

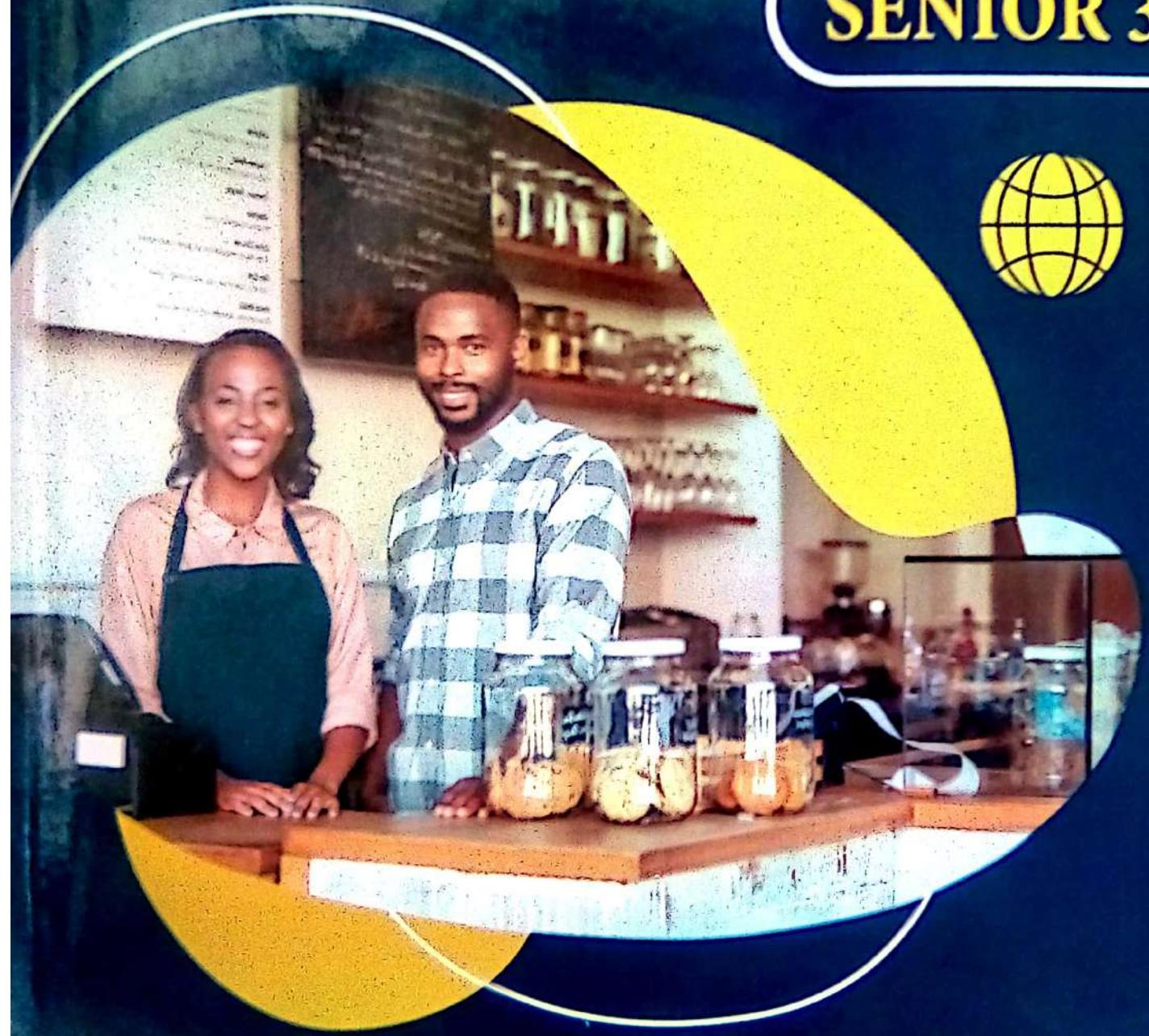


Good Luck  
Publishers Limited

# ENTREPRENEURSHIP

## LEARNER'S BOOK

SENIOR 3



## A CKNOWLEDGEMENT

Any educational book can reach its logical end only with the support of one's peers and experienced content writers. We are grateful to our authors for taking up this challenging task and completing it on schedule. The editorial team and reviewers also need a mention here for burning the midnight oil and working long hours to ensure the completion of this book. We sincerely hope this book meets with the expectations of the curriculum as well as the student fraternity.

Our sincere thanks to one and all who helped us in the making of this book. Their experience and valuable inputs have contributed immensely and deserve every success.

# PREFACE

*Entrepreneurship Learner's Book Three* has been written in accordance with and in conformity to the Lower Secondary School Curriculum that was rolled out in 2020. The knowledge and skills provided in this book will help you to meet the challenges of being a competent entrepreneur of the twenty-first century.

Learner's Book Three is a continuation of Learner's Book One and Two, to which you were introduced in S1 and S2 respectively. The element of business planning, bookkeeping and tax administration makes this book ideal for you to prepare for your future careers in different business-related environments.

With the aim to provide you with an experiential and competence-based approach to learning, the textbook has been written in interactive style.

Each chapter begins with an introduction in which the competency is clearly stated. Learning outcomes and keywords at the beginning of each sub topic are followed by explanatory text in simple straightforward language, learning activities, and useful illustrations, images and case studies. A sample activity of integration has also been provided at the end of each chapter.

*Entrepreneurship Learner's Book Three* gives you the opportunity to appreciate business and self-employment as a career.

# NOTE TO THE LEARNER

Uganda's Vision 2040 and the National Development Plan II (NDP II) emphasises the importance of developing our ability to use the technologies available to us, both emerging and traditional, in order to build our society.

*Entrepreneurship Learner's Book Three* is written in conformity with the Rationale for Entrepreneurship Education, which is to enable you to attain skills and develop the competencies to contribute to creation of employment opportunities for self.

This book has activities that have been designed to enable you to develop and attain the knowledge, understanding, skills, values and attitudes required in the 21<sup>st</sup> century to solve societal problems. The activities provided in this book will help you to build your ability to identify idle resources in the community and put them to proper use to make a productive living, which will help you to increase not only your own but also other people's standard of living.

It will give you the skills, values and attitude to scan the environment for possible opportunities and resources. It will help you identify a viable business venture, start it up, manage it and use the support services available to run the business effectively and successfully.

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# BUSINESS PLANNING



Figure 1.1: A business planning meeting

## INTRODUCTION

In this chapter, you will be able to prepare a business plan for a selected business. On a step-by-step basis, you will develop a business plan based on a business of your own choice that you will have identified or wish to take up as a career. You will also prepare an action plan for implementing the business plan you have developed. You will then appreciate the principles of good business ethics and know how to care for customers, how to attract them to your business and how to retain them in your business.

## 1.1. A BUSINESS PLAN

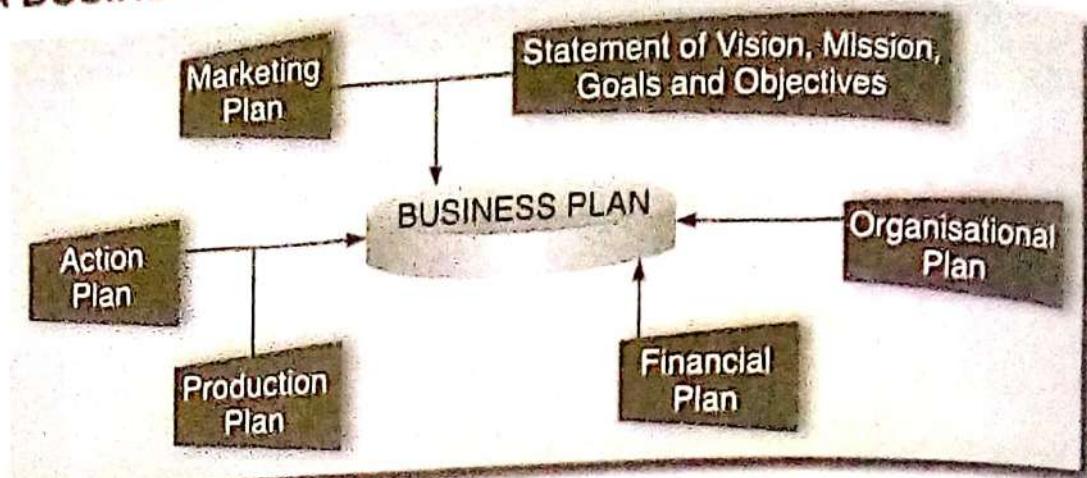


Figure 1.2: Important aspects of a business plan

### KEYWORDS

- ▶ business plan
- ▶ stakeholders
- ▶ networking
- ▶ etiquettes

### LEARNING OUTCOMES

By the end of this sub topic, you should be able to:

- (a) understand the purpose of a business plan.
- (b) use a business plan to plan a business and share with different stakeholders.
- (c) carry out networking on business development and related etiquette.
- (d) use the internet purposefully to browse relevant information about business plans.

Planning is deciding what to do, how to do it and when to do it. This is very important for any activity if it is to be completed successfully. Remember, "Failure to plan is planning to fail".

Likewise, before you start any business, you need to think of the kind of business you want to start, what purpose will it serve, how you will produce or get stock, what are the production requirements, how you will market your products, what are the labour requirements, who are the people that will work in the business, what is the total cost of starting and operating the business, and when will the business start.

The process of thinking about these questions and finding answers to them is known as **business planning**. When these are written down, then the written document is known as a **business plan**.

### 1.1.1. Usefulness of the Business Plan

A business plan is useful for all people who have interest in the business. These people or groups of people or all those who depend on the business directly or indirectly are known as **stakeholders** since the business involves them or depends on them in some way or another. Some of these stakeholders are:

- (a) Entrepreneurs      (b) Management      (c) Employees
- (d) Government      (e) Investors      (f) Suppliers
- (g) Customers

A business plan is used internally and externally by different stakeholders. Since (a), (b) and (c) are internal to business, they are known as internal users, while (d) to (g) are external users as they are external to the business.

#### Activity 1.1

In your groups, use the school library and internet resources to:

- a. Find out the different forms of business plans.
- b. Discuss the usefulness of a business plan to the different stakeholders.
- c. Present your findings to the class.

### 1.1.2. Networking for Business Development

Development of any business requires establishing, maintaining and developing relationships. **Business networking** is a way of developing relationship and contact with other people in the same business, and with



Figure 1.3: Entrepreneurs meeting for the purpose of networking

potential clients and customers. It provides many advantages to small business such as sharing of knowledge, boosting sales, and building brand awareness.

## What Is Networking for Business Development?

Networking helps the business to grow as it gives a ready group of experts. Taking advice and business experience from others helps one to know many aspects of the business before investing precious time and money. Sometimes, networking also helps in finding partnerships and identifying expansion areas for the business.

### Ways to Network

When an entrepreneur meets similar business owners, he/she realises that they have similar experiences to share. It boosts their morale, besides gaining knowledge and resolving doubts through healthy discussions. Attending events where mutual exchange of ideas is done through conversations, literature sharing and expert opinions are different ways to network. Networking may take the following forms:

(a) **Seminars:** Gatherings for exchange of ideas with experts and experienced people.

(b) **Networking Groups:**

These help in exchange of information and ideas and support entrepreneurial thinking. WhatsApp, Twitter, Zoom, Google Meet, Facebook, Instagram, Telegram, among others are examples of large networking groups that bring together professionals.

(c) **Professional Associations:** Like-minded people such as accountants, doctors, lawyers, teachers, among others often form associations or groups. One can become a member by paying a fee or through registration.



Figure 1.4: Examples of networking groups

## **Etiquettes of Networking**

One must keep aside time to attend seminars, retreats, talks or to be a volunteer in an event. Do not under-estimate the potential of these events. Be prepared to converse whenever you have the opportunity, so that a good impression is formed. When meeting someone, you should:

- (a) introduce yourself with confidence and make eye contact.
- (b) when introducing yourself, let them know who you are and what you do.
- (c) have a business card handy and drop it in the visitor's box, and give it to those who ask for your contact details.
- (d) avoid the use of phone because it can cause distraction and make you lose focus on the discussion.
- (e) avoid looking here and there and maintain eye contact through the entire conversation.
- (f) be a good listener by listening more than you speak.
- (g) avoid first names, unless the person gives you permission to do so.
- (h) maintain a system to follow-up with the contacts at least once a month.
- (i) brand yourself and your business in social media, ensuring a notable presence and engage in self-promotion.
- (j) if you can, create common platforms, keep it updated, and be active in regularly posting current topics and business-related news.



Figure 1.5: Exchanging business cards

## Activity 1.2

In your groups:

- Conduct a role play among yourselves on how networking can be achieved. Each member takes the position of a different personality from the other. Note that you have all met for the first time, so make your dialogues on business networking as interesting as possible.
- Discuss the benefits of networking with other businesses in and outside your community.
- With the help of examples where possible, describe the features of successful networking.
- Present your work to the plenary.

