Cranfield UNIVERSITY
Silsoe

Private Sector Participation in Low Cost Water Well Drilling

Knowledge and Research (KAR) Project R7126

Study of Taxation, Registration, Legal and Regulatory Issues Affecting Small Businesses in Uganda.
&
Pounder Rig Contractor Business: Projected Cash Flow.

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- Mpigi district,
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- the numerous individuals who have acted as consultants or assistants to the project,
- the four Cranfield MSc students whose findings informed the project at various stages,
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It is our hope that the work which we have started in this short project can continue and build on the foundation provided by the many partners and stakeholders involved.

BACKGROUND

This report contributes to the findings, implications, and future plans of a project, initiated by Cranfield University (Silsoe, UK) entitled "Private Sector Participation in Low Cost Water Well Drilling". The project was funded by DFID from July 1998 to June 2001, with additional funding partners (Government of Uganda, DANIDA, SIDA, UNICEF, Water Aid, and an anonymous donor) joining at various stages throughout this three-year period.

The three-year Project had two overall aims:

- to develop, and transfer to the private sector, technology suitable for affordable shallow well construction
- to research the process of technology transfer and the conditions necessary for its success, in the context of rural water source construction

The first aim of the project was addressed through three main objectives or outputs:

- the design, field testing, and evaluation of a new human-powered drilling rig (the "Pounder rig")
- the uptake of the technology by a small number of contractors, and their use of the rig in commercial contracts
- the establishment of a sustainable means by which the rig and subsequent spare parts will be made available in country

The research aspect of the project used the technology transfer and uptake process as a gateway to action research. The process of developing the technology and introducing it into the private sector, and the concurrent investigation and learning process, were intertwined in such a way that the project informed the research, and the research informed the project. Both benefited.
The overall research question was:

"What enabling conditions and external actions are necessary to stimulate and strengthen effective rural water supply service delivery by the private sector?"

INTRODUCTION

This document is made up of a number of reports. The first section contains a study of 'Taxation, Registration, Legal and Regulatory Issues Affecting Small Business in Uganda', by Kakooza, Ball and Danert. This section includes:

1. Study of the Ugandan tax system carried out by P. Ball in December 1999
2. Terms of Reference for a study by S.M. Kakooza, expanding and reviewing an earlier study of business taxation by P. Ball. November 2000
3. Kakooza's report, including comments on P. Ball's study. December 2000

The second section is a study of 'Pounder Rig Contractor Business: Projected Cash Flows', by Kakooza and Danert. This section includes:

4. Terms of Reference for a second study by S.M. Kakooza examining the likely cash flow of a small business operating the Pounder Rig. February 2001
5. Results of the Kakooza study. June 2001

These studies were necessary in order to understand what the Government of Uganda's requirements are, in terms of company registration, taxation, auditing, reporting and other laws and regulations; and what are the actual experiences of small businesses operating within or outside of these requirements.
It also establishes whether or not, or under what circumstances, Pounder drilling can be a profitable activity for a small contractor.

TAXATION

1 UGANDAN TAX SYSTEM: RELEVANT TO CONTRACTORS AND IMPORTERS OF THE POUNDER RIG

A brief study has been made of the relevant taxes that will have a direct bearing on the import and deployment of the Pounder Drilling equipment and related materials in Uganda.

Whilst it is apparent many Ugandan businesses seem to work outside the formal tax system, it is totally misleading to assume that they do not pay tax. With-holding Tax and VAT require registration within the tax system to allow 'claim back' and there would seem to be advantages for a business to register into the tax system. There is however a reluctance, as 'scams' within the tax system are not unheard of. For example, VAT numbers being borrowed and used by smugglers and subsequent huge VAT bills being issued to the unsuspecting innocent trader.

The accumulated tax bill is significant to the Pounder operator and proper business planning will be very much part of a successful Pounder operation. As plans develop into year 2000 to work with contractors and importers it is recommended to bring the services of a qualified accountant to evaluate the emergent business and ensure they have adequate tax strategies in place.

1.1 General Import Taxes.

All commercial imports are subject to a range of taxes at time of entry. These are summarised below.

1.1.1 Import Duty

Import duty varies from commodity to commodity and is found in the Finance Bill each year, published in about June. Import duty is in 3 broad headings:

- ⇨ imports from outside East Africa
- ⇨ imports from East Africa (termed COMESA)
- ⇨ excise duty – a tax in addition to the base import duty.

In general terms, raw materials for drilling goods rarely exceed 7% import duty and attract 0% excise duty (some popular items appended). Goods from East Africa dropping to 4%.

Government departments and donors can apply for duty free exemption (e.g. UNICEF) and manufacturers who are formally registered with both the Ugandan Manufacturing Association and the Kampala City Council can apply for duty exemption or reduced rate on imported raw materials. Those who have not invested in manufacturing infrastructure i.e. traders have no possibility of gaining exemptions.

1.1.2 VAT

VAT is chargeable at 0% or 17%. It is assumed that all drilling related items are 17%. This is payable on entry of the goods (rate applied to CIF cost of goods + import duty + excise duty).

This VAT is reclaimable as input tax and can be claimed back from the tax office by those who are VAT registered. In theory this implies that the government could pay out VAT if goods bought are held in stock but not sold on. This is certainly the case in the UK VAT system. In Uganda, VAT repayment would be held as a 'credit' against future payments. In other words it is very difficult to physically collect real money from the Uganda tax authorities!

Who can register for VAT? Anyone in business who turns over - that is invoices out more 12.5 million in a 3 month period is legally obliged to VAT register. Those who turn over less but would be advantaged by reclaiming input tax can voluntarily register. Registration is subject to the authorities being given a permanent address and being assured that the business will keep adequate financial records.

To complete the VAT story, those who are registered are required to issue tax point invoices – drilling and related services assume at a tax rate of 17%.

1.2 How does this relate to Pounder equipment?

The importer/manufacturer of the equipment pays 17% VAT on equipment/materials imported and bought locally. He then adds 17% VAT to the bill for hire or sale to the Pounder user.

The Pounder user: If they restrict their turnover to below 12.5 million in every given 3 month period, they do not VAT register and charge out VAT to their clients. The costs of VAT spent on buying equipment and materials will have to be absorbed into their business costs.

Alternatively, the Pounder user registers for VAT and can reclaim against their equipment and material purchases but then has to charge out 17% on the value of all their completed work.

As with all VAT schemes it is the person at the end of the supply line who catches the most.

1.3 Additional taxes due on importation and invoices

1.3.1 WT - Withholding tax

Currently 4% is levied on all imports payable on entry against CIF value. It is also levied by all Ugandan Government departments and local authorities when paying out for the provisions of goods and services of over 1 million shillings.

This tax is redeemable as a credit allowance against income tax provided this is supported with relevant trading records and accounts of say a Ltd company.

1.3.2 ILC -Import Levy Commissariat

Currently 2% levied on all imports payable on entry against CIF value.

1.3.3 Pre-shipment Inspection. (PSI)

All goods with a value of over $5000 FOB (Freight on Board) (this value used to be $10,000 but was recently reduced), require to be inspected, before shipment, by Intertek Testing Services on behalf of the Ugandan Government.

There are exceptions, namely UN shipments and 'government project' goods and gifts to NGO's.

Pre-shipment inspection is activated by the importer raising a Form E through Stanbic Bank or offices of Intertek by presenting a suppliers pro-forma invoice and payment of the inspection fee (0.8% of the FOB value). Intertek then arranges for inspection in the exporters country. The inspection effectively establishes if the goods are merchant-able quality and valued correctly, specifically that they are not under-valued to reduce import taxes or over-valued indicating high profit or corruption.

Intertek issue a report through Bill of Entry (BoE) from its Kampala office to the importer and this is produced to customs to allow the goods to clear in Uganda (Intertek Guidelines and sample Form E attached)

Traders of general goods operate close to this $5000 and there is a sub system where Ugandan customs officers put values on the import item to assess tax due. This can be a negotiative process with cheaper values being placed when goodwill of a particular customs officer is sought. There is apparently a system of fines imposed for goods arriving without Intertek inspection.

1.4 Income Tax

1.4.1 For Individuals (Resident in Uganda)

SUMMARY OF UGANDAN INCOME TAX							
Annual Salary		**Monthly Salary**	**Annual Salary**	**Monthly Salary**	**Tax %**	**Additional Lump Sum**	
UShs		**UShs**	**£ Sterling**	**£ Sterling**		**UGS**	**£ Sterling**
From	**To**						
0 to	1,560,000	130,000	650	54	nil	Nil	
1,560,000	2,820,000	235,000	1,175	98	10%	Nil	
2,820,000	4,920,000	410,000	2,050	171	20%	126,000	53
4,920,000	upwards				30%	546,000	228

Sterling conversion for comparison purposes @ 2400 UShs = £1

1.4.2 Small Business Taxpayers Tax Rates

Gross Turnover	**Tax Due**
0 - 20 million UShs per annum	100,000 Lump Sum
20 – 30 million UShs per annum	250,000 or 1% of gross turnover, which ever is lower
30 – 40 million UShs per annum	350,000 or 1% of gross turnover, which ever is lower.
40-50 million UShs per annum	450,000 or 1% of gross turnover, which ever is lower

Any amounts of withholding tax paid can be deducted from the amount above.

1.4.3 Income Tax Companies.

30% of Audited Profit.

1.5 Import Cost Example.

Say we have goods of £1000 ex factory value in UK or South Africa and these goods cost £100 to sea freight and £20 to insure.

Our goods have a CIF value of £1120.

Assume these are general engineering drilling related goods these are subject to 7% import duty and 0% excise duty = 7% x £1120
= **£78.40 import duty**

VAT is then charged at 17% x (CIF + Import duty)
= 17% x (£1120+ £78.40)
= 17% x £1198.40
= **£203.73 VAT**

Withholding tax 4% of CIF = **£44.80 Withholding Tax**

ILC tax of 2% of CIF = **£ 22.40 ILC**

Total Tax Payment On Goods

Non VAT registered business: £349.33 i.e. say 35% of ex factory cost of goods

VAT Registered business (i.e. those who can recover the VAT as input tax) : £145.60 i.e. 15% tax payment of ex factory cost.

Manufacturer able to import duty free and with full 'Manufacturers licence': £67.22 i.e. 7% tax payment of ex factory cost.

Abstract taken from The Finance Bill 1999							
Page No	**Sub Heading**	**HS Code**	**Commodity**	**Import Duty**	**COMESA duty**	**Excise Rate**	**VAT**
64	25.08	2508.10.00	Bentonite	7%	4%	0%	17%
41	13.02	1302.32.00	Guar Gum/thickeners	7%	4%	0%	17%
318	84.3	8430.39.00	Boring or Sinking Machinery*	0%	0%	0%	17%
269	73.04	7304.21.00	Drill pipe	7%	4%	0%	17%
270	73.06	7306.20.00	Casing steel	0%	0%	0%	17%
261	72		Various steel sections**	7%	4%	0%	17%
300	82.07		Rock Drilling or earth boring tools	7%	4%	0%	17%
311	84.13	8413.20.00	Hand Pumps	0%	0%	0%	17%
335	84.82		Ball Bearings	0%	0%	0%	17%
136	39.17	3917.23.00	uPVC pipe	15%	6%	0%	17%
*	This implies that it is a completely built boring machine and not a kit of steel parts						
**	Some steel does attract 10% excise - none spotted amongst the type of Pounder					steel	

Principal sources of Information:

Interfreight (Panalpina) Uganda

Hudig Uganda Ltd

The Finance Bill 1999

Compiled VAT leaflets 3rd edition 1998 – Uganda Revenue Authority

Anthony Opio – Pim & Co Certified Public Auditors

The Income Tax Act 1997

2 TERMS OF REFERENCE FOR A STUDY OF TAXATION, REGISTRATION, LEGAL, AND REGULATORY ISSUES AFFECTING SMALL BUSINESSES IN UGANDA'S WATER SECTOR

2.1 Background

New technology has been developed for water well drilling, and it is expected that this technology (the Pounder Rig) will be adopted by small Ugandan contractors in the very near future. In the short and medium term, contracts will be let by Districts, for the construction of water infrastructure in communities. The involvement of the private sector in this way is central to GoU policy on community water supply and sanitation for the foreseeable future.

