you are going to learn.



## Application Activity icon

Some activities require you to complete them in your exercise book or any other book. It is time for you to show if you have understood the lesson by answering the questions provided.



## Skills lab icon

This icon indicates a practical activity, such as a role play to solve a problem or complete an activity, participating in a debate and following the instructions provided by the teacher. These activities will help you to obtain practical skills which you can use even after school.



## End unit Assessment icon

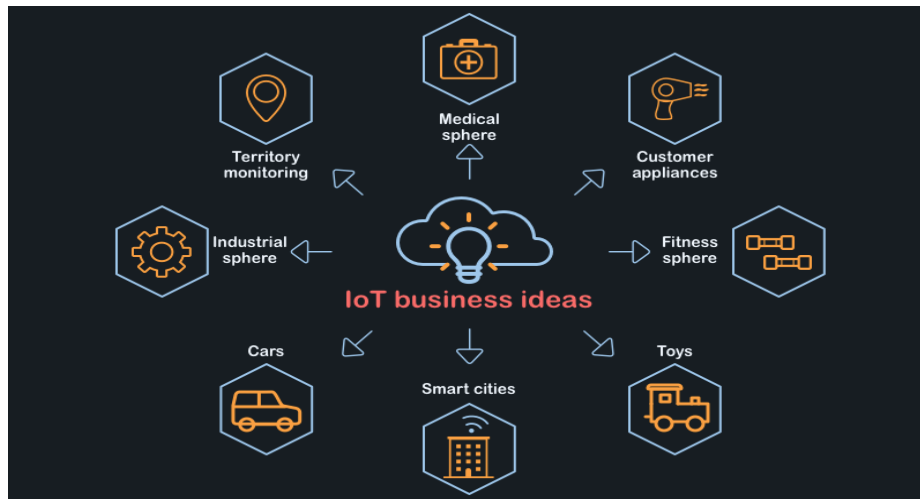
This icon requires you to write down the responses to activities including experiments, case studies and other activities which assess the attainment of the competences. Tutors are expected to observe the changes in you as a student teacher.





# UNIT 1

## ***BUSINESS IDEAS AND OPPORTUNITIES***



**Key Unit Competence:** To be able to generate viable business ideas.



### Introductory activity

Analyze the photo below and answer the following questions



*Figure 1.1 A cross section of Kigali City*



*Observe the picture above and identify different sources of business ideas.*

1. Generate different business ideas from the above environment.
2. Not all business ideas are business opportunities. Is this statement true or false? Give reasons to justify your response.

## 1.1 Business, business idea and a business opportunity

### 1.1.1. Meaning of a business idea

**Business** refers to any economic activity that involves the production, selling of goods and services, covering risks with the aim of getting profits.

**An idea** is called an opportunity if there is evidence that the entrepreneur's idea can be turned into reality.

**A business idea** simply refers to any thought that the entrepreneur may come up with as a result of scanning the environment with the possibility of developing it into a business opportunity. It requires the entrepreneur to exercise creativity and innovativeness in order to come up with the successful business ideas for the environment.

**Examples of business ideas** in Rwanda include; Real estate, clothing and textiles, food processing, E-Commerce, technology products.

### 1.1.2. Meaning of a business opportunity

**A business opportunity** can be defined as an identified situation or chance that can be turned into a real and profitable business.

An opportunity is a favorable set of circumstances that creates a need for a new product, service, or business. Such opportunities are determined by customer requirements and lead to the provision of a product or service which creates or adds value for its buyers or end-users.

**A business opportunity** is any situation that can be turned into a possible and profitable business activity.

An opportunity is a situation in which it is possible for you to do something that you want to do. A business opportunity is said to be viable, when it has the ability to grow and expand.





## Examples of business opportunity and their business idea

- Lack of sufficient safe water in your community is a business opportunity. Provision of JIBU, NIL, AKANDI or INYANGE water can be a business ideas.
- High demand for charcoal as a source of energy in your community is business opportunity. For that opportunity, many business ideas can be generated like provision cooking gas, making charcoal in wastes, planting trees, buying big vehicle to transport charcoal from far forest...

A business idea may not necessarily be a profitable business opportunity; one needs to filter and sift through these ideas to realize whether they are real opportunities.

### Application Activity 1.1

#### Case study: A reality T.V. Show

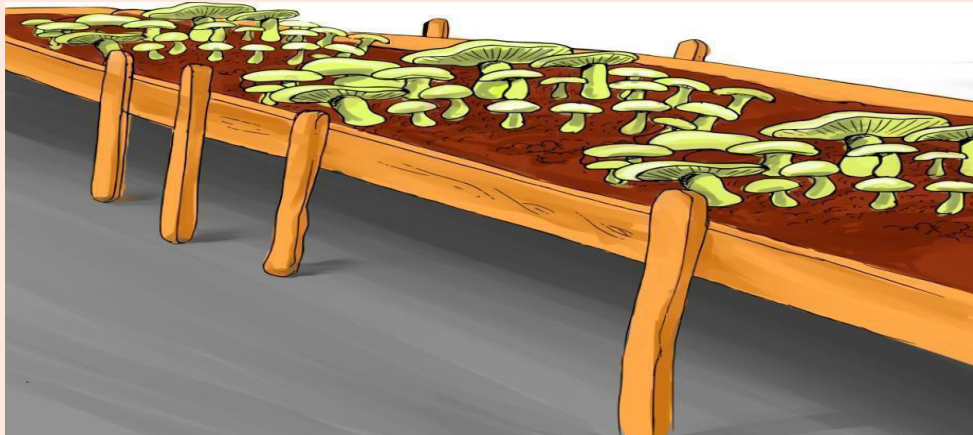


Figure 1. 2 A mushroom garden (Impact Markets)

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

#### Read through the excerpts from the interview

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

**Rwiyemeza:** It was during my school time when I joined a school business club. I got the idea when our club mentor told us that we can start a backhome.





business, we used to call it a 'BHB'. I introduced the idea to my parents and I was lucky that they supported me. It was not a very easy task with everyone telling me different things about growing mushrooms. Actually many people that I talked to focused on the challenges but about three people told me that I can overcome the challenges if I plan in advance. I therefore decided to take on the business of Mushroom growing and processing.

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

**Rwiyemeza:** There were so many challenges such as unsure market, competition, pests, but deciding on turning my business idea into a profitable business was most challenging. I had to make a lot of research from existing entrepreneurs, sector offices, and financial institutions. I also had to do personal evaluation. I found that I could market my product very widely to beat the market problem, and ensure much cleanliness and timely watering to avoid pests.

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

**Rwiyemeza:** Apart from earning a living for me and my family, my business employs three ladies and 2 gentlemen who earn a monthly salary. Important to note also, is that I have inspired a lot of other young entrepreneurs especially women to start their own businesses.

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

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

### **Questions:**

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





- a) What do you understand by a business and what is Rwiyezeza's business?
- b) Explain what you understand by a business idea. Mention any sources of business ideas for Rwiyezeza's business activity.
- c) Rwiyezeze says it was not easy for her to start up the business activity. Explain what you understand by a business opportunity and identify some challenges Rwiyezeze faced.
- d) Why do you think it is very important to do a research and personal evaluation before deciding to start a business activity?
- e) Looking at the situation at school and in your home community, what two best business ideas can you possibly take on? Why do you think those two are the most viable ones?

## 1.2. Reasons for generating business ideas



### Activity 1.2

- 1) Why do you think that it is important to generate business ideas?
- 2) In your own words, explain why the following Entreprises Urwibutso, Inyange, Mara phone, Volkswagen have been generated.



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





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

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

Hereafter are many reasons why entrepreneurs would need to generate business ideas:

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



### Application Activity 1.2

Identify a number of different needs and wants in your community that are not yet being met by the existing businesses and suggest the business you would come up with.





## 1.3 Sources of Business Ideas.



### Activity 1.3

Referring to your community and beyond, explain at least 5 business ideas that you can generate from the different sources.

The following are some of the sources of business ideas:

- **Looking within you and examining skills, talent and passion:** The very first place to start looking for business ideas and opportunities is to look within yourself. Self-examination is an important thing that can help in reaching to different decisions. It is important to examine your own skills, talent or passion that can fit into the business. Therefore, such businesses, which corresponds according to your skills is the most appropriate and are expected to be successful in the future.
- **Inventing a new product or service:** Another great source of business opportunity is inventing a new product or service. Different people are creative with a mindset of thinking out of the box and solving problems with the best appropriate solution. One needs to think like great entrepreneurs such as SINA Gerald of Urwibutso enterprise, Zulphat Mukarubega proprietor of Rwanda Tourism University College, etc. However, for winning ideas you need to be specific on your target market and analyse the problem.
- **Adding value to an existing product(Innovation):** Rather than inventing a product, one can also add value to existing products. These kinds of innovations can be proved as a great source of business opportunities. Since most of the inventions have already taken place, so it is prevailing as innovation.
- **Franchising:** A continuing relationship in which a franchisor provides a licensed privilege to the franchisee to do business and offers assistance in organizing, training, merchandising, marketing and managing in return for a monetary consideration. Franchising is a form of business by which the owner (franchisor) of a product, service or method obtains distribution through affiliated dealer (franchisees).

By looking on the demographics and the need for a particular service or product, one can also start a franchising business. It can be really profitable since much of business modeling is not required because a person uses the rights of another retailer.



- **Mass Media:** Mass media has become comprehensive from past few years. Magazines, TV, Newspapers etc. are a great source of ideas and opportunities. Different businesses are on sale and different commercial advertisements are available to choose from.
- **Attending Exhibitions:** Trade shows and Expos helps to develop a strong business network.
- **Industrial Survey:** Another important source for a business ideas can be industrial surveys. Since, the main point of a business is to fulfill the needs of a customer. Therefore, surveying and analyzing the underlying need of a customer can help in reaching a rational decision that addresses the customer's problem and result in a profitable business.
- **Listening to customer complaints:** Complaints are a part of customers' relationship that led into the development of new or improved products and services. Whenever customers report badly, it means that the customer satisfaction is not being achieved and there is some issues with the product. This can help in generating new business ideas for addressing problems of customers.



### Application Activity 1.3

Describe the qualities of a good business idea in your home community that can be turned into a Back-Home Business.

## 1.4. Steps of generating business ideas



### Activity 1.4

Referring to your community and beyond, explain at least 5 business ideas that you can generate from the different sources.

- a. What would you have to do in order to take on the best business opportunity?
- b. Would you advise a friend on how to assess business ideas and opportunities? If yes, how? If not, what would you do?





## 1. Start thinking/get your brain at work

The first thing to do when you get a business idea is determine whether it's a good idea. Not every idea that seems good at first is practical. And some business ideas have no market.

You will need to do some research to evaluate your business idea. Here is a checklist of questions to use as a guide:

- **Is there a need for this product or service?** Some of the most popular products and services meet a need that people currently have. The product or service may improve upon or complement an existing product or service, or your idea may be a completely new approach to meeting a need.
- **Is there a desire for this product or service?** Admittedly, some of the most popular products are desire-based rather than need-based. That means that someone is purchasing the product because they want to. A few needs-based reasons for a purchase include to increase status or to follow a trend.
- **Who is currently meeting the need for this product or service?** Answering this question gives you a start on evaluating your competition. You need to know not only who your competitors are, but also how many are they? Don't forget to consider indirect competition.
- **Who will buy this product or service?** Find out who your typical customer is likely to be. This may involve conducting surveys, testing the waters, finding a focus group, and more. The better your understanding your potential customer, the more likely you are to create a successful business.
- **How big is that market?** You may have a great business idea. It may even be brilliant. But, if the market for your idea is very small, your business might not be viable—that is unless people are willing to pay a premium for your product or service. This brings us to the next question.
- **How much are people willing to pay for your product or service?** Your intake from your product or service needs to cover your costs and should include a healthy profit. Remember, that even a small niche market can be profitable if potential customers are willing to pay you enough money.
- **How hard will it be to implement the idea?** Let's face it, some ideas are easier to implement than others. When answering this question, take into consideration the amount of time it will take you to launch your business as well as whether or not you will need to hire someone to help. After doing your research, you should be able to tell whether you want to continue on ,and develop your business idea.





*Fig 1.4. Business idea*

## **2. Buy a notebook (Think on paper)**

Now that you know how to stimulate your brain and get started with the creative thinking process, you need to keep count on your ideas and make sure that you can document them to study and examine them further. Every business you can think of started with a small idea somewhere, from a small observations, a frustrating situation, or while taking a shower. You never know when the inspiration comes, so keep a notebook close to you at all times to write these ideas down whenever they come.

## **3. Follow your passion**

Once you start your business, you will spend most of your day for several years doing that business. So make sure you choose a business that you feel passionate and excited about. If you don't like the business you are doing, you might not succeed in that business, probably not because you don't have what it takes, but mostly because you might lose interest too easily in the face of the challenges that will come your way.

## **4. Keep your eyes open**

New business opportunities get born from new situations every day. Keep an eye on what is happening around you, make it a habit to read the newspaper and identify new opportunities. You may read that people are complaining from poor health services in your area, or the lack of schools in your neighborhood. Talk to your neighbors and the people you know, what is frustrating them? What would they want to change in your neighborhood? Is your neighbor complaining that he/she needs to drive long distances to get to the nearest dry cleaner? Or is your other neighbor complaining about the lack of groceries in close proximity to where you live? Are your coworkers frustrated that there are no restaurants close to your work building?





## **5. Capitalize on your strengths**

Most people are good at something. Look at your experiences and career, what is it that you can do well? Have you been working in project management for 15 years and know the ins and outs of the business, this is often the best place to start. Instead of focusing on the things you cannot do well, focus on the things you are good at. What can you do better than others? How are the others doing it? And how can you do it differently?

## **6. Explore new things**

As mentioned earlier, change is one of the biggest stimulators to the brain. Even if you don't want to open your own coffee shop, next time you are in one, look at how things are done and think of new ways to improve it. Often this thinking might lead you to new ways to improve on your business ideas in your chosen field.

## **7. Check your bank account**

Starting and running your business requires money. Depending on your situation, you need to think of businesses that suit your budget. Everyone's finances are limited, so make sure whatever business idea you come up with is doable. If you have a small amount of money, then look into business ideas that are not cash hungry, maybe start small and then grow with the business.

## **8. Know what you want in life**

Aside from your business goals, think about the reasons why you want to start a business in the first place. What is it that you are looking for? What are your goals in life? Are you starting a business to be able to spend more time with your family? To make more money? To be respected among your peers?

Whatever your goals are, make sure that your business idea complements these goals and help you to achieve them. If your goal is to find more time to spend with your family and do other things, then starting a business that requires you to work 16 hours a day or travel constantly might not be the best idea.

## **9. Choose a business that suits your personality.**

Are you a morning person or a night creature? Each person has his/her own peak hours of the day. You will find very few successful bakers or newspaper owners that don't like to wake up in the morning. If you are not a morning person, avoid businesses that will need you to work in the early hours of the morning. If you are a night person, then maybe running a nightclub or a restaurant that stays open till late hours is more suitable for you. Conversely, if





you sleep early, running a business that requires you to stay late might not be suitable for you.

Are you an indoor or outdoor person? Do you like working in an office for long hours or can't stand the office and feel that you need on the move all the time? If you like the office quiet environment, then pick a business that can be done from an office. If you like to be on the move, pick a business that requires you to go to different places and meet new people.

Are you brainy or handy person? People do things differently, some people like to do things that involve thinking and working their brains, other people like to do things that involve craftsmanship and handy work.

Are you shy or outgoing person? If you are a shy person, then becoming a public speaker might not be the best idea for you. If you are an outgoing person and like to meet new people all the time, having an internet based business might deprive you from that joy.

I think you get the idea, think of your personal traits and attributes and pick a business idea that suits your personality.

## **10. Read about other people that started their own business**

A large part of becoming successful involves looking at other successful people and learning how they achieved their success. Reading autobiographies about prominent and successful business figures and learning how they started their journey will give you great insight on how they did things and what exactly they did to become successful.

You find that most of them started from nothing. Many of them failed in several businesses and had to listen to people that told them they will never be successful. But they stood up and tried again and again until they succeeded. It is not whether you fail that makes you the man you are, it is how you stand up after the fall.

Study their characters, what do successful entrepreneurs have in common? How did they achieve their vision? What challenges did they have to overcome? Look for similarities between their stories and your situation right now. You will find that it is a great source of inspiration and motivation. If others just like you did it, then you can do it too.





## 1.5 Business opportunities



### Activity 1.5

- 1) What do you understand by a viable business opportunity?
- 2) What business opportunities can you think of? Among those, which ones are viable for you and why?

#### *1.5.1. Meaning of business opportunities*

**A business opportunity** can be defined as an identified situation or chance that can be turned into a real and profitable business.

An opportunity is a favorable set of circumstances that creates a need for a new product, service, or business. Such opportunities are determined by customer requirements and lead to the provision of a product or service which creates or adds value for its buyers or end-users.

**A business opportunity** is any situation that can be turned into a possible and profitable business activity.

#### *1.5.2. Characteristics of a good business opportunity*

##### **1. Demand**

Demand is the first thing that one ought to take into account before planning to start a business is to ask themselves where there is a significant demand for the particular product or services they intend to launch i.e. is there a gap in the market? If the answer is NO then that idea isn't a viable business opportunity. It would also be profitable to target a specific niche as this increases the chances of you becoming a dominant player for that specific niche.

##### **2. Return On Investment (ROI)**

If the business opportunity you have in mind has the potential of bearing fruits within a set period of time and which can cover the capital that was used in addition to bearing profits there is a high chance that you have got a winner but if it only requires more and more capital to be injected in with minimal or no possibility of having any returns any time soon then you ought to tread carefully.





### **3. Availability of resources**

You should have all the resources needed to take advantage of that particular business opportunity as well as a time frame for implementing it, lest someone else beats you to it.

### **4. Skill**

You need to have the experience required to tap into that particular business opportunity e.g. if you want to start a bakery but don't know a thing about baking, then that is not a viable business opportunity. It is therefore important that you have the required skill i.e. experience and expertise, for the business you would like to start.

### **5. Scalability**

Can the business grow gradually within a given period of time and can it adapt to the changing times i.e. is it flexible enough? If the answer is NO then that idea isn't a viable business opportunity.

### **6. Healthy Profit Margin**

Does the business have a good profit margin that will ensure the business remains profitable even as it meets the gap in the market? If the answer is NO and you're not in it for charity then that idea isn't a viable business opportunity.

### **7. Customer Retention**

It's said that customers are the lifeblood of any business but if you can't retain your customers then your business won't last very long. You therefore need to put in place mechanisms that will ensure you prolong your customers stay with you i.e. that they will keep buying from you for as long as possible.

### **8. Low capital requirement**

A good business opportunity should be cheap to finance. Access to capital is a major obstacle to entrepreneurship implying that entrepreneurs should focus on ideas that are cheap to finance. Entrepreneurs exploit financing methods such as loans, venture capitalists and contributions from friends and family among others. Capital suppliers are reluctant to finance new businesses with huge capital requirements.

### **9. Aligns with your passion**

A good business opportunity is one that aligns with the individual's passion. The founder's motivation is a key determinant of the success of a start-up. A passionate founder has an internal motivation towards building a bright







future for the business. If you are like this leader, you will create a clear vision and mission statements and use them to motivate stakeholders towards the organizational goals.



