

Entrepreneur ship paper one

INTRODUCTION TO ENTREPRENEUR SHIP EDUCATION PAPER ONE FOR 'O' LEVEL

This paper is comprised of two sections at ordinary level i.e.

- ✓ Financial management
- ✓ Project management

From the two sections, five questions are set from both parts and a student is required to attempt any four questions of his or her choice where by three questions are set from one part and two from the other part usually three from project management and two questions from financial management.

Therefore a student is free to answer three questions from project management and one question from financial management or two questions from each of the parts depending on what the student is well conversant with.

PART ONE- FINANCIAL MANAGEMENT

FINANCIAL MANAGEMENT IN BUSINESS

Businesses engage in a number of activities but all these result into inflows and out flows of money, which the business needs to keep track of in order to manage them well.

FINANCIAL MANAGEMENT: This refers to daily functions performed by the enterprise/business to ensure efficient use of funds.

ACCOUNTING: This refers to the art of classifying, recording, examining, analyzing, forecasting and finally interpreting transactions of a financial nature in the books of accounting.

BOOK KEEPING: This refers to the art of classifying and recording financial transactions of a business in the books of accounts.

The professional who carries out the work of book keeping is called a **Book Keeper**

IMPORTANCE OF BOOK KEEPING IN BUSINESS.

- 1 Book keeping helps to calculate the profits made or losses suffered by a business in a given trading period.
- 2 Book keeping enables planning for the business. The records in the business give an entrepreneur the direction in which to plan in a near future so as to benefit from his business.
- 3 Book keeping acts as a tool of control in the business. It enables the business to know all the resources it has so as to keep proper records.
- 4 Book keeping provides a basis on which the business acquires financial loans from banking institutions. This is because they can easily prove the creditworthiness of the business.

- 5 Book keeping provides a basis for fair tax assessment by the tax authority. This provides a ground for the business not to be over taxed or under taxed.
- 6 Book keeping provides vital information for researchers to see the trend of the business and hence giving appropriate technical advice.
- 7 Book keeping enables investors to know in which type of business it is profitable to invest and the ones that are not profitable.
- 8 Book keeping enables businesses in determining the selling prices for their products.
- 9 Book keeping enables the entrepreneur to keep track of the debtors and creditors of the business as they are shown in the books of accounts and therefore create a ground on which credit transactions are carried out in the business.
- 10 Book keeping helps the entrepreneur to determine the financial position of the business by showing the money value of its assets and liabilities.

USERS OF ACCOUNTING INFORMATION

The users of accounting information are classified into two i.e.

- ✓ Internal users
- ✓ External users

INTERNAL USERS OF ACCOUNTING INFORMATION

These are the users of the business accounting information who are within the business and assist in its operations.

- a) Owner and management. This needs the accounting information to find out whether the business is making profits or losses and to act as a basis for future business planning.
- b) Employees. These need the accounting information in order to determine whether to demand for a salary increment or not and to assess their job security.
- c) Internal auditors. The business internal auditors need the accounting information of the business in order to determine the actual financial position of the business.

EXTERNAL USERS OF ACCOUNTING INFORMATION

These are the users of the accounting information who are operating outside of the business and these include;

- a) The government. This uses the books of accounts of the business to determine whether the activities of the business are legal.
- b) Share holders. These use the books of accounts to determine the performance of the business whether well managed, improving or not.
- c) Tax authority. These use the records of the business to fairly determine and assess the taxes payable by the business for fair tax assessment.

- d) Donors. These use the accounting information of the business to determine whether the money donated to the business is used appropriately.
- e) Creditors .These are parties/ organizations to whom money is owed by the business. These use the accounting information to assess whether the business is capable of paying off its debts.
- f) Debtors. These are organizations that owe money to the business ie organizations to which credit has been extended by the business. These need the financial records of the business to know the right amounts of money demanded by the business from them and the discounts allowed if any.
- g) Prospective or intending buyers. Any organization that wishes to buy a given business will need the accounting information of the business to determine its profitability.
- h) External auditors. These are external organizations that inspect the books of accounting of a business to ascertain whether the financial statements show a true and fair view of the business financial position. These also need the accounting information.
- i) General public. These need the accounting information to confirm that they are not exploited by the business by providing poor quality products.
- j) Researchers and students. These use the records in order to write proposals and reports concerning the business and for study purposes.
- k) Prospective/intending partners. These are persons, firms, or organizations that are wishing to become joint owners of the business. These will need to look at the accounting information before joining the business.

TERMS USED IN ACCOUNTING AND BOOK KEEPING

- 1. **Transaction.** This is dealing between two or more parties involving in the exchange of goods and services for a consideration which is usually money. Business transactions are classified into cash transactions and credit transactions
 - i) **Cash transactions.** These are transactions in which the exchange of goods and services takes place together with payments of cash for them.
 - ii) **Credit transactions.** These are transactions in which goods and services are sold or bought and payment for them is made at a future date.
- 2. **Assets.** These are property of the business. Business assets are classified into two; i.e
 - Fixed assets and
 - Current assets
 - i) **Fixed assets.** These are property of the business that serve in the business for a longer period of time usually more than one year. These assets are not easily converted into cash and can take long without getting spoilt. Examples of fixed assets in business include; *Land, Buildings and premises, Fixture and fittings, motor vehicle, Machinery, Equipment, Tools e.t.c.*
 - ii) **Current assets.** These are property of the business that serve in the business for a shorter period of time usually less than a year. These assets can easily be converted into cash and do not spend long and they keep on changing form. Examples of current assets include; *cash at hand, cash in bank, debtors, stock, outstanding incomes, expenses paid in advance.*

3. **Liabilities.** These are outsiders' claims against the business i.e money and other property that are demanded from the business by the outsider. Liabilities are also classified into two; i.e Long term liabilities and current liabilities
 - i) **Long term liabilities.** These are outsiders' claims that are to be paid after a long period of time usually more than a year e.g. *bank loan*.
 - ii) **Current liabilities.** These are outsiders' claims that must be paid by the business within a very short period of time usually less than a year. Examples of current liabilities include; *Creditors, Bank over draft, outstanding expenses, and receipts received in advance*.
4. **Ledger.** This is a principal book of accounting in which the details of transactions are recorded in a more summarized way.
5. **Journal.** This is a principal book of accounting in which the daily events of the business are recorded.
6. **Cash book.** This is a principal book of accounting in which all the cash transactions of the business are recorded for a given trading period.
7. **Creditors.** These are persons or a business organization to whom money is owed by the business (organizations that demand money from the business) eg a supplier who sells goods to the business on credit is a creditor to the business.
8. **Debtors.** These are persons or business organizations that owe money to the business (organizations from which money is demanded by the business) e.g. A person to whom goods are sold on credit by the business.
9. **Capital.** These are all assets both physical and in money form that are used to start the business. Therefore capital can also be the total resources or amount of money invested in the business by the owner. There are different forms of capital which include; Working capital, Capital employed, Capital owned, fixed capital, Liquid capital.
 - i) **Working capital.** This refers to the excess of current assets over current liabilities of the business. It is the amount of money available for the day-to-day running of the business. Working capital is given by the formula; **Working capital= current assets – current liabilities**. If the current assets of the business exceed current liabilities, working capital is positive and in this case the business is said to be solvent. **A solvent business** is the one that can pay off its debts and remains with some money for its normal operations. And if the current liabilities exceed the current assets, the business is said to be insolvent. **An insolvent business** is the one which cannot pay off all its debts using the current assets and it remains in operation.
 - ii) **Capital employed.** This is the total capital invested in the business . It is given by the formula **Capital employed= fixed assets + working capital OR =Capital owned +long term liabilities**
 - iii) **Capital owned/Net worth/Owner's equity/Equity capital.** This is the capital invested by the owner of the business plus any profits made in a year minus drawings. Therefore **capital owned = capital at start + Net profits – Drawings**.
 - iv) **Fixed capital.** This is the value of the long lasting assets acquired for use in business and not for resale (fixed assets). E.g land, machinery, motor vehicle, furniture e.t.c.

- v) **Liquid capital.** This refers to the value of all those assets which can easily and quickly be converted into cash. This includes all current assets of the business like Debtors, Cash in hand, Cash at bank, Stock e.t.c.
10. **Drawings.** These refer to both goods and cash taken out of the business by the owner for personal use. Drawings are losses to the business because money and goods taken out of the business for personal use leave a financial gap in the business. Drawings can either be of cash or drawings of goods. Drawings of goods reduce the amount of purchases and drawings of cash reduce the amount of cash in the business.
11. **Profits.** This is the excess of the business incomes over its expenditures in a given trading period. These can be categorized into Gross profits and Net profits
- i) **Gross profit** refers to the excess of the net sales over the cost of sales. Therefore these are the overall profits from trading. Gross profit=Net sales – Cost of sales.
 - ii) **Net profit** refers to the Excess of gross profit over operating expenses. If the operating expenses are greater than the gross profit, the business is said to be operating under a loss and therefore the difference between the expenses and the gross profit is called a net loss.
12. **Expenses.** These are costs incurred in the running of the business. these expenses include; discount allowed, carriage outwards, salaries and wages, advertising, insurance, bad debts, commission allowed, telephone expenses, rent, depreciation e.t.c.
13. **Income.** This is the amount of money received by the business during a given accounting period. Examples of incomes in business include; Discount received, Commission received, Interest received, Rent received, e.t.c.
14. **Loan.** This is money borrowed by the business and is supposed to be paid back in future. Loans can be categorized into short term loans and long term loans.
- i) **A short term loan.** Is a loan that is supposed to be paid back in a short period of time usually less than a year.
 - ii) **A long term loan.** This is a loan that is supposed to be paid back after a long period of time usually more than a year.
15. **Purchases.** These are goods or items bought in the business for the purpose of being resold in order to earn profits.
16. **Sales.** These are goods or items sold by the business in a given trading period.
17. **Voucher.** This is a document which provides proof when making an entry in the books of accounts e.g Receipt, Invoice, Credit note, Debit note e.t.c.
18. **Invoice.** This is a voucher which verifies a credit transaction i.e it proves that goods were bought or sold on credit.
19. **Credit note.** This is a voucher which corrects an over charge in a transaction
20. **Debit note.** This is a voucher which corrects an under charge in a transaction.
21. **A receipt.** This is a voucher which proves that cash was received or paid. It is sometimes called a cash sales slip.
22. **Balance sheet.** This is a statement that shows the financial position of the business as at a given date.

23. An account. This is a record of transactions of a particular type or a particular person usually expressed in financial terms. Each account is given a different ledger page under a given heading or title and it is used to record transactions of the similar nature e.g all purchases are recorded on one particular page titled purchases account.

An account has two major sides which include;

- i) Debit side (Dr)
- ii) Credit side (Cr)

Debit side. This is the side of the account on which all incomes and gains corresponding to a given account are recorded (Receiving side of the account). This is indicated by the abbreviation Dr. at the top left corner of the account

Credit side. This is the side of the account on which all expenditures and expenses corresponding to a given account are recorded (giving away or losing side of the account). This is indicated by the abbreviation Cr. At the top right corner of the account.

N.B

a) An account must have the heading which will reflect the name of the business, the type of the account, and the date or period in which the records took place. Therefore the heading is written in three lines in the above order. E.g

MUSOKE'S → 1st line
 CASH ACCOUNT → 2nd line
 FOR THE MONTH OF JUNE 2013. → 3rd line

This is done in the phrasing shown above.

b) An account has four major columns which must appear on both sides of the account to allow recording of the different forms of transactions in the same way. These columns include;

- I) Date
- II) Details
- III) Folio
- IV) Amount

As shown below in the format of a cash book.

Dr.	HEADING				Cr.		
Date	Details	Folio	Amount	Date	Details	Folio	Amount

FUNCTIONS OF THE COLUMNS.

Date. This records /shows the date on which a transaction took place as shown on the source document.

Details/ Particulars. This is for recording the corresponding ledger account in which more details about the transaction are recorded in case of double entry i.e shows the account in which the transaction is recorded for the second time.

Folio. This is for recording the page number of the ledger account named under the details column. This is indicated with letter "L" followed by the number e.g L.1, L.2, L.3, L.4 e.t.c where by transactions of the same nature are assigned the same number throughout the trading period because these are relating to the same ledger account. There are three major kinds of ledgers i.e General ledger, Purchases ledger and Sales ledger.

- (i) General ledger. This ledger contains the accounts relating to the business owner, and other nominal accounts like sales, purchases, assets, expenses, losses e.t.c.
- (ii) Sales ledger. This ledger contains the personal accounts of all debtors.
- (iii) Purchases ledger. This ledger contains the personal accounts of all creditors of the business.

Amount. This is for recording the money value of the transaction. This can be in any currency form e.g Shillings, Dollars, Pounds e.t.c Therefore when operating an account, the currency units are a must so as to identify the units used.

Example. 1

On 1st June 2013, Musoke started business with capital shs. 100,000

2nd June bought goods shs. 20,000

3rd June sold goods Shs. 10,000

4th June paid rent shs. 4,000

5th June paid salaries 1,000

10th June received cash from peninah shs. 5,000.

Required;

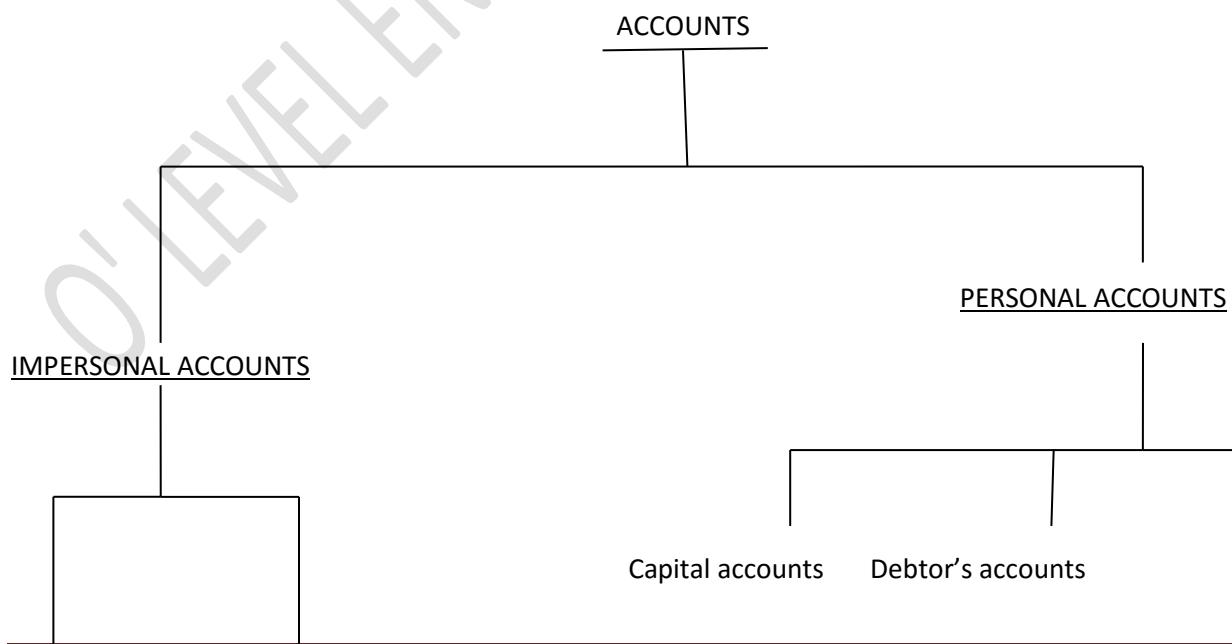
Record the above transactions in Musoke's cash account

Solution.

MUSOKE'S CASH ACCOUNT (L.1)							
Dr. FOR THE MONTH OF JUNE 2013.				Cr.			
Date 06/2013	Details	folio	Amount (shs)	Date 06/2013	Details	Folio	Amount (shs)
1 st	Capital	L.2	100,000	2 nd	Purchases	L.3	20,000
3 rd	Sales	L.4	10,000	4 th	Rent	L.5	4,000
10 th	Peninah	L.7	5,000	5 th	Salary	L.6	1,000

CLASSIFICATION OF ACCOUNTS

The different accounts are classified as follows



Creditors' accounts

Nominal accounts Real accounts

1. **Personal accounts.** These are accounts that represent the name of an individual or organization e.g. Musoke's account, Matovu's account, Ssengaaga's account, Kigere & co limited e.t.c. The personal accounts are classified into
 - a) **Capital account.** This records the transactions between the proprietor and the business. Therefore this includes the capital account and the drawings account because these are the two major dealings between the proprietor and the business as he/she injects money into the business in terms of capital and also the business losses to the proprietor through drawings.
 - b) **Debtors' accounts.** Debtors are persons owing money to the business. Once goods are sold on credit by the business, each person to whom the goods have been sold on credit (debtor) is opened up an account in his or her names and even at the time of payment, the amount is recorded in this account.
 - c) **Creditors' accounts.** Creditors are persons to whom money is owed by the business. Once goods are bought on credit, each person from whom the goods have been bought on credit (creditor) is opened up an account in his or her names and even when he or she is paid, the amount is recorded in his account.
2. **Impersonal accounts.** These are accounts that are not in the names of individuals but instead in the names of assets, revenues and expenses accounts. These accounts are divided into Real accounts and Nominal accounts.
 - a) **Real accounts.** These are accounts that represent items of a tangible nature i.e items that we can see and touch e.g Land account, Buildings account, Plant and machinery account, Motor vehicle account e.t.c.
 - b) **Nominal accounts.** These are accounts that record items of an intangible nature i.e. items that we cannot touch or see e.g. Sales account, Purchases account, Rent account, Wages account e.t.c.

METHODS OF BOOK KEEPING

The main methods of book keeping in accounting include;

- i) Single entry system
- ii) Double entry system

SINGLE ENTRY SYSTEM

This is a method of book keeping in which a transaction is recorded only once in the books of accounts. This method of book keeping is considered un professional and ordinary which in most cases is used by ordinary accountants with little or no accounting knowledge. In this method, provided a transaction is recorded in the books of accounts, there is no need for treating the same transaction for more than one time and therefore no need for opening up more ledger accounts for the different transactions.

Example 2

On 1st feb 2016, Kabaaya started business with capital shs. 500,000

2nd Bought goods shs 200,000

3rd Bought a motor van shs 250,000

8th Sold goods worth shs 150,000

10th Bought more goods shs 100,000

15th Sold more goods by cash 250,000

20th Bought a piece of land worth 350,000

Required;

Record the above transactions in Kabaaya's books of accounts on single entry system.

SOLUTION.

KABAAYA'S

CASH ACCOUNT

Dr.	FOR THE MONTH OF FEBRUARY 2016	Cr.
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Date 06/2016	Details	folio	Amount (shs)	Date 06/2016	Details	Folio	Amount (shs)
1 st	Capital	L.2	500,000	2 nd	Purchases	L.3	20,000
8 th	Sales	L.5	150,000	3 rd	Motor van	L.4	250,000
25 th	Sales	L.5	250,000	10 th	Purchases	L.3	100,000
				20 th	Land	L.6	350,000

EXERCISE 1.

From the following transactions, write up Musoke's cash account.

February 2014 1st started business with shs 250,000

" " 2nd Bought goods for shs 5000

" " 5th Sold goods for shs 7,500

" " 15th Bought a car shs 10,000

" " 20th Bought a computer shs 8,000

EXERCISE 2

1st November 2013, Muguwa started business with cash shs 200,000

5th November 2013 Bought goods for shs 80,000

10th November 2013 Sold goods shs 50,000

15th November 2013 Paid salaries in cash shs 25,000

22nd November 2013 Paid rent in cash shs 8,000

25th November 2013 Paid rates shs 22,000

28th November 2013 made cash sales of shs 2,000

30th November 2013 Cash purchases shs 5,400

Record the transactions in Mujuwa's cash account on single entry system

EXERCISE 3

Wankima & Co had the following information for the month of March 2015.

1st Started business with shs 267,000

2nd Bought goods shs 59,000

4th Paid rent shs 70,000

6th Sold goods shs 110,000

8th Received cash from Nkerebwe shs 69,000

13th Sold more goods shs 90,000

15th Purchased goods for resale shs 36,000

18th Paid electricity bills shs 30,000

25th received commission shs 50,000

28th Paid salaries to employees shs 21,000

Required;

Record the above transactions into wankima's cash account on a single entry system.

EXERCISE 4

The following transactions were extracted from the books of Musiitwa during the month of March 2010

Details	Shs
March 1st Commenced business with	2,500,000
2 nd Bought furniture worth	50,000
4 th Sold goods worth	337,500
5 th Purchased goods	625,000
6 th Sold goods	537,500
8 th Paid employees wages	156,250
9 th Bought goods worth	937,500
10 th Sold good amounting to	593,750
16 th Bought a motor cycle	1,250,000
17 th Paid rent	43,750
18 th Purchased more furniture	37,500
20 th Paid for electricity	6,250
21 st Received commission for sales	50000
22 nd Bought goods worth	937,500
23 rd Sold goods worth	750,000
24 th Bought a computer for business use	406,250
25 th Sold old furniture	31,250
27 th Paid tax	6,250
28 th Sold goods worth	1,000,000
29 th Purchased furniture	63,125
30 th Sold goods worth	475,000
31 st Cash sales	337,500

Required:

Record Musiitwa's transactions in his cash account.

DOUBLE ENTRY SYSTEM OF BOOK KEEPING

This is a method of book keeping where a transaction is recorded twice (two times) in the books of accounting.

This is a more professional method of book keeping in which at least two accounts are affected whenever a transaction takes place in business.

These entries are based on the principle of double entry.

THE PRINCIPLE OF DOUBLE ENTRY

The principle of double entry states that for every debit entry made, there is a corresponding credit entry and for every credit entry made there is a corresponding debit entry.

This means to complete double entry, a transaction must be entered twice in the books of accounts whereby if the first entry is made on the credit side, the second entry of the same transaction will be entered on the debit side of another or the same account and if the first entry of a transaction is entered on the debit side of the account, the second entry will be made on the credit side depending on which accounts are affected by the transaction and how, where by one of the accounts must be giving out value and the other account receiving.

Example3

On 1st Feb. 2016, Kabaaya started business with capital shs. 500,000

2nd Bought goods shs 200,000

3rd Bought a motor van shs 250,000

8th Sold goods worth shs 150,000

10th Bought more goods shs 100,000

15th Sold more goods by cash 250,000

20th Bought a piece of land worth 350,000

25th Paid rent 80,000

Required;

Open up the necessary ledger accounts in the books of Kabaaya and complete double entry.

SOLUTION.

KABAAYA'S

CASH ACCOUNT (L.1)

Dr. FOR THE MONTH OF FEBRUARY 2016 Cr.

Date 06/2016	Details	folio	Amount (shs)	Date 06/2016	Details	Folio	Amount (shs)
1 st	Capital	L.2	500,000	2 nd	Purchases	L.3	20,000
8 th	Sales	L.5	150,000	3 rd	Motor van	L.4	250,000
25 th	Sales	L.5	250,000	10 th	Purchases	L.3	100,000
				20 th	Land	L.6	350,000
				25 th	Rent	L.7	80,000

Dr. **CAPITAL ACCOUNT (L.2)** Cr.

Date 06/2016	Details	Folio	Amount (SHS)	Date 06/2016	Details	Folio	Amount (SHS)
				1 st	Cash	L.1	500,000

Dr. **PURCHASES ACCOUNT (L.3)** Cr.

Date 06/2016	Details	Folio	Amount (SHS)	Date 06/2016	Details	Folio	Amount (SHS)
2 nd	Cash	L.1	200,000	10 th	cash	L.1	100,000

Dr. **MOTOR VAN ACCOUNT (L.4)** Cr.

Date 06/2016	Details	Folio	Amount (SHS)	Date 06/2016	Details	Folio	Amount (SHS)
3 rd	cash	L.1	250,000				

Dr. **SALES ACCOUNT (L.5)** Cr.

Date 06/2016	Details	Folio	Amount (SHS)	Date 06/2016	Details	Folio	Amount (SHS)
				8 th	Cash	L.1	150,000

			15 th	cash	L.1	250,000
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Dr.

LAND ACCOUNT (L.6)

Cr.

Date 06/2016	Details	Folio	Amount (SHS)	Date 06/2016	Details	Folio	Amount (SHS)
20 th	cash	L.1	350,000				

Dr.

RENT ACCOUNT (L.7)

Cr.

Date 06/2016	Details	Folio	Amount (SHS)	Date 06/2016	Details	Folio	Amount (SHS)
25 th	cash	L.1	80,000				

EXERCISE 5

From the following transactions, Write up Musoke's cash account and complete double entry for the month of February 2014.

1st started business with shs 250,000

2nd bought goods for shs 5,000

5th sold goods for shs 7,500

15th bought a car shs 10,000

20th bought a computer shs 8,000

EXERCISE 6

Record the following transactions in Kamagu's books of accounts and complete double entry

1st November 2013 started business with cash shs 200,000

5th bought goods for cash 80,000

10th sold goods shs 50,000

15th paid salaries in cash 25,000

22nd paid rent in cash shs 8,000

25th paid rates in cash shs 22,000

28th made cash sales of shs 2,000

30th cash purchases for shs 5,400

SOURCE DOCUMENTS

These are documents that provide proof that a given transaction took place in the business.

Source documents provide the accounting department with information about different transactions that take place in the business. Source documents may include; receipts, invoices, vouchers, debit notes, credit notes, bank deposit slips e.t.c.

1. **A cash receipt.** This is a document which provides proof that goods were sold or bought and cash was received or paid respectively for them on the date indicated. E.g sales receipt, purchases receipt.
2. **Cash sales slip.** This is prepared by the seller and issued to the buyer who has paid for the goods on spot
3. **An invoice.** This is a document which provides evidence that a transaction was made on credit and cash was not paid at the time of buying or selling the goods.
4. **A voucher.** This refers to a general term for all documents that provide proof for making any entry into the books of accounts.
5. **Credit Note.** This is a document which corrects an over charge in a transaction.
6. **Debit Note.** This is a document which corrects an under charge in a transaction.
7. **Bank deposit slip.** This is a document which shows that cash has been deposited into the business' bank account.
8. **Bank statement.** This is a document issued by the bank to its customer showing the transactions that have taken place during a given period of time.
9. **Delivery Note.** This is a document showing the list of goods sent to the buyer.

BOOKS OF ACCOUNTS

These are books used to record the accounting information of the business in a more summarized and understandable way.

TYPES OF BOOKS OF ACCOUNTS

Books of accounts are categorized into **subsidiary** and **principle** books of accounts.

- (i) **Subsidiary books.** These are books of accounts in which information is recorded for the first time as it is got from the source documents e.g Journals.
- (ii) **Principle books.** These are books of accounts in which information is recorded for the second time in a more summarized way e.g ledger books.

THE CASH BOOKS

This is a book used to record all the cash receipts and payments of the business.

This means the cash book only records cash transactions in the business where there is the transfer of money from one party to another. And therefore in the cash book credit transactions are not recorded until when their payments are effected and cash is either received or paid by the business.

N.B.

The cash book only records cash transactions and that is why it's called the cash book.

ADVANTAGES OF USING A CASH BOOK IN BUSINESS

1. The cash book reduces the amount of entries made in the ledger thus avoiding overcrowding in the ledger accounts.
2. The cash book provides employment to different workers eg cashiers. This helps to promote efficiency in the business.
3. The cash book helps business to keep proper and accurate records of all cash inflows and cash outflows.
4. The cash book reduces chances of fraud in the business since different people are employed to maintain different cash books.
5. The cash book makes it easier to make references especially where both cash and bank accounts are maintained in the same book or page.

HOW TO RECORD TRANSACTIONS INTO A CASH BOOK

- When recording transactions in the cash book, only transactions involving cash should be considered.
- All transactions should be recorded in a chronological way whereby the first transaction should be recorded first up to the last.
- Spaces and gaps should not be left in the cash book as making the recording of the transactions.
- Any cash received in the business should be recorded on the debit side of the cash book (receiving side).
- Cash paid out by the business should be recorded on the credit side of the cash book (giving away side).

TYPES OF CASH BOOKS USED IN BUSINESS

The types of cash books used in business include;

- i) Single column cash book.
- ii) Two/double column cash book.
- iii) Three column cash book.
- iv) Petty cash book.

THE SINGLE COLUMN CASH BOOK

This is a cash book with only one amounts column ie. The amounts column is not divided into other columns. Therefore it is used by business people who do not operate bank accounts and at the same time do not allow or receive discounts during their trading process.

FORMAT OF A SINGLE COLUMN CASH BOOK

Dr.	HEADING				Cr.		
Date	Details	Folio	Amount (shs)	Date	Details	Folio	Amount (shs)

N.B

The principles for entering transactions in a single column cash book are the same as the ones seen before in an account whereby the meaning and roles of the columns seen above is still the same.

EXAMPLE 4

Enter the following transactions into Mangada's single column cash book for the month of January 2016

1st commenced business with shs 15,000

2nd bought goods shs 10,000

5th sold goods shs 6,000

10th paid salaries shs 4,000

15th sold more goods shs 8,000

20th paid wages shs 2,000

25th sold more goods shs 7,000

30th purchased goods shs 5,000

Solution

MANGADA'S SINGLE COLUMN CASH BOOK

Dr. FOR THE MONTH OF JANUARY 2016 Cr.

Date Jan 2016	Details	Folio	Amount (shs)	Date Jan 2016	Details	Folio	Amount (shs)
1 st	Capital	L.2	15,000	2 nd	Purchases	L.3	10,000
5 th	Sales	L.4	6,000	10 th	Salaries	L.5	4,000
16 th	Sales	L.4	8,000	20 th	Wages	L.6	2,000

25 th	Sales	L.4	7,000	30 th	Purchases	L.3	5,000
------------------	-------	-----	-------	------------------	-----------	-----	-------

For this case, double entry can also be completed as follows

When drawing up the other ledger accounts, there are two different formats that can be used i.e.

Detailed format in which all the details are shown

T-format in which the account is drawn in form of letter "T"

E.G

Detailed format

LEDGER ACCOUNT HEADING							
Dr.	Date	Details	Folio	Amount (shs)	Date	Details	Cr.
T- Format							

LEDGER ACCOUNT HEADING		Cr.	
Dr.	shs	Date	shs

NOTE;

When using the T-format, one should be more careful about the positioning where by the different dates should be written in the same line ie where the word date is written and when it comes to the amounts, these should be lined properly below the shs as shown below:

CAPITAL ACCOUNT L.2			
Dr.	shs	Date	Cr.
Date	shs	Date	shs
		1 st	cash 15,000

PURCHASES ACCOUNT L.3			
Dr.	shs	Date	Cr.
Date	shs	Date	shs
2 nd	cash 10,000		
30 th	cash 5,000		

SALES ACCOUNT L.4			
Dr.	shs	Date	Cr.
Date	shs	Date	shs
		5 th	cash 6,000
		16 th	cash 8,000

25th cash 7,000

Dr.	SALARIES ACCOUNT L.5		Cr.
Date	shs	Date	shs
10 th	cash 4,000		

Dr.	WAGES ACCOUNT L.6		Cr.
Date	shs	Date	shs
20 th	cash 2,000		

EXERCISE 7

The following accounting information was extracted from the books of Kamenke enterprises limited.

1st June 2014 started business with cash shs 60,000

2nd bought goods shs 30,000

3rd paid rent shs 5,000

4th sold goods shs 40,000

6th sold more goods shs 10,000

7th bought land shs 20,000

9th received cash from Mugwanya shs 10,000

12th purchased goods shs 6,000

20th cash sales shs 8,000

23rd sold old furniture shs 7,500

25th Bought motor van shs 100,000

28th received commission shs 12,000

30th Bought stationary shs 9,000

30th paid electricity shs 13,000

Required;

Record the above information into Kamenke enterprises limited's cash book and complete double entry.

BALANCING AN ACCOUNT

Balancing refers to the process of making the two sides of an account (debit side and credit side) agree in totals. This means that at the end of the balancing process, the Debit side and the credit side of the account must be having the same totals.

The two sides of the account are not always equal after recording all the transactions in their respective accounts. To make them equal, the smaller side has to be lifted up to the same level like the bigger side in terms of amount.

HOW TO BALANCE AN ACCOUNT

The following steps can be followed if someone is to carry out the balancing of any account;

1. Add up all the amounts in their respective sides ie credit side and debit side. In this act, each side is added separately from the other and in this; no amount should be left out nor added.
2. Identify which side is smaller and which side is bigger according to the total amounts obtained from adding the two sides of the account.
3. Find the difference between the two sides of the account by subtracting the smaller side total amount from the bigger side total amount.
4. Write the difference on the smaller side and this figure is called balance carried down/balance carried forward and these can be written as balance c/d or balance c/f respectively.
5. Add up the two sides again with balance carried down inclusive on the smaller side and after this addition, the two sides will be found equal in totals.
6. Write the totals (which are now equal) on both sides with a single line above them and double lines below (double under line). These totals must be written on the same line but in their respective columns and account sides.
7. Shift the amount written as balance carried down on the smaller side to the other side (bigger side) but this time since it is changing side, the name will change from balance carried down to balance brought down or balance brought forward which can also be written as balance b/d or balance b/f respectively.

NOTE;

- i) Balancing is carried out at the end of the trading period when all the transactions relating to that trading period have been recorded in their respective order.
- ii) Balance carried down is written above the totals and balance brought down is written below the totals without skipping any line.
- iii) Balance carried down is recorded on the last date of the trading period but before writing the totals.
- iv) After writing the totals, the trading period will change to the next immediate trading period and therefore this means that balance brought down will be written on the first day of the immediate following trading period depending on the time length of the

trading period which can be a month, a year, a week e.t.c e.g If the trading period is one month and records are carried out on a monthly basis balance brought down will be written on the first day of the next month.

As shown below in;

EXAMPLE 5

Mr. Diego had the following information for the month of September 2016

1st capital shs 200,000

2nd made purchases for shs 10,000

10th cash sales for shs 15,000

25th paid wages shs 7,000

30th received commission for shs 10,000

Required,

Record the information in his cash book and balance it at the end of month

Solution

MR. DIEGO'S SINGLE COLUMN CASH BOOK (L.1)

Dr. FOR THE MONTH OF SEPTEMBER 2016. Cr.

Date 09/2016	Details	Folio	Amount (shs)	Date 09/2016	Details	Folio	Amount (shs)
1 st	capital	L.2	200,000	2 nd	Purchases	L.3	10,000
10 th	Sales	L.4	15,000	25 th	Wages	L.5	7,000
30 th	Commission	L.6	10,000	30 th	Balance	c/d	208,000
			225,000				225,000
1 st /10/2016	balance	b/d	208,000				

N.B

For the case of completing double entry, balancing of each account is done independently for each ledger account but following the same steps as shown above.

EXAMPLE 6

Otim had the following transactions for the month of February 2015.

1st started business with cash shs 2,000,000

2nd bought furniture shs 100,000

3rd bought goods shs 300,000

5th purchased goods shs 500,000

7th sold old motor vehicle shs 800,000

9th received cash from Mukuye shs 200,000

11th purchased more goods shs 600,000

13th sold goods by cash shs 200,000

15th paid rent shs 70,000

19th withdrew money from business for personal use shs 200,000

23rd purchased more goods shs 300,000

Required;

- i. Record the above transactions in the relevant ledger accounts and complete double entry.
- ii. Balance all the ledger accounts at the end of the trading period.

Solution; (i)

**OTIM'S
SINGLE COLUMN CASH BOOK**

FOR THE MONTH OF FEBRUARY 2015

Dr.					Cr.		
Date Feb/2015	Details	Folio	Amount (shs)	Date Feb/2015	Details	Folio	Amounts (shs)
1 st	Capital	L.2	2,000,000	2 nd	Furniture	L.3	100,000
7 th	Motorvehicle	L.5	800,000	3 rd	Purchases	L.4	300,000
9 th	Mukuye	L.6	200,000	5 th	purchases	L.4	500,000
13 th	Sales	L.7	200,000	11 th	Purchases	L.4	600,000
				15 th	Rent	L.8	70,000
				19 th	Drawings	L.9	200,000
				23 rd	Purchases	L.4	300,000
				28 th	Balance	c/d	1,130,000
							3,200,000
1 st /03/2015	Balance	b/d	3,200,000				
			1,130,000				

(II)

CAPITAL ACCOUNT			
Dr.		Cr.	
Date	shs	Date	shs
28 th	Balance c/d	<u>2,000,000</u>	1 st cash <u>2000,000</u>
			1 st /03 2015 balance b/d 2,000,000

FURNITURE ACCOUNT			
Dr.		Cr.	
Date	shs	Date	shs
2 nd	cash <u>100,000</u>	28 th	Balance c/d <u>100,000</u>
1 st /03/2015	Balance b/d 100,000		

MOTOR VEHICLE ACCOUNT			
Dr.		Cr.	
Date	shs	Date	shs
28 th	balance c/d <u>800,000</u>	7 th	cash <u>800,000</u>
		1 st /03/2015	balance b/d 800,000

PURCHASES ACCOUNT			
Dr.		Cr.	
Date	shs	Date	shs
3 rd	cash <u>300,000</u>	28 th	Balance c/d <u>1,700,000</u>
5 th	cash <u>500,000</u>		
11 th	cash <u>600,000</u>		
23 rd	cash <u>300,000</u>		
	<u>1,700,000</u>		<u>1,700,000</u>
1 st /03/2015	Balance b/d 1,700,000		

MUKUYE'S ACCOUNT			
Dr.		Cr.	
Date	shs	Date	shs
28 th	balance c/d <u>200,000</u>	9 th	cash <u>200,000</u>
		1 st /03/2015	balance b/d 200,000

SALES ACCOUNT			
Dr.		Cr.	

Date	shs	Date	shs
28 th	balance c/d	<u>200,000</u>	13 th
			cash
			<u>200,000</u>
		1 st /03/2015	balance b/d
			200,000
Dr.	RENT ACCOUNT		Cr.
Date	shs	Date	shs
15 th	cash	<u>70,000</u>	28 th
			balance c/d
			<u>70,000</u>
1 st /03/2015	balance b/d	70,000	
Dr.	DRAWINGS ACCOUNT		Cr.
Date	shs	Date	shs
19 th	cash	<u>200,000</u>	28 th
			balance c/d
			<u>200,000</u>
1 st /03/2015	balance b/d	200,000	

Note;

From the above example, it can be noticed that every ledger account is balanced independently from one another but following the same procedures

Always the totals are put on the same line as seen in all the ledger accounts whereby they are also double underlined in each case. You may find that in some examples balance c/d is double underlined to represent the totals of a given side but this is because it is the same amount for the totals and it is now on the same line like the totals of the opposite side

If the totals are not on the same line even after inserting the balance c/d, you are supposed to carry the totals to the same line for both sides of the account but when writing the balance c/d to the smaller side, do not skip any line but indicate it on the first line as seen in the purchases account in the above example then balance b/d is put below the totals.

EXERCISE 8

The following information was extracted from the books of Makanga traders for the month of April 2015

1st Started business with cash shs 2,000,000

2nd Bought goods for shs 40,000

3rd paid electricity shs 50,000

4th Sold goods for shs 200,000

5th more purchases shs 300,000
8th sold more good shs 400,000
10th Received money from magezi shs 70,000
12th paid rent shs100,000
13th bought furniture shs 700,000
16th sold more goods shs 700,000
16th sold an old van shs 1,000,000
20th bought land shs 1,500,000
21st received money from Musoke shs 500,000
22nd Paid for trading license shs 30,000
23rd bought more goods shs 250,000
24th paid salaries shs 600,000
26th cash sales shs 50,000
30th paid for water shs 70,000

Required;

Open up all the relevant ledger accounts to record the information on double entry system in Makanga's books of accounts and balance them at the end of the month.

EXERCISE 9

Kalule started business on 1st April 2016 with shs 2,000,000

2nd A debtor paid his account by cash shs 2,400,000

3rd Bought goods by cash shs 8,000,000

4th cash sales shs 3,400,000

5th Bought furniture by cash shs 650,000

7th paid for insurance by cash shs 300,000

8th sold goods for cash shs 250,000

12th Paid for salaries by cash shs 150,000

14th cash purchases 4,500,000

20th cash sales shs 2,400,000

24th Bought stationery for cash shs 500,000

26th Paid salaries by cash shs 150,000

Required:

- I) Prepare Kalule's cash account dully balanced.
- II) Open all the relevant ledger accounts and balance them.

CREDIT TRANSACTIONS AND THE CASH BOOK

Credit transactions. These are transactions in which goods and services are sold or bought and payment for them is made at a future date. Since these transactions are carried out without the transfer of cash from one hand to another, then at that moment they are not recorded into the cash book because the cash book records transactions in which there has been the transfer of money from one party to another. But the principal remains that for every transaction that takes place, at least two accounts are affected where by one is receiving and another one is giving away money value.

In this way, credit transactions always in business come as a result of either purchases or sales whereby if they are as a result of purchases, these are referred to as credit purchases and if they are as a result of sales, these are referred to as credit sales.

FOR CREDIT PURCHASES

In case of a credit purchase, the purchases account is affected and the second account in this instance is the creditor's account or the person/organization from which goods have been bought on credit.

For this case, the purchases account is receiving value from the creditor's account and therefore it is debited by the amount and the name of the creditor is indicated in the details column of the purchases account for this transaction.

The creditor's account is credited in this case because the creditor is losing value to the purchases account of the business and for this case, in the details column, the word purchases is indicated to show where further details of the transaction were recorded.

E.G

On 2nd Bought goods on credit from Matyansi shs 70,000

This will not be recorded in the cash book because it is a credit transaction instead it will be done as follows;

PURCHASES ACCOUNT			
Dr.			Cr.
Date	shs	Date	shs
2 nd	Matyansi	70,000	

MATYANSI ACCOUNT			
Dr.			Cr.
Date	shs	Date	shs
		2 nd	Purchases 70,000

And for that case double entry is completed without any record being made in the cash book

FOR CREDIT SALES

In case of credit sale, the sales account is affected and for this case, the second account in this instance is the debtor's account or the person/ organization to which goods have been sold on credit.

In this case, the sales account is credited because it is giving out value to a certain buyer who instead buys on credit and the name of this debtor is indicated in the details column of the sales account for this transaction to show the second ledger account affected by the transaction.

The debtor's account in this case is debited because the debtor is receiving value from the sales account and therefore in the details column of this account for this transaction, we indicate sales because value has been received from sales and therefore more details about this transaction are found in the sales account.

E.G

On 6th sold goods on credit to Masanso worth shs 900,000

This is also not recorded in the cash book because it is a credit transaction but it is handled as follows.

Dr.	MASANSO'S ACCOUNT		Cr.
Date	shs	Date	shs
6 th	Sales	900,000	

Dr.	SALES ACCOUNT		Cr.
Date	shs	Date	shs
		6 th	Masanso 900,000

N.B

If payment for the credit transaction is effected, this is treated in the normal way where by the cash book this time is also involved because there is the transfer of cash from one party to another and therefore the receiving party is debited and the giving away party is credited in the normal way.

IDENTIFICATION OF CREDIT TRANSACTIONS

Credit transactions can be given in different ways as shown below

- (i) If the name of a supplier or buyer is mentioned in a transaction, it means that it is a credit transaction e.g "bought goods from Musoke", This is a credit transaction even though it is not mentioned that it is a credit transaction or that goods were bought on credit, but the name of the supplier has been mentioned which shows that it is a credit transaction.
- (ii) If the word credit (bought or sold goods on credit) appears in a transaction, this is also automatically a credit transaction e.g "Bought goods on credit "

EXAMPLE 7

Record the following transactions in Magala's cash book for the month of April 2016 and complete double entry.

1st started business with shs 900,000

2nd bought goods on credit from Denis shs 360,000

7th paid Denis shs 360,000 by cash

9th cash sales shs 220,000

14th sold goods to Harriet shs 300,000

20th cash purchases shs 130,000

25th received cash from Harriet shs 200,000

- 27th paid rent shs 275,000
 28th bought goods from Musoke shs 285,000
 29th sold goods to Annet shs 200,000
 29th paid Musoke shs 285,000
 30th received money from Annet shs 170,000

Solution

MAGALA'S

SINGLE COLUMN CASH BOOK
FOR THE MONTH OF APRIL 2016

Dr.				Date	Dr.		Cr.
Date	Details	Folio	Amount (shs)	Date	Details	Folio	Amount (shs)
04/2016				04/2016			
1 st	Capital		900,000	7 th	Denis		360,000
9 th	Sales		220,000	20 th	Purchases		130,000
25 th	Harriet		200,000	27 th	Rent		275,000
30 th	Annet		170,000	29 th	Musoke		285,000
			1,490,000	30 th	balance	c/d	440,000
							1,490,000
1 st /05/16	balance	b/d	440,000				

Dr.	CAPITAL ACCOUNT			Cr.
Date		shs	Date	shs
30 th	balance c/d	900,000	1 st	cash
				900,000
PURCHASES ACCOUNT			Cr.	
Date		shs	Date	shs
2 nd	Denis	360,000	30 th	Balance c/d
20 th	Cash	130,000		775,000
28 th	Musoke	285,000		
		775,000		
1 st /05/16	balance b/d	775,000		775,000

Dr.	DENIS' ACCOUNT		Cr.
Date	shs	Date	shs
7 th	cash <u>360,000</u>	2 nd	purchases <u>360,000</u>

Dr.	SALES ACCOUNT		Cr.
Date	shs	Date	shs
30 th	balance c/d 720,000	9 th	cash 220,000
		14 th	Harriet 300,000
		29 th	Annet 200,000
	<u>720,000</u>		<u>720,000</u>
		1 st /05/16	balance b/d 720,000

Dr.	HARRIET'S ACCOUNT		Cr.
Date	shs	Date	shs
14 th	sales 300,000	25 th	cash 200,000
		30 th	balance c/d 100,000
	<u>300,000</u>		<u>300,000</u>
1 st /05/16	balance b/d 100,000		

Dr.	RENT ACCOUNT		Cr.
Date	shs	Date	shs
27 th	cash <u>275,000</u>	30 th	balance c/d <u>275,000</u>
1 st /05/16	balance b/d 275,000		

Dr.	MUSOKE'S ACCOUNT		Cr.
Date	shs	Date	shs
29 th	cash <u>285,000</u>	28 th	purchases <u>285,000</u>

Dr.	ANNET'S ACCOUNT		Cr.
Date	shs	Date	shs
29 th	sales 200,000	30 th	cash 170,000
		30 th	balance c/d 30,000
	200,000		200,000
1 st /05/16	balance b/d 30,000		

N.B

In case of credit transactions, the creditor's or debtor's accounts are sometimes found to have no balance b/d. This is right in case the value of the credit purchase or sale is equal to the amount paid for the transaction, this means the credit transaction has been fully paid for and therefore the amount on the credit side is equal to the amount on the debit side of the account and no side is bigger than the other hence no balance c/d and balance b/d.