The new technology is described as "low-cost", but it does not represent the *least* cost water supply solution. If a contractor were to invest up-front in the new technology, together with the necessary transport (a second-hand pickup) and initial cash flow, he/she would need to find around USh15-20m. Alternatives to such investment exist, including rental of the rig, pickup hire, and advances on contracts to ease cash flow. Nevertheless, the scale of the business would be such that the turnover for each well would be approximately USh2-4m, and a well organised contractor might drill 20-30 wells per year. Consequently the annual turnover could be USh40-120m.

We already know of, and further envisage, partnerships emerging between small businesses, in order to share skills, resources, risks, capital investment, and profits. Many different such models could develop, or be encouraged

2.2 General Requirements of the Study

Against this background, we need to understand what the GoU *requirements* are, in terms of company registration, taxation, audit, reporting, and other laws and regulations; and what are the actual *experiences* of small businesses operating within or outside of these requirements (whether in the water sector or not).

Our Drilling Consultant, Peter Ball, has already drafted a report outlining some of these issues (already passed to the Consultant). We need to confirm his findings, and extend them, particularly going beyond the "official" requirements, to describe the perceptions and experiences of small businesses.

2.3 Specific Terms of Reference

1. Describe the types of small business, and possible business groupings which would be appropriate for Pounder rig operations. Liase closely with Jamil Ssebalu in this area, commenting on the profiles of contractors whom we already know.
2. Set out the regulations and legal requirements imposed by GoU law (and any specific requirements at District level) on such small businesses or business groupings. This should include registration, taxation, auditing, reporting, and any other relevant rules.

3. Comment on Peter Ball's report, correcting any factual errors, and identifying any omissions and other corrections.
4. Describe the range of experiences which small businesses have of the regulatory and legal system. In particular, to what extent do small businesses comply with the rules? If they do not comply, how effective is enforcement? In cases when they do comply, what is their experience of bureaucracy and corruption?
5. Relate the general comments made under previous headings to a selection of the businesses which we already know. Liase here with Jamil Ssebalu.
6. Make any appropriate final comments on the likely challenges to be faced by small businesses adopting the Pounder technology, in relation to cash flow, profitability, compliance with laws and regulations (including taxation), bureaucracy and corruption.

Note to the Consultant: please be as specific as possible in all areas, in order to transfer in-depth understanding of the situation to the Project Team. The report will be confidential, and will only be reflected in public outputs after editing into a very generalised format.

3 STUDY OF TAXATION, REGISTRATION, LEGAL AND REGULATORY ISSUES AFFECTING SMALL BUSINESSES IN UGANDA

3.1 Background

There have been technological advances in the water-drilling sector. The Pounder Rig is expected to revolutionalise the water prospecting opportunities for smaller businesses in Uganda. This is expected to be made more possible by the Uganda Government attitude towards private sector. Current policy emphasizes the withdrawal of government from business that can be run by the private sector.

Initial experience shows that the private sector stands to benefit from the liberalization of the economy.

The Low Cost Drilling Project intends to procure funds and invest them in financing the availability of a Pounder rig to small scale water drilling companies with a view of assisting them to become self sustaining, so as to contribute to the overall poverty eradication policy of the government of Uganda.

The Low Cost Drilling Project already knows of and expects partnerships between small businesses in order to share skills, resources and risks.

The project also intends to make information available to small-scale investors in the water sector so as to facilitate investment.

3.2 Terms of Reference (TOR)

The terms of Reference are enclosed in this document.
In addition the consultant broadly interpreted them to be specifically requiring the consultant.

- To describe types of small businesses and possible small groups which would be appropriate for Pounder Rid operations.
- Comment on the profiles of contractors already known by the client.
- Provide guidelines requirements regarding registration, taxation, auditing and reporting in Uganda
- Make comments on Mr. Peter Ball's report, make corrections and identify omissions
- Outline the range of experience of small businesses in respect to compliance with registration, taxation, auditing and reporting.
- Relate comments on general experience to contractor companies known to, and whose profiles will be provided by the client.
- Comment on likely challenges to the contractors.

The consultancy aim, long term objective, is to create an awareness for clients on the water drilling sector, to ensure that the small businesses that are in the water drilling sectors can be advised on the basic requirements by the Client, the Low Cost Drilling Project.

3.3 Methodology

The consultants have made inquiries from the following areas that they felt had an interest in the systematic and systemic development of the water sector in Uganda.

- National Water and Sewerage Corporation (NW & SC)
- Directorate of Water Development (DWD)
- Uganda Small Scale Industries Association (USSIA)
- National Environment Management Authority (NEMA)
- Rural Water and Sanitation (RUWASA)

Other organisations where information has been sought are

- Uganda Revenue Authority
- The Registrar of Companies

The general public has also been approached for ideas that have been used to arrive at the content of this report.

It must be emphasised that in all cases the consultants have not disclosed the purpose of their inquiries and have in no case received information from official channels. All information has been got from friends working in the various organisations.

3.4 Study Findings

3.4.1 Types of Small Businesses and groupings possible for Pounder Rig

Most Businesses in Uganda are sole proprietorships. They suffer from the typical problems of such business units. There is a general lack of capital, poor management arising out of the inability to attract qualified staff as the practice is to employ family members who may, as is often the case, lack the necessary skills. Access to credit is limited as they often lack the necessary collateral that lending institutions normally require before they extend services. Consequently these business units do not save and cannot expand through the use of internally generated funds.

Partnerships are not a common business form in Uganda. There are however some partnership businesses especially in the professional services sector, mainly in accountancy and law practicing firms. In the trading sector partnerships are rare and even where they exist most likely the partners are often relatives.

Partnerships businesses have not been very successful in Uganda. They suffer from more or the less the same problems as sole proprietorships except they have access to more funding out of partners' capital. Their management is beset by unnecessary bureaucracy.

Private Limited companies have been relatively more successful in Uganda than any other business unit. The ownership is drawn mainly from family members with little or no participation by non- family members.

Public Limited companies have not been successfully established owing to the absence of an effective stock exchange.

3.4.2 Registration

Registration can be of three forms:

i) Business name

A business may be desirous of registering a name to create an identity especially if such a name will give the business added advantage. The business will then seek to register a name by which it will be known as a body corporate. This also helps this business to open up bank accounts in the names of the Business and also get involved in most of the activities that a company doe's.

ii) The Company

In order for the business to be regarded as a body corporate it is necessary for the business to register. If the company's' shareholders liability is limited to the capital contributed then this registration is mandatory. The limited liability company has to register under the Companies Act.

In both (i) and (ii) above Registration is done at the Registrar of Companies office located on the 12th floor, Uganda House, Kampala Road in Kampala City.

The registration process seems easy except where the business name one wishes to register is already registered by another business. Before registration, the directors are supposed to inform the registrar of companies of the proposed company name. It is at times advisable to wait for three days before going back for the confirmation. This gives the office so time to check and make sure that no other company has the same name.

iii) Registration with the Directorate of Water Development (DWD)

The Directorate of Water Development with its head office at Luzira is the body responsible for the registration of drilling companies. One of the requirements for a drilling company to be registered is that it should have access to drilling equipment. Appendix 2 is the set of forms that a drilling company has to fill before being granted permission to commence drilling activities in Uganda.

3.4.3 Taxation

From the profile of the Companies provided and from what the Consultant has gathered from discussion with the client the level of operations of the Contractor in whom the client has interest will be interested in information on the following taxes: -

i) Graduated Tax (GT)
ii) Personal Tax especially in the form of Pay as You Earn (PAYE)
iii) Corporation Tax
iv) Value Added Tax (VAT)

i) Graduated Tax (GT)

This is a tax that was introduced in Uganda by the British during the colonial days whose main objective then, besides governing revenue for Government, was to lead (force) men to work.

The tax has been retained in more or less the same way except that it presently applies to women in gainful employment as well.

The tax is levied on individuals and at rates ranging between 15,000/= to 80,000/= per annuam.

The tax increases up to 10% more as a result of an Education Tax levied by Local Government outside the official gazetted tax.

ii) Personal Tax recovered under the `Pay As You Earn' (PAYE) system

There is in place a system of collecting taxes from individuals in Uganda, under the PAYE system; taxes are recovered from individuals through deduction made from their earnings per month. At the end of a year the individual will be required to pay the balance on his personal tax if PAYE deductions were insufficient to cover the amount payable.

It is a progressive tax with a threshold of Ushs.130, 000/= per month and a tax brackets as follows: -

Tax bracket

Income per month Ush	Width(Shs)	Tax rate
From 0-130,000 (thresholds)	130,000	0%
From 130,001-235,000	105,000	10%
From 235,001-410,000	175,000	20%
Above 410,000	open	30%

PAYE is recovered on the payroll and the Uganda revenue Authority (URA) the body responsible for Revenue collection in Uganda expects the money recovered to be remitted within fifteen days after the month to which the tax recovered has expired,

Partnership Income

The law in Uganda doesn't tax partnerships. However the profits made by a partnership are presumed to be for sharing amongst the partners and are regarded as personal income to the partners and treated the same way PAYE is handled.

Corporation Tax

On the net profits of a Company corporation Tax at 30% is payable. The 30% tax calculated is reduced by any Withholding Tax (WHT) recovered from the taxpayer during the financial year. Withholding Tax arises out of a requirement that if one is being paid a sum of money, there are some institutions that URA has mandated to recover 4% of the amount being paid and then remit that money to URA. Most government agencies will make this deduction.

iv) Value Added Tax (VAT)

This is a consumer tax payable by all that consume.

The clients contractor companies will inevitably pay this tax.

Some of the Clients will be registered to pay VAT. It is a new tax in Uganda and needs more explanation is below-

The value Added Tax Bill came in force on 1\7\96. Value Added Tax was introduced to replace what was known as Sales Tax and Commercial Transaction Levy (CTL) then.

Value Added Tax is a tax on consumer expenditure. It is collected on business transactions and inputs. Most business transactions involve suppliers of goods or services. VAT is payable if they are:-

- Supplies made in Uganda
- Made by a taxable person
- Made in the course of furtherance of a business
- Are not specifically exempted or zero-rated.

Supplies which are made in Uganda and are not exempted are called Taxable Supplies. A Taxable person can be an individual, firm, company, as well as such a person required to be registered for VAT.

Supplies are outside the scope of the tax if they are: -

- made by someone who is not a taxable person.
- Not made in the course of furtherance of business

Taxable Supplies

If you supply goods or render a service for which you are paid you are making taxable supplies. When you are registered, VAT is chargeable on all the taxable supplies you make. This is your OUTPUT TAX.

Exempt Supplies

These include financial services, passenger transportation, medical, dental and nursing services and those supplying petroleum fuels.

VAT Rates

There are only two rates. 17% on taxable supplier and 0% on exempt supplies.

Other Taxable Supplies

There are transactions, which constitute taxable supplies for VAT purposes and include: -

- sales to your staff
- sales of business assets
- hire or loan of goods to someone else
- gifts to friends or business representatives
- goods your family take from business for your own use
- commission received.

VAT is accounted for in all cases even where money has not been received.

Input Tax

If you are registered for VAT, all the VAT you are charged constitutes Input Tax. This input tax is claimed when making VAT returns.

Registration for VAT

A person conducting business with a turnover of Ushs.12.5 in gross for 3 months must register for VAT. The following persons can register for VAT. Sole Proprietor, Company, Partnership, Estate of Deceased, Trust, Incorporated bodies, Unincorporated bodies, Club or association.

Calculation of Turnover

This is for VAT purpose, based on the going concern basis. Two periods need to be considered: - the past 3 months and the next 3 months. You need to estimate for each of these periods. Where the total exceeds 12.5m/= you must register for VAT.

Voluntary Registration

If your taxable turnover is below 5m/= in any 3 months of business you may apply for voluntary registration. Uganda Revenue Authority can refuse to register a taxpayer if you.

- have no fixed place of abode or business
- do not keep proper accounting records
- have no bank account
- have previously been registered for VAT purpose but failed to perform your duties under the VAT laws.

For registration purposes URA provides Application for VAT Registration Forms.

