

# The Influence Of Capital Depreciation On The Cost Of Living . A Case Study Of People Living In Central Region Of Uganda Kampala

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**Abstract:** *In this study, Kampala, a town in central Uganda, served as the case study population to investigate the impact of capital deterioration on cost of living. to ascertain the connection among living expenses and asset deterioration for those residing in Kampala, Uganda's central region. To investigate how capital deterioration affects small and medium-sized businesses in Central Uganda. Uganda's Kampala and to ascertain the impact of investment deterioration on Uganda's small and medium-sized businesses. According to the report's results, 39 (42%) of the participants said that consumer spending is one thing that helps to explain how capital devaluations relate to one another. Because of the depreciation in assets, people are more prone to overpay on products and services like food, security, and clothing. This occurred in the Kampala region, primarily as a result of the Covid-19 outbreak, which led to entrepreneurs overpaying to the point of using their own capital. This suggests that when capital depreciates, consumers are more prone to overspend, which affects people's standard of life. Also, it featured summaries of the findings, suggestions, and conclusions as well as the compilation, analysis, and interpretation of the information.*

**Keywords:** capital depreciation and cost of living

## Background of the Study

Capital deterioration has been characterized differently in the eyes of the world. The loss in value of a capital asset is referred to as capital deterioration (World Bank), as well as according to the International Monetary Fund, capital deterioration is when a price of bitcoin declines so that it has less purchasing power (IMF). A devaluation is a decrease in a country's country's currency nominal value in comparison to that other currency or group of currencies.

In other words, a deterioration shows a rise in the cost of foreign exchange when purchased in local currency. When prices increase due to capital currency depreciation or devaluation, for instance, solutions like water, power generation, housing, and other basic needs like food, among others, become expensive, creating a big to less person earning to starve (Bank of Uganda), the fluctuation in the cost of foreign exchange can have a significant impact on the prices of various types of goods and services in the economic system and the distribution of earnings (BOU). Yet, when it comes to the cost of living for individuals only within nation, it is important to remember that when capital is devalued or appreciated, the cost of living for individuals inside the nation either rises or falls. Devaluation, as used in the global economy, is the intentional reduction of a country's official exchange rate in relation to other currencies.

Depreciation is considered as currency rate manipulation in both continuous and discrete definitions, according to Parida (2012).

Several types of currency rate handling, such as both rigid and adaptable exchange rate systems, are used by different nations. A country can set its country's currency value in relation to the currencies of other nations under a fixed exchange rate regime; this process is known as discontinuous depreciation. Yet, under a democratic exchange rate system, a country can decide how much its money is worth in terms of the currencies of other nations, a process known as constant devaluation (Parida, 2013). Quantitative easing is thought to be an intentional political decision made to maintain a country's currency parity value. To maintain a stable exchange rate system, countries should have a substantial foreign exchange deposit, frequently in US dollars.

## Problem Statement

The International Monetary Fund (IMF) defines capital deterioration as a decline in the worth of a financial instrument.

When an investment or class of assets loses value, this is referred to as capital deterioration or capital depreciation. Depreciation refers to a decline in the nominal value of a nation's currency in comparison to another denomination or group of banknotes (Chiranton Basu, 2018). In furthermore, within a single line, capital amortization can also be caused by other macroeconomic indicators such as exchange rate fluctuations. The currency's appreciation can decrease investors' trust, which may lead them to retreat their wealth from the country and the institutional businessmen. This kind of circumstance can be caused by economic fundamental concepts, variations in interest rates, political turmoil, or risk avoidance.

## Objectives of the Study

1. To determine the relationship between capital depreciation and cost of living on the people living in central Region, Kampala Uganda.

2. To examine the influence of capital depreciation on the small and medium enterprises in Central Uganda Kampala, Uganda.
3. To determine the effect of capital depreciation on the small and medium enterprises in Uganda.

#### Research Question

1. What is the relationship between capital depreciation and cost of living on the people living in central Region, Kampala Uganda?
2. What is the influence of capital depreciation on the small and medium enterprises in Central Region, Kampala Uganda?
3. What is the determine of capital depreciation on the small and medium enterprises in Uganda?

#### Methodology

##### Research design

The case study in this study, Kampala, in central Uganda, used a descriptive research approach to better comprehend how the cost of living was affected by capital deterioration.

Both qualitative and quantitative methodologies were used in the research design.

In qualitative research, themes based on the study questions were produced by using the responses provided by the participants.

But, using quantitative methodologies, descriptive statistical analysis was used to create graphs, charts, and frequency tables.