In the example above look at the nature of Denis' account and Musoke's account, they do not have the balances.

EXERCISE 10

- Mugoya recorded the following transactions during the month of August 2016

1st Started business with capital shs 392500

2nd he made credit purchases from the following

Lubuto 20,000

Mutwe 50,000

4th sold goods on credit to;

L.K LTD 10,000

J. Mutuba 25,000

C. Nyanzi 10,000

5th Paid salaries shs 5,000

6th Cash sales shs 43,000

6th Personal drawings shs 12,000 cash

7th Paid Lubuto and settled his account by cash.

10th Paid Electricity bills shs 4,500

12th Paid general expenses by cash shs 5,000

13th Cash sales shs 35,300

13th Cash drawings shs 12,000.

15th Received cash L.K LTD Shs 8,000

19th Received cash from Mutwe shs 40,000

20th Took for personal use shs 13,000 cash
20th Cash sales shs 40,000
23rd Paid for stationary shs 2500 cash.
26th Paid water bills by Cash shs 5,000
27th Cash sales 45,000
28th Received Payments from.
 J. Mutuba shs 25,000
 C. Nyanzi shs 10,000

Required:

- i) Prepare Mugoya's cash book and balance it at the end of the month.
- ii) Open up the relevant ledger accounts fully balanced to complete double entry.

EXERCISE 11

Kafeero had the following transactions for the month of February 2014

February 1st Capital shs 6,500,000
2nd Bought goods cash shs 200,000
3rd Bought furniture by Cash shs 300,000
7th Bought goods cash shs 400,000
8th Sold goods cash shs 500,000
10th Paid general expenses cash 60,000
14th Sold goods and was paid by cash shs 370,000
18th Bought goods from Magala shs 400,000
20th Bought goods cash 300,000
21st Paid wages cash shs 80,000
22nd Withdrew cash for personal use shs 90,000
23rd Made credit sales to Nampeera shs 160,000
28th Received cash from Nampeera shs 80,000

Required:

Prepare a cash book for the month and complete double entry with fully balanced ledger account.

THE TWO COLUMN CASH BOOK

(THE DOUBLE COLUMN CASH BOOK)

The two column cash book is a cash book in which the amounts column is divided into two columns on both sides of the account

These two columns are named cash and bank where by the cash column records money received or paid out in cash form and the bank column records those payments and receipts made through the bank and in most cases this is done by the use of a cheque. Therefore the two column cash book allows an entrepreneur to record both transactions made by cash and through the bank in the same book.

N.B

The rest of the columns remain in the normal way but it is only the amounts column that is divided into two in order to cater for both cash and bank transactions in the business.

FORMAT OF A TWO COLUMN CASH BOOK

Dr.	HEADING					Cr.			
Date	Details	Folio	Cash (shs)	Bank (shs)	Date	Details	Folio	Cash (shs)	Bank (shs)

In the heading of the two column cash book, it is only the second line that changes in format i.e the heading will be written as follows.

Assuming the business belongs to Ritah for the month of January 2017

RITAH'S
TWO COLUMN CASH BOOK
FOR THE MONTH OF JANUARY 2017

EXAMPLE 8

On 1st July 2015, Kato started business with cash in hand shs 1,300,000 and cash at bank shs 1,500,000

3rd Bought shop fittings for shs 160,000 in cash.

5th Bought goods for cash shs 300,000.

6th Sold goods and received a cheque for shs 400,000

7th Sold goods for cash 60,000

10th paid for carriage shs 200,000 by cheque

15th cash sales shs 500,000

17th paid for carriage shs 100,000

20th Received a bank loan of shs 500,000 by cheque.

22nd Paid wages in cash shs 20,000

23rd paid electricity by cheque shs 150,000

29th Paid rent in cash shs 100,000.

Required;

Record the above transactions in Kato's two column cash book and balance it

SOLUTION

KATO'S

TWO COLUMN CASH BOOK

Dr.

FOR THE MONTH OF JULY 2015

Cr.

Date	Details	Folio	Cash	Bank	Date	Details	Folio	Cash	Bank
------	---------	-------	------	------	------	---------	-------	------	------

07/15			(shs)	(shs)	07/15			(shs)	(shs)
1 st	Capital		1,300,000	1,500,000	3 rd	Shop fittings		160,000	
6 th	Sales			400,000	5 th	Purchases		300,000	
7 th	Sales		60,000		10 th	Carriage		200,000	
15 th	Sales		500,000		17 th	Carriage		100,000	
20 th	loan			500,000	22 nd	Wages		20,000	
					23 rd	Electricity		150,000	
					29 th	Rent		100,000	
					31 st	balance	c/d	1,180,000	2,050,000
								1,860,000	2,400,000
1 st /08	Balance	b/d	1,180,000	2,050,000					

NOTE:

- (I) When balancing a two column cash book, the two columns are balanced separately i.e The debit side cash column is compared with the credit side cash column in order to find the cash balances and also the debit side bank column is compared with the credit side bank column in order to find the bank balances as seen in the example above. Therefore each column should have separate figures for balance c/d and balance b/d but following the same principles as seen in the single column cash book.
- (II) Double entry for a two column cash book can also be completed by opening up the different ledger accounts for the different transactions in the normal way but the difference is only found in what is to write in the details space whereby we either use cash or bank i.e. cash for cash transactions and bank for bank or cheque transactions. Look at the continuation of **example 8** below,

Dr.	CAPITAL ACCOUNT			Cr.	
Date		shs	Date	shs	
31 st	balance c/d	2,800,000	1 st	cash	1,300,000
			1 st	bank	1,500,000
		<u>2,800,000</u>		<u>2,800,000</u>	
			1 st /08	balance b/d	2,800,000

Dr.	SHOP FITTINGS ACCOUNT			Cr.	
Date		shs	Date	shs	
3 rd	cash	<u>130,000</u>	31 st	balance c/d	<u>130,000</u>
1 st /08	balance b/d	130,000			

Dr.	PURCHASES ACCOUNT		Cr.
Date	shs	Date	shs
5 th	cash	300,000	31 st balance c/d
1 st /08	balance b/d	300,000	<u>300,000</u>
Dr.		SALES ACCOUNT	
Date	shs	Date	shs
31 st	balance c/d	960,000	6 th bank
			400,000
			7 th cash
			60,000
			15 th cash
			500,000
		<u>960,000</u>	<u>960,000</u>
			1 st /08 balance b/d
			960,000
Dr.	CARRIAGE ACCOUNT		Cr.
Date	shs	Date	shs
10 th	bank	200,000	31 st balance c/d
17 th	cash	100,000	<u>300,000</u>
1 st /08	balance b/d	300,000	<u>300,000</u>
Dr.	LOAN ACCOUNT		Cr.
Date	shs	Date	shs
31 st	balance c/d	<u>500,000</u>	20 th bank
			<u>500,000</u>
			1 st /08 balance b/d
			500,000
Dr.	WAGES ACCOUNT		Cr.
Date	shs	Date	shs
22 nd	cash	<u>20,000</u>	31 st balance c/d
			<u>20,000</u>

1st/08 balance b/d 20,000

Dr.	ELECTRICITY ACCOUNT			Cr.
Date		shs	Date	shs
23 rd	bank	150,000	31 st	balance c/d
1 st /08	balance b/d	150,000		150,000

Dr.	RENT ACCOUNT			Cr.
Date		shs	Date	shs
29 th	cash	100,000	31 st	balance c/d
1 st /08	balance b/d	100,000		100,000

EXAMPLE 9

The following transactions were extracted from the books of Musiitwa during the month of March 2010

	Shs
March 1st Started business with	2,500,000
2 nd Bought furniture worth	50,000
4 th Sold goods through bank	337,500
5 th Purchased goods	625,000
6 th Sold goods	537,500
8 th Paid employees wages	156,250
9 th Bought goods by cheque	937,500
10 th Sold good amounting to	593,750
13 th Received a cheque from John	375,000
16 th Bought a motor cycle	1,250,000

17 th Paid rent	43,750
18 th Purchased more furniture	37,500
20 th Paid for electricity	6,250
21 st Received commission for sales	50000
22 nd Bought goods worth	937,500
23 rd Sold goods worth	750,000
24 th Bought a computer for business use	406,250
25 th Sold old furniture	31,250
27 th Paid tax	6,250
28 th Sold goods worth	1,000,000
29 th Purchased furniture	63,125
30 th Sold goods worth	475,000
31 st Cash sales	337,500
31 st bought motor van by cheque	312,500

Required:

Record Musiitwa's transactions in his cash book and balance it.

SOLUTION

**MUSIITWA'S
TWO COLUMN CASH BOOK**

Dr FOR THE MONTH OF MARCH 2010 Cr									
Date 03/2010	Detail	Folio	Cash (Shs)	Bank (Shs)	Date 03/2010	details	Folio	Cash (Shs)	Bank (Shs)
1 st	Capital		2,500,000		2 nd	Furniture		50000	
4 th	Sales			337500	5 th	Purchases		625000	
6 th	Sales		537500		8 th	Wages		156250	
10 th	Sales		593750		9 th	Purchases			937500
13 th	John			375000	16 th	Motor cycle		1250000	
21 st	Commission		50,000		17 th	Rent		43750	
23 rd	Sales		750,000		18 th	Furniture		37500	
25 th	Old furniture		31250		20 th	Electricity		6250	
28 th	Sales		1000000		22 nd	Purchases		937500	
30 th	Sales		475000		24 th	Computer		406250	
31 st	Sales	c/d	337500		27 th	Tax		6250	
	Balance			537500	29 th	Furniture		63125	312500
					31 st	Motor van			
						Balance	c/d	<u>2693125</u>	
1 st /04	Balance	b/d	<u>6275000</u>	<u>1250000</u>	1 st /04	balance	b/d	<u>6275000</u>	<u>1250000</u>
			2693125						537500

NOTE:

- (i) The two column cash book can as well have the balances on opposite sides for the two columns but all that depends on which side is bigger than the other for a certain column (cash column or bank column) and because these columns are balanced separately.
- (ii) In case a transaction has not been specified as bank/cheque, it is automatically a cash transaction e.g Bought goods worth 937,000, though it is not either indicated as cash or bank, it is a cash transaction.

EXERCISE 12

Enter the following transactions in Kavuma's fully balanced two column cash book and complete double entry for the different transactions.

On 1st April 2014 started business with cash at bank shs 22,500

4th sold goods by cash for shs 8,500

5th bought premises by cash shs 3,300

7th bought goods and paid by cheque shs 400

10th cash sales shs 8,500

13th bought stationary by cheque 2,800

16th paid salaries shs 2,500

20th bought land shs 2,000

25th paid insurance shs 1,400

26th Received cash from Umar 3,400

28th paid Musa by cheque shs 2,600

30th cash purchases 1,500.

EXERCISE 13

Bwete had the following transactions for the month of November 2013.

1st Started business with cash at hand 20,000 and cash at bank shs 30,000

2nd Bought goods shs 1,500

5th sold goods by cheque shs 20,000

7th Paid salaries shs 10,000

10th Received cash from Ouma shs 5,000

20th Bought land shs 20,000.

25th paid for electricity by cheque shs 10,000

26th Bought goods from Magala shs 25,000

28th Received commission shs 12,000

30th Paid Magala shs 15,000 through bank.

Required;

- (i) Enter the transactions into a two column cash book and complete double entry

CONTRA ENTRIES

Contra entries are entries whose double entry is completed on the same page of the cash book. In other words these are dealings between the bank and the cash account where one of the two is receiving value and another party is giving away value i.e. either bank is giving away to cash or cash is giving away to bank.

A contra entry is clearly indicated with letter “C” written in the folio column and since their double entry is completed within the same book, there are no more ledger accounts opened to cater for the double entry of these transactions.

If the figure/amount has been indicated in the cash column, then we write the word Bank in the details column and if it is written in the bank column, we write cash in the details column in order to show where value is either received from or lost to.

Examples of Contra entry transaction statements include;

- i) Cashed a cheque for
- ii) Banked cash.
- iii) Withdrawn cash from bank for office use/business use.
- iv) Cash sales paid directly into bank.
- v) Opened up a bank account and banked cash.

All these statements once given in a transaction mean a contra entry but we are remained with a task to find which column to debit and which column to credit because the two must take place as stated by the principle of double entry

1. **Cashed a cheque.** This means a cheque was turned into cash by withdrawing money from the bank account. Therefore in this case cash is receiving money from bank which means that we Debit cash and credit bank but in the same cash book .But on the debit side it means we write Bank and write cash on the credit side on the credit side under the Details columns.
2. **Banked cash.** This means cash was taken to the bank and therefore bank received the money from cash and automatically cash lost the money to bank. Therefore we debit bank and then credit cash with the amount and then indicate cash in the details column of the debit side and then bank in the details column of the credit side. Both of these entries must be indicated by letter “C” in the folio column.
3. **Withdrawn cash from bank for office use/business use.** In this case, cash is receiving money from the bank and therefore we debit cash and credit bank and at the same time we indicate the letter “C” in the folio column.
4. **Cash sales paid directly into bank.** This means the amount received from sales was paid directly into the bank. Therefore in this case bank receives the money from cash and here we debit bank and credit cash.

- 5. Opened up a bank account and banked cash.** This means that the business opened up a bank account and cash was deposited onto this account. Therefore in this case, Bank is receiving money from cash which means we debit bank and credit cash.

EXAMPLE 10

Mugoya recorded the following transactions during the month of August 2006

1st Balances brought forward

	shs
Cash	200,000
Bank	192,500

DEBTORS

Nawume	20,000
Hirij	50,000

CREDITORS

L.K LTD	10,000
M.Joan	25,000
N.Nakato	10,000

5th Paid salaries by cheque shs 5,000

6th Cash sales shs 43,000

6th Personal drawings shs 12,000 cash

7th Nawume settles her account by cheque.

10th Electricity bills paid by cheque shs 4,500

12th Paid general expenses by cheque shs 5,000

13th Cash sales shs 35,300

13th Cash drawings shs 12,000.

15th Paid L.K LTD Shs 8,000 cheque

19th Received a cheque from Hirij shs 40,000

20th Took for personal use shs 13,000 cash

20th Bank sales shs 40,000

21st Paid cash 8,000 into bank.

23rd Paid for stationary shs 2500 cash.

26th Paid water bills by cheque shs 5,000

27th Cash sales 45,000

28th Payments to creditors

 M.Joan shs 25,000

 N.Nakato shs 10,000

30th Withdrawn from bank shs 50,000 for office use.

Required:

- I. Draw up the above transactions in a cash book.

II. Post to the relevant ledgers to complete double entry.

SOLUTION

**MUGOYA'S
TWO COLUMN CASH BOOK**

Dr. FOR THE MONTH OF AUGUST 2006.							Cr.		
Date 08/06	Details	Folio	Cash (Shs)	Bank (shs)	Date 08/06	Details	Folio	Cash (Shs)	Bank (Shs)
1 st	Balance	b/f	200,000	192,500	5 th	Salaries	C		5,000
6 th	Sales		43,000		6 th	Drawings		12,000	
7 th	Nawume			20,000	10 th	Electricity			4,500
13 th	Sales		35,500		12 th	General Expenses			5,000
19 th	Hirij			40,000	13 th	Drawings		12,000	
20 th	Sales			40,000	15 th	LK Ltd			8,000
27 th	Sales		45,000		20 th	Drawings		13,000	
30 th	Bank		50,000		23 rd	Stationary		2,500	
					26 th	Water			5,000
					28 th	M.Joan			25,000
					28 th	N.Nakato			10,000
					30 th	Cash			50,000
					31 st	Balance		334,000	180,000
1 st /09	Balance	b/d	373,500	292,500				373,500	292,500
			334,000	180,000					

(ii)

Dr.	NAWUME'S ACCOUNT		Cr.		
Date	Shs	Date	Shs		
1 st	Balance b/f	20,000	7 th	Bank	20,000

Dr	HIRIJ'S ACCOUNT		Cr.
Date	Shs	Date	Shs
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1 st	Balance b/f	<u>50,000</u>	19 th	Bank	<u>50,000</u>
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Dr. Cr. LK Ltd'S ACCOUNT

Date	Shs	Date	Shs
15 th	Bank	8,000	1 st
31 st	Balance c/d	2000	Balance b/f
		<u>10,000</u>	<u>10,000</u>
		1 st /09	Balance b/d
			2,000

Dr. Cr. M.JOAN'S ACCOUNT

Date	Shs	Date	Shs
28 th	Bank	<u>25,000</u>	1 st
			Balance b/f
			<u>25,000</u>

Dr. Cr. N.NAKATO'S ACCOUNT

Date	Shs	Date	Shs
28 th	Bank	<u>10,000</u>	1 st
			Balance b/f
			<u>10,000</u>

Dr. Cr. SALARIES ACCOUNT

Date	Shs	Date	Shs
5 th	Bank	<u>5000</u>	31 st
1 st /09	Balance b/d	5000	Balance c/d
			<u>5000</u>

Dr. Cr. SALES ACCOUNT

Date	Shs	Date	Shs

31 st	Balance c/d	163500	6 th	Cash	43,000
			13 th	Cash	35,500
			20 th	Bank	40,000
			27 th	Cash	45,000
		<u>163500</u>			<u>163500</u>
			1 st /09	Balance b/d	163500

Dr.	STATONARY ACCOUNT		Cr.
Date	Shs	Date	Shs
23 rd	Cash	<u>2500</u>	31 st Balance c/d
1 st /09	Balance b/d	2500.	

Dr.	DRAWINGS ACCOUNT		Cr.
Date	Shs	Date	Shs
6 th	Cash	12,000	31 st Balance c/d
13 th	Cash	12,000	
20 th	Cash	13,000	
		<u>37,000</u>	<u>37,000</u>
1 st /09	Balance b/d	37,000	

Dr.	ELECTRICITY ACCOUNT		Cr.
Date	Shs	Date	Shs
10 th	Bank	<u>4500</u>	31 st Balance c/d
1 st /09	Balance b/d	4500	

Dr.	WATER ACCOUNT		Cr.
Date	Shs	Date	Shs

26 th	Bank	<u>5,000</u>	31 st	Balance c/d	<u>5,000</u>
1 st /09	Balance b/d	5,000			

Dr.	GENERAL EXPENSES ACCOUNT			Cr.
Date	Shs		Date	Shs
12 th	<u>Bank</u>	<u>5000</u>	31 st	Balance c/d
1 st /09	Balance b/d	5000		<u>5000</u>

NOTE;

There is a great difference between drawings of cash i.e. money withdrawn by the owner for personal use and money withdrawn from bank for office use/business use.

The business can also have opening balances or balances brought forward from the previous trading periods in form of balance brought forward or brought down. These are treated as shown in the example above.

EXAMPLE 11

The following transactions were obtained from MALITABU ENTERPRISES during the month of December 2007

2007		
December		
1 st	Cash at bank	Shs. 1,282,500
	Cash in hand	Shs. 6,180,000
3 rd	Purchased furniture and fittings shs 112500 in cash.	
5 th	Sold goods in cash shs 1,206,000	
7 th	Mutumba paid Malitabu Enterprises by cheque shs 849,000.	
11 th	With drew cash from bank shs 2,250,000	
13 th	Bought goods in cash shs 37,500	
15 th	Received rent by cheque shs 415,500.	
17 th	Paid electricity expenses by cheque shs 282,000.	
19 th	Withdrew shs. 450,000 from bank for business use.	
21 st	Received cash shs 1,500,000 from Okello.	
23 rd	Paid insurance premium in cash shs 405,000.	
27 th	Received a cheque from chombe shs 633,000.	
29 th	Paid sundry expenses by cheque shs 135,000.	
30 th	Sold goods and was paid by cheque shs 897,000	

31st Withdrew cash shs 375,000 for office use.

31st Paid wages by cheque shs 675,000

Required to,

- i) Write a two column cash book for MALITABU for the month of December 2007
- ii) Post the transactions into the relevant ledger accounts and balance them off.

SOLUTION (i)

MALITABU ENTERPRISES
TWO COLUMN CASH BOOK
FOR THE MONTH OF DEC 2007

Dr Date 12/07	Details	Folio	Cash (Shs)	Bank (Shs)	Date 12/07	Details	Folio	Cash (Shs)	Bank (Shs)
1 st	Capital		6180000	1282500	3 rd	Furniture&fittings		112500	2797500
5 th	Sales		1206000		7 th	Motor vehicle			2250000
9 th	Mutumba			849000	11 th	Cash			
11 th	Bank	C	2250000		13 th	Purchases		37500	282000
15 th	Rent			415500	17 th	Electricity			450000
19 th	Bank	C	450000		19 th	Cash			
21 st	Okello		1500000		25 th	Insurance		405000	135000
27 th	Chombe			633000	29 th	Sundry expenses			375000
30 th	Sales			897000	31 st	Cash			675000
31 st	Bank	C	375000		31 st	Wages			
31 st	Balance	c/d		4975500	1 st	Balance	c/d	11406000	
			<u>11961000</u>	<u>9052500</u>			b/d	<u>11961000</u>	<u>9052500</u>
1 st /01/08	Balance	b/d	11406000		1 st /01/08	Balance			4975500

(ii)

Dr	CAPITAL ACCOUNT			Cr
Date		Shs	Date	Shs
31 st	Balance c/d	7462500	1 st	Cash
			1 st	Bank
		<u>7462500</u>		<u>1282500</u>
			1 st /01/08	Balance b/d
				7462500

Dr	FURNITURE & FITTINGS ACCOUNT		Cr
Date	Shs	Date	Shs
3 rd	Cash	112500	31 st
1 st /01/08	Balance b/d	112500	Balance c/d
Dr	SALES ACCOUNT		Cr
Date	Shs	Date	Shs
31 st	Balance c/d	2103000	5 th
			30 th
		2103000	Cash
			Bank
			1206000
			897000
			2103000
		1 st /01/08	Balance b/d
			2103000
Dr	MOTOR VEHICLE ACCOUNT		Cr
Date	Shs	Date	Shs
7 th	Bank	2797500	31 st
1 st /01/08	Balance b/d	2797500	Balance c/d
Dr	MUTUMB'A'S ACCOUNT		Cr
Date	Shs	Date	Shs
31 st	Balance c/d	849000	9 th
			1 st /01/08
			Bank
			849000
			Balance b/d
			849000
Dr	PURCHASES ACCOUNT		Cr
Date	Shs	Date	Shs
13 th	Cash	37500	31 st
1 st /01/08	Balance b/d	37500	Balance c/d
Dr	RENT ACCOUNT		Cr
Date	Shs	Date	Shs
31 st	Balance c/d	415500	15 th
			1 st /01/08
			Bank
			415500
			Balance b/d
			415500

Dr	ELCTRICKY ACCOUNT		Cr		
Date	Shs	Date	Shs		
17 th 1 st /01/08	Bank Baalnce b/d	282000 282000	31 st Balance c/d	282000	
Dr	OKELLO'S ACCOUNT		Cr		
Date	Shs	Date	Shs		
31 st	Balance c/d	1500000	21 st 1 st /01/08	Cash Balance b/d	1500000 1500000
Dr	INSURANCE ACCOUNT		Cr		
Date	Shs	Date	Shs		
23 rd 1 st /01/08	Cash Balance b/d	405000 405000	31 st Balance c/d	405000	
Dr	CHOMBE'S ACCOUNT		Cr		
Date	Shs	Date	Shs		
31 st	Balance c/d	897000	27 th 1 st /01/08	Bank Balance b/d	897000 897000
Dr	SUNDRY EXPENSES ACCOUNT		Cr		
Date	Shs	Date	Shs		
29 th 1 st /01/08	Bank Balance b/d	135000 135000	31 st Balance c/d	135000	
Dr	WAGES ACCOUNT		Cr		
Date	Shs	Date	Shs		
31 st 1 st /01/08	Bank Balance b/d	675000 675000	31 st Balance c/d	675000	

EXERCISE 14

DDONDOLLO had the following transactions for the month of February 2014

February 1st Balances brought forward

	Shs
Cash in hand	3,000,000
Cash at bank	3,500,000

1st Deposited cash into bank shs 1,000,000.

2nd Bought goods cash shs 200,000

3rd Bought furniture by cheque shs 300,000

7th Bought goods cash shs 400,000

8th Sold goods cash shs 500,000

10th Paid general expenses cash 60,000

14th Sold goods and was paid by cheque shs 370,000

18th Banked cash shs 400,000

20th Bought goods cash 300,000

21st Paid wages cash shs 80,000

22nd Withdrew cash for personal use shs 90,000

23rd Cashed a cheque for office use shs 160,000

28th Banked cash shs 830,000

Required:

- (i) Prepare a two column cash book for the month.
- (ii) Open up the relevant ledger accounts to complete double entry.

EXERCISE 15

Enter the following transactions in KIKU's books o double entry and balance the ledger accounts at the end of December 2014

1st commenced business with cash in hand shs 89,000,000 and cash at bank shs 130,000

3rd Bought furniture by cash shs 14,000,000.

4th bought goods by cheque 8,000,000.

6th Withdraw cash from bank for business use shs 40,000,000

8th Paid for insurance by cash 2,000,000

10th Sold goods to Halimah on credit shs 7,000,000

14th Bought goods on credit from Ddungu shs 6,500,000

16th cash sales to date shs 9,400,000

19th Halimah cleared her debt by cash shs 7,000,000

19th Paid salaries by cheque shs 20,000,000

23rd Some cash was banked shs 9,300,000

24th Paid part of Ddungu's money by cheque shs 4,500,000

27th Bought goods by cheque 8,400,000

29th Sold some old furniture in cash shs 5,000,000

30th Bought a vehicle by cheque shs 30,000,000

31st Received a cheque for sales shs 2,000,000.

THE TRIAL BALANCE

A trial balance is the list of all debit and credit balances as extracted from the ledger accounts as at a specified date to test the arithmetical and double entry accuracy in the ledger accounts.

In the trial balance, we only record the balances brought down as extracted from the ledger accounts.

FORMAT OF A TRIAL BALANCE.

HEADING		
DETAILS/PARTICULARS	DEBIT (SHS)	CREDIT (SHS)

The heading to the trial balance is also written in three lines as below;

1st line → Business name e.g. MALITABU ENTERPRISES'

2nd line → Document name (trial balance)

3rd line → Date e.g. AS AT 31/12/2016

The date to the trial balance is written in the form of "AS AT" the last date of the trading period because the trial balance is extracted after balancing all the different ledger accounts which is done at the last date of the trading period and therefore after balancing it is the balance b/d that is recorded in the trial balance.

The trial balance has three major columns i.e. Details, Debit and credit whereby;

The details/particulars column will help us to record the details inform of the ledger account heading from which a given balance is extracted e.g. Purchases, Sales, Rent, Cash, Bank, Capital, Salaries, Drawings e.t.c.

The Debit column will record all the debit balances as extracted from the different ledger accounts and since these are amounts, the currency units should be indicated.

The credit column will also record the credit balances as extracted from their respective ledger accounts and even for this case, the currency units should be indicated because it record amounts.

If the balance b/d in the ledger account is on the debit side, then even in the trial balance this amount will be recorded in the debit column and if this balance is on the credit side of the ledger account, in the trial balance it will be recorded in the credit column. This means in the trial balance, we only record the balances brought down and these balances are recorded the way they appear from the respective ledger accounts. Therefore if the balance b/d is on the debit side, even when it comes to the trial balance, it is recorded in the debit column and if it is on the credit side, it is recorded in the credit column of the trial balance.

Since the trial balance is meant to test the double entry and the arithmetical accuracy in accounting, If there is any error committed in the above respects, the trial balance totals will not agree but if there is no error committed, the totals of the two columns of the trial balance have to agree because of the consideration of the principle of double entry where a transaction is treated twice by posting it onto the two sides of the account and therefore the same amount having the same effect on the balances of the two columns of the trial balance.

EXAMPLE 12

The following record of transactions was obtained from the books of ZUBUZI firm.

2008.
JAN 1st commenced business with cash in hand shs 2,060,000 and cash at bank shs 427,000
2nd Sold goods in cash shs 402,000
4th Withdrew cash from bank for business use worth shs 750,000
5th Received a cheque worth shs 283,000 from Omara.
7th Bought furniture in cash shs 37,500
9th Purchased a motor cycle by cheque shs 932,500
12th Received commission of shs 138,500 by cheque.
18th Paid advertising expenses by cheque shs 139,000
20th Borrowed shs 500,000 cash from Kamau
22nd Paid Oku shs 211,000 by cheque.
23rd Sold goods worth shs 299,000 and was paid by cheque
25th Withdrew cash shs 275,000 for office use
28th Bought goods in cash shs 12,500
30th Paid wages in cash shs 135,000.

Required:

- i) Prepare a two column cash book dully balanced.
- ii) Extract a trial balance from the double entry ledger accounts.

SOLUTION (i)

ZUBUZI FIRM
TWO COLUMN CASH BOOK
FOR THE MONTH OF JAN 2008

Dr Cr

Date 1/08	Details	Folio	Cash (Shs)	Bank (shs)	Date 1/08	Details	Folio	Cash (Shs)	Bank (Shs)
1 st	Capital		2060000	427000	4 th	Cash	C	37500	750000
2 nd	Sales		402000		7 th	Furniture			932500
4 th	Bank	C	750000		9 th	Motorcycle			139000
5 th	Omara			283000	18 th	Advertising			211000
12 th	Commission			138500	22 nd	Oku			275000
20 th	Kamau		500000		25 th	Cash	C	12500	
23 rd	Sales			299000	28 th	Purchases		135000	
25 th	Bank	C	275000		30 th	Wages			
31 st	Balance	c/d	<u>3987000</u>	<u>1160000</u>	31 st	Balance	c/d	<u>3802000</u>	<u>2307500</u>
1 st /02	Balance	b/d	3802000	<u>2307500</u>	1 st /02	Balance	b/d		1160000

(ii)

Dr CAPITAL ACCOUNT Cr.

Date	Shs	Date	Shs
31 st	Balance c/d	2487000	1 st
			Cash 2060000
		1 st	Bank 427000
			<u>2487000</u>
		1 st /02	Balance b/d 2487000

Dr SALES ACCOUNT Cr.

Date	Shs	Date	Shs
31 st	Balance c/d	701000	2 nd
			Cash 402000

	23 rd	Bank	299000
		<u>701000</u>	<u>701000</u>
		1 st /02	Balance b/d

Dr	FURNITURE ACCOUNT		Cr.
Date	Shs	Date	Shs
7 th	Cash	37500	31 st
1 st /02	Balance b/d	37500	Balance c/d

Dr	OMARA'S ACCOUNT		Cr.
Date	Shs	Date	Shs
31 st	Balance c/d	283000	5 th
			Bank
		1 st /02	Balance b/d
			283000

Dr	MOTOR CYCLE ACCOUNT		Cr.
Date	Shs	Date	Shs
9 th	Bank	932500	31 st
1 st /02	Balance b/d	932500	Balance c/d

Dr	COMMISSION ACCOUNT		Cr.
Date	Shs	Date	Shs
31 st	Balance c/d	138500	12 th
			Bank
		1 st /02	Balance b/d
			138500

Dr	ADVERTISING ACCOUNT		Cr.
Date	Shs	Date	Shs
18 th	Bank	139000	31 st
			Balance c/d
			139000

1st/02 Balance b/d 139000

Dr		KAMAU'S ACCOUNT		Cr.	
Date		Shs		Date	Shs
31 st	Balance c/d	<u>500000</u>		20 th	Cash <u>500000</u>
				1 st /02	Balance b/d 500000
Dr		OKU'S ACCOUNT		Cr.	
Date		Shs		Date	Shs
22 nd	Bank	<u>211000</u>		31 st	Balance c/d <u>211000</u>
1 st /02	Balance b/d	211000			
Dr		PURCHASES ACCOUNT		Cr.	
Date		Shs		Date	Shs
28 th	Cash	<u>12500</u>		31 st	Balance c/d <u>12500</u>
1 st /02	Balance b/d	12500			
Dr		WAGES ACCOUNT		Cr.	
Date		Shs		Date	Shs
30 th	Cash	<u>135000</u>		31 st	Balance c/d <u>135000</u>
1 st /02	Balance b/d	135000			

ZUBUZI FIRM

TRIAL BALANCE

AS AT 31ST JANUARY 2008

DETAILS	DEBIT (SHS)	CREDIT (SHS)
CASH	3802000	
BANK		1160000
CAPITAL		2487000
SALES		701000
FURNITURE	37500	
OMARA		283000
MOTOR CYCLE	932500	
COMMISSION		138500
ADVERTISING	139000	
KAMAU		500000
OKU	211000	
PURCHASES	12500	
WAGE	135000	
TOTAL	5269500	5269500

NOTE;

- ❖ In the trial balance if a given ledger account does not have the balances i.e balance c/d and balance b/d, this ledger account name will not appear in the trial balance because it has no balance to extract to the trial balance. This is common with creditors' accounts and debtors' accounts which always end up being fully paid by the end of the trading period and therefore remaining with no balance to be taken to the trial balance.
- ❖ To simplify the recording of the different balances into the trial balance, this should also be noted that;
 - All losses, expenses, and assets have debit balances and therefore these balances will be recorded in the debit column of the trial balance. But the closing stock of the business i.e stock at the end of the trading period is not indicated in the trial balance though it is an asset to the business instead opening stock is considered.
 - All gains, liabilities, and incomes have credit balances and therefore these balances will be recorded in the credit column of the trial balance.

EXAMPLE 13

Given the following balances ;

Cash	334,000
Bank	180,000
Capital	392500
Debtors	2,000
Salaries	5,000
Sales	183,500
Stationary	2,500
Drawings	37,000
Electricity	4,500
Water	5,000
Rent	3,500
General expenses	5,000

Extract a trial balance from the above balances

Solution

HEADING

DETAILS	DEBIT (SHS)	CREDIT (SHS)
Cash	334,000	
Bank	180,000	
capital		392,500
Debtors	2,000	
Salaries	5,000	
Sales		183,500
Drawings	37,000	

Electricity	4,500	
Water	5,000	
Rent	3,500	
General expenses	5,000	
Total	567,000	567,000

EXERCISE 16

The following balances were extracted from the books of Ssebbi as at 30th/ September 2015

Details	shs
Cash in hand	1,200
Cash at bank	11,000
Stock (1 st /09/2015)	21,000
Debtors	8,000
Creditors	10,000
Returns in wards	500
Sales	56,000
Purchases	20,500
Capital	14,000
Salaries	4,000
Water and electricity	600
Postage	200
Drawings	900
Stock (30/09/2015)	13,500
Furniture and fittings	7,500
Motor van	35,000
Loan	30,000

Rent received 1,200

Office rent 1,700

Required;

- From the above balances prepare a trial balance.

Exercise 17

The following details were extracted from the books of kimbuyege for the month of February 2016

1st started business with cash at bank shs 13,000,000 and cash at hand shs 8,900,000

2nd bought furniture for business use shs 1,400,000

5th bought goods by cheque shs 800,000

6th withdrew money from bank for office use shs 4,000,000

10th sold goods on credit to kalippo shs 700,000

14th bought goods from kiyungu 650,000

16th cash sales to date shs 940,000

19th paid salaries by cheque shs 2,000,000

20th Kalippo settled his account by cash

23rd banked cash shs 930, 000

24th Paid part of kiyungu's debt by cheque shs 445,000

25th Bought goods by cheque worth 840,000

26th some furniture were sold by cash shs 500,000

27th Bought a lorry by cheque shs 30,000

28th received a cheque for goods sold shs 200,000

Required;

- Prepare Kimbuyege's two column cash book and balance it
- Open all the relevant ledger accounts to complete double entry.
- Extract a trial balance as at 28th February 2016.

EXERCISE 18

The following transactions were extracted from the books of Ssematimba for the month of December 2015.

1st Started business with cash at hand shs 150,000

Cash at bank shs 200,000

2nd Bought goods by cheque shs 10,000

5th Bought equipment shs 16,000

6th Bought goods on credit from kwagalakwe shs 4,000

10th Sold goods by cheque shs 12,000

11th Paid wages in cash shs 5,000

12th paid advertising expense shs 16,000

15th Returned damaged goods to kwagalakwe worth shs 500

17th Sold goods on credit to Bitama shs 1,000

18th Paid kwagalakwe by cheque shs 3,500

18th Bitama returned goods worth shs 1,000

20th Paid insurance in cash shs 2,000

21st some equipment were sold worth shs 2,000

22nd cash sales shs 4,000

26th Bitama paid part of his debt shs 1,500

28th paid electricity by cheque shs 10,000

28th withdrew cash for personal use shs 1,000

29th Banked cash shs 10,000

29th withdrew from bank for business use shs 50,000

30th Received a cheque for sales shs 3,000

Required;

- i) Prepare Ssematimba's two column cash book and balance it.
- ii) Open all the relevant ledger accounts and balance them at the end of the trading period .
- iii) Extract a trial balance as at 31st December 2015.

THE TRIAL BALANCE AND ERRORS

The trial balance being an extraction of both credit and debit balances, which are supposed to agree in totals due to the principle of double entry it can have some errors within it which can sometimes lead to its failure to agree in totals.

The trial balance can have different kinds of errors which are categorized into two groups i.e.

- I. Errors affecting the totals of the trial balance/ errors disclosed/ revealed by the trial balance.
- II. Errors not affecting the totals of the trial balance/ errors not disclosed/ not revealed by the trial balance.

ERRORS AFFECTING THE TRIAL BALANCE TOTALS

These are errors which once committed will affect the totals of the trial balance and the two sides will not be equal in this way. Therefore these errors are disclosed/ revealed by the trial balance.

EXAMPLES OF ERRORS AFFECTING THE TRIAL BALANCE TOTALS

The errors that affect the trial balance totals include the following;

1. **Making a single entry.** This is where instead of double entry the accountant makes a single entry for certain transactions. E.g. If a debit balance is made without a corresponding credit entry or if a credit entry is made without a corresponding debit entry.
2. **Poor arithmetics.** This is where the error is committed during addition, subtraction, multiplication, division e.t.c. This error is commonly committed while balancing the different ledger account in order to extract the balances. Therefore if the error has been committed during this process, the balances acquired will also be erroneous.
3. **Making an incorrect entry.** This is committed when making double entry where by the second entries are made on wrong side of the ledger accounts while completing double entry. E.g. If a debit entry is instead recorded on the credit or if a credit entry is instead recorded on the debit side.
4. **Failure to include all the balances in the trial balance.** If some balances are excluded from the trial balance as they appear in their respective ledger accounts, the trial balance totals are most likely not to agree because one of the sides will be found missing some of its balances which will make it less than the other side.
5. **Poor alignment of figures in the trial balance.** This is when the amounts are not arranged in their correct place values which can lead to a failure to properly add up all the amounts in their correct order and therefore giving you a wrong total amount.
6. **Failure to record the correct balance in the trial balance.** This is where the accountant instead of recording the balance as it appears in the ledger account records a different amount as a result of a mistake. E.g. Instead of recording 65,000 he/she records 56,000 which is a different amount.

ERRORS THAT DO NOT AFFECT THE TOTALS OF THE TRIAL BALANCE.

These are errors which once committed do not affect the totals of the trial balance , these errors are not revealed/ disclosed by the trial balance and therefore their existence will not be shown by the failure of the trial balance totals to agree hence the trial balance will agree in totals with the existence of these errors.

Errors that do not affect the totals of the trial balance include the following;

1. **Errors of omission.** These errors are committed when a transaction takes place and no entry is made in the books of accounts i.e. A transaction is completely omitted from the books of accounts and it is not recorded anywhere. Since this transaction is not recorded anywhere in the books of accounts, it will have no effect on the balances in the trial balance and therefore the trial balance will agree in totals.
2. **Errors of commission.** These errors are committed when an entry is made to a wrong ledger account but on a correct side of the ledger account.
For example; if an entry is supposed to be made to K. Joseph's account and instead it is recorded in Kato.J's account. Since these two accounts are different the above is an error but it will not affect the totals of the trial balance because the right double entry has been made though through a wrong account.
3. **Errors of principle.** These are errors committed when an entry of a transaction is made to a wrong class of account. This may involve debiting an asset's account instead of an expenses account for example debiting Land account instead of Purchases account. Since the principle of double entry is correctly followed, this will not affect the totals of the trial balance.
4. **Errors of original entry.** These are errors committed when an incorrect amount is recorded from the source document but to right ledger accounts. For example recording purchases of shs 65,000 as shs 56,000 both in the cash book and in the purchases account. This error will not affect the totals of the trial balance.
5. **Errors of compensation/ compensating errors.** These errors occur when the total sum of errors in the debit entries is equal to the sum of errors made in the credit entries. These errors being equal, they will cancel out one another and therefore the trial balance will reflect no error and the two columns of the trial balance will come out with equal total amounts.
6. **Error of complete reversal.** These are errors committed by reversing the principle of double entry i.e. a debit entry being recorded on the credit side and the credit entry being recorded on the debit side but in the correct ledger accounts e.g. recording purchases on the debit side of the cash book and then on the credit side of the purchases account. This error will not be revealed by the totals of the trial balance because double entry is being carried out in the right way.

THE THREE COLUMN CASHBOOK

This is a cash book with three amounts columns. This means that the three column cash book has three columns that cater for amounts meaning that the amounts column is divided into three columns unlike the two column cash book whose amounts column is divided into two columns. These columns include; discounts column, cash column and the bank column. In this case, the discounts columns are created in order to cater for the discounts that are always allowed to the buyers and received from the suppliers because they also need to be recorded and catered for in the cash book.

These three columns must appear on both sides of the account (debit side and credit side) whereby the cash column and the bank column are used in the same way as used in the two column cash book but when it comes to the discount columns, these columns take two different forms on the two different sides of the account. These two forms include;

- Discount allowed and Discount received

DISCOUNT ALLOWED

This is a discount given to buyers/customers/debtors of the business in case goods have been sold to them. Therefore the discount allowed reduces the amount of sales in the business.

This kind of discount is allowed to the buyers in case there is cash received in the business and therefore this will be recorded on the debit side of the cash book because it is reducing the amount of cash received by the business in most cases from sale.

Since this amount is allowed to a buyer/ customer/debtor by the business, it is a loss to the business because this amount is not directly paid to the business instead it is allowed to the buyer and hence the name "**Discount allowed**".

DISCOUNT RECEIVED

This is the amount earned by the business as a result of a reduction in the payments made. The business can receive this amount as a result of purchases, payment of its creditors, purchase of an asset e.t.c.

Discount received reduces the amount of money that is supposed to be paid out by the business and therefore the discount received column is on the credit side of the cash book.

Since it is reducing the amount of payment to be made by the business, it is an income to the business because this amount is not directly paid to the creditors/suppliers instead it is received by the business and hence the name "**Discount received**".

TYPES OF DISCOUNTS

The main types of discounts are;

- Cash discount
- Trade discount

CASH DISCOUNT. This is a discount allowed to trader who has fully paid within the stipulated period of time. This is always allowed to a trader to encourage him or her pay promptly

TRADE DISCOUNT. This is a discount allowed to a trader after buying in bulk (buying in large amounts). This is usually allowed in business in order to maintain the potential customers and encourage them buy more and also attract new customers to the business.

CALCULATION OF DISCOUNTS

Discounts can be given in different ways but with all these ways, the discount amount must be determined and recorded as an amount. In this way, discounts can be given as percentages, fractions and as whole numbers.

1. PERCENTAGE DISCOUNTS.

These are discounts given in form of percentages whereby to determine the amount of the discount, one must calculate the percentage given in terms of the total amount to be paid/received.

Example. Musoke bought goods for shs 200,000 and he was allowed a 2½% cash discount. Calculate the amount of the discount that was allowed to Musoke and how much did he pay for the goods.

Solution

$$\begin{aligned}\text{Discount} &= \frac{2.5}{100} \times 200,000 \\ &= 2.5 \times 2000 \\ &= \underline{\text{shs 5,000}}\end{aligned}$$

$$\begin{aligned}\text{Amount paid by Musoke} \\ &= 200,000 - 5,000 \\ &= \underline{\text{shs 195,000}}\end{aligned}$$

2. FRACTION DISCOUNTS

These are discounts given in form of fractions and therefore the given fraction must be calculated of the total amount.