A registered VAT payer begins to charge VAT on the date shown as registered. Registered VAT payers must maintain VAT accounts and make monthly returns. VAT payment must be to an authorized bank by the 15th day of the months following the tax period covered by the returns.

Penalty for not making returns

Penalties, for late filing of returns as well as failure to make returns, of up to 10% additional tax can be imposed by URA. This measure is being enforced especially on Companies that do a lot of Business. Some small companies at time Dodge this for years until they are netted in one way or
Another. The URA sends officers who make door to door visits mainly to find out these companies.

Zero Rated Goods and Services

These include: -

- the supply of exports of goods and services
- the supply of international transport services and the supply of goods or services in connection with international transport of goods or passenger.
- Supply of educational materials
- The supply of drugs and medicines. This applies to both human and animal drugs.
- The supply of cereals where the cereals are grown or produced in Uganda.

VAT Returns

These returns are made on Uganda Revenue Authority authorized stationery.

Import duty

Import Duty is imposed on goods that are imported into the country. The rate is varied depending on the goods imported.

Due to the need to improve international trade a Sixth Schedule of Harmonised Community Code is operation between States. What Ugandans generally call the Tariffs Book is one such schedule. It contains rates at which Import Duty is payable – for all types of imports.

Income Tax – Corporation Tax

As from 1st January, 1974, the Income Tax Decree was promugulated to replace the East African Income Tax Management Act, 1952. This decree is re-enforced by subsequent subsidiary legislations.

Assessment and Collection

The assessment and collection of income tax in Uganda is the responsibility of Uganda Revenue Authority. It is headed by the Commissioner General. He is responsible for the administration of the Income Tax Law and for the control and management of the Uganda Revenue Authority.
The Commissioner General is assisted in his work by Commissioners, Assistant Commissioners, Principal or Senior Assessors in assessing the tax, and by collecting the tax. There is also an Investigation Branch dealing mainly in matters of tax evasion and fraud.

Liability to Individual Income Tax

The Income Tax Act is concerned with only one tax. Terms like Corporation Tax, Capital Gain Tax, Withholding Tax do not refer to separate taxes.

Persons Taxable

Those assessable or chargeable to tax are called "persons" to cover individuals and non-individuals, e.g. incorporated or unincorporated companies, clubs, trusts, estates and other bodies of persons.

Companies pay tax at the corporation rate. Non-residents pay tax on certain specified income at special rates.

The chargeability to tax, and the scope and range of tax, will depend on whether a person is resident or non-resident.

Residence

Both residents and non-residents of Uganda are taxed on income accrued in or derived from Uganda.

Other Taxes

These taxes which include

- Import Duty
- Exercise Duty
- Import Licence Commission

They are collected by URA. These are not likely to involve the Client's Contractor Companies for the following reasons.

- Import Duty and Import License Commission arise in cases where one is importing goods into Uganda.
- Exercise Duty would only arise if the Contractors were involved in manufacturing

3.4.4 Auditing

The law in Uganda demands that persons, i.e. individuals and registered persons make returns of income to URA for the purpose of tax assessment and the Registrar of Companies. A firm approved by the relevant authorities should audit these returns of income. Contractor Companies and individuals will have to make these statutory returns.

In the case of individuals Uganda doesn't have a rigid follow up system. One can easily work for all his life without ever being made aware that there is that requirement. URA follows up companies that default on Corporation Tax.

Auditing firms are many though good many of them are not adequately staffed by appropriate personnel.

Other Licences, fees etc

Local Governments in Uganda and other Government agencies change fees for a variety of reasons. One intending to operate in Uganda needs to ensure these are attended to. They may include: -

- Trading Licences
- Profession bodies fees
- Environment Impact Assessment fees
- Etc.

3.5 General Experience of Business In Uganda Regarding Registration, Taxation and Reporting

Registering business in Uganda is an easy exercise. However as mentioned earlier a problem can arise if the name sought to be registered is already registered. In that case one will be required to change the name.

Taxation is an issue which under the ambit of Uganda Revenue Authority. There has been in the past, some problem of smuggling, which had caused misunderstanding between URA and businessmen. This was made worse by URA's use of the army and security agencies not trained in tax collection. The putting in place of a tax tribunal has eased the tension. URA appears to be abandoning the military approach to tax collection.

The main problem in the Uganda Tax system is generally the small tax-paying public. The tax complying public is overtaxed rendering it impossible for most businesses to earn a profit without deliberately defaulting on tax payment. URA has not made enough effort to ensure all people liable to tax pay. It is more contented to pressurize those already complying for more taxes. There is a need for innovation in URA.

In respect of VAT where the taxpayer is entitled to a refund there is little evidence to support that URA ever makes the refunds and even where they are supposed to make the refund bureaucracy boggles the system down. In practice taxpayers have resorted to offsetting refundable amounts against future VAT liabilities

In Dealing with tax matters, small businesses are disadvantaged in that they often lack people adequately trained in tax matters. The tax authority's attitude towards taxpayers has not made matters any better. The URA is not yet customer friendly. It applies militaristic methods to a purely civic function.

Compliance with Rules by Small Businesses

Small Businesses have often not complied with all the rules for a number of reasons: -

- Outright ignorance of the rules.
- Where the rules are known, to avoid getting traced by URA for taxes, many business have remained unregistered.
- The military approach to tax collection forced most business to prefer to operate off records.
- In some cases auditing and consultancy services cost are high for small businesses
- Auditors and Accountants are trained to extract and write financial statements from incomplete records. Because of the costs involved small businesses have not accessed this service despite their (the small businesses) inability to maintain good reliable records.
- The Uganda Economy has lacked the necessary stability for people to think as investors. Most small businesses in Uganda are speculative; investors don't seem to be prepared to put money in long-term projects.
- Most small businesses are transitory in that they are seen as something to lead to another different one in the near future.
- Government has in the past been interfering with investors.
- The country has suffered from unique forms of insecurity whereby people do not like to be identified with their business lest they attract uncalled for attention, corruption is still rife, the failure of the bureaucracy to perform as expected is result of inadequate training, attitudes and values in addition to remuneration.

3.6 Peter Ball's report

For a person who has not worked in Uganda his report was good based on the information available.

Any omissions that could have been useful to the client and contractor companies can be picked from this report.

3.7 Challenges for Small Business Using the Pounder Rig Technology

The Pounder Rig Technology Contractor is bound to be faced with the normal challenges of business in Uganda. In addition the following challenges must be addressed.

- There will be competition with other technologies
- The Pounder rig using contractors will compete amongst themselves unless they co-operate from the start.

- The market for the rig services is limited, as the cost of its products may be above the average Ugandan's capacity thus limiting the access to the service to the relatively more affluent Ugandans only. One has to bear in mind the target market.
- Financing projects and especially business is inadequate. Most of the targeted contractors to use the Pounder rig are not well capitalized. Their operations will be constrained.
- The quality of management and technical staff may require improving upon under improved business. It is most likely that this may not be possible in time as a result of insufficient capacity to recruit or unavailability of the required personnel on the market.

Many of the target companies have no marketing strategy. They have always waited for business at their doorsteps and this explains why most of them run out of business as soon as they start research done by the Low Cost Water Well Drilling Project shows that some of the companies originally interviewed have run out of business and are not anywhere to be seen today.

The businesses must identify their stakeholders carry out a political, economic, social and technical factors analysis, identify their strengths and opportunities, overcom e their weakness and threats. They should establish where they are in terms of performance and draw Action Plans focusing on future prospects.

They also need to put in place Business Plans and design performance improvement strategies to be able to take advantage of opportunities.

PROJECTED CASH FLOW

4 TERMS OF REFERENCE FOR SECOND CONSULTANCY

4.1 Background

One of the major concerns of the Low Cost Drilling Project is to establish whether or not, or under what circumstances, Pounder Drilling can be a profitable activity for a small contractor.

We have built up a useful pool of general knowledge in this area through various studies and activities, including:

- Peter Ball's November 1999 report,
- training needs assessments and trainings of contractors led by Jamil Ssebalu through parts of 1999 and most of 2000,
- cost estimation of Pounder drilling carried out by Kerstin Danert,
- the November 2000 Kyambogo workshop with 12 contractors carried out by the Uganda team and Mr Kakooza,
- S M Kakooza's December 2000 report.

We wish now to extend this knowledge into greater depth by examining the specifics of one or two contractors undertaking Pounder drilling for the first time.

4.2 Knowledge Required by the Project

As the first commercial Pounder contracts get under way, we have our first opportunity to understand at first hand, and with real experience (rather than best guesses), how profitable Pounder drilling may be for small contractors.

We require now the collation of data from the field (collected during the first Pounder contracts), together with various "what-if?" scenarios, into realistic balance sheets for Pounder drilling, for real contractors drilling real wells.

We envisage the creation of spreadsheets containing actual direct costs, estimates of indirect (overhead) costs, and profits, run according to a variety of assumptions regarding the size, tax (especially VAT) status, and other key features of the contractors with whom we are dealing in Mukono in December 2000.

4.3 Information to be Supplied by the Project

The Project Team will provide:

- itemised cost estimates (made prior to actual drilling, and based on an "average" well) for all the materials and activities which are involved in Pounder drilling (included here as Annex A)
- itemised price lists for the same materials and activities, made together with the contractors, prior to drilling (example for Blessed included as Annex B)
- updating of direct cost data from the field, together with reports of hours spent on various activities in the itemised lists.

4.4 T O R

- Create “dummy” accounts, in spreadsheet form, for the wells drilled by contractors Blessed and Jurusa, in December 2000.
- In agreement with the Project Team, re-run these accounts for a limited number (say 10) of identified scenarios (for example contractor drilling in a variety of ground conditions over a year, variable contractor overheads, contractor VAT registered or not, varying financial costs of winning contracts/getting paid).
- Identify and report on any other factors which will determine the profitability or otherwise of Pounder drilling.
- Make recommendations to the Project Team.

4.5 Annexes

A – Estimated direct costs of Pounder well materials and activities
B – Blessed price list for 15m Pounder well in Mukono District
C - Scenarios for Different Contractors

4.5.1 *Annex A - Cost Estimates For A 4 Day Well To 15m, 65km from base*

	4 days to drill				
Item	**Description**	**Unit**	**Quantity**	**Rate**	**Amount**
1.0	**Preliminaries**	**L/sum**			
1.1	Site Survey	L/sum	1	60,000	60,000
1.2	Site Clearance	L/sum	1	30,000	30,000
1.3	Mobilisation of Labour and Equipment	L/sum	1	275,000	275,000
	Sub-Total				***365,000***
2.0	**Materials (Well Consumables)**				
2.1	Handpump Superstructure	no	1	421,000	421,000
2.2	Connecting Rods	no	2	38,610	77,220
2.3	Top Rod	no	1	46,800	46,800
2.4	Centralisers	no	3	31,000	93,000
2.5	Rising Main/Casing	no	3	33,000	99,000
2.6	Cylinder Assembly	no	1	104,800	104,800
2.7	Well Screen	no	2	25,900	51,800
2.8	63 mm MTA	no	1	2,050	2,050
2.9	75mm MTA Grooved with O-ring	no	1	8,400	8,400
2.1	End Point	no	1	1,500	1,500
2.11	Gravel Pack	bags	3	10,000	30,000
2.12	Sand (lake)	tons	1	30,000	30,000
2.13	Hardcore	tons	1	20,000	20,000
2.14	Aggregate	tons	1	35,000	35,000
2.15	Cement	bags	6	17,000	102,000
	Sub-Total				***1,122,570***
3.0	**Labour**				
3.1	- skilled (including meals and accomodation)	mandays	16	11,000	176,000
3.2	- unskilled mason	mandays	16	4,000	64,000
3.3	Pump installation	by skilled labour			0
3.4	Supervision of crew and foreman see transport	days			0
	Sub-Total				***240,000***
4.0	**Transport**				
4.1	Materials	L/sum	1	150,000	150,000
4.2	Equipment (in mobilisation to site)	per day			0
4.3	Crew (in mobilisation to site)	trip			0
4.4	Supervisor (3 visits)	trip	50000	2	100,000
	Sub-Total				***250,000***
5.0	**Equipment**				
	Rig	per day	55000	4	220,000
	Sub-Total				***220,000***
	Total				***2,197,570***
6.0	**Margin (Profit and Overheads)**				
	VAT				
	Total Price				