## • Self-Assessment 1.1

A bank in your local area has selected you to go and sensitise its potential customers who are planning to start their businesses.

- Prepare a leaflet that you will distribute to them, showing the importance of developing a business plan.
- Present your findings to the plenary.

## 1.2. PREPARING A BUSINESS PLAN

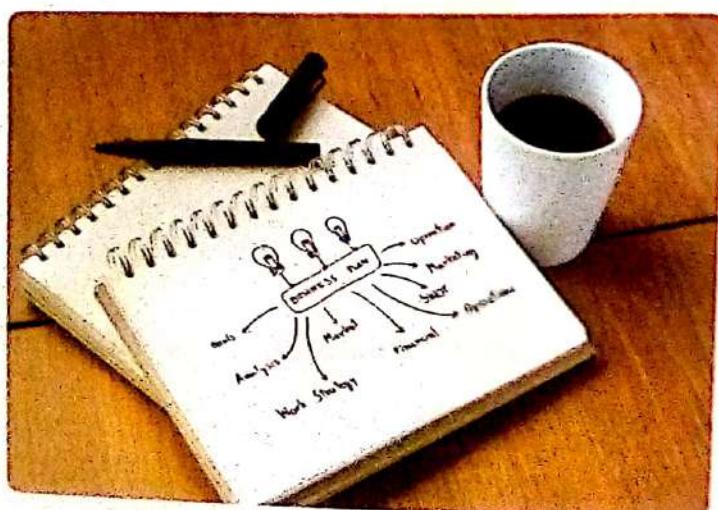


Figure 1.6: Preparing a business plan

**KEYWORDS**

- cash flow
- SWOT analysis
- vision statement
- mission statement
- goal and objectives
- production plan
- marketing plan
- organisational plan
- financial plan

**LEARNING OUTCOMES**

By the end of this sub topic, you should be able to:

- (a) understand the steps in preparing a business plan.
- (b) understand the importance of cash flow in processing and manufacturing.

A good business plan is one which gives good results to the entrepreneur. The plan must take care of most of the aspects a business and has to be prepared after thorough research. Everything concerning the business has to be well thought through in detail.

### 1.2.1. Steps Involved in Preparing a Business Plan

A good business plan requires you to undertake different actions in a step-by-step manner. This will ensure that you are better prepared to run the business successfully. These steps have been summed up in a flowchart as follows:



Figure 1.7: Steps to be followed for the preparation of a business plan

**Activity 1.3**

In your groups:

- a. Discuss in detail, the steps involved in preparing a business plan, giving specific examples.
- b. Discuss how each step is important in preparing a business plan.
- c. Present your findings to the rest of the class.

### 1.2.2. Contents of a Business Plan

Entrepreneurs carry out different businesses. Therefore, the contents of a business plan may vary depending on the business. For example, a trading business will not have a section for production requirements (production plan). However, all business plans have certain contents that are common. These must be written and presented by the entrepreneur. Let us understand each of these sections of a business plan one by one in detail, and you will prepare the business plan of a selected business of your own choice in your groups. You will prepare one by one component until it is prepared in totality.

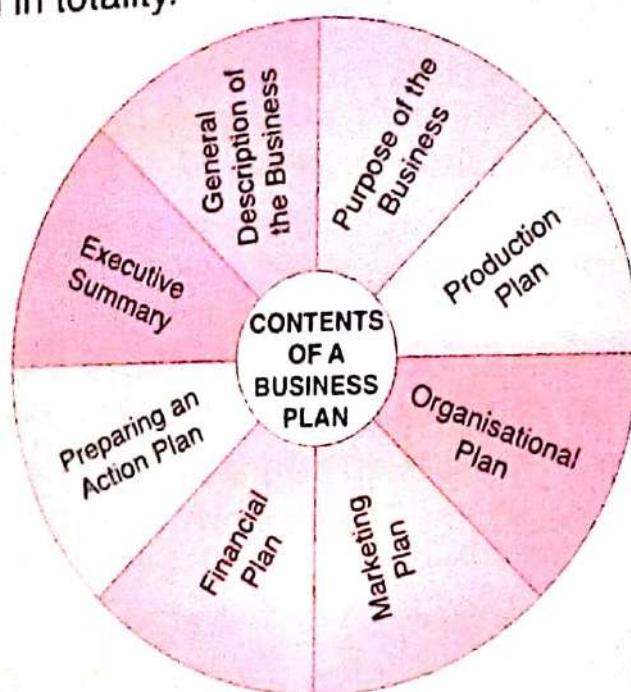


Figure 1.8: Chart showing contents of a business plan

### 1.2.3. Executive Summary

Executive summary is a section of a business plan that covers the business overview, that is to say, what your business is all about.

It summarises a longer detail of a proposed business in a way that readers can know what your business is about, without having to read it all. When writing an executive summary, you should not exceed two pages.

#### Activity 1.4

In your groups, select a business of your choice and:

- Write down the elements of an executive summary of the business you have chosen.
- Present your findings to the rest of the class.

## **1.2.4. General Description of the Business**

This section of the business plan describes in detail what the business is all about. It includes:

**Name and address of the business.** This states the name of the business, its postal address and business contacts.

**Business location.** This refers to the physical area where the business is to be established.

**Statement** of its vision, mission, goals and objectives.

**Products to be offered.** This is the goods/services the proposed business intends to put on market.

**Nature of the business.** A business can be a trading business, manufacturing business, service business or agri-business.

**Legal form of business ownership.** A business can be sole proprietorship, partnership or a Joint Stock Company.

**Uniqueness of the business.** These are the features that make a business different from the existing ones. These can be in form of experience of the owner, the quality of the product to be produced, the strategic location of the business, the production process, among others.

**Sources of funds for the proposed business.** Here, an entrepreneur provides information on where he/she expects to get the funds from, for example, personal saving, loan credit, through purchase or sale of shares, among others.

**Business assets.** These are the possessions of the business. An entrepreneur describes the nature of these assets, e.g. fixed assets and current assets.

### **Activity 1.5**

In your groups:

- a. Select a business of your own choice.
- b. Prepare a general description for the business of your own choice.
- c. Present your findings to the class.

## **1.2.5. Statement of Vision, Mission, Goals and Objectives**

Having a purpose for the business is very important. It enables the owner to understand where the business is coming from, where it is now, where he wants it to be in future and how to reach there.

The purpose of the business is specified in terms of its **mission**.

### **(a) Vision**

Vision is defined as the mental image or picture of a preferred business in future, either for the individual or for an organisation.

One of the strong pillars of a vision are the core values.

- **CORE VALUES:** These are the guiding principles, or what the organisation stands for. An organisation is based on certain core values that shall remain integral to the organisation. Examples of core values are:

- |                    |                     |
|--------------------|---------------------|
| (i) Honesty        | (ii) God-fearing    |
| (iii) Discipline   | (iv) Accountability |
| (v) Responsibility | (vi) Teamwork       |
| (vii) Excellency   |                     |

**Example of a vision statement:** "To be one of the country's leading producer or provider of quality bread." Or, "To create local opportunity, growth and impact in every community around the country."

### **(b) Mission**

Mission is defined as the fundamental, unique purpose that sets a business apart from other businesses of same type. It identifies the scope of its operation in product and market terms. Mission refers to the essential purpose of an enterprise concerning why it is in existence, the nature of the business, and the customer it seeks to serve and satisfy.

**Example of a mission statement:** "To be Uganda's best fast-service restaurant at winning and keeping customers."

### (c) Objectives

These are specific targets that the business sets to achieve in a specified time usually within a year. For example, "To increase sales by 20% in 3 months" or "To increase profits by 10% in 2 months".

#### Characteristics of a Good Objective

- **Specific:** A good goal should clearly and precisely outline what is to be achieved so as to be properly understood.
- **Measurable:** A good goal should have indicators that help to determine whether it is being achieved or not.
- **Achievable/Attainable:** A good goal should be generally possible.
- **Realistic:** A good goal should be in line with available resources and capacity of the entrepreneur.
- **Time bound:** A good goal must have a timeframe within which it should be achieved.

#### **Activity 1.6**

In groups, visit businesses around the school community.

- a. Find out the vision, mission, goals and objectives of these businesses.
- b. Discuss the importance of each of the above in business.
- c. Refer to the business you chose in Activity 1.5 and develop its vision, mission, goals and objectives.
- d. Present your findings to the class.

#### **1.2.6. SWOT (Strengths, Weaknesses, Opportunities and Threats) Analysis**

In planning your business, you will need to ask yourself some important questions, like: What strong points do I have over my competitors? What weaknesses do I have? What about things threatening my business? What opportunities do I have?

All these can be summarised in abbreviation as SWOT, where **S** stands for Strengths, **W** stands for Weaknesses, **O** stand for Opportunities and **T** stands for Threats.

### 1.2.7. The Production Plan

Before producing goods or services, you will have to make analysis of the requirements for producing the proposed goods or services. When this analysis is written down, it is called **production plan**.



Figure 1.9: Components of a production plan

Some components of a production plan include:

- Tools, Equipment and Machinery: List of equipment, tools and machinery needed in the production process. They are primarily used to put things together (e.g. hammers and nail guns) or to take them apart (e.g. jackhammers and saws).
- Raw Materials: The materials used in the production of products.
- Labour requirements: The number of workers, their skills and wages offered.
- Waste Disposal: This is where the waste materials are to be disposed.
- Plant Capacity: The output of the production machinery in business.
- Transport means: How the finished goods and material shall be transported.
- Packaging: The materials to be used for goods in the business.

### Activity 1.7

In your groups:

- a. Select a manufacturing business of your choice and draw a chart illustrating its production flow process.
- b. Prepare a production plan for the business of your choice.
- c. Discuss the purpose of writing a production plan while preparing a business plan.
- d. Present your work to the rest of the class.

#### 1.2.8. The Organisational Plan

After you come up with a business idea and plan to start the business, you first plan its description and the production plan. Then, you plan for its organisation. For this, you need to think about the following:

- (a) Kind of work or tasks to be performed in the business.
- (b) What kind of workers do you need for the business to execute the task?
- (c) How many people do you need to employ in your business?
- (d) What duties will you give to each of the workers employed?
- (e) How much will you pay them?
- (f) What qualifications do the workers need to possess?

When you answer the above questions ably, it means you are planning for the organisation of the business.

This section of the business plan that shows the personnel needs and requirements of the business is known as the **organisational/management and administrative plan**. It is important to have the following included when making organisational plan:

#### Contents of an Organisational Plan

**Total number of workers needed in the business.** Here the entrepreneur highlights the number of skilled and unskilled workers that the business is to employ, their positions and requirements.

**Tasks and duties to be performed.** These are the activities that the workers are to perform in their respective positions. Hence, when preparing management plan, the activities to be performed by each position should be described in order to reduce workers' conflict and duplication of work at the workplace.

**Knowledge and skills required.** This refers to the way an entrepreneur will gather information and use it to run the business. For example, computer, communication, decision-making skills.

**Monitoring and evaluating the workers' performance.** Whether workers are coming and leaving on time, are they giving a quality output, how is their work ethics, etc.

**Salary of workers.** This refers to the total labour cost that an entrepreneur is to pay for each category of workers in form of salaries, wages and fringe benefits.

**Fringe benefits given to workers in their respective positions.** These can be in monetary terms or in the form of goods and services that a worker is to enjoy while performing his/her duties and responsibilities.

**Organisational structure.** This shows the hierarchy of authority, reporting relationships and the flow of communication from top to bottom. It is illustrated with the help of an organisational chart, which clearly shows the reporting line or specifies who reports to who.

An organisational chart shows the hierarchy of authority and the flow of communication from top to bottom.