E.g.

Kato bought goods worth shs 30,000 and he was given a $\frac{2}{3}$ discount. Calculate the amount of discount given to Kato and the amount he is supposed to pay.

Solution

$$\begin{aligned}\text{Discount} &= \frac{2}{3} \times 30,000 = 10,000 \\ &= 2 \times 10,000 \\ &= \underline{\text{shs 20,000}}\end{aligned}$$

$$\begin{aligned}\text{Amount paid} \\ &= 30,000 - 20,000 \\ &= \underline{\text{shs 10,000}}\end{aligned}$$

3. WHOLE NUMBER DISCOUNTS

These are discounts given in whole number forms whereby a given amount of discount is directly subtracted from the amount given. This form of discount does not need any more calculations to determine the amount of discount allowed or discount received because it is

already calculated and given as a whole number. Therefore here we are only required to calculate the amount paid which is the difference between the two amounts.

Example

Ivan bought goods for shs 40,000 and he was given a discount of shs 6,000. Calculate the amount he is supposed to pay.

Solution

$$\text{Amount paid} = 40,000 - 6,000$$

$$= \underline{\text{shs 34,000}}$$

NOTE;

After calculating the discount, the result is recorded in the discounts column which is either discount received or discount allowed according to the nature of the transaction leading to the discount and the balance that is supposed to be paid is recorded in either the cash column or the bank column depending on the means of payments used.

FORMAT OF A THREE COLUMN CASH BOOK

Dr.	HEADING						Cr.				
DATE	DETAILS	FOLIO	DISCOUNT ALLOWED (SHS)	CASH (SHS)	BANK (SHS)	DATE	DETAILS	FOLIO	DISCOUNT RECEIVED (SHS)	CASH (SHS)	BANK (SHS)

NOTE;

- i) The heading to the three column cash book is also written in three lines as written in the two column cash book and the single column cash book but the second column changes to "THREE COLUMN CASH BOOK"
- ii) When balancing a three column cashbook, Discount allowed and discount received are not balanced in the same way as it is done for cash and bank columns but instead the total amount for each column is written the way it is in its respective column and therefore the discount balances are not determined from the cash book.

EXAMPLE 14

On June 1st 2015, Katumwa had balances brought forward

Shs

Cash	60,000
------	--------

Bank 350,000

During the same month, he carried out the following transactions.

4th Received a cheque for shs 15,000 from Ochrom allowing him 5% discount.

7th Withdraw shs 40,000 for office use

10th Paid electricity in cash shs 20,000

13th Paid Mr. Akebo shs 60,000 less 5% discount

15th Received a cheque for shs 45,000 from Pamela allowing her a 10% discount

18th Paid Katushabe by cheque shs 10,000 less 20%

21st Drew a cheque of shs 5,000 for personal use

25th Received cash shs 20,000 from Bukamba less shs 5,000.

28th Bought furniture by cheque shs 5,000 less 10%

Required:

Post the entries to the Three Column cash book and fully balance it.

Solution

**KATUMWA'S
THREE COLUMN CASH BOOK
FOR THE MONTH OF JUNE 2015.**

Dr.										Cr	
Date 06/15	Details	Folio	Discount Allowed (Shs)	Cash (Shs)	Bank (Shs)	Date 06/15	Details	Folio	Discount Received (Shs)	Cash (Shs)	Bank (Shs)
1 st	Balance	b/f		60,000	350000	7 th	Cash	C			40000
4 th	Ochrom		750		14250	10 th	Electricity		3000	20000	
7 th	Bank	C		40000		13 th	Mr. Akebo		2000	57000	
15 th	Pamela		4500		49500	18 th	Katushabe				8000
25 th	Bukamba		5000	15000		21 st	Drawings				5000
						28 th	Furniture				4500
						30 th	Balance	c/d	500	38000	35620
1 st /07	Balance	b/d		<u>10250</u>	<u>115000</u>				<u>5500</u>	<u>115000</u>	<u>413750</u>

To complete double entry for the discounts, These discounts are recorded in the debtors' and creditors' accounts on the date of making the payments and the second entry is made in the discounts accounts

(discount allowed account and discount received account) in which these amounts are recorded as a total sum of all the discounts allowed or received to their respective accounts. These amounts are recorded as extracted from the cash book and on the last date of the trading period.

EXAMPLE 15

2016 April

1st Cash in hand brought down from the previous month shs 165,000

1st Cash at bank brought down from the previous month shs 750,000

2nd Paid G and Co. by cheque shs 30,000 less 10% discount

5th Bought stationary shs 3,600 cash

6th Paid sundry expenses shs 6,000 by cheque

8th Received payments by cheque from kigenyi shs 23,000

10th Cash purchases shs 30,000

11th Drew out money for own use shs 15,000

15th Paid by cheque creditors shs 26,500 discount received shs 1,500

17th Sold goods by cheque shs 35,000 discount allowed 5%

20th Drew out cash from bank shs 15,000 for office use

Required:

Transfer the above transactions to Luswata's cash book and complete double entry

Solution

**LUSWATA'S
THREE COLUMN CASH BOOK
FOR THE MONTH OF APRIL 2016.**

Dr.												Cr
Date	Details	Folio	Discount Allowed (Shs)	Cash (Shs)	Bank (Shs)	Date	Details	Folio	Discount Received (Shs)	Cash (Shs)	Bank (Shs)	
04/16												
1 st	Balance	b/f		165,000	750000	2 nd	G &Co		3000		27000	
8 th	Kigenyi			23000	33250	5 th	Stationery			3600		
17 th	Sales			15000		6 th	Sundry expenses				6000	
20 th	Bank	C	1750			10 th	Purchases			30000		
						11 th	Drawings			15000		
						15 th	Creditors				25000	

1 st /05	Balance	b/d	<u>1750</u>	<u>180000</u>	<u>806250</u>	20 th 30 th	Cash Balance	C c/d	<u>4500</u>	<u>131400</u> <u>180000</u>	15000 733250 <u>806250</u>
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Dr	G AND CO. 'S ACCOUNT			Cr.
Date		shs		
2 nd	Bank	27,000		
2 nd	discount received	<u>3000</u>		
		<u>30,000</u>		
1 st /05	Balance b/d	30,000		

Dr	STATIONARY ACCOUNT			Cr.
Date		shs	Date	shs
5 th	cash	<u>3600</u>	30 th	Balance c/d
1 st /05	Balance b/d	3600		<u>3600</u>

Dr	SUNDRY EXPENSES ACCOUNT			Cr.
Date		shs	Date	shs
6 th	Bank	<u>6000</u>	30 th	Balance c/d
1 st /05	Balance b/d	6000		<u>6000</u>

Dr	KIGENYI'S ACCOUNT			Cr.
Date		shs	Date	shs
30 th	Balance c/d	<u>23000</u>	8 th	Bank
			1 st /05	Balance b/d
				23000

Dr	PURCHASES ACCOUNT			Cr.
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Date	shs	Date	Shs
10 th Cash	<u>30000</u>	30 th Balance c/d	<u>30000</u>
1 st /05 Balance b/d	30000		

Dr	DRAWINGS ACCOUNT		Cr.
Date	shs	Date	shs
11 th Cash	<u>15000</u>	30 th Balance c/d	<u>15000</u>
1 st /05 Balance b/d	15000		

Dr	CREDITORS ACCOUNTS		Cr
Date	shs	Date	shs
15 th Bank	25000	30 th Balance c/d	26500
15 th Discount received	1500		
	<u>26500</u>		<u>26500</u>
1 st /05 Balance b/d	26500		

Dr	SALES ACCOUNT		Cr
Date	shs	Date	shs
30 th Balance c/d	35000	17 th Bank	33250
		17 th Discount allowed	1750
	<u>35000</u>		<u>35000</u>
		1 st Balance b/d	35000

Dr.	DISCOUNT ALLOWED ACCOUNT	Cr.

Date		Shs	Date		Shs
30 th	Cash	<u>1750</u>	30 th	Balance c/d	<u>1750</u>
1 st /05	Balance b/d	1750			
Dr.	DISCOUNT RECEIVED ACCOUNT				Cr.
Date		Shs	Date		Shs
30 th	Balance c/d	<u>4500</u>	30 th	Cash	<u>4500</u>
			1 st /05	Balance b/d	4500

In case of opening balances, in the trial balance it can be found that some of the accounts do not have balances to be recorded in the trial balance and therefore these account names are not included in the trial balance but the trial balance can be found not having the same total amounts in the two columns not because of the existence of errors but because of the absence of capital. Therefore in this instance, capital can be got from the accounting equation given below;

Assets = capital – liabilities.

∴ Capital = assets – liabilities

EXAMPLE 16

The following information was extracted from the books of MUTEMA'S business for the month of March 2011.

March 1st balances brought down from February 2011

Shs.

Cash balance	290,000
Bank balance	6,540,000

DEBTORS ACCOUNTS

K. Oyende	1,200,000
S. Atikwi	2,800,000
S. Mafuta	400,000

CREDITORS ACCOUNTS

T. Olupot	600,000
L.Kairo	4,400,000

J. Mukandoli 1,000,000

2nd K .Oyende settled his account by cheque less 2½% discount

5th Sold Goods by cheque shs 2,000,000

8th Paid J. Mukandoli by cheque after deducting 5% cash discount

9th Bought goods on credit from macula and sons shs 3,000,000.

11th Withdrew shs 1,000,000 from bank for business use

16th S. Atikwi settled her account by cheque less 2½% cash discount

18th Sold goods on credit to Kikandwa Traders shs 420,000.

25th Paid wages in cash shs 920,000

26th S. Mafuta paid cash less 5% cash discount

28th Paid Makula and sons the amount due by cheque less 5% cash discount.

29th Kikandwa traders paid the amount due from them by cash less 2% cash discount.

30th Paid L.Kairo by cheque less 2½% cash discount.

Required:

- i) Write Mutema's three column cash book and balance it at the end of the month.
- ii) Transfer the information to the relevant ledger accounts to complete double entry.
- iii) Extract a trial balance.

Solution

**MUTEMA'S
THREE COLUMN CASH BOOK**

FOR THE MONTH OF MARCH 2011.

Dr.	FOR THE MONTH OF MARCH 2011.						Cr				
Date 03/11	Details	Folio	Discount Allowed (Shs)	Cash (Shs)	Bank (Shs)	Date 03/11	Details	Folio	Discount Received (Shs)	Cash (Shs)	Bank (Shs)

1 st	Balance	b/f		290000	654000	8 th	JMukandoli	C	50000	950000
2 nd	K.Oyende		30000		1170000	11 th	Cash		920000	1000000
5 th	Sales				2000000	25 th	Wages			
11 th	Bank	C		1000000		28 th	Makula& s			
16 th	S. Atikwi		70000		2730000	30 th	L.Kairo			
26 th	S. Mafuta		20000	380000		31 st	Balance	c/d	1161600	3350000
29 th	Kikandwa tr		8400	411600						
			128400	2081600						
					12440000					
1 st /04	Balance	b/d		1161600	3350000					

ii)

Dr.

K. OYENDE'S ACCOUNT

Cr

Date	Shs	Date	Shs
1 st	Balance b/f	1200000	2 nd
			Bank
		2 nd	Discount allowed
		1200000	30000
			1200000

Dr.

S.ATIKWI'S ACCOUNT

Cr

Date	Shs	Date	Shs
1 st	Balance b/f	2800000	16 th
			Bank
		16 th	Discount Allowed
		2800000	70000
			2800000

S.MAFUTA'S ACCOUNT

Cr

Dr	Shs	Date	Shs
1 st	Balance b/f	400000	26 th
			Cash
		26 th	Discount allowed
		400000	380000
			20000
			400000

Dr

T. OLUPOT'S ACCOUNT

Cr

Date	Shs	Date	Shs
13 st	Balance c/d	600000	1 st
		1 st /04	Balance b/f
			600000
			600000

Dr

L. KAIRO'S ACCOUNT

Cr

Date	Shs	Date	Shs
30 th	Bank	2490000	1 st
			Balance b/f
			4400000

30 th	Discount Received	<u>110000</u>	
		<u>4,400,000</u>	<u>4,400,000</u>

Dr	J. MUKANDOLI'S ACCOUNT		Cr
Date	Shs	Date	Shs
8 th	Bank	950000	1 st
8 th	Discount Received	50000	Balance b/f
		<u>1000000</u>	<u>1000000</u>

Dr	MAKULA AND SONS ACCOUNT		Cr
Date	Shs	Date	Shs
28 th	Bank	2850000	9 th
28 th	Discount Received	150000	Purchases
		<u>3000000</u>	<u>3000000</u>

Dr	PURCHASES ACCOUNT		Cr
Date	Shs	Date	Shs
9 th	Makula	<u>3000000</u>	31st
1 st /04	Balance b/d	3000000	

Dr	KIKANDWA TRADERS ACCOUNT		Cr
Date	Shs	Date	Shs
18 th	Sales	420000	29 th
			Cash
		420000	411600
		29 th	Discount allowed
			8400
			<u>420000</u>

Dr	SALES ACCOUNT		cr
Date	Shs	Date	Shs
31 st	Balance c/d	2420000	5 th
			Bank
		2420000	2000000
		18 th	Kikandwa traders
			420000
			<u>2420000</u>
		1 st /04	Balance b/d
			2420000

Dr	WAGES ACCOUNT		Cr
Date	Shs	Date	Shs
25 th	Cash <u>920000</u>	31 st	Balance c/d <u>920000</u>
1 st /04	Balance b/d 920000		

Dr	DISCOUNT ALLOWED ACCOUNT		Cr
Date	Shs	Date	Shs
31 st	Cash <u>128400</u>	31 st	Balance c/d <u>128400</u>
1 st /04	Balance b/d 128400		

Dr	DISCOUNT RECEIVED ACCOUNT		Cr
Date	Shs	Date	Shs
31 st	Balance c/d <u>310,000</u>	31 st 1 st /04	Cash Balance b/d <u>310,000</u> 310,000

(iii)

**MUTEMA'S
TRIAL BALANCE
AS AT 31ST MARCH 2011**

DETAILS	DEBIT (Shs)	CREDIT (Shs)
Cash	1161600	
Bank	3350000	
T. Olupot		600000
Purchases	3000000	
Sales		2420000
Wages	920000	
Discount allowed	128400	
Discount Received		310000
Capital		5230000

TOTAL	8,560,000	8,560,000
-------	-----------	-----------

Capital from;

Assets = capital – liabilities

Capital = assets – liabilities

But assets= cash + bank + debtors

$$= 290,000 + 6,540,000 + (1,200,000 + 2,800,000 + 400,000)$$

$$= 290,000 + 6,540,000 + 4,400,000$$

$$= \underline{\text{shs } 11,230,000}$$

And liabilities = creditors

$$= 600,000 + 4,400,000 + 1,000,000$$

$$= \underline{\text{shs } 6,000,000}$$

Therefore

$$\text{Capital} = 11,230,000 - 6,000,000$$

$$= \underline{\text{shs } 5,230,000}$$

NOTE;

When calculating capital from the above, we use the opening balances i.e. cash at hand, cash at bank, and debtors as assets and creditors as liabilities for the case of the above example.

EXERCISE 19

The following details relate to Mr. Kalooli for the month of august 2015

August 1st, balances brought forward

Cash 120,000

Bank 200,000

Debtors

Jjuuko 50,000

Nalusizi 80,000

Creditors

Guma 30,000

Matovu 20,000

2nd cash sale shs 120,000.

4th banked cash shs 70,000.

6th received a cheque from Jjuuko shs 50,000 less a discount of 5%.

9th paid Guma by cheque shs 30,000 less 4½% cash discount.

11th received cash from Nalusizi shs 80,000 less 3% discount.

13th paid Matovu's debt by cash less 4% discount.

16th bought goods on credit from Kaggwa shs 56,000

20th paid wages by cheque shs 40,000.

23rd paid Kaggwa shs 41,000 less 2½% discount.

25th bought goods by cheque shs 195,000.

26th cash sales paid directly into the bank shs 45,000

27th cash purchases shs 80,000

28th sold goods and received cash shs 90,000

Required;

- i) Enter the above information in Mr. Kalooli's three column cash book.
- ii) Open all the relevant ledger accounts to complete double entry.
- iii) Extract a trial balance.

EXERCISE 20

The following information was extracted from the books of Jaribu Enterprises for the month of September 2010.

September 2010 balances b/f from August.

Cash at hand shs 4,800,000

Cash at bank shs 6,500,000

DEBTORS

Agaba shs 1,200,000

Rhoda shs 2,800,000

CREDITORS

Annet shs 2,600,000

Ali shs 4,400,000

2nd Agaba cleared his account by cheque after deducting 2½% cash discount

8th withdrew cash for business use worth shs 1,400,000

14th Received cash from Rhoda in full settlement of her account less 2% cash discount.

20th paid cash for wages worth shs 1,300,000

26th issued a cheque to Annet in full settlement of her account less 3% cash discount.

28th Deposited cash into bank worth shs 1,000,000

30th paid Ali by cash after deducting 2½% cash discount.

Required;

- a) Write up a three column cash book and balance it
- b) Complete double entry for the above information and show the discount accounts.
- c) Extract a trial balance and determine the amount of capital.

EXERCISE 21

Enter the following transactions in kamulali's three column cash book for the month of February 2016

1st started business with cash at hand shs 25,000 and cash at bank shs 50,000

2nd purchased goods by cash shs 50,000 less 5% discount.

4th paid electricity by cheque shs 7,000

5th sold goods shs 40,000 allowing a discount of 6,000

7th Received rent by cheque shs 20,000

10th bought land and paid by cheque shs 50,000

15th sold more goods shs 35,000 allowing a 2.5% discount.

20th purchased goods for shs 20,000 and received a $\frac{1}{4}$ discount.

ii) Balance up all the ledger accounts and show the discount accounts.

iii) Extract a trial balance.

NOTE;

Whenever there are discounts given, the suitable account type is a three column cash book

THE PETTY CASH BOOK

This is a cash book used to record small payments made in the business before they are transferred to the main cash book.

Every business finds it necessary to have cash available to cater for the small payments of which the services of the bank may not be convenient. This amount will be kept with a petty cashier who is responsible for maintaining a petty cash book in the business.

The business may have a lot of money but it is not desirable to keep a lot of money in cash form in the business because of the risks involved in this and the whole cash cannot be banked therefore some cash must be left in business to run the activities of the business such as buying news papers, refreshments, transport, stationary, postage, tea, cleaning, e.t.c. These are all together called petty expenses which will be paid out by the petty cashier and therefore recorded in the petty cash book.

TERMS USED IN THE PETTY CASH BOOK

1. **Imprest system.** This is a method where the petty cashier/junior cashier is given an adequate amount of money from the senior cashier to meet his petty cash payments for a given period of time.
At the end of the period, the petty cashier gives accountability of the money spent and thereafter he is re-imbursement in order to bring the cash in hand back to the original amount.
2. **Imprest amount/ cash float.** This refers to a fixed sum of money given to a petty cashier to spend on petty cash payments in a given period of time.
3. **Re-imbursement.** This is the act of topping up the balance brought down by the petty cashier in order to bring this amount to the original imprest amount.
4. **Dis-imbursements.** This is the total amount of expenditures made by the petty cashier in a trading period. Therefore this amount must be given back to the petty cashier at the beginning of the next immediate trading period as the re-imbursement amount which is added to the balance b/d to makeup the imprest amount.
5. **Balance brought down (balance b/d).** This is the amount of money that remains with the petty cashier at the end of the trading period. This is after making all the expenditures and it is the amount on which the senior cashier bases the amount to be given to the petty cashier as the re-imbursement to make up the imprest amount in the new trading period.

IMPORTANCE OF A PETTY CASH BOOK

1. The petty cash book relieves the main cash book of numerous entries involving expenditure of small amounts and therefore reduces overcrowding of the cash book.
2. The petty cash book enables the senior cashier concentrate on the major cash book transactions while the small transactions are being handled by the petty cashier.
3. The petty cash book reduces unnecessary movements to the bank in case of small payments.
4. The petty cash book reduces the chances of fraud and stealing of cash in the business.
5. The petty cash book serves as a training ground for the petty cashier in managing and accounting for money.
6. The petty cash book promotes division of labour and improved efficiency in the management of money.
7. The petty cash book enables the maintenance of the records of all the daily or common small expenditures.

FORMAT OF A PETTY CASH BOOK

HEADING

RECEIPT (SHS)	FOLIO	DATE	DETAILS	VOUCHER NO.	AMOUNT (SHS)	ANALYSIS COLUMNS					

Or

HEADING

DATE	DETAILS	VOUCHER NO.	RECEIPT (SHS)	AMOUNT (SHS)	ANALYSIS COLUMNS						

All the payments in the petty cash book are recorded under analysis columns unlike for the other cash books where we have the amounts columns on both the debit and credit sides of the cash book and after balancing up the petty cash book, at the end of the trading period, which can be a week, fortnight or a month the total amounts are recorded on the debit side of their respective ledger accounts to complete double entry.

The common analysis columns used in the petty cash book include the following;

1. Travelling – This will record the amount for all transportation expenses e.g bus fare, taxi fare, and other means of transport.
2. Stationery. – This will record all expenditures incurred on the different kinds of stationery such as ink, papers, pens, pencils, envelopes, books, staple wires, chalk e.t.c.
3. Cleaning – This will record all the expenses incurred on cleaning in the business such as buying cleaning soap, paying wages to cleaners, buying cleaning brushes e.t.c.
4. Postage – This records all expenses incurred in sending letter from the business e.g paying for postage stamps, letter parcels, and telegram e.t.c.
5. General expenses – This records all expenses that do not belong to any of the given analysis columns but given as general expenses.
6. Office expenses – This will record all the expenses incurred in the different office operations like staff tea, refreshments, news papers e.t.c.
7. Communication – This analysis column records all expenses incurred on communication like buying air time.
8. Sundry – This records items un usual expenses such as purchases.
9. Ledger – This records payments made to creditors/ suppliers.
10. Transport-This records transportation expenses.

The amounts column of the petty cash book records all the small expenditures of the business before they are recorded to their respective analysis columns.

The receipt column records the amount of money that is given to the petty cashier at the beginning of the trading period to cater for the petty expenditures. This amount can either be the cash float or the balance b/d plus the re-imbursement.

At the end of the trading period, the two columns ie amounts and receipt columns are balanced to find the balance remained with the petty cashier at the end of the trading period so as to start with that balance in the next trading period.

EXAMPLE 17

Enter the following transactions in Kakumba's petty cash book for the month of January 2016 using analysis columns for carriage, travelling expenses, office expenses, and stationery and balance the book on 6th/ jan/2016. The book is kept on imprest system and the imprest amount is shs 25,000.

2016 January

1st paid bus fare shs 3,700 and carriage shs 1,400

2nd paid bus fare shs 1800, office expenses shs 1,200

3rd bought stationery for shs 4,700

4th paid carriage shs 1,900, bus fare shs 2,500

5th bought stationery for shs 2,300

6th paid office expenses shs 1,500

Solution; Format 1

KAKUMBA'S

PETTY CASH BOOK

FOR JANUARY 2016

Receipt (shs)	Folio	Date 01/2016	Details	Vouch er no.	Amount (shs)	Carriage (shs)	Travelling expenses (shs)	Office expenses (shs)	Stationery (shs)
25,000			1st 1 st 1 st 2 nd 2 nd 3 rd 4 th 4 th 5 th 6 th Dis-imbursment Balance		3700 1400 1800 1200 4700 1900 2500 2300 1500 21000 4000 25,000	1400 1900 2500 1500 3300 GL 1	3700 1800 1200 1500 8000 2700	4700 2300 7000 GL 3	
25,000	c/d								
4000	b/d	7 th	Balance						
21,000		7 th	Re -imbursement						

Using format 2

KAKUMBA'S
PETTY CASH BOOK
FOR JANUARY 2016

DATE 01/2016	DETAILS	VOUCHER NO.	RECEIPT (SHS)	AMOUNT (SHS)	Carriage (shs)	Travelling expenses (shs)	Office expenses (shs)	Stationery (shs)
1st 1 st	Float		25,000	3700	1400	3700	1200	4700
1 st	Bus fare			1400		1800		
1 st	Carriage			1800		1800		
2 nd	Bus fare			1200				
2 nd	Office expenses			4700				
3 rd	Stationery			1900				
4 th	Carriage			2500		2500		
4 th	Bus fare			2300				
5 th	Stationery			1500			1500	2300
6 th	Office expenses			21000	3300	8000	2700	7000
6 th	Dis-imbursement			4000				
	Balance c/d			25,000	25,000			
7 th	Balance b/d				GL 1	GL 2	GL 3	GL 4
	Re -imbursement			4000				
7 th				21,000				

In the petty cash book, the general ledger (GL) accounts are operated by recording the total amounts for every analysis column and they are all debited because they are expenses as shown below for the above example.

General ledger

Dr.	CARRIAGE ACCOUNT		Cr.
Date	shs	Date	shs
Jan 6 th	petty cash	3300	
Dr.	TRAVELLING ACCOUNT		Cr.
Date	shs	Date	shs
Jan 6 th	petty cash	8000	

Dr.	OFFICE EXPENSES ACCOUNT		Cr.

Date		shs	Date	shs
Jan 6 th	petty cash	2700		

Dr.	STATIONERY ACCOUNT		Cr.
Date	shs	Date	shs
Jan 6 th	petty cash	7000	

EXAMPLE 18

2. Namaaso keeps a petty cash book on imprest system, the imprest amount is shs. 300,000. The following information is available for the month of February 2009

	Shs
Feb 1 st Received a cheque for the imprest	300,000
2 nd Paid for taxi fare	20,000
3 rd Paid for postage stamps	9,000
4 th Paid for cleaning material	15,000
5 th Paid transport fare for messenger	6,000
6 th Paid for stationery	30,000
10 th Paid for envelopes	4,000
13 th Paid for cleaning material	15,000
15 th Paid for stationery	10,000
19 th Paid for postage of letters	12,000
22 nd Paid for manager's bus fare	8,000
23 rd Paid transport fare for messenger	8,000
25 th Paid for pens for office use	20,000
26 th Paid a supplier for goods supplied on credit	40,000
27 th Paid for cleaning brushes	10,000
28 th Paid for envelopes and stamps	15,000

Required;

- (a) Prepare Namaaso's Petty cash book using analysis columns for communication, stationery, cleaning, travelling and ledger.
- (b) Post the expenses to their appropriate accounts in the general ledger.

SOLUTION

NAMAASO'S

PETTY CASH BOOK

FOR THE MONTH OF FEBRUARY 2009

Receipt (shs)	Foli o	Date 02/2009	Details	Vouc her no.	Amount (shs)	Communicati on (shs)	Stationer y (shs)	Cleaning (shs)	Travelling (shs)	Ledger (shs)
300,000			1 st 2 nd 3 rd 4 th 5 th 6 th 10 13 th 15 th 19 th 22 nd 23 rd 25 th 26 th 27 th 28 th		Imprest Taxi fare Postage stamps Cleaning material Transport fare Stationery Envelopes Cleaning material Stationery Postage Bus fare Transport fare Pens Suppliers Cleaning brushes Envelopes & stamps	20000 9000 15000 6000 30000 4000 15000 10000 12000 8000 8000 20000 40000 10000 15000	9000 4000 12000 30000 10000	15000 15000 8000 8000	20000 6000 8000 8000	
	L.1				222000	40000	60000	40000	42000	40000
		c/d	28 th		78000					
	b/d				300000					
<u>300000</u>										
78000										
222000	CB	1 st /03	1 st /03							

GENERAL LEDGER

Dr.	COMMUNICATION ACCOUNT			Cr.
Date (02/2009)	shs		Date (02/2009)	shs
28 th	petty cash	<u>40000</u>	28 th	balance c/d
1 st /03	balance b/d	40000		<u>40000</u>

Dr.	STATIONERY ACCOUNT			Cr.
Date (02/2009)	shs		Date (02/2009)	shs
28 th	petty cash	<u>60000</u>	28 th	balance c/d
				<u>60000</u>

1st/03 balance b/d 60000

Dr.	CLEANING ACCOUNT		Cr.		
Date	shs	Date	shs		
(02/2009)		(02/2009)			
28 th	petty cash	<u>40000</u>	28 th	balance c/d	<u>40000</u>
1 st /03	balance b/d	40000			

Dr.	TRAVELLING ACCOUNT		Cr.		
Date	shs	Date	shs		
(02/2009)		(02/2009)			
28 th	petty cash	<u>42000</u>	28 th	balance c/d	<u>42000</u>
1 st /03	balance b/d	42000			

Dr.	SUPPLIER'S ACCOUNT		Cr.		
Date	shs	Date	shs		
(02/2009)		(02/2009)			
28 th	petty cash	<u>40000</u>	28 th	balance c/d	<u>40000</u>
1 st	balance b/d	40000			

EXERCISE 22

The petty cashier of Ssembi and Co. is given a two weeks imprest of shs 280,000 during the period that started on 1st/march/2016 he made the following transactions.

Details	shs
March 1 st balance b/d	97000
1 st cash re-imbursement	?
2 nd bought office cleaning material	24000
3 rd Paid for staff tea	15000
3 rd Paid for travel fare	30000
4 th Bought soda for staff	10000
5 th Paid for staff transport	15000
6 th paid Katunda	1500
6 th Bought reams of paper	24000
7 th Bought chalk	10000

8 th Bought sugar	4000
8 th Bought staple wires	1000
9 th Bought envelopes	2000
9 th Paid the cleaners	10000
10 th Bought a broom	500
11 th Paid for news papers	14000
12 th paid Muwanga	16000
13 th paid for taxi fare	20000
13 th bought staff tea	10000
14 th paid for cleaners wages	18000

Required:

Prepare Ssemby and Co.'s petty cash book having analysis columns for stationery, cleaning, travelling, staff expenses, office expenses and ledger.

Open up the relevant ledger accounts in the general ledger.

EXERCISE 23

Josephine maintains a petty cash book on the imprest system with analysis columns for motor expenses, postage, cleaning, travelling expenses and ledger. Below are the transactions for the month of September 2014.

September 1st the chief cashier gave shs 300000 as a float to the petty cashier.

2 nd bought petrol for the van	16000
3 rd paid travelling expenses for staff	23000
3 rd paid for postage	12000
4 th paid for travel expenses	32000
7 th paid for general cleaning	11000
9 th bought petrol for the van	21000
12 th paid travelling expenses for staff	13000
14 th bought petrol for the van	23000
15 th paid travelling expenses for staff	5000
16 th paid for general cleaning	11000
18 th bought petrol for the van	22000
20 th paid for postage	12000
22 nd paid for general cleaning	11000
24 th paid travelling expenses for staff	7000
29 th settled accounts for Mr. C.Brown	13000
30 th paid for postage	12000

Required:

- (i) Prepare a petty cash book and balance it as at 30th/September 2014.
- (ii) Transfer the transactions to the general ledger.

SUBSIDIARY BOOKS OF ACCOUNTS

JOURNALS/ DAY BOOKS

These are books of original entry used to record credit transactions and returns before they are entered in the ledger. These books help in recording goods that are sold or bought on credit and at the same time the goods returned to the business by the customers/debtors or goods returned by the business to the suppliers.

Note;

- (i) Whenever goods are sold on credit, an invoice is written to the buyer who has bought the goods on credit and whenever goods are bought by the business on credit, an invoice is received from the supplier. The purpose of the invoice is to show that goods were bought or sold on credit and therefore this will have an invoice number which is different for every credit transaction (credit purchases or credit sales).
- (ii) Whenever the goods are returned to the business, it writes a credit note to the person/business that has returned the goods to the business and when the business returns the goods to the supplier because of the different reasons, it receives a credit note from the supplier. And therefore the credit note will have a credit note number which will also be different for the different returns transactions (returns in wards or returns outwards).

This means, the common day books used in business include;

- a) Purchases day book/journal.
- b) Purchases returns day book/returns outwards day book/journal.
- c) Sales day book/journal.
- d) Sales returns day book/returns inwards day book/journal.

THE PURCHASES DAY BOOK/PURCHASES JOURNAL

This is a book which is used to record credit purchases of the business. Businesses normally buy goods on credit and such transactions are recorded in the purchases day book/purchases journal.

Note;

The purchases day book is not part of the double entry but instead it is a list of credit purchases of the business.

Format of a purchases day book

The purchases day book can take two different formats which depend on the nature of the transactions to be recorded i.e.

(i) If there are no discounts

HEADING

Date	Details	Invoice Number	Folio	Amounts (shs)

(ii) In case of discounts and other detailed calculations.

HEADING

Date	Details	Invoice number	Folio	Invoice details (shs)	Amount (shs)

ROLE OF THE DIFFERENT COLUMNS OF THE PURCHASES DAY BOOK

1. Date: This column records the date on which a given transaction took place.
2. Details: This records the details of the different transactions in terms of the name of the creditor. Therefore this records the name of the creditor.
3. Invoice number: This column records the number on the invoice received by the business to acknowledge the purchase of goods on credit. The invoices received by the business indicate that the business bought goods on credit and these are at the same time the incoming invoices to the business.
4. Folio: This column records the purchases ledger number because the transactions after being listed in the purchases day book are transferred to the purchases ledger. Therefore this column records the purchases ledger number e.g. PL.1, PL.2, PL.3, PL.4.....and others in that order.
5. Invoice details: This column is used for purposes of calculations in order to reach to the final amount to record in the amounts column. These calculations include discounts, summing up amounts relating to the same supplier. This column is included in the purchases day book after determining that there is need for it, therefore it is used after finding that the transactions to deal with contain discounts and summing up amounts to be dealt with.
6. Amounts: this column records the final amount for a given transaction. This is after adding up the amounts and deducting all the discounts if any.

EXAMPLE 19

Enter the following transactions in the purchases day book of Mulimba and post the entries to the purchases ledger.

- 2013 march 1st bought goods on credit from Kawasi shs 400,000, invoice no.001
 6th purchased goods on credit from Ziwa & co shs 820,000, invoice no. 008
 13th received an invoice from Apollo for shs 100, 000, invoice no.003
 18th purchased more stock from Kawasi shs 500, 000, invoice no 002
 28th credit purchases from Juma shs 40,000 invoice no.010

Solution

MULIMBA'S
PURCHASES DAY BOOK
FOR THE MONTH OF MARCH 2013

DATE March/2013	DETAILS	INVOICE NUMBER	FOLIO	AMOUNT (SHS)
1 st	Kawasi	001	PL.1	400,000
6 th	Ziwa	008	PL.2	820,000
13 th	Apollo	003	PL.3	100,000
18 th	Kawasi	002	PL.1	500,000
28 th	Juma	010	PL.4	40,000
31 st	Total credit purchases to purchases account		GL.1	1,860,000

PURCHASES LEDGER

The purchases ledger (PL) contains the ledger accounts for all the creditors of the business or all the people from whom goods have been bought on credit during the trading period as shown below.

Dr.		KAWASI'S ACCOUNT (PL.1)		Cr.	
Date	shs	Date	shs		
31 st	balance c/d	900,000	1 st	purchases	400,000
			18 th	purchases	500,000
		<u>900,000</u>			<u>900,000</u>

1st/04 balance b/d 900000

Dr.	ZIWA'S ACCOUNT (PL.2)		Cr.	
Date	shs	Date	shs	
31 st	balance c/d	820,000	6 th purchases	820,000
		<u>820,000</u>		<u>820,000</u>
			1 st /04 balance b/d 820,000	

Dr.	APOLLO'S ACCOUNT (PL.3)		Cr.	
Date	shs	Date	shs	
31 st	balance c/d	100,000	13 th purchases	100,000
		<u>100,000</u>		<u>100,000</u>
			1 st /04 balance b/d 100,000	

Dr.	JUMA'S ACCOUNT (PL.4)		Cr.	
Date	shs	Date	shs	
31 st	balance c/d	40,000	28 th purchases	40,000
		<u>40,000</u>		<u>40,000</u>
			1 st /04 balance b/d 40,000	

GENERAL LEDGER

For this case, the general ledger (GL) will only have the purchases account because in the above question we have dealt with only the credit purchases. But if we had both the purchases day book and the sales day book, then we would have been with both the purchases account and the sales account in the general ledger. Therefore for the above example, the general ledger will only have the purchases account as below;

Dr.	PURCHASES ACCOUNT (GL.1)		Cr.
Date	shs	Date	shs
31 st	creditors 1,860,000	31 st balance c/d	1,860,000

	<u>1,860,000</u>	<u>1,860,000</u>
1 st 04	balance b/d	1,860,000

EXAMPLE 20

(Including discounts)

Katungulu commenced business in January 2016 and during the month the following transactions took place.

January 2016

1st Bought from Mugema

10 boxes of soap each at shs 20,000 and 5 bags of sugar @58,000 on invoice number 2162 less 20% discount

4th Bought the following from Lumbe traders:

5 boxes of Riham biscuits each at shs 10,000

19 dozens of books each at shs 4,000

25 boxes of shoe polish each at shs 10,000

Invoice number 1674 less 15% discount.

15th purchased from Kasoma retailers

10 boxes of star soap each at shs 20,000

56 bags of maize each at shs 28,000

100 basins each at shs 1500

Invoice number 176 less 10% discount.

Required:

Enter the above transactions in the purchases journal and post them to the purchases ledger and show the purchases account in the general ledger.

Solution

KATUNGULU'S
PURCHASES DAY BOOK
FOR THE MONTH OF JANUARY 2016

DATE JANUARY 2016	DETAILS	INVOICE NUMBER	FOLIO	INVOICE DETAILS (SHS)	AMOUNT (SHS)
1 st	<u>MUGEMA</u> 10 boxes of soap @ 20,000 5 bags of sugar @ 58,000 Less: 20% discount	2167	PL.1	200,000 290,000 <hr/> 490,000 98,000	392,000
4 th	<u>LUMBE TRADERS</u> 5 Boxes of Riham @ 10,000 19 Dozens of books @ 4,000 25 boxes of shoe polish @ 10,000 Less: 15% discount	1674	PL.2	50,000 76,000 250,000 <hr/> 376,000 56400	319600
15 th	<u>KASOMA RETAILERS</u> 10 boxes of star soap @ 20,000 56 bags of maize @ 28,000 100 basins @ 1500 Less 10% discount	176	PL.3	200,000 1568000 150,000 <hr/> 1918000 191800	1726200
31 st	Total credit purchases to purchases account		GL.1		2437800

Purchases ledger

Dr.	MUGEMA'S ACCOUNT (PL.1)		Cr.	
Date	shs	Date	shs	
31 st	balance c/d	<u>392,000</u>	1 st purchases	<u>392,000</u>
			1 st /02 balance b/d	392,000

Dr.	LUMBE TRADER'S ACCOUNT (PL.2)		Cr.	
Date	shs	Date	shs	
31 st	balance c/d	<u>319600</u>	4 th purchases	<u>319600</u>
			1 st /02 balance b/d	319600

Dr.	KASOMA RETAILERS ACCOUNT (PL.3)		Cr.	
Date	shs	Date	shs	
31 st	balance c/d	<u>1726200</u>	15 th purchases	<u>1726200</u>
1 st /02	balance b/d	1726200		

GENERAL LEDGER

Dr	PURCHASES ACCOUNT		Cr.	
Date	shs	Date	shs	
31 st	creditors	<u>2437800</u>	31 st balance c/d	<u>2437800</u>
1 st /02	balance b/d	2437800		

EXERCISE 24

Kavuma started business in the month of March 2016 and the following transactions took place.

March 1st purchased from kyeyune 10 crates of soda each at shs 40,000, 6 packets of biscuits each at shs 7500 and 4 cartons of salt each at shs 11,000, invoice no. 0012 and given a 2% trade discount.

5th made credit purchases from kakayi as follows

2 boxes of soap @ 55,000

6 boxes of nomi washing powder @ shs 24,000

3 pairs of sandals @ shs 50000

He received a 2½% discount for the goods bought on invoice number 2436.

16th bought from musota traders 5dozens of books @ shs 6000, a dozen of pens @ shs 5,000, 6reams of papers @ shs 12,000 and 3 cartons of shoe polish @ shs 5,000, he received a 5% discount.

22nd purchased from kiyonga 9 jerry cans of cheers @ shs 7,000 on invoice number 9867

Required: enter the above transactions into kavuma's purchases day book and post to the purchases ledger and purchases account.

THE PURCHASES RETURNS DAY BOOK/ RETURNS OUTWARDS DAY BOOK/PURCHASES RETURNS JOURNAL/RETURNS OUTWARDS JOURNAL

This is a book that records details of goods returned by the business to its credit suppliers. Sometimes the business may return goods which were once bought on credit to the supplier. These goods are called returns outwards or purchases returns. This is because the goods are being returned by the business to its outside suppliers and they are as a result of purchases (credit purchases). The goods returned by the business to its suppliers are recorded into the purchases returns day book/ returns outwards day book/purchases returns journal/returns outwards journal.

REASONS WHY THE BUSINESS MAY RETURN GOODS TO THE SUPPLIER

1. The goods may be damaged during the time of delivering them to the buyer.
2. The goods may be expired or out dated.
3. Goods received may not have been ordered for or different from the sample.
4. More goods than demanded may be delivered and therefore the excess may be returned.
5. The buyer may not be willing to pay the high prices yet the seller may not be willing to reduce the price
6. In case the goods received are of a poor quality, wrong type and size according to what was ordered for.

NOTE:

- Once goods have been returned to the supplier, a credit note is issued to the business by the supplier which shows the value of goods returned. A credit note is a source document which shows a correction of an over charge and therefore it shows the value of goods returned.
- It is from the incoming credit notes that a purchases returns day book is drawn.
- The returns are either part or the whole of the goods that were previously bought on credit but not more than the goods that were bought because it is after credit purchases that goods are later returned to the supplier.

Format of a returns out words day book

Date	Details	Credit note number	Folio	Amount (shs)
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OR

Date	Details	Credit note number	Folio	Credit note details (shs)	Amount (shs)

EXAMPLE 21

The following information relates to Franco for the month of August 2014

1st returned goods worth 60,000 to general enterprises limited credit note number 003

8th received a credit note for return of damaged goods to Kamba shs 45,000, credit note number 43

17th goods returned to kisitu were worth 250, 000, credit note number 65

Required:

- (I) Write up a returns out words journal.

Solution

**FRANCO'S
PURCHASE RETURNS DAY BOOK
FOR THE MONTH OF AUGUST 2014**

Date August/2014	Details	Credit note number	Folio	Amount (shs)
1 st	General enterprises limited	003	PL.1	60,000
8 th	Kamba	43	PL.2	45,000
17 th	Kisitu	65	PL.3	250,000
30 th	Total purchases returns to purchases returns account		GL.1	355,000

N.B

At the end of the trading period, the total credit returns out words is determined and entries posted to the general ledger and purchases ledger as follows.

- a) Debit each creditor's account with its respective amount.
- b) Credit the total to the purchases returns account/returns out words account.

For the above example, it will appear as follows.

Dr.	GENERAL ENTERPRISES'S ACCOUNT		Cr.
Date	shs	Date	shs
1 st	purchases returns	<u>60,000</u>	30 th balance c/d
1 st /Sept	balance b/d	60,000	<u>60,000</u>
Dr.	KAMBA'S ACCOUNT		Cr.
Date	shs	Date	shs
8 th	purchases returns	<u>45,000</u>	30 th balance c/d
1 st /Sept	balance b/d	45,000	<u>45,000</u>
Dr.	KISITU'S ACCOUNT		Cr.
Date	shs	Date	shs
17 th	purchases returns	<u>250,000</u>	30 th balance c/d
1 st /Sept	balance b/d	250,000	<u>250,000</u>
Dr.	PURCHASES RETURNS ACCOUNT		Cr.
Date	shs	Date	shs
30 th	balance c/d	<u>355,000</u>	30 th creditors
			<u>355,000</u>
			1 st /Sept balance b/d 355,000

EXAMPLE 22

Bukanya a trader at Market Street made the following purchases returns for the month of July 2012.

4th Returned 10 bags of cement each at shs 16,000 to kabali.

10th Received a credit note from Kato for the goods returned worth shs 60,000 (credit note number 009)

20th Returned 2 crates of soda to crown bottlers each at shs 15,000and 3 crates of beer each at shs 30,000.

Required:

- (i) Prepare a returns out words day book and post to the purchases ledger.

N.B

This question requires the use of the second format because it needs to have some calculations carried out before acquiring the final amount.

Solution

**BUKENYA'S
PURCHASES RETURNS DAY BOOK
FOR THE MONTH OF JULY 2012.**

Date July 2012	Details	Credit note number	Folio	Credit note details (shs)	Amount (shs)
4 th	<u>KABALI</u> 10 bags of cement @16,000		PL.1	16,000x10	160,000
10 th	KATO	009	PL.2		60,000
20 th	<u>CROWN BOTTLEDERS</u> 2 crates of soda @10,000 3 crates of beer @ 30,000		PL.3	20,000 90,000	110,000
31 st	Total purchases returns to purchases returns account		GL.1		330,000

Purchases ledger

Dr.	KABALI'S ACCOUNT		Cr.		
Date	shs	Date	shs		
4 th	purchases returns	<u>160,000</u>	31 st	balance c/d	<u>160,000</u>
1 st /08	balance b/d	160,000			

Dr.	KATO'S ACCOUNT		Cr.		
Date	shs	Date	shs		
10 th	purchases returns	<u>60,000</u>	31 st	balance c/d	<u>60,000</u>
1 st /08	balance b/d	60,000			

Dr.	CROWN BOTTLEDERS' ACCOUNT		Cr.
Date	shs	Date	shs

20 th	purchases returns	<u>110,000</u>	31 st	balance c/d	<u>110,000</u>
1 st / 08	balance b/d	110,000			

GENERAL LEDGER

Dr.	PURCHASES RETURNS ACCOUNT			Cr.
Date	shs		Date	shs
31 st	balance c/d	<u>330,000</u>	31 st	creditors
			1 st	balance b/d

Note:

The purchases day book and the purchases returns day book can be operated at the same time where by the goods once bought on credit are returned to the supplier and entries are made at ago. This can be illustrated in the example below,

EXAMPLE 23

Record the following transactions into Amosi's purchases day book and purchases returns day book, open up the purchases ledger and general ledger.