### Application Activity 1.5

Suggest a project you need to start in your students business club and identify the requirements you need to start your project.

## 1.6. Factors to consider when generating and evaluating viable business ideas and opportunities



### Activity 1.6

- 1) What do you understand by a viable business opportunity?
- 2) What business opportunities can you think of? Among those, which ones are viable for you and why?

Discuss different ways in which you can use to learn about existing business ideas and opportunities both in your community and elsewhere.

It is very important to examine and evaluate your business opportunity and determine your potential for success before you spend time and money developing a business plan.

Entrepreneurs need to determine whether the business opportunity they have identified is viable or not. When evaluating the viability of the business opportunity, the following factors need to be taken into consideration:

#### 1. Market

Business evaluation process goes through analyzing the market. If there isn't a big enough market for your product or service, you should rethink whether this business opportunity makes sense.

- Who will be your target consumer?
- Is there a need for your business idea?
- Can you meet that market need?





For instance, you might think of a great business idea to produce a carbonated beverage flavored with roots, berries, and other natural flavors.

However, in your evaluation you might find that this type of product is already saturated in the market. The idea is good and a market exists, but if the market is flooded with competitors it would not likely be profitable.

## **2. Business plan**

The bottom line of any business is to make money. Without positive cash flow, you won't succeed. Business owners with the best of intentions often fail because the financial potential isn't big enough.

- Will there be sufficient financial reward?
- Do you see a potentially growing market for the product?
- Do you have others who believe in your business ideas?
- Are there other businesses that are similar (which is a validation that this potential business opportunity could be worth pursuing)?

You as an entrepreneur have a lot of thinking to do. Come up with great business ideas. Be creative and get enthusiastic about your ideas. However, always take the time to plan for a sound business because the better the business plan, the higher chances for your idea to succeed.

## **3. Technology and other requirements**

The business should be evaluated in terms of whether there is an appropriate technology that can be used in production. Factors to be looked into include;

Appropriateness of the technology, the cost of the technology, the possibility of the business suffering in case the technology becomes outdated/obsolete, availability of raw materials and other resources.

## **4. Infrastructure**

Easy access to infrastructure such as roads, water, electricity, telephone and postal services among others enables business enterprises easily make orders for goods and deliver them hence reducing operating expenses. With low operating expenses, profits can be maximized.

## **5. Government policy**

An entrepreneur should consider the requirements of the government before starting a business e.g. the government may require certain businesses to be located in certain areas only.





## **6. Amount of capital required**

The capital required to run and maintain the business should be considered i.e the source of capital.

## **7. Security**

Availability of security should be considered.

## **8. Impact of the business operations on the environment**

Some business operations on the environment lead to environmental degradation and should be located in appropriate environment.

Are the political, economic, geographical, legal, and regulatory contexts favorable? Will the business do any damage to the physical environment?

The above questions are typical of the type of issues that need to be addressed. Responses to these questions will determine the attractiveness of any business opportunity.

## **9. Competition and competitive advantage**

Competition is regarded as a threat to business of similar kinds operating in a similar location. Although competition is a threat, it is healthy in the sense that it goes along the way in controlling the price of goods offered. It is crucial for entrepreneurs to consider opportunities where competition is not high as this will enable them to get reasonable market.

## **10. Length of the window of opportunity**

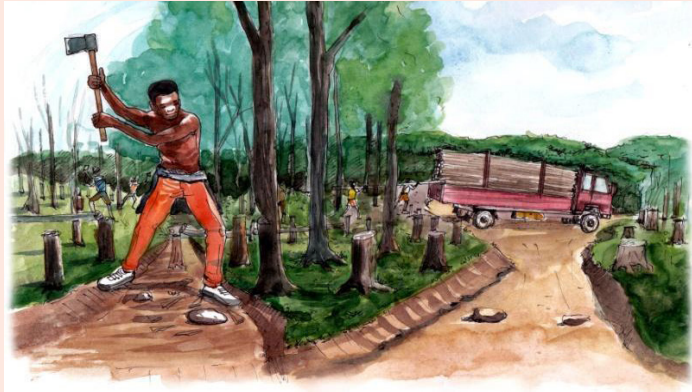
For example, one may inform you of an upcoming workshop for educators in your area, you realize that there is an opportunity for you to supply water, food and airtime among others, but for you to determine whether you should invest in this, you need to know how many people are coming, the length of the workshop, such that you know how much stock is needed, you also base on that to determine whether you will get back your money or not.





## Application Activity 1.6

Analyze the photo below and answer the questions that follow;



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



## Skills lab

Choose 2 businesses/ business ideas and conduct a viability test to find out which one is better in terms of; **1. Potential for growth, 2. Infrastructure, 3. Market for the goods/services (real demand), 4. Profitability, 5. Competition and competitive advantage, 6. Financial viability.** Make posters indicating how each of the above factors favors or limits their business ideas with clear examples.

Recommend the most viable business ideas the Business club should continue/ start running basing on the results of the viability tests and suggest action steps for the implementation.



## End of unit 1 Assessment

1. Read the following scenario:

Mr. and Mrs. Kaberu visited their friend Kambanda who lives in Kigali. They were surprised to see how Kambanda's business of Coca-Cola wholesaling was booming. They didn't even ask him how and why he chose to do that business.

When they went back home in Nyagatare, they sold all their cows and opened a shop because they were kept for long. The landlord chased them out of the house because they couldn't pay rent any more.

Out of frustration, Mr. Kaberu had to sell all his stock at half price because he had nowhere else to keep them. On hearing this, his wife Mrs. Kaberu cried the whole day and night to the extent that she collapsed and was taken to the hospital at the mercy of the neighbours because her and her husband couldn't afford the medical bills.

### Questions

- a) Explain whether the business idea was good or bad.
  - b) Write a letter to Mr. and Mrs. Kaberu advising them on the importance of assessing a business idea or opportunity in case they have another one.
2. There are many business opportunities that we can get from our communities, why should we always assess a business opportunity before investing our resources and time? To answer this, discuss in your groups and raise at least 5 business opportunities that you can think of. Assess each one of them and choose the best two viable ones which you will present to the class.



# UNIT 2

## *DRAFTING A VALID BUSINESS CONTRACT*



**Key Unit Competence:** To be able to make a valid contract in business operations.



### Introductory activity

Sam met with a businessperson on a football match who requested him to be supplied with beans at a price of 500 Frws per kilogram. When Sam delivered 200kgs, he was not paid the full amount of money they had agreed upon.

- Has such a situation ever happened to you? When and what happened?
- What mistake did Sam do?
- Assume you were the one in such a situation, what would you do?
- What advice would you give to Sam and the businessperson?
- What lessons do you learn from the above situation?

## 2.1. Meaning and Forms of Business contracts



### Activity 2.1

Bayigana operates a small medium enterprise in Huye and wants Ishimwe to supply his business with goods. Bayigana tells her to start right away and supply the goods they will discuss other issues later. She insists that she needs an agreement between the two especially on issues of price, mode of payment, delivery period, quantity and quality, among others.

- How do you call an agreement that Ishimwe insists to be between them?
- Do you think she is right to have the agreement before starting the supply of goods? Give reasons to support your answer.
- In which way/form may the agreement be made between the two? Support your answer
- What do you understand by the term contract and business contract?

### 2.1.1 Meaning of contract and Business contract



Figure 2.1: A business contract

**A contract** is a legally binding agreement between two or more parties which can be enforced by law.

Example in marriage the woman and man make a contract during civil marriage. The three parties are woman, man and witness will come to testify before the law represented by Executive secretary of sector.



Before starting a job, the employer and employee make a contract. In this case there are two main parties and the law is now represented by official labor law because it is not possible to make a job contract which is against the labor law.

**A business contract** is a legal binding between two or more persons/ entities to perform an agreed business transaction and can be enforced by law. The day today running of the business involves making contractual obligations with suppliers, buyers etc.

**Example:** A farmer can make a contract of supplying chicken to the hotel. In most cases this contract is written and two parties should sign to that document. This contract should follow the official law like the right person who represents the hotel and the farmer should have maturity age. The two parties should sign with free consent. Once signed it becomes a document which binds the two parties.

### *2.1.2 Forms of business contracts*

**Oral contract** is an agreement between two or more parties by use of words. They are non-written contracts. They rely on the good faith of the parties but can be difficult to prove. Once the contract is verbal, the witness is mandatory and provides evidence.

**Written contract** is a contract documented on paper, signed by the contracting parties and witnessed by a third person (the witness).



#### **Application Activity 2.1**

Read the following statements and answer the questions that follow:

- Nkusi wants to lend his car to Niragire for 5,000Frw per day for five days.
- Niragire agrees with a handshake to borrow the car from Nkusi and pay the money in witness of Rukundo.
- Ntezimana promises to take his girlfriend Bagirishya for an outing to Lake Kivu.
- Niyokwizerwa promises to pay 10,000Frw to whoever finds her lost phone.
- Gato puts on paper his commitment to provide printing services to Umutoni on agreed terms.
- Mutesi promises to pay for her brother's school fees and puts it in writing.







Which of the above statements are?

- a) Contracts.
- b) Not contracts.
- c) Business contracts.

## 2.2 Valid contract

### 2.2.1. Parties to a contract



#### Activity 2.2

1) Analyze the figure below and answer the following questions.

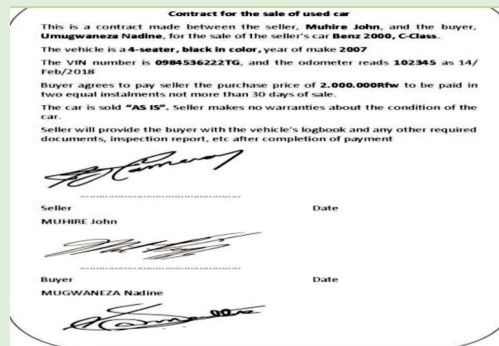


Figure 2.2. Example of contract

- a) Do you think the above sample is a contract? Give reasons to support your answer.
  - b) Name the key elements of the written contract above.
  - c) Do you think the sample above is a valid contract? Support your response by mentioning the elements of a valid contract in the sample provided. (If any?)
- 2) Describe different parties to a valid contract.
- 3) Kamaliza's 16-years old son, who looks a bit older, he signed a contract joining a health club. He has dues of 15000 Frws. Is this contract valid?

**Parties of contract** are persons who can sign the contract. For a **contract** to be considered valid, it should include three parties. These are; **Offeror/promisor** who makes an offer, **Offeree/promisee** to whom an offer is made and **Witness** who sees an event happening.





For example, in the above template Mr. John Muhire **Offeror/promisor** agrees to sell his car to Umugwaneza Nadine **Offeree/promisee** at 2 millions.

Two parties to contract **Offeror/promisor and Offeree/promisee** must have “capacity”, legal ability to make valid contract. Assent of parties is a must. If either party is deprived, use of his understanding or deemed by law not have attained consent, then such an agreement shall not bind him. All parties should have should be mature, sound mind and qualified for contract by law.

The information of two parties in contract should be clear, complete and concise. In any case, the names are not enough, it should be better to include other information like number of identification card, the location where those documents are issued. Ensure that all information is well reflected on the contract. For example in above contract there is a mistake in writing names. Umugwaneza Nadine who sells the car is not the same Mugwaneza Nadine who signs the contract. These slit mistakes can disqualify the contract.

**Witness** is a person who sees an event happening. In a legal contract, a witness is someone who watches the document be signed by the person they are being a witness for and who verifies its authenticity by signing their own name on the document as well. However, if you have a legal document such as a mortgage or a Will the chances are that you will want a witness to attest to your signature. Generally, the person you choose to witness a document should have no financial or other interest in an agreement. A neutral third party is the best choice.

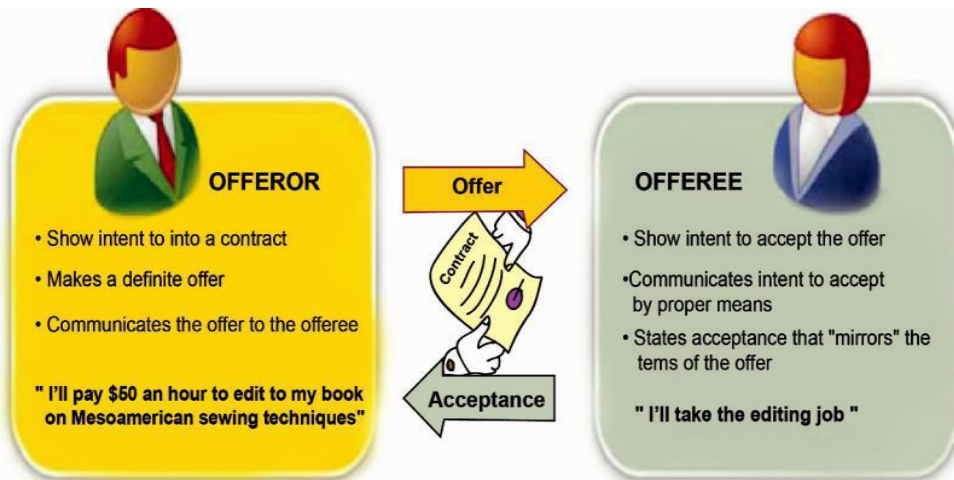


Figure 2.3: Parties of a valid contract





### **2.2.2. Elements of a valid contract**

For a contract to be valid and therefore enforceable by law, it must have the following elements:

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

**Offer and acceptance:** there must be an offer and the two parties must lawfully come to acceptance leading to a valid contract. Until an offer is accepted, it's not a valid contract

**Consideration/price:** this is the price agreed upon by the parties to the contract and paid by one party for the benefit received or promise of the other parties.

**Capacity of the parties:** the parties to the contract must have contractual capacity for the contract to be valid, i.e. should be sober, above 18years, not bankrupt, not insane, properly registered.

**Free Consent:** parties to the contract must agree freely without any of the parties being forced to accept or enter the contract.

**Legality/lawful object:** the object and the consideration of the contract must be legal and not contrary to the law and public policy.

**Possibility of performance:** if the contract is impossible to be executed in itself either physically or legally, then such contract is not valid and cannot be enforced by law.

**Certainty:** the terms of the contract must be clear and understandable for a contract to be valid. If the terms are vague or ambiguous, where even the court may not be able to tell what the parties agreed, then it will be declared invalid.



#### **Application Activity 2.2**

Imagine if you make a contract without considering the elements of a valid contract, what will happen if the person/ business refuses to pay?



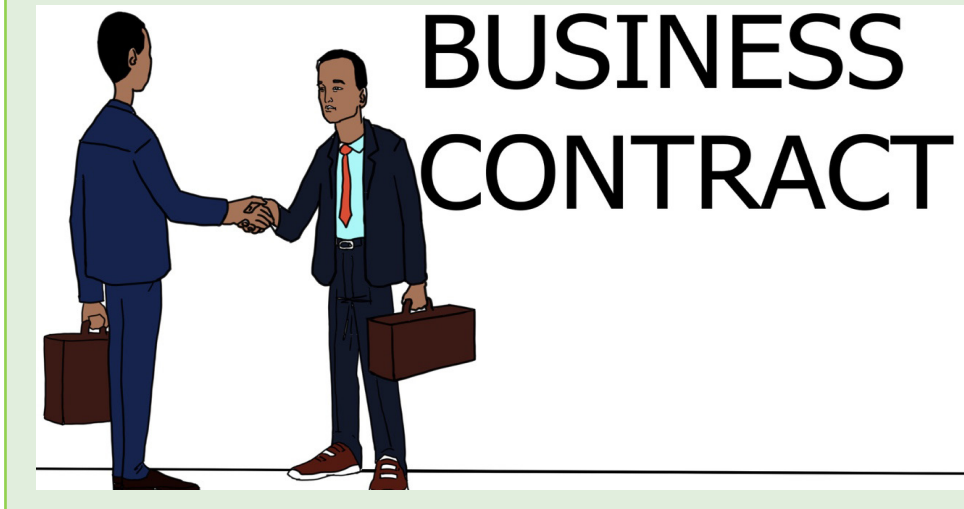
## 2.3. Importance of business contracts



### Activity 2.3

#### Why is it essential to prepare business contracts?

Referring to the activities in the previous lessons, do you think it is important to have contracts in business operations? Give reasons to support your answer.



In **business life**, **contracts** are **important** because they outline expectations for both parties, protect both parties if those expectations aren't met and lock in the price that will be paid for services. There are so many relationships that affect the way the business operates such as customers or clients, employees, suppliers, government, financiers. Contracts are then important in the following ways:

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



- Contracts may be used by entrepreneurs to convince bankers that the entrepreneur has a business that will generate income so as to obtain loans.



### Application Activity 2.3

Demonstrate the importance of business contracts to the school business club.

## 2.4 Designing a contract sample



### Activity 2.4

Prepare a sample contract with suppliers for your school business club.

#### 2.4.1 Sample of Employee contract

Employee Contract Template:

Employment Contract

This contract, dated on the \_\_\_ day of \_\_\_\_\_ in the year 20\_\_\_, is made between [company name] and [employee name] of [city, state]. This contract constitutes an employment agreement between these two parties and is governed by the laws of [state or district].

WHEREAS the employer desires to retain the services of the employee, and the employee desires to render such services, these terms and conditions are set forth.

IN CONSIDERATION of this mutual understanding, the parties agree to the following terms and conditions:

#### Employment

The employee agrees that he or she will faithfully and to the best of his/her ability to carry out the duties and responsibilities communicated to him/her by the employer. The employee shall comply with all company policies, rules and procedures at all times.

#### Position

As a [job title], it is the duty of the employee to perform all essential job functions and duties. From time to time, the employer may also add other duties within



the reasonable scope of the employee's work.

### **Compensation**

As compensation for the services provided, the employee shall be paid a wage of \_\_\_\_\_ [per hour/per annum] and will be subject to a (n) [quarterly/annual] performance review. All payments shall be subject to mandatory employment deductions (State taxes, Social Security, Medicare).

### **Benefits**

The employee has the right to participate in any benefits plans offered by the employer. The employer currently offers [list benefits, if any]. Access to these benefits will only be possible after the probationary period has passed.

### **Probationary Period**

It is understood that the first [time frame] of employment constitutes a probationary period. During this time, the employee is not eligible for paid time off or other benefits. During this time, the employer also exercises the right to terminate employment at any time without advance notice.

### **Paid Time Off**

Following the probationary period, the employee shall be eligible for the following paid time off: • [length of time for vacation] • [length of time for sick/personal days] • Bereavement leave may be granted if necessary.

The employer reserves the right to modify any paid time off policies.

### **Termination**

It is the intention of both parties to form a long and mutually profitable relationship. However, this relationship may be terminated by either party at any time provided [length of time] written notice is delivered to the other party.

The employee agrees to return any employer property upon termination.

### **Non-Competition and Confidentiality**

As an employee, you will have access to confidential information that is the property of the employer. You are not permitted to disclose this information outside of the company.

During your time of employment with the employer, you may not engage in any work for another employer that is related to or in competition with the company. You will fully disclose to your employer any other employment relationships that you have and you will be permitted to seek other employment provided



that (a.) it does not detract from your ability to fulfill your duties, and (b.) you are not assisting another organization in competing with the employer.