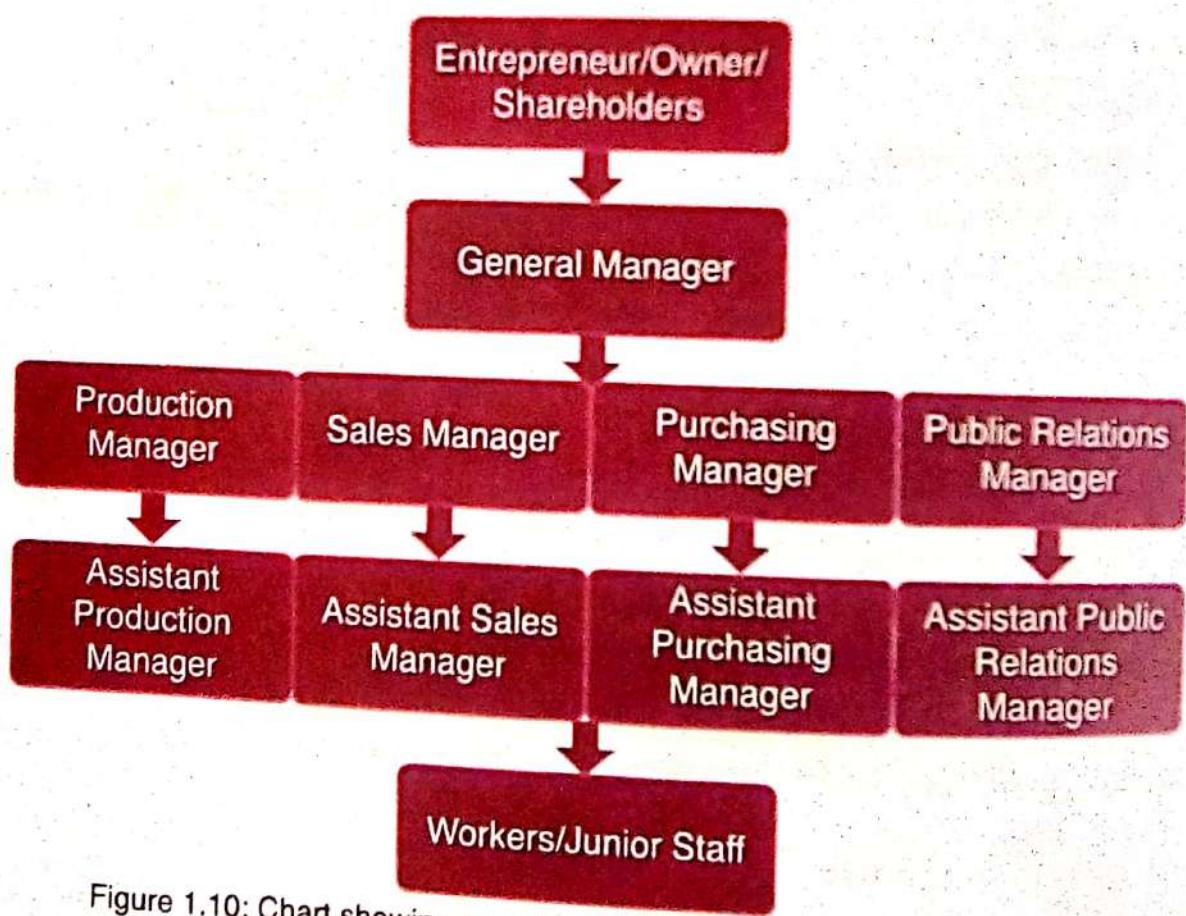


Figure 1.10: Chart showing sample organisational structure of a business

### **Activity 1.8**

In your groups:

- a. Prepare an organisational plan for the business you chose in Activity 1.5.
- b. Discuss why it is important to prepare an organisational plan for a business.
- c. Present your work to the rest of the class.

### **1.2.9. The Marketing Plan**

When preparing to start a business, you will need to find out where and to which people you will sell your goods or services. You will also need to know who your competitors are and at what price you will sell your products. All these will be analysed in what is known as **marketing planning**. When it is written down, it is called a **marketing plan**.

#### **SAMPLE OF A MARKETING PLAN**

NATUKUNDA BAKERY

P.O.BOX. 123, MBARARA

#### **MARKETING PLAN OF QUALITY BAKERY**

1. **Target market.** Quality Bakery targets the students of Mbarara University of Science and Technology, secondary schools and primary schools, residents of Mbarara, Kashari and surrounding areas. These need the products on a daily basis for breakfast.
2. **Products to offer.** The project offers products like bread, cakes, mandazi and cookies. These are packed in plastic bags and paper bags.
3. **Position and analysis of competition.** There are few competitors near the area, the nearest being Tuweza Bakery in Kashari and Kamukamu Bakery in Mbarara. All these produce poor quality and sell small quantities at high prices.
4. **Pricing strategy.** The prices set are slightly above the cost of production but lower than those charged by the competitors. Quality Bakery reviews its prices monthly after assessing the market behaviour.

5. **Sales promotion strategy.** It advertises on radios and television channels like TV West, NBS, NTV. It uses attractive branding and packaging which attracts the buyers' attention. It gives free samples and discounts to those who buy in large quantities. It also gives brochures, business cards and fliers.
6. **Distribution strategy.** The products are sold to those who come directly to the factory. It uses delivery agents to deliver the products to distant places. It also sells the products through sales outlets in different places.
7. **Projected marketing expenses.** The business incurs costs of radio and TV advertisement, branding, brochures, transport, delivery, samples, and commission.
8. **Sales targets.** The estimated sales revenue is Shs 5,000,000 per month.

### Activity 1.9

In your groups, use internet resources or the school library and conduct a research on the marketing plans of different businesses and perform the following tasks:

- a. Prepare a marketing plan for the business you chose in Activity 1.5.
- b. Discuss how a marketing plan is important in a business.
- c. Present your work to the rest of the class.

You will realise that in your marketing plan, you have to show who your target customers are, where they are located and their needs. You have also to include the products you will offer and how unique they will be. You have to show the level of competition, who the competitors are, the pricing of your products, how you will promote them and how they will reach the target customers, plus all the expected marketing expenses.

#### 1.2.10. The Financial Plan

When planning to start a business, you need to find out the financial requirements of the proposed business, find out the total costs involved, the source of business funds, the expected cash flow and the projected profitability so as to determine whether the business is profitable and

worthy investing in or not. This analysis is what is known as financial planning and when it is written down, it is called a **financial plan**.

The financial requirements of a business are categorised into three:

- i. Fixed capital requirements, such as acquisition of land, construction of building, machinery, furniture, motor vans, among others.
- ii. Working capital requirements, such as purchase of raw materials, payment for labour, advertising, utilities, among others.
- iii. Pre-operating expenses, such as recruitment of workers, market research costs, among others.

However, some requirements may fall under both pre-operating expenses also known as start-up expenses and working capital requirements because they are necessary to be carried out regularly in order to meet the ever-changing needs of the customers. For example, market research expenses, interest expenses, and technological expenses.

### Contents of a Financial Plan

The contents of a financial plan include but are not limited to the following:

**Fixed capital requirements.** These include financial estimates of acquisition of land for establishment, costs of construction, purchase and installation of machinery and equipment, among others.

**Working capital requirements.** These are expenses incurred on day-to-day activities. These include purchase of raw materials, direct labour expenses, administrative expenses, utilities (power, water, telephone) expenses, transport costs, among others.

**Expected source of business funds.** Here, an entrepreneur describes or explains where he will get the cash for investment from. The common sources of funds for most entrepreneurs include personal savings, bank loan, credit purchases, family fund, sale of property, and others.

**Estimates of sales.** These are estimates of what the proposed business is to sell per day or per week or per month. These projections help to prepare for production and purchase of raw materials.

**Expected profits over a specific period of time.** This is determined by subtracting the cost of sales from the revenue.

**Periodic cash flows.** These are projections of cash inflow (cash expected to come into the business) and cash outflow (cash expected to be paid out by the business) of the business for a given period of time.

**Break-even analysis.** Break-even refers to the number of units an entrepreneur should produce and sell in order to cover the operating costs. It is the point at which costs, or expenses, are equal to the revenue.

**Rate of return on investment.** This describes what the entrepreneur gets after investing the capital in the business.

### Sample Financial Plan

NATASHA ENTERPRISES

P.O. BOX 234, KAMPALA

TEL: 041423445456

**a. The cost of the business is as follows:**

Distribution of costs

<b>I. Fixed capital requirements</b>	<b>Amount (Shs)</b>	<b>Amount (Shs)</b>
Acquisition of land	1,500,000	
Construction of structures	2,000,000	
Purchase of machinery	2,000,000	
Purchase of equipment	1,500,000	
<b>Sub total</b>		<b>7,000,000</b>
<b>ii. Pre-operating expenses</b>		
Installation of electricity	700,000	
Installation of water	200,000	
Acquisition of a license	100,000	
<b>Sub total</b>		<b>1,000,000</b>
<b>iii. Working capital requirement</b>		
Raw materials	3,000,000	
Direct labour costs	800,000	
Administrative costs	200,000	
Marketing costs	200,000	
Indirect labour costs	500,000	
Transport	300,000	
Interest on loan	1,000,000	
<b>Sub total</b>		<b>6,000,000</b>
<b>GRAND TOTAL</b>		<b>14,000,000</b>

**b. Sources of funds includes:**

- Personal savings	Shs	10,000,000
- Donations	Shs	5,000,000
- Loan from Housing Finance bank	Shs	10,000,000

**c. Profitability of the business is as follows:**

<b>Details</b>	<b>Amount (Shs)</b>
Estimated sales per month	30,000,000
Less Estimated cost of sales	15,000,000
Estimated gross profit	15,000,000
Less Operating expenses	3,200,000
Estimated net profit	12,000,000
<b>d. Estimated cash inflows</b>	<b>20,000,000</b>

**Activity 1.10**

In your groups:

- Discuss the financial requirements of the business you chose in Activity 1.5.
- Prepare its financial plan.
- Present your work to the plenary.

### 1.2.11. Importance of Cash Flow in Processing and Manufacturing

**Cash flow** is the money that is moving (flowing) in and out of one's business in a given period.

The main source of cash coming into the business is the owner's capital, and money coming in from customers who are buying the products. If customers do not pay at the time of purchase (debtors), some of the cash flow will come from collections of debts.

Cash goes out of the business in the form of expenditures, such as purchase of fixed assets, buying raw materials, payment of rent, taxes, etc.

If more cash is coming in than going out, the business is in a 'positive cash flow situation'. It is called a **surplus net cash position**.

In case more cash is going out than coming in, the business is in danger of falling short of cash. It is called a **deficit net cash position**.



Figure 1.11: Hands showing inflow and outflow of money

The first six months of a business are a crucial time for cash flow. The entrepreneur needs to understand the important role played by cash flow in processing and manufacturing a product or service. Suppliers often won't give credit to new businesses, while the customers may want to buy on credit, giving the entrepreneur a challenge in cash flow management.

Proper management of cash received from customers leads to success of a business. Many businesses today have transformed themselves and operate globally due to a good cash flow management.

Note that cash will flow out of the business at manufacturing stage. For instance, when buying fixed assets, buying raw materials, paying direct labour related expenses, etc.

### Importance of cash flow in business:

- It helps the entrepreneur to determine whether there is enough cash to meet the business needs that may arise from time to time.
- It helps the entrepreneur in decision making in case of cash shortages.
- It shows where the cash will come from and where it will go.
- It enables the entrepreneur to widen the source of funds.

### Sample Cash Flow Plan

The following information relates to Mukasa's books for the months of November and December 2021:

- (i) Monthly cash sales amounted to Shs 30,000,000 for both months.
- (ii) Monthly cash purchases of Shs 15,000,000 was made for both months.

- (iii) Business received a cash donation of Shs 5,000,000 in the month of November.
- (iv) The business obtained a loan of Shs 10,000,000 from Stanbic Bank in November.
- (v) Monthly cash purchase of raw material were to be maintained at Shs 3,000,000 for both months.
- (vi) The business purchased land at Shs 1,500,000 in November.
- (vii) Monthly salary bills were to be maintained at Shs 800,000 per month.

Task: Prepare the business cash flow plan for November and December 2021.

### SAMPLE CASH FLOW PLAN

Mukasa's cash flow plan  
for the months of November and December 2021

Details	Amount in November (Shs)	Amount in December (Shs)
Balance at start of month		24,700,000
<b>CASH INFLOWS</b>		
Cash sales	30,000,000	30,000,000
Donations	5,000,000	
Loans	10,000,000	
<b>Total cash inflows</b>	<b>45,000,000</b>	<b>54,700,000</b>
<b>CASH OUTFLOWS</b>		
Cash purchases	15,000,000	15,000,000
Purchase of raw materials	3,000,000	3,000,000
Acquisition of land	1,500,000	
Payment of salary	800,000	800,000
<b>Total cash outflow</b>	<b>20,300,000</b>	<b>18,800,000</b>
<b>Balance at end of month (Net cash position)</b>	<b>24,700,000</b>	<b>35,900,000</b>

**Hint:**

- Net cash position = Total cash inflows – Total cash outflows
- If the result is positive, the business enjoys a **surplus** cash position for the period in question.
- If the result is negative, the business suffers a **deficit** for the period in question.

### 1.3. PREPARING AN ACTION PLAN

**KEYWORDS**

- action plan

**LEARNING OUTCOMES**

By the end of this sub topic, you should be able to:

- appreciate the importance of an action plan and its relation to a business plan.
- prepare an action plan.
- use skills of making presentations with objects and animation.

After preparing a business plan, you have to prepare a timetable or a programme showing how the business being planned for will be implemented. This timetable shows which activities are to be implemented, when they are to be implemented, who will be in charge and the resources needed. Such a timetable is known as an **action plan**.

#### 1.3.1. How to Write an Action Plan

The following should be considered when writing or preparing an action plan:

**Identifying the goal** to be achieved. For example, increase sales by 20 per cent in the coming year.

**Forming a team** that will work towards achieving this goal.

**Assigning specific tasks to each team member** based on their individual skills. For example, if sales are to be increased, who will connect with other departments, who will promote advertising and who will take care of increased production, among others.