Description								
Item								
1.0								
1.1	130 km at 350 Ushs per km = 45,500 plus food and allowances (15,000) = 60,000							
1.2	6 mandays at 2,000 plus 8,000 transport plus 10,000 food							
1.3	Two wells split: Collect rig from Kla: Pickup + fuel = 70,000 plus 55,000 for Rig plus 44,000 for crew plus 45,500 for Supervisor transport = 214,000, I.e. 220,000. Add half for transport between sites (110,000) add 220,000 for return to Kla = 550,000. Divide by two = 275,000							
2.1	Buyaya							
2.2	Buyaya							
2.3	Buyaya							
2.4	Jinja							
2.5	Gentex							
2.6	Gentex							
2.7	Gentex							
2.8	Gentex							
2.9	Gentex							
2.1	Gentex							
2.11	Entebbe/Jinja							
2.12	10,000 material plus 20,000 ptransport							
2.13	5,000 material plus 15,000 transport							
2.14	machine crushed aggregate at 25,000 per ton plus 10,000 transport = 35,000							
2.15								
3.0								
3.1	6,000 labour cost plus 3,000 food plus 2,000 accom = 11,000; four men for 6 days							
3.2								
3.3								
3.4								
4.0								
4.1								
4.2								
4.3								
4.4								
5.0								
	The six days which the rig is working							

4.5.2 *Annex B - Blessed Price List*

PRICE LIST - U3 Direct Install to 15m in Ntunda Sub-County - Blessed - 29th November 2000					
No	**Description**	**Unit**	**Qty**	**Rate**	**Price**
1	**General**				
1.1	Site Survey	Lump Sum	1	60,000	60,000
1.2	Mobilisation to local base and supply	Lump Sum	1	277,000	277,000
1.3	Mobilisation to site	Per km	(included in 1.2)		
1.4	Set up of Equipment	Per Site	1	120,000	120,000
	Sub- total				**457,000**
2	**Investigative Drilling**				
2.1	Water	20 ltr jerrycan	50	200	10,000
2.2	Drilling	hrs drilling	8	18,000	144,000
2.4	Sampling and storage of cuttings	per sample box (30)	1	20,000	20,000
2.5	Written Log	per completed log	1	5,000	5,000
2.6	In-situ Yield Test	per test	1	18,000	18,000
2.7	Cement Sealing Investigative Hole	per mixed cement bag	1	20,000	20,000
	Sub- total				**217,000**
3	**Production Drilling**				0
3.1	Water (possible Community Participation)	20 ltr jerrycan	60	200	12,000
3.2	Drilling	hrs drilling	24	18,000	432,000
	Sub- total			**18,200**	**444,000**
4	**Supply of well consumables (Materials cost plus 150,000 transport, spread over the items)**				
4.1	Hand Pump Superstructure (Headworks)	each	1	500,000	500,000
4.2	75mm uPVC Rising Main/Casing x 3m	each	3	40,000	120,000
4.3	Pump Connecting Rod x 3m	each	2	46,000	92,000
4.4	Pump Top Rod x 3m	each	1	56,000	56,000
4.5	Centralisers	each	3	37,000	111,000
4.6	Pump Cylinder assembly	each	1	125,000	125,000
4.7	63mm Well screen x 3m	each	2	31,000	62,000
4.8	63mm MTA	each	1	2,400	2,400
4.9	63mm End Point	each	1	1,800	1,800
4.10	75mm MTA Grooved with O-ring	no	1	10,000	10,000
4.11	Gravel Pack	bags	3	12,000	36,000
	Sub- total				**1,116,200**
5	**U3 Pump Installation and Well Development**	**per hour**	4	18,000	72,000
	Sub- total				**72,000**
6	**Construction of concrete well cap and apron**	**lump sum**	1	250,000	250,000

	Sub- total				**250,000**
	Total				**2,556,200**
	20% Margin (Overheads and Profit)				511,240
	Grand Total				**3,067,440**

Note: The above price list corresponds to a dollar shilling exchange rate of $1 = 1840 Ushs, and a fuel price of 1650UShs per litre of petrol

4.5.3 Annex C- Scenarios for Different Contractors.

The circumstances of the businesses being set up as follows:

- Sole Trader – Individual shareholder – principle

- Partnership of 2 equal full working partners in the drilling business.

- Partnership between an investor and a working partner

- Partnership of say 6 shareholders.

How satisfactory could the margin be split to meet the requirements of the players involved?

Specific circumstances of 4 contractors:

SCENARIO A. Contractor has capital to make outright purchase of the rig and a substantial stock of well consumables to undertake drilling contracts with minimal delay. The contractor has transport and staff. They are well placed to win contracts and can complete 75 wells per annum. They wait 3 months on average to receive payment but have cash liquidity to cover all outgoings. This operator is fully tax registered both VAT & corporation tax.

SCENARIO B. Contractor has won contracts for 30 wells per annum – 3 lots of 10. He is able to hire a Pounder and mobilise the equipment to site using a hired pick-up. He has sufficient funds to buy 5 sets of well consumables with enough cash balance to pay labour. He has planned to be paid within 30 days of completion of each well. This contractor is VAT registered

SCENARIO C. Contractor has won an individual contact for 30 wells per year and purchases a rig. Pick up (2nd Hand 7million ugs) and has sufficient funds to buy 5 sets of well consumables and meet his initial labour costs. Again he anticpates payment within 30 days of completion of each well. This contractor is not registered for VAT.

5 FINAL ANALYSIS

5.1 Scenario A - Executive Summary

Contractor has enough capital to make outright purchases of the rig and a substantial stock of well consumables to undertake drilling contracts with minimal delay. The contractor has transport and staff. They are well placed to win contracts and can complete 75 wells per annum. They wait three months on average to receive payment but have enough cash (liquidity) to cover all outgoings. This operator is fully registered for both VAT and corporation tax.

Following our discussion I have made the adjustments that we agreed upon.
Annex 3 of the terms of reference required me to make the following comments:

Pounder Rig Figures (A)

a) Summary of results for one year of operation of the pounder rig

Result	**Scenario A**
No of wells drilled	75
Pre-tax profit	121,129,066
Corp. Tax at 30%	36,338,720
Initial Capital Requirement	73,165,007
Desired Bank Overdraft	1,125
PAYE Rates	
AMOUNT OF INCOME	**RATE**
First Ushs 1,560,000 of income p.a.	0%
Next Ushs 1,260,000 of income p.a.	10%
Next Ushs 2,100,000 the income p.a.	20%
Next income up to maximum earned	30%

b) Sole trader : individual shareholder, for Scenario A

The enterprise would yield profits. The sole trader's tax liability would be slightly lower than would be for a limited liability company as all his income would not be taxed at the rate equal to corporation tax rate. PAYE rates, on average, are lower than the corporation tax rates. Corporation tax rate is 30% of profit. Individual tax rates progressively vary between 0% and 30% thus offering a lower overall rate compared to corporation tax rate.
The sole trader would not be subject to corporation tax, in this case
Ushs 36,338,720 but will instead be subject to PAYE amounting to
Ushs 34,940,720. This will leave him with a little more profit Ushs 1,398,000 to plough back into the business.

c) Partnership of 2 equal full working partners in drilling business

The results would be the same as in (a) above except that as the income is split between the two, the overall tax rate is lowered further.
Assuming equal sharing of profit and loss, each partner would be entitled to a pre-tax profit of Ushs 60,564,533. This will lead to a PAYE liability of

Ushs 16,771,360 for each of the two partners. The combined total tax liability on the profit would then be Ushs 33,542,720 which is Ushs 2,796,000 lower than would have been paid had the business been of a limited liability type.
If the partners have an agreement to be paid regular wages this will, of course, reduce the profits available for their sharing but not their individual tax liability.

d) Partnership between an investor(core investor) and a working partner

Results would not differ from those in (c) above. However the salary payable to the partner involved in running the business will result in lower profits available, at the end, for sharing amongst the partners. If the core investor were an individual the tax position would also not change.

e) Partnership of 6 partners

The results would be the same as in (a) above except that as the income is split between the six partners, the overall tax rate is lowered further.
Assuming equal sharing of profit and loss, each partner would be entitled to a pre-tax profit of Ushs 20,182,178. This will lead to a PAYE liability of
Ushs 4,656,564 for each of the six partners. The combined total tax liability on the profit would then be Ushs 27,939,924 which is Ushs 8,398,796 lower than would have been paid had the business been of a limited liability type.
The relatively big number of partners would, of course, mean smaller amounts coming the partners' way in form of profit. Overall the average tax rate will be lower, to both the group and the individuals, resulting from the split income. The splitting of the income exposes more of it to lower PAYE rates.

f) Splitting the profit between the stakeholders

In all the above cases there exists a partnership except in (a). There are clear rules of sharing the profits of a partnership. When applying these rules one has to consider whether the partners have some form of agreed terms of profit/loss sharing amongst themselves. If the partners have some agreed position then it should be respected. In absence of such an agreement then it is deemed that the partners wished to share the profits/losses equally.

5.1.1 POUNDER RIG PROJECT- SCENARIO A-ACCOUNTING

Bill of Quantities

Contract Price **3,134,640**

Acc. No	Account	Units	Quantity	Rate	
1.00	**Preliminaries**				
1.10	Site Survey	Lump sum	1	60,000	60,000
1.20	Mobilisation to local base & supply	Lump sum	1	277,000	277,000
1.30	Mobilisation to site	Per km	0	0	0
1.40	Set up of Equipment	Per site	1	120,000	120,000
					457,000
2.00	**Investigative Drilling**				
2.10	Water	20lt jerry can	50	200	10,000
2.20	Drilling	hrs	8	18,000	144,000
2.30	Sampling and storage of cuttings	sample box	1	20,000	20,000
2.40	Written Log	Complete log	1	5,000	5,000
2.50	In-Situ Yield Test	Test	1	18,000	18,000
2.60	Cement Sealing Investigative Hole	50 kg bag	1.25	16,000	20,000
2.70					**217,000**
3.00	**Production Drilling**				
3.10	Water	20lt jerry can	60	200	12,000
3.20	Drilling	hr	24	18,000	432,000
					444,000
4.00	**Materials (Well Consumables)**				
4.01	Handpump Superstructure(Headworks)	pcs	1	500,000	500,000
4.02	75mm uPVC Rising Main/Casing	pcs	3	40,000	120,000
4.03	Pump Connecting Rod x 3m	pcs	2	46,000	92,000
4.04	Pump Top Rod x 3m	pcs	2	56,000	112,000
4.05	Centralisers	pcs	3	37,000	111,000
4.06	Pump Cylinder Assembly	pcs	1	125,000	125,000
4.07	63mm well screen x 3m	pcs	2	31,000	62,000
4.08	63mm MTA	pcs	1	2,400	2,400
4.09	63mm End Point	pcs	1	1,800	1,800
4.10	75mm MTA Grooved with O-Ring	pcs	1	10,000	10,000
4.11	Gravel Pack	pcs	3	12,000	36,000
4.12	Sand (lake)	pcs	0		0
4.13	Hardcore	pcs	0		0
4.14	Aggregate	pcs	0		0
4.15	Cement		0		0
					1,172,200
5.00	**U3 Pump installation and well development**				
	U3 Pump installation and well developmt	hr	4	18,000	72,000
					72,000
6.00	**Construction of concrete well cap & apron (incl materials)**				
	Const. of concrete well cap & apron	lump sum	1	250,000	250,000
					250,000
	Total				**2,612,200**
	20% margin				522,440
					3,134,640