It is further acknowledged that upon termination of your employment, you will not solicit business from any of the employer's clients for a period of at least [time frame].

### **Entirety**

This contract represents the entire agreement between the two parties and replaces any previous written or oral agreement. This agreement may be modified at any time, provided the written consent of both the employer and the employee.

### **Legal Authorization**

The employee agrees that he or she is fully authorized to work in [country name] and can provide proof of this with legal documentation. This documentation will be obtained by the employer for legal records.

### **Severability**

The parties agree that if any portion of this contract is found to be void or unenforceable, it shall be removed from the record and the remaining provisions will retain their full force and effect.

### **Jurisdiction**

This contract shall be governed, interpreted, and construed in accordance with the laws of [State, province].

In witness and agreement whereof, the employer has executed this contract with due process through the authorization of official company agents and with the consent of the employee, given here in writing.

### **Employee Signature**

**Date**

**Company Official Signature**

*Source: [www.betterteam.com/employee-contract-template](http://www.betterteam.com/employee-contract-template)*





### 2.4.2. Sample of a sales contract

#### PRIVATE CAR SALES CONTRACT

##### The Car Details

Make: *Toyota*

SOLD FOR:..... frws

Model.....

Registration Number..... Registration document

completed by buyer/seller ..Yes/No . Mileage..... Registration document (V5) exchanged ....Yes/No .

Additional notes and comments agreed on this sale

SELLER'S DETAILS: Name..... Address.....

CERTIFICATE of PURCHASE: I am the undersigned buyer of the above car. I have purchased it from the seller named above for the amount of cash also mentioned above (SOLD FOR). This is the final price agreed. I have paid for this car in full and I am in receipt of this car and all the relevant documents to it. The Seller above also acknowledges being in full receipt of all the total amount but I do accept that full title to the car does not fully pass from the seller to purchaser until all cash is paid. Any cheques will need to be cleared before full title passes to myself. It is fully understood that this vehicle is sold as seen. I the buyer agree that I have tried, tested and approved this car as suitable for my personal needs without any representations, warranties or conditions expressed or implied whatsoever.

Buyer's Name:.....

Buyer's Address: .....

Buyer's Signature in agreement: .....

Seller's Signature in agreement: .....

Date: .....



#### Application Activity 2.4

Assume, your parents have houses to rent at home, help them design a rental contract that will be signed by the tenants.







## 2.5 Termination/discharge of business contracts



### Activity 2.5

What do you think would lead you to terminate a contract with your suppliers?

To terminate a contract means to end the contract. Contract may be terminated under the following circumstances:

**By performance:** If the contract is performed and fulfilled as expected under the terms and conditions of the contract and both parties are satisfied, then the contract may be terminated.

**By agreement:** The parties to the contract may freely agree to end the contract if both consent to end the contract.

**By destruction of the subject matter:** The contract may be put to an end when the subject matter of the contract ceases to exist such as being destroyed, stolen or died.

**By operation of the law:** The contract may be terminated by law if it is illegal, if one party becomes bankrupt, insane or dies.

**By frustration:** A contract can be put to an end when a condition set in hinders one of the parties from performing his/her contractual obligations.

**For convenience:** Where the contract allows a party to terminate the contract at any time by providing notice to the other party for example employment contract.

**Due to a breach:** Where one party has not complied with an essential contract condition, the other party may decide to terminate the contract and seek compensation for damages.

**By lapse of time:** If the offeror fails to perform and the offeree fails to take action within this specified period, then the latter cannot seek remedy through law. It discharges the contract due to the lapse of time. For example, Ngabo takes a loan from Kamikazi and agrees to pay instalments every month for the next three years. However, he does not pay even a single instalment. Kamikazi calls him a few times but then gets busy and takes no action. Four years later, she approaches the court to help her recover her money. However, the court rejects her suit, since she has crossed the time-limit of three years to recover her debts.





## Application Activity 2.5

1) Read the following paragraph and answer the questions that follow:

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

- a) Mention some of the mistakes Musoni is doing in his business activities?
  - b) What are the likely consequences of Musoni's actions mentioned above?
  - c) What advice would you give to Musoni to avoid the consequences above and why?
  - d) What may cause Musoni to terminate the contract with the construction company?
- 2) Kizito offered 10,000Frw for the return of his lost dog, but then he refused to pay because he thought the person who brought the dog back had stolen it.

Was there a valid contract in the scenario above?

Do you think Kizito is right? Give reasons to support your answer.

What advice would you give to the person who brought the dog back?



## Skills lab 2

With reference to the knowledge of Business contracts, design contract templates to be used in the school business club when dealing with; a) suppliers. b) Customers, c.) Employees of the club, d.) Club members.



## End of unit 2 Assessment

1) Read the case study below and answer the questions that follow:

### Shine Business club

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

- a) What are some of the essential elements of a valid contract observed in the above case study?
- b) Was there a valid contract in the above case study? Support your answer
- c) What advice do you give to shine business club?
- d) How would you approach the situation or the above problem if it was your business club?

2) Analyze the example below and answer the questions that follow:

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

- a) Is there a valid contract in the above example?
- b) Referring to the elements of a valid contract, support your response;
- c) Which form of business contract would you advise Nkusi to sign with Mukarutesi?
- d) What do you think may lead the contract in the example above to be terminated?





3) Read the following passage and answer the questions that follow.

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

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



# UNIT 3

## TAXES IN BUSINESS



**Key unit competence:** To be able to analyze the role of tax towards economic development of the country and pay taxes.



### Introductory activity: A case study

#### Why Do You Have to Pay Taxes

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

In Rwanda, there are arms of the government (ruling bodies) from the village, sector, district, provincial and national levels. These bodies comprise: Legislature (who make laws), Executives (who enforce laws) and Judiciary (who exercise laws). The salaries that public servants receive to do their jobs come from taxes. Paying taxes is considered a civic duty, although doing so is also a requirement of the law.



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

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

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

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

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

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

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

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

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





**From the passage answer the following questions:**

What are the major changes expected by people especially business people on June 15, every year?

What makes the business people so anxious to know the changes mentioned above in a)?

Why do you think it is important for businesses to pay taxes to the government?

How do the following benefit from taxes?

- i) Entrepreneur.
- ii) Government.
- iii) Society.

- a) Identify and briefly explain at least two types of taxes paid in Rwanda?
- b) What happens to businesses or people who do not pay taxes?
- c) What is the difference between tax and taxation?

### 3.1. Tax and business tax



Source: <https://www.bytestart.co.uk>





## Activity 3.1

1. Explain the meaning of the following terms used in taxation:
  - a) Tax
  - b) Business tax
2. In your community, you have probably heard people and business people complaining about the taxes they pay or charged to different or similar items. Identify any 5 things you have heard normally people complain about.
3. If you were the one determining or imposing taxes to people and businesses, mention any five things you would put into consideration.

### *3.1.1. Meaning of taxation concepts*

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

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

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

Taxation is a system/practice of government collecting money from its citizens to pay for public services.

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

#### **Example of Tax Avoidance:**

- Taking legitimate tax deductions to maximize business expenses and thus lower your business tax bill.

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



taxes, sales, etc.

### Examples of practices considered as tax evasion:

- It is considered tax evasion if you knowingly fail to report income.
- Under-reporting income (claiming less income than you actually received from a specific source).
- Providing false information to the RRA about business income or expenses, etc.

### 3.1.2 Characteristics or principles of a good taxation system



Figure 3.2. Characteristics of good taxation system

A good taxation system can contribute a lot to the economic development of a country and its national treasury. Equitable taxation system bears a significant role in bringing harmony in the lifestyle of the population of the country. A good tax system should consist of taxes which conform to the canons of taxation. The canons or principles of taxation are explained as follows:

- 1) Convenience:** Places, periods and seasons in which the tax dues are collected should be convenient to the taxpayer. For example, the convenient time to a trader is when s/he has made a profit. For a farmer, is when s/he has sold his/her products.
- 2) Simplicity:** The type of tax and the method of assessment and collection must be understandable by both the taxpayer and tax collectors. Complicated taxes may lead to disputes, delays and high costs of collection in terms of time and resources.
- 3) Certainty:** The taxpayer must know the nature, base and amount of tax without doubt. Unpredictable taxes discourage investment and reduce work effort. Simply the tax should not be arbitrary.
- 4) Economy:** The cost of collection and administration of tax must be much lower than the tax collected



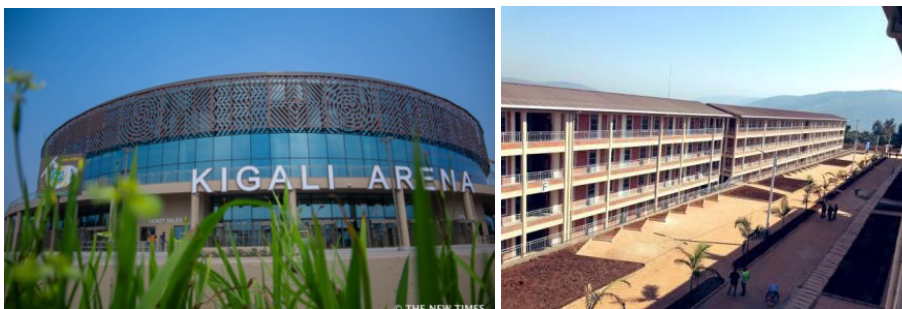
- 5) **Elasticity:** A tax should change directly with a change in the tax base. If the tax base increases, the tax charged on the tax base should also increase.
- 6) **Productivity:** The fiscal authorities should be able to predict and forecast accurately the revenue a particular tax would generate and at what rate it would flow in.
- 7) **Equity:** Tax assessment should be in such a way that taxpayers bear a proportionately equal burden. I.e. people who earn more income should be taxed more than those who earn less income.
- 8) **Diversity:** This canon requires that there should be a number of taxes of different varieties so that every class of citizen may be called upon to pay something towards the national priorities



### Application Activity 3.1

1. Why is it important to have principles of taxation?
2. Referring to the principles (characteristics) of a good taxation system you know, briefly explain why each is important to the taxpayer and tax authority (RRA).
3. With examples, differentiate
  - a) Tax and Taxation
  - b) Tax avoidance and Tax evasion
4. Do you think tax evasion is good? Give reasons to support your response

## 3.2. Importance of paying taxes



Sources: <http://www.kigalicity.gov.rw>

Figure 3.2 Taxes help the government to build infrastructures





## Activity 3.2

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

### 3.2.1. Importance of paying taxes to an entrepreneur



Figure 3.3: Paying taxes

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



Development Fund (BDF), which support entrepreneurs to operate business activities through soft loans and other financial support.

### ***3.2.2. Importance of paying taxes to the government***

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

### ***3.2.3. Importance of paying taxes to Society***

- There are reduced rates of poverty among the community due to a significantly equal distribution of income through various activities and projects set by the government.
- Improved wellbeing among the vulnerable and elderly as they benefit from the different government programs financed through taxes.
- Reduced infant mortality rates and increased life expectancy due to improved access to health facilities and services.
- Increase in the percentage of the population that completes secondary and TVET education, reducing the literacy levels, improving on the peoples’ skills through programs such as 12YBE.
- Increased community/social solidarity, general happiness, life satisfaction,





and a significant more trust among the community members and for public institutions.

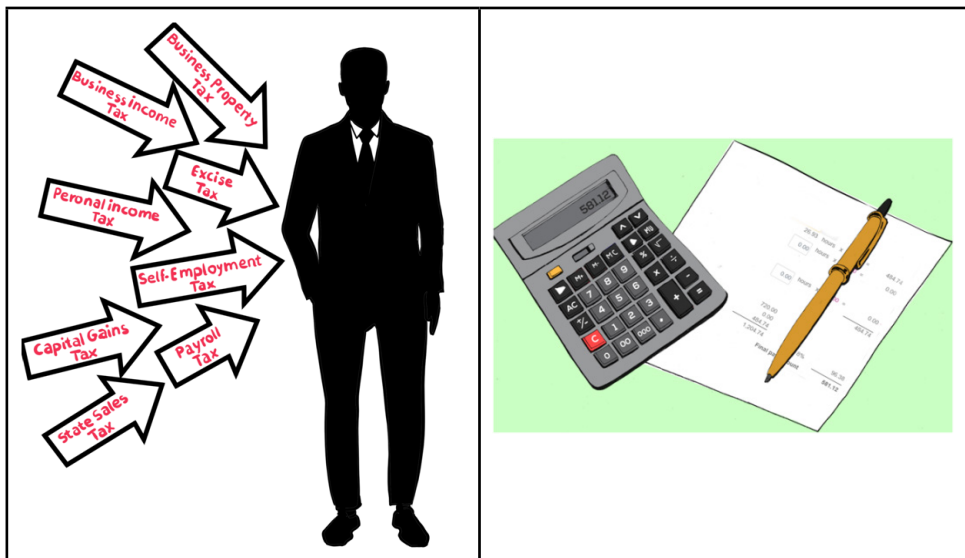
- Taxes are charged on some products to discourage their production and usage hence controlling over-exploitation of resources as well as protecting the environment which is vital for the existence of the society.



### Application Activity 3.2

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

## 3.3. Calculation of taxes



**Figure 3.4:** Different types of taxes are computed and paid to tax authorities



### Activity 3.3

1. Do you think it is important for an entrepreneur to know how to compute the amount of tax he/she is supposed to pay? Give reasons.
2. What do you think the term “Pay-As You-Earn (PAYE) tax means”? And how is it calculated?



There is a variety of taxes that a business has to pay such as corporate income tax, trading license tax, professional income tax or PAYE (Pay-As-You-Earn), rental income tax, fixed asset tax, Value Added Tax (VAT), Sumptuary tax, etc. but here, an emphasis is made on:

1. Pay- As- You Earn (PAYE) and
2. Value Added Tax (VAT)

### ***3.3.1. Pay-As -You-Earn (PAYE) tax or professional income tax***

The tax law requires that when an employer makes available employment income to an employee the employer must withhold, declare, and pay the PAYE tax to the Rwanda Revenue Authority within 15 days following the end of the month for which the tax was due.

PAYE: is composed of Wages, salaries, leave pay, sick pay, medical allowances, pension payment etc. Pay-As-You-Earn tax is computed as follows:

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

#### **Example:**

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

- a) Rukundo earns 450,000Frw
- b) Karinganire earns 89,000Frw
- c) Keza earns 28500Fw
- d) Buzima earns 12,5000Frw

**Required:**

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

**Solution:**

a) Rukundo :

From Frw	To (Frw)	Taxable income	Tax rate	Tax (Frw)
0	30,000	30,000	0%	$30,000 \times 0\% = 0$
30,001	100,000	70,000	20%	$70,000 \times 20\% = 14,000$
100,001	450,000	350,000	30%	$350,000 \times 30\% = 105,000$
<b>Total</b>				<b>119,000</b>

**Total TAX for Rukundo = 14000+105000= 119,000Frw**

b) Karinganire:

From Frw	To (Frw)	Taxable income	Tax rate	Tax (Frw)
0	30,000	30,000	0%	$30,000 \times 0\% = 0$
30,001	89,000	59,000	20%	$59,000 \times 20\% = 11,800$
<b>Total</b>				<b>11,800</b>

**Total tax for Karinganire is 11,800Frw**

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

d) Buzima:

From Frw	To (Frw)	Taxable income	Tax rate	Tax (Frw)
0	30,000	30,000	0%	$30,000 \times 0\% = 0$
30,001	100,000	70,000	20%	$70,000 \times 20\% = 14,000$
100,001	125,000	25,000	30%	$25,000 \times 30\% = 7,500$
<b>Total</b>				<b>21,500</b>

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



Total **PAYE** for Kanyarwanda enterprise every month  
= (119,000+11,800+21,500)Frw= 152,300Frw

**Note:**

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

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

### 3.3.2. Value Added Tax (VAT)



**Source:** [Exceldatapro.com](http://Exceldatapro.com): VAT varies according to the level of values added on a product

**Value Added Tax** was introduced in Rwanda in 2001. VAT is a tax on the added value achieved by a firm. This is the difference between the buying price (of raw materials) and the selling price of the product in whatever forms it is sold.

**Value added = F.P - I.C** where F.P is final product, IC is intermediate costs

#### Tax rate

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

#### Example 1:

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







### Possible solution

**Step 1** VAT paid by local farmer:

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

**Step 2** VAT paid by wholesaler:

VAT = FP - IC where FP is final product and IC is intermediate cost

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

$$\text{VAT paid by wholesaler} = 2,800,000\text{Frw} \times 18\% = \mathbf{504,000\text{Frw}}$$

**Step 3** VAT paid by LEMIGO hotel:

$$\text{VAT paid by LEMIGO hotel} = 8,000,000 - 4,000,000\text{Frw} - (4,000,000\text{Frw} \times 18\%) = 720,000\text{Frw}$$

$$\text{Therefore, total VAT} = 216,000 + 504,000 + 720,000 = \mathbf{1,440,000\text{Frw}}$$

**Alternative:**

VAT is calculated on sales.

$$\text{VAT} = \text{sales} \times 18\%$$

$$\text{Which is equal } 8,000,000\text{Frw} \times 18\% = \mathbf{1,440,000\text{Frw}}$$

### Example 2:

A students' business club has sold goods to XY enterprise at 100,000 Frw VAT excluded.

**Calculate:**

a) VAT received

b) The price VAT included

**Solution:**

$$\text{a) VAT received} = \frac{\text{Price VAT excluded} \times 18}{100} = \frac{100000 \text{ Frw} \times 18}{100} = 18,000\text{Frw}$$

$$\text{b) The price VAT included} = 100,000\text{Frw} + 18,000\text{Frw} = 118,000\text{Frw}$$



**OR**

$$\text{The price VAT included} = \frac{\text{Price VAT excluded} \times 118}{100} = \frac{100000 \text{ Frw} \times 118}{100} = 118,000\text{Frw}$$

**Example 3:**

A students' business club has bought goods from XY enterprise at 1,000,000 Frw VAT included.

**Calculate:**

- a) VAT paid
- b) The price VAT excluded

**Solution:**

$$\text{a) VAT paid} = \frac{\text{Price VAT included} \times 18}{118} = \frac{1000000 \text{ Frw} \times 18}{118} = 152,542.37\text{Frw}$$

$$\text{b) The price VAT excluded} = \frac{\text{Price VAT included} \times 100}{118} = \frac{1000000 \text{ Frw} \times 100}{118} = 847,457.63\text{Frw}$$

**OR**

$$\begin{aligned} \text{The price VAT excluded} &= \text{Price VAT included} - \text{VAT paid} \\ &= 1,000,000\text{Frw} - 152,542.37\text{Frw} = 847,457.63\text{Frw} \end{aligned}$$

**Exemptions on Value Added Tax**

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

1. Services of supplying clean water and ensuring environment treatment for nonprofit making purposes with the exception of sewage pump- out services;
2. Goods and services for health-related purposes: (health and medical services, equipment designed for persons with disabilities, goods and drugs appearing on the list made by the Minister in charge of health and approved by the Minister in charge of taxes.
3. Educational materials, services and equipment; books, newspapers and journals
4. Transportation services by licensed persons:
5. Lending, lease and sale: (sale or lease of land, sale of a whole or part of a building for residential use, renting or grant of the right to occupy a house used as a place of residence of one person and his/her family) etc.