**Listing the action steps.** For example, advertising plan to be formalised, how much additional funds are allocated by the finance team to each department, among others.

**Assigning a specific timeframe** for each task to be completed. This involves estimating the required time to accomplish an activity. Ensure that time allotted is just enough for a given task in order to save resources.

**Assessing the work progress.** Who has completed the tasks, what problems are arising in completion, among others.

**Monitoring the results.** This is to assess the extent to which the action plan worked, which team members worked well as per schedule, and what were the weaknesses and failures, if any.

### SAMPLE ACTION PLAN

BUTTA CARPENTRY WORKSHOP

P.O. BOX 001, MBALE

TEL: 0704-992-098

Timeframe	Activity	Resources required	Person in charge	Indicators of success	Remarks
06/02/19 to 20/02/19	Selection of the site	Transport for team to see site; Engineer funds	Production manager	Site plan	
22/11/18 to 21/05/19	Obtaining funds	Collateral security	Financial manager	Funds on the account	
21/05/19 to 04/06/19	Purchasing land	Funds for purchasing land; Brokers & surveyors	General manager	Land title	
04/06/19 to 01/12/19	Constructing more buildings	Materials for construction; Engineer funds	Project manager	Completed building in place	
01/12/19 to 31/12/19	Installing utilities	Human resources; UMEME NWSC	Project manager	Flowing water, connected electricity	

01/12/19 to 31/12/19	Installing machines	Human resources	Project manager	Running machinery	
01/12/19 to 30/01/20	Recruiting workers	Funds for recruitment	Human resource manager	Employees in place	
30/01/20 to 29/02/20	Purchasing raw materials	Funds for purchasing raw materials	Production manager	Raw materials in place	
14/03/20	Starting normal production	Human resources	All depart- ments	Final products	

Prepared by:

GAI STEVEN  
(PROJECT PLANNER)

Approved by:

KABUYE FRED  
(GENERAL MANAGER)

**Note:** You will realise that the activities to be implemented should appear in a chronological form.

### Activity 1.11

In your groups:

- Use the business plan that you have developed and prepare its action plan.
- Present to the class how you would use the above action plan to implement your business.

### • Self-Assessment 1.2

You have obtained a loan of Shs 200,000 from Finca Bank to start a business of your choice.

- Identify a goal to be achieved.
- Prepare an action plan for the business.
- Present your action plan to the class.

## 1.4. BUSINESS ETHICS

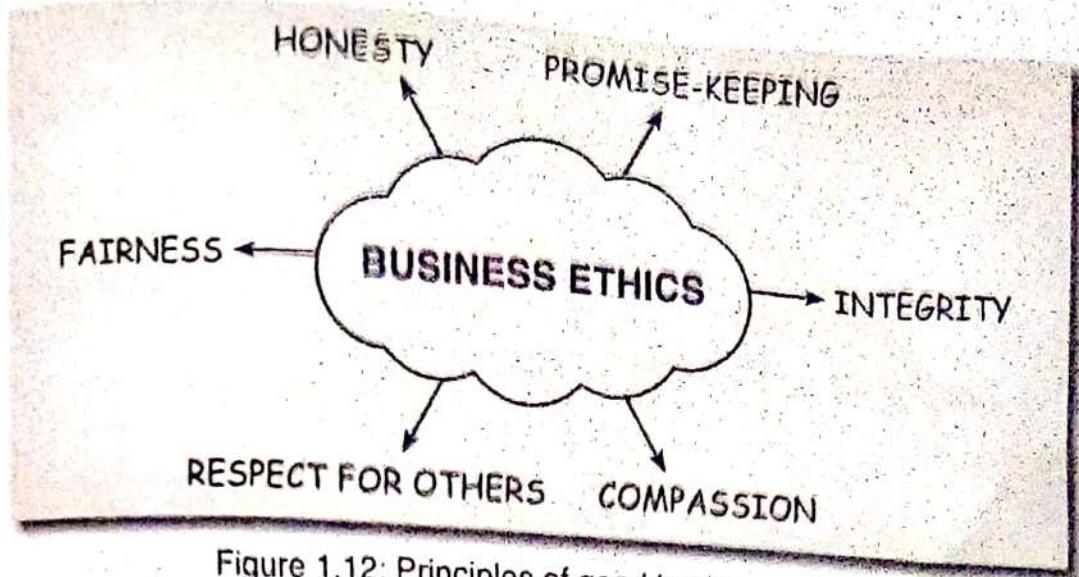


Figure 1.12: Principles of good business ethics

### KEYWORDS

- business ethics
- customer care
- customer attraction
- customer retention

### LEARNING OUTCOMES

By the end of this sub topic, you should be able to:

- (a) appreciate the principles of good business ethics.
- (b) understand ethical issues in relation to business development.
- (c) understand acceptable business behaviour towards customers, employees, society and government.
- (d) know customer attraction, customer care and customer retention.

In every society, there are a set of moral principles which are recognised in respect to a particular class of human actions or a particular group of people. These are called **ethics**.

Likewise, in businesses, there are acceptable ways/behaviour in which businesses should conduct themselves towards their customers, employees, society, government and competitors. These are known as **business ethics**. They are the virtues that businesses apply when making decisions.

### **1.4.1. Principles of Business Ethics**

When you start a business, you need to practice good business ethics towards your customers, workers, suppliers of goods, competitors and the government. Generally, the principles of good business ethics include but are not limited to the following:

#### **Honesty**

As an entrepreneur, you should be open to share information freely. You should not say things that are false when doing business.

#### **Promise-keeping**

You should always keep your commitments. You should not promise what you cannot do.

#### **Fairness**

You should create and follow a given process to achieve results that are reasonable and fair to everyone.

#### **Respect for Others**

You should value and honour the abilities and contributions of others while doing business with customers and suppliers.

#### **Compassion**

You should consider the needs of others and act to meet them whenever possible. You should minimise harm to others.

#### **Integrity**

This requires you to live according to ethical principles, even when faced with personal, professional and social challenges.

#### **Activity 1.12**

In groups:

- a. Discuss the ethical behaviours practiced in such businesses such as salons, cobbler, tailoring, bakery, mobile money, vegetable selling, etc. in your communities.
- b. With examples, explain the unethical conduct of business in your community.
- c. Present your work to the class.

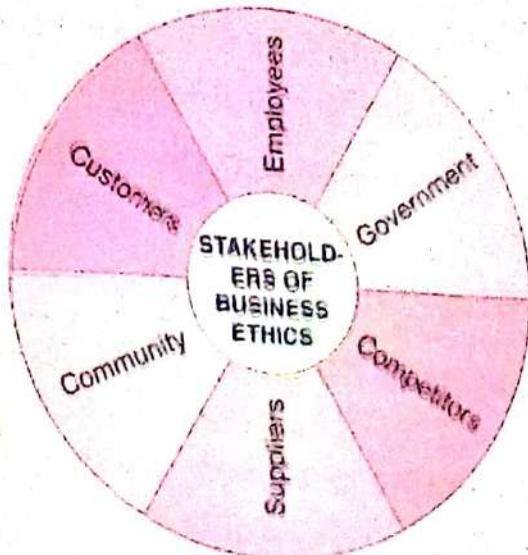


Figure 1.13: Examples of stakeholders of business ethics

### Activity 1.13

In your groups:

- Discuss some of the acceptable business behaviours towards:
  - Customers      • Employees      • Society      • Government
- Role play as business owners to demonstrate ethical and unethical business practices towards stakeholders mentioned in (a) above.
- Present your findings to the class.

### 1.4.2. Understanding Ethical Business Practices

#### Case Study

Margaret Alaso is a salon operator in Soroti City along the market lane. She has been in the business for three years and has attracted many customers within and outskirts of the city. In the first two years, she practiced good business ethics towards her customers by serving them on time, being honest, welcoming them warmly, charging affordable prices, using good quality products for her customers, etc. These made her business successful. However, in the third year, she started facing stiff competition from many salons that opened along the same lane. She started practicing unethical business behaviours, such as overcharging her regular customers, using expired and poor quality cosmetics to treat her clients' hair, using cold water to wash their hair, etc. Gradually, many customers stopped coming to her salon, citing unethical business practices towards them.

### Activity 1.14

In groups, read the above case study and:

- Identify the best solutions you can give Margaret Alaso to bring back her customers.
- Present your findings to the class.

You will realise that businesses do not develop as result of exploitation of customers or using unethical practices to achieve selfish interests, but as a result of good business practices.

Many businesses in your community practice unethical behaviours such as selling underweight products, expired goods, poor quality goods, use of wrong ingredients, etc.

### Activity 1.15

In groups, use the school library or internet resources, and:

- Show the benefits of doing business ethically.
- Present your work to the class.

### 1.4.3. Customer Care, Customer Attraction and Customer Retention

**Customer care** is where your business delivers its products in a way that is satisfying and pleasant to the customers.

Customer care is very important for every business. Therefore, every entrepreneur has to strive to ensure that business ethics and good customer care are practiced towards the different stakeholders in order to attract and retain customers.



Figure 1.14: Qualities of a good customer service

**Customer attraction** refers to attracting customers to the business by convincing them to buy the products and services offered by the business.

**Customer retention** is a number of activities a business uses to increase the number of repeat customers to increase profitability of each existing customer.

### Activity 1.16

In groups, think of a particular business.

- Brainstorm on the difference between customer attraction and retention in relation to the business selected.
- Role play in your class how you will attract and retain customers in your business, clearly demonstrating how the two will help in developing your business.
- Write your responses and present them to the rest of the class.

### Self-Assessment 1.3

In pairs, visit any business owners in your community to find out the ethical and unethical business practices they show to their customers.

Present your findings to the class.

### Sample Activity of Integration

Read the case study given below and answer the following questions.

In order to reduce the prevailing high levels of unemployment among the youths, the Government of Uganda has come up with a youth fund to provide capital to well-organised groups of youths that have a business plan. Your youth group has been chosen to get Shs 50,000,000 (fifty million only) for a carpentry workshop.

However, many youths do not know how and why to prepare a business plan, and hence have failed to access such funds.

You have been advised to strictly spend the cash on only the production requirements of the business. You have been given 6 months to have the workshop operational or else you risk losing the cash.



Figure 1.15. A carpentry workshop

**Task:**

You have been identified by the members of your group to help draft a report clearly having a production plan and the financial plan; and help to present the action plan for the proposed project.

## CHAPTER SUMMARY

In this chapter, you have learned what is business planning and a business plan. You have understood the purpose of preparing a business plan, its usefulness for different stakeholders, and the importance of business networking. You learnt step-by-step preparation of a business plan and its contents in detail. The importance of cash flow in processing and manufacturing, and preparing an action plan has also been explained. You have also understood the principles and importance of good business ethics, and ways to practicing good customer care, customer attraction and customer retention.