Schedule of Direct Contract Expenses

7.00	**Labour (Direct)**				
7.01	Drilling - skilled (incl. meals & accom.) Manday		12	11000	132,000
7.02	Drilling - unskilled (Masons)		16	3000	48,000
7.03	Pump instalaation and well development - Skilled		2	11000	22,000
7.04	Pump instalaation and well development - Unskilled		4	3000	12,000
7.05	Concrete construction - Skilled		2	11000	22,000
7.06	Concrete construction - Unskilled		2	3000	6,000
					242,000
8.00	**Transport**				
8.01	Material Collection - Fuel	km	100	147	14,700
8.02	Material to Site - Fuel	km	with equipment		
8.03	Equipment to and fro site	km	260	147	38,220
8.04	Crew to site - Fuel	km	with equipment		
8.05	Supervisor visits - Fuel	km	390	147	57,330
8.06	Transport at site	km	10	147	1,470
					111,720
9.00	**Equipment Hire**				
9.01	Rig Hire	per day	6	55,000	330,000
9.02	Pick up hire	per day	2	20,000	40,000
					370,000
10.00	**Materials**				
10.01	Handpump Superstructure(Headworks)	pcs	1	421,000	421,000
10.02	75mm uPVC Rising Main/Casing	pcs	3	33,000	99,000
10.03	Pump Connecting Rod x 3m	pcs	2	38,610	77,220
10.04	Pump Top Rod x 3m	pcs	1	46,800	46,800
10.05	Centralisers	pcs	3	31,000	93,000
10.06	Pump Cylinder Assembly	pcs	1	104,800	104,800
10.07	63mm well screen x 3m	pcs	2	25,900	51,800
10.08	63mm MTA	pcs	1	2,050	2,050
10.09	63mm End Point	pcs	1	1,500	1,500
10.10	75mm MTA Grooved with O-Ring	pcs	1	8,400	8,400
10.11	Gravel Pack	pcs	3	10,000	30,000
10.12	Sand (lake)	pcs	1	30,000	30,000
10.13	Hardcore	pcs	1	20,000	20,000
10.14	Aggregate	pcs	1	35,000	35,000
10.15	Cement	bags	6	17,000	102,000
10.16	Water for drilling	20 l jerrycan	74	100	7,400
					1,129,970

11.00 ***MONTHLY SCHEDULES OF OPERATING EXPENSES FOR THE CONTRACTOR***

11.10 **Schedule A**
RIGGING/OPERATING EXPENSES

11.11	Workers' Welfare	0
11.12	Seminars and Training	0
11.13	Tools	0
11.14	Salaries	200,000
11.15	Non-construction workers' housing(Rent)	100,000
11.16	Employer's contribution to NNSF	0
		300,000

11.20 Schedule B
PERSONEL MAINTENANCE EXPENSES

11.21	Travelling/Transport Hire	57,330
11.22	Meals & Provisions- non-construction staff	0
11.23	Medical and First Aid Kit	20,000
11.24	Electricity	20,000
11.25	Water (Not for construction)	5,000
11.26	Non-rig operating fuel	10,000
		112,330

11.30 Schedule C
FINANCING EXPENSES

11.31	Interest on loans	5,000
11.32	Bad Debts Written Off	0
11.33	Bank Charges	10,000
11.34	Bank Commitment Fees	10,000
		25,000

11.40 **Schedule D**
GENERAL ADMINISTRATION EXPENSES

11.41	Entertainment	0
11.42	Loose Tools	5,000
11.43	Newspapres and Journals	21,000
11.44	Publicity	50,000
11.45	Public Relations	50,000
11.46	Travelling and Subsistance	30,000
11.47	Printinfg and stationery	18,000
11.48	Repairs and General Maintenance	40,000
11.49	Audit Fees and Expenses	50,000
11.50	Directors' Allowances	100,000
11.51	Non-Rig handling Staff Salaries	0
11.52	Telephone	30,000
11.53	Security	25,000
11.54	Repairs to Equipment	10,000
11.55	Management Committee Expenses	10,000
11.56	Meetings Expenses	10,000
		449,000

12.0 Purchase of/Addition to Assets

12.1	Land	0
12.2	Buildings	0
12.3	Office Furniture	0
12.4	Fixtures	0
12.5	Drilling Equipment	0
12.6	Rig	0
12.7	Motor Vehicle	0

Production Training and Product Loss for One Company

POUNDER RIG PROJECT

			Ushs		Ushs
Opening Stock-Raw Materials			0	Cost of Well	1,446,399
Purchases		1,129,970			
Less Trade Discounts	0				
Less VAT	164,184				
		164,184			
			965,786		
			965,786		
Less Closing Stock			0		
			965,786		
Deduct Work in Progress					
Closing		0			
Less Opening		0			
			0		
			965,786		
Well Direct Wages			242,000		
Well Direct Expenses			111,720		
Well Production Overheads 50% (Op. Exp)			70,906		
Depreciation					
Rigging Machinery		55,733			
Non well Rigging Assets		253			
			55,987		
			1,446,399		1,446,399
Cost of Making Well			1,446,399	Contract Price	3,134,640
Gross Profit			1,688,241		
			3,134,640		3,134,640

Income and Expenditure Account Based on One Well

POUNDER RIG PROJECT

			Ushs	Ushs
Gross Profit From Contract				1,688,241
Miscellaneous Income				0
TOTAL INCOME				1,688,241
OPERATING EXPENSES				
Schedule A: Rigging/Operating Expenses			24,000	
Schedule B: Personnel Maintenance Expenses			8,986	
Schedule C: Financing Expenses			2,000	
Schedule D: General Administration Expenses			35,920	
Depreciation non rig assets			2,280	
			73,186	
Net Income				1,615,054
Corporation tax provision on contract	30%	of net profit	484,516	
After tax Profit on this contract			1,130,538	
Balance of Retained Profits as at start of contract			0	
			1,130,538	
Proposed Dividend			0	
RETAINED NET PROFITS				1,130,538

Production, Trading and Profit and Loss Account Based on 75 Wells (twelve months)

POUNDER RIG PROJECT

Production,Trading, and Profit and Loss Account based on 75 wells (twelve months)

			Ushs		Ushs
Opening Stock-Raw Materials			0	Cost of 30 Wells	108,479,954
Purchases		84,747,750			
Less Trade Discounts	0				
Less VAT	12,313,776				
		12,313,776			
			72,433,974		
			72,433,974		
Less Closing Stock			0		
			72,433,974		
Deduct Work in Progress					
Closing		0			
Less Opening		0			
			0		
			72,433,974		
Wells Direct Wages			18,150,000		
Wells Direct Expenses			8,379,000		
Wells Production Overheads 50% (Op. Exp)			5,317,980		
Depreciation					
Rigging Machinery		4,180,000			
Non well Rigging Assets		19,000			
			4,199,000		
			108,479,954		108,479,954
Cost of Making Well			108,479,954	Contract Price	235,098,000
Gross Profit			126,618,046		
			235,098,000		235,098,000

*Depreciation of drilling machinery has been fully taken for the month of drilling

**10% of depreciation of non-drilling machinery has been allocated for the month of drilling

Income and Expenditure Account Based on 75 Wells (twelve months)

POUNDER RIG PROJECT

			Ushs	Ushs
Gross Profit From Contract				126,618,046
Miscellaneous Income				0
TOTAL INCOME				126,618,046
OPERATING EXPENSES				
Schedule A: Rigging/Operating Expenses			1,800,000	
Schedule B: Personnel Maintenance Expenses			673,980	
Schedule C: Financing Expenses			150,000	
Schedule D: General Administration Expenses			2,694,000	
Depreciation			171,000	
			5,488,980	
Net Income				121,129,066
Corporation tax provision on contract	30%	of net profit	36,338,720	
After tax Profit on this contract			84,790,346	
Balance of Retained Profits as at start of contract			0	
			84,790,346	
Proposed Dividend			0	
RETAINED NET PROFITS				84,790,346

Projected Cash Flow for a Period of One Year

Month	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	TOTAL
	Ushs	Ushs	Ushs	Ushs	Ushs	Ushs	Ushs	Ushs	Ushs	Ushs	Ushs	Ushs	Ushs
Balance bf	73,165,007	32,840,000	13,594,512	-1,125	11,644,587	11,990,599	12,336,612	18,332,474	29,978,187	30,324,199	30,670,211	36,666,074	73,165,007
													0
Inflows													
Receipts from contract	0	0		19,591,500	19,591,500	19,591,500	19,591,500	19,591,500	19,591,500	19,591,500	19,591,500	19,591,500	176,323,500
													0
													0
Total Inflows	73,165,007	32,840,000	13,594,512	19,590,375	31,236,087	31,582,099	31,928,112	37,923,974	49,569,687	49,915,699	50,261,711	56,257,574	249,488,507
													0
Outflows													0
Purchase of materials	11,299,700	11,299,700	5,649,850	0	11,299,700	11,299,700	5,649,850	0	11,299,700	11,299,700	5,649,850	0	84,747,750
Direct Wages	1,512,500	1,512,500	1,512,500	1,512,500	1,512,500	1,512,500	1,512,500	1,512,500	1,512,500	1,512,500	1,512,500	1,512,500	18,150,000
Direct expenses-Transport	698,250	698,250	698,250	698,250	698,250	698,250	698,250	698,250	698,250	698,250	698,250	698,250	8,379,000
Direct expenses--Equipment Hire			0	0	0	0	0	0	0	0	0	0	0
Purchase of machinery	15,900,000	0	0	0	0	0	0	0	0	0	0	0	15,900,000
Purchase of motor van	7,000,000	0	0	0	0	0	0	0	0	0	0	0	7,000,000
Rigging/Operating Expenses	300,000	300,000	300,000	300,000	300,000	300,000	300,000	300,000	300,000	300,000	300,000	300,000	3,600,000
Personnel Maintenance Expenses			112,330	112,330	112,330	112,330	112,330	112,330	112,330	112,330	112,330	112,330	112,330
Financing Expenses	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	300,000
General Administration Expenses			449,000	449,000	449,000	449,000	449,000	449,000	449,000	449,000	449,000	449,000	449,000
Statutory Payments VAT	0	1,820,481	1,820,481	1,820,481	1,820,481	1,820,481	1,820,481	1,820,481	1,820,481	1,820,481	1,820,481	1,820,481	20,025,291
Statutory Payments Corp. Tax	3,028,227	3,028,227	3,028,227	3,028,227	3,028,227	3,028,227	3,028,227	3,028,227	3,028,227	3,028,227	3,028,227	3,028,227	36,338,720
PAYE for proprietor	0	0	0	0	0	0	0	0	0	0	0	0	0
													0
													0
Total Outflows	40,325,007	19,245,488	13,595,638	7,945,788	19,245,488	19,245,488	13,595,638	7,945,788	19,245,488	19,245,488	13,595,638	7,945,788	201,176,721
													0
Bal cf	32,840,000	13,594,512	-1,125	11,644,587	11,990,599	12,336,612	18,332,474	29,978,187	30,324,199	30,670,211	36,666,074	48,311,786	48,311,786

Schedules of Fixed Assets for One Year

a. Depreciation of Assets not involved in direct Rigging of Wells

Cost/Valuation	Land	Buildings	Off Furn.	Fixtures	Total
	Ushs	**Ushs**	**Ushs**	**Ushs**	**Ushs**
Bal at start of year	**5,000,000**	**4,000,000**	**500,000**	**200,000**	**9,700,000**
Additions during year	0	0	0	0	0
Bal at end of year	5,000,000	4,000,000	500,000	200,000	9,700,000
Depreciation					
Bal at start of year	0	50,000	20,000	10,000	80,000
Additions during year	0	100,000	50,000	40,000	190,000
Bal at end of year	0	150,000	70,000	50,000	270,000
WDV 31.12.2001	5,000,000	3,850,000	430,000	150,000	9,430,000
WDV 31.12.2000	5,000,000	4,000,000	500,000	200,000	9,700,000

b. Depreciation of Assets involved in direct Rigging of Wells

Cost/Valuation	**Equipment**	**Rig**	**Motor veh.**	**Total**
	Ushs	**Ushs**	**Ushs**	**Ushs**
Bal at start of year	3,000,000	0	0	3,000,000
Additions during year	0	15,900,000	7,000,000	22,900,000
Bal at end of year	3,000,000	15,900,000	7,000,000	25,900,000
Depreciation				
Bal at start of year	300,000	0	900,000	1,200,000
Additions during year	300,000	3,180,000	700,000	4,180,000
Bal at end of year	600,000	3,180,000	1,600,000	5,380,000
WDV AT YR START	2,400,000	12,720,000	5,400,000	20,520,000
WDV AT YEAR END	3,000,000	0	0	3,000,000

5.2 Scenario B - Executive Summary

Contractor has won contracts for 30 wells per annum - 3 lots of 10. He is able to hire a Pounder and mobilize the equipment to site using a hired pick-up. He has sufficient funds to buy 5 sets of well consumables with enough cash balance to pay labour. He has planned to be paid within 30 days of completion of each well. This contractor is VAT registered.