2016 May

1st credit purchases from musana shs 48,000 and owino shs 50,000

6th credit purchases from Kato shs 36,000 and Owino 30,000

12th returned goods to Musana shs 28,000 and Owino 34,000

16th credit purchases from Musoke shs 45,000 and Kato 24,000

24th goods returned to Owino shs 20,000 and Musoke shs 21,000

31st credit purchases from Musoke shs 25,000 and Owino shs 38,000.

Solution

**(i) AMOSI'S
PURCHASES DAY BOOK
FOR THE MONTH OF MAY 2016**

Date May/ 2016	Details	Invoice Number	Folio	Amounts (shs)
1 st	Musana		PL.1	48,000
1 st	Owino		PL.2	50,000
6 th	Kato		PL.3	36,000
6 th	Owino		PL.2	30,000
16 th	Musoke		PL.4	45,000
16 th	Kato		PL.3	24,000
31 st	Musoke		PL.4	25,000
31 st	Owino		PL.2	38,000
31 st	Total credit purchases to purchases account		GL.1	269,000

(ii)

**AMOSI'S
PURCHASES RETURNS DAY BOOK
FOR THE MONTH OF MAY 2016**

Date May/2016	Details	Credit note number	Folio	Amount (shs)
12 th	Musana		PL.1	28,000
12 th	Owino		PL.2	34,000
24 th	Owino		PL.2	20,000
24 th	Musoke		PL.4	21,000
31 st	Total purchases returns to purchases returns account		GL.2	103,000

(iii) Purchases ledger

Dr.		MUSANA'S ACCOUNT		Cr.	
Date	shs	Date		shs	
12 th	purchases returns	28,000	1 st	purchases	48,000
31 st	balance c/d	20,000			
		<u>48,000</u>		<u>48,000</u>	
			1 st / 06	balance b/d	20,000
Dr.		OWINO'S ACCOUNT		Cr.	
Date	shs	Date		shs	
12 th	purchases returns	34,000	1 st	purchases	50,000
24 th	purchases returns	20,000	6 th	purchases	30,000
31 st	balance c/d	64,000	31 st	purchases	38,000
		<u>118,000</u>		<u>118,000</u>	
			1 st / 06	balance b/d	64,000
Dr.		KATO'S ACCOUNT		Cr.	
Date	shs	Date		shs	
31 st	balance c/d	60,000	6 th	purchases	36,000
			16 th	purchases	24,000
		<u>60,000</u>		<u>60,000</u>	
			1 st / 06	balance b/d	60,000
Dr.		MUSOKE'S ACCOUNT		Cr.	
Date	shs	Date		shs	
24 th	purchases returns	21,000	16 th	purchases	45,000
31 st	balance c/d	49,000	31 st	purchases	25,000
		<u>70,000</u>		<u>70,000</u>	

1st /06 balance b/d 49,000

General ledger

Dr.	PURCHASES ACCOUNT (GL.1)		Cr.		
Date	shs	Date	shs		
31 st	creditors	<u>296,000</u>	31 st	balance c/d	<u>269,000</u>
1 st /06	balance b/d	269,000			

Dr.	PURCHASES RETURNS ACCOUNT (GL.2)		Cr.		
Date	shs	Date	shs		
31 st	balance c/d	<u>103,000</u>	31 st	creditors	<u>103,000</u>
1 st /06	balance b/d	103,000			

N.B , If combined, the purchases ledger number in the folio columns for the same creditor is the same in both the purchases journal and the purchases returns journal because goods were bought from and returned to the same creditor.

EXERCISE 25

Mugisha commenced business in January 2016 and during the month the following transactions took place.

January 2013

1st Bought from Ggwanga

9 boxes of mineral water each at shs 19,000 and 6 bags of Rice @50,000 on invoice number 1102 less 15% discount

4th Bought the following from Myaka traders:

8 boxes of Bic pens each at shs 15,000

26 dozens of Art pencils each at shs 4,000

25 boxes of Markers each at shs 60,000

Invoice number 874 less 10% discount.

10th returned 3 boxes of mineral water and 2 bags of rice to Ggwanga, 6 dozens of Art pencils and 2 boxes of markers to Myaka.

15th purchased from Kahinda retailers

170bars of soap each at shs 3,000

50 bags of beans each at shs 180,000

10 bags of sugar each at shs 150,000

Invoice number 56 less 12% discount.

20th goods were returned to;

- (i) Kahinda – 7bags of beans, 1bag of sugar and 20 bars of soap on credit note number 009.
- (ii) Myaka – 2 boxes of Bic pens

Required:

Enter the above transactions in

- (i) The purchases journal.
- (ii) The purchases returns journal.
- (iii) Post the transactions to the purchases ledger and the general ledger.

THE SALE JOURNAL/SALES DAY BOOK

This is a book which is used to record credit sales of the business. Businesses normally sell goods on credit and such transactions are recorded in the sales day book/sales journal. Whenever goods are sold on credit by the business, the business writes an invoice to the person or organization to which goods have been sold on credit. This invoice is to acknowledge the sale of goods on credit.

REASONS FOR SELLING GOODS ON CREDIT

- To increase the market shares of the business ie the number of customers being served on the market.
- To increase profits of the business which result from increased sales due to large number of customers.
- To promote a good relationship between the seller and the customers.
- To enable customers who may not have the money be able acquire the needs without paying cash.
- To enable the entrepreneur to get rid of stock that is about to expire.
- To facilitate the sale of expensive goods for example industrial machinery, expensive furniture e.t.c.

Note;

- The sales day book is not part of the double entry but instead it is a list of credit sales of the business.
- It is from the outgoing invoices that a sales day book is written

Format of a sales day book

The sales day book can take two different formats which depend on the nature of the transactions to be recorded as earlier seen in the purchases day book.

If there are no discounts

HEADING

Date	Details	Invoice Number	Folio	Amounts (shs)

In case of discounts and other required calculations.

HEADING

Date	Details	Invoice number	Folio	Invoice details (shs)	Amount (shs)

N.B

The major difference between the purchases day book and the sales day book is only that the purchases day book records credit purchases whereas the sales day book records credit sales but the rest of the procedures followed are the same as shown below in;

EXAMPLE 24

- a) Record the following credit sales in the sales journal of Kawali for the month of December 2014.
 - 1st sold goods on credit to Muwemba shs 100,000, invoice number 002
 - 10th sold goods on credit to Munya shs 50,000, invoice number 003
 - 15th wrote an invoice to Mugano for shs 10,000, invoice number 004
- b) Post to the sales ledger and the general ledger.

Solution

a)

KAWALI'S

SALES DAY BOOK

FOR THE MONTH OF DECEMBER 2014

Date Dec/ 2014	Details	Invoice Number	Folio	Amounts (shs)
1 st	Muwemba	002	SL.1	100,000
10 th	Munya	003	SL.2	50,000
15 th	Mugano	004	SL.3	10,000
31 st	Total credit sales to sales account		GL.1	160,000

From the sales day book, the total amounts to the different debtor are entered into the sales ledger instead of the purchases ledger which is used to record the results of the purchases day book and the sales ledger accounts are all debited because the debtors received the goods before paying for them. This can be illustrated below;

b)

Dr.	MUWEMBA'S ACCOUNT (SL.1)			Cr.
Date		shs	Date	shs
1 st	sales	<u>100,000</u>	31 st	balance c/d
1 st /01/2017	balance b/d	100,000		<u>100,000</u>

Dr.	MUNYA'S ACCOUNT (SL.2)			Cr.
Date		shs	Date	shs
10 th	sales	<u>50,000</u>	31 st	balance c/d
1 st / 01 / 2017	balance b/d	50,000		<u>50,000</u>

Dr.	MUGANO'S ACCOUNT (SL.3)			Cr.
Date		shs	Date	shs
15 th	sales	<u>10,000</u>	31 st	balance c/d
1 st /01/2017	balance b/d	10,000		<u>10,000</u>

General ledger

For this case, the general ledger will only have the sales account which will record the total amount of the credit sales made in the trading period as below;

Dr.	SALES ACCOUNT (GL.1)		Cr.		
Date	shs	Date	shs		
31 st	balance c/d	<u>160,000</u>	31 st	debtors	<u>160,000</u>
1 st /01/2017	balance b/d	160,000			

EXAMPLE 25

Jackson boutique had the following credit sales during the month of March 2011

1st sold to Nakubulwa 3metres of blue cotton @ 8,000, 10metres of black silk @ shs 10,000, 19metres of khaki @ shs 15,000 less 20% trade discount and invoice number 016.

10th sold to Lutamagazi 25metres of Kapere and 16metres of black silk @shs 9,000 and 10,000 respectively less 15% discount and invoice number 019.

21st sold to Magala 40metres of blue cotton@ 8,000, 50metres of khaki @ shs 15,000 less 12% discount on invoice number 048.

Required:

Prepare a sales day book, post to the sales ledger and the general ledger.

Solution

JACKSON BOUTIQUE'S

SALES DAY BOOK

FOR THE MONTH OF MARCH 2011

Date 03/2011	Details	Invoice number	Folio	Invoice details (shs)	Amount (shs)
1 st	NAKUBULWA 3metres of blue cotton@ 8,000 10metres of black silk @ 10,000 19metres of khaki @ 15000 Less 20% trade discount	016	SL.1	24,000 100,000 285,000 409,000 81800	327200

10 th	<u>LUTAMAGUZI</u> 25metres of Kapere @9,000 16metres of black silk@ 10,000 Less 15% discount	019	SL.2	225,000 160,000 385,000 57750	
21 st	<u>MAGALA</u> 40metres of blue cotton @8,000 50metres of khaki @15,000 Less 12% discount	048	SL.3	320,000 750,000 1,070,000 128400	
31 st	Total credit sales to sales account		GL.1		941600 1596050

Sales ledger

Dr.	NAKUBULWA'S ACCOUNT		(SL.1)	Cr.
Date	shs		Date	shs
1 st	sales	<u>327200</u>	31 st	balance c/d
1 st /04	balance b/d	327200		<u>327200</u>

Dr.	LUTAMAGUZI'S ACCOUNT		(SL.2)	Cr.
Date	shs		Date	shs
10 th	sales	<u>327250</u>	31 st	balance c/d
1 st /04	balance b/d	327250		<u>327250</u>

Dr.	MAGALA'S ACCOUNT		(SL.3)	Cr.
Date	shs		Date	shs
21 st	sales	<u>941600</u>	31 st	balance c/d
1 st /04	balance b/d	941600		<u>941600</u>

General ledger

Dr.	SALES ACCOUNT		Cr.	
Date	shs		Date	shs
31 st	balance c/d	<u>1596050</u>	31 st	debtors
				<u>1596050</u>

1st/04 balance b/d 1596050

EXERCISE 26

Muchaina had the following credit sales for the month of March 2014

March 7th sold to Kayikuuzi 10 boxes of dry cells each at shs 52,000, 8 packets of straws each at shs 6500 and 4 boxes of mineral water each at shs 11,000, invoice no. 035 and given a 2% trade discount.

5th sold the following goods to muwalume,

21 boxes of plastic cups @ 50,000

9 dozens of glass plates @ shs 24,000

3 sets of glasses @ shs 5000 on invoice number 036 and a 2½% discount for the goods bought

16th sold to kitambo 9dozens of books @ shs 11000, 7 dozens of pens @ shs 6,000, 18reams of papers @ shs 12,000 and 15 manila papers @ shs 5,000, he allowed a 5% discount and invoice number 037

22nd sold to kalume 9 rolls of ribbon @ shs5,000 on invoice number 038 and a 2% discount.

Required: enter the above transactions into Muchaina's sales day book and post to the sales ledger and general.

THE SALES RETURNS DAY BOOK/ RETURNS IN WARDS DAY BOOK/SALES RETURNS JOURNAL/RETURNS IN WARDS JOURNAL

This is a book that records details of goods returned to the business by its credit buyers/debtors. Sometimes the buyer/debtor may return goods which were previously sold to him/her on credit to the business. These goods are called returns in wards or sales returns because they are returned back into the business and they are as a result of sales.

The goods returned by the debtor to the business are recorded into the sales returns day book/ returns in wards day book/sales returns journal/returns in wards journal.

These goods may be returned by the business to its credit suppliers because of the different reasons as seen above in the reasons why the business may also return goods to the supplier.

NOTE:

- Once goods have been returned by the debtor, a credit note is issued by the business to the buyer which shows the value of goods returned. A credit note is a source document which shows a correction of an over charge and therefore it shows the value of goods returned.
- It is from the outgoing credit notes that a sales returns day book is drawn.
- The returns are either part or the whole of the goods that were previously sold on credit to the buyer but not more than the goods that were sold on credit because it is after credit sales that goods are later returned to the business by the debtor.

Format of a return in words day book

The format of the sales returns day book is similar to that of the purchases returns daybook and all the entries are made in the same way because they both record return but the only difference is that the sales returns day book records sales returns where as the purchases returns day book records purchases returns. As shown below:

HEADING

Date	Details	Credit note number	Folio	Amount (shs)

OR

HEADING

Date	Details	Credit note number	Folio	Credit note details (shs)	Amount (shs)

EXAMPLE 26

The following information relates to Kinobe for the month of August 2014

5th goods were returned by kyakuwa worth 760, 000 credit note number 007

16th sent a credit note for return of damaged goods to Kadoowe shs 95,000, credit note number 008

20th kasota returned goods worth 34,000 on invoice number 009

27th goods returned by Mandwa were worth 550, 000, credit note number 010

Required:

- (II) Write up a return in words journal.

Solution

**KINOBE'S
SALES RETURNS DAY BOOK
FOR THE MONTH OF AUGUST 2014**

Date August/2014	Details	Credit note number	Folio	Amount (shs)
5 st	Kyakuwa	007	SL.1	760,000
16 th	kadoowe	008	SL.2	95,000
20 th	kasota	009	SL.3	34,000
27 th	Mandwa	010	SL.4	550,000
30th	Total sales returns to sales returns account		GL.1	1439000

N.B

At the end of the trading period, the total returns in words is determined and entries posted to the general ledger and sales ledger as follows.

- c) Credit each debtor's account with its respective amount.
- d) Debit the total to the sales returns account/returns in words account.

For the above example, it will appear as follows.

Sales ledger

Dr.	KYAKUWA'S ACCOUNT		(SL.1)	Cr.
Date	shs		Date	shs
30 th	balance c/d	<u>760,000</u>	5 th	sales returns
			1 st /Sept	balance b/d
				760,000
Dr.	KADOOWE'S ACCOUNT		(SL.2)	Cr.
Date	shs		Date	shs
30 th	balance c/d	<u>95,000</u>	16 th	sales returns
			1 st /Sept	balance b/d
				45,000
Dr.	KASOTA'S ACCOUNT		(SL.3)	Cr.
Date	shs		Date	shs
30 th	balance c/d	<u>34,000</u>	20 th	sales returns
			1 st /Sept	balance b/d
				34,000

Dr.	MANDWA'S ACCOUNT		(SL.4)	Cr.
Date	shs	Date		shs
30 th	balance c/d	<u>550,000</u>	27 th	sales returns
			1 st /sept	balance b/d
				550,000

General ledger

Dr.	SALES RETURNS ACCOUNT		(GL.1)	Cr.
Date	shs	Date		shs
30 th	debtors	<u>1439,000</u>	30 th	balance c/d
1 st /Sept	balance b/d	1439,000		<u>1439,000</u>

EXAMPLE 27

Kawundo a trader had the following sales returns for the month of July 2012.

- 1st Returned 15 bags of kakira sugar each at shs 158,000 to Kalibbala.
- 13th Sent a credit note to Kabala traders for the goods returned worth shs 560,000.
- 25th Katukole & sons Returned 7 boxes of Uganda waragi each at shs 58,000 and 9 crates of beer each at shs 30,000.

Required:

Prepare returns in words day book and post to the sales ledger.

Solution

**KAWUNDO'S
SALES RETURNS DAY BOOK
FOR THE MONTH OF JULY 2012.**

Date July 2012	Details	Credit note number	Folio	Credit note details (shs)	Amount (shs)
1 st	<u>KALIBBALA</u> 55 bags of Kakira sugar @158,000		SL.1	158,000x55	8690000
13 th	KABALA		SL.2		560,000

25 th	<u>KATUKOLE & SONS</u> 7 boxes of Uganda waragi @58,000 9 crates of beer @ 30,000		SL.3	406,000 270,000	676,000
31 st	Total sales returns to sales returns account		GL.1		9,926,000

Sales ledger

Dr.	KALIBBALA'S ACCOUNT		Cr.
Date	shs	Date	shs
31 st	balance c/d	<u>8,690,000</u>	1 st Sales returns <u>8,690,000</u>
			1 st /08 balance b/d 8,690,000

Dr.	KABALA'S ACCOUNT		Cr.
Date	shs	Date	shs
31 st	balance c/d	<u>560,000</u>	13 th sales returns <u>560,000</u>
			1 st /08 balance b/d 560,000

Dr.	TUKOLE & SONS' ACCOUNT		Cr.
Date	shs	Date	shs
31 st	balance c/d	<u>676,000</u>	24 th sales returns <u>676,000</u>
			1 st /08 balance b/d 676,000

GENERAL LEDGER

Dr.	SALES RETURNS ACCOUNT		Cr.
Date	shs	Date	shs
31 st	creditors	<u>9,926,000</u>	31 st balance c/d <u>9,926,000</u>
1 st /08	balance b/d	9,926,000	

Note:

The purchases day book, purchases returns day book, sales day book and the sales returns day book can be operated at the same time given the different transactions for every day book and the person operating the books is only left with the task to identify which transaction belongs to which day book as these transactions being credit sale, credit purchases, sales returns and purchases returns. This can be illustrated in the following example.

EXAMPLE 28

The following transactions were extracted from the books of Rwizi traders for the month of December 2010

1 st credit purchases from Agaba invoice No. 36	300,000
2 nd credit purchases from muamba invoice No. 37	450,000
3 rd credit sales to sarai invoice No. 23	270,000
4 th credit purchases from Robert invoice No. 38	350,000
5 th Returned goods to Agaba	60,000
6 th Credit sales to Bryan invoice No. 24	210,000
10 th goods returned by Sarai	40,000
11 th credit purchases from Dan invoice No. 40	600,000
12 th credit sales to Julie invoice No. 25	430,000
13 th credit purchases from James invoice No. 41	370,000
15 th goods returned to Robert	50,000
17 th goods returned by Julie	30,000
18 th credit purchases from:	
Maxadol on invoice No. 42	400,000
Okocha on invoice No. 43	500,000
24 th credit sales to:	
Ogwal on invoice No. 26	650,000
Sebila on invoice No. 27	530,000
29 th returned goods to Okocha	60,000
31 st goods returned by sebila	30,000

Required to prepare Rwizi traders:

- (i) Purchases journal
- (ii) Sales journal
- (iii) Returns outwards journal
- (iv) Returns inwards journal

Solution

(i)

RWIZI TRADERS

PURCHASES JOURNAL
FOR THE MONTH OF DECEMBER 2010

Date DEC/2010	Details	Invoice Number	Folio	Amounts (shs)
1 st	Agaba	36	PL.1	300,000
2 nd	Muamba	37	PL.2	450,000
4 th	Robert	38	PL.3	350,000
11 th	Dan	40	PL.4	600,000
13 th	James	41	PL.5	370,000
18 th	Maxadol	42	PL.6	400,000
18 th	Okocha	43	PL.7	500,000
31 st	Total credit purchases to purchases account		GL.1	2,970,000

(ii) **RWIZI TRADERS**
SALES JOURNAL
FOR THE MONTH OF DECEMBER 2010

Date DEC /2010	Details	Invoice Number	Folio	Amounts (shs)
3 rd	Sarai	23	SL.1	270,000
6 th	Bryan	24	SL.2	210,000
12 th	Julie	25	SL.3	430,000
24 th	Ogwal	26	SL.4	650,000
24 th	Sebila	27	SL.5	530,000
31 st	Total credit sales to sales account		GL.2	2,090,000

(iii) **RWIZI TRADERS**
RETURNS OUTWARDS JOURNAL

FOR THE MONTH OF DECEMBER 2010

Date DEC/2010	Details	Credit note number	Folio	Amount (shs)
5 th	Agaba		PL.1	60,000
15 th	Robert		PL.3	50,000
29 th	Okocha		PL.7	60,000
31 st	Total returns out words to returns out words account		GL.3	170,000

(iv) **RWIZI TRADERS**
RETURNS INWARDS JOURNAL
FOR THE MONTH OF DECEMBER 2010

Date DEC/ 2010	Details	Credit note number	Folio	Amount (shs)
10 th	Sarai		SL.1	40,000
17 th	Julie		SL.3	30,000
31 st	Sebila		SL.5	30,000
31 st	Total returns in word to returns in word account		GL.4	100,000

NOTE:

The purchases ledger and sales ledger for this case can also be operated in the normal way where by the credit purchases are credited to their respective creditor ledger accounts and the returns out words are debited to the same ledger accounts if any. The credit sales are also debited to their respective debtor ledger accounts and the returns if any are credited to the same ledger accounts. This can also be illustrated below;

The purchases ledger

Dr.	AGABA'S ACCOUNT (PL.1)		Cr.	
Date	shs	Date	shs	
5 th	purchases returns	60,000	1 st purchases	300,000
31 ^s	t balance c/d	240,000		
		<u>300,000</u>	<u>300,000</u>	
		1/01 /2011 balance b/d	240,000	

MUAMBA'S ACCOUNT (PL.2)				
Dr.			Cr.	
Date	shs	Date	shs	
31 st	balance c/d	450,000	2 nd purchases	450,000
			1 st /01/2011 balance b/d	450,000

ROBERT'S ACCOUNT (PL.3)				
Dr.			Cr.	
Date	shs	Date	shs	
15 th	purchases returns	50,000	4 th purchases	350,000
31 st	balance c/d	300,000		
		350,000		350,000
			1 st /01/2011 balance b/d	300,000

DAN'S ACCOUNT (PL.4)				
Dr.			Cr.	
Date	shs	Date	shs	
31 st	balance c/d	600,000	11 th purchases	600,000
			1 st /01/2011 balance b/d	600,000

JAMES' ACCOUNT (PL.5)				
Dr.			Cr.	
Date	shs	Date	shs	
31 st	balance c/d	370,000	13 th purchases	370,000
			1 st /01/2011 balance b/d	370,000

MAXADOL'S ACCOUNT (PL.6)				
Dr.			Cr.	
Date	shs	Date	shs	
31 st	balance c/d	400,000	18 th purchases	400,000
			1 st /01/2011 balance b/d	400,000

OKOCHA'S ACCOUNT (PL.7)				
Dr.			Cr.	
Date	shs	Date	shs	
29 th	purchases returns	60,000	18 th purchases	500,000
31 st	balance c/d	440,000		
		500,000		500,000

1st/01/2011 balance b/d 440,000

The sales ledger

Dr.	SARAI'S ACCOUNT (SL.1)		Cr.
Date	shs	Date	shs
3 rd	sales 270,000	10 th	sales returns 40,000
		31 st	balance c/d 230,000
	<u>270,000</u>		<u>230,000</u>
1 st /01/2011	balance b/d 230,000		<u>270,000</u>

Dr.	BRYAN'S ACCOUNT (SL.2)		Cr.
Date	shs	Date	shs
6 th	sales 210,000	31 st	balance c/d 210,000
1 st /01/2011	balance b/d 210,000		<u>210,000</u>

Dr.	JULIE'S ACCOUNT (SL.3)		Cr.
Date	shs	Date	shs
12 th	sales 430,000	17 th	sales returns 30,000
		31 st	balance c/d 400,000
	<u>430,000</u>		<u>400,000</u>
1 st /01/2011	balance b/d 400,000		<u>430,000</u>

Dr.	OGWAL'S ACCOUNT (SL.4)		Cr.
Date	shs	Date	shs
24 th	sales 650,000	31 st	balance c/d 650,000
1 st /01/2011	balance b/d 650,000		<u>650,000</u>

Dr.	SEBILA'S ACCOUNT (SL.5)		Cr.
Date	shs	Date	shs
24 th	sales 530,000	31 st	balance c/d 530,000
1 st /01/2011	balance b/d 530,000		<u>530,000</u>

General ledger

Dr.	PURCHASES ACCOUNT (GL.1)			Cr.
Date		shs	Date	shs
31 st	creditors	<u>2,970,000</u>	31 st	balance c/d
1 st /01/2011	balance b/d	2,970,000		<u>2,970,000</u>

Dr.	SALES ACCOUNT (GL.2)			Cr.
Date		shs	Date	shs
31 st	balance c/d	<u>2,090,000</u>	31 st	debtors
			1 st /01/2011	balance b/d 2,090,000

Dr.	PURCHASES RETURNS ACCOUNT (GL.3)			Cr.
Date		shs	Date	shs
31 st	balance c/d	<u>170,000</u>	31 st	creditors
			1 st /01/2011	balance b/d 170,000

Dr.	SALES RETURNS ACCOUNT (GL.4)			Cr.
Date		shs	Date	shs
31 st	debtors	<u>70,000</u>	31 st	balance c/d
1 st /01/2011	balance b/d	70,000		<u>70,000</u>

EXERCISE 27

GOOD PRIC3 GENERAL WHOLE SALERS provided the following information concerning their credit transactions for the month of august 2913.

Incoming invoices				
Date	creditor	item supplied on credit	quantity	unit cost (shs)
Aug .1	Kalibbala enterprises	Kakira sugar	55bags	158,000
	Kalibbala enterprises	White star soap	20 boxes	59,000
	Smart enterprises	candles	15 boxes	78,000
	Obed enterprises	cow peas	15 bags	120,000
5 th	Smart enterprises	Royco chicken	50 boxes	19,500
	Tayari carry powder	25 boxes	25 Boxes	18,000
11 th	Obed enterprises	Tiger head cells	10 boxes	200,000
	Kitone suppliers	Uganda waragi	8 boxes	58,000
	Kitone suppliers	Kitoko	13 boxes	52,000
15 th	Musomba and sons	Maize flour	14 bags	48,000
25 th	Kalibbala enterprises	Éclair sweets	16 boxes	100,000
	Kalibbala enterprises	ivory sweets	7 boxes	105,000
Outgoing invoices				
Date	debtor	item bought on credit	quantity	unit cost (shs)
2 nd	EM &EN Retailers	Kakira sugar	2 bags	160,000
	EM &EN Retailers	White star soap	3 boxes	60,000
	Kabala traders	Kitoko	1 box	54,000
	Katukole and sons	Cow peas	30 kgs	35,000
4 th	Katono general supplies	Kakira sugar	1½ bags	160,000
	Katono general supplies	Candles	6 boxes	79,500
	Kabala traders	Royco chicken	3 boxes	20,500
8 th	Kabala traders	cow peas	1 bag	130,000
	Kabala traders	Tiger head cells	2.5 boxes	210,000
	Katukole & sons	White star	4 boxes	60,000
13 th	EM &EN Retailers	Éclairs	1 box	120,000
	Kabala traders	Big daddy sweets	3 boxes	135,000
	Kabala traders	Uganda waragi	3 boxes	60,000
29 th	EM &EN Retailers	Ivory sweets	1.5 boxes	135,000

Prepare:

- a) Purchases journal.
- b) Sales journal.
- c) General ledger.

EXERCISE 28

The following transactions were carried out by Kakooza in the month of March 2016.

		Shs
MARCH	1 st received an invoice from Augustine	340,000
	2 nd received an invoice from Mudde	400,000
	3 rd issued an invoice to Sarah	270,000
	4 th received an invoice from Moses	370,000
	5 th Returned goods to Augustine	80,000
	6 th issued an invoice to Williams	270,000
	8 th Received an invoice from Joan	650,000
	10 th Goods returned by Sarah	40,000
	11 th Received an invoice from David	600,000
	12 th issued an invoice to Julius	430,000
	13 th Received an invoice from Jimmy	370,000
	15 th Goods returned to Moses	60,000
	17 th Goods returned by Julius	30,000
	18 th Received an invoice from Dick	400,000
	20 th Received an invoice from Onyango	520,000
	24 th Issued an invoice to; Obo Betty	650,000 530,000
	29 th Returned goods to Onyango	70,000
	31 st Goods returned by Betty	30,000

Required;

- (a) Subsidiary books.
- (b) General ledger accounts.

EXERCISE 29

The following information relates to the records of Alom Enterprises for the month ended September 2016.

Item	No.	Amount (shs)
Invoices Received:		
September; 1 st Nancy	30	800,000
18 th Chandy	41	1,200,000
25 th Emmanuel	08	2,000,000
Invoices Issued:		
September; 5 th Book centre	01	500,000
20 th KK Wholesaler	04	680,000
Credit Notes Received:		

September 5 th Nancy 25 th Emmanuel	16 23	40,000 50,000
Credit notes Issued:		
September; 8 th Book centre 26 th KK Wholesaler	03 05	30,000 70,000

Required:

- i) Purchases journal.
- ii) Purchases returns journal.
- iii) Sales journal.
- iv) Sales returns journal.

Post the transactions to the;

- i) Purchases ledger.
- ii) Sales ledger.

EXERCISE 30

Kanywanyi traders are dealers in stationery.

Their cost prices and selling prices are shown as below.

Item	Cost price (shs)	Selling price (shs)
Books (per dozen)	20,000	25,000
Color pencils (per pack)	1,800	2,400
Pens (per dozen)	4,500	5,000
Reams of paper (each)	12,000	15,000

The following transactions took place during the month of July 2015.

- 4th purchased from Katunda 12 dozens of books, 5 packets of color pencils, 4 dozens of pens, 2 reams of paper less 10% discount on invoice number 006.
- 11th Sold to Ssekyanzi 3 dozens of books, 1 packet of color pencils, 1 dozen of pens, 2 reams of papers, less 14% discount on invoice number 23.
- 13th Returned to Katunda; 1 packet of color pencils, 2 dozens of books, credit note number 010.
- 16th Ssekyanzi returned; 1 dozen of books, 1 dozen of pens.
- 19th purchased from Nakanya; 16 dozens of pens, 4 reams of paper, 14 packets of color pencils, less 8% discount on invoice number 007.
- 20th Returned to Nakanya; 4 dozens of pens, 1 ream of paper, 2 packets of color pencils.
- 23rd Sold to Kyagulanyi; 6 dozens of pens, 1 ream of paper, 3 packets of color pencils, less 5% discount on invoice number 24
- 29th Sold to Mr. Kichodo ; 8 dozens of books, 2 packets of color pencils, 3 dozens of pens, less 5% discount on invoice number 25.

Required

- (a) prepare;

- i) Sales day book.
 - ii) Purchases day book.
 - iii) Returns out words day book
 - iv) Returns inwards day book
- (b) Show the purchases ledger, sales ledger, and general ledger.

FINAL ACCOUNTS

Final accounts are financial statements usually prepared at the end of the trading period to determine the profits made or losses suffered by the business and the financial position of the business as at the end of a given trading period.

The financial statements prepared by the profit making organizations include

1. The trading account.
2. The profit and loss account.
3. The balance sheet.

REASONS FOR PREPARING FINAL ACCOUNTS

- To determine the gross profit or gross loss made by the business. This is through preparation of the trading account.
- To determine the net profit or net loss made during the trading period through preparation of the profit and loss account.
- To determine the financial position of the business as at a given date.
- To compare the performance of the business over a given period of time.

THE TRADING ACCOUNT

This is a financial statement prepared at the end of the trading period to determine the gross profit made or gross loss suffered by the business.

CONTENT/COMPONENTS OF THE TRADING ACCOUNT

1. **Sales.** These are goods sold by the business during a given trading period. It is the income received by the business from the goods sold. This can also be called turn over.
2. **Purchases.** These are goods bought by the business for the purpose of reselling them to earn profits.
3. **Stock.** These are not yet sold goods in the business. It is the money value of goods held for sale. Stock is categorized into two i.e.; opening stock and closing stock.
 - i) **Opening stock.** These refer to goods that the business starts with at the beginning of the trading period. These are goods in the business before any purchases are made in the trading period.

- ii) **Closing stock.** These are unsold goods at the end of the trading period in the business.

Note; closing stock of the current trading period becomes the opening stock of the immediate next trading period.

4. **Returns.** These are goods returned by the business to its suppliers or by the customers to the business. Returns are categorized into returns in wards and returns out wards.
 - i) **Returns in wards/sales returns.** These are goods previously sold but have been returned to the business by its customers due to some reasons. Returns in wards reduce the value of sales and therefore if they are subtracted from sales, the result is called net sales; Net sales=sales –sales returns.
 - ii) **Returns out wards.** These are goods returned by the business to supplier. These goods were once bought by the business. Returns out wards also reduce the value of purchases made by the business in a given trading period. Therefore Net purchases =purchases – purchases returns
5. **Carriage.** These are costs incurred in the transportation of goods in the business. These are also categorized into two; carriage in wards and carriage out wards.
 - i) **Carriage in wards/ carriage on purchases.** These are costs incurred on transporting the purchased goods to the business premises. This amount increases the value of purchases since it is incurred during the process of transporting the purchased goods to the business and therefore they are added to the purchases.
 - ii) **Carriage out wards/ carriage on sales.** These are costs incurred by the business in delivering the goods sold to the premises of the buyer/ customer. This is an expense to the business and therefore it is not included in the trading account.
6. **Wages.** These are costs incurred in preparing goods for sale. These are also added to purchases in the trading account.
7. **Cost of goods available for sale.** This is the value of all goods available for sale during the course of the trading period. It is also referred to as goods available for sale.

Cost of goods available for sale = opening stock + Net purchases.

But: Net purchases = purchases – purchases returns + carriage in wards + wages.

8. **Cost of goods sold /cost of sales.** This is the value of goods sold by the business valued at cost price. It is given by the formula;
Cost of sales = cost of goods available for sale – closing stock.
9. **Gross profit.** This is the overall profits from the trading activities of the business. I.e. buying and selling activities of the business. This is the excess of the net sales over the cost of sales. This can be given by the formula; Gross profit = Net sale – Cost of sales.

Note. In case the cost of sales exceeds the net sales, the value becomes a Gross loss because this means that the costs incurred in selling the goods exceeds the income from the sales and hence a loss.

10. **Gross loss.** This is the excess of the cost of sales over net sale. This is in case the cost of sales is greater than the net sales of the business.

Format of the trading account

The trading account can take two formats i.e. the **Horizontal** format and the **Vertical** format

The horizontal format

Dr.	Heading			Cr.	
Details/particulars	Amount (shs)	Amounts (shs)	Details/ particulars	Amounts (shs)	Amounts (shs)

The vertical format

Heading		Amounts (shs)	Amounts (shs)	Amounts (shs)
Details/particulars				

In respect to the above two formats of the trading account, the components of the trading account are recorded as follows,

Horizontal format

Dr.	Heading			Cr.	
Details	Amount (shs)	Amounts (shs)	Details	Amounts (shs)	Amounts (shs)
Opening stock			Sales	XXX	
Add: purchases	XXX	XXX	Less: sales returns	XXX	
Wages	XXX		Net sales		XXX
Carriage	XXX				

	XXX			
Less: purchases returns	XXX			
Net purchases	XXX			
Goods available for sale	XXX			
Less: closing stock	XXX			
Cost of sales	XXX			
Gross profit c/d	XXX			
		Gross profit b/d		
			XXX	
			XXX	

Vertical format

Heading

Details	Amounts (shs)	Amounts (shs)	Amounts (shs)
Sales		XXX	
Less: sales returns		XXX	
Net sales			XXX
Less: <u>COST OF SALES</u>			
Opening stock	XXX	XXX	
Add: purchases			
Carriage inwards	XXX		
wages	XXX		
Less: purchases returns	XXX		
Net purchases	XXX		
Cost of goods available for sale		XXX	
Less: closing stock		XXX	
Cost of sales			XXX
Gross profit			XXX

EXAMPLE 29

The following balances relate to the books of Mukasa and sons as at December 2015.

Details	shs
Sales	100,000
Purchases	40,000
Carriage in wards	5,000
Wages	7,000
Sales returns	15,000
Purchases returns	13,000
Opening stock	30,000
Closing stock	20,000

Require:

Enter the information in a trading account.

Horizontal format

MUKASA AND SONS TRADING ACCOUNT

Dr.	FOR THE PERIOD ENDED 31 st DECEMBER 2015				Cr.
Details	Amount (shs)	Amounts (shs)	Details	Amounts (shs)	Amounts (shs)
Opening stock		30,000	Sales	100,000	
Add: purchases	40,000		Less: sales returns	15,000	
Carriage in wards	5,000		Net sales		85,000
Wages	7,000				
		52,000			
Less: purchases returns		13,000			
Net purchases					
Goods available for sale		39,000			
Less: closing stock					
Cost of sales		69,000			
Gross profit c/d		20,000			
		49,000			
		36,000			
		85,000			85,000
			Gross profit b/d		36,000

(iii) Vertical format

**MUKASA AND SONS
TRADING ACCOUNT
FOR THE PERIOD ENDED 31st DECEMBER 2015**

Details	Amounts (shs)	Amounts (shs)	Amounts (shs)
Sales		100,000	
Less: sales returns		15,000	
Net sales			85,000
Less: <u>COST OF SALES</u>			
Opening stock		30,000	
Add: purchases	40,000		
Carriage in wards	5,000		
Wages	7,000		
	52,000		
Less: purchases returns		13,000	
Net purchases			39,000
Cost of goods available for sale			69,000
Less: closing stock			20,000
Cost of sales			49,000
Gross profit			36,000

NOTE: In case some of the components of the trading account are not given, the missing components will be ignored in the trading account.

Examples of the components that may not be given may include

- (i) **Return.** If there are no returns either purchases return or sales returns, these will be ignore and therefore we shall have sales as the net sales because there are no returns to subtract from this amount and for the case of purchases still we shall not less the purchases returns because they are not given.
- (ii) **Carriage in wards.** These can also not be given in the components to be used when preparing the trading account but it does not mean that there is an error as some people may think, this means there were no costs incurred on carriage in wards by the business and therefore these will not appear in the trading account and if wages are given, they will be added to purchases without showing carriage in wards which is not given.
- (iii) **Wages.** These may not also be given among the components to include in the trading account and if it is like this, then these will not appear in the trading account and for this case, if carriage in wards is given, it will be added to the purchases without wages.

In case it is given as salaries and wages, this is not considered as wages and therefore the figure given will not be used in substitute to wages because these are given as salaries and wages which mean that they are now expenses to the business and therefore they are not included in the trading account. For this case it has been discovered that some learners decide to divide the figure into two assigning part to wages and part to salaries which is also wrong. This is supposed to be recorded under the expenses of the business which will be looked at in the profit and loss account but not a component of the trading account.

Therefore if purchases returns, wages and carriage on purchases/carriage in wards are not given, then purchases act as the net purchases.

- (iv) **Closing stock.** If closing stock is not given in the components to include in the trading account, it means that the business never remained with any unsold stock and therefore the cost of goods available for sale in this case is taken as the cost of sales.
- (v) **Opening stock.** In case opening stock is not there in a given trading period, to determine the cost of sales we shall start straight from purchases because we do not have the value to use as opening stock.

Note;

If the details are given ion a trial balance form, closing stock will be not included in the trial balance but instead out of the trial balance as additional information.

EXAMPLE 30

Record the following details into MUTANDA's trading account for the year ended 31 December 2015

Details	Amount (shs)
Stock (1 st /jan/2015)	400,000
Sales	2,400,000
Purchases	1,960,000
Returns in wards	100,000
Returns out wards	180,000

Solution

**MUTANDA'S
TRADING ACCOUNT
FOR THE PERIOD ENDED 31ST DECEMBER 2015**

Details	Amounts (shs)	Amounts (shs)	Amounts (shs)
Sales		2,400,000	
Less: returns in wards		100,000	
Net sales			2,300,000
Less : cost of sales			
Opening stock		400,000	
Add: purchases	1,960,000		
Less: returns outwards	180,000		
Net purchases		1780,000	
Cost of goods available for sale		2,180,000	
Cost of sales			2,180,000
Gross profit			120,000

EXERCISE 31

KALUMBA AND SONS had the following information in his books of accounts at the end of December 2013.

Details	shs
Sales	1000,000
Purchases	870,000
Wages	16,000
Carriage on purchases	23,000
Returns inwards	50,000
Returns outwards	25,000
Stock at start	100,000
Stock at close	250,000

Required:

Prepare KALUMBA AND SONS' trading account.

THE PROFIT AND LOSS ACCOUNT

This is a financial statement that is prepared at the end of the trading period to determine the net profit / net loss made or suffered by the business.

The profit and loss account starts with the gross profit brought down from the trading account on to which incomes and gains of the business are added and then losses and expenses are subtracted to

determine the net profit of the business within a given trading period. Therefore this means that net profit is got from the formula **net profit =gross profit +incomes –expenses**. And therefore it is the excess of gross profit over losses and expenses.

COMPONENTS/CONTENTS OF THE PROFIT AND LOSS ACCOUNT

1. **Gross profit brought down.** This is the profit acquired from all the trading activities of the business. This is acquired from the trading account as seen earlier. this being profit from only the trading activities of the business, it is not the final profit of the business and therefore to acquire the final profit of the business which is the net profit, other incomes and gains of the business are added to the gross profit to get the total incomes through the trading period and the operational expenses and losses are subtracted.

Note:

In case of a gross loss instead of a gross profit, here we add losses and expenses to the gross loss and get total losses and expenses on to which the incomes and gains are subtracted to determine the net profit.

2. **Incomes and gains.** This is the amount of money received by the business during a given accounting period. Examples of incomes include; discount received, commission received, rent received, interest received, bad debts received, e.t.c. if any of these is given, it is added to the gross profit in the profit and loss account to acquire the total income of the business in that given trading period. In case there are no other incomes received by the business throughout the trading period, then the gross profit becomes the total income of the business.
3. **Losses and expenses.** These are costs incurred in the daily running of the business. These costs include; discount allowed, rent, carriage outwards, salaries and wages, advertising, electricity, water, commission allowed, telephone expenses, insurance, bad debts, depreciation and others. These expenses are subtracted from the total incomes of the business to determine the net profit gained by the business in a given trading period.

Note:

in case the losses and expenses are greater than the total incomes, the difference between the two as a result of subtracting the losses and expenses from the total incomes becomes a net loss because this means that the business spent more money than what it earned and hence operating under a loss but if the incomes exceed the expenses, then it is a net profit.

4. **Net profit.** This is the excess of total incomes over operating expenses. And this is the final profit made by the business from its general operations.
5. **Net loss.** This refers to the excess of total expenses over the total incomes of the business. Therefore this means that net loss is suffered when the total expenses exceed the total income gained by the business in a given trading period.

Format of the profit and loss account

This can also take the two formats as seen in the trading account i.e.

- (i) Horizontal format
- (ii) Vertical format.

These two formats are used in the same way they are used in the trading account and all the columns are the same in both function and arrangement as shown below;

- (i) Horizontal format

Dr.	Heading			Cr.	
Details/particulars	Amount (shs)	Amounts (shs)	Details/ particulars	Amounts (shs)	Amounts (shs)

- (ii) The vertical format

Heading		Amounts (shs)	Amounts (shs)	Amounts (shs)
Details/particulars				

Using the two formats, the components of the profit and loss account seen above will be recorded in order to acquire the net profit as follows;

- (i) Horizontal format

Dr.	Heading			Cr.	
Details	Amount (shs)	Amount (shs)	Details	Amount (shs)	Amounts (shs)
<u>LOSSES AND EXPENSES</u>			Gross profit		
Rent	XXX		Add: <u>INCOMES AND GAINS</u>		XXX
Salaries	XXX		Discount received	XXX	
Carriage outwards	XXX		Commission received	XXX	
Electricity	XXX		Interest received	XXX	XXX
water	XXX		Total incomes		

Total expenses		XXX			
Net profit		XXX			
		<u>XXX</u>			<u>XXX</u>

(ii) The vertical format

Heading

Details	Amounts (shs)	Amounts (shs)	Amounts (shs)
Gross profit			XXX
Add: <u>INCOMES AND GAINS</u>			
Discount received		XXX	
Commission received		XXX	
Interest received		XXX	
 Total incomes and gains			
Less: <u>losses and expenses</u>			
Carriage outwards		XXX	
Rent		XXX	
Salaries		XXX	
Electricity		XXX	
Water		XXX	
Total expenses			XXX
Net profit			XXX

EXAMPLE 31

Kibirige's books had the following information for the period ended 31st December 2012

Details	shs
Gross profit b/d	1,100,000
Wages and salaries	25,000
Rent	18,000
Telephone	19,000
Rent received	10,000
Interest	14,000

Commission received	30,000
Electricity	25,000
Carriage out wards	5,000

Required:

Prepare kibirige's profit and loss account.