# INTRODUCTION TO PRINCIPLES OF ACCOUNTING

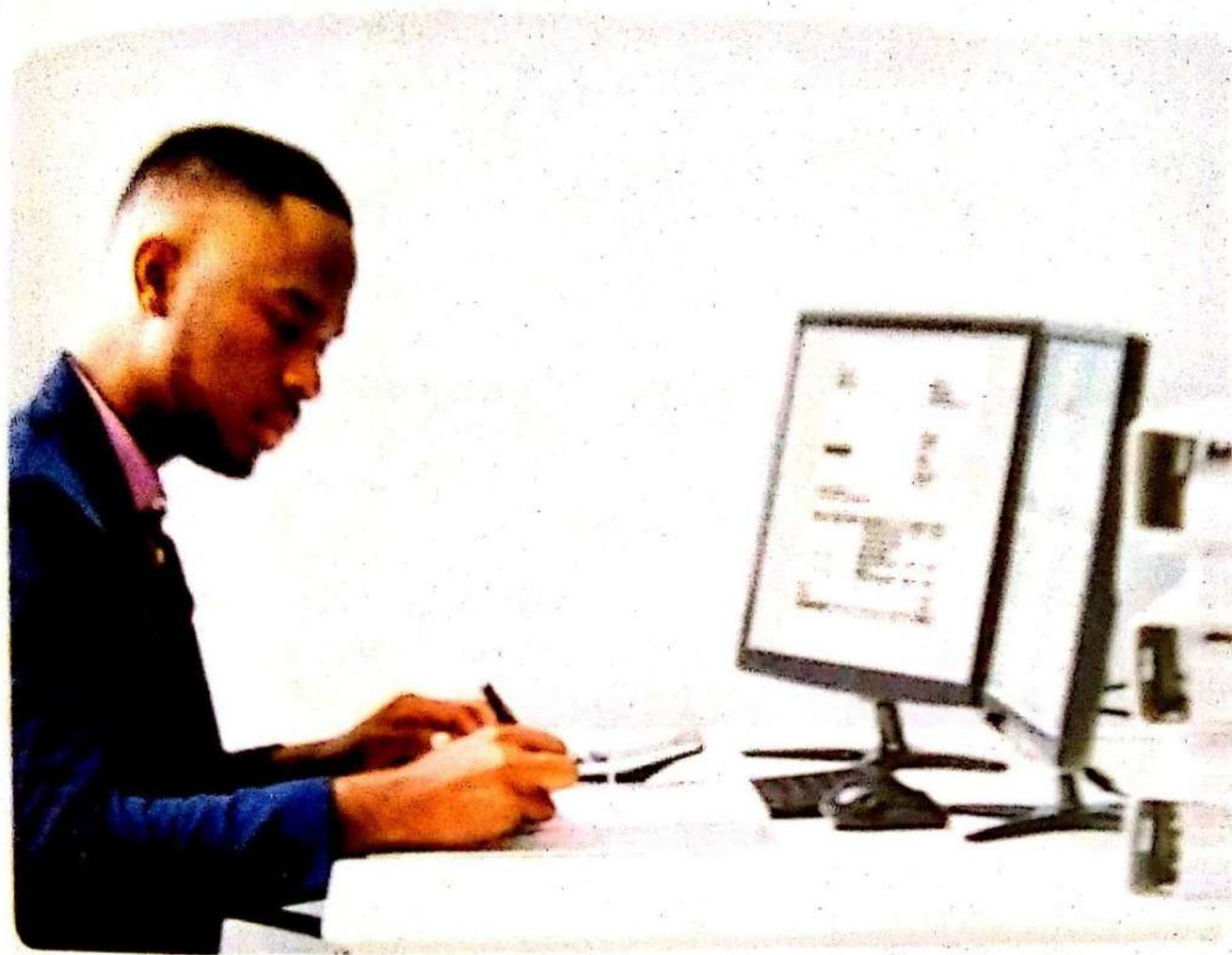


Figure 2.1: An accountant at work

## INTRODUCTION

In this chapter, you will be able to use relevant books of original entry to process financial information gathered from source documents. You will also understand bookkeeping and related accounts. You will also know a ledger, trial balance, statement of profit or loss and the statement of financial position.

## 2.1. BOOKKEEPING

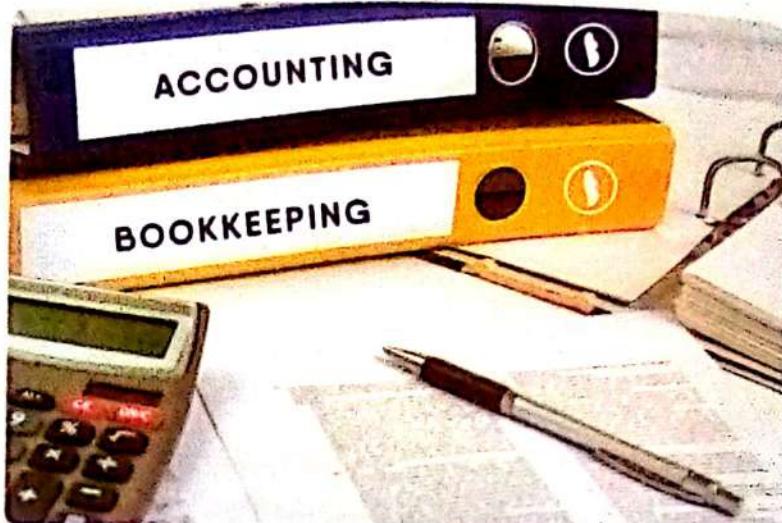


Figure 2.2: Bookkeeping vs accounting

### KEYWORDS

- bookkeeping
- accounts
- accounting
- transactions
- debtor
- creditor
- books of accounts
- capital
- spreadsheet

### LEARNING OUTCOMES

- By the end of this sub topic, you should be able to:
- (a) understand bookkeeping and related accounts.
  - (b) appreciate the importance of bookkeeping and demonstrate the skill of cost accounting using spreadsheets.
  - (c) use accounting records.

### 2.1.1. Bookkeeping and Accounting

#### BOOKKEEPING

- Recording
- Classifying
- Summarising

#### ACCOUNTING

- Recording
- Classifying
- Summarising
- Analysing
- Interpreting

For proper management of any business, you have to record, classify and summarise all business transactions. This is what is known as **bookkeeping**.

**Accounting** is the process of recording, classifying, summarising, analysing and interpreting business transactions that are of financial nature.

When a business transaction has taken place, the entrepreneur records it down in the books of accounts, identifies which accounts are involved in the transaction, summarises it so that he or she is able to interpret its meaning to make good decisions for his or her business.

### 2.1.2. Importance of Bookkeeping

Bookkeeping information is important to different stakeholders in business. For example, the owners and managers of businesses, the financial institutions, the potential investors, suppliers and employees.

#### Activity 2.1

In your groups:

- a. Use internet resources, the school library or any other relevant resources and research about the following:
  - (i) Importance of bookkeeping in business.
  - (ii) Users of accounting information.
- b. Present your work to the rest of the class.

### 2.1.3. Spreadsheet

A **spreadsheet** is a computer application used by organisations to analyse and store data in a tabular form. It is used for recording accounting information using rows and columns into which such information is entered.

The spreadsheet template helps the entrepreneur to track his/her daily (or monthly) business transactions (income and expenses) and determine profit or loss.

Income statement and balance sheet statement template can be used to get a comprehensive view of the business.

### Example 1

Mr Kayondo is a trader in Nakawa Market and had the following transactions:

January 2020

- 1<sup>st</sup> Capital, Shs 300,000
- 2<sup>nd</sup> Cash purchases, Shs 100,000
- 5<sup>th</sup> Cash sales, Shs 210,000
- 6<sup>th</sup> Paid for transport, Shs 40,000
- 15<sup>th</sup> Received cash from Jabo, Shs 70,000
- 21<sup>st</sup> Paid rent, Shs 50,000
- 25<sup>th</sup> Bought goods, Shs 90,000

He keeps track of his cash flow in a spreadsheet which he has designed for proper cash records and management:

### SPREADSHEET FOR THE MONTH OF JANUARY 2020

#### Sample 1

Date	Details	Cash inflow (Shs)	Cash outflow (Shs)	Cash balance (Shs)
1 <sup>st</sup>	Capital	300,000		300,000
2 <sup>nd</sup>	Purchases		100,000	200,000
5 <sup>th</sup>	Sales	210,000		410,000
6 <sup>th</sup>	Transport		40,000	370,000
15 <sup>th</sup>	Cash from Jabo	70,000		440,000
21 <sup>st</sup>	Rent		50,000	390,000
25 <sup>th</sup>	Purchases		90,000	300,000
31 <sup>st</sup>	<b>Balance at hand</b>			<b>300,000</b>

## Sample 2

Cash Receipts	(Shs)	(Shs)	(Shs)
Capital	300,000		
Sales	210,000		
Cash from Jabo	70,000		
<b>Total cash receipts</b>			<b>580,000</b>
<b>Less Cash Outflow</b>			
Purchases		100,000	
Transport		40,000	
Rent		50,000	
Purchases		90,000	
<b>Total cash payments</b>			<b>280,000</b>
<b>Balance at hand</b>			<b>300,000</b>

### Activity 2.2

The following transactions relate to Auma's business for the month of January 2020:

- 1<sup>st</sup> Started business with cash Shs 100,000
- 6<sup>th</sup> Sold goods for cash Shs 45,000
- 11<sup>th</sup> Bought equipment for cash Shs 20,000
- 15<sup>th</sup> Paid for stationery in cash Shs 20,000
- 28<sup>th</sup> Paid general expenses in cash Shs 22,000
- 31<sup>st</sup> Cash purchase Shs 15,000

- a. In groups, using the ICT (excel program on your school computers) or manual method, prepare a simple spreadsheet that you can use to track Auma's cash movement in the above transactions.
- b. Present your work to the rest of the class.

#### 2.1.4. Benefits of a Spreadsheet

- (a) Spreadsheets improve data organisation by making it easy to be viewed in logical terms by the human mind. They provide an efficient way to accomplish this.
- (b) Spreadsheets enable dynamic calculations with built-in formulas.
- (c) They provide functionality for graphing and visual aids.
- (d) They are easy to use. New users can easily understand and use the spreadsheet. The data is easy to enter and sorting and filtering of data is also easily done.
- (e) Spreadsheets make modification easy. The data can be edited easily and be stored in different worksheets in a common file.

#### 2.2. SOURCE DOCUMENTS

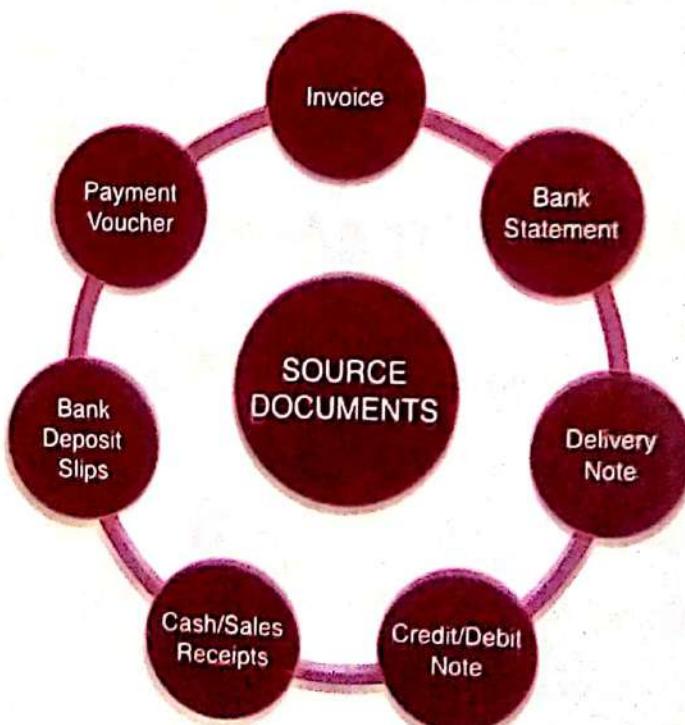


Figure 2.3: Examples of source documents

36 Learner's Book 3: Entrepreneurship

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NOT FOR SALE

### KEYWORDS

- source documents
- invoice
- bank statement
- delivery note
- credit note
- debit note
- cash receipts
- payment voucher

### LEARNING OUTCOMES

By the end of this sub topic, you should be able to:

- (a) know the various source documents used in bookkeeping.
- (b) prepare source documents.

In every business, it is necessary to have documentary evidence of transactions that have taken place. This evidence is provided in written form in documents known as **source documents**. In other words, they are a proof that a given transaction took place in the business.

Almost all source documents contain the following:

- Date
- Business name, address and contact details
- Business logo
- Document name
- Document number
- Name>Title of the receiver
- Details of goods sold/bought (i.e. description, quantity, price, amount)
- Terms of sale
- Authentication (signature, name and designation of the writer)

The other contents vary from document to document. For example, a statement of account from the bank shows details of cash withdrawn, cash deposited, cheques debited, cheques credited, bank charges and any other transactions that have taken place between the bank and the customer for a given period of time.

The different source documents include:

#### (a) Invoice

An invoice is a document sent by the seller to the buyer, which includes a description of the goods sold, the quantity, quality, unit price, total price, discounts (if any) and the date for the settlement of debts.

**(b) Delivery Note**

This is a document sent by the seller to the buyer to verify that the promised goods or services have been delivered and the customer (buyer) has received them.

**(c) Bank Statement**

This document is issued by the bank to every customer (account holder). It shows the details of deposits and withdrawals made by the account holder during a specified period. It also shows the interest paid or earned, ledger fees, among others.

**(d) Credit Note**

A credit note is a document sent by the seller to the buyer to show that there is a reduction in the amount that is owed. This normally happens when there is an error or change in the original invoice. For instance, some of the goods purchased are returned to the seller due to damage while transporting, or wrong goods being delivered, or of wrong size, poor quality, and description.

**(e) Debit Note**

A debit note is a document sent by the seller to the buyer to correct an undercharge on an original invoice. It is also called a supplementary invoice. For instance, it can be sent to the buyer who failed to return the packing materials, which were not accounted for in the original invoice.

**(f) Cash Receipts**

These show how much cash was received by the business and from whom.

**(g) Sales Receipts**

These are the records of sales made in a given period of time.

**(h) Bank Deposit Slip**

It is a document that confirms that cash or a cheque has been deposited into the named bank account.

### (i) Payment Voucher

It is a document that confirms that payment has been made by the business. It includes the amount paid, the purpose and date of payment, who received and who authorised the said payment.

### (j) Goods Received (GR) Note

It is a document that records goods received from suppliers to show proof that the ordered products have been received. The record is used by the buyer for comparing the number of goods ordered with the ones delivered.