6. Financial and insurance services;
7. Precious metals: sale of gold in bullion form to the National Bank of Rwanda;
8. Any goods or services in connection with burial or cremation of a body provided by an Order of the Minister in charge of finance;
9. Energy supply equipment appearing on the list made by the Minister in charge of energy and approved by the Minister in charge of taxes;
10. Trade union subscriptions;
11. Leasing of exempted goods;
12. All agricultural and livestock products, except processed ones. However, milk processed, excluding powder milk and milk derived products, is exempted from this tax;
13. Agricultural inputs and other agricultural and livestock materials and equipment appearing on the list made by the Minister in charge of agriculture and livestock and approved by the Minister in charge of taxes.
14. Gaming activities taxable under the Law establishing tax on gaming activities;
15. Personal effects of Rwandan diplomats returning from foreign postings, Rwandan refugees and returnees entitled to tax relief under customs laws.
16. Goods and services meant for Special Economic Zones imported by a zone user holding this legal status;
17. Mobile telephones and SIM cards;
18. Information, communication and technology equipment appearing on the list made by the Minister in charge of information and communication technology and approved by the Minister in charge of taxes.



### Application Activity 3.3

1. A students' business club (SBC) in one of the TTCs has the following regular employees. Their salaries are in accordance with their appointment as follows:

S/N	NAMES	TITLE	MONTHLY SALARY(Frw)
	Muneza	Managing Director	250,000
	Rugwiro	Director of finance	98,000
	Kanyarwanda	Logistics officer	35,000
	Mugwaneza	Store keeper	29,500





Calculate the PAYE tax on each individual employee

2. The PAYE tax to be withheld and paid by the business club to RRA2. Using the information available on the below EBM issued receipt, compute the following:
  - a) Price VAT excluded
  - b) VAT to prove the amount appearing on the receipt

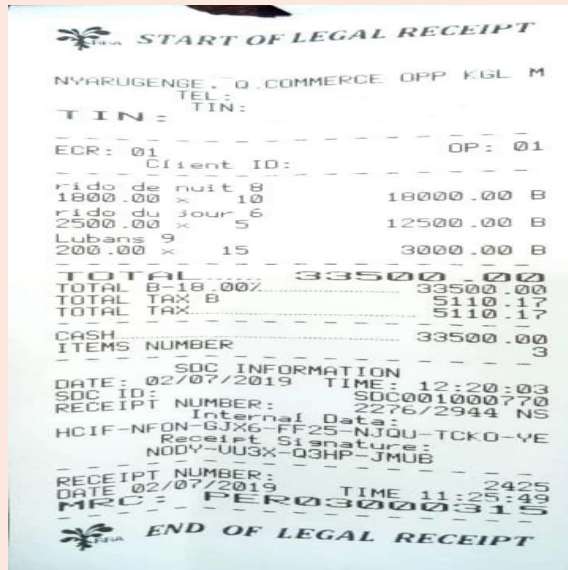


Figure 3.5. Electronic Billing Machine receipt issued for goods and services

### 3.4. Penalties of not paying tax



#### Activity 3.4

1. Identify instances through which a taxpayer may undergo various penalties.
2. What do you think may happen to an entrepreneur if he/she does not comply with the tax obligations?

The penalties of not paying tax include:

- **Fines and interest:** A taxpayer who fails to comply with the provisions of law determining and establishing a tax shall be liable to a fine. The fines will vary according to types of taxes.





## Example of Penalties and Interest on not paying PAYE

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

- **Imprisonment:** A tax fraud's punishment in Rwanda, is the jail for a period between six (6) months and two (2) years; even the Minister's order determines an award given to any person who denounces a taxpayer who engages in that act. Failure to pay tax withheld: this undertakes 100% penalty and 3months to 2years in jail.
- Closure of the business for 30 days;
- Cancellation or withdrawal of registration certificate;
- Banned from public tenders;
- Exposure in the media



### Application Activity 3.4

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



### Skills lab 3

1. Justify the following statements with concrete examples:
  - "Taxes are more of a benefit than a cost to an entrepreneur"
  - " Tax evasion is a shortcut to business growth"
2. A business club at one of the TTCs has 3 regular employees namely KALISA, KALIZA and BERWA with monthly salaries of 35,000Frw, 40,000Frw and 20,000Frw respectively. On top of that the business made sales of 300,000Frw VAT exclusive, and the input VAT is 34,000Frw.





- a) Calculate the total amount of tax that the business club has to pay to RRA
- b) Advise the above business on how the above taxes would be paid.



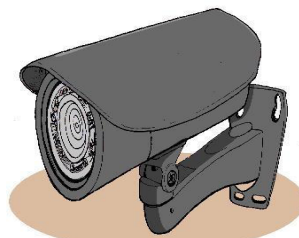
### End of unit 3 Assessment

1. It is said that “tax is the free money to central or local authorities from taxpayers” do you agree with this statement. Justify your answer
2. Describe any four characteristics of a good taxation system.
3. How are taxes used by government to to:
  - a) Support Entrepreneurs
  - b) Support the community
4. Fill in the missing gaps, with the most appropriate term:
  - a) ..... punishment is the jail for a period between six (6) months and two (2) years; even the Minister’s order determines an award given to any person who denounces a taxpayer who engages in that act.
  - b) ..... is the compulsory and non-refundable payment made by the business to the Government or Local Authority so as to raise their revenues.
  - c) ..... is the one that is exempted from VAT.
  - d) ..... is one of the taxes vested to the local government (Districts).
  - e) The degree to which the taxpayers meet their tax obligations as set out in the appropriate legal and regulatory provisions is.....
  - f) The..... means an employee or worker who performs unskilled labour activities, who does not use machinery or equipment requiring special skills, and engaged by an employer for an aggregate period not exceeding thirty (30) days during the tax period.



# UNIT 4

## TECHNOLOGY IN BUSINESSES



**Key Unit Competence:** To be aware of how new technologies can affect business activities.



### Introductory activity

Analyze the Photos below and answer the questions that follow.



Picture 1



Picture 2



Picture 3



Picture 4

- a) Looking at picture 1,2,3 and 4, explain the advantages and disadvantages of using the above techniques in the production of goods and services.
- b) Which production technique is suitable for your school business club? Give reasons to justify your answer?

## 4.1. Types of technology in business



### Activity 4.1

1.
  - a) Suppose you wish to start up a feasible business in your community. Which type of technology will you use in your business and why?
  - b) How would you define the term technology as used in business?
2. Distinguish intermediate technology from capital intensive and labor-intensive technologies.

#### 4.1.1. Meaning of technology

Technology refers to methods, systems, and devices which are the result of scientific knowledge being used for practical purposes.

Technology can also be defined as a human knowledge which involves the use of tools, materials, and systems to perform an activity.

Many businesses are using technology to stay competitive, they create new products and services using technology, and they also use technology to deliver those products and services to their customers on time and within budget.







Technology in business allows organizations to improve both the performance and overall effectiveness of products, systems and services, which, in turn, enables businesses to expand quickly and efficiently. Another role of technology in business is to provide security to a business.

Examples of some tools, systems or devices used by technology in business.

- Desktop Computers and Laptops.
- Software and Productivity Tools.
- Networking of Computers and Printers.
- Telephone and Voice Mail Systems.

In Rwanda there are different technologies used to improve the services such as

- **Tap and Go:** This is One of the biggest technologies that has changed the face of public transport. It's a smart transport system that enables passengers to board public buses without using hard cash but rather smart cards.
- **Zipline's drone technology:** this is a global race for commercial drone deliveries of small packages. In Rwanda it is used to transport blood to remote areas where accesses to roads are impassable.
- **Irembo services:** The burden of walking long distances to seek some government services has consistently been removed. There are large numbers of people who do not have to necessarily travel to apply for a marriage certificate, land transfer, drivers' related services, birth certificate, criminal record clearance certificate, and other services. These few examples show how technology in business comes to enable businesses to expand quickly and efficiently.

It is important to note that both technologies (Tap and Go & Irembo) aligned with our country's policy of promoting our economic growth through CASHLESS transactions.

#### **4.1.2. Types of technology**

1. **Intermediate technology** is one that fits into the level of development of the host country. It is neither too simple nor advanced. For instance, the use of ox-ploughs, solar cookers etc.
2. **Capital-intensive technology** is the production method/ technique where more machines are used than labor. It is also called labor saving technology because we save more labor to use machines. It is common in industries, factories, mining etc.





*Figure 4.2 Irrigation scheme using capital intensive technologies*

### Advantages of Capital -Intensive Technology

- **Commodities of high quality are produced**, which compete favorably both in the domestic and international market.
- **There is mass production.** With the use of machines more output is produced which stimulates the rate of economic growth in a country.
- **Exploitation of idle resources** is encouraged since it is efficient which increases the production of more goods and services.
- **Promotes the development of skills.** Using machines requires highly skilled labor therefore encourages people to do research innovations and inventions.
- **Reduces labor unrest for instance demonstrations and strikes.** This increases production of more goods and services therefore it is easy to control machines than labor.
- **It saves time and increases labor productivity** because a worker who uses a machine will do his or her work in the shortest period and are less exhausted than using manual labor to perform a given task.
- **Promotes specialization** this leads to production of excess (surplus) at a low cost. The surplus is exported yielding foreign exchange earnings.
- **High profits for the entrepreneur** since it minimizes costs in the form of wages bills and other fringe benefits.
- **It promotes industrialization.** When capital intensive technology is adopted, many industries will come up and development of other infrastructures such as roads, hence promoting the tertiary sector.
- **It strengthens good relationships** between countries where machines are exported or imported, hence fostering trade.





### Disadvantages of capital-intensive technology.

- **It is very expensive to buy machines.** Most developing countries depend on foreign aid and loans to finance their budgets, so if they adopt the use of machines, they will have too much debts.
  - **It leads to technological unemployment** since more machines are used than labor in the production process therefore most labor will be unemployed, which is an economic problem.
  - **It widens the income inequality gap** where a few skilled labor will be engaged in the production process to run machines and the unskilled will remain unemployed hence widening the gap.
  - **High costs** as a result of maintenance, repairs when broken down and depreciation. therefore, it is expensive because it requires a lot of foreign exchange to import spare parts and other machines.
  - **It encourages rural- urban migration** since most machines are used in urban centres this leads to development of shanty towns or slums in cities.
  - **It is not helpful in the eradication of poverty** since there are very few people employed in the production of goods and services.
  - **It is inappropriate technique in some activities that require human judgement**, such as picking flowers and tea, sorting printed papers. In this instance machines may not be applicable at all stages of production. etc.
3. **Labor Intensive Technology** is the production method /technique where more labor is used than machines. It is also called capital saving technology meaning we save capital and use more labor. It's commonly used in hotels, restaurants etc.



Figure 4.3. Workers picking tea leaves using labor intensive technology.





## Advantages of labor-intensive Technology

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





## Disadvantages of labor-intensive technology

- **It is relatively expensive in the long-term when compared to machinery**, because it is associated with other labor benefits. For example, housing, insurance, medical bills, trainings,... which increases cost of production.
- **Inferior quality products are produced**, when labor intensive techniques are adopted, many people produce products without carrying research thus poor-quality products.
- **Limited hours of work**. Machines can work day and night hence produce high quantity output. Economic Growth remains low in a country with the use labor intensive techniques of production.
- **It requires a lot of supervision** which leads to under utilization of resources and increased costs.
- **Lack of uniformity in production**, with the use of labor- intensive techniques of production there are most likely to produce products that are not uniform which makes them not competitive to the market.
- **Specialization is not promoted** in the production process which may slow down the production process.
- **Managerial complexity arises**. It is not easy to manage people since they have individual differences especially when a business grows this may further lead to bureaucracy in decision making.
- **It is difficult to get skilled manpower** it is easy to get machines than skilled labor in a given field and this hampers the production of goods and services. Etc.



### Application Activity 4.1

1. Justify why the government of Rwanda is encouraging businesses to use capital intensive technology.
2. Refer to your school and describe how technology has helped in the efficiency of the school for both students and the school itself.



## 4.2. Characteristics/ features of appropriate technology



### Activity 4.2

Referring to the types of technology you mentioned above, which type of technology, is appropriate in;

- a) Northern province
- b) Eastern province
- c) Southern province
- d) Western province

Developing countries face challenges of how to utilize resources fully. The dilemma is that labor is so abundant and capital is scarce, therefore they have to choose which technology is appropriate. The following are some of the characteristics of appropriate technology.

1. It should be simple to use without requiring special skills.
2. It should also be effective in order to increase productivity in the country for economic growth to be attained.
3. It should also be readily available not complex to get.
4. It should be durable and meets the needs of the community.
5. It should also be cost effective and not very expensive.
6. It should be able to reduce income imbalances through employment potential.
7. It should produce for an identified market to prevent resources being wasted.
8. It should be able to produce efficiently the right quality and quantities of the products needed by the consumers.
9. It should also minimize the use of imported inputs like labor, raw-materials and some capital equipment.
10. It should be flexible/ easy to use and require locally available resources.



## Application Activity 4.2

1. Try to find an example of simple and more complicated technique of production from each of the following areas of human activity.

Human activity area	Simple example	Complex example
Cultivation		
Cloth making		
Secretariat		
Transportation		
Milking		
Mining		

2. If you were to start a business in any of the above human activity areas, which technology will you likely choose? A simple technology or a more complex technology?
3. What could be the reasons guiding your choice?
4. Now that you have identified possible businesses from these areas of activities, which technology do you think will be more effective in order to improve the productivity of the specific businesses or to improve your qualities?

## 4.3. Importance of technology in business



### Activity 4.3

Debate “The use of technology in business has done more good than harm”

Technology is an essential tool in the day today business operations; no matter the size of the business, technology has both tangible and intangible benefits. These include the following:

1. The use of ICT through internet helps entrepreneurs to carry out market research. This helps it to grow and acquire more opportunities across the globe, hence widening the market by use of E-commerce sites like eBay, Amazon, Jumia, etc.





2. Technology helps to increase productivity of the labor through collaborating with each other hence speeding up the work.
3. It helps to keep track of records for instance with the use of the accounting software.
4. Technology can be used for security purposes thus reducing threats of losing financial data and vandalism to unknown persons. For example, by using passwords on computers.
5. Technology improves the efficiency of businesses. The use of mobile phones, printers and E-commerce, eases the work in business.
6. ICT enables easy access to funds through the use of ATM cards, such as debit cards, credit cards, and electronic money transfers etc.
7. It also enables better decision making as entrepreneurs can get information at the right time.
8. Technology helps businesses grow with the use of artificial intelligence. This gives the business a competitive edge over other businesses.
9. Advanced technology helps to produce better quality products that may fetch a lot of money for the enterprise thus increasing customer satisfaction.
10. Technology helps to perform complicated tasks with ease and faster. For example, use of computerized accounting software like quick books, sage and pastel helps in doing accounting with ease.
11. ICT helps firms to monitor the buying habits of their customers and be able to stock the right products in the right quantities at the right time. Speed Governors help to keep track drivers from over speeding hence reducing the number of accidents.
12. Computers can perform a lot of work in the shortest time possible which would require a lot of time if done manually. Examples include preparation of control accounts, financial statements and preparing payrolls etc.
13. Technology also helps to cut down costs. For example, the costs incurred while transporting and delivery of goods can all be done using computers and the internet.

### APPLICATION ACTIVITY 4.3

Carry out research and identify the various technologies that are being used in businesses be it in your school or other business enterprises. Suggest their importance in terms of communication, management, accounting and transport.





## 4.4. Technological tools used in business



### Activity 4.4

Observe the pictures below and explain the importance or uses of each machine, equipment or technology as used in business.

<p>Picture 1. Email</p>	<p>Picture 2. Automated teller machines</p>	<p>Picture 3. Cashless public transport system (Tap and go)</p>
<p>Picture 4. Electronic safe</p>	<p>Picture 5. Closed Circuit Television (CCTV) camera</p>	<p>Picture 6. Metal detectors</p>
<p>Picture 7. Electronic Point of sale machine</p>	<p>Picture 8. bar coders</p>	<p>Picture 9. Point of sale terminals</p>

Figure 4.4: Most common technologies used in business.



From the above pictures, you realize that businesses use various technological tools, depending on the type of business, and department. The table below shows the common technology tools used in business departments.

BUSINESS DEPARTMENTS	TECHNOLOGY USED
Communication	Telephone, email, internet, fax, SMS, websites, blogs, social media (Twitter, Instagram, Facebook, LinkedIn, Whatsapp etc.)
Management	Computers, time recorders, software, access control gadgets.
Accounting	Computers, calculators, money counting machines, Automated Teller Machine (ATM), computerized accounting software, electronic safes,
Transport	Cashless public transport system, cars, planes, motor bicycles, and airline booking and reservations software.
Security	Closed Circuit Television (CCTV) cameras, webcams, fingerprints, metal detectors, locks, electronic safes.
Human resource	Email, internet, SMS, time recorders, drop box
Marketing, Sales and Distribution	Email, SMS, electronic displays, point of sale terminals, websites, electronic money transfer, mobile money
Energy and Power	Generators, solar panels, inverters, UPS, etc.

### Importance of the technological tools in figure 4.4 above as used in business

**Electronic mail:** It is one of the ways businesses can use to reach its clients. Communication is fast and convenient because you can send messages and they are received between the customers and the business.

**Automated Teller Machines:** These machines help customers to deposit, withdraw at any time. This reduces the queues people would make to get their money. They are also located in different places which eases access to cash

**Cash less public systems:** (Tap and go) These help businesses to increase customer satisfaction. They are also secure and convenient which minimizes fraud cases.





**Electronic safes:** These machines are used to keep money. These are assets to the business because they are secure.

**Closed Circuit Television (CCTV):** These are televisions that can be installed in your business. They can help you monitor your business operations from anywhere. They increase safety for the owner, employees and customers. If a crime occurs, they can be used to provide evidence to catch the criminal.

**Metal detectors:** These are handheld detectors which are used to identify metallic objects that may be considered dangerous. They also help provide security.

**Bar codes:** They are used to track and store information of goods. This increases the efficiency of the business instead of the storekeeper entering the information manually.

**Point of sale terminals:** A POS solution provide a faster checkout process than the cash registers. This helps people not to make long lines while paying for the goods bought. Using this tool can increase efficiency and improves the image of the business.



#### Application Activity 4.4

- 1) Describe how new technologies affect business activities.
- 2) Explain the challenges of using such technologies in local and small-scale businesses in Rwanda.



#### Skills lab 4

Use available resources like the internet, textbooks, magazines, resource persons among others to research, choose the appropriate technology that would improve the performance (Quality, quantity and efficiency of work) of the projects your business club is running or plan to run at the college on each of the following business aspect:

- a. Business registration
- b. Production of Goods and services
- c. Packaging and branding
- d. Marketing





e. Selling of the products and / services.

And explain why you have chosen that particular type of technology and how you will acquire it.