Solution

KIBIRIGE'S
PROFIT AND LOSS ACCOUNT
FOR THE PERIOD ENDED 31ST/DECEMBER/ 2012

Details	Amounts (shs)	Amounts (shs)	Amounts (shs)
Gross profit			1,100,000
Add: <u>INCOMES AND GAINS</u>			
Rent received	10,000		
Commission received	30,000		
			40,000
Total incomes and gains			1,140,000
Less: <u>LOSSES AND EXPENSES</u>			
Wages and salaries	25,000		
Rent	18,000		
Telephone	19,000		
Interest	14,000		
Electricity	25,000		
Carriage out wards	5,000		
Total losses and expenses			106,000
Net profit			1,034,000

EXERCISE 32

MUWANGUZI's books of accounts had the following information for at the end of December 2010

Details	shs
Gross profit	18100

Discount received	4000
Office expenses	5300
Electricity	8200
Salaries	3500
Discount allowed	1400
Commission received	10,000
Interest on loan	1000
Heating expenses	4,000
Bad debts written off	2,000

Required;

Prepare a profit and loss account.

THE COMBINED TRADING, PROFIT AND LOSS ACCOUNT

The two statements can be combined into one statement known as the trading, profit and loss account. It is also known as the income statement.

An income statement is the financial statement prepared at the end of a trading period to determine the net profit or net loss suffered.

While preparing this statement, as the trading account part ends with the gross profit, we just make a continuation and add incomes and gains to the gross profit acquired from the trading account and then subtract the operating expenses in order to get the net profit but without separating the two statements.

EXAMPLE 32

The following records were extracted from the books of KALANZI TRADERS as at 31st/ December/ 2013

Details	shs
Stock (1 st / jan/ 2013)	8000
Stock (31 st /dec/ 2013)	9200
Rent	3500

Salaries	2000
Insurance	2800
Purchases	45,000
Sales	60,000
Office expenses	3000
Rates	1500
Interest received	2500
Depreciation	5,000
Sales returns	10,000
Purchases returns	5,000
Discount received	7,000

Solution

KALANZI TRADERS'
TRADING, PROFIT AND LOSS ACCOUNT
FOR THE PERIOD ENDE 31ST DECEMBER 2013

Details	Amounts (shs)	Amounts (shs)	Amounts (shs)
Sales		60,000	
Less: sales returns		10,000	
Net sales			50,000
Less: COST OF SALES			
Opening stock	45,000	8,000	
Add: purchases	5,000		
Less: purchases returns			
Net purchases		40,000	
Cost of goods available for sale		48,000	
Less: closing stock		9,200	
Cost of sales			38,800
Gross profit			11,200
Add: INCOMES AND GAINS			
Interest received			2,500
Discount received			7,000

Total incomes and gains		20,700
Less: LOSSES AND EXPENSES		
Rent	3,500	
Salaries	2,000	
Insurance	2,800	
Office expenses	3,000	
Rates	1,500	
Depreciation	5,000	
Total losses and expenses		17,800
Net profit		2,900

EXERCISE 33

The following balances were found in the books of kibinda mula as at 31st December 2012.

Details	shs
Purchases	72,000
Stock (1 st January 2012)	12,000
Carriage on sales	3,000
Discount allowed	800
Interest received	260
Sales	130,000
Returns out wards	1,500
Rent and rates	4,960
Salaries	1,500
Returns in wards	10,000

Required: prepare a trading, profit and loss account.

THE BALANCE SHEET

The balance sheet is a financial statement that shows the financial position of the business as at a given date. The balance sheet shows the assets and liabilities of the business as at a given date.

COMPONENTS OF THE BALANCE SHEET

1. **Assets.** These are property of the business or things of value that are owned by the business.
Assets are categorized into two ie fixed assets and current assets.
 - a) **Fixed assets.** These are business possessions which last for a long period of time in business ie more than one year and cannot be easily turned into cash.
Examples of fixed assets include; buildings, motor van, machinery, fixtures and fittings, office tools and equipment, furniture, land, premises e.t.c.
 - b) **Current assets.** These are business possessions that last for a short period of time in the business and can be easily converted into cash or cash its self.
Examples of current assets include; cash in hand, cash at bank, stock, debtors, incomes not yet received, expenses paid in advance e.t.c.
2. **Liabilities.** These are out siders' claims against the business i.e money and other property that are demanded from the business by the out sider. Liabilities are also classified into two; i.e Long term liabilities and current liabilities
 - a) **Long term liabilities.** These are out siders' claims that are to be paid after a long period of time usually more than a year these include long term loan e.g 6 year loan, 3year loan, four year loan e.t.c.
 - b) **Current liabilities.** These are out siders' claims that must be paid by the business within a very short period of time usually less than a year. Examples of current liabilities include; Creditors, Bank overdraft, outstanding expenses, and receipts received in advance and short term loans
3. **Capital.** This refers to the total resources or amount of money invested in the business by the owner.

Forms of capital

- a) **Working capital.** This refers to the excess of current assets over current liabilities. It is the amount of money available for the day-to-day running of the business e.g purchasing stock, payment of creditors e.t.c working capital is given by the formula below;
$$\text{Working capital} = \text{current assets} - \text{current liabilities}$$

In case current assets exceed current liabilities, working capital is positive. In this case, the business is said to be solvent

A solvent business is the one which can pay off its debts and remain with some money for normal operation.

In case current liabilities exceed current assets, the business is said to be insolvent.

An insolvent business is the one which cannot pay off all its debts using current assets and remains in operation.

- b) **Capital employed.** This is the total capital invested in the business. It is given by the formula below:

$$\text{Capital employed} = \text{fixed assets} + \text{working capital}$$

OR

$$\text{Capital employed} = \text{capital owned} + \text{long term liabilities.}$$

- c) **Capital owned/ net worth/ owner's equity/ equity capital.** This is the capital invested by the owner of the business plus any profits made in a year minus drawings. It is given by the formula:

Capital owned = Capital at start + Net profit – Drawings

OR

Capital owned = Capital at start – Net loss – Drawings

FORMAT OF THE BALANCE SHEET

The balance sheet can take any of the two formats seen in the trading, profit and loss account i.e. the horizontal format and the vertical format but in case of both documents (trading, profit and loss account and the balance sheet), the same format must be used in both documents that is if one decides to use the horizontal format or the vertical format, it should be used throughout.

These two formats appear as below;

- i) The horizontal format

Dr.	Heading			Cr.	
Details/particulars	Amount (shs)	Amounts (shs)	Details/ particulars	Amounts (shs)	Amounts (shs)

- ii) The vertical format

Heading			
Details/particulars	Amounts (shs)	Amounts (shs)	Amounts (shs)

HOW TO RECORD THE COMPONENTS INTO A BALANCE SHEET

Using the horizontal format

HEADING

Details	Amount (shs)	Amounts (shs)	Details/ particulars	Amounts (shs)	Amounts (shs)
CAPITAL AND LIABILITIES			FIXED ASSETS		
Capital	XXX		Land	XXX	
Add: net profit	XXX		Buildings	XXX	
			Fixture and fittings	XXX	
Less: drawings	XXX	XXX	Motor vehicle	XXX	

LONG TERM LIABILITIES	XXX	XXX	Total fixed assets		XXX
Loan			CURRENT ASSETS		
CURRENT LIABILITIES			Stock	XXX	
Creditors			Cash at hand	XXX	
Bank over draft	XXX	XXX	Cash in bank	XXX	
Total current liabilities	XXX	<u>XXX</u>	Total current assets		XXX
					<u>XXX</u>

Through this format, the last amounts on the two sides of the balance sheet are equal and this is the capital employed.

Using the vertical format.

Heading				
Details	Amounts (shs)	Amounts (shs)	Amounts (shs)	
FIXED ASSETS				
Land		XXX		
Buildings		XXX		
Fixture and fittings		XXX		
Motor vehicles		XXX		
Total fixed assets		<u>XXX</u>		XXX
CURRENT ASSETS				
Cash at hand	XXX			
Cash in bank	XXX			
Stock (closing stock)	XXX			
Debtor	XXX			
Total current assets		<u>XXX</u>		
Less: CURRENT LIABILITIES				
Bank over draft	XXX			
Creditors	XXX			
Total current liabilities		<u>XXX</u>		
Working capital			XXX	
CAPITAL EMPLOYED				
FINANCED BY				
Capital		XXX		
Add: net profit		XXX		
Less: drawings		XXX		
Capital owned		XXX		
Add: long term liabilities			XXX	
4 year loan			XXX	

CAPITAL EMPLOYED			XXX
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NOTE;

In the balance sheet, the amount of total fixed assets is first acquired by adding up all the fixed assets of the business.

The current assets are also added up and this amount is then added to the total current liabilities to get the amount of working capital of the business.

Working capital is added to the fixed assets to get capital employed.

In the second part of the balance sheet, again capital employed is calculated but this time it is through adding up all the sources of finance that make up the amount of capital employed by the business and these two amounts must be equal and they both have the same name (capital employed)

EXAMPLE 33

The following information was contained in the trial balance of wante

WANTE'S

TRIAL BALANCE

AS AT 31ST DEC 2015

Details	Debit(shs)	Credit (shs)
Sales		1,300,000
Purchases	720,000	
Stock (01 jan 2015)	120,000	
Carriage out wards	30,000	
Returns in wards	100,000	
Returns out wards	8000	15,000
Discount allowed		2,600
Interest received		120,000
Bank over draft		1,001,000
Capital		
Rent and rates	49,600	
Debtors	18,000	
Creditors		35,000
Cash in hand	30,000	
Salaries	156,000	
Land	130,000	
Furniture	62,000	
Drawings	110,000	
Motor van loan	1,170,000	230,000

	2,703,600	2,703,600
--	------------------	------------------

Stock at 31st December 2015 was valued at shs 75,000

Required: prepare

- (i) Trading, profit and loss account
- (ii) Balance sheet as at 31st December 2015

Solution (i)

WANTE'S
TRADING, PROFIT AND LOSS ACCOUNT
FOR THE PERIOD ENDED 31ST DECEMBER 2015

Details	Amounts (shs)	Amounts (shs)	Amounts (shs)
Sales		1,300,000	
Less: sales returns		100,000	
Net sales			1,200,000
Less: COST OF SALES			
Opening stock	720,000	120,000	
Add: purchases	15,000		
Less: returns outwards		705,000	
Net purchases			
Cost of Goods available for sale		825,000	
Less: closing stock		75,000	
Cost of sales			750,000
Gross profit			450,000
Add: INCOMES AND GAINS			
Interest received			2,600

Total incomes			452,600
Less: OPERATING EXPENSES			
Carriage outwards		30,000	
Discount allowed		8,000	
Rent and rates		49,600	
Salaries		156,000	
Total expenses			243,600
Net profit			209,000

(iii)

WANTE'S
BALANCE SHEET
AS AT 31ST DECEMBER 2015

DETAILS	AMOUNT(Shs)	AMOUNT (Shs)	AMOUNT (Shs)
FIXED ASSETS			
land		130,000	
furniture		62,000	
motor van		1,170,000	
Total fixed assets			1,362,000
CURRENT ASSETS			
Stock		75,000	
Debtors		18,000	
Cash in hand		30,000	

		123,000	
Less: CURRENT LIABILITIES			
creditors	35,000		
bank over draft	120,000		
		155,000	
working capital			(32,000)
CAPITAL EMPLOYED			1,330,000
FINANCED BY:			
Capital		1,001,000	
Add: Net profit		209,000	
Less: Drawings			
			1,210,000
Add: Long term liabilities			110,000
Loan			
CAPITAL EMPLOYED			1,100,000
			230,000
			1,330,000

EXERCISE 34

The following balances were extracted from the books of HAZEL EMPORIUM on 31st December 2007:

	Shs.
Sales	7,200,000
Stock (01.01.07)	1,200,000
Return inwards	1,600,000
General expenses	600,000
Purchases	10,000,000
Returns outwards	1,400,000
Creditors	1,200,000
Cash at bank	1,520,000
Carriage on sales (outwards)	1,200,000
Debtors	1,800,000
Premium	240,000
Industrial machinery	2,400,000
Furniture and fittings	960,000
Stock (31.12.07)	1,960,000
Salaries and wages	2,000,000
Cash in hand	480,000
Advertising	200,000
Drawings	800,000

Required to:

- (a) Prepare a trading, Profit and Loss account for HAZEL EMPORIUM for the period ended 31st December 2007.
- (b) Prepare HAZEL EMPORIUM'S Balance sheet as at 31st December, 2007.

EXERCISE 35

The following balances were obtained from the books of GIFTLAND Holdings on 31st December, 2008.

	Shs:
Sales	3,600,000
Purchases	5,000,000
Stock (01.01.2008)	600,000
Carriage on sales	600,000
Returns outwards	700,000
Returns inwards	800,000
General expenses	300,000
Debtors	900,000
Insurance	120,000
Cash at bank	760,000
Creditors	600,000
Machinery	1,200,000
Stock (31.12.08)	980,000
Furniture and fittings	480,000
Advertising	100,000
Salaries and wages	1,000,000
Drawings	400,000
Cash in hand	240,000

Required to;

- (a) Prepare a Trading, Profit and Loss Account for GIFTLAND Holdings the period ending 31st December 2008.
- (b) Prepare a Balance sheet as at 31st December, 2008

FINAL ACCOUNTS AND YEAR END ADJUSTMENTS

The income statement (trading, profit and loss account) and the balance sheet must be adjusted in order to reflect the true and fair financial position of the business at the end of the year. Once adjustments are not made, the financial statement and the balance sheet will not be true and fair. These adjustments are in most cases not shown in the trial balance because some of them do not relate

to the trading period in the question but should be catered for in the final accounts. In most cases, these are given as additional information to the trial balance.

When writing financial statements, there are a number of adjustments that can be made which include the following:

- (i) Opening stock.
- (ii) Closing stock.
- (iii) Drawings of goods.
- (iv) Returns.
- (v) Bad debts/ doubt full debts.
- (vi) Bad debts written off.
- (vii) Bad debts recovered.
- (viii) Un paid expenses.
- (ix) Pre paid expenses/ expenses paid in advance.
- (x) Un paid incomes.
- (xi) Pre paid incomes/ incomes paid in advance.
- (xii) Provisions and reserves.
- (xiii) Depreciation and appreciation.

OPENING STOCK, CLOSING STOCK AND RETURNS

Opening stock is the stock in the business as at the start of the trading season. In this way, the purchases of the current trading period are added to opening stock in order to determine the cost of goods available for sale. Opening stock in the final accounts will only appear in the trading account when determining the value of cost of goods available for sale.

Closing stock on the other hand is the value of goods that are left un sold as at the end of the trading season. The closing stock of the current trading season will form the opening stock of the next immediate trading period. The value of closing stock is subtracted from the cost of goods available for sale in order to determine the cost of sales.

Returns are the goods that were once bought or sold but returned back to the supplier or by the buyer because of some reasons.

These are therefore sales returns/ returns inwards or purchases return/returns outwards according to the cause of these returns. In this, sales returns are as a result of sales and therefore these reduce the amount of sales made by the business and purchases returns are as a result of purchases which mean that they reduce the value of purchases of the business.

Drawings of goods. Drawings are of two types i.e. drawings of goods and drawings of cash. Drawings of goods are adjusted in the trading account by subtracting them from purchases so as to get the net purchases.

Drawings of cash. This is when the owner of the business does not take goods but instead takes out cash from the business for his or her personal use. The cash drawings are treated in the balance sheet by deducting them from capital.

Note; in case the question does not specify the nature of the drawings as being either cash drawings or drawings of goods, then the amount will be treated in the balance sheet as a deduction from capital.

DOUBTFUL DEBTS, BAD DEBTS AND BAD DEBTS WRITTEN OFF

Doubtful debts. These are debts that the business man is in doubt whether they will be paid or not.

Bad debts. These refer to the debts that the business has declared that they will not be paid.

Bad debts written off. These are debts that the business eliminates from the books of accounts. In this way, the bad debts written off are totally forgotten

N.B, whether doubtful debts, bad debts or bad debts written off, all these are losses to the business and they are as a result of debtors and therefore in case of no debtors, there will be no any of the above(doubtful debts, bad debts and bad debts written off). Being losses, these are treated in the profit and loss account.

BAD DEBTS RECOVERED

Not all debts in the business that turn into bad debts written off because there may be some of the debts that were once declared un paid but later partly or fully recovered or paid by the debtor.

In the final accounts, bad debts recovered are added to the incomes and gains in the profit and loss account and therefore this will increase the value of gross profit of the business.

UN PAID/ OUTSTANDING/ OWING/ ACCRUED EXPENSES AND INCOMES/DUES

According to the accrual concept of accounting, all expenses and incomes of a given trading period must be considered within that trading period whether paid or not yet paid and whether received or not yet received.

All the above words (un paid, outstanding, owing and accrued) mean the same and that is that the expense or income is not yet paid or received but since that expense or income is supposed to be paid or received within that trading period, this must be added to the amount that has been paid or received during the trading period.

In the trading, profit and loss account, the un paid expenses are added to the paid expenses in the profit and loss account and at the same time the un received incomes are added to the received incomes in the profit and loss account.

In the balance sheet, the un paid expenses are treated under the current liabilities of the business since the business is supposed to pay them to the outsiders and the un received incomes are treated under the current assets of the business during the trading period because these belong to the business only that they have not yet been received from the different sources but expected to be received within a short period of time and therefore considered to be current assets of the business.

PRE PAID EXPENSES/EXPENSES PAID IN ADVANCE AND PRE PAID INCOMES/ INCOMES RECEIVED IN ADVANCE

A pre payment is an amount of either expense or income paid in excess of what is supposed to be paid for a given trading period. Since this amount is not meant for the current trading period, it is subtracted from the amount paid during the trading period in order to get the actual amount meant for that trading period and the same applies in case there is an excess income received over the amount that is meant to be received within a given trading period where the excess amount is subtracted from the total amount received during the trading period but this applies in the trading, profit and loss account.

In the balance sheet, the expenses paid in advance are recorded under the current assets of the business since these to the business as the business paid for these expenses but it has not used them or their services. The incomes received in advance are recorded under the current liabilities because during the trading season, the business received money for which it has not yet provided the required services.

N.B; pre paid incomes are current liabilities and pre paid expenses are current assets.

DEPRECIATION AND APPRECIATION

Depreciation is the loss of value of an asset. This loss of value is normally with fixed assets because for them they serve in the business for a long period of time.

Appreciation is a situation where an asset gains value. The main asset that is known for gaining value is land because its supply is perfectly inelastic yet there is an increasing of the population on this land.

CAUSES OF DEPRECIATION

- (a) Physical deterioration such as loss of value of an asset through weather conditions, negligence, wear and tear as a result of usage.
- (b) Economic factors such as obsolescence i.e becoming out dated.
- (c) Time factor e.g running out of fashion and getting depleted.

COST, BOOK VALUE OR SCRAP VALUE OR SALVAGE VALUE

Cost is a fee at which an asset is acquired whether old or new by a business

Book value/scrap value/salvage value is the value of an asset after it has lost value from its cost.

METHODS OF ESTIMATING DEPRECIATION

There are a number of methods that are used to estimate depreciation among which the common ones used include;

- (i) Fixed installment method/straight line method
- (ii) Reducing balance method/diminishing balance method/ fixed percentage method.
- (iii) Revaluation method

FIXED INSTALLMENT METHOD/ STRAIGHT LINE METHOD

This is a method used to estimate depreciation such that a uniform value is deducted across all the years the assets spends in business. In this method, depreciation is given by the formula $\frac{\text{depreciation} = \text{cost} - \text{scrap value}}{\text{W.L.T}}$

Where W.L.T stands for working life time which refers to the useful time of an asset.

E.G

Given the cost of a machine as shs 360,000, scrap value after 5years being 60,000. Calculate the depreciation per year.

Solution

$$\frac{\text{From depreciation} = \text{cost} - \text{scrap value}}{\text{W.L.T}}$$

$$\text{Depr} = 360,000 - 60,000$$

$$\frac{5}{}$$

$$= \frac{300,000}{5} = \text{shs } 60,000$$

Try this,

Given the working life time as 10years, and the cost 480,000, scrap value 80,000.

Determine depreciation per annum.

REDUCING BALANCE METHOD

This is a method of calculating depreciation where the value of the asset diminishes or reduces as well as the value the depreciation. In this method, the book value of the previous trading period acts as the cost in the new trading period and depreciation is calculated at the same rate and depreciation for every year is calculated separately and it is given as

$$\text{Depreciation} = \text{cost} \times \text{fixed percentage}$$

Example, given that the asset depreciates at a rate of 10% per annum and its cost was shs 10,000,000, determine the depreciation for the 3 consecutive years.

Solution;

1st year

$$\begin{aligned}\text{Depreciation} &= \frac{10}{100} \times 10,000,000 \\ &= \text{shs } 1,000,000\end{aligned}$$

And therefore book value for this year will be given as

Book value = cost – depreciation

$$\begin{aligned}&= 10,000,000 - 1,000,000 \\ &= \text{shs } 9,000,000\end{aligned}$$

2nd year

$$\begin{aligned}\text{Depreciation} &= \frac{10}{100} \times 9,000,000 \\ &= \text{shs } 900,000\end{aligned}$$

Book value = 9,000,000 – 900,000

Shs 8,100,000

3rd year

$$\begin{aligned}\text{Depreciation} &= \frac{10}{100} \times 8,100,000 \\ &= \text{shs } 810,000\end{aligned}$$

Book value = 8,100,000 – 810,000

= shs 7,290,000

REVALUATION METHOD

This is a method where estimates or revaluation is simply done so as to arrive at the book value. This is given by opening value – closing value

E.g

Given that value of a machine was shs 415,000 on January and by December, 31st the value was estimated to be shs 329,000. Determine the annual depreciation of the machine.

Solution

$$\begin{aligned}\text{Depreciation} &= \text{opening value} - \text{closing value} \\ &= 415,000 - 329,000 \\ &= \text{shs } 86,000\end{aligned}$$

DEPRECIATION AND FINAL ACCOUNTS

Depreciation is a loss and therefore it is recorded under the losses and expenses of the business for a given trading period in the profit and loss account.

In the balance sheet, depreciation is shown as a deduction from the cost value of the asset.

PROVISIONS AND RESERVES

A provision is an amount of money set aside from profits to cater for a known or specified loss.

A reserve is an amount of money deducted from profits to cater for a general purpose.

The provisions and reserves are made in line with losses because this money is put aside to cater for losses in case they happen. The common provisions are;

- i) Provision for depreciation.
- ii) Provision for discount allowed.
- iii) Provision for bad debts or doubtful debts.

Provisions can exist in one of the following ways;

- a) Provision on creation.
- b) Provision on increase.
- c) Provision on decrease.

PROVISION ON CREATION

This is where a given provision for a certain loss is just created and it is existing for the first time in the business. Therefore for this case, in the profit and loss, the amount for the provision is a loss to the business and therefore recorded under losses of the business.

In the balance sheet, this amount is deducted from the actual cost of the asset for which a provision has been created.

E.g if it is a provision for bad debts, the amount will be subtracted from the amount of debtors because this amount will be put aside to cater for bad debts in case they happen in the business but bad debts being a result of debtors, then the amount put aside is reducing the amount of debtors and therefore deducted from debtors.

PROVISION ON INCREASE

An increase in the amount of provision is when the amount that has been provided for a given loss increases. For this case, the provision has been existing for a time but it is only increased in value. When there is an increase in the provision between the current year and the previous year, it is the portion of the increase that is considered and in this way, in the profit and loss account, it is recorded under losses.

In the balance sheet, it is the total amount of the provision that is subtracted from the cost of the asset.

For example; if there is an increase in the provision for debtors from shs.23,000 to shs 42,000, the final amount which is 42,000 will be the amount subtracted from the amount of debtors in the balance sheet.

PROVISION ON DECREASE

When there is a decrease in the provision, this means that the money kept as the provision for a given loss has been reduced and therefore money kept aside as a provision, part of it is brought back to the business for its day-to-day running.

In the profit and loss account, the decrease in provision is recorded as an income to the business because it is part of the money that was kept aside as a provision but now brought back to the business and therefore it is added to the gross profit in the profit and loss account.

In the balance sheet, the decrease in the provision is not considered but the remaining balance for the provision is deducted from the value of the asset.

For example; if there is a decrease in the provision for bad debts, assuming from shs 1,500 to shs 1,000, this means there is a reduction in the provision for debtors by shs 500, therefore in the balance sheet, it is shs 1,000 that is subtracted from the amount of debtors.

SUMMARY OF YEAR END ADJUSTMENTS AND FINAL ACCOUNTS

Adjustment	Trading, profit and loss	Balance sheet
Un paid expenses	Add to paid	Current liability
Un paid income	Add to received	Current asset
Pre paid expenses	Deduct from paid	Current asset
Pre paid incomes	Deduct from paid	Current liability
Bad debts and bad debts written off	An expense	Does not appear
Depreciation	An expense	Deduct from cost of the asset
Provision on creation	An expense	Deduct from cost of the asset
Provision on increase	The increase is an expense	Deduct the total amount from the cost of asset
Provision on decrease	The decrease is an income	Deduct the remaining balance from the cost of the asset

EXAMPLE 34

MUWANGA a trader had the following trial balance for the year ended 31st December 2015.

Details	Debit (shs)	Credit (shs)
Sales		2,850,000
Purchases	2,000,000	
Returns inwards	50,000	
Returns outwards		55,000

Carriage inwards	5,000	
Salaries and wages	420,000	
Transport	164,000	
Electricity	5,500	
Insurance	16,000	
Office repair	35,00	
Rent	14,700	
Stationary	2900	
Discount allowed	8,000	
Discount received		12,100
Rent received		65,000
Carriage outwards	2,000	
Commission received		20,000
Bad debts	5,300	
Motor vehicle	250,000	
Fixtures and fittings	105,000	
Debtors	450,000	
Bank	600,000	
Cash	50,000	
Capital		600,000
Creditors		367,200
Stock (1 st / Jan/ 2015)	130,000	
Bank loan		320,000
Bank over draft		42,000
Provision for bad debts		600
Drawings	50,000	
TOTAL	4,331,900	4,331,900

Additional information;

- (i) Stock (31st / Dec/ 2015) shs 240,000
- (ii) Accrued salaries shs 30,000
- (iii) Accrue electricity shs 500
- (iv) Pre paid insurance shs 400
- (v) Shs 1700 of rent was for the next year
- (vi) Provision for bad debts adjusted to 1% of debtors
- (vii) Depreciate all fixed assets by 10%
- (viii) Commission of shs 5,000 was not yet received.
- (ix) Rent of shs 3,000 was received in advance.

Required;

- (i) Prepare a trading, profit and loss account for the period.
- (ii) Balance sheet as at 31st December 2015.

O'LEVEL ENTREPRENEURSHIP PP1

Solution (i)

**MUWANGA'S
TRADING, PROFIT AND LOSS ACCOUNT
FOR THE PERIOD ENDED 31ST DECEMBER 2015**

Details	Amount (shs)	Amount (shs)	Amount (shs)
---------	--------------	--------------	--------------

Sales		2,850,000	
Less: sales returns		50,000	
Net sales			2,800,000
Less: <u>cost of sales</u>			
Opening stock		130,000	
Add: purchases	2,000,000		
Carriage inwards	5,000		
	2,005,000		
Less: returns outwards	55,000		
Net purchases		1,950,000	
Cost of goods available for sale		2,080,000	
Less: closing stock		240,000	
Cost of sales			1,840,000
Gross profit			960,000
Add: <u>incomes and gains</u>			
Discount received		12,100	
Rent received	65,000		
Less: rent received in advance	3,000		
Commission received	20,000		62,000
Add: outstanding commission received	5,000		
Total incomes		25,000	99,100
Less: <u>expenses and losses</u>			1,059,100
Salaries and wages	420,000		
Add: accrued salaries	30,000		
Transport		450,000	
Electricity	5,500		164,000
Add: accrued electricity	500		
Insurance	16,000		
Less: prepaid insurance	400		
Office repair		6,000	
Discount allowed			15,600
Carriage outwards			3,500
Rent	14,700		8,000
Less: Rent paid in advance	1,700		2,000
Stationery			
Increase in provision for bad debts		13,000	
Bad debts		2,900	
Depreciation		3,900	
Motor vehicle		5,300	
Fixtures and fittings			
Total expenses		25,000	
Net profit		10,500	709,700
			349,400

(ii)

MUWANGA'S

BALANCE SHEET

AS AT 31ST DECEMBER 2015

Details	Amount (shs)	Amount (shs)	Amount (shs)
	<u>COST</u>	<u>DEPRECIATION</u>	<u>BOOK VALUE</u>
FIXED ASSETS			
Motor vehicle	250,000	25,000	225,000
Fixtures and fittings	105,000	10,500	94,500
Total fixed assets			319,500
CURRENT ASSETS			
Stock	240,000		
Debtors (450,000-4500)	445,500		
Bank	600,000		
Cash	50,000		
Pre paid insurance	400		
Rent paid in advance	1,700		
Outstanding commission received	5,000		
Total current assets		1,342,600	
Less: CURRENT LIABILITIES			
Creditors	367,200		
Accrued salaries	30,000		
Accrued electricity	500		
Rent received in advance	3,000		
Bank over draft	42,000		
Total current liabilities		442,700	
Working capital			899,900
Capital employed			1,219,400
FINANCED BY,			
Capital	600,000		
Add: net profit	349,400		
Less: drawings	949,400		
CAPITAL OWNED	50,000		
Add: long term liabilities		899,400	
Bank loan		320,000	
Capital employed			1,219,400

EXERCISE 36

The following information was extracted from the books of KAWANGA enterprise as at 31st December 2010

KAWANGA ENTERPRISE

TRIAL BALANCE

AS AT 31ST DECEMBER 2010

DETAILS	DEBIT (SHS) "000"	CREDIT (SHS) "000"
Capital		2,500
Sales		6,000
Opening inventory	250	
Machinery	2,500	
Motor vehicle	800	
Provision for depreciation on motor vehicle		160
Purchases	3,600	
Sales returns	400	
Purchases returns		200
Wages and salaries	600	
Sales discount	50	
Purchases discount		40
Carriage outwards	30	
Carriage inwards	25	
Postage and telephone	75	
Water and electricity	86	
Bad debts written off	15	
Provision for bad debts		10
General expenses	85	
Rent and rates	150	
Debtors	550	
Creditors		466
Cash in hand	60	
Cash at bank	300	
Total	9,576	9,576

The following additional information was available

- (i) Inventory on 31st December 2010 was shs 255,000
- (ii) Depreciation was charged at 10% on all fixed assets
- (iii) Accrued rent was shs 30,000 and pre paid rates were Shs 10,000.
- (iv) Provision for bad debts is to be increased by shs 3,000

Required to prepare KAWANGA'S financial statements as at 31st December 2010

EXERCISE 37

The following balances were extracted from the books of HAZEL EMPORIUM on 31st December 2007:

	Shs.
Sales	7,200,000
Stock (01.01.07)	1,200,000
Return inwards	1,600,000
General expenses	600,000
Purchases	10,000,000
Returns outwards	1,400,000
Creditors	1,200,000
Cash at bank	1,520,000
Carriage on sales (outwards)	1,200,000
Debtors	1,800,000
Premium	240,000
Industrial machinery	2,400,000
Furniture and fittings	960,000
Stock (31.12.07)	1,960,000
Salaries and wages	2,000,000
Cash in hand	480,000
Advertising	200,000
Drawings	800,000

Required to:

- (i) Prepare a trading, Profit and Loss account for HAZEL EMPORIUM for the period ended 31st December 2007.
- (ii) Prepare HAZEL EMPORIUM'S Balance sheet as at 31st December, 2007.

EXERCISE 38

The following balances were obtained from the books of TAYARI ENTERPRISES as at 31st December 2012

Details	Shs.
Stock on 1/1/2012	1,000,000
Premises	4,800,000
Sales	10,400,000
Purchases	5,600,000
Returns inwards	600,000
Salaries and wages	700,000
Furniture	500,000

Discount allowed	150,000
Discount received	90,000
Returns outwards	36,000
Machinery	2,800,000
Rent and rates	112,000
Advertising	208,000
Insurance	76,000
Sundry expenses	144,000
Debtors	1,200,000
Creditors	860,000
Cash in hand	48,000
Capital	6,300,000
Bank overdraft	372,000
Drawings	120,000
Stock on 31/12/2012	1,200,000

Required to:

- (a) Draw TAYARI ENTERPRISES' Trial Balance as at 31st December 2012.
- (b) Prepare a Trading, Profit and Loss Account for the period ended 31st December 2012.
- (c) Prepare a balance sheet as at the end of the year 2012.

EXERCISE 39

The Trial balance below was extracted from the books of Muyodi wholesalers as at December 31, 2015.

DETAILS	TRIAL BALANCE	
	DR	CR
Land and Building	SHS 15,000,000	
Purchases and sales	7,900,000	SHS 12,400,000
Carriage inwards	100,000	
Stock (Jan 1, 2015)	1,950,000	
Discounts	128,000	220,000
Insurance	142,000	
Commission received		350,000
Returns	150,000	200,000
Furniture at cost	1,200,000	
Provision for depreciation		180,000
Bad debts	250,000	
Drawings	260,000	
Electricity	380,000	
Debtors and creditors	2,000,000	SHS 1,700,000
Loan		3,000,000
Salaries and wages	174,000	
Motorvehicle at cost	8,000,000	

Provision for depreciation		800,000
Rent	400,000	624,000
Bank		18,500,000
Capital		60,000
Provision for doubtful debts		<u>38,034,000</u>
		<u>38,034,000</u>

Additional information at Dec 31, 2015

- (i) Closing stock was valued at shs 750,000.
- (ii) The proprietor withdrew goods valued at shs 40,000 for private use. No record had been made to this effect.
- (iii) 3% interest is due on loan.
- (iv) Commission income due shs 100,000.
- (v) Charge provision of 4% for doubtful debts.
- (vi) Depreciate Motor vehicle by 10% on cost and furniture by 15% on book value.
- (vii) Salaries paid in advance shs 50,000.

Required:

Prepare a Trading and profit and loss account for the year ended December 31st, 2015 and a Balance sheet as at that date (20 marks)

INTERPRETATION AND ANALYSIS OF FINANCIAL STATEMENTS

There are different calculations that are carried out in business to help in interpretation and analysis of the different facts in business.

In most cases, these help in analyzing and interpreting the figures given by the financial statements.

These involve the comparing of figures with other figures in order to get a relationship between the compared figures; this enables one to interpret one figure in terms of the other.

For example. A figure like Net profit of shs 100,000 may not be easy to interpret as it may not give immediate sense than if it is given as shs.100,000 per year. Here in the second instance, the profit is compared to a period of time which is a year.

The different calculations are given by different formulae and these calculations include,

1. **Net sales (turn over).** This is the total amount of goods sold by the business during a given trading period less sales returns. Therefore this is acquired from the formula,

$$\text{Net sales} = \text{sales} - \text{sales returns (returns in wards)}$$
2. **Net purchases.** These refer to the actual cost of purchases of the business in a trading period. This is obtained by adding all the costs involved in purchasing the goods to purchases and subtracting purchases returns from purchases. Therefore,

$$\text{Net purchases} = \text{purchases} + \text{carriage in wards} + \text{wages} - \text{purchases returns (returns out wards)}$$

3. **Cost of sales.** This is the total amount of money spent on selling goods in the business. Therefore it is the cost involved in selling goods. This is given by the formula,
Cost of sales = cost of goods available for sale - closing stock.
4. **Cost of goods available for sale.** This is the sum of all goods that are available for sale in the business. This is given by the formula,
cost of goods available for sale = opening stock + net purchases
5. **Average stock.** This is the average of opening stock and closing stock or stock at start and stock at close or opening inventory and closing inventory. Therefore this is given by the formula, average stock = opening stock + closing stock
2
6. **Gross profit.** This is the excess of net sales over cost of sales. Therefore this is the profit obtained by the business out of its trading activities. This is given by the formula,
Gross profit = net sales (turn over) – cost of sales.
7. **Net profit.** This is the excess of gross profit plus all incomes and gains over the operating expenses of the business in a given trading period. Therefore it is the actual profits of the business after subtracting all the operating expenses. This is given by the formula,
Net profit = gross profit + incomes- operating expenses.
8. **Fixed capital.** This is the total monetary value of all fixed assets of the business. Therefore it is the sum of all fixed assets of the business. This can be given by adding up all the fixed assets of the business.
9. **Working capital.** This is the excess of current assets of the business over current liabilities. This is the capital involved in the day-to-day running of the business. E.g buying raw materials, paying for wages, paying for creditors, and other activities involved in the day-to-day running of the business. Therefore this is given by the formula,
Working capital = current assets – current liabilities
10. **Capital owned/owner's equity/ equity capital.** This is the total amount of capital employed in the business less borrowed capital (loans). Therefore it is given by the formula,
capital owned = capital employed – long term liabilities.
or capital owned = capital at start + net profit – drawings
11. **Capital employed.** This is the total capital invested in a given business. Therefore it is the sum of fixed capital and working capital. Hence given by the formula,
capital employed = working capital + fixed capital (fixed assets)
Or capital employed = capital owned + long term liabilities
12. **Borrowed capital.** This is the total amount of all long term liabilities of the business. Therefore it is equivalent to all long term liabilities like bank loan etc.
13. **Floating capital.** This refers to the total current assets of the business.
14. **Liquid funds.** This means cash at hand in the business.
15. **Liquid capital.** This is the excess of current assets of the business over closing stock. Therefore it is the difference between current assets and closing stock. Hence given by the formula, **liquid capital = total current assets – closing stock.**

EXAMPLE 35

The following trial balance was extracted from the books of Mugwanya.

Details	Debit (shs)	Credit (shs)
Sales		500,000
Purchases	360,000	
Sales returns	20,000	
Purchases returns		15,000
Opening stock	210,000	
Wages	30,000	
Commission received		81,000
Motor vehicle	500,000	
Furniture	530,000	
Depreciation	20,000	
Insurance	30,000	
Rent	10,000	
General expenses	16,000	
Debtors	40,000	
Creditors		30,000
Bank loan		240,000
Capital		900,000
Total	1,766,000	1,766,000

Closing stock is shs 270,000

Required, calculate the following.

- | | |
|--|-----------------------|
| (i) Net sales | (vii) Net profit |
| (ii) Net purchases | (viii) Fixed capital |
| (iii) Cost of goods available for sale | (ix) Working capital |
| (iv) Cost of sales | (x) Capital owned |
| (v) Average stock | (xi) Capital employed |
| (vi) Gross profit | |

Solution

- (i) Net sales = sales – sales returns
 $= 500,000 - 20,000$
 $= \text{shs. } \underline{\underline{480,000}}$
- (ii) Net purchases = purchases + wages – purchases returns

$$= 360,000 + 30,000 - 15,000$$

$$= 390,000 - 15,000$$

Shs 375,000

- (iii) Cost of goods available for sale = opening stock + net purchases

$$= 210,000 + 375,000$$

= shs 585,000

- (iv) Cost of sales = cost of goods available for sale - closing stock

$$= 585,000 - 270,000$$

= shs 315,000

- (v) Average stock = opening stock + closing stock

2

$$= \underline{210,000 + 70,000} = \text{shs } \underline{140,000}$$

2

- (vi) Gross profit = net sales - cost of sales.

$$= 480,000 - 315,000$$

= shs 165,000

- (vii) Net profit = gross profit + incomes - operating expenses.

Net profit = gross profit + commission received - (depreciation + insurance + rent + general expenses)

$$= 165,000 + 81,000 - (20,000 + 30,000 + 10,000 + 16,000)$$

$$= 246,000 - 76,000$$

= shs 170,000

- (viii) Fixed capital = fixed assets

= motor vehicle + furniture

$$= 500,000 + 530,000$$

= shs 1,030,000

- (ix) Working capital = current assets - current liabilities

= debtors + closing stock - creditors

$$= 40,000 + 270,000 - 30,000$$

$$= 310,000 - 30,000$$

= shs 280,000

- (x) Capital owned = capital at start + net profit - drawings

$$= 900,000 + 170,000$$

= shs 1,070,000

- (xi) Capital employed = working capital + fixed capital

$$= 280,000 + 1,030,000$$

= shs 1,310,000

Or

$$\begin{aligned}
 &= \text{capital owned} + \text{long term liabilities} \\
 &= 1,070,000 + 240,000 \\
 &= \text{shs } \underline{\underline{1,310,000}}
 \end{aligned}$$

FINANCIAL RATIOS

A ratio is a relation that one item bears in terms of another.

This is a relation between two numbers which shows how much bigger one item is in relation to another.

IMPORTANCE OF FINANCIAL RATIOS.

- (i) They summarise numerous data into a form that can be understood easily.
- (ii) They make the interpretation and evaluation of the performance of the business easier.
- (iii) They make it possible to determine trends and hence facilitate better management and investment decisions.
- (iv) They facilitate the assessment of the operational efficiency of the business.
- (v) They disclose the trend in business, they forecast forecasting, planning and budgeting in order to respond to customers' tastes and preferences.
- (vi) They reveal the strength and weakness of the business hence forming the basis for appropriate decision making.

Ratios are grouped into three main groups;

- (i) Profitability ratios
- (ii) Liquidity ratios
- (iii) Efficiency and asset utilization ratios.

PROFITABILITY RATIOS.

These are ratios used to examine the relationship between profits and other items. Like sales, assets and capital. Examples of such ratios include;

- i) **Gross profit percentage.** This is gross profit expressed as a percentage of sales. This is given by gross profit percentage = $\frac{\text{gross profit}}{\text{sales}} \times 100$, multiplying by 100 in this case means that the answer is written in percentage form. This is sometimes called the gross profit ratio
- ii) **Net profit ratio.** This is the net profit expressed as a percentage of net sales. This is given by the formula net profit ratio = $\frac{\text{net profit}}{\text{net sales}} \times 100$
- iii) **Mark up.** This is gross profit expressed as a percentage of cost of sales. This is given by the formula; mark up = $\frac{\text{gross profit}}{\text{cost of sales}} \times 100$

- iv) **Margin.** This is gross profit expressed as a percentage of net sales. This is given by the formula $\frac{\text{gross profit}}{\text{net sales}} \times 100$
- v) **Return on capital employed.** This is the profit made in the trading period expressed as a percentage of capital. This is given by the formula

$$\text{Return on capital employed} = \frac{\text{gross profit}}{\text{Capital}} \times 100$$

Liquidity ratios

These are sometimes called solvency ratios.

They refer to ratios used to determine the ability of the organization to convert current assets into cash to cover payments. Examples of these ratios include;

- i) **Working capital ratio.** This is the ratio of current assets over current liabilities.
 It is given by the formula, working capital ratio = $\frac{\text{current assets}}{\text{current liabilities}}$ this is sometimes called current ratio.
- ii) **Quick asset ratio/ acid test ratio/liquid ratio.** This is the ratio used to measure the current assets minus stock against liabilities. This examines whether the business has sufficient cash to meet its immediate commitments. This is given by the formula acid test ratio = $\frac{\text{current assets} - \text{stock}}{\text{current liabilities}}$
- iii) Ratio of debtors to sales. This is the ratio of debtor to sales of the business.
 This is given by the formula ratio of debtors to sales = $\frac{\text{debtors}}{\text{sales}}$
- iv) **Debt ratio.** This is the ratio of total debts to total assets of the business. This is given by the formula; **debt ratio** = $\frac{\text{total debts}}{\text{total assets}}$
- v) **Debt equity ratio.** This is the ratio of total debts over total equity of the business. This is therefore given by the formula; **debt equity ratio**
 $= \frac{\text{total debts}}{\text{total equity}}$
- vi) **Payable turnover ratio.** This is the ratio of total purchases over creditors. This is given by the formula; **payable turnover ratio** = $\frac{\text{total purchases}}{\text{creditors}}$
- vii) **Creditor turnover ratio.** This is the value of creditors over total purchases expressed in the number of days in a trading period. This is given by the formula,
 $\text{Credit turnover ratio} = \frac{\text{total value of creditors}}{\text{total purchases}} \times 365$ in this case since we are multiplying by 365 which is estimated as the number of days in the trading period, the answer will be written with units in days but not as a ratio.

- viii) Average payment period to creditors. This is the ratio of the days in the accounting period over the payable turn over. Therefore this is given by the formula,
- $$\text{Average payment period to creditors} = \frac{\text{days in accounting period (365)}}{\text{payable turn over}}$$

EFFICIENCY AND ASSET UTILIZATION RATIOS

These ratios measure the management and efficiency of various current assets and liabilities and the efficiency in the use of fixed assets. Examples of these ratios include,

- i) Stock turnover. This is also called rate of stock turn over which refers to the number of times stock is sold and replaced with new stock. This also measures the speed at which stock is cleared or sold. An increase in the stock turn over means an increase in the profits of the business. This is given by the formula

$$\text{Stock turnover} = \frac{\text{cost of goods sold}}{\text{average stock}}$$
 here the answer is given in times as the units
- ii) **Debtors' collection period.** This is also called debtors turnover ratio and it shows how long it takes the business to collect debts from the customers. This is given by the formula, $\text{Debtors' collection period} = \frac{\text{debtors}}{\text{credit sales}} \times 365$
- iii) Creditor settlement period. This is also called creditor payment period or creditor turnover ratio. It measures the time the business takes to pay its creditors. This is given by the formula,

$$\text{Creditor settlement period} = \frac{\text{creditors}}{\text{credit purchases}} \times 365$$

NOTE;

Every answer should have units, these units include currency units e.g shillings, dollars e.t.c.