Following our discussion I have made the adjustments that we agreed upon.
Annex 3 of the terms of reference required me to make the following comments:

Pounder Rig Figures (B)

a) Summary of results for one year of operation of the Pounder rig

Result	**Scenario B**
No of wells drilled	30
Pre-tax profit	32,528,050
Corp. Tax at 30%	9,758,415
Initial Capital Requirement	10,154,780
Desired Bank Overdraft	0
PAYE Rates	
AMOUNT OF INCOME	**RATE**
First Ushs 1,560,000 of income p.a.	0%
Next Ushs 1,260,000 of income p.a.	10%
Next Ushs 2,100,000 the income p.a.	20%
Next income up to maximum earned	30%

b) Sole trader : individual shareholder, for Scenario B

The enterprise would yield profits. The sole trader's tax liability would be slightly lower than would be for a limited liability company as all his income would not be taxed at the rate equal to corporation tax rate. PAYE rates, on average, are lower than the corporation tax rates. Corporation tax rate is 30% of profit. Individual tax rates progressively vary between 0% and 30% thus offering a lower overall rate compared to corporation tax rate.
The sole trader would not be subject to corporation tax, in this case
Ushs 9,758,415 but will instead be subject to PAYE amounting to
Ushs 8,360,415. This will leave him with a little more profit Ushs 1,398,000 to plough back into the business.

c) Partnership of 2 equal full working partners in drilling business

The results would be the same as in (a) above except that as the income is split between the two, the overall tax rate is lowered further.
Assuming equal sharing of profit and loss, each partner would be entitled to a pre-tax profit of Ushs 16,264,025. This will lead to a PAYE liability of
Ushs 3,481,208 for each of the two partners. The combined total tax liability on the profit would then be Ushs 6,962,416 which is Ushs 2,796,000 lower than would have been paid had the business been of a limited liability type.
If the partners have an agreement to be paid regular wages this will, of course, reduce the profits available for their sharing but not their individual tax liability.

d) Partnership between an investor(core investor) and a working partner

Results would not differ from those in (c) above. However the salary payable to the partner involved in running the business will result in lower profits available, at the end, for sharing amongst the partners. If the core investor were an individual the tax position would also not change.

e) Partnership of 6 partners

The results would be the same as in (a) above except that as the income is split between the six partners, the overall tax rate is lowered further.

Assuming equal sharing of profit and loss, each partner would be entitled to a pre-tax profit of Ushs 5,421,342. This will lead to a PAYE liability of

Ushs 334,269 for each of the six partners. The combined total tax liability on the profit would then be Ushs 2,005,614 which is Ushs 7,752,801 lower than would have been paid had the business been of a limited liability type.

The relatively big number of partners would, of course, mean smaller amounts coming the partners' way in form of profit. Overall the average tax rate will be lower, to both the group and the individuals, resulting from the split income. The splitting of the income exposes more of it to lower PAYE rates.

f) Splitting the profit between the stakeholders

In all the above cases there exists a partnership except in (a). There are clear rules of sharing the profits of a partnership. When applying these rules one has to consider whether the partners have some form of agreed terms of profit/loss sharing amongst themselves. If the partners have some agreed position then it should be respected. In absence of such an agreement then it is deemed that the partners wished to share the profits/losses equally.

5.2.1 POUNDER RIG PROJECT- SCENARIO B - ACCOUNTING

Bill of Quantities

					3,134,640
Acc. No	**Account**				
		Units	**Quantity**	**Rate**	
0.00	**Preliminaries**				
1.10	Site Survey	Lump sum	1	60,000	60,000
1.20	Mobilisation to local base & supply	Lump sum	1	277,000	277,000
1.30	Mobilisation to site	Per km	0	0	0
1.40	Set up of Equipment	Per site	1	120,000	120,000
					457,000
2.00	**Investigative Drilling**				
2.10	Water	20lt jerrycan	50	200	10,000
2.20	Drilling	hrs	8	18,000	144,000
2.30	Sampling and storage of cuttings	sample box	1	20,000	20,000
2.40	Written Log	Complete log	1	5,000	5,000
2.50	In-Situ Yield Test	Test	1	18,000	18,000
2.60	Cement Sealing Investigative Hole	50 kg bag	1.25	16,000	20,000
2.70					**217,000**
3.00	**Production Drilling**				
3.10	Water	20lt jerrycan	60	200	12,000
3.20	Drilling	hr	24	18,000	432,000
					444,000
4.00	**Materials (Well Consumables)**				
4.01	Handpump Superstructure(Headworks)	pcs	1	500,000	500,000
4.02	75mm uPVC Rising Main/Casing	pcs	3	40,000	120,000
4.03	Pump Connecting Rod x 3m	pcs	2	46,000	92,000
4.04	Pump Top Rod x 3m	pcs	2	56,000	112,000
4.05	Centralisers	pcs	3	37,000	111,000
4.06	Pump Cylinder Assembly	pcs	1	125,000	125,000
4.07	63mm well screen x 3m	pcs	2	31,000	62,000
4.08	63mm MTA	pcs	1	2,400	2,400
4.09	63mm End Point	pcs	1	1,800	1,800
4.10	75mm MTA Grooved with O-Ring	pcs	1	10,000	10,000
4.11	Gravel Pack	pcs	3	12,000	36,000
4.12	Sand (lake)	pcs	0		0
4.13	Hardcore	pcs	0		0
4.14	Aggregate	pcs	0		0
4.15	Cement		0		0
					1,172,200

5.00	**U3 Pump installation and well development**				
	U3 Pump installation and well developt	hr	4	18,000	72,000
					72,000
6.00	**Construction of concrete well cap & apron (incl materials)**				
	Const. of concrete well cap & apron	lump sum	1	250,000	250,000
					250,000
	Total				**2,612,200**
	20% margin				522,440
					3,134,640

Schedule of Direct Contract Prices

7.00	**Labour (Direct)**				
7.01	Drilling - skilled (incl. meals & accom.) Manday		12	11000	132,000
7.02	Drilling - unskilled (Masons)		16	3000	48,000
7.03	Pump installation and well development - Skilled		2	11000	22,000
7.04	Pump installation and well development - Unskilled		4	3000	12,000
7.05	Concrete construction - Skilled		2	11000	22,000
7.06	Concrete construction - Unskilled		2	3000	6,000
					242,000
8.00	**Transport**				
8.01	Material Collection - Fuel	km	100	147	14,700
8.02	Material to Site - Fuel	km	with equipment		
8.03	Equipment to and fro site	km	260	147	38,220
8.04	Crew to site - Fuel	km	with equipment		
8.05	Supervisor visits - Fuel	km	390	147	57,330
8.06	Transport at site	km	10	147	1,470
					111,720
9.00	**Equipment Hire**				
9.01	Rig Hire	per day	6	55,000	330,000
9.02	Pick up hire	per day	2	20,000	40,000
					370,000
10.00	**Materials**				
10.01	Handpump Superstructure(Headworks)	pcs	1	421,000	421,000
10.02	75mm uPVC Rising Main/Casing	pcs	3	33,000	99,000
10.03	Pump Connecting Rod x 3m	pcs	2	38,610	77,220
10.04	Pump Top Rod x 3m	pcs	1	46,800	46,800
10.05	Centralisers	pcs	3	31,000	93,000
10.06	Pump Cylinder Assembly	pcs	1	104,800	104,800
10.07	63mm well screen x 3m	pcs	2	25,900	51,800
10.08	63mm MTA	pcs	1	2,050	2,050
10.09	63mm End Point	pcs	1	1,500	1,500
10.10	75mm MTA Grooved with O-Ring	pcs	1	8,400	8,400
10.11	Gravel Pack	pcs	3	10,000	30,000
10.12	Sand (lake)	pcs	1	30,000	30,000
10.13	Hardcore	pcs	1	20,000	20,000
10.14	Aggregate	pcs	1	35,000	35,000
10.15	Cement	bags	6	17,000	102,000
10.16	Water for drilling	20 l jerry can	74	100	7,400
					1,129,970

Monthly Schedules of Operating Expenses for the Contractor

11.00

11.10 Schedule A

RIGGING/OPERATING EXPENSES

11.11	Workers' Welfare	0
11.12	Seminars and Training	0
11.13	Tools	0
11.14	Salaries	200,000
11.15	Non-construction workers' housing(Rent)	100,000
11.16	Employer's contribution to NNSF	0
		300,000

11.20 Schedule B
PERSONEL MAINTENANCE EXPENSES

11.21	Travelling/Transport Hire	57,330
11.22	Meals & Provisions- non-construction staff	0
11.23	Medical and First Aid Kit	20,000
11.24	Electricity	20,000
11.25	Water (Not for construction)	5,000
11.26	Non-rig operating fuel	10,000
		112,330

11.30 Schedule C
FINANCING EXPENSES

11.31	Interest on loans	5,000
11.32	Bad Debts Written Off	0
11.33	Bank Charges	10,000
11.34	Bank Commitment Fees	10,000
		25,000

11.40 **Schedule D**
GENERAL ADMINISTRATION EXPENSES

11.41	Entertainment	0
11.42	Loose Tools	5,000
11.43	Newspapers and Journals	21,000
11.44	Publicity	50,000
11.45	Public Relations	50,000
11.46	Traveling and Subsistence	30,000
11.47	Printing and stationery	18,000
11.48	Repairs and General Maintenance	40,000
11.49	Audit Fees and Expenses	50,000
11.50	Directors' Allowances	100,000
11.51	Non-Rig handling Staff Salaries	0
11.52	Telephone	30,000
11.53	Security	25,000
11.54	Repairs to Equipment	10,000
11.55	Management Committee Expenses	10,000
11.56	Meetings Expenses	10,000
		449,000

12.0 ***Purchase of/Addition to Assets***

12.1	Land	0
12.2	Buildings	0
12.3	Office Furniture	0
12.4	Fixtures	0
12.5	Drilling Equipment	0
12.6	Rig	0
12.7	Motor Vehicle	0

Production, Trading, and Profit and Loss Account for one well

POUNDER RIG PROJECT

			Ushs		Ushs
Opening Stock-Raw Materials			0	Cost of Well	1,867,406
Purchases		1,129,970			
Less Trade Discounts	0				
Less VAT	164,184				
		164,184			
			965,786		
			965,786		
Less Closing Stock			0		
			965,786		
Deduct Work in Progress					
Closing		0			
Less Opening		0			
			0		
			965,786		
Well Direct Wages			242,000		
Well Direct Expenses			111,720		
Well Production Overheads 50% (Op. Exp)			177,266		
Hire of equipment			330,000		
Hire of transport			40,000		
Depreciation					
Rigging Machinery		0			
Non well Rigging Assets		633			
			633		
			1,867,406		1,867,406
Cost of Making Well			1,867,406	Contract Price	3,134,640
Gross Profit			1,267,234		
			3,134,640		3,134,640

Income and Expenditure Account Based on One Well

POUNDER RIG PROJECT

			Ushs	Ushs
Gross Profit From Contract				1,267,234
Miscellaneous Income				0
TOTAL INCOME				1,267,234
OPERATING EXPENSES				
Schedule A: Rigging/Operating Expenses			60,000	
Schedule B: Personnel Maintenance Expenses			22,466	
Schedule C: Financing Expenses			5,000	
Schedule D: General Administration Expenses			89,800	
Depreciation non rig assets			5,700	
			182,966	
Net Income				1,084,268
Corporation tax provision on contract	30%	of net profit	325,281	
After tax Profit on this contract			758,988	
Balance of Retained Profits as at start of contract			0	
			758,988	
Proposed Dividend			0	
RETAINED NET PROFITS				758,988

Production, Trading, and Profit and Loss Account based on 30 wells (twelve months)

