

**THE INFLUENCE OF CAPITAL DEPRECIATION ON THE COST OF LIVING
A CASE STUDY OF PEOPLE LIVING IN CENTRAL REGION
OF UGANDA KAMPALA**

1 Sseruwu Denis , 2 Kabanda Richard, 3 Dr Ariyo Gracious Kazaara

1, 2, 3 Metropolitan International University

ABSTRACT

This study was to examine the influence of capital depreciation on the cost of living mainly to the people living in central region of Uganda kampala the case study. To determine the relationship between capital depreciation and cost of living on the people living in central Region, Kampala Uganda. To examine the influence of capital depreciation on the small and medium enterprises in Central Uganda Kampala, Uganda. To determine the effect of capital depreciation on the small and medium enterprises in Uganda. A total of 70 respondents and the study applied both qualitative and quantitative research designs where interviews, questionnaires and observation methods of data collection were used. Data was collected from both primary and secondary sources. Data were processed and analyzed using formal tables, pie charts, graphs, narrative text. According to the study finding, 39(42%) of the respondents revealed that consumer spending is one factor indicates the relationship between capital depreciations. Whereby when there is capital in depreciation there is more likely people over spend their money interns of buying goods and services like food, security, clothes due to the depreciation in capital this happened in Kampala region mostly due to the Covid-19 pandemic which left business owners overspending money to an extent of spending even business capital. Therefore, this implies that when capital depreciate there is more likely to consumer over spend money hence affect people' cost of living. There was the need for the government to increase on the support for both small and medium enterprise as well as setup clear policies that boosted people's businesses.

Key words: *capital depreciation and cost of living*

Background of the Study

According to the global seen capital depreciation has been defined differently, Capital. Capital depreciation refers to the decline in value of a capital asset (World Bank) as well as Capital depreciation is a fall in the value of that currency, so it can buy less; this process is also known as devaluation basing on the international monetary fund (IMF). A devaluation is a reduction in the nominal value of a country's currency relative to another currency or group of currencies. In other words, the devaluation represents an increase in the cost of foreign exchange when paid for in local currency.

Globally, Devaluation is a deliberate downward adjustment to a country's official exchange rate relative to other currencies. According to Parida (2012), devaluation is exchange rate management and defined as in discrete and continuous senses. Countries use different type of exchange rate management, such as fixed and flexible exchange rate system. Under fixed exchange rate system, a country can determine the value of its currency in terms of other countries currency which is termed as discrete devaluation. Under flexible exchange rate system on the other hand countries can determine the external value of its currency in terms of other countries currency which is termed as continuous devaluation (Parida, 2013). In Africa, this situation is seen in Ethiopia, continuously it has been vulnerable to various economic shocks like acceleration in the rate of inflation, an increase in the balance of trade deficit, continuous depletion of foreign exchange reserves and a rising premium in the black market for foreign exchange. Basing on the Tarawalie (2013), a number of developing countries adopted the International Monetary Fund (IMF) and World Bank (WB) stabilization and adjustment policies. Thus, Ethiopia adopted its Structural Adjustment Program (SAP) since 1992.

According to the IMF report, in Uganda, the devaluation in the currencies mainly the shilling during the covid-19 pandemic period, it is argued that, this situation has continued to affect the people of Uganda mostly the poor, companies of the small and medium scale (Oromo et al., 2023). This is termed to be caused by the high costs Uganda has been spending to import goods and services at high cost.

For example, most of the companies closed due to covid-19 first phase and second phase of lockdown which left the country depending on foreign importation. Therefore, the above statements there are reasons as to why the researcher prompted to carry out research on how the capital depreciation can affect the people's cost of living in Kampala district as area of study.

Problem Statement

According to the International Monetary Fund (IMF), Capital depreciation refers to the decline in value of capital asset. Capital depreciation or capital devaluation refers to the loss in value of an asset or class of asset whereby devaluation is a reduction in the nominal value of a country's currency relative to another currency or group of currencies (Chiranton Basu, 2018).

This kind of situation can be due to economic fundamentals, interest rate differentials, political instability, or risk aversion can cause currency depreciation and additionally within the same line capital depreciation can also be triggered by other macroeconomic factors such as exchange rate fluctuations whereby the devaluation of the currency can lower the investors' confidence, causing them to withdraw their capital from the country as well as the internal entrepreneurs to fail operate for example' it believed by the researcher that in Uganda, Covid-19 period is going to be a very difficult for many business whereby some will fall off while other will fight to the end due to the ongoing depreciation in central Uganda (Frank et al., 2023). Therefore, if this problem is not handled with care many businesses will result in bad

condition which will directly affect the Uganda's economy and its goal of middle class by 2040.

Despite that Uganda has been affected by many challenges as stated above but it also tried to remedy/solve these challenges through its ministries, institutions, external countries contributions (Chaina), non-governmental organization (World Bank, IMF) and other government programmes and policies but there is still the persistence increase of capital depreciation which prompted the researcher to carry out the investigation on explain the influence of Capital Depreciation on the Cost of Living on People Living in Central Region of Uganda Kampla the Case Study.