The units can also be in days where these apply in case there is multiplication by 365 like in calculating, Average payment period to creditors, Credit turnover ratio, Creditor settlement period, Debtors' collection period

Units can also be in terms of times like in the calculation of stock turn over where we look at the times stock has been sold off and replaced in business.

Some answers need to be written in ratio form where this applies to most ratios like, Working capital ratio, Quick asset ratio/ acid test ratio/liquid ratio, Creditor turnover ratio, Debt ratio, Debt equity ratio, Payable turnover ratio, Ratio of debtors to sales e.t.c.

They can also be written as percentages and this applies in case of the ratios where we multiply by 100. Like in, Gross profit percentage, Return on capital employed, Mark up, Margin, Net profit ratio. E.t.c

EXERCISE 40

The following balances were extracted from the books of GUMA enterprise as at 31st December 2009.

	Shs.
Opening stock	640,000
Capital	4,000,000
Purchases	2,320,000
Cash in hand	160,000
Cash at bank	160,000
Debtors	680,000
Motor vehicle	2,000,000
Creditors	1,200,000
Loan for 1 year	1,000,000
Expenses	140,000
Closing stock	800,000

(a) Calculate the:

- (i) Value of average stock (03 marks)
- (ii) Cost of goods sold (03 Marks)
- (iii) Rate of stock turn (03 Marks)
- (iv) Working capital (03 Marks)

(b) If mark up is 33%, determine GUMA Enterprise ;

- | | | |
|-------|---------------------|------------|
| (i) | Net sales | (03 marks) |
| (ii) | Gross profit margin | (02 marks) |
| (iii) | Net profit | (02 marks) |
- (c) Calculate GUMA enterprises;
- | | | |
|------|-------------------|------------|
| (i) | Capital employed. | (03 marks) |
| (ii) | Current ratio. | (03 marks) |

EXERCISE 41

The following information was extracted from the books of MUZUNZA on 31st December 2013

Details	shs
Capital	9860000
Cash	800,000
Bank	2,500,000
Opening stock	1,500,000
Purchases	8,000,000
Wages and salaries	1,000,000
Short term loan	4,140,000
Creditors	2,400,000
Purchases returns	500,000
Sales	12,060,000
Sales returns	50,000
Closing stock	600,000
Debtors	3,000,000
Motor vehicle	7,000,000
Electricity	260,000
Rent	700,000
Discount allowed	50,000
Drawings	2,060,000
Machinery	5,000,000
4 year loan	2,870,000
Discount received	10,000
Required to calculate,	

- | | | | |
|-------|----------------------------------|--------|------------------|
| (i) | Cost of goods available for sale | (vi) | Net profit |
| (ii) | Sales at cost | (vii) | Capital owned |
| (iii) | Gross profit | (viii) | Working capital |
| (iv) | Mark up | (ix) | Capital employed |
| (v) | Margin | (x) | Liquid capital |

(xi)	Liquid funds	(xxi)	Average collection period for debtors
(xii)	Acid test ratio	(xxii)	Ratio of creditors to purchases
(xiii)	Circulating capital	(xxiii)	Ratio of debtors to sales
(xiv)	Rate of return on capital employed	(xxiv)	Debt ratio
(xv)	Current ratio	(xxv)	Debt equity ratio
(xvi)	Rate of stock turn	(xxvi)	Gross profit ratio
(xvii)	Net profit ratio	(xxvii)	Average payment period to creditors
(xviii)	Administration ratio		
(xix)	Fixed capital		
(xx)	Borrowed capital		

TAXATION

Tax refers to a compulsory charge levied by the government or any other competent authority on persons (individuals, co-operation and other legal entities) in order to finance government activities.

Or

It is a legal compulsory transfer of funds from the public to the fiscal authority irrespective of the exact amount of benefits rendered to the tax payer by the government.

BASIC TERMS USED IN TAXATION

1. **Tax base.** This refers to any item or economic activity that is subject to tax. This may include the following ;

- ✓ Income earned from economic activities like trade and manufacturing.
- ✓ Consumption of goods which are subject to taxation.
- ✓ Income earned from employment.
- ✓ Property or assets like house, land and other investment.

2. **Tax liability.** Refers to the total amount of money that a tax paying unit is expected to pay within a given period of time.

3. **Tax rate.** This is applied on a tax base to derive a tax liability which the obligation the tax payer meets. The rate is represented as either a percentage or a fixed or specific value based on units

Tax Computation/ Tax Rates

Local excise duty rates may be ad valorem or specific:

An ad valorem rate is a fixed percentage of the value of the goods that is the exfactory price e.g. 10% of value X A specific rate is a value of a specific amount of money that does not vary with the price of the good but with its weight, volume, surface, etc. The specific rate stipulates how many units of currency are to be levied per unit of quantity (e.g. sugar is charged at a specific rate of Shs 50 per kg).

On Goods: (*using ad valorem rate*)

Excise duty is payable on the ex-factory price of the manufactured goods. If the Ex-factory price of water (price at delivery) is Shs 1,000 per litre, therefore excise duty will be 10% of the Shs 1000 per litre. i.e.

$$\text{Ex-factory price} = \text{Shs } 1,000$$

$$\text{Excise duty at a given rate (10\%)} = 1,000 \times 10\%, = \text{Shs } 100.$$

Total price before VAT will be Ex-factory price plus excise duty.

$$\text{OR Total price before VAT} = \text{Ex-factory price} + \text{Excise duty} = 1,000 + 100$$

$$= \text{Shs } 1,100$$

$$\text{VAT thereof at a given rate of (18\%)} = 1,100 \times 18\%$$

$$= \text{Shs } 198$$

$$\text{Selling price} = \text{Shs } 1298$$

On Goods (using specific rate)

If the total amount of sugar delivered out of the factory is 120,000 kg for a given period, then excise duty on the sugar will be Shs 50 for every kg delivered. i.e. $\text{Number of kg delivered} = 120,000 \text{ kg}$

$$\text{Excise duty on the delivery} = 120,000 \times \text{Shs } 50 = \text{Shs } 6,000,000$$

On services

Excise duty on services (airtime usage) is payable on the usage charged by the services providers (telephone services providers).

Sec. 2 of the Excise Tariff Act. Section 5 of the Excise Tariff Act states that the excise duty shall be charged together with Value Added Tax. Therefore if the value of Airtime cards is Shs 1,539. Then excise duty will be 12% of the Shs 1,539 and VAT will be 18% of the Shs 1,539.

Therefore cost of airtime card Shs 1,539

$$\text{Excise duty } 12\% = 1,539 \times 12\%$$

$$= \text{Shs } 184$$

$$\text{VAT at } 18\% = 1,539 \times 18\%$$

$$= \text{Shs } 277$$

$$\text{Total taxes} = 277 + 184$$

$$30\% = 461$$

$$\text{Selling price of airtime card} = 461 + 1539$$

$$= \text{Shs } 2,000$$

For instance if the income tax payable by companies is 30% and the export duty for hides and skins is 0.25 dollars per kilogram

Illustrations

(a) If A is the tax base and B is the rate, then the product of A and B is the tax liability ie $A \times B = \text{Tax liability}$

(b) Assume a company had a taxable income of Uganda shs 200,000 and the tax rate is 30% its tax liability will be

$$200,000 \times \frac{30}{100} = \text{shs } 60,000$$

(c) Assume the company above export 150 kgs of hides and skins to Europe, its tax liability will be

$$150 \times 0.25 \text{ Dollars} = 37.5 \text{ Dollars}$$

N.B. if the tax base is to be paid in Ugandan currency, the ruling exchange rate will be applied, like if a Dollar is equivalent to 1960 shs, then the amount payable in Ugandan shillings would be shs 73,500

4. Tax compliance. This is the degree to which the tax paying community meets the tax obligation as set up in appropriate legal and regulatory provisions.

- 5. Threshold of a tax.** Refers to the amount of money or level of income from which the tax liability begins.
- 6. Tax evasion.** This is the deliberate refusal of a tax paying unit to pay its tax obligations in order to reduce its tax liability.
- 7. Tax avoidance.** This is where a tax payer escapes paying tax or pay less by taking advantage of the Loopholes in the tax laws to reduce one's tax liability.
- 8. Value Added Tax.** Tax levied on consumption of goods and services and imposed on value added at every stage in the chain of distribution and production of goods and services
- 9. With Holding Tax.** These taxes are a form of income tax deducted at source by one entity upon making a payment to another entity
- 10. Excise duty.** This is imposed on the importation of specific goods with a view of influencing their supply or consumption in the local market, it is normally charged on socially undesirable and luxurious goods
- 11. Capitalization of a tax.** This is a situation where a tax paying unit usually a firm artificially increase the value of its capital employed so as to reduce its tax liability.
- 12. Tax holiday.** This refers to the period of non – tax payment given by the government to reduce consumers spending and encourage investment spending.
- 13. Average rate of tax.** This refers to the proportion of income that is paid out as tax.
$$\text{Average rate of tax} = \frac{\text{tax amount}}{\text{total income}} \times 100$$
- 14. Marginal rate of tax.** Refers to the proportion of additional income that is paid out.
$$\text{Marginal rate of tax} = \frac{(\text{change in tax})}{\text{change in income}} \times 100$$
- 15. Tax rebate.** This refers to the tax reduction under special consideration
- 16. Tax yield.** This refers to the amount of tax revenue collected from a given number of taxes
- 17. Hidden tax.** This refers to the tax paid on purchase of goods and services and usually included in the prices of commodities being bought or taxed.
- 18. Tax haven.** This refers to a situation where a country deliberately offers low tax rates or relaxed / liberal tax so as to attract as much foreign investment and trade as possible.

19.Taxable income. This refers to income subjected to taxation

20.Taxable capacity. Refers to the ability of individuals to pay taxes imposed on them without affecting his / her standard of living.

21. Forward shifting of a tax. This is when the money burden of the tax is shifted by the tax payer to another party who buys the output being taxed. For example a manufacturer may shift the burden to tax to the wholesaler who then shifts it to the retailer and the retailer then shifts it to the final consumer.

22.Back ward shifting of a tax. This is when the official tax payer shifts the money burden of a tax to the person from whom he buys. For instance a producer using a given raw material may shift the money burden to the supplier of such a raw material.

PRINCIPLES OF A GOOD TAX SYSTEM.

these refer to the rules that provide guidelines to be followed when designing the system of taxation. They include;

1. Principle of convenience. This states that the assessed tax should be collected at ideal times convenient for the tax payer.
2. Principle of simplicity. The nature of the tax, method of collection, method of assessment should be simple and easy to understand by both the tax payer and tax collectors.
3. Principle of certainty. This emphasizes that the nature of the tax and amount should be clearly understood by the tax payer and tax collector without any doubt.
4. Principle of economy. The cost of collection and administration of the tax should be low as compared to the amount of tax to be collected.
5. Principle of equity/fairness. The burden of the tax should fall equitably on the tax payer and amount to be paid should be in relation to the income level.
6. Principle of elasticity. The tax should change according to the prevailing situation in the economy.
7. Principle of diversity (comprehensiveness). A good tax system should have a wide base or source ie have a variety of sources and should cover different incomes.
8. Principle of consistence. A good tax should be in line with the national policies and economic objectives of a country.

TYPES OF TAXES

There are two broad categories of taxes ie direct and indirect taxes

DIRECT TAXES

These are taxes levied on the incomes and property of individuals and business entities, the burden of which is directly borne by the person paying it. Direct taxes include the following

- ✓ Income tax. This is the tax levied on profits or income earned by an individual or a business entity. It takes two forms ie personal income tax and corporation tax.
 - (i) Personal income tax. Is a tax that is levied on the income of an individual.
 - (ii) Corporation tax is a tax levied on corporation or company premises. The tax base for income tax include profits from business, rent and royalties (money paid for using one's patent right or assets like land) from selling assets and income from investments like shares, debentures and other securities and income from employment
- ✓ Wealth tax. It is a tax levied on the accumulated wealth and savings of an individual or business entity. It may be levied on shares, land and other investment
- ✓ Capital gain tax. This is tax levied on profits received from the sale of capital assets like sale of property, investment stock etc
- ✓ Estate duty. This is a duty levied on estates of deceased persons. It is levied before or after the property in the estate is shared out to the different beneficiaries as based on market value of the estate
- ✓ Gift tax. This is the tax on gifts or gratuitously acquired

INDIRECT TAXES

These are taxes that are levied on goods and services paid by an individual or business entity and shifted to the final consumer. These taxes are voluntary in that sense you can only pay them if you opt to buy the goods or consume services which are levied. The common types of indirect tax include

- ✓ Customs duty. This is levied on goods that cross national border point either as imports into the country or exports leaving the country. The tax on imports is referred to as import duty while tax on exports is referred to as export duty.
- ✓ Excise duty. This is a duty levied on the production or importation of specific goods with a view to influence their consumption or supply in the market.
- ✓ Specific tax. This is a fixed monetary tax per physical unit of good imported for example shs 100,000 per tonne of maize flour.
- ✓ Octroi tax. This is a tax imposed on goods in transit through a given country.
- ✓ Sales tax. It is a tax levied as a percentage on goods or service sold.
- ✓ Value Added Tax (VAT). This is a tax levied on consumption of goods and services. It is levied on the value added at every stage in a chain of production or distribution of goods and services.

Or

It is a broad-based indirect tax on consumption, charged on value added to "taxable" goods and services, at different stages on the chain of distribution ie the more you buy, the more you pay. It is charged on both local products and imports. It is not a cost to a producer or the distributor chain member and its full impact is bared by the end consumer. It was first introduced in the European Union in the 1970's

It was introduced in Uganda with effect from 1st July 1996. It replaced sales tax and commercial transaction levy (CTL)

Main Features of VAT

- ✓ It is a broad based tax charged and collected at all stages in the chain of distribution. I.e. its multi stage
- ✓ It is an indirect form of tax i.e. the one paying is the one who incurs the tax burden
- ✓ It is charged on expenditure (consumption) and not income
- ✓ It is charged on value added.
- ✓ It is ultimately bared by the final consumer.
- ✓ Credit mechanism (VAT on inputs credited against taxes on output).
- ✓ It is charged at a rate of 18% in Uganda.

Illustration 1

Assuming that there are three levels in the chain of production as follows,

- (a) Stage I. Importation of goods with a taxable value of 10,000 shillings.
- (b) Stage II. Sale of goods by the importer to a retailer at shs 15,000.
- (c) Stage III. Sale of goods to a final consumer by the retailer at shs 25,000.

Calculate the total VAT payable.

Stage I. VAT will be charged on importation price

VAT Rate = 18%

VAT Payable = VAT Rate X initial cost

$$18\% \times 10,000 = \text{shs } 1,800$$

Stage II.

VAT payable = Valued added X VAT rate

$$\text{Valued added} = 15,000 - 10,000 = 5,000$$

$$\text{Vat payable} = 5,000 \times \frac{18}{100} = \text{shs } 900$$

Stage III

VAT payable= Value Added X VAT Rate

$$\text{Value added} = 25,000 - 15,000$$

$$\text{Vat payable} = 10,000 \times \frac{18}{100} = \text{shs } 1,800$$

N.B total VAT payable from the 3 stages is 4,500 shillings

From the above, it is clear that though Vat is collected from the three stages, the one who bears the burden is the final consumer

Illustration 2

The following VAT exclusive transactions were availed to you by VAT registered business in your town for the month of December 2016

- I. Rachael bought goods worth shs 80,000,000
- II. Rachael sold the same goods to Penrose for shs 90,000,000
- III. Penrose sold the same goods to Deborah a retailer for shs 100,000,000
- IV. Deborah sold the same goods to the final consumer for shs 120,000,000

Required

Using the VAT Rate of 18%

- I. Compute for the entrepreneurs the VAT chargeable for the value added at each stage
- II. Advise Deborah on the gross value for her goods to the final consumer

Solution

Stage 1

VAT Payable = initial cost X VAT Rate

$$80,000,000 \times \frac{18}{100} = 14,400,000 \text{ shillings}$$

Stage 2

VAT Payable = Value Added X VAT Rate

$$\text{Value added} = (90,000,000 - 80,000,000) = 10,000,000 \text{ shillings}$$

$$\text{VAT Payable} = 10,000,000 \times \frac{18}{100} = \text{shillings } 1,800,000$$

Stage 3

VAT Payable = Value Added X VAT Rate

$$\text{Value Added} = (100,000,000 - 90,000,000) = 10,000,000 \text{ shillings}$$

$$\text{VAT Payable} = 10,000,000 \times \frac{18}{100} = 1,800,000 \text{ shillings}$$

Stage 4

VAT Payable = value Added X VAT Rate

$$\text{Value Added} = (120,000,000 - 100,000,000) = 20,000,000$$

$$\text{VAT Payable} = 20,000,000 \times \frac{18}{100} = 3,600,000 \text{ shillings}$$

(ii) Gross sales Value = selling price X VAT chargeable

$$\text{Shs } 120,000,000 + \frac{18}{100} \quad \times 120,000,000$$

$$\text{Gross value} = 120,000,000 + 21,600,000 = \text{shs } 141,600,000$$

Deborah would be advised on the gross value as follows

- Deborah should include VAT chargeable in her selling price / determining her selling price
- Deborah should have sold her goods to the final consumer at shs 141,600,000 inclusive of VAT

Trial question

The following VAT exclusive transactions were availed to you by VAT registered businesses in your town for the month of May 2015,

- (i) Masanso bought goods worth shs 60,000,000.
- (ii) Masanso sold the same goods to Kibooko for shs 88,000,000.
- (iii) Kibooko sold the same goods to Onzita a retailer for shs 96,000,000.
- (iv) Onzita sold goods to the final consumer for shs 120,000,000.

Required,

Assuming the VAT rate is 18%

- (a) Compute for the entrepreneur VAT chargeable for value added at each stage and advice Onzita on the gross sales value for his goods to the final consumer.

Stage 1

VAT = initial cost X VAT rate

$$\text{VAT} = 60,000,000 \times \frac{18}{100}$$

$$\text{VAT} = \text{shs } 10,800,000$$

Stage 2

VAT = value added X VAT rate

$$\text{Valued added} = 88,000,000 - 60,000,000 = 28,000,000$$

$$\text{VAT} = 28,000,000 \times \frac{18}{100}$$

$$\text{VAT} = \text{shs } 5,040,000$$

Stage 3

VAT = valued added X VAT rate

$$\text{Valued added} = 96,000,000 - 88,000,000 = 8,000,000$$

$$\text{VAT} = 8,000,000 \times \frac{18}{100}$$

$$\text{VAT} = \text{shs } 1,440,000$$

Stage 4

VAT = value added X VAT rate

$$\text{Value added} = 120,000,000 - 96,000,000 = 24,000,000$$

$$\text{VAT} = 24,000,000 \times \frac{18}{100}$$

$$\text{VAT} = \text{shs } 4,320,000$$

Total VAT = 21,600,000

Onzita should sell his goods to the final consumer including the VAT of shs 21,600,000. Therefore he should sell his goods at shs 141,600,000 to final consumer

Non- tax revenue is the revenue obtained by the government from sources other than tax.

Non – tax sources of revenue include

- Licenses
- Market dues
- Fine imposed on those who do not obey the law of the country
- Grants and gifts
- Sale of government property
- Profit from government undertakings like mines, national parks, forests etc
- Deficit financing. Deficit means an excess of public expenditure over public revenue. This excess may be met by borrowings from the market, borrowings from abroad, by the central bank creating currency.

TAX EVASION.

This is the deliberate refusal of a tax paying unit to pay its tax obligations in order to reduce its tax liability.

Forms / ways/ examples of tax evasion

- ✓ smuggling ie failure to declare entry or exit of goods

- ✓ under declaration of income ie business income or personal income
- ✓ giving lower value of the goods / services imported or exported by the business
- ✓ refusal of the business to register for VAT
- ✓ overstating of business expenses so as to declare less profits
- ✓ Capitalization of tax so as to pay less on business profits
- ✓ Bribery tax collectors
- ✓ Hiding from tax collectors

Causes / reasons for tax evasion

- ✓ Progressive taxation where the tax rate increase with level of income.
- ✓ high taxes imposed by the government
- ✓ double taxation especially on companies and the share holders
- ✓ ignorance of the public about the importance of paying taxes to the country
- ✓ corrupt government characterized by misuse and embezzlement of tax funds.
- ✓ Weak tax administration system characterized by loopholes in tax collection.
- ✓ Discontentment about provision of services by the government from taxes paid

Steps to be taken by the business to minimize tax evasion / increase the level of tax compliance.

- ✓ Advocating for fair tax rates through business associations.
- ✓ Obtaining tax education by attending workshops on taxes.
- ✓ Resisting corrupt tax officers to avoid bribe and pay little or zero tax.
- ✓ Filing monthly tax returns to the relevant tax authorities.
- ✓ Maintaining proper business records.
- ✓ Ensuring prompt payment of taxes to the tax authorities.

Consequences of tax evasion to the business.

- ✓ Temporally or permanent closure of the business hence loss of business income.

- ✓ Denial of government support or standing for election offices where tax compliance is considered a pre – requisite.
- ✓ Penalties for non – payment of taxes.
- ✓ Forceful payment of arrears from the business profits or entrepreneurs' income.
- ✓ Bad public image of the business especially when closed.
- ✓ Loss of smuggled goods that are confiscated by tax authorities.
- ✓ Imprisonment over non – paid tax obligation.

TAX AVOIDANCE

This is where a tax payer escapes paying tax or pay less by taking advantage of the

Loopholes in the tax laws, it involves taking advantages of the loopholes in the law to reduce one's tax liability.

Though tax avoidance is legal, it is undesirable act that usually leads to noncompliance. Tax avoidance and tax evasion actions results into losses of tax revenue and thus undesirable to the authorities

Smuggling

Is an activity which involves the importation or exportation of goods by wrong or unlawful means with the objective of evading taxes. Smuggling is an illegal method of conducting business.

Forms of smuggling

- Under declaration of goods
- Under valuation of goods
- Misclassification of goods
- Mis-declaration of country of origin
- Short landing transit / re-export of goods
- Falsification of goods
- Dumping
- Document counterfeiting
- Avoid customs entry points and concealment of dutiable goods.

Procedures for tax compliance.

- ✓ Registration of the tax payers with Uganda Revenue Authority.
- ✓ Obtaining the tax identification number (TIN)

- ✓ Preparation of tax records i.e income statement, tax returns.
- ✓ Getting assessed for tax by the tax authorities.
- ✓ Submitting timely tax returns.
- ✓ Payment of taxes.
- ✓ Receiving feedback from the tax authority i.e by SMS, tax certificates.

NB. The steps must be in chronological order.

penalties for non-tax compliance should include;

- ✓ Forceful payment of all the tax arrears/ imposition of fines or penalty on tax defaulters.
- ✓ Temporally or permanent closure of the business that regularly evade taxes.
- ✓ Confiscation of the goods being smuggled to evade taxes.
- ✓ Publishing of tax defaulters once identified.
- ✓ Denial of government support to non-compliant tax payers.
- ✓ Denial of public/government contracts and tenders once tax payer is blacklisted.
- ✓ Strict monitoring of the tax defaulters' business.
- ✓ Denial of any relevant tax refunds that ought to be paid by tax authority to a nontax compliant tax payers.
- ✓ Imprisonment of tax defaulters after court ruling.
- ✓ Taking over a tax defaulters business
- ✓ Inclusion of tax defaulters in the shame list

International taxes (customs and excise) .

This includes

- Customs duty and excise duties on imports
- VAT on imports
- Withholding tax on imports
- Trade regulations

Domestic taxes.

This deals with

- Income tax
- Rental tax
- Withholding tax on supply of good and services
- VAT on local goods and services
- Local excise duty
- Gaming tax

OBLIGATION OF A TAX PAYER

- File returns in prescribed format and on time.
- Pay taxes on due date.
- Keep proper records of accounting.
- Display registration certificate in business premises.
- Communicate changes in registration details e.g. name, address, nature of the business etc
- A tax payer is required to register voluntarily with URA.
- Disclosure / declaration of information which ever URA needs to know.

RIGHTS OF A TAX PAYER

- Right to be attended to URA as regards to appeal and objections.
- Right to prior notice by URA on any matter like inspection.
- Right to claim for refunds by URA within the prescribed time limit.
- Right to be attended to by URA in regard to processing returns, customs entries and other documents.

Individual income tax. This tax is imposed on the chargeable income of an individual. Chargeable income is derived from gross income

Gross income: there are three sources of income under the Income Tax Act.

- i) Business income
- ii) Employment income
- iii) Property income

Business income. Is any income derived by a person from carrying on a business and also includes a gain on disposal of a business asset.

Employment income. Is income earned by an employee from any employment and includes wages, salary, leave pay, payment in lieu of leave, overtime pay, commission, gratuity, bonus or the amount of any travelling, entertainment, utilities, cost of living, housing, medical or other allowance and the value of benefits granted.

Property income includes any dividends, interests, annuity, natural resources payments, rents, royalties and any other payments derived by a person from the provision, use, or exploitation of property.

The sum of the income from all the three sources above is referred to as gross income. This excludes income that is exempt from tax. .

INCOME TAX

Is direct tax imposed on a person's income at specific rates for a given period of time. It is charged on every person who has chargeable income for each year of income.

Chargeable income of a person for a year of income is the gross income of the person for the year of income less total allowable deductions.

Example

IVAN is a resident individual. He earned the following income during the year ended 2015.

Property income shs 120,000,000

Employment income shs 80,000,000

Business income from his whole sale shop in Kiwawu shs 250,000,000

Required,

Compute Ivan's gross income

Solution

Property income	120,000,000
Employment income	80,000,000
Business income	250,000,000
Gross income	450,000,000

Question 1

Ms Kirabo Susan a resident of Lungala earned income from different sources in the year 2008 as indicated below.

Business income shs 1,000,000, employment income shs 2,400,000, property income shs 500,000, In addition, he incurred expenses totaling to 1,200,000 shs to earn the income, shs 150,000 is exempted from tax. Determine Ms Kirabo's gross income and her chargeable income

Solution

$$(i) \quad \text{Gross Income} = \text{Total Income} - \text{Tax exempted income}$$

But Total income = Business income + employment income + property income

$$1,000,000 \quad + \quad 2,400,000 \quad + \quad 500,000$$

$$\text{Gross income} = 3,900,000 - 150,000 = \text{shs } 3,750,000$$

$$(ii) \quad \text{Chargeable income} = \text{Gross Income} - \text{Expense}$$

$$3,750,000 - 1,200,000$$

$$\text{Chargeable income} = \text{shs } 2,550,000$$

Question 2

Marvin earned income from different sources for the year 2013

Business income shs 2,000,000

Employment income shs 4,800,000

Property income shs 100,000

In addition, he incurred expenses and losses amounting to shs 2,400,000. A total of shs 300,000 out of the income is tax exempt

Required: determine Marvin's Gross Income and Chargeable income

$$(i) \quad \text{Gross Income} = \text{Total Income} - \text{Tax exempted income}$$

But Total income = Business income + employment income + property income

$$\text{Shs } 2,000,000 + \text{shs } 4,800,000 + \text{shs } 100,000$$

Total income = shs 6,900,000

Gross Income = shs 6,900,000 – shs 300,000

Gross income = **shs 6,600,000**

$$(ii) \quad \text{Chargeable income} = \text{Gross Income} - \text{Expense}$$

$$\text{Shs } 6,600,000 - \text{shs } 2,400,000$$

Chargeable income = **shs 4,200,000**

EMPLOYEES RELIEF / EXEMPT EMPLOYMENT INCOME

This refers to gains or income that is not included in chargeable income and therefore not taxable.

- Pension; pension is tax exempt
- Medical expenses or discharge
- Life insurance
- Meals and refreshment (if provided in equal terms to all employees) ↗ NSSF contributions
- Services of security guards
- Allowances paid to a member of parliament except salary
- Terminal benefit for a worker who has provided services for a period of ten years
- Non cash benefit whose value is below 10,000

Taxable benefits for a tax payer

- Housing / accommodation allowance ↗ Transport allowance
- Medical allowance
- Holiday allowance / leave allowance

- Entertainment allowance
- Training allowance
- Bonus pay
- Interest benefit
- Motor vehicle benefit
- Loan benefit (interest)
- House keeper allowance

Computation of chargeable income

Employment income	Shs	Tax Treatment
Basic salary	xxx	Taxable
Add other allowance		
Bonus pay	xxx	Taxable
Loan benefit	xxx	Taxable
Transport allowance	xxx	Taxable
Medical allowance	xxx	Taxable
Chargeable employment income	xxx	

Individual TAX RATES

Income is charged tax in relation to a defined year of income where a tax rate of an individual is based on a year , however, in the case of PAYE, the rate administratively reduced to monthly rates.

Chargeable (monthly) income

Chargeable monthly Income (shs)	Tax rate (shs)
0 – 235,000	Nil
235,001 – 335,000	10% of the amount by which chargeable income exceeds shs 235,000
335,001 – 410,000	Shs 10,000 plus 20% of the amount by which chargeable income exceeds shs 335,000

410,000 and above	(A)Shs 25,000 plus 30% of the amount by which chargeable income exceeds shs 410,000
	(B) where the chargeable income of an individual exceeds shs 10,000,000 an additional 10% is charged on the amount by which chargeable income exceeds shs 10,000,000

Chargeable (annual) income

Chargeable annual Income (shs)	Tax rate (shs)
Not exceeding shs 2,820,000	Nil
Exceeding shs 2,820,000 but not exceeding shs 4,020,000	10% of the amount by which chargeable income exceeds shs 2,820,000
Exceeding shs 4,020,000 but not exceeding shs 4,920,000	Shs 120,000 plus 20% of the amount by which chargeable income exceeds shs 4,020,000
Exceeding shs 4,920,000	(A)Shs 300,000 plus 30% of the amount by which chargeable income exceeds shs 4,920,000
	(B) where the chargeable income of an individual exceeds shs 120,000,000 an additional 10% is charged on the amount by which chargeable income exceeds shs 120,000,000

Non- resident individuals

The rate for non- resident individuals does not include tax free allowance.

Chargeable annual Income (shs)	Tax rate (shs)
Not exceeding shs 4,020,000	10%
Exceeding shs 4,020,000 but exceeding shs 4,920,000	Shs 402,000 plus 20% of the amounts greater than shs 4,020,000
Exceeding shs 4,920,000	(A)Shs 582,000 plus 30% of the amount by which chargeable income exceeds shs 4,920,000

	(B) where the chargeable income of an individual exceeds shs 120,000,000 an additional 10% is charged on the
	amount by which chargeable income exceeds shs 120,000,000

Chargeable monthly Income (shs)	Tax rate (shs)
Not exceeding shs 335,000	10%
Exceeding shs 335,000 but not exceeding shs 410,000	Shs 335,000 plus 20% of the amounts greater than shs 335,000
Exceeding shs 410,000	(A) Shs 48,500 plus 30% of the amount by which chargeable income exceeds shs 410,000
	(B) where the chargeable income of an individual exceeds shs 10,000,000 an additional 10% is charged on the amount by which chargeable income exceeds shs 10,000,000

It should be noted that non- resident employees are not entitled to the threshold (shs 235,000); so at every amount under rates of tax, add shs 23,500 or (10% of 235,000)

Question 1

Suppose **Ms Nkinzi Penrose's** monthly income is shs 350,000. How much does she pay as PAYE?

Tax payable = $10,000 + 20\% \text{ of excess of shs } 335,000$

$$10,000 + \frac{20}{100} \times (350,000 - 335,000)$$

Tax payable = $10,000 + 0.2 \times 15,000$

Tax payable = $10,000 + 3,000$

Tax payable = shs 13,000

Question 2

Mr. Kimuli Fred is earning shs 2,000,000. How much does he pay as PAYE?

$$\text{Tax payable} = 25,000 + \frac{30}{100} \times (2,000,000 - 410,000)$$

$$\text{Tax payable} = 25,000 + 477,000$$

Tax payable = shs 502,000

Question 3

Ms. Mulungi Anna works with Mega Standards Super Market as an Accountant and earns a monthly salary of shs 16,000,000. How much does shs pay as PAYE.

(i) Tax payable = shs 25,000 + 30% of excess of shs 410,000 Plus 10% of excess of 10,000,000

$$\text{Tax payable} = \text{shs } 25,000 + \frac{30}{100} \times (16,000,000 - 410,000)$$

$$\text{Tax payable} = \text{shs } 25,000 + 4,677,000$$

$$\text{Tax payable} = \text{shs } 4,702,000$$

(ii) $10\% (16,000,000 - 10,000,000) = \text{shs } 600,000$

$$\text{Tax payable is } 4,702,000 + 600,000$$

Tax payable = shs 5,302,000

Question 4

Ms. Nakimuli Patricia, a Ugandan working with BMK publishers LTD earns shs 350,000. Calculate her PAYE

$$\text{Tax payable} = 10,000 + 20\% \text{ of } (350,000 - 335,000)$$

$$\text{Tax payable} = \text{shs } 10,000 + 3,000$$

Tax payable = shs 13,000

Question 5

Acul Ocolo is employed as a security guard in Karacen (U) Ltd. He earns a monthly salary of Shs 225,000.

Required: Is Karacen (U) Ltd obliged to deduct PAYE tax from Acul Ocolo?

Solution

No, because Acul Ocolo's monthly salary is less than the threshold so his salary does not attract PAYE.

Acul Ocolo is an employee of company Y. He earns the following monthly income: a salary of Shs 300,000; travelling allowance of Shs 50,000 and medical allowance of Shs 30,000, NSSF shs 30,000, life insurance premium for shs 80,000.

Compute his monthly PAYE tax liability.

Solution

Employment Income:

Salary	300,000
Travelling allowance	50,000
Medical allowance	30,000
Total	380,000

Step 1

$$\text{Shs } 380,000 - 335,000 = 45,000$$

Step 2

$$20\% \times 45,000 = 9,000$$

Step 3

$$9,000 + 10,000 = 19,000$$

PAYE= shs19,000

Note. NSSF and life insurance premium are not included since they are exempt. Therefore not important when computing chargeable income.

(a) Calculate the income tax payable by the following employees who earned the following incomes in the month of March 2020.

- | | | |
|-------|----------|-------------|
| (i) | Dembe | shs 235,000 |
| (ii) | Mulembe | shs 400,000 |
| (iii) | Makanika | shs 600,000 |

(iv) musanji

shs 11,000,000

Solution

(i) **Dembe= tax payable =tax rate x monthly gross salary**

Dembe pays nil tax because his earnings is below tax threshold

(ii) **Mulembe tax payable = Tax rate x gross monthly salary**

$$10,000 + 20/100 (400,000 - 335,000)$$

$$10,000 + 20/100 \times 65,000 = 10,000 + 13,000 = \text{Shs } 23,000$$

(iii) **Makanika tax payable = tax rate x gross income**

$$25,000 + (600,000 - 410,000)$$

$$25,000 + 30/100 \times 190,000$$

$$25,000 + 57,000$$

Shs 82,000

(iv) **Musanji tax payable = tax x gross salary**

$$25,000 + 30/100(11,000,000 - 410,000) + 10/100 \times (11,000,000 - 10,000,000)$$

$$25,000 + 30/100 \times (10,490,000) + (10/100 \times 1,000,000)$$

$$25,000 + 3,177,000 + 100,000$$

Shs 3,302,000

Example 2

The following are monthly salaries of workers employed by malika enterprises.

- i. Sefuka Moses shs 200,000
- ii. Bumeke Aisha shs 284,000
- iii. Wessel AK shs 820,000
- iv. Pallaso juma shs11, 000,000

Each employee receives 10% and 5% as Housing and medical allowances respectively Compute PAYEE paid by the above employees using tax schedule above

SOLUTION

- (i) Ssefuka moses

Taxable income =basic salary +allowances

$$= 200,000 + \text{housing allowances } (10/100 \times 200,000) + \text{medical allowances } (5/100 \times 200,000)$$

$$= \text{shs } 200,000 + 20,000 + 10,000$$

Shs 230,000

PAYEE = $10/100 \times (230,000 - 235,000) = 0$ (Ssefuka pays no PAYE because his total income is below the threshold)

- (ii) Bumeke Aisha = taxable income = basic salary +allowances

$$284,000 + \text{housing allowances } (10/100 \times 284,000) + \text{medical allowances } (5/100 \times 284,000) = 284,000$$

$$+ 28,400 + 14,200 = \text{Shs } 236,600$$

$$\text{PAYE} = 10/100 \times (326,600 - 235,000)$$

$$= 10/100 \times 91,600$$

$$= \text{shs. } 9,160$$

- (iii) Weasel AK : Taxable income = basic salary +allowances

$$820,000 + \text{housing allowances } (10/100 \times 820,000) + \text{medical allowances } (5/100 \times 820,000) = 820,000$$

$$+ 82,000 + 41,000 = \text{Shs } 943,000$$

$$\text{PAYEE} = \text{shs } 25,000 + 30/100 (943,000 - 410,000)$$

$$25,000 + 30/100 \times 533,000$$

$$25,000 + 159,900$$

Shs 184,900

(iv) Pallaso juma, taxable income = basic salary +allowances
 $11\,000,000 + \text{housing allowances } (10/100 \times 11,000,000) + \text{medical allowances } (5/100 \times 11,000,000)$
 $11,000,000 + 1,100,000 + 550,000 = \text{Shs } 12,650,000$
 $\text{PAYEE} = 25,000 + 30/100 \times (12,650,000 - 410,000) + 10/100 \times (12,650,000 - 10,000,000)$
 $25,000 + (30/100 \times 12,240,000) + (10/100 \times 2,650,000)$
 $25,000 + 3,672,000 + 265,000$
Shs 3,962,000

B and L Construction Company employs five categories of workers and managers. The respective payment for each category is as follows:

	Category	No. of employees	Monthly Gross pay
1.	Cleaners	4	200,000
2.	Drivers	2	320,000
3.	Machine operators	5	400,000
4.	Technicians	2	3,800,000
5.	Managers	1	12,400,000

Required:

Using the PAYE tax rates provided below, calculate the amount of PAYE payable monthly by:

- a) Each category of employees
- b) B & L construction company to URA

MONTHLY CHARGEABLE INCOME (Shs)	RATE OF TAX
0 – 235,000	NIL
235,000 – 335,000	10% of the amount by which chargeable income exceeds Shs 235,000
335,000 – 410,000	Shs 10,000 plus 20% of the amount by which chargeable income exceeds Shs 335,000
410,000 – 10,000,000	i. Shs 25,000 plus 30% of the amount by which chargeable income exceeds shs 410,000 ii. Above Shs 10,000,000, charge additional 10%

a)

1. Cleaner's amount of PAYE nil or zero shillings

Reason: This is because cleaners' monthly gross pay of shs 200,000 is below the PAYE monthly tax threshold of shs 235,000.

2. Driver's amount of monthly PAYE = 10% of the amount by which chargeable income exceeds shs 235,000.

$$=10/100 \text{ (shs } 320,000 - \text{ shs } 235,000) = 10/100 \times \text{ shs } 85,000 = \text{ shs } 8,500$$

∴ Drivers' amount of monthly PAYE = shs **8.500 x 2 = shs 17,000**

3. Machine operators: Paye= $10,000 + 20/100 \times (400,000 - 335,000)$

$$=10,000 + 20/100 \times 65,000$$

$$=10,000 + 13,000$$

$$=\text{shs } 23,000$$

Total PAYE =23,000 X 5 =shs 115,000.

4. Technicians : PAYE= $25,000 + 30/100 \times (3,800,000 - 410,000)$

$$=25,000 + 30/100 \times (3,390,000)$$

=25,000+1,017,000

=shs 1,042,000

Total PAYE = 1,042,000 X 2 =2,084,000

5. Manager's PAYE= 25,000+30/100 X (12,400,000-410,000)+10/100 X (12,400,000-10,000,000)

=25,000+ (30/100 X 11,990,000) + (10/100 X 2,400,000)

= 25,000 + 3,597,000 + 240,000

=shs 3,862,000

b) Either

Monthly PAYE paid to URA = total monthly PAYE for all categories

Cleaners PAYE + drivers PAYE + machine operators PAYE + Technicians PAYE + Managers PAYE

SHS (17,000+ 115,000 + 2,084,000 + 3,862,000) = SHS 6,078,000

Or

MONTHLY PAYE paid to URA total monthly PAYE for all categories.

Category of employees	Monthly PAYE (Shs)
Cleaners	0
Drivers	17,000
Machine operators	115,000
Technicians	2,084,000
Managers	3,862,000
Total amount of monthly PAYE paid to URA	6,078,000

TAXATION OF PROPERTY INCOME

RENTAL TAX

Rental income is defined as income earned by a person from letting out property on commercial terms.

Rent means payment including a premium or like amount, made as consideration for use or occupation of, or the right to use or occupy, land or buildings

Sources of rental income

- ✓ Commercial buildings
- ✓ Land (plots, gardens or swamps)
- ✓ Royalties (murrum, minerals, stones, rocks, etc)

Treatment of rental income tax of an individual and a company

The difference in tax treatment of rental income earned by an individual and company as follows

- ✓ An individual enjoys a threshold of shs 2,820,000 whereas a company enjoy no threshold
- ✓ Rental income earned by individual is subjected to 20% tax rate whereas for a company it is subjected to 30% tax rate.
- ✓ An individual is granted 20% of gross rental income as allowable deductions whereas a company is entitled to deductions on actual basis, that is allowable expenses incurred.

Computation of rental tax INDIVIDUALS

In computing the rental tax for individuals, the following are considered. ① Add up all rent amounts earned by the individual during the year.

- ✓ Deduct 20% of the gross rent as allowable expenses
- ✓ Deduct threshold shs 2,820,000 to arrive at the chargeable rental income. ② Apply 20% on chargeable income to determine the rental tax payable.

Example

Step 1: determine the total annual gross rents from all sources of the individual say shs 10,000,000

Step 2: deduct 20% allowance for costs (expenses) that is

$$20\% \times 10,000,000 = \text{shs } 2,000,000$$

$$\text{Therefore balance} = (10,000,000 - 2,000,000) = \text{shs } 8,000,000$$

Step 3: deduct Threshold (2,820,000)

$$8,000,000 - 2,820,000 = \text{shs } 5,180,000$$

Step 4: determine rental tax at 20%

$$20\% \times 5,180,000 = \text{shs } 1,036,000$$

Rental tax for companies

Step 1: determine the total annual gross rents from all sources of the company. Say shs 120,000,000

Step 2: deduct all expenses incurred in the production of the rental income, say expenses = shs 65,000,000

Therefore

Chargeable rental income = 120,000,000 – 65,000,000 = shs 55,000,000

Step 3: determine rental tax at 30%

$$= 30\% \times 55,000,000 = \text{shs } 16,500,000$$

Question 1

Ms. Nyaketcho Martin and Ms Logose Delilah own a building in Busega that belonged to their late brother Muganga Anthony; they earn 4,500,000 shs as rental income from this building. The tax rate for rental tax is 20% of the chargeable rental in excess of the threshold which is shs 2,820,000

Calculate their rental tax payable

Solution

Rental income	shs 4,500,000
Less provision for loss 20% X 4,500,000	= shs 900,000
Chargeable income = (4,500,000 – 900,000) =	shs 3,600,000
Less threshold	shs 2,820,000
Chargeable income	Shs 780,000
Rental tax payable (20% X 780,000)	shs 156,000

Question 2

Musoke earned shs 6,500,000 as rental income from his house located in Kampala. Compute his rental tax

Rental income	shs 6,500,000
---------------	---------------

Less provision for loss 20% X 6,500,000 =	shs 1,300,000
Chargeable income (6,500,000 – 1,300,000)	shs 5,200,000
Less threshold	shs 2,820,000
Taxable rental income	Shs 2,380,000
Rental tax (20% X 2,380,000)	shs 476,000

Question

a) Alpha, a resident individual operates rental properties in the financial year ended December 2018. He received shs 17,500,000 as rent revenue

Required

Using allowable deductions and tax rate below

- i. Gross rental income
- ii. Taxable rental income
- iii. Tax liability for the year 2018

Allowable deductions

- 20% as statutory expenses in gross income
- Shs 2,820,000 as tax free allowance

Solutions

i) Rental income	shs 17,500,000
Less provision for loss 20% X 17,500,000 =	shs 3,500,000
Chargeable income (17,500,000 – 3,500,000)	shs 14,000,000
ii) Chargeable income	shs 14,000,000
Less threshold	shs 2,820,000
Taxable rental income	Shs 11,180,000
iii) Tax liability	

Rental tax	(20% X 11,180,000)
Tax liability	shs 2,236,000

VAT MECHANISM

Output Tax

This is the VAT a taxable person charges upon making taxable supplies i.e. tax charged upon selling taxable goods and services.

Input Tax

This is the VAT a taxable person is charged on taxable purchases and expenses incurred for business purposes. The purchases could be from local sources or imported.