POUNDER RIG PROJECT

			Ushs		Ushs
Opening Stock-Raw Materials			0	Cost of 30 Wells	56,022,170
Purchases		33,899,100			
Less Trade Discounts	0				
Less VAT	4,925,510				
		4,925,510			
			28,973,590		
			28,973,590		
Less Closing Stock			0		
			28,973,590		
Deduct Work in Progress					
Closing		0			
Less Opening		0			
			0		
			28,973,590		
Wells Direct Wages			7,260,000		
Wells Direct Expenses			3,351,600		
Wells Production Overheads 50% (Op. Exp)			5,317,980		
Hire of equipment			9,900,000		
Hire of transport			1,200,000		
Depreciation					
Rigging Machinery		0			
Non well Rigging Assets		19,000			
			19,000		
			56,022,170		56,022,170
Cost of Making Well			56,022,170	Contract Price	94,039,200
Gross Profit			38,017,030		
			94,039,200		94,039,200

Income & Expenditure Account Based on 30 Wells (Twelve Months)

POUNDER RIG PROJECT

			Ushs	Ushs
Gross Profit From Contract				38,017,030
Miscellaneous Income				0
TOTAL INCOME				38,017,030
OPERATING EXPENSES				
Schedule A: Rigging/Operating Expenses			1,800,000	
Schedule B: Personnel Maintenance Expenses			673,980	
Schedule C: Financing Expenses			150,000	
Schedule D: General Administration Expenses			2,694,000	
Depreciation			171,000	
			5,488,980	
Net Income				32,528,050
Corporation tax provision on contract	30%	of net profit	9,758,415	
After tax Profit on this contract			22,769,635	
Balance of Retained Profits as at start of contract			0	
			22,769,635	
Proposed Dividend			0	
RETAINED NET PROFITS				22,769,635

Projected Cash Flow for a Period of One Year

Month	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	TOTAL
	Ushs	Ushs	Ushs	Ushs	Ushs	Ushs	Ushs	Ushs	Ushs	Ushs	Ushs	Ushs	Ushs
Balance bf	10,154,780	0	2,048,492	13,365,434	6,918,034	7,792,597	6,813,470	15,689,757	14,803,427	10,209,717	10,497,316	8,931,225	10,154,780
													0
Inflows													
Receipts from contract	0	15,673,200	15,673,200	0	9,403,920	9,403,920	12,538,560	0	0	6,269,280	6,269,280	9,403,920	84,635,280
													0
													0
Total Inflows	10,154,780	15,673,200	17,721,692	13,365,434	16,321,954	17,196,517	19,352,030	15,689,757	14,803,427	16,478,997	16,766,596	18,335,145	94,790,060
													0
Outflows													0
Purchase of materials	5,649,850	5,649,850	0	3,389,910	3,389,910	4,519,880	0	0	2,259,940	2,259,940	3,389,910	3,389,910	33,899,100
Direct Wages	1,210,000	1,210,000	0	726,000	726,000	968,000	0	0	484,000	484,000	726,000	726,000	7,260,000
Direct expenses-Transport	558,600	558,600	0	335,160	335,160	446,880	0	0	223,440	223,440	335,160	335,160	3,351,600
Direct expenses--Equipment Hire			1,850,000	1,850,000	0	1,110,000	1,110,000	1,480,000	0	0	740,000	740,000	1,110,000
Purchase of machinery	0	0	0	0	0	0	0	0	0	0	0	0	0
Purchase of motor van	0	0	0	0	0	0	0	0	0	0	0	0	0
Rigging/Operating Expenses	300,000	300,000	300,000	300,000	300,000	300,000	300,000	300,000	300,000	300,000	300,000	300,000	3,600,000
Personnel Maintenance Expenses			112,330	112,330	112,330	112,330	112,330	112,330	112,330	112,330	112,330	112,330	112,330
Financing Expenses	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	300,000
General Administration Expenses			449,000	449,000	449,000	449,000	449,000	449,000	449,000	449,000	449,000	449,000	449,000
Statutory Payments VAT	0	1,843,526	1,843,526	0	1,106,115	1,106,115	1,474,820	0	0	737,410	737,410	2,212,231	11,061,154
Statutory Payments Corp. Tax	0	1,626,403	1,626,403	0	975,842	975,842	1,301,122	0	0	650,561	650,561	1,951,683	9,758,415
PAYE for proprietor	0	0	0	0	0	0	0	0	0	0	0	0	0
													0
													0
Total Outflows	10,154,780	13,624,708	4,356,258	6,447,400	8,529,357	10,383,047	3,662,273	886,330	4,593,710	5,981,681	7,835,371	10,611,314	87,066,229
													0
Bal cf	0	2,048,492	13,365,434	6,918,034	7,792,597	6,813,470	15,689,757	14,803,427	10,209,717	10,497,316	8,931,225	7,723,831	7,723,831
No of Wells Drilled in the month	5	5	0	3	3	4	0	0	2	2	3	3	30

Schedules of Fixed Assets for One Year

a. Depreciation of Assets not involved in direct Rigging of Wells

Cost/Valuation	Land	Buildings	Off Furn.	Fixtures	Total
	Ushs	**Ushs**	**Ushs**	**Ushs**	**Ushs**
Bal at start of year	**5,000,000**	**4,000,000**	**500,000**	**200,000**	**9,700,000**
Additions during year	0	0	0	0	0
Bal at end of year	5,000,000	4,000,000	500,000	200,000	9,700,000
Depreciation					
Bal at start of year	0	50,000	20,000	10,000	80,000
Additions during year	0	100,000	50,000	40,000	190,000
Bal at end of year	0	150,000	70,000	50,000	270,000
WDV 31.12.2001	5,000,000	3,850,000	430,000	150,000	9,430,000
WDV 31.12.2000	5,000,000	4,000,000	500,000	200,000	9,700,000

b. Depreciation of Assets involved in direct Rigging of Wells

Cost/Valuation	**Equipment Ushs**	**Rig Ushs**	**Motor veh. Ushs**	**Total Ushs**
Bal at start of year	0	0	0	0
Additions during year	0	0	0	0
Bal at end of year	0	0	0	0
Depreciation				
Bal at start of year	0	0	0	0
Additions during year	0	0	0	0
Bal at end of year	0	0	0	0
WDV AT YR START	0	0	0	0
WDV AT YEAR END	0	0	0	0

5.3 Scenario C - Executive Summary

Contractor has won, as an individual for 30 wells per annum and purchases a rig at UK Pound 6,000, and a second hand pick-up at Ushs 7,000,000. He has sufficient funds to buy 5 sets of well consumables and meet his initial labour costs. He anticipates payment within 30 days of completion of each well. This contractor is not VAT registered

Pounder Rig Figures (C)

a) Summary of results for one year of operation of the pounder rig

Result	**Scenario C**
No of wells drilled	30
Pre-tax profit	34,822,540
Corp. Tax at 30%	10,446,762
Initial Capital Requirement	33,414,780
Desired Bank Overdraft	0
PAYE Rates	
AMOUNT OF INCOME	**RATE**
First Ushs 1,560,000 of income p.a.	0%
Next Ushs 1,260,000 of income p.a.	10%
Next Ushs 2,100,000 the income p.a.	20%
Next income up to maximum earned	30%

b) Sole trader : individual shareholder, for Scenario C

The enterprise would yield profits. The sole trader's tax liability would be slightly lower than would be for a limited liability company as all his income would not be taxed at the rate equal to corporation tax rate. PAYE rates, on average, are lower than the corporation tax rates. Corporation tax rate is 30% of profit. Individual tax rates progressively vary between 0% and 30% thus offering a lower overall rate compared to corporation tax rate.
The sole trader would not be subject to corporation tax, in this case
Ushs 10,446,762 but will instead be subject to PAYE amounting to
Ushs 9,049,762. This will leave him with a little more profit Ushs 1,398,000 to plough back into the business.

c) Partnership of 2 equal full working partners in drilling business

The results would be the same as in (a) above except that as the income is split between the two, the overall tax rate is lowered further.
Assuming equal sharing of profit and loss, each partner would be entitled to a pre-tax profit of Ushs 17,411,270. This will lead to a PAYE liability of
Ushs 3,825,381 for each of the two partners. The combined total tax liability on the profit would then be Ushs 7,650,762 which is Ushs 2,796,000 lower than would have been paid had the business been of a limited liability type.
If the partners have an agreement to be paid regular wages this will, of course, reduce the profits available for their sharing but not their individual tax liability.

d) Partnership between an investor(core investor) and a working partner

Results would not differ from those in (c) above. However the salary payable to the partner involved in running the business will result in lower profits available, at the end, for sharing amongst the partners. If the core investor were an individual the tax position would also not change.

e) Partnership of 6 partners

The results would be the same as in (a) above except that as the income is split between the six partners, the overall tax rate is lowered further.

Assuming equal sharing of profit and loss, each partner would be entitled to a pre-tax profit of Ushs 5,803,757. This will lead to a PAYE liability of

Ushs 410,752 for each of the six partners. The combined total tax liability on the profit would then be Ushs 2,464,512 which is Ushs 7,982,250 lower than would have been paid had the business been of a limited liability type.

The relatively big number of partners would, of course, mean smaller amounts coming the partners' way in form of profit. Overall the average tax rate will be lower, to both the group and the individuals, resulting from the split income. The splitting of the income exposes more of it to lower PAYE rates.

f) Splitting the profit between the stakeholders

In all the above cases there exists a partnership except in (a). There are clear rules of sharing the profits of a partnership. When applying these rules one has to consider whether the partners have some form of agreed terms of profit/loss sharing amongst themselves. If the partners have some agreed position then it should be respected. In absence of such an agreement then it is deemed that the partners wished to share the profits/losses equally.

5.3.1 *POUNDER RIG PROJECT- SCENARIO C - ACCOUNTING*

BILL OF QUANTITIES

Contract Price **3,134,640**

Acc. No	Account	Units	Quantity	Rate	
1.00	**Preliminaries**				
1.10	Site Survey	Lump sum	1	60,000	60,000
1.20	Mobilization to local base & supply	Lump sum	1	277,000	277,000
1.30	Mobilization to site	Per km	0	0	0
1.40	Set up of Equipment	Per site	1	120,000	120,000
					457,000
2.00	**Investigative Drilling**				
2.10	Water	20lt jerry can	50	200	10,000
2.20	Drilling	hrs	8	18,000	144,000
2.30	Sampling and storage of cuttings	sample box	1	20,000	20,000
2.40	Written Log	Complete log	1	5,000	5,000
2.50	In-Situ Yield Test	Test	1	18,000	18,000
2.60	Cement Sealing Investigative Hole	50 kg bag	1.25	16,000	20,000
2.70					**217,000**
3.00	**Production Drilling**				
3.10	Water	20lt jerry can	60	200	12,000
3.20	Drilling	hr	24	18,000	432,000
					444,000
4.00	**Materials (Well Consumables)**				
4.01	Handpump Superstructure(Headworks)	pcs	1	500,000	500,000
4.02	75mm uPVC Rising Main/Casing	pcs	3	40,000	120,000
4.03	Pump Connecting Rod x 3m	pcs	2	46,000	92,000
4.04	Pump Top Rod x 3m	pcs	2	56,000	112,000
4.05	Centralisers	pcs	3	37,000	111,000
4.06	Pump Cylinder Assembly	pcs	1	125,000	125,000
4.07	63mm well screen x 3m	pcs	2	31,000	62,000
4.08	63mm MTA	pcs	1	2,400	2,400
4.09	63mm End Point	pcs	1	1,800	1,800
4.10	75mm MTA Grooved with O-Ring	pcs	1	10,000	10,000
4.11	Gravel Pack	pcs	3	12,000	36,000
4.12	Sand (lake)	pcs	0		0
4.13	Hardcore	pcs	0		0
4.14	Aggregate	pcs	0		0
4.15	Cement		0		0
					1,172,200
5.00	**U3 Pump installation and well development**				
	U3 Pump installation and well development	hr	4	18,000	72,000
					72,000
6.00	**Construction of concrete well cap & apron (incl materials)**				
	Const. of concrete well cap & apron	lump sum	1	250,000	250,000
					250,000
	Total				**2,612,200**
	20% margin				522,440
					3,134,640