##### Population of the study

All residents in Central Uganda, business owners, employees, and householders, regardless of their education levels and work histories, as well as any government employees who have been employed for at least two years, will make up the study's target group.

As a result, the study focused on 70 respondents, mostly in Kampala, Central Uganda.

This population is selected because it could provide realistic opinions about how technology advancements were affecting the entrepreneurial scene in Central Uganda, namely in Kampala. **Sample size and Sampling Procedure**

Among the study population of 70 respondents, the study took into account a sample size of 20 respondents.

Both random sample and purposeful sampling were used in the investigation.

The choosing of small business owners was guided by stratified random sampling.

A good sample of the important interviewees, which also included entrepreneurs (entrepreneurs), homeowners, and government leaders, was chosen through purposeful sampling.

The main interviewees were chosen for this study's analysis of how capital depreciation affects individuals living in Kampala, Central Uganda, based on their expertise and understanding of the subject.

##### Data collection methods and instruments

Data were collected from both primary and secondary data sources. The primary data sources comprised of questionnaire, interviews and documentary review.

##### Primary data

This comprised information gathered from participants such as shareholders, employees, business owners, and other public servants.

This information will be gathered by observational methods, quizzes, and/or conversations.

##### Primary data

This includes information gleaned from textual sources such organizational files, governmental journals, periodicals, books, tabloids, and cost center files pertaining to evolutionary journals. Questionnaire method

One of the techniques utilized to gather the main information from the participants, which included business owners, economists, members of the Targeted community, and government leaders, was a survey.

The approach is regarded as effective in terms of research time, expense, and energy.

The survey was designed to gather information from government representatives and local residents in Kampala, Central Uganda.

It was given out via a self-administered survey with prepared answer choices, allowing respondents to select the best answers.

### Interview method

Both members of the public and representatives received this.

Conversations were used because a one-on-one approach helps to locate additional knowledge and complements observation, which unquestionably does so in order to make purposeful decisions.

The approach also provides an opportunity for probing, particularly when the subject was poorly comprehended by the responders. The structured interview was administered using an interview guide that included open- and structured questionnaires for the responder to elaborate on.

All participants received the same topic discussion as part of a semi-structured interview protocol. **Data Analysis**

Since qualitative and quantitative data was collected and analyzed using SPSS, the study employed both qualitative and quantitative methods of data analysis respectively. Qualitative data analysis approach was used including summarizing, categorizing and connecting content of the interviews. Quantitative data was analyzed using frequency and percentages.

## RESULTS

### Gender of respondents

The research further investigated the respondents' gender. The reason was to find out if both sexes hold same views or different ones on the relationship between the capital depreciation on the cost of living on the people in central region, Kampala This is presented statistically below;

**Table 1 Gender of respondents**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Male	40	67.2	67.2	67.2
	Female	30	42.8	42.8	100.0
	Total	70	100	100.0	

Source: Primary Data 2022

Table 1, shows that male respondents constituted 67.2% while female respondents were 42.8%. which implies that there is more male who are concerned with capital depreciation or being affected more compared with female. Therefore, 67.2 respondent participated in the study to reveal their view on how capital depreciation have affected them in running businesses within Central region Kampala.

### Age Brackets of respondents

The researcher explored on the age of the respondents in regard to the role of inventory management practices on organizational performance in Uganda. The results are tabulated below;

**Table 2 Age Brackets of respondents**

Table 2 Age of respondents					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	20-30	28	40	40	40
	31-40	17	24.2	24.3	64.3
	41-50	20	28.5	28.5	94.8
	50+	5	7.1	7.2	100.0
	Total	70	99.8	100.0	

Source: Primary Data 2022

The table presents that 40% of the respondents were between 20-30 years, 24.3% were between 31-40 years, 28.5% were between 41-50years, while 7.2% were above 50 years. This implied that the respondents age of between 20-30 were the majority compare to other age which implies that the young people today are the people who participate in business and struggling with the economy which lead them to be of more affected with capital depreciation compared to other people.

**Academic background of respondents**

The researcher also considered the academic background of respondents to establish how it relates to the relationship between the capital depreciation on the cost of living on the people in central region, Kampala. The findings are presented in the table below;

**Table 3 Academic background of respondents**

Table 3: Academic background of respondents					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Certificate	21	30	30	30
	Diploma	23	32.8	32.8	62.8
	Degree	25	35.7	35.7	98.7
	Others	1	1.4	1.5	100.0
	Total	100	99.9	100.0	

Source: Primary Data 2022

From the table 30% of the respondents had certificates, 32.8% had diplomas, 25% had degrees, while 1% had others qualifications. This implied that the majority respondents were literate not only in other areas but also about capital depreciation which mean there is high possibilities of researcher collecting valid information from the course of the study.