#### Activity 2.3

In your groups, with help of your teacher:

Interact with the school bursar or the storekeeper to take you through some of the source documents used at school and ask questions, if any, and thereafter generate a chart to be displayed on the classroom wall.

## 2.3. BOOKS OF ORIGINAL ENTRY

### KEYWORDS

- ▶ books of original entry
- ▶ prime book
- ▶ journals
- ▶ cashbook
- ▶ petty cashbook
- ▶ imprest system
- ▶ cash float
- ▶ returns journals
- ▶ contra entries
- ▶ drawings

### LEARNING OUTCOMES

By the end of this sub topic, you should be able to:

- (a) know the books of original entry.
- (b) prepare the books of original entry.

### 2.3.1. Meaning of Books of Original Entry

When you start a business, one of the most important things to do is to keep track of your everyday business transactions. These transactions are recorded on a daily basis as they take place in books known as books of **original entry or prime books**, and thereafter the totals are transferred to the main book of accounts called the **ledger**.

**Note:** Ledger has been covered in detail later in this chapter.

These books or journals where all transactions are first recorded in a chronological order or sequence are called the books of original entry or books of prime entry. They include all business transactions, their details and descriptions, which provide evidence that a transaction took place.

### 2.3.2. Types of Books of Original Entry

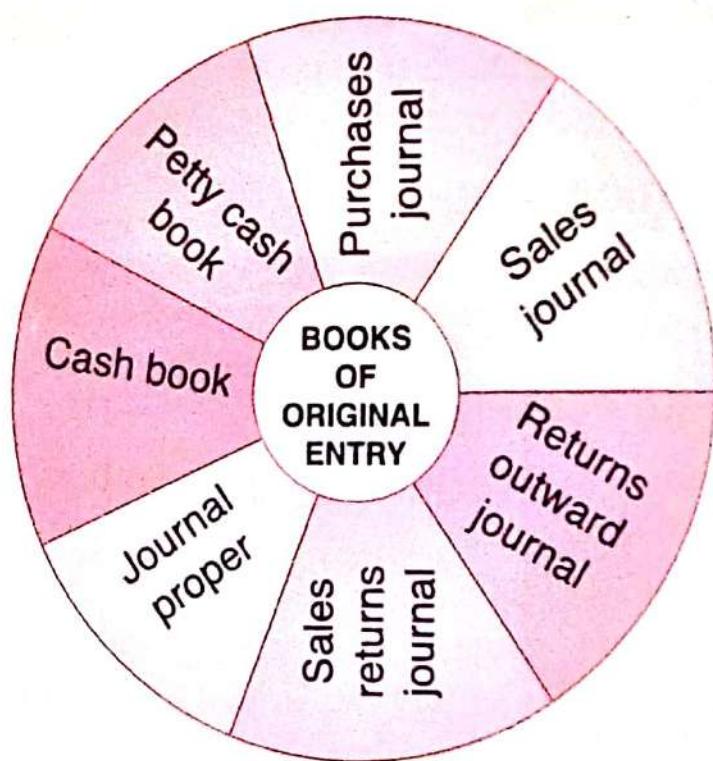


Figure 2.4: Chart showing types of books of original entry

### 2.3.3. Preparation of Books of Original Entry

Let us look at each of these books, most especially what they are used for and how to record business transactions in each.

### 2.3.4. Single-Column Cash Book

This is a book in which all cash receipts and cash payments are recorded. It is both the main book of accounts as well as a book of original entry.

Note: Entries are entered on two sides, i.e. credit side and debit side. Debit entry means recording an item on the left hand side of a cashbook while credit entry means recording an item on the right hand of a cashbook. Debiting an account means posting a transaction on the receiving side (receipts), while crediting means posting the account on the expenditure side.

#### Format of a Single-Column Cash Book

DR	HEADING				CR		
Date	Details	Folio/Ref.	Amount (Shs)	Date	Details	Folio/Ref.	Amount (Shs)

The above is also the format of an account.

A cash book has the following components:

- Two sides of an account, i.e. giver side (Cr) and receiver side (Dr).
- Date, which indicates the date when the particular business transaction took place.
- Particulars/details, which shows from where cash was earned or on what cash was spent.
- Folio/reference, which shows the page or account where the corresponding double entry is completed.
- Amount column on the debit (Dr) side, which records the amount received.
- Amount column on the credit (Cr) side, which records the amount given.

### 2.3.5. Balancing of an Account

The following steps are followed when balancing an account:

- Find the totals of both debit and credit sides separately.
- Subtract the smaller total from the bigger one and find out the difference.
- The difference (balance) is recorded on the smaller side so that both sides have the same totals.
- The balance recorded on the smaller side is known as '**balance carried down (c/d)**' or '**balance carried forward (c/f)**' and the same balance is posted on the opposite side below the totals as '**balance brought down (b/d)**' or '**balance brought forward (b/f)**' to the next period.

**Note:** If the amount on the debit side of an asset, e.g. cash, is greater than the amount on the credit side, it means that the business is receiving more cash than it spends and vice versa.

#### Example 2

**TASK:**

The following information was extracted from the records of Getho Retailers for the month of September 2019. Record these transactions in the cash account.

September 2019

- 1<sup>st</sup> Started business with cash Shs 500,000
- 4<sup>th</sup> Sold goods and received cash Shs 260,000
- 7<sup>th</sup> Bought furniture in cash Shs 80,000
- 16<sup>th</sup> Purchased goods in cash Shs 100,000
- 27<sup>th</sup> Paid electricity in cash Shs 12,000

**SOLUTION:**

Here you realise that all these transactions involved cash being received or cash paid out. So, you record them into a cash account and balance it, as shown below:

**GETHO RETAILERS' CASH ACCOUNT  
FOR THE MONTH OF SEPTEMBER 2019**

DR

CR

Date	Details	Folio	Amount (Shs)	Date	Details	Folio	Amount (Shs)
1 <sup>st</sup>	Capital		500,000	7 <sup>th</sup>	Furniture		80,000
4 <sup>th</sup>	Sales		260,000	16 <sup>th</sup>	Purchases		100,000
				27 <sup>th</sup>	Electricity		12,000
				30 <sup>th</sup>	Sept 2019	Balance c/d	568,000
<b>Total</b>			<b>760,000</b>	<b>Total</b>			<b>760,000</b>
1 <sup>st</sup> Oct 2019	Balance b/d		568,000				

**Activity 2.4**

In your groups, enter the business transactions below into a cash account, using single entry system.

September 2019

- 1<sup>st</sup> Okello, a trader in Mukono market, started business with cash, Shs 5,000,000
- 13<sup>th</sup> Sold goods in cash, Shs 3,000,000
- 16<sup>th</sup> Purchased goods in cash, Shs 1,000,000
- 20<sup>th</sup> Paid rent in cash, Shs 350,000
- 28<sup>th</sup> Paid water in cash, Shs 60,000
- 30<sup>th</sup> Bought stationery in cash, Shs 18,000

Present your responses to the class.

### 2.3.6. The Two-column Cash Book

When a business expands in size, it needs to adopt a banking system to handle the large number of transactions. For instance, receiving of cheques from customers and paying out by cheques, instead of cash. This reduces too much handling of cash at source, which could lead to increased risk of theft, fraud and misuse.

Thus, instead of keeping two different accounts (cash and bank), it is better to record both of them into a single book called a **two-column cash book**. It is named so because it has two amount columns on each side—the cash column and the bank (or cheque) column.

**Note:** The cash column records amount of cash received and spent. The bank column records the cheque transactions.

#### Format of a Two-Column Cash Book

DR			HEADING				CR		
Date	Details	Folio/ Ref.	Amount		Date	Details	Folio/ Ref.	Amount	
			Cash (Shs)	Bank (Shs)				Cash (Shs)	Bank (Shs)

A two-column cash book has the following parts:

- Date column, which indicates the date when the particular business transaction took place.
- Particulars/details column, which shows from where cash or a cheque was earned or on what cash or a cheque was spent.
- Folio/reference column, which shows the page or account where the corresponding double entry is completed.
- Amount column, which is divided into Cash and Bank columns. Cash and Bank columns record cash paid/received or cheque paid/received, respectively.

Here, instead of having separate cash and bank accounts, you combine them on one page, as shown in the given format. Transactions involving

cash receipts and cash payments are recorded under cash columns, while those involving cheque receipts and cheque payments are recorded under bank columns.

### Example 3

#### TASK:

Enter the following transactions in a two-column cash book of MATURU Enterprises Ltd., for the month of February 2020 and balance it off at the end of the month.

February 2020

- 1<sup>st</sup> Started business with cash in hand worth Shs 400,000 and cash in bank Shs 900,000
- 2<sup>nd</sup> Received a loan from Kato worth Shs 240,000
- 5<sup>th</sup> Cash purchases Shs 310,000
- 8<sup>th</sup> Cash sales Shs 500,000
- 10<sup>th</sup> Paid wages by cheque Shs 125,000
- 12<sup>th</sup> Bought stationery for use in cash Shs 19,000
- 24<sup>th</sup> Sold goods to Akello Shs 250,000

#### SOLUTION:

### MATURU ENTERPRISES LTD TWO-COLUMN CASH BOOK

DR	FEBRUARY 2020						CR		
Date 2020	Details	Folio	Cash (Shs 000)	Bank (Shs 000)	Date 2020	Details	Folio	Cash (Shs 000)	Bank (Shs 000)
1 <sup>st</sup> Feb	Capital		400	900	5 <sup>th</sup> Feb	Purchase		310	
2 <sup>nd</sup> Feb	Loan			240	10 <sup>th</sup> Feb	Wages			125
8 <sup>th</sup> Feb	Sales		500		12 <sup>th</sup> Feb	Stationery		19	

24 <sup>th</sup> Feb	Sales			250	29 <sup>th</sup> Feb	Balance	c/d	571	
			900	1,390				900	1,390
1 <sup>st</sup> March	Balance b/d		571	1,265					

After entering all the transactions in the cash book, you will balance the book at the end of the month. You will first add all the amounts in cash column on the left-hand side and all the amounts in cash column on the right-hand side. Then find out which side has the highest amount. After that find out the difference between the two figures. Finally, write the difference on the smaller side as balance c/d so that the two sides balance. Then, write the same totals on both sides. The balance is then written below the total on the opposite side as balance b/d on the first day of the following period.

### Activity 2.5

In your notebooks, practice how to enter the following transactions in Lwanga's two-column cash book for the month of July 2021. Then, post them into the relevant ledger accounts.

July 2021

- 1<sup>st</sup> Balance brought forward; cash Shs 3,265,000 and bank Shs 2,180,000
- 3<sup>rd</sup> Bought machinery by cheque Shs 1,509,000
- 5<sup>th</sup> Bought goods in cash Shs 1,523,000
- 8<sup>th</sup> Paid wages by cheque Shs 564,000
- 11<sup>th</sup> Cash sales paid direct into bank Shs 2,000,000
- 15<sup>th</sup> Cash sales to date Shs 5,233,000
- 22<sup>nd</sup> Paid lighting expenses by cheque Shs 306,000
- 26<sup>th</sup> Made purchases by cheque Shs 2,007,000

Present your responses to the class.

### 2.3.7. Recording Credit Transactions in the Ledger Accounts

Not all transactions made in business are on cash basis. Some are on credit basis.

A credit transaction is a transaction where payment for goods and services is to be made in future. Such transactions bring in debtors and creditors into business.

- **Debtors** are people or organisations to whom goods are sold on credit, or persons who owe money to the business. For example, Okumu sold goods worth Shs 150,000 on credit to Namukasa. Namukasa owes money to Okumu, so she is a debtor.
- **Creditors** are people or organisations from whom goods are bought on credit, or persons to whom money is owed in the business. For example, Natukunda bought goods worth Shs 200,000 on credit from Tumwine. Tumwine is the person to whom money is owed. So he is a creditor.

Credit transactions do not appear in cash book but their double entry has to be entered in the ledger accounts, as shown below:

- (a) (i) When goods are purchased on credit:

**DR purchases a/c; CR creditors a/c**

- (ii) When cash is paid to creditors:

**DR creditors a/c; CR cash a/c**

From the example given under creditors, if Natukunda (debtor) now pays Tumwine (creditor), you will debit Tumwine's a/c and credit cash a/c.

- (b) (i) When goods are sold on credit:

**DR debtors a/c; CR sales a/c**

- (ii) When cash is received from debtors:

**DR cash a/c; CR debtors a/c**

From the example given under debtors, if Okumu (creditor) receives money from Namukasa (debtor), you will debit cash a/c and credit Namukasa's a/c.

Example of goods sold on credit:

The business, on 1<sup>st</sup> May 2020, sold goods for Shs 60,000 to Eguma on credit. The entries will be debit Eguma's a/c and credit sales a/c, as shown below.

If, on 10<sup>th</sup> May 2020, Eguma pays for the goods in cash, the entries would be debit cash a/c and credit Eguma's a/c, as shown below.