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 study used descriptive research design and this design helped in understanding the influence of capital depreciation on the cost of living on people living in central region

of Uganda kampala the case study. The research design used both qualitative and quantitative methods. Qualitative included the use of respondents' responses as themes that was developed based on the research questions. However, quantitative approaches involved the use of descriptive statistics generated with frequency tables, graphs, and Charts.

Population of the study

The target population of this study shall be constituted by all the People living in Central Uganda, Business people, employees' householder for regardless of their qualifications and experience as well as and government officials in the services which has been active for at least 2 years. Therefore, the study targeted 70 respondents in number mainly within Central Uganda Kampala. This population was chosen because it was in position to give accurate views concerning Technology advancement on entrepreneurship development within Central Uganda Kampala.

Sample size and Sampling Procedure

The study considered the sample size of 20 Respondents from the study population of 70 respondents. The study adopted both stratified random and purposive sampling. Stratified random sampling was used to guide the selection of smallholder of business. Purposive sampling was used to select a good representation of the key informants and these included business owners (entrepreneur) householders and government officials. The key informants were selected because of their knowledge and experience about this study of the impact of capital depreciation on the cost of living to the people living in Central Uganda, Kampala.

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 shall include the data obtained directly from the respondents including the shareholders, (Employees), entrepreneurs and other government officials. This data shall be obtained through interviews, questionnaires and or by observation methods.

Secondary data

This shall include the data from written literatures and records for example, from the organization records, government journals, magazines, textbooks, newspapers and cost center records related to developmental journals.

Data Analysis

Since qualitative and quantitative data was collected, 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 using SPSS (Nelson et al., 2022).

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 led 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

<i>Skills and knolodge gained</i>	<i>15</i>	<i>21.5</i>	<i>100</i>
<i>Total</i>	<i>70</i>	<i>100</i>	

Source: Primary Data, 2022

According to the study finding, 39(42%) of the respondents revealed that consumer spending is one factor indicates the relationship between capital depreciations. Whereby when there is capital in depreciation there is more likely people over spend their money interns of buying goods and services like food, security, clothes due to the depreciation in capital this happened in Kampala region mostly due to the Covid-19 pandemic which left business owners overspending money to an extent of spending even business capital. Therefore, this implies that when capital depreciate there is more likely to consumer over spend money hence affect people' cost of living.

While 25(25%) of the respondents revealed that when there is capital depreciation there is most likely to be business investments. According to the accountants interviewed in Kampala both private and public business said that; some business owners end up taking the bad situation into an opportunity to invest their money in buying and investing since most people sell their goods and services due to the high cost of living.

While 15(21.5%) of the respondent based on the findings it was said that there is also relationship between skills and knowledge whereby the respondent said; during COVID-19 Pandemic most people gained skills and knowledge because most people were affected with depreciation after covid-19 hitting their business which resulted the devaluation the assets to lower prices as well as commodities which were in pretty. 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

<i>Effect of capital depreciation</i>	<i>Frequency</i>	<i>Percent (%)</i>	<i>Accumulative%</i>
---------------------------------------	------------------	--------------------	----------------------

<i>The net income</i>	<i>19</i>	<i>27.2</i>	<i>27.2</i>
<i>Retained earnings and stockholders equity are reduced with the debits to depreciation expenses.</i>	<i>15</i>	<i>21.5</i>	<i>48.7</i>
<i>The carrying value of the assets being depreciated and amount of total assets are reduced by the credit to accumulated depreciation.</i>	<i>13</i>	<i>18.5</i>	<i>67.2</i>
<i>The depreciation expenses reported on the us income tax return reduces a corporation taxable income and its related income taxation.</i>	<i>12</i>	<i>17.2</i>	<i>84.4</i>
<i>The depreciation expenses reported on the us income tax return reduces a corporation taxable income and its related income taxation.</i>	<i>11</i>	<i>15.2</i>	<i>100</i>
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. According to the finding revealed that there is an influence of depreciation on company's assets most due to the high and increasing rate of debits which end up influencing the company to sell their asset

cheaply hence resulting low rate of net income in their statement of accounts. 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(%)
<i>Reduces profits</i>	19	27.2	27.2
<i>Increase the expenses</i>	18	25.7	52.9
<i>Cash flow effect</i>	17	24.3	77.2
<i>Business get taxed on its profits</i>	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. Most cases business invest money in buying assets hoping to gain more profits however, after some years some of asset's end-up reducing their values hence reduces company profits per year.

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.

Conclusion

It was concluded that capital depreciation can affect people's costs of living by Increasing their expenses, in this case people do more expenses than inflows for example, people spend in buying basic needs, like food, shelter water among other based on the finding from the field whereby 25.7% agreed with the point stated above.

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.

REFERENCES

- Frank, M., Nelson, K., Kazaara, A. G., Deus, T., Christopher, F., & Catherine, M. (2023). *The Macroeconomic Determinants of Economic Growth in Uganda a Case Study Of Wakiso Distict*. 7(2), 147-159.
- Nelson, K., Christopher, F., & Milton, N. (2022). *Teach Yourself Spss and Stata*. 6(7), 84-122.
- Oromo, O. D., Julius, A., & Nelson, K. (2023). *Effect of Covid-19 Lockdown on Household Income in Uganda A Case Study of Kitoro Parish , Entebbe Municipality*. 7(4), 107-117.