## End of unit 4 Assessment

### 1) Case study

*Mugiraneza has a peanut butter making business. Last week she announced the purchase of new equipment and modern technology that would make a radical change in the production process. The investment would make some employees lose their jobs. Mugiraneza explained to them but there was no doubt, it was in the best interests of the company in general.*

*Employees were not consulted because it would slow down the process and Mugiraneza felt that it was the best decision to make.*

*In the long run, the modern technology and equipment should increase the businesses' competitiveness and produce quality products and in large quantities. The working practices would obviously be changed, and employees would have to learn new skills of using them. The employees were promised to be trained, although it was not a guarantee to employ all of them if they fail to adapt successfully.*

*After the announcement, the employees were so furious and considered taking industrial action. Hearing the rumors of a possibility to strike, Mugiraneza admitted that the issue was not handled very well but would not reconsider the decision.*

- a) What factors may have made Mugiraneza decide to invest in modern technology?
- b) Do you think the employees were right in taking industrial action? Give reasons for your arguments.
- c) Analyze the factors that Mugiraneza might have taken into account before acquiring the modern technology.
- d) Mugiraneza admitted that the issue was not well handled. In your opinion, how should she have handled it?





2. Peter produces flowers and sells them both in the local and international markets. He plans to use e-commerce in his business.

(i) Mention any 3 e-shops he can contact for advice.

(ii) How can Peter find other e-shops to sell his products on the international market?

(iii) Explain the merits and demerits of using e-commerce in a business like that of Peter.

(iii) Write a letter to Peter advising him on how to use e-commerce for the success of his business.

3. Many people believe that the key to better performance is good management rather than the use of more technology. As an entrepreneurship student teacher, critically assess this view.

4. The Government of Rwanda is intensifying the campaign of starting small and medium enterprises to boost made in Rwanda and to export made in Rwanda products to the rest of the world. Entrepreneurs in order to meet the international market standards and demand, they prefer an investment in automatic and capital intensive technologies, however this affects the numbers of labour force to be employed as very few people with the right skills will be retained and many of the rest with no skills to operate the machines are likely to lose jobs.

**Required:** With your expert knowledge on technology, advise the entrepreneurs, government and employees on how technology can create a win - win situation for all?



# UNIT 5

## *MONEY MANAGEMENT*



**Key Unit competence:** To be able to manage money responsibly and to keep financial records.



### Introductory activity

#### Case study:

Elizabeth and Kabayiza are married with two children, aged three and five. Kabayiza works full-time in manufacturing and Elizabeth works four days a week as a nurse. When they got married, they were renting and maintained two separate accounts as well as a joint account for bills. Now they own a home and are paying off a mortgage and saving determinedly for the future so that they can afford private education for their children by the time they enter high school.

Referring to the story above and your knowledge about entrepreneurship skills learnt and competences developed before, answer the questions below.

- Why do Elizabeth and Kabayiza need money?
- What are the best ways of the couple to save money?
- Why do they need to save money?
- Explain the moral lesson that you learn from the above case study

## 5.1. Meaning of money, savings and saving goals



### Activity 5.1

Using the knowledge acquired in O'level, explain the meaning of the following terms as used in entrepreneurship:

- a) Money
- b) Savings
- c) Saving goal

### A. Money

**Money** is anything that is generally accepted as a medium of exchange and repayment of debts.

Money is one of the most important inventions of modern times. It has undergone a long process of historical evolution.

#### Stages in the evolution of money



*Figure 5.1. Stages in the evolution of money*

**1<sup>st</sup> Stage: Barter trade:** Human beings passed through a stage when money was not in use and goods and services were exchanged directly for goods and services. Such exchange of goods or services for goods or services is called Barter Exchange.

**2<sup>nd</sup> Stage: Commodity money:** The inconveniences and drawbacks of barter trade led to the gradual use of a medium of exchange. In the historical study of money it is found that all sorts of commodities like seashells, pearls,



precious stones, tea, tobacco, cow, leather, cloth, salt, wine, etc. have been used as a medium of exchange (i.e. money).

**3<sup>rd</sup> Stage: Metallic money:** Inadequacy of commodity money led to the evolution of metallic money (gold and silver). The problem of uniformity of weight and purity of precious metals led to private and public coinage.

**4<sup>th</sup> Stage: Paper money:** This process was finally taken over by the state as one of its essential features and ultimately commodity money gave way to paper money which means currency notes. Nowadays, the use of paper money has almost become universal along with coins made of copper, bronze or nickel, etc.

**5<sup>th</sup> Stage Bank money:** The process of evolution of some better medium of exchange still continues. As the volume of transactions increased, even paper money started becoming inconvenient because of the time involved in its counting and space required for its safe keeping. This led to bank money or credit money in the form of cheques, drafts, bills of exchange, credit cards, etc.

## B. Savings



Source: <https://www.marketwatch.com>

Savings is the portion of income not spent on current expenditures. Because a person does not know what will happen in the future, money should be saved to pay for unexpected events or emergencies. An individual's car may breakdown, their dishwasher could begin to leak, or a medical emergency could occur. Without savings, unexpected events can become large financial burdens. Therefore, savings helps an individual, family or business become financially secure.

## C. Saving goals

Money can also be saved to purchase expensive items that are too costly to buy with monthly income. Buying a new house, clothes, purchasing an automobile, or paying for a vacation, etc. can all be accomplished by saving a







portion of income. We usually save for:

- Basic needs
- Household expenses
- Education
- Emergencies/safety
- Retirement/security
- Family wellbeing
- Esteem
- Self-actualization



### Application Activity 5.1

Using the knowledge and skills acquired in year 1, Unit 3: Setting entrepreneurial goals, set a SMART saving goal.

## 5.2. Need for money



### Activity 5.2

Observe the following figures and answer the questions that follow:



*Some reasons why people need money*

- a. Describe at least five household expenses.
- b. Discuss different sources of income (money).

In everyday life, human beings have different needs. Money is used in exchange when selling and purchasing different products and services. Money is not only needed to be used personally but also in business activities.

Money is most especially needed for the following reasons:

- **Investment:** Money is used to purchase goods that are not consumed but are used in the future to create wealth. It is used for things that can generate more money in the future.





- **Personal needs:** Money is used to make personal expenditure including, but not limited to, the need for food, clothing, shelter, health care and safety.
- **Emergency:** Some money is put set aside to specifically cover any unexpected expenses that may come up. An emergency fund may cover unexpected car repairs, medical bills or other emergency situations.
- **Education:** Money is used for the purpose of completing the education.
- **Retirement:** Retirement is the years that an individual is able to enjoy after spending a majority of his/her life devoted to career. One should put aside a portion of the income to help him or her after working age, etc.



### Application Activity 5.2

1. As a student of entrepreneurship, come up with different ways of getting money.
2. Make the total cost of all household expenses in your family.

## 5.3. Obstacles to achieving saving goals



### Activity 5.3

Assess your home community and describe any five obstacles for people in that community to achieving saving goals.

Saving is a conscious and deliberate way of setting aside a portion of the personal income for future use.

The following are some of the hindrances to achieving saving goals:

- **Procrastination:** Delaying savings or putting savings off for another time.
- **Poor spending habits:** It includes spending on unnecessary items; Impulse buying; hedonistic lifestyle.
- **Culture of dependency:** Being over dependent on others.
- **Lack of financial literacy:** Spending on liabilities or items that decrease in value over time; not knowing how your money will grow or work for you.
- **Not budgeting:** A budget is the bedrock of your personal finances. Without a budget, your money may be standing on shaky ground.





Why? A budget helps you see how much money you have coming in and going out. And, having a budget in place can help you save money.



### Application Activity 5.3

Youth are a rapidly growing percentage of the Sub-Saharan African population, and many are economically vulnerable. Financial inclusion for youth, particularly the promotion of savings behavior is associated with a number of positive social and economic outcomes and is an international priority. However, the majority of youth in Sub-Saharan Africa are not saving.

**Question:**

According to the extract above, discuss any ten reasons why majority of youth of sub-Saharan Africa do not save.

## 5.4. Where to save



### Activity 5.4

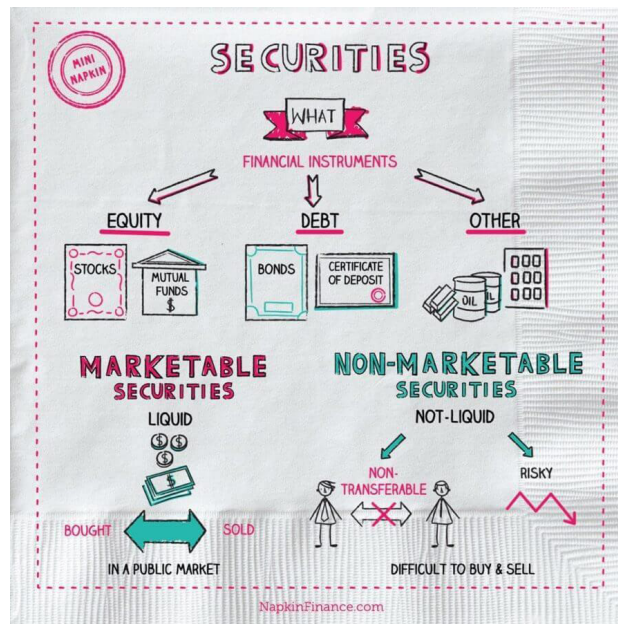
In your community, you have probably heard people and business people talking about where they save a portion of their earnings. Identify where to save money according to what you have heard normally people talking about.



## Banks provide savings account services

Some savers place their money in a jar, coffee can or a piggy bank which all is not safe and not encouraged. . It is wise to store money in financial institutions like banks depository institution. The following are examples of where to save money:

- **Banks:** Through opening up different savings account, one can save his/her money. For instance, if you find a bank or credit union that offers a free savings account, you can open up several savings accounts. Then every time you get an income, you can put money into each of these accounts for every specific thing that you are saving for. This way you can keep your money safe from accidentally being spent, and it will be there when you need it.
- **Assets:** Individuals can save money through investing in fixed assets. A good example can be when someone invests his/her money in rental houses (real estates). The stock market may be down, but your tenants will still be paying some rent every month.
- **Securities:** Securities are generally classified as either equity securities such as stocks and debt securities such as bonds and debentures. The sale of securities to investors is one of the primary ways that publicly-traded companies drive new capital for operations. People or businesses can save their money through buying available securities at the market.



*Different forms of securities (Source: napkinfinance.com)*



- **Small savings groups:** This is when someone joins a group comprised of 15-25 self-selected individuals who save together and take small loans from those savings. Savings groups provide members the opportunity to save frequently in small amounts, access to credit on flexible terms, etc.
- **Starting a business:** Saving can be through starting up a business that may generate incomes and profits in future time.



### Application Activity 5.4

KABASHA won entrepreneurship competition. He received a cheque of 5,000,000Rwf as a reward, but he doesn't have a ready plan for that money won.

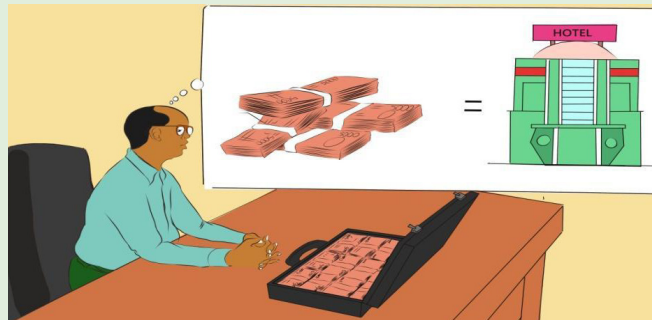
**Required:**

Advise KABASHA to identify where to save his money to avoid needless expenditure.

## 5.5. Managing money



### Activity 5.5



**Extract (Money management-How to make your money go further)**

The way you spend your money today will determine what you have in six months from now, a year from now, five years from now, and in your lifetime. You control your financial destiny. You are responsible for the amount of money you earn and for the amount of money you spend. Successful money managers control the way they spend their money. They use money to accomplish the things that are important to them. Good money managers manage their money rather than letting it dribble away from them.





### **Required:**

1. Do you have control of the way you spend your money? If yes, how do you do it?
2. Do you live within your income, or do you have to borrow money or use savings to meet your regular monthly expenses? Yes/No. Explain your answer.

Money management is the process of budgeting, saving, investing, spending or otherwise overseeing the financial usage of an individual or group. The ability to manage money has to be learned, developed, and practiced on a daily basis. There are eight steps to successful money management:

1. Get organized.
2. Decide what you want to do with your money.
3. Look at all available resources.
4. Decide how much money you are worth.
5. Find out how much money you make.
6. Find out how much money you spend.
7. Set up a plan for spending your money and stick to it.
8. Evaluate your spending plan

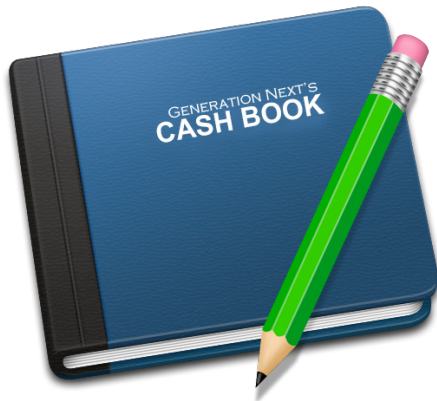
The following are essentials for good money management:

- Keeping financial records
- A simple cash book
- Financial forecast
- A simple cash flow plan
- Practicing money management habits E. g. re-use, recycle, repair and reduce.

### **KEEPING FINANCIAL RECORDS**

Good financial recordkeeping enables business organizations to plan properly and also check for misappropriations of resources. Everyone in business must keep records. Keeping good records is very important to your business. A simple cash book, financial forecast and a simple cash flow plan are very important for money management.





Source: amazon.com



Source: <https://www.bpva.co.uk>

Figure 5.7: Necessary documents for financial record keeping

- **A simple cash book**

The simple cash book (also known as single column cash book) is a cash book that is used to record only cash transactions of a business. It is very identical to a traditional cash account in which all cash receipts are recorded on left hand (debit) side and all cash payments are recorded on right hand (credit) side in a chronological order.

The single column cash book has only one money column on both debit and credit sides titled as “amount” which is periodically totaled and balanced like a T-account. As stated earlier, a single column cash book records only cash related transactions. The entries relating to checks issued, checks received, purchases discount, and sales discounts are not recorded in single column cash book.

**Format of Simple Cash Book:**

**Dr (Receipts)**

**Cr (Payments)**

Date	Details	Ledger Folio	Amount	Date	Details	Ledger Folio	Amount





The purpose of four columns used on both sides of a single column cash book is briefly explained below:

- **Date:** The date column of the cash book is used to record the year, month and actual date of each cash transaction. This column ensures the chronological record of each business transaction involving receipt or payment of cash.
- **Details:** The details column is used to record the account titles to be debited or credited as a result of each cash transaction. This column is sometimes titled as “particulars”.
- **Ledger Folio:** This column is used to write the page number of each ledger account named in the description column of the cash book.
- **Amount:** The amount column of single column cash book is used to record the money value of each cash transaction.
- **Note:** The debit side (receipt side) of a single column cash book is always heavier than the credit side (payment side) because we cannot pay more cash than what we receive during a period.

### Example:

The Student business club at one of TTCs uses a single column cash book to record all cash transactions. It engaged in the following cash transactions during the month of September 2019.

- Sep.01: Cash in hand at the beginning of the month Rwf 4,654.
- Sep.02: Paid salaries to employees for the last month Rwf 3,000.
- Sep.05: Cash received from S & Co. for a previous credit sale Rwf 2,720.
- Sep.06: Merchandise purchased for cash Rwf 1,400.
- Sep.07: Merchandise sold for cash Rwf 4,700.
- Sep.10: Office furniture purchased for cash Rwf 3,080.
- Sep.12: Stationery purchased for cash Rwf 170.
- Sep.15: Merchandise sold for cash Rwf 9,000.
- Sep.17: Cash paid to A & Co. for a previous credit purchase Rwf 1,780.
- Sep.20: Merchandise purchased for cash Rwf 2,460.
- Sep.21: Merchandise sold for cash Rwf 4,680.
- Sep.24: Cash received from S & Co. for a previous credit sale Rwf 2,400.
- Sep.28: Cash paid for office rent Rwf 1,600.
- Sep.30: Merchandise sold for cash Rwf 7,200

**Required:** Record the above transactions in a single column cash book (simple cash book)

**Solution:**





## The Student business club's simple cash book for the month of September 2019

### Dr (Receipts)

### Cr (Payments)

Date	Details	Ledger Folio	Amount (Rwf)	Date	Details	Ledger Folio	Amount (Frw)
<b>2019</b>				<b>2019</b>			
Sep.01	Balance b/d	----- ---	4,654	Sep.02	Salaries	415	3,000
Sep.05	S & Co.	410	2,720	Sep.06	Purchases	420	1,400
Sep.07	Sales	405	4,700	Sep.10	Office f.	425	3,080
Sep.15	Sales	405	9,000	Sep.12	Stationer	430	170
Sep.21	Sales	405	4,680	Sep.17	A & Co.	440	1,780
Sep.24	Sales	405	2,400	Sep.20	Purchases	420	2,460
Sep.30	S & Co.	410	7,200	Sep.28	Rent	435	1,600
	Sales	405		Sep.30	Balance c/d	-----	<u>21,864</u>
			<b><u>35,354</u></b>				<b><u>35,354</u></b>
Oct.01	Balance b/d		21,354				

### Financial forecast

'Forecast' means to form an opinion beforehand i.e. to make a prediction. Thus financial forecasting means a systematic projection of the expected action of finance through financial statements. It is a kind of plan which will be formulated at a future date for a specified period.

### The merits of the financial forecasting are noted below:

- (i) It can be used as a control device in order to fix the standard of performances and evaluating the results thereof
- (ii) It helps to explain the requirement of funds for the firm together with the funds of the suppliers



(iii) It also helps to explain the proper requirements of cash and their optimum utilization is possible and so surplus/excess cash, if any, invested otherwise.

### **Elements of Financial Forecasting:**

Financial forecasting involves preparation of proforma financial statements and also the preparation of Cash Budget.

**Therefore, it includes the preparation of:**

**A. Pro-forma Income Statement:** Pro forma income statement is the statement prepared by the business entity to prepare the projections of **income** and expenses which they expect to have in the future by following certain assumptions such as competition level in the market, size of the market, growth rate

**B. Pro-forma Balance Sheet:** This summarizes the projected future status of a company after a planned transaction, based on the current financial statements.

**C. Cash Budget:** A cash budget is an estimation of the cash flows for a business over a specific period of time. This budget is used to assess whether the entity has sufficient cash to operate

### **A simple cash flow plan**

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

- Cash from operating activities can be compared to the company's net income to determine the quality of earnings. If cash from operating activities is higher than net income, earnings are said to be of "*high quality*."
- This statement is useful to investors because, under the notion that cash is king, it allows investors to get an overall sense of the company's cash inflows and outflows and obtain a general understanding of its overall performance.
- If a company is funding losses from operations or financing investments by raising money (debt or equity) it will quickly become clear on the statement of cash flows





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

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

### FORMAT OF CASH FLOW STATEMENT

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

Details	JA	FE	MA	AP	MA	JU	JU	AU	SE	OC	NO	DE
Cash inflows												
Cash balance b/d	XX											
Bank loan	XX											
Sales	XX											
Rent income	XX											
Commission Rec	XX											
Grants/subsidies	XX											
Total cash inflows (A)	XX											
Cash outflows												
Cash purchases	XX											
Loan repayment	XX											
Salaries/ wages	XX											
Taxes	XX											
Total cash out flows (B)	XX											
Cash balance c/d (A-B)	XX											
Net cash position												XX

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



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

Cash balance b/d or b/f in January was 15000,000Rwf

Monthly rent income was 5000,000Rwf

Monthly credit sales to be paid in the next month were 4000,000 Rwf

Sold a business van in February 14,500,000 Rwf

Monthly commission received was 3000,000Rwf

Monthly cash sales 10,000,000 Rwf

Monthly cash purchases 12,000,000Rwf

Bought a truck in January 800,000 Rwf

Monthly salaries and wages 5000,000Rwf

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

### Solution

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

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



## PRACTICING MONEY MANAGEMENT HABITS

With the cost of goods and materials rising, using resources efficiently and reducing your business' waste makes good financial sense. It's also better for the environment. The cost of sending waste to landfill is increasing, and so are the restrictions on what you can send. You can face penalties if you do not handle waste appropriately or have the right paperwork before it leaves your premises.