DR				Eguma's Account				CR	
Date 2020	Details	Folio	Amount (Shs)	Date 2020	Details	Folio	Amount (Shs)		
1 <sup>st</sup> May	Sales		60,000	10 <sup>th</sup> May	Cash				60,000

DR				Sales Account				CR	
Date 2020	Details	Folio	Amount (Shs)	Date 2020	Details	Folio	Amount (Shs)		
				1 <sup>st</sup> May	Eguma				60,000

DR				Cash Account				CR	
Date 2020	Details	Folio	Amount (Shs)	Date 2020	Details	Folio	Amount (Shs)		
10 <sup>th</sup> May	Eguma		60,000						

Example of goods purchased on credit:

A business, on 2<sup>nd</sup> May 2020, bought goods for Shs 43,000 from Masaka Traders Ltd. The entries will be debit purchases a/c and credit Masaka Traders Ltd. a/c, as shown below.

If, on 7<sup>th</sup> May 2020, the business pays cash to Masaka Traders Ltd., the entries will be debit Masaka Traders Ltd. a/c and credit cash a/c, as shown below.

DR

## Masaka Traders Ltd. A/C

CR

Date	Details	Folio	Amount (Shs)	Date	Details	Folio	Amount (Shs)
7 <sup>th</sup> May 2020	Cash		43,000	2 <sup>nd</sup> May 2020	Purchases		43,000

DR

## Purchases A/C

CR

Date	Details	Folio	Amount (Shs)	Date	Details	Folio	Amount (Shs)
2 <sup>nd</sup> May 2020	Masaka Traders Ltd.		43,000				

DR

## Cash Account

CR

Date	Details	Folio	Amount (Shs)	Date	Details	Folio	Amount (Shs)
	Eguma		60,000	7 <sup>th</sup> May 2020	Masaka Traders Ltd.		43,000

**2.3.8. Contra Entries**

In business, there are certain transactions which involve cash and bank at the same time. In a two-column cash book, the payment of cash into bank and withdrawal of cash from the bank are recorded on the same page but on the opposite sides. Such entries are referred to as **contra entries**.

These double entries are indicated by the letter 'C', which is written in the reference (folio) column. The completing of double entry on the same page of a two-column cash book is called a contra entry.

The entries are as follows:

- (a) When cash is paid into bank:

**DR** Bank account; **CR** Cash account

- (b) When cash is withdrawn from bank for office/business use:  
**DR Cash account; CR Bank account**

**Note:** Money taken from the business or bank for personal use is termed as **drawings**, and therefore, such transaction is not treated as a contra entry but as a drawings, which affects capital invested in business.

### 2.3.9. The Three-Column Cash Book

A three-column cash book is used to record such transactions where discounts are given to customers.

A discount is a reduction in the original price of an item or commodity. It is an allowance given to traders on the goods purchased or sold. It is common in business to give a discount to a customer by reducing a certain percentage from the selling price of an article. Such reductions in prices attract customers to the business. Discounts are of two types, and they include:

- (a) **Discount allowed:** This is an allowance given by the business to its customers (debtors) on goods sold to them. It is normally allowed in order to attract customers to buy in large quantities or pay promptly. Therefore, it is a loss to the business.
- (b) **Discount received:** This is a price reduction enjoyed by the business from its suppliers as a reward for bulk purchases or prompt payment.

### DR                    RULING OF A THREE-COLUMN CASH BOOK                    CR                           CASH BOOK

Date	Details	Folio	Dis-count allowed (Shs)	Cash (Shs)	Bank (Shs)	Date	Details	Folio	Dis-count received (Shs)	Cash (Shs)	Bank (Shs)

**Note:** Discount and net payment are entered separately such that total of the two is equal to the payment that was to be made before discount was given. For example, if the amount charged was Shs 50,000 and a discount of 4 per cent (i.e. Shs 2,000) was given, then, Shs 2,000 will be recorded under the discount column and Shs 48,000 under the payment column, as shown in the example below. Discount should be calculated and deducted before making the entries.

#### Example 4

##### TASK:

From the following transactions of Matata, a retailer in Kikuubo Market, draw up a three-column cash book for the month of April 2021 and balance it off at the end of the month.

April 2021

- 1<sup>st</sup> Started business with cash at hand Shs 100,000
- 2<sup>nd</sup> Bought goods for cash from Mukasa Shs 50,000 less Shs 2,000 discount
- 4<sup>th</sup> Sold goods for cash Shs 60,000 less Shs 2,000 discount
- 8<sup>th</sup> Cash sales to date Shs 30,000
- 12<sup>th</sup> Paid Mabo Shs 50,000 for the goods bought previous month, by cheque less 4% discount
- 14<sup>th</sup> Paid rent in cash Shs 10,000
- 22<sup>nd</sup> Withdraw cash Shs 60,000 for business use
- 24<sup>th</sup> Sold goods by cheque Shs 50,000
- 26<sup>th</sup> Banked cash Shs 30,000
- 28<sup>th</sup> Paid transport by cheque Shs 40,000
- 29<sup>th</sup> Received cash from Abdu for goods sold on credit the previous month Shs 40,000 less 10% discount

## MATATA'S RETAIL SHOP

### THREE-COLUMN CASH BOOK FOR APRIL 2021

**DR**

**CR**

Date	Details	Folio	Discount allowed (Shs 000)	Cash (Shs 000)	Bank (Shs 000)	Date	Details	Folio	Discount received (Shs 000)	Cash (Shs 000)	Bank (Shs 000)
1 <sup>st</sup>	Capital				100	2 <sup>nd</sup>	Purchases			2	48
4 <sup>th</sup>	Sales	2	58			12 <sup>th</sup>	Mabo*			2	48
8 <sup>th</sup>	Sales		30			14 <sup>th</sup>	Rent				10
22 <sup>nd</sup>	Bank	C		60		22 <sup>nd</sup>	Cash	C			60
24 <sup>th</sup>	Sales			50	26 <sup>th</sup>	Bank	C				30
26 <sup>th</sup>	Cash	C		30	28 <sup>th</sup>	Transport					40
29 <sup>th</sup>	Abdu**	4	36								
					30 <sup>th</sup>	Balance	c/d			96	32
				6	184	180				4	184 180
1 <sup>st</sup>	Balance	b/d		96	32						
May											

**Note:** \* For the transaction on 12<sup>th</sup> April 2021, \*\* For the transaction on 29<sup>th</sup> April 2021, the working

the working of discount is as follows:

$$50,000 \times 4\% = 2,000$$

$$50,000 - 2,000 = 48,000$$

of discount is as follows:

$$40,000 \times 10\% = 4,000$$

$$40,000 - 4,000 = 36,000$$

### Activity 2.6

Working in pairs, from the following details extracted from the books of Pakele Traders, write up a three-column cash book, duly balanced off at the end of the month.

May 2021

- 1<sup>st</sup> Cash in hand Shs 1,000,000
- 1<sup>st</sup> Cash in bank Shs 3,000,000
- 2<sup>nd</sup> Cash sales Shs 2,000,000
- 3<sup>rd</sup> Banked cash received from sales on 2<sup>nd</sup> May
- 6<sup>th</sup> Paid for wages by cash Shs 100,000
- 7<sup>th</sup> Paid cleaning by cash Shs 20,000
- 10<sup>th</sup> Received a cheque worth Shs 500,000 from Kawa, less 10% discount
- 12<sup>th</sup> Paid Okello by cheque worth Shs 400,000 less 12.5% cash discount
- 15<sup>th</sup> Bought equipment by cheque for Shs 400,000
- 17<sup>th</sup> Withdraw cash from bank for office use Shs 1,000,000
- 18<sup>th</sup> Paid water bills by cheque for Shs 800,000
- 20<sup>th</sup> Cash sales of Shs 1,200,000
- 27<sup>th</sup> Banked cash worth Shs 1,000,000

Present your responses to the class.

#### 2.3.10. The Petty Cash Book

At home, your parents always buy household items and groceries on daily basis. As an entrepreneurship student, they decide to give you the responsibility of buying certain small items needed in the house on daily basis, for a whole week. They give you a round sum of money for purchases for the first week. You are to report your expenditure at the end of the week.

As a learned student, you will need to plan your expenditure from Monday to Sunday. You will also need to get a book to record your daily transactions. Record what you buy and at what price, daily, for a whole week.

At the end of the week (on Sunday evening), you will need to account to your parents the money you spent throughout the week so that you can get money for the next week. If you have cash in hand which was not spent, you will be given the equivalent of what you spent to add on to that balance to restore your weekly amount. This amount of cash, which is restored at the end of the specified interval, is called the **imprest amount** or cash float. You can also prepare a petty cash book for your weekly grocery items to help you maintain your accounts easily.



Figure 2.5: Petty cash used for small transactions

Since, in businesses, most cash receipts are banked and payments are made by cheques, the entrepreneur needs to maintain a certain amount of cash in office to make various small payments. A petty cash book is maintained to record such small disbursements (expenses).

The type of expenditure to be met by petty cash includes the following:

- Postage (parcels, telegrams, etc.)
- Stationery (ink, rubber, special envelopes, etc.)
- Travelling (bus fare, taxis, etc.)

- Office expenses (cleaning, tea/coffee, newspapers, etc.)
- Ledger, where details of personal accounts are recorded (such as payment to a creditor)

This works under a system known as the **imprest system**. In this system, the main cashier of the business hands over a given sum of money to the petty cashier at the very start of an accounting period. The amount is sometimes known as cash float or imprest amount. It is a system where the petty cashier is reimbursed with exact amount spent so as to be restored to the original position, after a regular time interval.

## Format of a Petty Cash Book

### HEADING

Receipt (Shs)	Folio	Date	Details	Voucher No.	Total Payment (Shs)	Analysis Columns		
						Postage (Shs)	Stationery (Shs)	Ledger (Shs)

**Receipt column:** used to enter the amount of cash float received by the petty cashier from the main cashier.

**Folio column:** used for page number entered in the ledger book.

**Date column:** used for entering the date when the petty cashier received cash and when he/she paid out cash.

**Details column:** used for writing the name of accounts in the transaction.

**Voucher No. column:** used for recording the serial number as the transactions take place.

**Total Payment column:** used for entering the amount the petty cashier pays out for the expenses.

**Analysis columns:** used for recording amounts paid for each expense the petty cashier identifies.

### Example 5

#### TASK:

Enter the following transactions in Sarah's petty cash book, with analysis columns for telephone, travelling, stationery, office expenses and ledger a/c. The petty cash has a monthly imprest of Shs 130,000.

June 2021	Shs
1 <sup>st</sup> Petty cash balance b/f	18,800
1 <sup>st</sup> Received reimbursement to restore imprest*	
5 <sup>th</sup> Bought airtime from MTN booth	12,200
8 <sup>th</sup> Bought stationery	11,200
10 <sup>th</sup> Paid for office newspapers	11,500
12 <sup>th</sup> Paid airtime to Airtel network	11,800
16 <sup>th</sup> Paid taxi fares	12,000
18 <sup>th</sup> Paid office expenses	11,600
20 <sup>th</sup> Paid for stationery	12,500
25 <sup>th</sup> Paid bus fares	11,000
28 <sup>th</sup> Paid for airtime	11,400
29 <sup>th</sup> Paid for train fares	11,500
30 <sup>th</sup> Paid her supplier Kabuye	12,300

\* Reimbursement = Imprest amount – Petty cash balance

$$= 130,000 - 18,800$$

$$= \text{Shs } 111,200$$

# SARAH'S PETTY CASHBOOK FOR JUNE 2021

Analysis Columns

Receipt (Shs)	Folio	Date	Details	Voucher No.	Total Payment (Shs)	Telephone (Shs)	Travelling (Shs)	Stationery (Shs)	Office Expenses (Shs)	Ledger (Shs)
18,800		1 <sup>st</sup>	Cash balance b/f							
111,200		1 <sup>st</sup>	Reimbursement							
		5 <sup>th</sup>	Airtime		12,200	12,200				
		8 <sup>th</sup>	Stationery		11,200		11,200			
		10 <sup>th</sup>	Newspaper		11,500			11,500		
		12 <sup>th</sup>	Airtime		11,800	11,800				
		16 <sup>th</sup>	Taxi fares		12,000		12,000			
		18 <sup>th</sup>	Office expenses		11,600			11,600		
		20 <sup>th</sup>	Stationery		12,500			12,500		
		25 <sup>th</sup>	Bus fares		11,000			11,000		
		28 <sup>th</sup>	Airtime		11,400	11,400				
		29 <sup>th</sup>	Train fares		11,500			11,500		
		30 <sup>th</sup>	Kabuye		12,300				12,300	
		30 <sup>th</sup>	Balance c/d		1,000					
<b>130,000</b>			<b>Total</b>		<b>130,000</b>	<b>35,400</b>	<b>34,500</b>	<b>23,700</b>	<b>23,100</b>	<b>12,300</b>
1,000		1 <sup>st</sup> July	Balance b/f							

### Activity 2.7

TUSIIME Beauty Salon prepares a petty cash book monthly with an imprest amount of Shs 250,000. By 31<sup>st</sup> May 2021, the petty cashier had a cash balance of Shs 28,000 and a cheque was prepared on 1<sup>st</sup> June to restore the imprest amount. A summary of petty cash vouchers for the month of June 2021 was as follows:

June 2021	Shs
1 <sup>st</sup> Received cash for the re-imbursement	
1 <sup>st</sup> Postage and envelopes	6,000
3 <sup>rd</sup> Glue and masking tape	2,500
8 <sup>th</sup> Newspaper vendor	12,800
11 <sup>th</sup> Manager's fuel bills	25,000
14 <sup>th</sup> Shop cleaning for two weeks	4,700
17 <sup>th</sup> Fax to Tokyo	1,800
19 <sup>th</sup> Taxi hire for outdoor services	10,000
20 <sup>th</sup> Creams and lotions	50,000
21 <sup>st</sup> Barber's wages	15,000
23 <sup>rd</sup> Telephone cards	27,500
25 <sup>th</sup> Receipt books and invoices	21,000
26 <sup>th</sup> Cleaning materials	18,000
29 <sup>th</sup> Detergents (Nomi and Jik)	27,300
30 <sup>th</sup> Airtime	3,400

In your groups, prepare TUSIIME Beauty Salon's petty cash book with analysis column of: post services, stationery, shop expenses, travelling, and ledger.