This involves four items ie

- i) VAT on purchase and expenses which is called input Tax
- ii) VAT on sale which is called output Tax
- iii) VAT liability which is output Tax – input Tax
- iv) VAT refund which is input tax – output tax

NB. Where output Tax exceeds input Tax the tax payer pays the difference as VAT to URA, but where the input tax exceeds the output tax, the tax payer claims the difference as VAT Refund from URA

Question 1

Ms. Nabuuma Oliver is a reknown retailer in Kikubo; she mainly deals in trading sugar from Kakira Sugar Uganda Ltd. In the month of February 2016 she bought 100 bags at shs 5,000,000 and resold all of them at shs 7,500,000

Calculate her input tax, output tax and VAT liability

$$(i) \quad \text{Input tax} = \frac{18}{100} \times 5,000,000 = \text{shs } 900,000$$

$$(ii) \quad \text{Output tax} = \frac{18}{100} \times 7,500,000 = \text{shs } 1,350,000$$

$$(iii) \quad \text{Tax liability} = \text{Output Tax} - \text{Input Tax}$$

$$1,350,000 - 900,000$$

Tax liability = shs 450,000

Question 2

In January Mzee Ssenkubuge bought the same quantity of sugar, at the same price, but due to credit crunch, he only sold 50 bags at a total of shs 3,750,000. Calculate his estimated VAT refund payable as at January 2016

Solution

$$\text{Input Tax} = \frac{18}{100} \times 5,000,000 = \text{shs } 900,000$$

$$\text{Output Tax} = \frac{18}{100} \times 3,750,000 = \text{shs } 675,000$$

$$\text{VAT Refund} = \text{input Tax} - \text{Output Tax}$$

$$\text{Shs } 900,000 - \text{shs } 675,000$$

$$\text{VAT Refund} = \text{shs } 225,000$$

Question 3

In the month of July 2004. John Maria had VAT exclusive transactions with VAT registered enterprises as follow

- | | |
|-------------|------------|
| i) Purchase | 28,000,000 |
| ii) Sales | 3,400,000 |

Calculate his Vat paid to URA

i) Input Tax = Taxable value on purchases X VAT rate

$$= 28,000,000 \times \frac{18}{100}$$

$$\text{Input tax} = \text{shs } 5,040,000$$

ii) Output Tax = Taxable value on sales X VAT rate

$$= 3,400,000 \times \frac{18}{100}$$

$$\text{Output Tax} = \text{shs } 612,000$$

$$\text{VAT refund} = \text{input Tax} - \text{Output Tax}$$

$$5,040,000 - 612,000$$

$$\text{VAT refund} = \text{shs } 4,428,000$$

Circumstances under which VAT is refundable

- When input is greater than output tax. For instance if for a given period the input tax is shs 10,000,000 and the output tax is shs 4,000,000, then the difference of shs 6,000,000 would be refunded to the tax payer.
- When a taxpayer pays more than what was supposed to be paid, the excess is refunded. For example if one is supposed to pay shs 5,000,000 and it is discovered that the true tax was supposed to be shs 3,000,000, then the excess of shs 2,000,000 is refunded.
- When there is a proven bad debt. A bad debt for VAT refund considers the following
 - Should have been outstanding for a period of at-least two years

- There should be proof that all necessary steps were taken to recover the money but it was not possible.
- When one loses the stock through fire, burglary and any other proven methods.

NOTE; a) WHEN THE VAT EXCLUSIVE

Example

Allan a wholesale trader in Nakasero market made his purchases and sales during the month of September 2019 and it is as follows

No.	Items	Purchases (VAT exclusive)	Sales (VAT exclusive)
1.	150 bags of sugar	7,500,000	9,000,000
2.	10 boxes of soap	500,000	6,000,000
3.	300 carton of cooking oil	40,000,000	50,000,000
4.	100 bags of salt	2,000,000	3,000,000
Total		54,500,000	68,000,000

Required

Calculate Allan's VAT liability

VAT liability = Output – Input Tax

Output Tax = Taxable Value on sale X VAT Rate

$$68,000,000 \times \frac{18}{100}$$

Output Tax = shs 12,240,000

Input Tax = Taxable value of purchases X VAT Rate

$$54,500,000 \times \frac{18}{100}$$

Input Tax = shs 9,810,000

$$\text{VAT liability} = \text{Output Tax} - \text{Input Tax} = 9,810,000 - 12,240,000$$

VAT liability = shs 2,430,000

b) When VAT Inclusive

$$\text{given by the formula: } \frac{r}{r+100}$$

Where r is the VAT rate.

Illustration

If the rate of tax (r) = 18% then the tax fraction = $\frac{18}{18+100} = \frac{18}{118}$. For example if the consideration (VAT inclusive) is Shs. 20,000, then VAT = $20,000 \times 18/118$ = Shs. 3,051.

Allan who deals in steel and hard ware his transaction during the month of August 2009

No	Items	Purchases (VAT inclusive)	Sales (VAT inclusive)
1	Ms plate	50,000,000	70,000,000
2	Iron bar	70,000,000	130,000,000
3	Angle bar	30,000,000	50,000,000
4	Hollow Section	80,000,000	150,000,000
Total		230,000,000	400,000,000

Calculate the Vat liability

$$\text{VAT inclusive} = \frac{\text{VAT RATE}}{\text{VAT RATE}+100} \times \text{VAT inclusive value.}$$

$$\text{Inputs} = \frac{18}{118} \times 230,000,000 = \text{shs } 35,084,746$$

$$\text{Output} = \frac{18}{118} \times 400,000,000 = \text{shs } 61,016,949$$

VAT liability = output – input

$$61,016,949 - 35,084,746$$

Shs 25,932,203

Computation of VAT Payable or Refundable

VAT = output tax – input tax

Where output tax is greater than input tax, the taxpayer pays the difference. Where input tax is greater than the output tax, the taxpayer claims the difference.

Buikwe Investments Ltd, a dealer in electronics made the following transactions during the month of December, 2017.

Goods	Purchases shs (VAT inclusive)	Sales shs (VAT inclusive)
Refrigerators	30,000,000	50,000,000
Water pumps	25,000,000	29,500,000
Hot plates	20,000,000	26,300,000
Photocopiers	40,700,000	45,500,000

- i) Using VAT output and VAT input approach, calculate Buikwe Investment's VAT liability for each good. ii) Calculate the total VAT liability.

- i) VAT liability for each good

$$\text{VAT liability} = (\text{Output} - \text{Input VAT}) \times \frac{18}{118}$$

$$\text{Refrigerators} = (50,000,000 - 30,000,000) \times \frac{18}{118} = \text{shs } \underline{\underline{3,050,848}}$$

$$\text{Water pumps} = (29,500,000 - 25,000,000) \times \frac{18}{118} = \text{shs. } \underline{\underline{686,441}}$$

$$\text{Hot plates} = (26,300,000 - 20,000,000) \times \frac{18}{118} = \text{shs. } \underline{\underline{961,017}}$$

$$\text{Photocopies} = (45,500,000 - 40,700,000) \times \frac{18}{118} = \text{shs. } \underline{\underline{732,203}}$$

- ii) Total VAT Liability

$$= 3,050,848 + 686,441 + 961,017 + 732,203$$

$$= \text{Shs. } \underline{\underline{5,430,509}}$$

More examples

1. Use the information below to determine the tax rates for the following tax payers

Tax payer	Income	Tax rates	Tax (liability)
Bwesigye	1,000,000		150,000
Innocent	800,000		80,000
Bossa	600,000		48,000
Steven	400,000		20,000

$$\text{Tax rate} = \frac{\text{tax liability}}{\text{taxable income}} \times 100$$

$$\text{Bwesigye} = \frac{150,000}{1,000,000} \times 100 = 15\%$$

$$\text{Innocent} = \frac{80,000}{800,000} \times 100 = 10\%$$

$$\text{Bossa} = \frac{48,000}{600,000} \times 100 = 8\%$$

$$\text{Steven} = \frac{20,000}{400,000} \times 100 = 5\%$$

2. Study the table below and answer questions that follow.

Tax Payer	Taxable income (shs)	Tax liability (shs)
Okello Joseph	25,000,000	3,500,000
Akena Moses	30,000,000	6,300,000
Odong Charles	25,500,000	5,250,000

a) Calculate the tax rate for each payer.

Tax rate for each payer.

Akello Joseph

$$\text{Tax rate} = \frac{\text{tax liability}}{\text{taxable income}} \times 100$$

$$= \frac{3,500,000}{25,000,000} \times 100$$

$$= \underline{\underline{14\%}}$$

Akena Moses

$$\text{Tax rate} = \frac{\text{tax liability}}{\text{taxable income}} \times 100$$

$$= \frac{6,300,000}{30,000,000} \times 100$$

$$= \underline{\underline{21\%}}$$

Odongo Charles

$$\text{Tax rate} = \frac{\text{tax liability}}{\text{taxable income}} \times 100$$

$$= \frac{5,250,000}{25,500,000} \times 100$$

$$= \underline{\underline{20.6\%}}$$

NON TAX REVENUE

Non tax revenue in Uganda collected by URA includes stamp duty and other government non- tax revenue

Stamp duty. This is a duty payable on all the instrument of the schedule of stamps executed or signed in Uganda. Such instruments include transfer of land, Mortgages and agreements.

Stamp duty chargeable is transfer of land of 1. 5 % of the value of land. The value of land is determined by the chief valuer of government in the ministry of lands. Stamp duty on mortgages is 0.5% of the value while stamp duty on agreement, letter of credit, caveat etc is at a fixed rate of shs 10,000 ie it doesn't vary with the amount in the agreements and others.

Question 1

Ms Nabunya purchased land at plot 25 Kampala Road for shs 5,000,000. The land has been valued by the chief government valuer at shs 7,500,000. You are required to compute the stamp duty payable

Solution

Stamp duty payable = 1.5 % X 7,500,000

Stamp duty payable = shs 112,500

Question 2

Ms Nalwoga Rachael and Ms Batambuliza Doris have signed a mortgage with Stanbic Bank Ltd for shs 10,000,000 they borrowed, calculate their stamp duty

Solution

Stamp duty = 0.5% X 10,000,000

Stamp duty = shs 50,000

Import duty

On entering Uganda, goods are declared on the entry which is issued by URA on a prescribed format.

The assessment process would involve the following

- a) Determination of the customs value. This is based on cost insurance and freight value (CIF)
- b) Determination of tax payable using the tax rates as designed in the customs tariffs contained in the Customs External Tariffs (CEF)
- c) Examination of the goods and if satisfied with the valuer and documentation, the goods are released

Imported goods normally pay the following

- i) Import duty ii) Excise duty iii) Value added tax iv) Withholding tax

Environmental levy (CIF X rates) – a levy imposed on old vehicles being imported into the country which are more than 5 years old from the date of manufacture.

Item	Current
Motor vehicles (excluding goods vehicles) which are between 5 -10 years	35 % of the CIF value
Motor vehicles (excluding goods vehicles) which are 10 years or more	50% of the CIF value

Computation of customs duties and taxes

In January 2005 Uganda a member of EAC, a regional economic body referred to as the customs union comprising of Uganda, Kenya, Tanzania and today Rwanda. The EAC agreed to establish a common

external tariff (CEF) for all goods and services outside the region and this has three tax bonds ie 25%, 10% and 0%

Question 1

Mr. Lwanga Hamza imports goods from Dubai at a CIF value of 100 US dollars, attracting an import duty of 10% in order to derive the custom duty, its necessary to convert US Dollars into Ugandan shillings by applying the current exchange rate. Assuming the current exchange rate is 1 US Dollar = 2,250

(i) assuming the trader had to pay VAT 18%, an excise duty 60% and withholding tax 6%

Calculate the total amount payable

Step 1

Convert CIF value in US \$ to Uganda shillings Custom value = CIF X exchange rate

Custom value = 100 US \$ X 2,250 Custom value = shs 225,000

Step 2

Deriving import duty

Duty rate = 10 % of custom value

$$\text{Import duty} = \frac{10}{100} \times 225,000$$

$$\text{Import duty} = \text{shs } 22,500$$

Step 3 Excise duty

Excise duty value = custom value + import duty

$$\text{Excise duty value} = 225,000 + 22,500$$

$$\text{Excise duty value} = \text{shs } 247,500$$

Excise duty = 60% Of excise duty value

$$\text{Excise duty} = \frac{60}{100} \times 247,500$$

$$\text{Excise duty} = \text{shs } 148,500$$

Step 4 Value Added Tax (VAT)

Vat rate = 18%

VAT value = custom value + import duty + excise duty

VAT value = 225,000 + 22,500 + 148,500

VAT value = shs 396,000

$$\text{VAT} = \frac{18}{100} \times 396,000$$

VAT = shs 71,280

Step 5 withholding tax

Withholding Tax = 6% of custom value

$$\text{Withholding Tax} = \frac{6}{100} \times 225,000$$

Withholding Tax = shs 13,500

Total Tax payable = import duty + excise duty +VAT +withholding Tax

Total Tax payable = 22,500 + 148,500 + 71,280 +13,500

Total Tax payable = shs 255,780

Question 2

Mr. Tugume imported a car from South Africa at USD 1,200 (the car is 6 years old).

Freight charges to Mombasa were USD 800. Insurance to Mombasa was USD 200.

Compute the taxes and duties payable by the owner (use rate 1 USD = 3,650 shs). Where import duty is 25%, Vat is 18% and withholding tax is 6%, environmental levy is 35% Solution

Determination

CIF to Mombasa

Cost (1,200 X 3650)	4,380,000
---------------------	-----------

Freight (800 X 3,650)	2,920,000
-----------------------	-----------

Insurance (200 X 3,650)	730,000
-------------------------	---------

CIF	8,030,000
-----	-----------

Taxes payable

Import Duty (25% of CIF) = 25% X 8,030,000	2,007,500
--	-----------

VAT (18%) (8,030,000 + 2,007,500) X 18%	1,806,750
Environmental levy (35% X 8,030,000)	2,810,500
WHT (6%) (6% X 8,030,000)	481,000
Total taxes	7,106,550

Question 3

Mr. Mukasa imported a used motor van from japan in the month of June 2013. The motor van (FOB) was a land cruiser model 2000 invoiced at USD 12,000 free on Board (FOB) Tokyo, japan. Shipment costs from japan to Mombasa were USD 1,000 and insurance of USD 500 on board Mombasa.

The additional information relating to the transaction includes

- The ruling exchange rate as per Uganda Revenue Authority of 1 USD = shs 2,540.
- Import duty fee rate at 25%
- Environmental levy at 20% for used vehicles older than 8 years from the date of manufacture.
- VAT is 18%
- WHT is 6%
- Vehicle registration fees of shs 1,018,000

Compute the necessary taxes payable at registration

Computation of CIF

Cost	Ugandan shillings
FOB (1,200 X 2,540)	30,480,000
Shipment (1,000 X 2,540)	2,540,000
Insurance (500 X 2,540)	1,270,000
CIF or customs value	34,290,000

Computation of taxes due

Description	Amount for tax	Rate	Tax
CIF	34,290,000		
Import duty (34,290,000 X25%)	34,290,000	25%	8,572,500
VAT (34,290,000 + 8,572,500) X 18%	42,862,500	18%	7,715,250
Withholding tax	34,290,000	6%	2,057,400
Environmental levy	34,290,000	20%	6,858,000
Vehicle registration fees			1,018,000
Total tax and charges for registration			26,284,150

Question 4

Kyagulanyi and sons ltd deals in the importation resell and sometimes export of sugar. During the month of December 2011, the company imported 1,000 bags of sugar from UAE of 50kgs per bag. The cost of the sugar was USD 35,714. The cost of transporting sugar from UAE to Mombasa was USD 4,000 and insurance costs of USD 400 from Dubai to Mombasa, Kenya and USD 200 from Mombasa to Kampala. The import rates of sugar were as follows

- Import duty – 75%
- Excise duty shs 25 per kg
- VAT – 18%
- Withholding tax – 6%. The company is exempted from WHT 6% on imports
- URA imports exchange rate for December 2011 was 1USD = 2,800 Uganda shillings

Tax is computed based on cost, insurance and freight (CIF) value. The freight value considered is up to Mombasa.

Required:

- a) Using the above information, compute the tax payable by Kyagulanyi and sons ltd to URA customs
- b) Uganda is a member of the East African community customs Union and common market. Currently, goods produced within any member state enjoy 0% import duty rate on importation. Suppose the sugar is imported by Kyagulanyi and sons limited was manufactured in Kenya, compute the tax that would be paid by Kyagulanyi and sons ltd on importation

Solution

Description	USD	shs
Cost (35,714 X 2,800)	35,714	99,999,200
Insurance (400 X 2,800)	400	1,120,000
Freight (4,000 X 2,800)	4,000	11,200,000
CIF value	40,114	112,319,200

Computation of taxes due

Import duty (75% X 112,319,200)	84,239,400
Excise duty (shs 25 X 50kg X 1,000)	1,250,000
VAT value (CIF + ID + ED)	197,808,600
VAT (18%)	35,605,548
Total taxes paid	121,094,948

b)

description	USD	shs
cost	35,714	99,999,200
insurance	200	560,000
freight	-	-
CIF value	35,914	100,559,200

Computation of taxes due

Import duty	-
Excise duty	1,250,000
VAT	18,325,656
Total taxes	19,575,656

Sample Questions

- 1 a) Explain the principles of a good tax system
b) Why are taxes imposed on firms and individuals in Uganda?
- 2 a) Distinguish between direct and indirect taxes
b) Explain the challenges facing taxation in Uganda 3 a) Explain characteristics of a good tax system b) Give merits and demerits of direct taxes
- 4 a) Distinguish between tax compliance and tax incidence
b) Discuss the advantages and disadvantages of tax compliance
- 5 a) Describe the factors that affect tax compliance in Uganda
- b) What measures that can be undertaken to encourage the citizens of a country to pay tax
- 6 a) Distinguish between impact of a tax and tax burden
b) Discuss possible solutions to the problems of taxation in Uganda
c) Lucy has a flat in Kampala city, where she earns shs 72,000,000 as a rental income a year. Given that the rental tax rate is 20% provision for 20% and threshold is shs 2,820,000. Calculate (i) Lucy's rental tax (ii) Net rental income

d) Kiyenge Ltd is a retailer dealing in domestic appliances. In June 2014 he purchased appliances worth shs 7,500,000 exclusive of VAT. The company sold the same at shs 11,000,000 also exclusive of VAT.

Required

- a) Determine the value Added
- b) Determine the VAT payable or claimable.

e) Basajjakambwe enterprises purchased stationary worth shs 600,000 and incurred rent of shs 2,600,000 in May 2010. He made sales of shs 790,000 in the same month. All figures were VAT inclusive.

Required

Determine VAT payable / claimable.

Question

a) NALUBEGA SOPHIA owns 12 double roomed houses in Ndeje from which she collects shs 400,000 from each on a monthly basis given 20% the rental income tax rate and shs 2,820,000 as threshold. Help her to.

Calculate

- i. Net chargeable rental income
- ii. Rental tax liability

b) Mukasa a wholesaler dealing in the supply of generators bought 5 generators at shs 59,000,000 and sold all of them at shs 118,000,000 all values are VAT inclusive. Using a VAT rate of 18%.

Calculate

- i. VAT paid to Uganda Revenue Authority
- ii. The total cost of the generator VAT exclusive
- iii. Give four principles of a good tax system.

Question

Muwonge a cotton ginner sold 10 bales of cotton to Nyanza textile at shs 10,000,000. Nyanza textiles produced bed sheets out of the cotton and sold them to Merowoma Ltd (a wholesaler) at shs 17,500,000. Merowoma Ltd sold to Meme Joy (a retailer) at shs 22,500,000. Meme Joy sold all the bed sheets to various customers and the total sales were shs 30,000,000.

N.B: all figures are VAT exclusive and the VAT rate applicable is 18%.

Required.

- a) Determine the total VAT payable through the process / trial.
- b) Compare your answer with the VAT Meme joy (the retailer) collects from her customers.

Question

KAMWESIGYE is a trader in Ntinda. His business is VAT registered. The following transactions appeared in her books for the Months of January 2016.

No.	PRODUCTS	PURCHASES (Shs)VAT	SALES (Shs) VAT
		Exclusive	
1	Apples	4,000,000	9,000,000
2	Pineapples	4,500,000	6,500,000
3	Pawpaw	9,000,000	14,000,000
4	Mangoes	8,000,000	12,000,000
5	Oranges	12,000,000	18,000,000
		37,500,000	59,500,000

a) Use 18% as VAT rate. Calculate

i. VAT paid by KAMWESIGYE on each type of product. ii. Compute VAT paid to URA.

b) NAMUSOKE is an employee of an NGO and she earns Shs 8,000,000 per year. The company uses monthly pay tax rates below to calculate PAYE deductions.

MONTHLY CHARGEABLE INCOME (Shs)	RATE OF TAX
0 – 235,000	NIL
235,000 – 335,000	10% of the amount by which chargeable income exceeds Shs 235,000
335,000 – 410,000	Shs 10,000 plus 20% of the amount by which chargeable income exceeds Shs 335,000
410,000 – 10,000,000	i. Shs 25,000 plus 30% of the amount by which chargeable income exceeds shs 410,000 ii. Above Shs 10,000,000, charge additional 10%

Calculate NAMUSOKE's monthly PAYE deductions.

- c) BUKIRWA owns a house in Kamwokya town where she earns rental income of Shs 28,000,000 a year.

-Use 20% as provision for expenses and losses of the total rental income -Use Shs 1,560,000 as Tax Threshold -Use 20% as rental income tax rate.

Calculate.

- i. Chargeable rental income. ii. Rental income tax.
 - iii. Net rental income.
- d) State two reasons for non-tax compliance in Uganda today.

Other Trial numbers

1. Assuming Adyebo imports soda from South Africa at a CIF value US \$ 1,000 attracting 25% import duty, 60% excise duty, VAT of 18% and withholding tax 6%. The current exchange rate is Ug. Shs 1747.64. compute the ; i) import duty ii) excise duty iii) Value Added Tax iv) withholding Tax v) Total tax payable

2. Ms. Kato a trader in Kikubo – Kampala imports Polythene bags from China. The CIF value for the goods is US \$ 5,000. Polythene bags attracting an import duty of 25%, Excise duty 50%, VAT 18% and withholding Tax 6%.

Required

What would be taxes payable for the polythene bags given that the exchange rate at the time of importation is Ug. Shs 1765 to 1 US Dollar?

3. Malcolm industries are manufacturers of drinking Straws. They import an item called high density polythene as their raw material. The CIF value for raw material is US \$ 20,000. High density polythene is 0% import duty, 18% VAT and exempted from withholding tax. The exchange rate is shs 1765 to 1 US Dollar.

Required

What are taxes on the raw materials?

- 4.** (a) Distinguish between impact of a tax and tax burden
b) Discuss possible solutions to the problems of taxation in Uganda
c) Lucy has a flat in Kampala city, where she earns shs 72,000,000 as a rental income a year. Given that the rental tax rate is 20% provision for 20% and threshold is shs 1,560,000. Calculate (i) Lucy's rental tax (ii) Net rental income

5. You are an entrepreneur employing five workers who are entitled to allowances.

List four examples of taxable employment allowances for your employees

b) In the month of July 2014, Joseph Mali had VAT exclusive transactions with VAT registered enterprises as follows:

Purchases shs 1,800,000 Sales shs 2,400,000

Calculate:

- i) VAT paid to Uganda Revenue Authority by Joseph Mali (use 18% as VAT rate)
- ii) Total purchase price (VAT inclusive) paid by Joseph Mali

C) Sem, an employee earns a gross salary of shs 3,600,000 per year. The employer uses the monthly PAYE tax rate below to calculate PAYE deductions

	Chargeable monthly Income	Tax rate
1	Not exceeding shs 235,000	Nil
2	Exceeding shs 235,000 but not exceeding shs 410,000	10% of the amount by which chargeable income exceeds shs 235,000
3	Exceeding shs 335,000 but not exceeding shs 410,000	Shs 10,000 plus 20% of the amount by which chargeable income exceeds shs 335,000
4	Exceeding shs 410,000	Shs 25,000 plus 30% of the amount by which chargeable income exceeds shs 410,000

Required:

Calculate the annual amount of PAYE deductions for Sem

a) Explain three negative effects of taxation on the business

6. There is a concern about tax evasion among entrepreneurs in your district. As a tax compliant entrepreneur, the district trade officer has requested you to address entrepreneurs

- i) Give the meaning of tax evasion
- ii) Mention three examples of tax evasion practiced by entrepreneurs in your country

b) The following VAT exclusive transactions were availed to you by VAT registered businesses in your community for the month of July 2014

- ✓ Musa bought goods worth shs 40,000,000
- ✓ Musa sold the same goods to Suba shs 58,000,000

- ✓ Suba sold the same goods to Mweso the retailer for shs 70,000,000
- ✓ Mweso sold the goods to the final consumer for shs 84,000,000 Required:

Using the VAT rate of 18%

- (i) Compute for the entrepreneurs the VAT chargeable for the value added at each stage
- (ii) Advise Mweso on the gross sales value for his goods to the consumer

- 7.** (a) Differentiate between Direct tax and Indirect Tax
 b) Give two examples of each in 7 (a) above
 c) State two advantages of Value Added Tax (VAT)
 d) Jose is a Ugandan citizen employed in Uganda. He earns shs 800,000 as gross pay per month.

Required

Use the income tax details below to calculate the Pay As You Earn (PAYE) chargeable to Jose per month

Chargeable monthly Income	Tax rate
Not exceeding shs 235,000	Nil
Exceeding shs 235,000 but not exceeding shs 410,000	10% of the amount by which chargeable income exceeds shs 235,000
Exceeding shs 335,000 but not exceeding shs 410,000	Shs 10,000 plus 20% of the amount by which chargeable income exceeds shs 335,000
Exceeding shs 410,000	Shs 25,000 plus 30% of the amount by which chargeable income exceeds shs 410,000

- (d) In the month of May 2016, Charles Odoi bought goods for shs 6,400,000 (VAT Exclusive). He sold these goods for shs 10,800,000 (VAT Exclusive). These transactions were carried out with VAT registered business.

Required; Using 18% as VAT rate, calculate VAT;

- i) paid by Charles Odoi on purchase ii) received by Charles Odoi on sales
- iii) paid by Charles Odoi to Uganda revenue Authority

Question

Mujama is a car dealer in Kampala, Uganda and has imported 5 vehicles from Japan each at a cost of USD 1,240 cost, insurance and freight (CIF) to Mombasa and the exchange rate during the date of transaction was USD 1 to shs 3,650.

Assuming the following rates for: Rate (%)

Import duty 25

Withholding tax	6
Value added tax	18
Environmental levy	35

Required

Compute the taxes payable by Mujama for the 5 vehicles he imported from Japan.

PART 2 PROJECT MANAGEMENT

PURCHASING SKILLS AND INVENTORY MANAGEMENT

Purchasing involves the buying of material, component, tools, machinery, equipment , stationery and services by the business.

In manufacturing, the purchasing department works closely with the production and the finance departments.

OBJECTIVES OF THE PURCHASING DEPARTMENT

- To obtain the quality and quantity of goods and material required by the business.
- To purchase goods and materials at the most competitive prices.
- To ensure speedy delivery

- To arrange delivery at the appropriate site or location.
- To choose reliable suppliers and maintain good relation with them.

CENTRALIZED AND DECENTRALIZED PURCHASING

Centralized purchasing is where the purchasing for the whole business is carried out by one department.

Decentralized purchasing involves branches and subsidiaries being given responsibilities for purchasing. Here the purchasing officers in each department are given authority to purchase for their respective departments since they may be more in touch with the needs of the department.

PRINCIPLES OF PURCHASING

The main principles of effective procurement of materials in business include;

1. **Right price.** The right price is not necessarily the lowest price but the lowest price consistently with the quality specifications.
2. **Right quality.** This is the quality that is most appropriate for a given purpose. Quality requirements and specifications can be stated in terms of essential features e.g. design, color, shape, size, etc.
3. **Right quantity.** This is the right amount of materials to be purchased which is required for production for a given period of time.
4. **Right time.** Purchasing should be done at the right time to avoid both minimum stock and lead time should be considered.
5. **Right place.** Raw materials should be received and stored as near the factory as possible so as to minimize the cost and time involved in issuing and carrying them.

REQUIREMENTS OF A BUSINESS.

To start operating, a business has to acquire different categories of requirements. These include;

1. **Raw materials.** This is stock that the business has purchased from outside suppliers and is waiting for processing.
2. **Tools, equipment and machinery.**
 - Machinery can be tools or equipment that the business uses in order to produce other goods and services.
 - Equipment are things that are needed to do some work or a particular activity e.g calculators, computers, television, typewriters etc.
 - Tools are instruments that you can hold in your hands to use to do a particular job e.g. hammer, axe, screwdrivers, spade etc.
3. **Utilities.** Utilities are inputs that go into the production process for goods and services e.g. electricity, water, banking services etc.

4. **Goods for sale.** These are items which the entrepreneur buys for reselling in the course of the business operation.

FACTORS THAT INFLUENCE AN ENTREPRENEUR'S CHOICE OF SUPPLIER

1. **Quality of goods.** In choosing a supplier, an entrepreneur should consider the quality of goods and services. The supplier should be the one who has consistently supplied goods of high quality which meets set standards.
2. **Terms and conditions of payment.** The entrepreneur needs to examine the terms and conditions of payment to see where they are favorable. The terms of payment may either be cash or credit terms.
3. **The lead time.** The entrepreneur should consider the time it takes to order and receive the goods. He should choose a supplier who can deliver the goods in the required time.
4. **Taxes and regulatory procedures.** Taxes and regulatory procedures in the purchasing and delivery of goods usually influence the entrepreneur's choice of supplier. Normally high taxes make goods expensive
5. **Communication with the supplier.** Communication with the supplier should be easy. Good communication between the entrepreneur and the supplier ensures that whenever goods are needed the supplier is accessible.
6. **Price of the goods.** The price at which the goods are supplied influences the entrepreneur's choice of the supplier. Entrepreneurs normally look out for a supplier whose prices are low and of high quality so as to minimize operating expenses.
7. **Consistence and reliability of the supplier.** The consistence and reliability of the supplier influences the entrepreneur's choice of supplier. This will involve looking at the lead time and the ability to supply goods whenever needed.
8. **Mode of transport to be used and availability.** An entrepreneur should select a supplier who is easily accessible with cost effective and available transport means.
9. **Third party certification.** This means inspection of the supplier made by an independent body whose evaluations are regularly made public. Institutions in Uganda which carry out third party certification include; Bank of Uganda, Uganda Insurance Commission, Uganda National Bureau of Standards (UNBS), Uganda Revenue Authority (URA), Uganda Registration Services Bureau (URSB) etc.
10. **The quantities available for supply.** An entrepreneur should select a supplier who has sufficient quantities of goods or services that meet the demands of the market.

PURCHASING PROCEDURES

The intension of an entrepreneur to buy may be induced by advertising and other sales promotion undertakings. This results in preliminary documents being exchanged between the buyer and the seller. These documents include;

1. AN INQUIRY.

An inquiry is a document sent by a prospective buyer to the seller seeking or requesting for information about the goods offered for sale, their prices, quality, terms of sale and delivery.

The purpose of an inquiry is to find out the prices, quality and terms of sale for goods.

A document similar to an inquiry is an invitation to tender

An invitation to tender is addressed to more than one seller requiring them to state the conditions under which they are willing to sell the goods.

This is in most cases when the inquiry was made in form of an advert.

The reply to an invitation to tender is a tender. This is a document which clearly describes goods and services, the terms of sale and prices at which the seller can supply the goods to the prospective buyer.

Example of an inquiry

An inquiry from Magoba Secondary School to IM STATIONERS AND COMPUTER CENTER

MAGOBA SECONDARY SCHOOL

P.O.OX

TEL: 0758827188

No: 001

Date: 1st feb 2020

INQUIRY

TO: IM STATIONERS AND COMPUTER CENTER

P.O OX.....

TEL: 0785827183

Dear Sir/ Madam

Please quote for us your prices, terms of payment and delivery for the following items.

No.	Description	Quantity
1	Photo copier papers (A4)	150
2	Ruled papers (fullscap)	100
3	Duplicating papers	50

Yours faithfully

.....
KABWA JOHNSON
PURCHASING MANAGER.

The answer to an inquiry will depend both on the nature of the goods required and trade practice.

However a reply to a letter of inquiry can be in form of a quotation, price list, catalogue or price current.

1. Price list. This is a list of goods offered for sale together with their respective prices. This normally applies to goods of popular or well-known brands on the market.

Example of a price list

A price list that can be written by im Stationers and Computer Centre to Magoba Secondary School;

IM STATIONERS AND COMPUTER CENTRE



P.O BOX

MITYANA

TEL: 0785827183

We deal in all stationery and computer equipment and training.

PRICE LIST

No.	Item	Price (shs)
1	Photo copier papers	18,000
2	Ruled papers	15,000
3	Duplicating papers	10,000

Prepared by:

.....
MBUZI KIMEEME
SALES MANAGER
E&O.E

2. Price current. This is a price list which has been revised or updated to show the available goods and their current market prices.
3. Catalogue. This is a booklet which briefly describes the each item offered for sale. it often carries illustrations and is more informative and attractive than a price list.
4. Quotation. This is an offer to supply goods or services according to the terms and conditions stated
 - ❖ First hand quotation. This is a quotation given by manufacturers to traders or consumers directly.
 - ❖ Second hand quotation. This is a quotation given by manufacturers to other traders.

An example of a quotation

A quotation written by IM Stationers And Computer Center to Magoba Secondary School.

IM STATIONERS AND COMPUTER CENTER



P.O BOX

MITYANA

TEL: 0758827188

We deal in all stationery and computer equipment and training.

QUOTATION

No.....

Date:.....

To: Magoba Secondary School

P.O BOX

MITYANA

Tel: 0785827183

Dear sir /madam

In reply to your inquiry datedwe have the pleasure to quote for you as follows;

No.	Description	Quantity	Unit price	Amount (shs)
1	Photo copier papers (A4)	150	18,000	2,700,000
2	Ruled papers	100	15,000	1,500,000
3	Duplicating papers	50	10,000	500,000
	Total			4,700,000

- The quoted prices exclude vat
- Delivery: 2 days from date of receipt of your order.
- Payment: 70% down payment, 30% not exceeding 30 days from date of delivery.
- Cash discount: 2½%.

We look forward to receive your order.

Prepared by:.....

Verified by:.....

AN ORDER/ LOCAL PURCHASE ORDER (LPO)

When the buyer has taken a decision of where to buy after clearly observing the different quotations from the different possible suppliers, he/she can place an order also known as a purchase order or local purchase order.

An order. This is a document sent by the prospective buyer to the seller requesting him to supply the specific goods.

NB: An order can be done verbally, by writing or by filling an order form

CONTENTS OF AN ORDER (LPO)

- i. Name and address of the buyer.

- ii. Name and address of the seller.
- iii. Date of the order.
- iv. Order number.
- v. Type of goods.
- vi. Quantity and description of each item or good required e.g dozens, pairs, boxes, bars, cartons, tins, rolls etc.
- vii. Terms and conditions of delivery.
- viii. Stamp and signature.

Example of a purchase order

A purchase order from Magoba Secondary School to IM Stationers and Computer Center

MAGOBA SECONDARY SCHOOL																													
P.O BOX																													
MITYANA																													
TEL: 0785827183																													
No:.....	PURCHASE ORDER			Date:.....																									
<p>To: IM STATIONERS AND COMPUTER CENTER P.O BOX.....MITYANA TEL: 0758827188</p> <p>Please supply and deliver the following goods.</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left; padding: 5px;">No.</th> <th style="text-align: left; padding: 5px;">Description</th> <th style="text-align: left; padding: 5px;">quantity</th> <th style="text-align: left; padding: 5px;">Unit price (shs)</th> <th style="text-align: left; padding: 5px;">Amount (shs)</th> </tr> </thead> <tbody> <tr> <td style="text-align: left; padding: 5px;">1</td> <td style="text-align: left; padding: 5px;">Photo copier papers (A4)</td> <td style="text-align: left; padding: 5px;">150</td> <td style="text-align: left; padding: 5px;">18,000</td> <td style="text-align: left; padding: 5px;">2,700,000</td> </tr> <tr> <td style="text-align: left; padding: 5px;">2</td> <td style="text-align: left; padding: 5px;">Ruled papers</td> <td style="text-align: left; padding: 5px;">100</td> <td style="text-align: left; padding: 5px;">15,000</td> <td style="text-align: left; padding: 5px;">1,500,000</td> </tr> <tr> <td style="text-align: left; padding: 5px;">3</td> <td style="text-align: left; padding: 5px;">Duplicating papers</td> <td style="text-align: left; padding: 5px;">50</td> <td style="text-align: left; padding: 5px;">10,000</td> <td style="text-align: left; padding: 5px;">500,000</td> </tr> <tr> <td style="text-align: left; padding: 5px;"></td> <td style="text-align: left; padding: 5px;">Total</td> <td style="text-align: left; padding: 5px;"></td> <td style="text-align: left; padding: 5px;"></td> <td style="text-align: left; padding: 5px;">4,700,000</td> </tr> </tbody> </table> <p>Delivery: this order is valid for three days. The above purchase order number must be quoted on the invoice.</p> <p>Yours faithfully</p> <p>.....</p> <p>KABWA JOHNSON PURCHASING MANAGER</p>					No.	Description	quantity	Unit price (shs)	Amount (shs)	1	Photo copier papers (A4)	150	18,000	2,700,000	2	Ruled papers	100	15,000	1,500,000	3	Duplicating papers	50	10,000	500,000		Total			4,700,000
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3	Duplicating papers	50	10,000	500,000																									
	Total			4,700,000																									

TERMS OF SALE

After receiving an order from the prospective buyer, the seller considers the terms of sale which are either cash sales or credit sales.

Cash Sales.

In case the seller decides to sell the goods y cash, he/she can take up any of the following alternatives

- i. **Cash With Order. (CWO).** This is where the buyer sends money along with the purchase order i.e pays for the goods as he places the order for the goods.
- ii. **Cash on delivery (COD).** This is where money is paid when the goods ordered for are delivered to the buyer.
- iii. **Spot cash.** This is where the buyer pays for the goods as he collects them from the seller.
- iv. **Prompt cash.** This is where the buyer is supposed to pay within the period of time allowed to him or her by the seller. This period is always short and payments are expected in full less discounts if any.

a)

CASH SALE SLIP

This is a document issued by the seller to the buyer who has paid for goods by cash. This is used to provide evidence that goods were bought by cash either through; cash with order, cash on delivery or prompt cash as the alternatives of cash sales.

Example of a cash sale slip

A cash sale slip sent by im stationers and computer center

IM STATIONERS AND COMPUTER CENTER



P.O BOX

MITYANA

TEL: 0758827188

We deal in all stationery and computer equipment and training.

CASH SALES SLIP

No.....

Date:.....

M/s.....

No.	Description	quantity	Unit price (shs)	Amount (shs)
1	Photo copier papers (A4)	150	18,000	2,700,000
2	Ruled papers	100	15,000	1,500,000
3	Duplicating papers	50	10,000	500,000
E&O.E	Total			4,700,000

.....
MBUZI KIMEEME
SALES MANAGER

b)

CREDIT SALES.

This is where goods are sold and payment for these goods is made at a later date from the date of sale. The time in which the customer/buyer is supposed to pay for the goods is called the credit period which can depend on the nature of goods and the amount of money involved.

STEPS INVOLVED IN CREDIT SELLING

There are different steps involved in the process of credit selling which include;

Credit status inquiry.

In case the prospective buyer is buying from the seller on credit for the first time, the seller is required to establish whether the buyer is credit worthy or not.

Example of a credit status inquiry.

A credit status inquiry written by IM Stationers And Computer Center to Equity Bank inquiring about the credit worthiness of Magoba Secondary School.

IM STATIONERS AND COMPUTER CENTER



P.O BOX

MITYANA

TEL: 0758827188

We deal in all stationery and computer equipment and training.

Date.....

The Manager
Equity Bank Mityana Ranch
P.O Box ..
Mityana
Dear sir;

Re: CREDIT STATUS INQUIRY

We have been approached by Magoba secondary school for extension of credit facilities. The institution wishes to place large orders and your name has been suggested by the institution as a referee. We kindly request you to send us a confidential report on its financial position.

Yours faithfully

.....
MBUZI KIMEEME
SALES MANAGER

SOURCES OF INFORMATION ABOUT A BUYER'S CREDITWORTHINESS

1. **Bankers to the buyer.** The bank in which the prospective buyer has an account is one of the immediate sources of his or her creditworthiness. This can give a confidential report about the customer's financial position.
2. **Trade associations.** In case the customer is a member of a certain trade association, this can also be a source of information about his or her creditworthiness. These associations include Uganda Manufacturers Association.
3. **Previous suppliers.** Creditworthiness information about a customer can be obtained from the previous suppliers e.g whole sellers or manufacturers.
4. **Other customers.** Information about a new customer's paying habits may be obtained from other customers of the seller who may happen to know this customer.
5. **Commercial enquiry agency.** This is a specialized institution which supplies financial information about firms and business men for a fee. This can also provide the required information about a customer.

PACKAGING THE GOODS

After receiving an order from the buyer, the seller packages the goods to the buyer.

Packaging. This is the technique of wrapping, compressing or crafting of goods in appropriate containers to protect them from spoilage, breakage, leakage or atmospheric contamination.

METHODS OF PACKAGING GOODS

The various methods of packaging used include;

- ❖ Putting in plastic containers.
- ❖ Bottling and canning.
- ❖ Bagging or putting in bags.
- ❖ Putting in boxes
- ❖ Tinning or putting in tins.
- ❖ Putting in drums.
- ❖ Putting in bales.
- ❖ Putting in cartons.

MATERIALS USED FOR PACKAGING GOODS.

- ❖ Plastic i.e polythene bags, jerrycans etc.
- ❖ Metals i.e aluminium, steel, tin etc
- ❖ Paper.
- ❖ Glass e.g glass bottles.
- ❖ Laminations etc

FACTORS TO CONSIDER WHEN CHOOSING THE METHOD OF PACKAGING TO BE USED FOR A PRODUCT.

1. The nature of the product e.g fragile products in boxes, liquid products in bottles etc.
2. The source of packaging materials and one to supply them.
3. The cost of the packaging material.
4. The purpose and aim of packaging the product.
5. Availability of the packaging material in required amounts.
6. The method of transport to be used to distribute the packaging materials.

IMPORTANCE OF PACKAGING GOODS

1. Provides protection to the product by protecting it against rough handling and external conditions.
2. It enables buyers to easily identify and handle the products.
3. It facilitates the display of the goods in the seller's premises e.g shop fittings.
4. The labels put on the packaging materials used normally carry vital information about the product such as how to use the product, how to store the products and what ingredients it contains.
5. Promotion of the product. This is since the color and shape of the product will appeal to the consumer.
6. Packed goods are always sold in the condition they left the factory since they cannot be mixed up with inferior goods.
7. Packed goods can easily be delivered to the customers e.g using mail order services or by postal delivery.
8. Packed goods ease the self service system of selling.
9. Packaging eases the handling and transportation of goods.

10. Packaging relieves the retailer of the work of weighing and wrapping the goods at the time of selling them to consumers.

PACKAGE SHEET

This is a document listing the contents of a package of goods delivered to the buyer.

These are normally written in four copies. The original is placed inside the package, one copy is sent to the buyer, a third copy to the accounts department of the seller and the fourth copy is retained by the seller for record purposes.

Example of a package sheet

A package sheet that can be sent by IM Stationers and Computer Center to Magoba Secondary School

IM STATIONERS AND COMPUTER CENTER									
									
P.O BOX MITYANA TEL: 075827188 Date.....									
<i>We deal in all stationery and computer equipment and training.</i>									
No:.....	PACKAGE SHEET								
TO: MAGOBA SECONDARY SCHOOL									
P.O BOX									
MITYANA									
This package contains the following items									
<table border="1"><thead><tr><th>quantity</th><th>Description</th></tr></thead><tbody><tr><td>150</td><td>Photo copier papers (A4)</td></tr><tr><td>100</td><td>Ruled papers</td></tr><tr><td>50</td><td>Duplicating papers</td></tr></tbody></table>		quantity	Description	150	Photo copier papers (A4)	100	Ruled papers	50	Duplicating papers
quantity	Description								
150	Photo copier papers (A4)								
100	Ruled papers								
50	Duplicating papers								
Packed by.....	checked by.....								

DELIVERY OF GOODS

After the seller has packed the goods, he or she makes arrangements to deliver these goods to the user. The main documents involved in this process include a delivery note, advice note (dispatch note), consignment note and a proforma invoice.

DELIVERY NOTE

This is a document issued by the seller to the buyer to provide evidence of delivery of goods.

In this process, when the buyer receives the goods, he or she signs a delivery note in duplicate and sends a copy to the seller as proof that he or she has received the goods in proper order.

This document shows the goods without showing their prices but in terms of brief details of goods; ie quantity, name and size.

Example of a delivery note

A delivery note that can be sent by IM Stationers and Computer Center to Magoba Secondary School

<p style="text-align: center;">IM STATIONERS AND COMPUTER CENTER</p>  <p style="text-align: center;">P.O BOX MITYANA TEL: 0758827188 Date..... <i>We deal in all stationery and computer equipment and training.</i></p>									
No:.....	DELIVERY NOTE								
TO: MAGOBA SECONDARY SCHOOL									
P.O BOX									
MITYANA									
Please receive the following items									
<table border="1"><thead><tr><th>quantity</th><th>Description</th></tr></thead><tbody><tr><td>150</td><td>Photo copier papers (A4)</td></tr><tr><td>100</td><td>Ruled papers</td></tr><tr><td>50</td><td>Duplicating papers</td></tr></tbody></table>		quantity	Description	150	Photo copier papers (A4)	100	Ruled papers	50	Duplicating papers
quantity	Description								
150	Photo copier papers (A4)								
100	Ruled papers								
50	Duplicating papers								
The above goods have been received in good order and condition.									
Received by:.....	Delivered by:.....								