You can save money and make your business more efficient by focusing on how you reduce, reuse, recycle or recover and repair in your business, and how you deal with the waste that remains.

### 1. Reducing waste

- Cutting the amount of waste your business has to handle is the most cost-effective and environmentally-friendly method of dealing with waste.
- There are a number of areas you could focus on:
  - **Procure carefully** - buy only what you need, control stock and streamline processes across departments. Buy equipment in bulk to reduce packaging and consider the product's durability and lifespan - replacing equipment less often will reduce the waste you create.
  - **Look for easy wins** - seemingly trivial changes can produce significant savings, such as printing and photocopying double-sided, refilling printer cartridges, switching off lights and electrical equipment, and using rechargeable batteries.
  - **Review your processes** - ensure that equipment and materials are used efficiently and packaging is kept to a minimum.
  - **Product design** - keep the amount of materials you use in products to a minimum.
  - **Packaging design and use** - make sure you use as little packaging as possible to achieve an adequate level of protection for your products.

### 2. Reusing waste

You may be able to reuse materials and equipment in your own business or another organization.

For example, consumers can refill a purchased bottle of water with water from home to minimize the number of plastic bottles being discarded.

Reusing your own business waste can reduce your costs as you won't need to buy raw materials or pay to dispose of the waste. You may also be able to generate income from materials and goods that are valuable to another organization.



### 3. Recycling waste

Recycling is the third-best waste management option for your business, after reducing and reusing waste. Even so, recycling is important because it reduces the amount of waste sent to landfill and reduces the need to use new raw materials. Recyclables include glass, newspaper, aluminum, cardboard and a surprising array of other materials.

### 4. Repair

The business can repair broken materials and equipments such as lamps instead of buying new ones



#### Application Activity 5.5

1. Write up a single column cash book of UBUMWE Enterprise for the month of April 2015, from the following?

1 Cash in hand .....	1,650	10 Paid cash for repairing.....	360
2 Cash sales .....	16,000	11 Sales by cash .....	11,400
3 Paid check to creditors.....	4,000	12 Paid office expense .....	180
4 Wages paid in cash .....	2,250	13 Paid rent and rates .....	3,600
5 Cash sales .....	18,000	14 Cash sales .....	19,200
6 Paid cash to TCP .....	420	15 Paid electricity bill .....	900
7 Paid salaries by cash .....	2,850	16 Cash collected from debtor.....	4,500
8 Credit Sales .....	1,000	17 Goods Purchased by cash.....	2,000
9 Note Receivable Realize.....	3,000	18 Retire bank loan .....	3,000

**Requirement:** Prepare cash book at April 30, 2015:

2. Given the information below on Central Trading Company Ltd for the month of April, May & June
  - On 1st April, 2005 Central Traders Company Ltd had a cash balance of 10,000,000 Frw.
  - It expected monthly cash sales of 5000,000 Frw.
  - Credit sales were 3,500,000 Frw per month and the payments would be made in the following months.
  - Monthly rent income from some of its properties was expected to be 1,000,000 Frw
  - Monthly cash purchases were 6,000,000 Frw.



- Monthly salaries and wages bills were projected at 800,000 Frw.
- A loan from Umwalimu Sacco was 10,000,000 Frw was received in May.
- Monthly interest payment of 100,000 Frw on the loan.
- Monthly raw material for 5000,000 Frw.

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



### Skills lab 5

Discuss and suggest strategies or how you will cut costs/expenses using the 4Rs (reducing, recycling, repairing and reusing) in your student business club. Prepare a new projected cash flow statement after applying the suggested strategies.





## End of unit 5 Assessment

1. Read the following dialogue and answer the questions that follows;

**Peter:** Does what you know now about money management affect your future?

**Peace:** Of course what you know today affects tomorrow. You couldn't drive a car without a license, and that is why you need to begin learning about how to spend your money wisely today.

**Peter:** How does your attitude towards money change as you age?

**Peace:** Five-Year-Old: Come On mom, can I have some money to buy that ring?

**Fourteen-year-old:** Mom, I want 10,000Frw to buy designer label top and those cool pants.

**Eighteen-Year-old:** Shoot, I know how i can get money for college. I will ask mom.

**Forty-Year-Old:** I need to save for my retirement. No excessive spending.

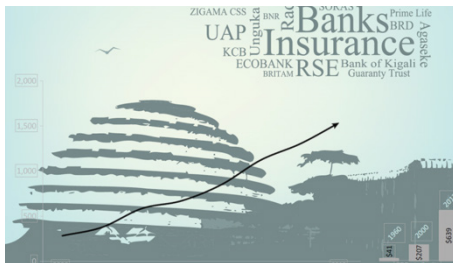
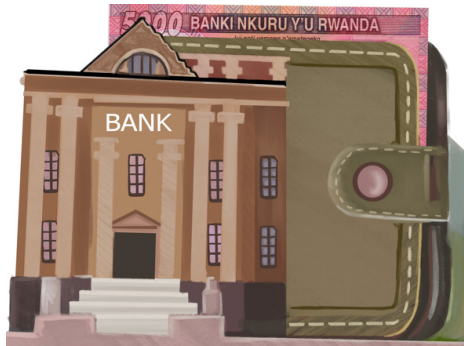
### Questions

- i. With examples explain how your money management affects your future wellbeing.
- ii. Where do you think a person can save?



# UNIT 6

## FINANCIAL INSTITUTIONS



**Key unit competence:** To be able to choose suitable financial institutions for business transactions.



### Introductory activity

Today, people with full time jobs or part time jobs who use debit cards, credit cards are most likely to have a close relationship with financial institutions. Basing on the knowledge and the community you live in,

- Identify any financial institutions known to you.
- Do you think those financial institutions are important in managing local businesses? Support your answer.

## 6.1. Meaning of financial institutions



### Activity 6.1

i) Read the case study and answer the questions that follow;

Keza started up a project of making paper bags at school having seen that a lot of paper was trashed and littered around the school compound. She sold these paper bags to the neighboring shops. She got a lot of money and felt insecure to keep it in the dormitory, so she thought of opening an account in the nearby bank. She also thought of saving the money in the bank so that it accumulates interest and also in the long run acquire a loan and expand her business by making flower vases, artefacts.

- a) Do you think Keza took a wise decision? Why?
- b) If it were you, what would you do to feel secure with the money while at school and why?
- c) How would you define financial institutions?

ii) Differentiate banking from non-banking financial institutions.



**Financial institutions** are institutions that deal in providing financial services to their clients. They offer both short- and long-term finance to entrepreneurs for their business operations. Financial institutions include; Central bank, commercial banks, microfinance institutions, merchant banks, development banks, Savings and Credit Societies and insurance companies etc.

Financial institutions provide a variety of financial services to the public which include deposits and withdraw services, loan services and financial advice to entrepreneurs among others.



## Types of financial institutions

a) **Banking financial institutions** are financial institutions that are authorized to receive deposits and create credit. These banking institutions include:

1. Central bank,
2. Commercial Banks
3. Other Banks:
  - Development Banks
  - Savings and Credit cooperatives (SACCOs)
  - Micro finance institutions and Microfinance banks. etc

b) **Non- banking financial institutions** these are institutions that accept deposits but don't create credit and offer other bank related services such as investment and risk pooling.

Examples include:

- Insurance companies
- Building societies
- Pension funds
- Capital markets



### Application Activity 6.1

Imagine you are to start up a business in your community.

- a) Which type of financial institution will you work with closely and why?
- b) Why would you insure your business?

## 6.2. Factors for selecting suitable financial institutions to deal with



### Activity 6.2

Analyse the factors that would be considered to choose a suitable financial institution to work with.





There are several factors considered while selecting suitable financial institutions which include the following:

- i. **Interest rate:** In case of borrowing money from the banks. Entrepreneurs will opt for banks with lower interest rate and when it comes to entrepreneurs saving their money in banks, they will prefer a relatively higher interest rate.
- ii. **Proximity:** Most people will prefer banks that can easily be accessed. This means institutions that have many branches.
- iii. **Customer care:** Financial institutions which provide good customer care are normally liked than those without.
- iv. **Payback period:** Refers to the time taken to recover the initial investment. Financial institutions that give a long pay back period are normally considered preferable than those that give short payback period.
- v. **Terms and Conditions of issued loans:** Financial institutions that provide soft loans are chosen faster than those that give hard loans. Soft loans are loans with low interest rate or not at all.
- Vi. **Legal procedures:** The financial institutions that have licenses to operate and are recognized by the central bank are always preferred.
- vii. **Time of operation:** It is better to deal with a well-established financial institution than a newly established one. In other words, it is better to deal with those that have been in operation for a longer period than new ones.
- viii. **Collateral Security required:** Banks which don't require a lot of collateral security are always considered by most people.



### Application Activity 6.2

Role play on the factors for choosing a suitable financial institution to deal with.

Visit a nearby financial institution to identify services offered by that institution





## 6.3. Services offered by financial institutions



### Activity 6.3

Examine the services offered by:

- a) Commercial banks
- b) Central bank
- c) Insurance companies

Various services offered by financial institutions:

**Central Bank (National Bank)** Eg: BNR- National Bank of Rwanda

- Issuing of currency: The National Bank is the only bank that is authorized to issue and renew the old notes and coins of a given country.
- It is a banker to all other commercial banks.
- It stabilizes the country's currency in circulation by using various monetary policies.
- It acts as an advisor to the government on issues regarding the economic situations like how to control inflation, etc
- It acts as a lender of last resort to commercial banks.
- It manages the government debts that is both internal and external debts.
- It licenses, controls and supervises all the banking activities of commercial nature.
- It's a banker to international institutions working in the country e.g. FAO, Red Cross, WHO, UNICEF etc.





### **Commercial Banks ( Eg: BK, Equity Bank, KCB, I&M Bank, etc)**

- They accept customer's deposits.
- They also advance short and long term-loans to the public in order to generate interest as profit.
- They facilitate easy transfer of money nationally and internationally and from one account to another.
- They facilitate international trade through offering or selling travelers cheques.
- They provide foreign exchange services where one can easily exchange one currency to other currencies.
- They provide overdrafts to clients that is, where one can withdraw money which is in excess of his / her bank account balance. .
- Most commercial Banks provide financial training.
- They provide a variety of accounts to the public to be used when depositing or withdrawing their money each with varying benefits such as savings accounts, fixed deposit accounts, current accounts etc.
- They act as referees or trustees where one can trust them to safeguard valuable items like land titles, car log books, Wills and other valuable items.
- They act as agents of stock exchange. They buy/sell shares of different limited companies on behalf of their clients.
- They provide foreign exchange to the customers operating foreign exchange accounts e.g. dollar accounts.
- They also protect business properties.

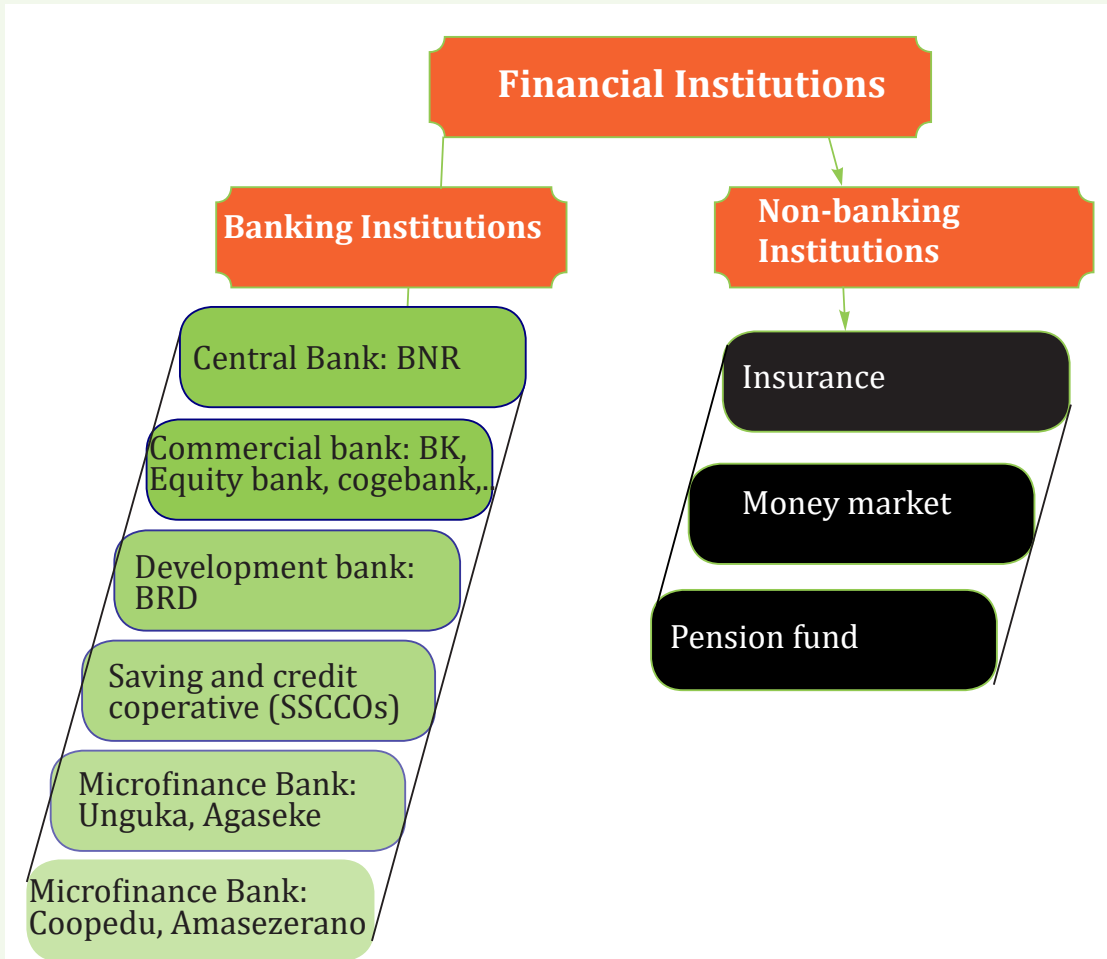
### **Insurance companies (Non Banking Financial institutions)**

An insurance company refers to a business that provides coverage, in the form of compensation resulting from loss, damage, injury, treatment or hardship in exchange for premium payments. The company calculates the risk of occurrence then determines the cost to replace (pay for) the loss to determine the premium amount. Eg: RADIANT, CORAR, SAHAM, UAP, BRITAM, etc

The following services are offered by insurance companies:

- Business Insurance,
- Professional Indemnity,
- Property Insurance. ...
- Motor Insurance,
- Home & Contents Insurance,
- Cyber Insurance, etc





 **Application Activity**

- a) Carryout research on any two financial institutions that are near your school and evaluate the services they offer.
- b) Select an appropriate financial institution to deal with in your school business club. Give reasons to justify.

**6.4. Role of financial institutions in social economic development**

 **Activity 6.4**

Describe the role of financial institutions in social economic development





Financial institutions play an indispensable role in the overall development of a country. They include the following;

- a. Financial institutions play a key role in creating employment in an economy. Many people are employed in different financial institutions thus improving their wellbeing.
- b. They help to control inflation in the country by use of the monetary policy tools.
- c. They provide loans to the public which are used to start-up businesses hence improving their standards of living.
- d. They offer a safe custody for the public finances thus reducing cases of theft.
- e. Financial markets help in boosting economic growth. They encourage people to save by buying shares and bonds and then use it to invest in large projects and industries.
- f. Financial institutions do offer loans to businesses at substantial interest rates. This helps businesses to increase their production and distribution activities.
- g. They promote foreign exchange markets through supporting entrepreneurs in exporting and importing goods and services. Businesses can receive and transfer funds in other currencies.
- h. Economic growth depends on the growth of infrastructural facilities of the country. These infrastructures require a lot of funds which are funded by these financial institutions.
- i. They also help to facilitate domestic and international trade.
- j. They help to balance economic growth since all the different sectors in an economy rely on financial institutions. The primary, secondary and tertiary sector industries all need sufficient funds from these institutions.
- k. They help to attract foreign capital through the capital market authority. Foreign companies can buy shares, stocks in another country. Such as KCB, IM bank, equity bank among others.
- l. Financial systems of different countries can promote economic integration. This is when common economic policies, such as common employment laws, commercial laws are applied. For example, the East African Community (EAC).
- m. They also help in the development of new technology to be used. For instance, computers and other new technologies to be used in recording information.





In general, financial institutions play a key role in social economic development of any economy and no economy can run successfully without a sound financial system.



### Application Activity 6.3

Write an essay on the following statement: “Financial institutions are the key engine to the development of the country”



### Skills lab 6

- a) As future entrepreneurs, discuss the financial needs you have in your school business club.
- b) Research on the internet and through resource persons in your community for the terms and services offered by other financial institutions as much as savings and credit cooperatives are concerned. Then, compare with those discussed in this book and choose the one that is more appropriate to your business club. Give clear reasons as to justify your choice.