**To determine the relationship between capital depreciation and cost of living on the people living in central Region, Kampala Uganda.****Table 4: Relationship between capital depreciation and cost of living**

Relationship between	Frequency	Percent(%)	Accumulative Percent(%)
Comsumer spending	30	42	42
Bsusiness investment	25	35.7	77.7
Skills and knolodge gained	15	21.5	100
Total	70	100	

Source: Primary Data, 2022

According to the study's findings, 39 (42%) of the respondents said that private consumption is one thing that helps to explain how capital devaluation relate to one another.

Due to the depreciation in capital, people are more prone to overpay on goods and services like food, security, and clothing. This occurred in the Kampala region, primarily as a result of the Covid-19 outbreak, which led to entrepreneurs overpaying to the point of using their own investment. This suggests that when investment depreciates, consumers are more prone to overspend, which affects people's standard of life. But 25 (25%) of the participants said that company investments are most likely when there is capital deterioration.

**To examine the influence of capital depreciation on the small and medium enterprises in Central Uganda Kampala, Uganda.****Table 5: Influence of capital depreciation on the small and medium enterprises**

Effect of capital depreciation	Frequency	Percent (%)	Accumulative%
The net income	19	27.2	27.2
Retained earnings and stockholders equity are reduced with the debits to depreciation expenses.	15	21.5	48.7

The carrying value of the assets being depreciated and amount of total assets are reduced by the credit to accumulated depreciation.	13	18.5	67.2
The depreciation expenses reported on the us income tax return reduces a corporation taxable income and its related income taxation.	12	17.2	84.4
The depreciation expenses reported on the us income tax return reduces a corporation taxable income and its related income taxation.	11	15.2	100
Total	70	100	

source: Primary Data, 2022

According to the study findings in table (1) above, 19(27.2%) and 15(21.5%) of the respondents cited the Net income retained earnings and stockholders' equity are reduced with the debit to depreciation assets.

While 13(18.5%) respondents agreed that capital depreciation have continued to affect companies by the carrying value of the assets being depreciated and amount of total assets are reduced by the credits to accumulated depreciation.

While 11(15.2%) respondents agreed to the point that depreciation expenses reported on on the Kampala people's income tax return reduces a corporation taxable income and its related income taxation.

**To determine the effect of capital depreciation on the small and medium enterprises in Uganda.**

**Table 6: Effect of capital depreciation on the small and medium enterprises**

Effect of capital depreciation	Frequency	Percent	Accumulative(%)
Reduces profits	19	27.2	27.2
Increase the expenses	18	25.7	52.9
Cash flow effect	17	24.3	77.2
Business get taxed on its profits	16	22.9	100
Total	70	100	

Source: Primary Data, 2022

From the findings it is clear that there is an effect of capital depreciation on small and medium enterprises. According to the study 19(27.2%) respondents agreed that capital depreciation have affected business both small and medium enterprises by reducing on its profits.

While, 18(25.7%) respondents revealed that increase in expense becomes a problem mostly in people leaving in Kampala, people instead of investing their money end-up overspending to access basic needs like food, shelter water among others. Which leads their life to become harder to survive hence capital depreciation affect the cost of living of people within Kampala city central region as whole. While 17(24.3) respondents revealed that, when there is capital depreciation there is high chance of Cash flow effect to the people. In conclusion, based on the destributed questionnaires and respondents interviewed it is clarer that the biggest percent of respondents all agreed that there is big relationhsip between capital depreciation and cost of living of people in Kampala including

central region as whole as stated above for example, by overspending, reduced profits within organization, low income net among others.

### **Conclusion**

And 17 (24.3) participants answered that there is a strong likelihood of a cash flow influence on the people when there is capital deterioration.

Based on the data, it is evident that there are two types of cash flow: poor and good. Bad working capital happens when a business cannot pay its short-term obligations while still having revenues left over. Decent cash flow is the opposite of this.

According to 24.3 respondents, residents in the central district of Kampala, Uganda, typically receive less money in relation to their productivity, which causes them to be in poverty. As a result, capital devaluation has an impact on the cost of living there.

### **Recommendation**

There is a need for the country to step-up its productive capacity in producing goods and services needed both locally for domestic consumption and abroad for export therefore, to avoid the reducing values in prices.

There is the need for the government to increase on the support for both small and medium enterprise as well as setup clear policies that will them boost people's businesses.

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