PROFORMA INVOICE

This is a document sent by the seller to the buyer when goods are to be sent after payment has been made or goods should be paid for immediately after receiving them.

Example of a proforma invoice

A proforma invoice from IM Stationers and Computer Center to Magoba Secondary School

IM STATIONERS AND COMPUTER CENTER



P.O BOX

MITYANA

TEL: 0758827188 Date.....

We deal in all stationery and computer equipment and training.

No:.....

PROFORMA INVOICE

TO: MAGOBA SECONDARY SCHOOL

P.O BOX

MITYANA

quantity	Particulars	Rate (shs)	Amount (shs)
150	Photo copier papers (A4)	18,000	2,700,000
100	Ruled papers	15,000	1,500,000
50	Duplicating papers	10,000	500,000
E&O.E	Total		4,700,000

Accounts are due on demand.

Signature.....

For: IM Stationers and Computer Center

INVOICING

After delivering the goods to the buyer, the seller notifies the buyer of the amount due by preparing an invoice.

AN INVOICE

This is a document which shows that goods were sold on credit basis.

Contents of an invoice

- Name and address of the seller.
- Date of the invoice.
- Name and address of the buyer.
- Invoice number.
- Quantity and description of each item.
- Unit price of goods.
- Total cost of goods.
- Gross total cost of goods.
- Any discount allowed.
- Net amount payable.
- Length of credit period allowed.
- E&O.E which means errors and omissions are expected in the invoice.
- Name and signature of the receiver of goods.

Example of an invoice.

An invoice written by IM Stationers and Computer Center to Magoba Secondary School.

<p style="text-align: center;">IM STATIONERS AND COMPUTER CENTER</p>  <p style="text-align: center;">P.O BOX</p> <p style="text-align: left;">No:.....</p> <p style="text-align: right;">Date.....</p> <p style="text-align: center;">MITYANA</p> <p style="text-align: center;">TEL: 0758827188</p> <p style="text-align: center;"><i>We deal in all stationery and computer equipment and training.</i></p>																							
TO: MAGOBA SECONDARY SCHOOL		INVOICE																					
P.O BOX																							
MITYANA																							
<table border="1"><thead><tr><th>quantity</th><th>Particulars</th><th>Rate (shs)</th><th>Amount (shs)</th></tr></thead><tbody><tr><td>150</td><td>Photo copier papers (A4)</td><td>18,000</td><td>2,700,000</td></tr><tr><td>100</td><td>Ruled papers</td><td>15,000</td><td>1,500,000</td></tr><tr><td>50</td><td>Duplicating papers</td><td>10,000</td><td>500,000</td></tr><tr><td>E&O.E</td><td>Total</td><td></td><td>4,700,000</td></tr></tbody></table>				quantity	Particulars	Rate (shs)	Amount (shs)	150	Photo copier papers (A4)	18,000	2,700,000	100	Ruled papers	15,000	1,500,000	50	Duplicating papers	10,000	500,000	E&O.E	Total		4,700,000
quantity	Particulars	Rate (shs)	Amount (shs)																				
150	Photo copier papers (A4)	18,000	2,700,000																				
100	Ruled papers	15,000	1,500,000																				
50	Duplicating papers	10,000	500,000																				
E&O.E	Total		4,700,000																				
<p>-Accounts are due on demand. -Delivery: 2 days after receipt of order. -Terms of payment: 70% deposit and 30% after 30 days -Discount: cash discount 5% after 30 days.</p>																							
<p>Goods received by:.....sign:.....</p>																							

Note:

- i. A document that can serve exactly the same purpose as an invoice is a bill but it is used in case of services e.g medical services, electricity, water, lawyers' services etc.
- ii. In case the invoice is found to be incorrect, the buyer takes appropriate steps to ensure that he/she pays only the correct amount for the goods purchased. The invoice can be incorrect by either causing an over charge or an under charge.
 - (a) In case of an overcharge, a credit note is written to the buyer by the seller to correct the over charge.

Credit note. This is a voucher which corrects an over charge in a transaction.

Example of a credit note

A Credit note written by IM Stationers and Computer Center to Magoba Secondary School.

IM STATIONERS AND COMPUTER CENTER



P.O BOX

No:.....

MITYANA

TEL: 0758827188

Date.....

We deal in all stationery and computer equipment and training.

TO: MAGOBA SECONDARY SCHOOL

CREDIT NOTE

P.O BOX

MITYANA

We have credited your account as follows:

Description	Amount (shs)
To correct an arithmetic error in invoice number 0012.	
Erroneous total shs:4,700,000.	
Correct total shs:3,800,000	
Nine hundred thousand shillings only	900,000
Signature:	900,000

- (b) In case of an under charge in an invoice, the seller writes a debit note to the buyer to correct the under charge.

Debit note. This is a voucher which corrects an under charge in a transaction.

Example of a debit note

A Debit note written by IM Stationers and Computer Center to Magoba Secondary School.

IM STATIONERS AND COMPUTER CENTER  P.O BOX No:..... MITYANA TEL: 0758827188 <i>We deal in all stationery and computer equipment and training.</i> TO: MAGOBA SECONDARY SCHOOL P.O BOX MITYANA							
DEBIT NOTE							
We have debited your account as follows: <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left; padding: 5px;">Description</th> <th style="text-align: right; padding: 5px;">Amount (shs)</th> </tr> </thead> <tbody> <tr> <td style="padding: 5px;">To correct an arithmetic error in invoice number 0012. Erroneous total shs: 4,700,000. Correct total shs: 5,900,000 One million two hundred thousand shillings only</td> <td style="text-align: right; padding: 5px;">1,200,000</td> </tr> <tr> <td style="padding: 5px;">Signature:</td> <td style="text-align: right; padding: 5px;">1,200,000</td> </tr> </tbody> </table>		Description	Amount (shs)	To correct an arithmetic error in invoice number 0012. Erroneous total shs: 4,700,000. Correct total shs: 5,900,000 One million two hundred thousand shillings only	1,200,000	Signature:	1,200,000
Description	Amount (shs)						
To correct an arithmetic error in invoice number 0012. Erroneous total shs: 4,700,000. Correct total shs: 5,900,000 One million two hundred thousand shillings only	1,200,000						
Signature:	1,200,000						

GOODS RETURNED

After the buyer has bought goods from the supplier but before paying for them, he /she is free to return these goods or part of them to the supplier because of certain reasons.

REASONS WHY THE BUSINESS MAY RETURN GOODS TO THE SUPPLIER

7. The goods may be damaged during the time of delivering them to the buyer.
8. The goods may be expired or out dated.
9. Goods received may not have been ordered for or different from the sample.
10. More goods than demanded may be delivered and therefore the excess may be returned.
11. The buyer may not be willing to pay the high prices yet the seller may not be willing to reduce the price
12. In case the goods received are of a poor quality, wrong type and size according to what was ordered for.

NOTE:

- Once goods have been returned to the supplier, a credit note is issued to the business by the supplier which shows the value of goods returned. A credit note is a source document

which shows a correction of an over charge and therefore it shows the value of goods returned.

- It is from the incoming credit notes that a purchases returns day book is drawn.
- The returns are either part or the whole of the goods that were previously bought on credit but not more than the goods that were bought because it is after credit purchases that goods are later returned to the supplier.

GOODS RETURNED NOTE.

This is a document written by the buyer to the seller when returning goods to the sellers which are found unsatisfactory in relation to the order. in case the seller receives a goods returned note, he will reply by writing a credit note to correct the over charge.

Sample of a goods returned note .

A goods returned note written by Magoba Secondary School to IM Stationers and Computer Center.

MAGOBA SECONDARY SCHOOL
P.O BOX
MITYANA
TEL: 0785827183

No:.....

GOODS RETURNED NOTE

Date:.....

To: IM STATIONERS AND COMPUTER CENTER

P.O BOX.....MITYANA

TEL: 0758827188

Invoice no.....

Un sold shs:320,000

Please receive the following goods returned.

No.	quantity	Description	Reason	Amount (shs)
1	10	Photo copier papers (A4)	Not ordered	180,000
2	6	Ruled papers	Poor quality	90,000
3	5	Duplicating papers	Damaged	50,000
		Total		320,000

Please issue us a credit note:

Yours faithfully

KABWA JOHNSON

PURCHASING MANAGER

MAGOBA SECONDARY SCHOOL

STATEMENT OF ACCOUNT

This is a document sent by the seller to the buyer showing a summary of transactions between the buyer and the seller for a particular period of time and requiring the buyer to settle his/her account.

In the statement of account, the seller records balance brought forward (bal b/f) if any, followed by the entries relating to the account.

For invoices issued and debit notes, amounts are entered in the debit column of the statement and for receipts issued and credit notes issued, amounts are entered in the credit column.

Note:

- ❖ A statement of account is a summary of all sales made to a customer during the month and will include any credits issued.
- ❖ It is usually issued to only customers whom the seller has previously approved to have an account with them, and who have signed a sales/purchases terms of agreement.
- ❖ Statements only need to be sent to customers who have to pay their account in the months following the date of invoice.
- ❖ Statements are usually sent once a month to remind the customer of what is owing.
- ❖ Customers who pay right away when buying goods or services or who pay within a short period of time like 7days don't need to be issued a statement of account.
- ❖ A customer with a zero balance on his/her account does not need to be sent a statement of account unless he/she specifically requests one.

Example of a statement of account.

A statement of account written by IM Stationers and Computer Center to Magoba Secondary School.

IM STATIONERS AND COMPUTER CENTER  P.O BOX MITYANA TEL: 0758827188 Date..... <i>We deal in all stationery and computer equipment and training</i>				
TO: MAGOBA SECONDARY SCHOOL		STATEMENT OF ACCOUNT		
P.O BOX				
MITYANA				
Date	Particulars	Debit (shs)	Credit (shs)	Balance (shs)
Payment due by		Total due 		
Please make payment into bank account number.....				

PROMISSORY NOTE

This is a document written by the buyer to the seller promising to pay a stated sum of money to a named person (seller) or his/her order at a stated future date or period.

In the promissory note, the buyer states the period in which he/she expects to pay the supplier and promises to pay the stated amount.

CONTENT OF A PROMISSORY NOTE:

- ❖ Document title.
- ❖ Business name and address.
- ❖ Date of writing the promissory note.
- ❖ Period in which to pay.
- ❖ Amount to be paid.
- ❖ Signature.

Example of a promissory note.

A promissory note written by Magoba Secondary School to IM Stationers and Computer Center.

<p>MAGOBA SECONDARY SCHOOL P.O BOX MITYANA TEL: 0785827183</p> <p>PROMISSORY NOTE</p> <p>Date:.....</p>
<p>Two months after this date, we promise to pay IM Stationers and Computer Centre or their order the sum of two hundred thousand shillings (200,000) for value received.</p> <p>Yours faithfully</p> <p>.....</p> <p>KIDEEYA MUSOLIN ACCOUNTING OFFICER MAGOBA SECONDARY SCHOOL</p>

A RECEIPT

This is a document written by the seller to the buyer acknowledging that payment has been made. This is the document that closes the process of selling and it is after paying for the goods which payments can be made by either cash or cheque.

Content of a receipt

- Name and address of the seller (address includes physical ,telephone and postal)
- The word receipt.
- Receipt number.
- Date of payment.
- The person or organization paying for the goods or services.
- The amount of money paid in words
- The purpose of the payment.
- Balance if any.
- Method of payment (cash/cheque)
- Amount paid in figures.
- Signature on behalf of the selling organization

➤ Slogan if any.

Example of a receipt

A receipt of account written by IM Stationers and Computer Center to Magoba Secondary School.

IM STATIONERS AND COMPUTER CENTER	
	
P.O BOX	MITYANA
NO.	TEL: 0758827188
Date.....	
<i>We deal in all stationery and computer equipment and training</i>	
TO: MAGOBA SECONDARY SCHOOL P.O BOX	RECEIPT
MITYANA	
Received with thanks from: <u>Magoba Secondary School.</u>	
The sum of shillings: <u>Four millions and seven hundred thousand shillings only</u>	
Being payment for: <u>photocopier papers(A4),ruled papers and duplicating papers.</u>	
Cash/ <u>cheque</u> cash	balance: <u>Nil</u>
Shs: 4,700,000	signature _____
For: IM STATIONERS AND COMPUTER CENTER	

OR

A cash sales slip of account written by IM Stationers and Computer Center to Magoba Secondary School.

IM STATIONERS AND COMPUTER CENTER



P.O BOX
NO.
MITYANA
TEL: 0758827188
Date.....

We deal in all stationery and computer equipment and training

CASH SALES SLIP				
Received with thanks from: <u>Magoba Secondary School.</u>				
S/No.	Particulars	Quantity	Unit price (shs)	Amount (shs)
01	Photocopier papers (A4)	150	18,000	2,700,000
02	Ruled papers	100	15,000	1,500,000
03	Duplicating papers	50	10,000	500,000
04				
05				
E&O.E	Total			4,700,000

Amount in words: Four millions and seven hundred thousand shillings only.

Cash/cheque cash
Shs: 4,700,000

balance: Nil
signature _____

THANK YOU!!!!

For: IM STATIONERS AND COMPUTER CENTER

INVENTORY MANAGEMENT

Inventory refers to the stock at hand in a business. This can be in form of raw materials, finished goods, goods in the process of production e.t.c

OBJECTIVES OF INVENTORY MANAGEMENT

- To ensure timely replacement of raw materials for production.
 - To avoid tying up a lot of capital in stock.
 - To reduce stock losses through theft and misappropriation.
 - To allow flexibility in production as well as marketing.
 - To help in planning in case of need for more stock.

TYPES OF INVENTORY IN BUSINESS

- 1. Raw materials.** These are goods waiting for production in the business.

2. **Semi-finished goods.** These are goods still in the production process but not yet completed. These can also be called "work in progress".
3. **Finished goods.** These refer to the outputs of the production process in an organization. These goods have completed the production process and therefore they are waiting for sale to customers/consumers.
4. **General business supplies.** This refers to the materials used to support the smooth running of the business. These include stationary, tools, office material, employee protection tools like gum boots, gloves, helmets etc.

TOOLS OF STOCK (STORE) MANAGEMENT

These are the different ways in which stock is managed in a business.

These include:

1. Physical stock counting. This is a system where the available stock is physically counted to determine what is available and what is missing.
2. Stock reconciliation. This is where all records regarding what is in the store are updated to give a true record of what should be in the store.
3. Computerized stock control. This is where businesses hold details of their entire stock in computer databases.
4. Stock cards. This is a document where information regarding the items in stock are recorded. It shows the quantities available and the date they were received and what has been issued out of a certain item

An example of a stock card used by IM Stationers and Computer Center.

IM STATIONERS AND COMPUTER CENTER  P.O BOX MITYANA TEL: 0758827188 <i>We deal in all stationery and computer equipment and training</i>					
STOCK CARD					
Item name:.....					
Date	Receipt (units)	Issued (units)	balance (units)	Issued to (units)	Authorized by

5. Stock requisition card. This is a document that requests for an item or items from the store. This request can be by an employee, or a department within the business. It gives the details of items, quantity required, the date and the name of the department or employee making the request.

Sample of a stock requisition card

An example of a stock card used by IM Stationers and Computer Center.

IM STATIONERS AND COMPUTER CENTER																										
 P.O BOX MITYANA TEL: 0758827188																										
<i>We deal in all stationery and computer equipment and training</i>																										
STOCK REQUISITION CARD																										
FROM:.....	TO:.....																									
<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 10%;">S/NO.</th> <th style="width: 40%;">QUANTITY (UNITS)</th> <th style="width: 50%;">ITEM</th> </tr> </thead> <tbody> <tr><td> </td><td> </td><td> </td></tr> </tbody> </table>			S/NO.	QUANTITY (UNITS)	ITEM																					
S/NO.	QUANTITY (UNITS)	ITEM																								
Signature:.....		Date:.....																								
Purpose:.....																										
Prepared by:																										
Authorized by:																										

COMMUNICATION SKILLS IN BUSINESS

Communication is the process of providing and receiving the required information in an organization.

OR

This is the process of transmitting information from the sender to the receiver resulting into a response from the receiver.

ESSENTIALS OF EFFECTIVE COMMUNICATION

These refer to the aspects which must be taken into account in all the media of communication.

These are also known as characteristics /principles of effective communication. These are abbreviated as the **7Cs**.

1. **Clear**. The message sent should be clear to the receiver so as to understand it as sent by the sender.

2. **Complete.** The message sent should include all the details required by the receiver about the matter.
3. **Correct.** The message should be accurate to avoid any losses that maybe caused due to small errors.
4. **Courteous.** The sender should be as sincere as possible when giving the information and should avoid hurting the receiving party but should not shy away from addressing the issues under concern.
5. **Considerate.** The sender of the message should have the receiver in mind when passing on the information. In this, positive words are better than using negative words in communication.
6. **Concrete.** The message should be specific to the point ie it should not be vague or too general.
7. **Concise.** The sender should give the message using few words as possible so as not to confuse the receiver.

METHODS OF COMMUNICATION/ CHANNELS OF COMMUNICATION

These refer to the way in which information is conveyed/ transmitted from one person to another.

There basically three (3) methods/channels of communication ie oral, visual and written communication.

1. Oral communication.

This is communication by word of mouth both face to face or by telephone.

2. Visual communication.

In this, an entrepreneur can communicate by use of diagrams and pictures without necessarily using words eg organizational charts, photographs, posters, graphs and films.

3. Written communication.

This is a form of communication in which the message is transmitted from one person to another in writing. This involves use of business letters, memorandums, circular, notice, minutes, reports e.t.c.

Business letters

This is a written document used to send information from the business organization to an individual or another business organization.

Content of a business letter

The business letter is similar to a formal letter.

Its content includes:

- i. **Address of the writer.** This is usually at the top right corner but as well it can be centred
- ii. **Date of the letter.** This is after the writer's address.
- iii. **Title and address of the receiver** (to whom the letter is written)

- iv. **Reference.** This includes our reference and your reference in which the our reference part indicates the writer's reference number of the letter and your reference indicates the reference number of the letter to the receiver of the letter.
- v. **Salutation.** This includes words like dear Sir,Madam, Ms, Mr, Hon, Rev whatever the title of the receiver maybe if known to the writer but if the title of the receiver of the letter is not known to the writer, he/she can use dear sir/madam
- vi. **Reason for writing the letter.** (Re:.....) this part shows the main reason as to why the letter is written briefly.
- vii. **Body.** The body of the letter includes all the relevant information about the reason.
- viii. **Complementary clause.** This is the conclusive part of the letter and in this, phrases like yours in service, yours sincerely, yours faithfully e.t.c can be used.
- ix. **Signatures.** The writer of the letter must sign, put his/her name and title in capital letters.
- x. **Enclosures.** In case anything else is attached/enclosed in the letter, it must be indicated in this part which can include academic documents, in case of application letters, other relevant documents in relation to the letter.
- xi. **Carbon copies.** This part shows other officials given the same letter in copies for purposes of reference.

Example of a business letter

Question:

You intend to operate a restaurant in your home town, write a letter to the town clerk asking for permission to operate a restaurant in your community.

A letter to the town clerk asking for permission to operate a restaurant in Mityana town.

THOBAN ROAD LC.1
P.O BOX
MITYANA
0758827188
DATE : 6/04/2020

To:

THE TOWN CLERK MITYANA,

P.O BOX

MITYANA

Our ref

Your ref:

Dear Sir/Madam

Re: **ASKING FOR PERMISSION TO OPERATE A RESTAURANT IN MITYANA TOWN.**

I humbly write to your office asking for permission to operate a restaurant in Mityana town. This restaurant will be under the name of kawomera restaurant located opposite Mityana hospital main gate in Thoban Road LC.1 dealing in all types of local food.

I will be grateful if y request is put into your positive consideration.

Yours faithfully

.....

MUGONGO KIGERE
MANAGING DIRECTOR KAWOMERA RESTAURANT
0758827188
Enc: -Medical inspection letter
- Plant layout/site plan
-L.C .1 recommendation letter
CC: police

CC: L.C 1 chair person

N.B: In a business letter, the frame is optional.

Memo

This is short term for MEMORANDUM.

This is the form of communication used in an organisation internally. A memo is used to send information from one office to another with in the same organization.

Content of a memo

- i. Name and address of the organization
- ii. From: this indicates the sender of the Memo.
- iii. To: this part indicates the receiver of the memo.
- iv. Date: this shows the date on which the memo is written.
- v. Subject: this part shows the main purpose of writing the memo.
- vi. Body: this bears the subject matter of the memo.

Example of a memo

A memo written by the head teacher of Nanseera sec sch to the director of studies.

**NANSEERA SECONDARY SCHOOL
P.O BOX 1122
MAKOKOTO
0758827188**

MEMO

DATE: 06/04/2020

FROM: HEAD TEACHER

TO: DIRECTOR OF STUDIES

SUBJECT:**RELEASE OF EXAMINATION TIME TABLE**

you are reminded to release the end of term 1 examination time table to all students and staff members before the end of this week to easy the preparations

Thank you

MUGWAGWA KIBWA

HEAD TEACHER

Notice

This is written information used to give short/brief messages to concerned people. It is always pinned in an area accessible to the concerned people.

Content of a notice

- i. Name and address of the organization.
- ii. The word "notice" to indicate that it is a notice.
- iii. Date of writing the notice.
- iv. To: this indicates the concerned persons/group of people to the notice.
- v. Body: this part includes all the relevant information to be communicated.
- vi. Signature, name and title of the writer.

Example of a notice

A notice written to all teachers of Nanseera secondary school to remind them set end of term exams.

NANSEERA SECONDARY SCHOOL
P.O BOX 1122
MAKOKOTO
0758827188

NOTICE

DATE: 06/04/2020

TO: ALL TEACHERS

You are reminded to start setting end of term one exams before the end of this week and submit them to heads of department for approval to enable thrier smooth running.

Thank you

.....
KANZUNZU STAN
DIRECTOR OF STUDIES

Job advert

This is an advert normally put up by the organization in need of a certain employee or with a vacancy. This can be done through the different media like newspapers, radios, posters, television. This is intended to make both the public and members of the business aware of the vacancy to be filled in the organization.

Content of a job advert

1. Advert title
2. Name and address of the organization.

3. Job title
4. Job duties and responsibilities
5. Where to report
6. Qualification
7. Experience
8. Remuneration
9. Submission of application.

Example of a job advert

An advert for a mathematics teacher vacancy in Nanseera Secondary School.

NANSEERA SECONDARY SCHOOL

P.O BOX 1122

MAKOKOTO

0758827188

Date: 07/04/2020

JOB ADVERT

Job title: mathematics teacher.

Job duties and responsibility

- Teaching mathematics from S.1-S.4.
- Preparing teaching and learning material.
- Preparing schemes of work and lesson plans.
- Assisting in the administration of the school.
- Setting, marking and revising assessment tests.

Report to

Head of department and head teacher

Qualification:

Bachelor's degree in education mathematics and physics

Age:

22-30 years

Experience

At least two (2) years of teaching experience

Remuneration:

The remuneration is negotiable and attractive plus other allowances.

Submission of application:

Qualified applicants are required to drop their applications to the school head teacher's office not later than 15th/04/2020.

Nampiima Sylvia
Human Resource Manager
Nanseera Secondary School

Job description/analysis

This is a written summary of what an employee is supposed to do on a job. It mainly shows the responsibilities of the employee on the job.

Content of a job description

1. Name and address of the business.
2. Job title.
3. Job duties and responsibilities
4. Nature of supervision.
5. Equipment to be used.
6. Working conditions.
7. Relationship with other jobs.

A job description for a mathematics teacher in Nanseera Secondary School.

NANSEERA SECONDARY SCHOOL
P.O BOX 1122
MAKOKOTO
0758827188

Date: 07/04/2020

JOB DESCRIPTION

Job title: mathematics teacher.

Job duties and responsibility

- Teaching mathematics from S.1-S.4.
- Preparing teaching and learning material.
- Preparing schemes of work and lesson plans.
- Assisting in the administration of the school.
- Setting, marking and revising assessment tests.

Nature of supervision

Reports to the Head of department and head teacher

Equipment to be used:

Scheme books, time table, prep books, syllabus books, lesson notes.

Working conditions:

The teacher is to be given transport, breakfast, lunch, evening tea, medical allowance, housing allowance.

Relationship with other jobs

To ensure that the students' performance in mathematics improves

Nampiima Sylvia

Human Resource Manager

Nanseera Secondary School

Job specification

This is detailed statement of the minimum acceptable human qualities required for successful performance of a certain job.

Content of a job specification

1. Name and address of the business .
2. Physical requirements.
3. Qualification.
4. Working experience.
5. Remuneration.
6. Other competences.

A job specification for a mathematics teacher in Nanseera Secondary School.

NANSEERA SECONDARY SCHOOL

P.O BOX 1122

MAKOKOTO

0758827188

Date: 07/04/2020

JOB SPECIFICATION FOR A MATHEMATICS TEACHER

Job requirements: physically and mentally healthy.

Qualifications: should possess a bachelors' degree in education with mathematics.

Working experience: At least 2 (two) years of teaching.

Remuneration: Negotiable and attractive.

- Other competences

- Preferably male
- Between 22-30 years
- Should be married
- Should be computer literate

Prepared by:.....

Nampiima Sylvia
Human Resource Manager
Nanseera Secondary School

APPLICATION LETTER

This is written by the job applicant seeking for employment to a given organization.

It should include details about the applicant in terms of age, nationality, academic qualification, post applied for, working experience e.t.c.

Content/parts of an application letter

- i. Address of the applicant.
- ii. Date of application.
- iii. Addressee's address. Ie the address where the application is sent.
- iv. Salutation. Ie Dear Sir, Madam, Mr, Mrs etc.
- v. Reason. This part briefly shows the reason for writing the application.
- vi. Body. This explains all the relevant facts of the application e.g job advert if any, job applied for, applicant's age, qualifications and working experiences, nationality e.t.c.
- vii. Conclusion. This shows the writer's hope of considering his/her application positively.
- viii. Referees. These are persons that may have more information about the applicant in case any information is required.
- ix. Signature and name of the applicant.
- x. Enclosures. This part shows the other documents that are attached to the application for more information about the applicant.

Example of an application letter

Application for a mathematics teacher vacancy

KIKUUMANKIMA LC.1
P.O BOX 111
MUKONO
DATE: 09/04/2020

TO:

THE HEAD TEACHER
NANSEERA SECONDARY SCHOOL
P.O BOX 1122
MAKOKOTO

Dear sir

Re: **APPLICATION FOR A MATHEMATICS TEACHING VACANCY**

Having seen the advertisement for the above post in the Bukedde newspaper of Monday 06/04/2020, I wish to humbly submit in my application for the post.

I am a male Ugandan aged 29 ready to work under minimum supervision to the expectations of the institution.

I hold a bachelor's degree in education mathematics and physics, I have taught mathematics for the last five years with a good performance record.

I have enclosed my curriculum vitae, academic documents and recommendations from the stated referees.

Referees

1. Hon. Mberenge Bikuta ---- 0788888888
2. Mr. Kagongolo Masavu ----0752889977
3. Madam Nampeera Musiitwa -0758445533
4. Ms KABUGHO WINNIE-----0785025142

I am looking forward for your positive response.

Yours faithfully

Kigongo victim

Enc: -photocopies of academic documents.
-curriculum vitae
-Recommendations from referees

RECOMMENDATION LETTER

This is in most cases written by a referee for a job applicant to be considered for employment.

In the recommendation letter, the referee writes positive words about the applicant because it is what the employer will base on to recruit an employee or not.

Example of a recommendation letter

A recommendation letter for Mr. Kigongo Victim.

**KIBUMBI SECONDARY SCHOOL
P.O BOX 1136
KIBUMBI
TEL: 0785827183
DATE: 12/04/2020**

Our ref:

Your ref:

THE HEAD TEACHER
NANSEERA SECONDARY SCHOOL
P.O BOX 1122
MAKOKOTO
Dear sir.

Re : RECOMMENDATION OF MR. KIGONGO VICTIM

Without any reservation, I strongly recommend Mr. Kigongo Victim as a hard working mathematics teacher.

Mr. Kigongo is our former student from 2000-2005 and on top of that he has worked with us by teaching mathematics in which he has helped us to improve our performance in mathematics because he is hard working and committed to work.

Any assistance rendered to him is highly appreciated.

Yours faithfully

.....
KABUGHO WINNIE
HEAD TEACHER
KIBUMBUI SECONDARY SCHOOL

Cc: school file

Appointment letter

This is a document that shows the terms and conditions under which some one has been employed.

Elements/parts of an appointment letter

- Job title
- Duties and responsibilities
- Salary amount
- Immediate supervisor
- Date when to start duty
- Minute number
- Terms of employment

Example of an appointment letter

Appointment letter to Mr. Kigongo Victim

NANSEERA SECONDARY SCHOOL
P.O BOX 1122
MAKOKOTO
0758827188

Date: 02/04/2020

Our ref:.....

Your ref:.....

To:

MR. KIGONGO VICTIM

Dear Sir/Madam

Re: **APPOINTMENT AS A MATHEMATICS TEACHER.**

Following your successful interview, the directors of Nanseera secondary school under minute number 123/2020 have recruited you as a mathematics teacher.

Your duties and responsibilities shall be;

- Teaching mathematics from S.1-S.4.
- Preparing teaching and learning material.
- Preparing schemes of work and lesson plans.
- Assisting in the administration of the school.
- Setting, marking and revising assessment tests.

You will report to every thing to the head of department and where necessary to the head teacher who will give you further guidance in your duties.

The terms and conditions of your service will include:

- Monthly salaryShs.800,000/=
- Duty allowance.....Shs.30,000/=(per week)
- Assessment allowance.....Shs.50,000/=
- Transport allowance.....Shs.10,000/= (per day)
- Housing allowance.....Shs.40,000/=(per month)

You are expected to start duty on 1st/may/2020

Yours faithfully

.....
KIBIRIGE EVALISTO
HEAD TEACHER
NANSEERA SECONDARY SCHOOL

CC: PERSONAL FILE
DIRECTOR OF STUDIES

APPRECIATION LETTER

This is written in recognition of the good services provided by the employee to the organization.

This will mainly include the good things an employee has done for the organization.

Example of an appreciation letter.

An appreciation letter to Mr. Kigongo Victim

NANSEERA SECONDARY SCHOOL
P.O BOX 1122
MAKOKOTO
0758827188

Date: 02/04/2020

Our ref:.....

Your ref:.....

To:

MR. KIGONGO VICTIM

Dear Sir/Madam

Re: **APPRECIATION OF YOUR SERVICES.**

On behalf of the directors and the governing body of Nanseera secondary school we would like to appreciate all the good services that you have provided to the institution by performing all your expected duties perfectly. We therefore appreciate you for all that we can and cannot mention in this document. Some of the areas of appreciation include

- Perfectly Teaching mathematics from S.1-S.4 without failure.

- Highly Assisting in the administration of the school.
- Setting, marking and revising assessment tests and improving grades among our students and others

We therefore highly appreciate your services in the institution and advise you not to relax.

An appreciation package has been prepared for you.

Thank you

Yours faithfully

.....
KIBIRIGE EVALISTO
HEAD TEACHER
NANSEERA SECONDARY SCHOOL

WARNING LETTER

This is written in case the business or a member of the business is warning or sending a warning to another before any action can be taken according to what is happening or taking place.

This is in most cases intended to change the behavior of the party being warned.

Example of a warning letter

A warning letter to Mr. kigongo victimthe mathematics teache at Nanseera secondary school.

NANSEERA SECONDARY SCHOOL
P.O BOX 1122
MAKOKOTO
0758827188

Date: 10/04/2020

To:

MR. KIGONGO VICTIM

Our ref:.....

Your ref:.....

Dear Sir/Madam

Re: **WARNING FOR NOT ATTENDING THE MORNING LESSONS.**

I write this to inform you that the students are not satisfied by with the way you dodge the morning math lesson without giving them what to do due to coming late to school.

You are therefore warned to improve on your lesson attendance habit by arriving for work in the appropriate time otherwise we shall be forced to re advertise your job.

Yours in service

.....
EBOLA COVID
HEAD OF MATH DEPARTMENT
NANSEERA SECONDARY SCHOOL
CC: PERSONAL FILE
DIRECTOR OF STUDIES
HEAD TEACHER

COMPLAINING LETTER

This is a letter written by the business when complaining about certain matters like poor quality supplies, goods supplied not ordered for, bleach of a contract e.t.c.

This takes the same format as a business letter but the body contains complaints.

Example of a complaining letter

A letter to the town clerk asking for permission to operate a restaurant in Mityana town.

NANSEERA SECONDARY SCHOOL
P.O BOX 1122
MAKOKOTO
0758827188

Date: 08/04/2020

To:
IM Stationers And Computer Center
P.O BOX
MITYANA.
Our ref:.....
Your ref:.....
Dear Sir/Madam

Re: **SUPPLY OF POOR QUALITY CHALK.**

With regard to the goods supplied on 29th/03/2020, the quality of chalk that was supplied to us was very poor and you are therefore advised that you change for the good of the rest of your customers. We have returned six cartons to you due to the matter.

.....

LEONARD MAGAGA
PURCHASING MANAGER
NANSEERA SECONDARY SCHOOL

Apology letter

This is written by the person or organization that has performed something contrary to what is expected of him/her.

In this, the person or organization in question will state the evil committed and then promises not to do it again

Example of an apology letter

An apology letter written by im stationers and computer center to Nasnseera Secondary School

IM STATIONERS AND COMPUTER CENTER



P.O BOX 22330

MITYANA

TEL: 0758827188

We deal in all stationery and computer equipment and training.

Date: 09/04/2020

To:
NANSEERA SECONDARY SCHOOL
P.O BOX 1122
MAKOKOTO
0758827188

Dear Sir/Madam

Re: **APOLOGY FOR SUPPLY OF POOR QUALITY CHALK.**

We have received your complaint about the poor quality chalk that we supplied to you on 29th/03/2020. We therefore write to apologize to you for the above and we are very sorry to you our esteemed customer and promise never to do it again because it came as a mistake in the production process where some ingredients were not considered in the formula. We are very sorry and we are grateful that you realized this. We promise to supply to your expectations the next time.

Thank you

.....
MBUZI KIMEEME
SALES MANAGER

Termination letter

This is written to someone in order to stop him/her from work or performing duty in an institution. This is the same as a dismissal letter.

This letter contains three major components ie. Appreciation, Termination, Termination package.

A termination letter of a sales manager of IM Stationers and Computer Center

IM STATIONERS AND COMPUTER CENTER



**P.O BOX 22330
MITYANA
TEL: 0758827188**

We deal in all stationery and computer equipment and training.

Date: 16/04/2020

Our ref:

Your ref:

To:

MBUZI KIMEEME

THE SALES MANAGER

Dear Sir/Madam

Re: **TERMINATION.**

I would like to appreciate your good services you have been rendering to the organization as a sales manager. However we are not able to continue with you because of the various losses caused to the organization by the continuous misappropriation of funds and therefore starting from 20th/04/2020, your service has been terminated.

Your termination package of shs. 7,000,000/= (seven million shillings) has been prepared and you are advised to collect it before departure.

Yours faithfully

.....
KASOOLI TAWOOMA
MANAGING DIRECTOR
IM STATIONERS AND COMPUTER CENTRE
CC: -Accounting department.
-Production department
-Notice board

Circular

This is a written document used to deliver the same information to different people in most cases of the same category. It is used to circulate the same information to different people.

It is open to all the concerned people and not to a specific individual

Example of a circular

A circular inviting staff members of Nanseera secondary school for a meeting.

NANSEERA SECONDARY SCHOOL
P.O BOX 1122
MAKOKOTO
0758827188

Date: 08/04/2020

Our ref:.....

Your ref:.....

To:

ALL MEMBERS OF STAFF

Re: **INVITATION FOR A STAFF MEETING**

You are hereby invited to attend an urgent staff meeting to discuss the academic performance of students in the school. This will take place in the staff room on 12th/04/2020 at 11:am.

Keep time and attend in person

Thank you

Yours faithfully

.....

KYANGWE AMOS
DEPUTY HEAD TEACHER ACADEMICS
NANSEERA SECONDARY SCHOOL

CC: -BOARD OF DIRECTORS
-ALL ADMINISTRATORS
-ALL STAFF MEMBERS
-STAFF NOTICE BOARD

AGENDA

This is an outline of the matters to be discussed in a meeting one after another.

This is always given to members in the meeting earlier to enable them prepare for the meeting.

Example of an agenda.

An agenda for an urgent staff meeting in Nanseera secondary school.

NANSEERA SECONDARY SCHOOL
P.O BOX 1122
MAKOKOTO
0758827188

Date: 11/04/2020

Agenda for a staff meeting to take place on 12/04/2020

1. Arrival of members
2. Receiving and recording of apologies for those absent.
3. Anthems

4. Opening prayer
5. Communication from the chair person.
6. Review of previous minutes.
7. Reports from heads of department.
8. Reactions on matters from 5,6, and 7
9. Way forward.
10. Closing prayer

Yours faithfully

.....

SIBIMANYI SERIOUS

STAFF SECRETARY

CC: -BOARD OF DIRECTORS
-ALL ADMINISTRATORS
-ALL STAFF MEMBERS
-STAFF NOTICE BOARD

Minute writing

These are taken during the meeting by the secretary. The secretary normally records resolutions. These are recorded the way they are communicated without changing meaning but in past tense.

Content of the minutes

1. Title.
2. Members present.
3. Members absent with apology.
4. Members absent without apology.
5. Agenda.
6. Minute1
7. Minute2
8. Minute3
9. Minute4 --- these minutes are written in the same order they are in the agenda.
10. Signature : the minutes are signed by the chair person and the secretary.

Example of minutes of a meeting

**MINUTES FOR AN URGENT MEETING TO DISCUSS THE ACADEMIC PERFORMANCE OF
STUDENTS IN NANSEERA SECONDARY SCHOOL HELD ON 12/04/2020 IN THE STAFF ROOM AT
11:00AM**

Members present

1. Kyangwe Amos - chair person
2. Sibimanyi Serious -secretary
3. Kagolole Ali
4. Kigembe Ronald
5. Nampeewo Sharuwah
6. Ssemakalu Fred
7. Nangonzi Zaitune
8. Enemisi Hellen
9. Nyesigamukama Danison
10. Ssekamatte Evalisto
11. Kisitu Alex
12. Nalweyiso Lukia

Members absent with apology

1. kanakulya Sharifu
2. Niwabiine William
3. Binega Ruth
4. Muganga Micheal
5. Ssozi Brian Peter

Members absent without apology

1. Dravuga Gift
2. Nassimbwa Florence
3. Namubiru Jane
4. Nakabuye Justine

AGENDA

- Receiving and recording of apologies for those absent.
- Anthems
- Opening prayer
- Communication from the chair person.
- Review of previous minutes.
- Reports from heads of department.
- Reactions on matters from 5,6, and 7
- Way forward.
- Closing prayer

MIN 1: Apologies. Apologies from the different members were received and recorded for their absence.

MIN 2: Anthems. The anthems were led by Ssekamatte Evalisto.

MIN 3: Opening prayer. The opening prayer was led by Enemisi Hellen who asked the almighty God to protect the members and guide them in whatever decision to take in the meeting.

MIN 4: communication from the chair person. The chair person thanked the members who attended the meeting for the cooperation due to the short notice that was given to them. In his communication, asked members to work hard in relation to improving students academic performance and he promised a reward to all those staff members who will come up with measures to improve performance.

MIN 5: Review of previous minutes. The minutes of the previous meeting were read to members by the secretary as the members were listening. At the end these were signed by the chair person and the secretary. In the end, all members agreed that it was a true record of the previous meeting.

MIN 6: Reports from heads of department. The reports from the heads of departments were read by the respective heads of departments and listened to by the rest of the members in the meeting.

MIN 7: Reactions on matters from 5, 6, and 7. A member reacted to the chair person's communication by suggesting to take action about those members who were absent without apology.

MIN 8: Way forward. It was resolved that all students will be given weekly assessment tests to make them get used to exams. On the same note, it was decided that study tours should be compulsory to all students.

MIN 9: Closing prayer. The closing prayer was led by Nampeewo Sharuwah who asked Allah for knowledge and wisdom and the ability to put whatever was discussed into practice for the good of the institution. She also wished members safe journeys back home.

Signed

Signed.....

CHAIR PERSON

SECRETARY

Date:.....

Date:

Report writing

This is written after an event or investigation. A report shows what took place (observation of the writer), objectives, method of research, recommendations (what should be done), conclusion e.t.c.

Content of a report

1. Title of the report

2. Reason
3. Introduction
4. Observation/findings
5. Conclusion
6. Recommendation
7. Signature

Example of a report

A sales report for the month of march 2020 by the sales manager of IM Stationers and Computer Center

IM STATIONERS AND COMPUTER CENTER



P.O BOX 22330
MITYANA
TEL: 0758827188

We deal in all stationery and computer equipment and training.

Date: 02/04/2020

To:

MANAGING DIRECTOR

IM STATIONERS AND COMPUTER CENTRE

Dear Sir/Madam

Re: **SALES REPORT FOR THE MONTH OF MARCH 2020**

Introduction

This report analyses the sales of the organization for the month of March 2020 as observed by the sales manager throughout the stated period of time.

Findings of the report

The following have been observed during the month of March 2020 concerning the sales of the organization.

- The sales of the business were high at the beginning of the month because stationery items were still highly demanded by the scholars.
- In the middle of the month, the sales of the business reduced due to the poor distribution of goods reason being poor transport brought by the heavy rain fall.
- The supply of poor quality chalk due to the poor mixture of the ingredients, the sales reduced towards the end of the month.

- The above problem led to high losses in the business and also a high volume of returns in the business from the different customers.

Conclusion

In conclusion ,the sales of the business were high due to the high demand for stationery materials by scholars but also highly affected by the heavy rain fall in the mid of the month and the supply of poor quality chalk.

Recommendations

- There is need to highly inspect the production process more especially of chalk
- There is need to take measures against the changes in the weather conditions so that they do not affect our sales
- There is need to advertise our product to customers so as to attract more customers and increase our sales.
- Product promotions should be carried out in order to increase awareness among our customers.

Prepared by:

.....

MBUZI KIMEEME
THE SALES MANAGER

Note:

- I. In the report, the writer can include figures and calculations in the findings and other estimates if possible.
- II. Tables can also be included in the report in order to compare certain findings in the report for example the highly selling products of the organization can also be shown.

IMPORTANCE OF EFFECTIVE COMMUNICATION TO AN ORGANIZATION

1. Enables an entrepreneur to instruct workers about any change of policy.
2. It improves the understanding between the entrepreneur and the employees.
3. It enables the entrepreneur to establish a good reputation.
4. It keeps the general public informed about the activities and services of the business.
5. The business gets informed about what customers want and what they don't want.
6. Communication gives the business better business prospects which attracts more customers.
7. It enables the organization to clarify confusing issues from within the business and outside the business.

8. Effective communication enables the employees to communicate the breakdown of machinery equipment and tools.
9. It enables employees to coordinate more effectively in the business.

BARRIERS TO EFFECTIVE COMMUNICATION IN BUSINESS

1. Use of inappropriate medium.
2. If the information is not communicated clearly by the sender.
3. Use of a very difficult language by the sender of the message more especially use of technical terms that cannot be understood by the receiver.
4. If the message is too long or too detailed this can prevent the major details to be understood.
5. If the sender communicates a wrong message or to a wrong person.
6. When there has been misleading information before the communication.
7. When there is a breakdown in the media of communication used.
8. Long geographical distance which can hinder effective communication.
9. When the message is changed by the intermediaries.

SAMPLE QUESTIONS (PROJECT MANAGEMENT)

1. You and two friends have pooled Shs 20,000,000/= to start a partnership business:

- (a) If 50% of the money is meant for working capital, prepare a budget for working capital of the business.
- (b) Draft a partnership agreement for your business.
- (c) Describe the methods you will use to promote sales in your business.
- (d) Under what circumstances may a partnership be dissolved?

2. You are a farmer and have won a Shs.10 million contract to supply poultry products to UHURU Hotel:

- (a) Prepare a Marketing budget of shs. 4,000,000 for one month.
- (b) Prepare a Delivery Note for the initial supply of the products.
- (c) Develop terms and conditions to be included in the contract with UHURU Hotel.
- (d) Design an invoice to be used in the contract.

3. You are operating a small scale business dealing in the production of metallic products and you have found it necessary to expand it using a loan obtained from your bank:

- (a) Prepare a financial plan for your business.
- (b) Draw up a weekly distribution schedule for your products.
- (c) Given that the expanded business requires more employees, prepare a job advert for the post of purchasing manager.
- (d) Design a program for the induction of the newly recruited employees.

- (e) Prepare a loan repayment schedule given the loan amount 20,000,000/= to be paid in four equal installments at an interest rate of 10% per month using the reducing balance method.

4. You have been given 15,000,000/= to start a chalk making and selling project in your locality.

- (a) Write a letter to the town clerk asking for permission to operate the business in his area.
- (b) Design a sign post to be used for directing customers to your project.
- (c) Formulate a receipt to be used in case of cash sales.
- (d) As the managing director, write a Memo to the sales manager asking for sales records
- (e) Write an inquiry to the supplier of raw materials
- (f) Write a quotation to your customer.
- (g) Prepare a pre- operational budget for the project
- (h) Draw a plant layout for the business.