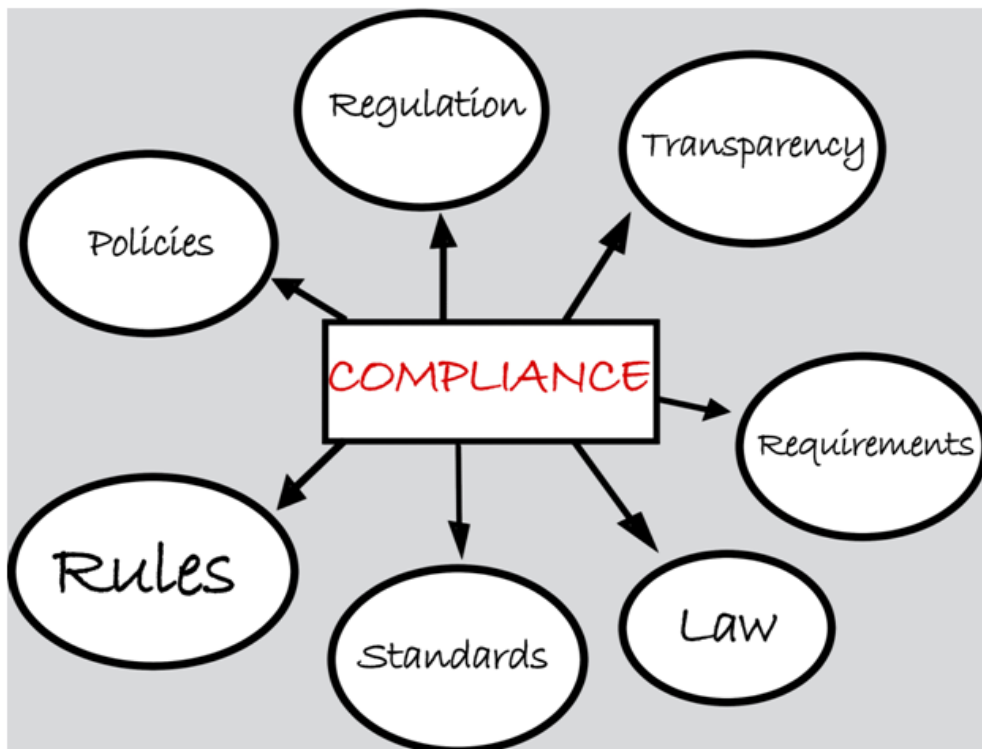
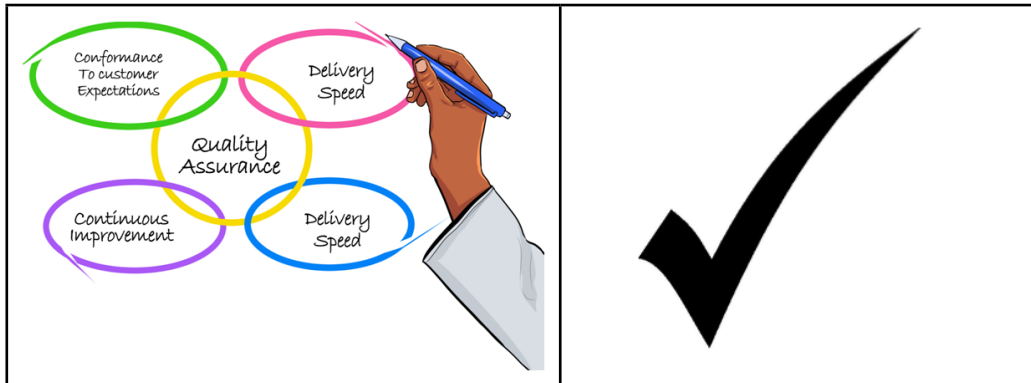


### End of unit 6 Assessment

- 1) As an entrepreneurship student, choose two suitable financial institutions to work with in the school business club and give reasons why you chose the above institutions?
- 2) Why is the government of Rwanda encouraging people to invest in capital markets?

# UNIT 7

## QUALITY ASSURANCE AND QUALITY COMPLIANCE IN BUSINESS



**Key Unit competence:** To be able to maintain effective quality compliance system in business.



## Introductory activity

### Quality assurance and Compliance Case Study:

The government of Rwanda through Rwanda Standards Board is mandated to provide National standards and conformity assessment guidelines that entrepreneurs/traders ought to follow during production and selling of their goods and services. These guidelines help entrepreneurs to be cautious and careful with the quality and measurements of raw materials used, goods produced and the technology used. If your business conforms to the required quality management, assurance and compliance standards, it reduces mistakes and inconsistencies that could make these goods unsafe. If you manufacture a food product, your quality control processes should monitor temperature and foreign bodies to decrease the likelihood that you will make someone sick. Ensuring customer safety saves your business money and averts damage to your reputation.

One of the ways that the business can strengthen its quality is by listening to its customers and incorporating their feedback in the business processes and production systems. Product quality issues that customers normally report should be tracked and managed through a rigorous process of investigation and resolution. These and more processes help the business to continually enhance customer satisfaction. It's also important that businesses are genuine in their measurements of goods produced and sold.

### Questions

Referring to the above case study, answer the following questions below;

- a. What does the National Standards and conformity assessment guidelines expect entrepreneurs to do ?
- b. What are likely negative effects the business may face if customers are not satisfied as a result of wrong measurements of the goods bought ?
- c. What strategies would you propose to the entrepreneurs to implement and ensure the safety of their customers?
- d. Design a simple quality management system of the business idea you intend to start in your community.

## 7.1. Quality assurance and quality compliance



### Activity 7.1

Explain the meaning of:

1. Quality assurance,
2. Quality compliance and
3. Quality management

#### *7.1.1. Meaning of quality assurance*

Quality assurance (QA) is any systematic process of determining whether a product or service meets specified requirements. It is also referred to as the maintenance of a desired level of quality in a product or service, especially by means of attention to every stage of the production process or delivery.

A quality assurance system is meant to increase customer confidence and a company's credibility, while also improving work processes and efficiency, and it enables a company to better compete with others.

Quality assurance is very important because it helps a company create products and services that meet the needs, expectations and requirements of customers. It yields high-quality product offerings that build trust and loyalty with customers. The standards and procedures defined by a quality assurance program help prevent product defects before they arise. Quality assurance includes two principles:

1. **“Fit for purpose”** (the product should be suitable for the intended purpose); and
2. **“Right first time”** (mistakes should be eliminated).

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

#### *7.1.2 Meaning of quality compliance*

Quality compliance means acting in accordance with systematic processes of determining whether a product or service meets specified requirements at every stage of the production process or delivery. Complying with the quality requirements helps the business in different ways such as satisfying customers'

needs, increasing the level of sales due to a large number of customers attached to the product or service, complying with the state's quality requirements among others.



### Application Activity 7.1

Using typical examples differentiate quality assurance from quality compliance.

## 7.2. Measurement standards



### Activity 7.1

1. Study the illustrations below and answer the questions thereafter.







- a) What do you observe in the above illustrations?
  - b) What lessons do you learn from the above illustrations?
  - c) Why should buyers of given products make sure that products bought conform to the right measurements?
2. Based on your knowledge in Physics(O'level), explain the measurement standards used in business activities

Measurements are often made using instruments such as measuring tapes, weighing scale, rulers, clocks, etc. Measurement is a comparison process. It involves comparison of the quantity to be measured with a chosen standard or unit. In the past, for example, the length of an object was compared with familiar lengths: strides, length of a man's foot, arm and fingers. Ancient people also used stones or seeds as their standards or units to measure weight. The position of the sun and the moon were used to tell time and seasons, the dimensions of the human body. Below are some of measurement standards that are used in business activities.

**The base quantities according to the International System of Quantities (ISQ) are listed in the following table:**

Fundamental (base) quantities			
Name	Symbol for quantity	SI base unit	Symbol for Unit
Length	l	meter	m
Time	t	second	s
Mass	m	kilogram	kg
Electric current	I, i	ampere	A


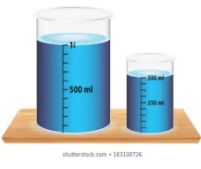



**Other quantities are derived from the base quantities and some of them are listed in the table below.**

Some SI derived quantities

Name	Units	Symbols
Area	meter squared	m <sup>2</sup>



Examples of measurements in business (measurement standard and measurement materials)

Volume	meter cubed	m <sup>3</sup>		
Mass	Volume	Length	Time	Area
Kilo-gram(Kg)	Litre(L)	Meter(m)	Seconds(s)	Meter squared(m <sup>2</sup> )
	 <i>Source: shutterstock.com</i>	 Measuring tape	 watch	 <i>Source: www.indiahousing.com</i>



### Application Activity 7.2

For the business you intend to start in your community, analyse different measurement standards you would emphasize, and why?

## 7.3. Meaning and relationship between quality management, assurance and quality compliance



### Activity 7.3

Describe the relationship between quality management, quality assurance and quality compliance

It is important for businesses to pay close attention to Quality Assurance (QA), Quality Compliance (QC) and Quality Management (QM) since they form an integral part of the business' success. Customer satisfaction and maintenance (customer retention) rely heavily on the applicability of the quality assurance, compliance and management in production and management processes.

Looking at the above illustration, quality assurance and compliance must be managed and controlled by the given quality control department of the business. The illustration shows that if businesses have clear processes of managing





quality and abide to laws and guidelines set by regulatory body (RSB), then there is quality management.

The relation between the three in terms of standards means that quality management system is comprised of quality assurance and compliance activities that ensure the establishment of a set of quality policies and objectives which act as guidelines within an organization or business.

### **Quality Management system**

**A Quality Management System (QMS)** is a formalized system that documents processes, procedures, and responsibilities for achieving quality policies and objectives.

For businesses to be able to promote quality standards, they need to develop quality management system. This system becomes part and parcel of business culture and it is monitored by the business' quality control team. The following is a quality management system that can be used by business to promote and ensure the quality of their products or services:

- i) Define and document necessary components of quality management system.** This would include key guidelines and elements of what the business takes as quality. For example what kind of raw materials will have to be used.
- ii) Define the quality policy.** This includes the business' mission that is what customers want and value from the business. This should be given top priority in the business.
- iii) Quality objectives must be communicated to the team and well understood,** ISO requires that quality objectives are derived from quality policy and measures.
- iv) Define the product defect;** that is what contributes to poor quality, whenever such defects are seen they must be recorded and communicated accordingly.
- v) Develop the documents for the system.** This could be a manual that includes the necessary policies, procedures and forms.
- vi) Define the quality process;** this includes corrective and preventive action process, management review and communication process. In short this involves ways of solving given challenges to quality implementation.
- vii) Determine the training needs;** Entrepreneurs must identify the gaps within the team so that the workers are trained and supported accordingly to meet and comply with quality standards.





viii) **Use the system.** This is the stage when the system is implemented accordingly.

ix) **Measure and monitor performance.** Measuring performance happens after implementation and would vary greatly from organization to organization depending on size, potential risk, and environmental impact.

x) **Take action that improves performance.** This is the last step that is implemented and when solutions to the risks are identified as per the quality process, they communicate them to the employees.



### Application Activity 7.3

1. Interrelate quality management, quality assurance and quality compliance
2. Think about businesses that exist in your community, how have they failed to observe quality expectations?

## 7.4. Levels of accreditation and accreditation bodies



### Activity 7.4

- 1) What do you understand by the term accreditation?
- 2) Identify levels of accreditation and accreditation bodies.

**Accreditation** is one of the critical quality infrastructure elements that facilitate trade. Accreditation of conformity assessment bodies provides the acceptance of tests results, inspection reports and certificates that accompany products and services traded across borders.

There are three levels for accreditation which include the following;

#### National standards

The national standards body helps to develop consensus-based standards. As such it considers the balanced views of all stakeholders (traders, industry, consumer associations, regulators, academia, research institutions, Non-Government Organizations etc.) the standards developed at the national level can also be used as inputs to develop international standards.





Examples of national standard bodies in Rwanda: Rwanda Standards Board, Rwanda Environmental Management Authority, Ministry of Health, Rwanda Development Board, Rwanda National Police, Ministry of Agriculture and Animal Resources etc.

### **Regional standards**

These are standards set in each region such as EAAB, East Africa Community Standards (EACS) to enforce standard of goods and services in each region. They promote trade and commerce in accordance with the progress and prosperity of a given region.

### **International standards**

The international standards bodies develop standards at the international level. They are composed of representatives from various national standards bodies. They help to overcome technical barriers in international trade. Examples of such bodies include, International Organization for Standards (ISO), International Electro-technical Commission (IEC)



International  
Organization for  
Standardization



### **Application Activity 7.4**

- 1) Visit the Rwanda Standards Board website and research about products made in Rwanda with S mark and ISO.
- 2) Research from internet to come up with different recognized accreditation bodies which ensure quality compliance.



## 7.5. Role of quality compliance in business



### Activity 7.5

Why is it important to comply with quality requirements in business?



Compliance means meeting the regulatory requirements.

- 1) Quality compliance in business ensures that the product satisfy their intended use.
- 2) It also reduces the risk of fines, penalties and closure of businesses. When a business does not meet some compliance requirements it faces the law.
- 3) It leads to improved health and safety.
- 4) It leads to improved health and safety quality improvement.
- 5) Quality compliance maintains or increase market share for the businesspeople.
- 6) There is fair competition among businesses hence increasing customers satisfaction from the products.



### Application Activity

1. Research on the Rwanda Standards Board website about the requirements needed to get an 'S' mark for the products in the school business club.
2. 2) use the link below and explain the importance of the program "Zamukana Ubuziranenge" <http://ryaf.rw/?p=2333>



## Skills lab 7

For any product you produce in the school business club: Discuss and write down the steps, measurements and procedures of making that product to ensure standardization of practices in your business, align with the acceptable RSB standards and make an action plan to acquire RSB certification for services or products that your business club produce or offer. Then, share with the class.



## End of unit 7 Assessment

1. James and Rosset intend to start a business of making Chapati and mandazi, but they have a challenge ensuring consistency in quality (maintaining the same test, size and thickness) . With your knowledge on quality assurance and standardisation;
  - a) Advise James and Rosset on how they can set quality standards in their business.
  - b) What measurement tools could they use to achieve the quality standards?
2. Explain the importance of accreditation for certification services and testing laboratories

# UNIT 8

## FINANCIAL STATEMENTS



The image shows a close-up of a white calculator on the left and a financial statement on the right. A green highlighter is pointing to the number 4,059, and an orange highlighter is pointing to the number 3,471,766. The financial statement has the following data:

	\$ 3,471,766	\$ 4,059,000
	3,100,935	3,076,900
	7,000,853	8,185,480
	214	189,022
	60	191,668
		15,702,480

Other visible text includes "Statement of Financial Position" and "Forever Capital asst".

**Key Unit Competence:** To be able to recognize the value of accounting in managing the business.



### Introductory activity

#### Financial Statements “The language of business decision making.”

James is a local entrepreneur in Huye town, he is so passionate and committed to solve community problems in his home town and country, he started a crafts business in Huye town, he moves to villages and collect crafts from women groups and put them in his shop which is strategically placed to target tourist heading to Nyungwe forest and Akanyaru Centre. He had a book where he instructed his workers to be recording all sales for each day, supplies and operating expenses. He believed that this is the best way to keep track of all business transactions and a sure way to growth.

He wanted to expand the business and felt that 5 million Francs would be enough. He was advised by his sister Uwera a student of entrepreneurship, to approach investors and bankers and pitch his business and convince them to provide funding to enable him to meet the business growth needs.

The investors only gave him 10 minutes to explain the profitability of his business, the net financial position and the financial projection he needed for the next 2 years, but this challenged him because the book he kept could not easily provide this information in the given time, so he failed to convince the investors and missed the funding.

James realized that he needed to have organized the financial information he was keeping in a certain order that would enable him to make quick decisions and make it more presentable and easy to explain to external stakeholders.

**Questions:**

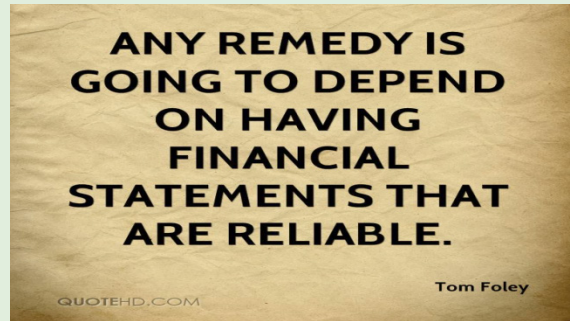
1. What kind of documents James would have used to organize his business's financial information before presenting to investors?
2. What do you understand by financial statements?
3. What is the difference between financial statements and the books of accounts? Give examples of each.
4. Why is financial information important to any business?
5. What is the purpose of financial statements in business?
6. Distinguish between income statement and balance sheet

## 8.1. Meaning and importance of Financial Statements



### Activity 8.1

Study the quote below and respond to the questions that follow.



1. What does the quote above mean to you as a student of entrepreneurship?
2. Why does the author of the quote emphasize the reliability of the financial statements?
3. What is the meaning of financial statements?
4. What financial statements should every entrepreneur use to communicate and manage businesses effectively? Why?

### *8.1.1. Meaning of Financial Statements*

Financial statements are reports prepared by a company's management to present the financial performance and position of a business at a point in time.

Financial statements consist of four statements namely:

1. Income statement
2. Balance sheet
3. Statement of owner's equity and
4. Cash flow statement

Generally, the most important financial statements are:

- (i) The income statement / Financial performance statement or Trading, profit and loss account.
- (ii) Balance sheet or the Financial position statement.





## 8.1.2. Importance of Financial Statements

### Evaluation

It's possible to assess future cash flows, and compare economic and financial results year by year.

### Internal Decision Making

The management can use all the information to guide and lead the company through future performances.

### Planning

Financial Report can be the basis to plan the activity, allocate resources, schedule Activities etc.

### External Decision Making

External users can evaluate the possibility to invest in the business or company



### Application Activity 8.1

With clear examples, explain the reasons why the following people may be interested in looking at the financial statements of any business?

- Employees
- Business Manager
- Entrepreneur
- Government
- Investors

## 8.2 Income statement (Trading, Profit & Loss Account)



### Activity 8.2

“An income statement is mostly important for well established companies like Bralirwa, Rwandair, among others, a developing entrepreneur only needs a book to record day to day transactions”

- a. Do you agree with the above assertion? Explain your decision.
- b. What is an income statement?



## Main elements of Income Statement



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

- **Trading account** where the value of the gross profit is determined by deducting the cost of goods sold from net sales i.e.

$$\text{Gross profit} = \text{net sales} - \text{cost of goods sold}$$

- **Profit and loss account** where the value of net profit or Net loss is calculated by deducting expenses from the gross profits i.e.

$$\text{Net profit or Net Loss} = \text{Gross profit} - \text{total expenses.}$$

### 1) Trading account

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

#### Items found in a trading account:

- a) Sales:** Refer to the value of goods which were bought for resale and have been sold by the business. It is revenue earned from goods sold. They are entered in the trading account for the purpose of calculating gross profit or loss.
- b) Sales return:** Goods that were previously sold but have been returned to the business due to different reasons including but not limited to poor quality/ defects, wrong pricing and delayed delivery.



**Net sales** = sales – return inwards/ sales return

**c) Opening stock:** Unsold goods in the business available at the beginning of the new trading period.

**d) Purchases:** Goods bought by the business for resale.

**e) Purchases return:** Goods previously bought by the business for sale but have been sent back to the suppliers. This value is treated in the trading account and its subtracted from the purchases to get the net purchases i.e.

**Net purchases** = purchases – return outwards/purchase returns

**f) Carriage inwards:** Refers to the cost of transporting the goods or bringing the goods up to the premises. It forms part of the goods bought hence added to purchases in the trading account.

**Net purchases** = purchases + carriage inwards – purchases return

**g) Closing stock:** Goods not sold by the business at the end of a trading period. It's included in the trading account and it is subtracted from the goods available for sale to get cost of sales. i.e:

**Goods available for sale (GAS)** = Opening stock + Net purchases - drawings (if any)

**Cost of sales** = GAS - Closing stock

**h) Drawings of goods:** Sometimes an entrepreneur may take physical items out of the business for private use. This must be subtracted from the goods available for sale in the trading account. It should be noted that “**only drawings in form of goods**” must be treated in the trading account.