Schedule of Direct Contract Expenses

7.00	**Labour (Direct)**				
7.01	Drilling - skilled (incl. meals & accom.) Manday		12	11000	132,000
7.02	Drilling - unskilled (Masons)		16	3000	48,000
7.03	Pump installation and well development - Skilled		2	11000	22,000
7.04	Pump installation and well development - Unskilled		4	3000	12,000
7.05	Concrete construction - Skilled		2	11000	22,000
7.06	Concrete construction - Unskilled		2	3000	6,000
					242,000
8.00	**Transport**				
8.01	Material Collection - Fuel	km	100	147	14,700
8.02	Material to Site - Fuel	km	with equipment		
8.03	Equipment to and fro site	km	260	147	38,220
8.04	Crew to site - Fuel	km	with equipment		
8.05	Supervisor visits - Fuel	km	390	147	57,330
8.06	Transport at site	km	10	147	1,470
					111,720
9.00	**Equipment Hire**				
9.01	Rig Hire	per day	6	55,000	330,000
9.02	Pick up hire	per day	2	20,000	40,000
					370,000
10.00	**Materials**				
10.01	Handpump Superstructure(Headworks)	pcs	1	421,000	421,000
10.02	75mm uPVC Rising Main/Casing	pcs	3	33,000	99,000
10.03	Pump Connecting Rod x 3m	pcs	2	38,610	77,220
10.04	Pump Top Rod x 3m	pcs	1	46,800	46,800
10.05	Centralisers	pcs	3	31,000	93,000
10.06	Pump Cylinder Assembly	pcs	1	104,800	104,800
10.07	63mm well screen x 3m	pcs	2	25,900	51,800
10.08	63mm MTA	pcs	1	2,050	2,050
10.09	63mm End Point	pcs	1	1,500	1,500
10.10	75mm MTA Grooved with O-Ring	pcs	1	8,400	8,400
10.11	Gravel Pack	pcs	3	10,000	30,000
10.12	Sand (lake)	pcs	1	30,000	30,000
10.13	Hardcore	pcs	1	20,000	20,000
10.14	Aggregate	pcs	1	35,000	35,000
10.15	Cement	bags	6	17,000	102,000
10.16	Water for drilling	20 l jerrycan	74	100	7,400
					1,129,970

11.00 MONTHLY SCHEDULES OF OPERATING EXPENSES FOR THE CONTRACTOR

11.10 Schedule A
RIGGING/OPERATING EXPENSES

11.11	Workers' Welfare	0
11.12	Seminars and Training	0
11.13	Tools	0
11.14	Salaries	200,000
11.15	Non-construction workers' housing(Rent)	100,000
11.16	Employer's contribution to NNSF	0
		300,000

11.20 Schedule B
PERSONEL MAINTENANCE EXPENSES

11.21	Travelling/Transport Hire	57,330
11.22	Meals & Provisions- non-construction staff	0
11.23	Medical and First Aid Kit	20,000
11.24	Electricity	20,000
11.25	Water (Not for construction)	5,000
11.26	Non-rig operating fuel	10,000
		112,330

11.30 Schedule C
FINANCING EXPENSES

11.31	Interest on loans	5,000
11.32	Bad Debts Written Off	0
11.33	Bank Charges	10,000
11.34	Bank Commitment Fees	10,000
		25,000

11.40 **Schedule D**
GENERAL ADMINISTRATION EXPENSES

11.41	Entertainment	0
11.42	Loose Tools	5,000
11.43	Newspapers and Journals	21,000
11.44	Publicity	50,000
11.45	Public Relations	50,000
11.46	Traveling and Subsistence	30,000
11.47	Printing and stationery	18,000
11.48	Repairs and General Maintenance	40,000
11.49	Audit Fees and Expenses	50,000
11.50	Directors' Allowances	100,000
11.51	Non-Rig handling Staff Salaries	0
11.52	Telephone	30,000
11.53	Security	25,000
11.54	Repairs to Equipment	10,000
11.55	Management Committee Expenses	10,000
11.56	Meetings Expenses	10,000
		449,000

12.0 Purchase of/Addition to Assets

12.1	Land	0
12.2	Buildings	0
12.3	Office Furniture	0
12.4	Fixtures	0
12.5	Drilling Equipment	0
12.6	Rig	0
12.7	Motor Vehicle	0

Production, Trading, and Profit and Loss Account for one well

POUNDER RIG PROJECT

			Ushs		Ushs
Opening Stock-Raw Materials			0	Cost of Well	1,790,923
Purchases		1,129,970			
Less Trade Discounts	0				
Less VAT	0				
		0			
			1,129,970		
			1,129,970		
Less Closing Stock			0		
			1,129,970		
Deduct Work in Progress					
Closing		0			
Less Opening		0			
			0		
			1,129,970		
Well Direct Wages			242,000		
Well Direct Expenses			111,720		
Well Production Overheads 50% (Op. Exp)			177,266		
Depreciation					
Rigging Machinery		129,333			
Non well Rigging Assets		633			
			129,967		
			1,790,923		1,790,923
Cost of Making Well			1,790,923	Contract Price	3,134,640
Gross Profit			1,343,717		
			3,134,640		3,134,640

Income and Expenditure Account Based On One Well

POUNDER RIG PROJECT

			Ushs	Ushs
Gross Profit From Contract s				1,343,717
Miscellaneous Income				0
TOTAL INCOME				1,343,717
OPERATING EXPENSES				
Schedule A: Rigging/Operating Expenses			60,000	
Schedule B: Personnel Maintenance Expenses			22,466	
Schedule C: Financing Expenses			5,000	
Schedule D: General Administration Expenses			89,800	
Depreciation non rig assets			5,700	
			182,966	
Net Income				1,160,751
Corporation tax provision on contract	30%	of net profit	348,225	
After tax Profit on this contract			812,526	
Balance of Retained Profits as at start of contract			0	
			812,526	
Proposed Dividend			0	
RETAINED NET PROFITS				812,526

Production, Trading, and Profit and Loss Account based on 30 wells (twelve months)

POUNDER RIG PROJECT

			Ushs		Ushs
Opening Stock-Raw Materials			0	Cost of 30 Wells	53,727,680
Purchases		33,899,100			
Less Trade Discounts	0				
Less VAT	0				
		0			
			33,899,100		
			33,899,100		
Less Closing Stock			0		
			33,899,100		
Deduct Work in Progress					
Closing		0			
Less Opening		0			
			0		
			33,899,100		
Wells Direct Wages			7,260,000		
Wells Direct Expenses			3,351,600		
Wells Production Overheads 50% (Op. Exp)			5,317,980		
Depreciation					
Rigging Machinery		3,880,000			
Non well Rigging Assets		19,000			
			3,899,000		
			53,727,680		53,727,680
Cost of Making Well			53,727,680	Contract Price	94,039,200
Gross Profit			40,311,520		
			94,039,200		94,039,200

Income & Expenditure Account Based On 30 Wells (Twelve Months)

POUNDER RIG PROJECT

			Ushs	Ushs
Gross Profit From Contract				40,311,520
Miscellaneous Income				0
TOTAL INCOME				40,311,520
OPERATING EXPENSES				
Schedule A: Rigging/Operating Expenses			1,800,000	
Schedule B: Personnel Maintenance Expenses			673,980	
Schedule C: Financing Expenses			150,000	
Schedule D: General Administration Expenses			2,694,000	
Depreciation			171,000	
			5,488,980	
Net Income				34,822,540
Corporation tax provision on contract	30%	of net profit	10,446,762	
After tax Profit on this contract			24,375,778	
Balance of Retained Profits as at start of contract			0	
			24,375,778	
Proposed Dividend			0	
RETAINED NET PROFITS				24,375,778

Projected Cash Flow for a Period of One Year

Month	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	TOTAL
	Ushs	Ushs	Ushs	Ushs	Ushs	Ushs	Ushs	Ushs	Ushs	Ushs	Ushs	Ushs	Ushs
Balance bf	33,414,780	2,210,000	693	5,209,836	7,709,036	9,163,560	9,134,394	14,691,762	21,642,032	25,624,922	28,911,361	30,714,110	33,414,780
													0
Inflows													
Reciepts from contract	0	7,836,600	7,836,600	7,836,600	7,836,600	7,836,600	7,836,600	7,836,600	7,836,600	7,836,600	7,836,600	7,836,600	86,202,600
													0
													0
Total Inflows	33,414,780	10,046,600	7,837,293	13,046,436	15,545,636	17,000,160	16,970,994	22,528,362	29,478,632	33,461,522	36,747,961	38,550,710	119,617,380
													0
Outflows													0
Purchase of materials	5,649,850	5,649,850	0	3,389,910	3,389,910	4,519,880	0	0	2,259,940	2,259,940	3,389,910	3,389,910	33,899,100
Direct Wages	1,210,000	1,210,000	0	726,000	726,000	968,000	0	0	484,000	484,000	726,000	726,000	7,260,000
Direct expenses-Transport	558,600	558,600	0	335,160	335,160	446,880	0	0	223,440	223,440	335,160	335,160	3,351,600
Direct expenses--Equipment Hire			0	0	0	0	0	0	0	0	0	0	0
Purchase of machinery	15,900,000	0	0	0	0	0	0	0	0	0	0	0	15,900,000
Purchase of motor van	7,000,000	0	0	0	0	0	0	0	0	0	0	0	7,000,000
Rigging/Operating Expenses	300,000	300,000	300,000	300,000	300,000	300,000	300,000	300,000	300,000	300,000	300,000	300,000	3,600,000
Personnel Maintenance Expenses			112,330	112,330	112,330	112,330	112,330	112,330	112,330	112,330	112,330	112,330	112,330
Financing Expenses	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	300,000
General Administration Expenses			449,000	449,000	449,000	449,000	449,000	449,000	449,000	449,000	449,000	449,000	449,000
Statutory Payments VAT	0	0	0	0	0	0	0	0	0	0	0	0	0
Statutory Payments Corp. Tax	0	1,741,127	1,741,127	0	1,044,676	1,044,676	1,392,902	0	0	696,451	696,451	2,089,352	10,446,762
PAYE for proprietor	0	0	0	0	0	0	0	0	0	0	0	0	0
													0
													0
Total Outflows	31,204,780	10,045,907	2,627,457	5,337,400	6,382,076	7,865,766	2,279,232	886,330	3,853,710	4,550,161	6,033,851	7,426,752	88,493,422
													0
Bal cf	2,210,000	693	5,209,836	7,709,036	9,163,560	9,134,394	14,691,762	21,642,032	25,624,922	28,911,361	30,714,110	31,123,958	31,123,958
No of Wells Drilled in the month	5	5	0	3	3	4	0	0	2	2	3	3	30

Schedules of Fixed Assets for One Year

POUNDER RIG PROJECT

SCHEDULES OF FIXED ASSETS FOR ONE YEAR

a. Depreciation of Assets not involved in direct Rigging of Wells

Cost/Valuation	Land	Buildings	Off Furn.	Fixtures	Total
	Ushs	**Ushs**	**Ushs**	**Ushs**	**Ushs**
Bal at start of year	**5,000,000**	**4,000,000**	**500,000**	**200,000**	**9,700,000**
Additions during year	0	0	0	0	0
Bal at end of year	5,000,000	4,000,000	500,000	200,000	9,700,000
Depreciation					
Bal at start of year	0	50,000	20,000	10,000	80,000
Additions during year	0	100,000	50,000	40,000	190,000
Bal at end of year	0	150,000	70,000	50,000	270,000
WDV 31.12.2001	5,000,000	3,850,000	430,000	150,000	9,430,000
WDV 31.12.2000	5,000,000	4,000,000	500,000	200,000	9,700,000

b. Depreciation of Assets involved in direct Rigging of Wells

Cost/Valuation	**Equipment Ushs**	**Rig Ushs**	**Motor veh. Ushs**	**Total Ushs**
Bal at start of year	0	0	0	0
Additions during year	0	15,900,000	7,000,000	22,900,000
Bal at end of year	0	15,900,000	7,000,000	22,900,000
Depreciation				
Bal at start of year	0	0	900,000	900,000
Additions during year	0	3,180,000	700,000	3,880,000
Bal at end of year	0	3,180,000	1,600,000	4,780,000
WDV AT YR START	2,400,000	12,720,000	5,400,000	20,520,000
WDV AT YEAR END	3,000,000	0	0	3,000,000