**i) Gross profit:** Excess of net sales over the cost of goods sold or cost of sales. It also refers to the total profit obtained by an enterprise before paying off the operating expenses. Thus

**Gross profit** = net sales – cost of sales

**j) Gross loss:** This is excess of cost of sales over the net sales of the business.



## Format of a trading account

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

- a) Horizontal
- b) Vertical format

### Horizontal format / T - Format

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

#### Note:

- Goods available for sale (GAS) = Opening stock + Net purchases
- Cost of Goods Sold (COS) = Goods Available for Sale – Closing stock.
- Gross profit = Net sales – Cost of Goods Sold

### Vertical format of an Income statement

#### Income statement for the year ended. date

---

##### Trading account part:

Sales	XX
Returns Inwards(sales returns)	<u>(XX)</u>
Net sales	XX

##### **Cost of goods sold**



Opening inventory/stock	XX	
Purchases	XX	
Carriage inwards	<u>XX</u>	
Stock Available for Sale	XXX	
Closing stock/inventory	(xx)	
Purchases returns/ Return inwards	(xx)	XX
<b>=Gross Profit</b>		<u>XX</u>
<b><u>PROFIT and LOSS account part:</u></b>		
<b>Add : Other income</b>		
Discount received	XX	
Rent received	XX	
Interest received	<u>XX</u>	
		<u>XX</u>
<b>= Total income/ Gross income</b>		<u>XX</u>
<b>Less: Expenses</b>		
Carriage Outwards	XX	
Discounts allowed	XX	
Postage & stationary	XX	
Salaries & wages	XX	
Rent paid	XX	
Insurance & rates	XX	
Bank charges	XX	
Other expenses	<u>XX</u>	
		<u>XX</u>
<b>= Net profit/ (loss)</b>		<u>XX</u>

b) Notice use of brackets on the amounts mean deduction of the amount. The other option would be to use the word 'Less' before the item concerned.

**Profit and Loss account:**

As seen in the above vertical format of an income statement, you will realize that Profit and Loss account part represent the company's NET PROFIT or NET LOSS which is determine by deducting operating expenses (these include



selling and distribution expenses and administrative expenses) from the Gross income.

**Gross Income**= Gross Profit + Miscellaneous incomes

**Net Profit / Loss**= Gross income – Total operating expenses



## Application Activity 8.2

KUNDUMURIMO Enterprise showed the following balances as on 31st December 2012

	<b>Frw</b>
Electricity	2,300
Telephone	51,700
Advertisement	4,400
Salaries and wages	22,000
Rates	1,400
Insurance/premium	3,700
Transport	28,100
Carriage outward	15,000
Discount allowed	500
Discount received	45,000
Rent received	55,000
Closing stock	2,200
Opening stock	38,000
Net purchases	380,000
Net sales	650,000

**Required:** Prepared an income statement for KUNDUMURIMO Enterprise for the period ended 31st December 2012.

## 8.3. Balance sheet

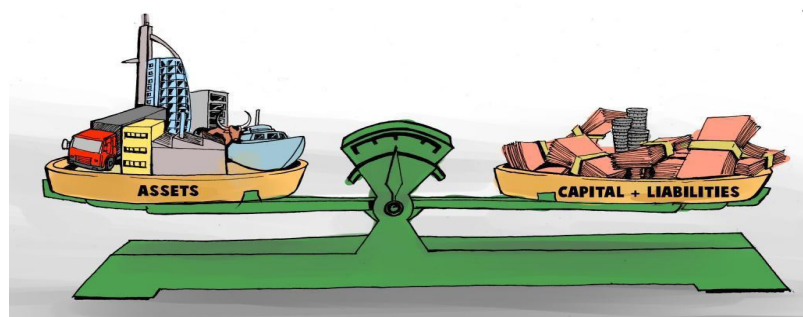


Figure : Assets, Liabilities and Capital



### Activity 8.3

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

1. From the list of balances above, pick out the balances that are to be used in preparing a balance sheet.
2. How is a balance sheet different from an income statement?
3. Why should an entrepreneur prepare a balance sheet?

A **balance sheet** is a statement of assets and liabilities of a business organization at a given period of time. It is a statement that shows what you own, what you owe, and what you are worth at the end of each accounting period.

A balance sheet is not an account therefore, not part of the double entry but it is prepared based on the **ACCOUNTING EQUATION**, which states that: **Assets = capital + liabilities**. That is why a balance sheet is also defined as “a statement in which the business accounting equation is expressed”

### Parts of a balance sheet:

There are three major parts of a balance sheet;

- Assets
- Liabilities
- Capital / Owner's equity

### Assets

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

They are grouped into two;

- Fixed assets
- Current assets

**a) Fixed assets:** These are the possessions of the business which are of a durable nature bought for use in the business for a long period of time usually above one year. E.g. land, equipment, machinery, fixtures and fittings, motor vehicle etc.







**b) Current assets:** Possessions or properties of the business which lasts for a short time and usually easily changed into cash. Current assets keep on being converted from one form to another e.g. stock of goods, debtors, cash at hand, prepaid expenses or expenses paid for in advance, outstanding income etc.

### Liabilities

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

- Long term liabilities
- Short term liabilities

**a) Long term liabilities:** These are debts of the business that are expected to be paid after a long time usually after one-year e.g. bank loans, debentures.

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

### Capital

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

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

- **The Horizontal format** consists of two columns displaying assets on the left column of the report and liabilities and equity on the right column.





**An example of the balance sheet in horizontal format:**

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

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

- **The Vertical format**, on the other hand, has only one column. This form is one of the most widely used today. Assets are always presented first, followed by liabilities and equity.



## An example of the balance sheet in Vertical format:

Balance sheet of..... as at...../...../.....			
Assets	Frw	Frw	Frw
<b>Fixed Asset:</b>			
long term investment		xxx	
Furniture & Fixture		xxx	
Plant & Machinery		xxx	
Building		xxx	
Land		xxx	
			—
<b>Total fixed assets</b>			<b>xxxx</b>
<b>Current Assets:</b>			
Closing stock	xxxx		
Bills receivable	xxxx		
Sundry Debtors	xxxx		
Prepaid expenses	xxxx		
Accrued income	xxxx		
Cash in hand	xxxx		
Cash at bank	xxxx		
<b>Total current Assets</b>		<b>xxxx</b>	
<b>Less: Current liabilities</b>			
Sundry creditors	xxxx		
Income received in advance	xxxx		
Outstanding expenses	xxxx		
Bills payable	xxxx		
Bank overdraft	xxxx		
<b>Total current liabilities</b>		<b>xxxx</b>	
<b>Working Capital</b>			<b>xxxx</b>
			<b>xxxx</b>
<b>Financed by capital and Liabilities</b>			
<b>Capital:</b>			
Opening Balance			
Add: Net Profit		xxxx	
Or Less: Net Loss		xxxx	
Less: Drawing		xxxx	
<b>Net capital</b>			<b>xxxx</b>
<b>Long term Liabilities</b>			
Long-term loan			xxxx
			<b>xxxx</b>

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



### Application Activity 8.3

Analyse the accounting information below in the trial balance and discuss the questions that follow.

1. The following balances 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 (31 <sup>st</sup> 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 (2 years)	800,000
Bank overdraft	320,000
Drawings	300,000
Net loss	548,000

**Required:**

- a) Prepare KALISA's Balance sheet as at 31<sup>st</sup> Dec. 2011
- b) What advice would you give KALISA to improve on his business's financial position?



### Skills lab 8

Use the current financial data you have so far in the business club and prepare an income statement and a balance sheet (or projected income statement & Balance sheet) for your business club. Analyse the Income statement and Balance sheet, describe the net financial position of the business club. Basing on the financial position, suggest action steps to improve the financial life of your Business club.



## End of unit 8 Assessment

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

Particulars	Amount in Rwf
Net profit	117500
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	17,500

You are required to:

- Prepare the business balance sheet as at 31 March 2010 in both formats (Horizontal and vertical).
  - How do you describe the financial status of Kaneza and Kamali Ltd Company given their balance sheet status?
- 2) The following was extracted from the books of Alexis traders Ltd as at 31<sup>st</sup> December 2011

Account Titles	Debits(Rwf)	Credit( Rwf)
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		<u>2,000</u>
	<u>799,000</u>	<u>799,000</u>

**Additional Information:**

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

**Required:**

Using a Vertical format, Prepare Alexis traders' Ltd trading, profit and Loss account for the year ended 31<sup>st</sup> December 2011.

What advice would you give to the business operators given the nature of the profit and loss account?



# UNIT 9

## *RIGHTS AND RESPONSIBILITIES OF WORKERS AND EMPLOYERS*



**Key unit competence:** To be able to demonstrate rights and responsibilities of employees at workplace.



### Introductory activity

OPTIMISMUS Ltd is a company based in KAJEVUBA village. When AKALIZA, a head of production department claimed to correct some dangerous aspects in the production system, MAHORO, the Managing Director refused because it could take 2 weeks to fix the problem while it was a period of busy production due to a big number of orders received from the company loyal customers. When AKALIZA was called to report to the Managing Director's office to discuss about that issue, she rudely talked to MAHORO, Director of the company accusing him of not caring about the lives of workers in her department.

1. Describe the rights that have been violated in regard to employment relationship.
2. Basing on the scenario above, identify responsibilities which have not been fulfilled on both employer and employee sides.

## 9.1. Meaning of rights and responsibilities



### Activity 9.1

In 2019, GIRAMAHORO Enterprise dealing in agricultural activities was established and based in NTARABANA sector. For the smooth running of the business, the owner took an initiative of using his employment right to recruit five new workers (employees) to help in achieving the business objectives. On one hand, some of the main responsibilities of an employer is to clearly show the worker's tasks, to train new workers for better performance of the tasks, and pay the workers regularly for the work done. Besides, the earlier stated responsibilities of employers are to give rights to the five recruited workers. The later have responsibilities of performing the tasks as instructed by the employer, to report at work on time, etc.

Referring to the above case, answer the following questions:

1. In the case study above, the enterprise owner had the right to hire workers. What do you understand by rights?
2. Basing on the workers' responsibilities stated in the case study, explain what you understand by responsibilities.
3. Explain the difference between rights and responsibilities.

**Rights** are moral or legal, social, entitlement to have or do something. That is, rights are the fundamental normative rules about what is allowed of people or owed to people, according to some legal system, social convention, or ethical theory. Examples: Right of peaceful assembly and association, Right to participate in government and in free elections, Right to be considered innocent until proven guilty, etc.

**Responsibility** is the state or fact of having a duty to deal with something or of having control over someone. It is also referred to as a state or fact of being responsible, answerable, and accountable for something within one's power, control, or management. E.g. an employer is responsible to supervise the worker and make sure that the work is done in suitable conditions as far as security, health and dignity of the worker are concerned

**Workers' rights or labour rights** are a group of legal rights and claimed human rights having to do with labour relations between workers and their employers, usually obtained under labour and employment law. In general, these debates are about negotiating workers' pay, benefits, and safe working conditions.





### Application Activity 9.1

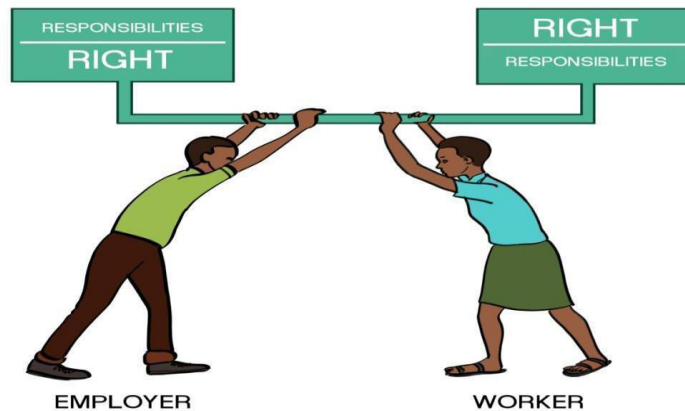
Youth are a rapidly growing percentage of the Sub-Saharan African population, and many are economically vulnerable. Financial inclusion for youth, particularly the promotion of savings behavior is associated with a number of positive social and economic outcomes and is an international priority. However, the majority of youth in Sub-Saharan Africa are not saving.

The following are the rights and responsibilities of workers. Based on your understanding and skills, tick the following statements where appropriate;

Activity	Right	Responsibility
Follow instructions given by the employer		
Receive fair pay at the correct time		
Do a good job and finish on time		
Arrive on time and stay until the work day has ended		
Do all work in a safe manner and be careful of other people		
Have time for regular breaks		
Work in a safe workplace		
Use all equipment safely		
Respect the equipment and materials from the workplace		
Be provided protective clothing or equipment		
Be given clear information about the job and expectations		
Have the right on equipment and materials to do the work properly		
Have a positive attitude about his/her work		



## 9.2. Examples of rights and responsibilities of workers and employers



### Activity 9.2

#### 1. Read the following scenario and answer the questions thereafter.

KEZA is a newly-hired employee at a restaurant based in Kajevuba village. KABERA, the human resource manager, pays a lot of attention to her. At first, she feels flattered, but when he starts touching and cuddling her she worried. She wants him to stop but is afraid that if she says anything she might lose her job or strain the working relationship.

#### Required:

- How were KEZA's rights violated?
- Discuss the obligation of an employer that was ignored by KABERA the line manager to KEZA.

#### 2. Read the following extract, and answer the questions that follow,

Labour law covers all rights and obligations within the employer-employee relationship whether current employees, job applicants, or former employees. Because of the complexity of employment relationships and the wide variety of situations that can arise, labour law involves legal issues as diverse as discrimination, wrongful termination, wages and taxation, and workplace safety.



Many of these issues are governed by applicable state law. But, where the employment relationship is based on a valid contract entered into by the employer and the employee, state contract law alone may dictate the rights and duties of the parties.

(a) Describe any 3 rights of workers in a business .

(b) Explain any 4 responsibilities of the workers in the business.

### ***9.2.1. Rights and responsibilities of workers***

Employers and employees have responsibilities to each other; they should also expect their rights to be upheld. These rights and responsibilities relate to areas such as Health and Safety, the provision of terms and conditions of employment, equal opportunities and the right to be paid a minimum wage.

#### **Employees have the right to:**

1. Be given by the employer the agreed work conditions, at the time and place as agreed;
2. To implement the work contract signed with the employer;
3. To be paid by the employer the agreed remuneration regularly and in due time;
4. To be affiliated by the employer to the social security scheme;
5. Enjoy the rights that are provided for workers with dependents by the law;
6. To enter into a performance contract with the employer based on collective negotiation within the establishment;
7. Work in a respectful, inclusive work environment free of discrimination;
8. A safe and healthful workplace;
9. Ask employer to correct dangerous conditions;
10. Receive training from employer;
11. To be given the needed means for the execution or completion of the work;
12. To benefit from all legal provisions related to the work.

#### **The responsibilities of the worker**

According to the article 48 of Labour law in Rwanda, the worker has the following:





### Principal responsibilities:

1. To personally carry out the duties of his/her position: The worker must personally execute the contract of employment in the time, place and under conditions agreed between the parties. He/she is not competent to request a third party to do his/her job or to assist him/her without the consent of the employer even when the remuneration of the third party will be paid by the employee or gratuitous.
2. To respect the employer's or his/her representative's orders when given so as to have the work done.
3. To abstain from all that might threaten his/her security or that of his/her companions or third party, or jeopardize his/her dignity and the one of his/her colleagues.
4. To respect workplace rules, regulations, policies and legislation prescribed by the establishment, its branch or the place where he/she is to do his/her work.
5. To keep in good conditions tools given to him/her and give them back to the employer at the time the work is completed.
6. Treating clients, coworkers and the public with respect and dignity.

### *9.2.2. Rights and responsibilities of employers*

#### The employer has the following principal rights:

- **Hiring rights:** The employers have the right to hire the workers in accordance with proper procedures and to expect reasonable performance from their employees.
- **Firing an employee:** Basing on some legal reasons and after official warnings, the employer has the right to fire an employee. Some legitimate reasons for firing a worker include:
  - Poor performance/productivity problems
  - Gross misconduct/unprofessionalism at work
  - Stealing
  - General layoffs, etc.
- **To see his orders respected:** An employee is required to respect the orders of the employer or his/her representative when given in furtherance of work, but the level of devotion required of an employee should not exceed his obligations. In as much as the employee owes the entirety of his professional activities to the enterprise, nonetheless, outside his working hours, it is lawful for him to perform any activity of





a professional nature which is not harmful to the proper execution of his obligations as per the terms of his contract of employment.

- **To see his work well executed:** The employer has the right to see the work wholly done by the worker in the time, place and under conditions agreed between the parties.
- **To see all legal provisions in his favor being respected:** The employee is required to respect all obligations contained in the contract of employment. If the employee is in breach of his/her contractual obligation, he may be liable to indemnify the employer.

**The employer has the following main responsibilities:**

- To give to the workers the agreed work conditions;
- To ensure the responsibility of implementing the work contract signed on his/her behalf;
- To supervise the worker and make sure that the work is done in suitable conditions as far as security, health and dignity of the worker are concerned;
- To pay the worker the agreed remuneration regularly and in due time;
- To avoid whatever may hamper the company's functioning, its workers and the environment;
- To affiliate workers to the social security scheme;
- To make those workers with dependents enjoy the rights that are provided for by the law;
- To enter into a performance contract with the worker based on collective negotiation within the establishment;
- Ensuring no discrimination in the workplace;
- Provide a workplace safe and free from hazards;
- Provide training to employees;
- Provide competent supervision, etc.





## Application Activity 9.2

### A. Circle the correct answer for each statement.

1. In Rwanda, an employer does not need to:
  - a. Provide regular breaks for employees
  - b. Maintain a safe workplace
  - c. Pay employees the agreed-upon wage on time
  - d. Pay for employee's transportation to work
  
2. In Rwanda, an employee has the responsibility to:
  - a. Respect and follow the directions given by the employer
  - b. Avoid hazards at the workplace
  - c. Keep equipment in good working order
  - d. Show up on time
  - e. All of the above

### B. State whether the following statements are *True* or *False*

1. Rights and responsibilities are the same for employers and employees
2. The Rwandan labor law protects workers against harassment, intimidation and violence.
3. Women should not report sexual harassment by their supervisors because they will lose their job.
4. Rwandan labor law protects adults, not youth.
5. Think about a business, organization or any other institution in your home locality employing workers. Answer the following questions:
  - a. Discuss the responsibilities of the employer ( business/ organization employing workers)
  - b. What rights do employers expect their employees to provide?





## Skills lab 9

1. For the business you intend to start in your community;
  - i) How will you ensure that the rights of workers are observed?
  - ii) What will be the responsibilities of different workers that you will employ?
  - iii) As the employer, what will be your responsibilities?
  - iv) How will you ensure that workers have performed their responsibilities?
2. Draw 3 pictures showing human rights violation in your portfolio notebooks.



## End of unit 9 Assessment

KAZENEZA, an Adventist by religion was selected as the best candidate to work as a teller at URWUNGUKO bank. Saturday is always a very busy day of the week most especially to cashiers due to the fact that, on this day, the bank experiences huge amounts of deposits and withdrawals in almost equal proportions hence many customers. In the employment contract, the bank highlighted Saturday as a special working day under the terms and conditions of working days.

### Questions:

1. What advice would you give to KAZENEZA taking into consideration his religious beliefs and the bank's terms and conditions of the employment contract?
2. Assume that you are selected by RITCO Ltd; one of the biggest and famous transport companies in Rwanda to train company administrative and managing staff on the rights and responsibilities of employer.
3. Discuss what will be contained in your training presentation as the rights and responsibilities of employers to make sure that employees' rights and responsibilities are not violated by their employers.

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