Present your work to the rest of the class.

#### 2.3.11. The Purchases Journal

When a business buys goods on credit, they are recorded in a book known as the **purchases journal or purchases day book**. It is a book

What records the day-to-day credit purchases of the business. It records the names of the suppliers and the value of the goods that have been bought on credit. It also gives the details of trade discounts (if any) given by the suppliers.

The information written in this book is obtained from the purchase invoices (or incoming invoices) and the totals are transferred to the purchases a/c in the general ledger at a specified period, usually once a month.

### FORMAT OF A PURCHASES JOURNAL

Date	Details	Invoice No.	Folio	Amount (Shs)
<b>Totals to be transferred to purchases a/c in general ledger</b>				

### Example 6

#### TASK:

Enter the following transactions in the purchases journal.

May 2019

- 1<sup>st</sup> Credit purchases (invoice no. 008) from Musana Shs 204,800
- 6<sup>th</sup> Credit purchases (invoice no. 013) from Okello Shs 333,600
- 16<sup>th</sup> Credit purchases (invoice no. 020) from Mukose Shs 152,500

#### SOLUTION:

### PURCHASES JOURNAL FOR THE MONTH OF MAY 2019

Date	Details	Invoice No.	Folio	Amount (Shs)
1 <sup>st</sup>	Musana	008		204,800
6 <sup>th</sup>	Okello	013		333,600
16 <sup>th</sup>	Mukose	020		152,500
<b>Totals to be transferred to purchases a/c in general ledger</b>				<b>690,900</b>

### Activity 2.8

Record the following transactions in Kato's purchases journal:

May 2020	Details	Amount (Shs)
1 <sup>st</sup>	Credit purchases from John, invoice no. 015	400,800
	Credit purchase from Juliet, invoice no. 016	500,000
10 <sup>th</sup>	Credit purchases from Fred, invoice no. 028	300,600
	Credit purchase from Juliet, invoice no. 029	300,000
17 <sup>th</sup>	Credit purchases from Abiriga, invoice no. 037	400,500
	Credit purchase from Fred, invoice no. 038	200,400
30 <sup>th</sup>	Credit purchases from Aber, invoice no. 051	200,500
	Credit purchase from Juliet, invoice no. 052	300,800

### 2.3.12. Returns Outward Journal

Sometimes a business may return some goods to suppliers for one reason or another. For example, if they are faulty in design or if they were damaged. Such goods that are returned to the suppliers are recorded in a book known as **returns outwards journal**. This journal is written using incoming credit notes.

#### FORMAT OF A RETURNS OUTWARD JOURNAL

Date	Details	Credit Note No.	Folio	Amount (Shs)
<b>Totals to be transferred to returns outward a/c in general ledger</b>				

In the general ledger, we record the total of all creditors from the purchases journal. We also record the total of all returns to creditors.

**Example 7****TASK:**

Record the following transactions in Bayo's purchases journal and returns outward journal. Show the individual accounts in the general ledger.

May 2019	Details	Amount (Shs)
1 <sup>st</sup>	Credit purchases from Jabo, invoice no. 002	54,800
	Credit purchases from Janet, invoice no. 003	65,000
13 <sup>th</sup>	Credit purchases from Bada, invoice no. 007	73,600
15 <sup>th</sup>	Goods returned to Jabo	12,800
	Goods returned to Janet	13,400
17 <sup>th</sup>	Credit purchases from Chebroit, invoice no. 013	64,500
18 <sup>th</sup>	Credit purchases from Bada, invoice no. 015	12,400
30 <sup>th</sup>	Credit purchases from Janet, invoice no. 021	13,800

**SOLUTION:****BAYO'S PURCHASES JOURNAL FOR THE MONTH OF MAY 2019**

Date	Details	Invoice No.	Folio	Amount (Shs)
1 <sup>st</sup>	Jabo	002		54,800
	Janet	003		65,000
13 <sup>th</sup>	Bada	007		73,600
17 <sup>th</sup>	Chebroit	013		64,500
18 <sup>th</sup>	Bada	015		12,400
30 <sup>th</sup>	Janet	021		13,800
<b>Totals to be transferred to purchases a/c in general ledger</b>				<b>284,100</b>

## BAYO'S RETURNS OUTWARD JOURNAL FOR THE MONTH OF MAY 2019

Date	Details	Credit Note No.	Folio	Amount (Shs)
15 <sup>th</sup>	Jabo			12,800
	Janet			13,400
<b>Totals to be transferred to returns outward a/c in general ledger</b>				<b>26,200</b>

### Activity 2.9

Complete posting the entries in Example 6 in the purchase account in the ledger and the general ledger in your notebooks.

#### 2.3.13. The Sales Journal

When a business sells goods on credit, such transactions are recorded in a book known as **sales journal or sales day book**. It is a book that records the day-to-day credit sales. It records the names of the customers and the value of the goods that have been sold on credit. It also shows records of trade discounts (if any) that have been offered to customers.

The information written in this book is obtained from the sales invoices and the totals are transferred to the sales a/c in the general ledger at a specified period, usually once a month.

#### FORMAT OF A SALES JOURNAL

Date	Details	Invoice No.	Folio	Amount (Shs)
<b>Totals to be transferred to sales a/c in general ledger</b>				

### 2.3.14. The Sales Returns Journal

Goods previously sold on credit may be returned to the business. This may be due to any defective goods, or being different from the ones ordered for, or not being of the correct size, etc.

So, a book where details of goods that were previously sold to customers and later returned in the business by the customers are recorded is termed as the **sales returns journal or returns inwards journal**.

The information in this book is obtained from copies of credit notes sent to the customers who returned the goods.

#### FORMAT OF A SALES RETURNS JOURNAL

Date	Details	Credit Note No.	Folio	Amount (Shs)
<b>Totals to be transferred to returns Inwards a/c in general ledger</b>				

#### Example 8

##### TASK:

Record the following transactions in Agnes's sales journal and sales returns journal. Transfer the totals to their respective accounts in the general ledger.

July 2019	Details	Amount (Shs)
1 <sup>st</sup>	Credit sales to Farouk	200,000
	Credit sales to Apio	225,200
4 <sup>th</sup>	Credit sales to Muto	113,300
	Credit sales to Mutyaba	322,800
13 <sup>th</sup>	Goods returned to business by Fred	42,200
	Goods returned to business by Alma	31,600
28 <sup>th</sup>	Credit sales to Mutyaba	84,000
	Goods returned to business by Mutyaba	93,300

**SOLUTION:**

**AGNES'S SALES JOURNAL FOR THE MONTH OF JULY 2019**

Date	Details	Invoice No.	Folio	Amount (Shs)
1 <sup>st</sup>	Farouk			200,000
	Apio			225,200
4 <sup>th</sup>	Muto			113,300
	Mutyaba			322,800
28 <sup>th</sup>	Mutyaba			84,000
<b>Totals to be transferred to purchases a/c in general ledger</b>				<b>945,300</b>

**AGNES'S SALES RETURNS JOURNAL FOR THE MONTH OF JULY 2019**

Date	Details	Invoice No.	Folio	Amount (Shs)
13 <sup>th</sup>	Fred			42,200
	Alma			31,600
28 <sup>th</sup>	Mutyaba			93,300
<b>Totals to be transferred to returns inwards a/c in general ledger</b>				<b>167,100</b>

**Activity 2.10**

Nalongo and Sons Ltd. has the following credit purchases and sales for the month of August 2020.

August 2020

- 1<sup>st</sup> Bought from Anguyo and Sons Ltd.: 5 sacks of beans at Shs 100,000 each
- 3<sup>rd</sup> Bought from Nabilla: 10 sacks of maize at Shs 170,000 each

- 4<sup>th</sup> Sold to He Cares Ltd.: 2 sacks of beans at Shs 110,000 each and 4 sacks of maize at Shs 190,000 each
- 5<sup>th</sup> Bought from Anguyo and Sons Ltd.: 10 sacks of beans at Shs 90,000 each
- 6<sup>th</sup> Sold to Kiboko Traders: 4 sacks of maize at Shs 195,000 each
- 9<sup>th</sup> Bought from Ken & Sons: 5 sacks of maize at Shs 170,000 each and 4 sacks of beans at Shs 95,000 each
- 11<sup>th</sup> Bought from Nabila: 4 sacks of maize at Shs 165,000 each
- 15<sup>th</sup> Sold to:
  - He Cares Ltd.: 6 sacks of maize at Shs 180,000 each
  - Ben: 4 sacks of beans at Shs 125,000 each
- 18<sup>th</sup> Sold to:
  - Kiboko Traders: 10 sacks of maize at Shs 185,000 each
  - Alum Ltd.: 7 sacks of millet at Shs 120,000 each
- 22<sup>nd</sup> Bought from:
  - Kireka Traders: 10 sacks of maize at Shs 200,000 each
  - Manya and Sons: 6 sacks of millet at Shs 65,000 each
- 25<sup>th</sup> Sold to Malik: 4 sacks of rice at Shs 250,000 each
- 26<sup>th</sup> Bought from Cheap Stores Ltd.: 2 sacks of beans at Shs 120,000 each and 2 sacks of rice at Shs 200,000 each
- 28<sup>th</sup> Sold to Alum Ltd.: 6 sacks of millet at Shs 75,000 each

In your groups:

- Prepare a purchases day book and a sales day book.
- Present your work to the rest of the class.

### 2.3.15. The Journal Proper (General Journal)

This is a book in which we can record the details of any transaction that cannot be recorded in any other subsidiary books. For example, purchase and sale of fixed assets. It contains private records of events as they occur day to day.

## FORMAT OF A JOURNAL PROPER

Date	Narration	Debit (Shs)	Credit (Shs)

**Note:** All credit transactions are first recorded in the journals before posting in the ledgers. All cash transactions are first recorded in the cash book before posting in to the ledgers. This means a cash book is also a subsidiary book.

A journal proper has the following columns:

- Date, which records the date of transacting business.
- Narration, which contains the accounts to be debited and credited with a brief description of the transaction.
- Debit column records the amount to be debited.
- Credit column records the amount to be credited.

### Example 9

**TASK:**

Record the following transactions in the journal.

January 2021

2<sup>nd</sup> Purchase of motor vehicle from Yuasa Motors Ltd. on credit worth Shs 12,000,000

6<sup>th</sup> Sale of old furniture on credit worth Shs 2,500,000 to Opolot

**SOLUTION:**

### JOURNAL ENTRIES FOR THE MONTH OF JANUARY 2021

Date	Narration	Debit (Shs)	Credit (Shs)
2 <sup>nd</sup>	Motor vehicle a/c – Dr Yuasa Motors Ltd. a/c – Cr <b>Being a purchase of motor vehicle on credit</b>	12,000,000	12,000,000
6 <sup>th</sup>	Opolot a/c – Dr Furniture a/c – Cr <b>Being a sale of old furniture on credit</b>	2,500,000	2,500,000

### Activity 2.11

In groups, journalise the information below, clearly showing their narrations:

- On 4<sup>th</sup> August 2021, a credit purchase of goods worth Shs 100,000 from Jonah was not recorded in any book.
- On 10<sup>th</sup> August 2021, a receipt of cash from sales worth Shs 58,000 was debited in sales account instead of crediting it.
- On 16<sup>th</sup> August 2021, a sale of an old machine worth Shs 450,000 to Maria on credit was credited in the sales account instead of machine account.
- On 22<sup>nd</sup> August 2021, a credit purchase of goods from Masindi Traders worth Shs 270,000 was poorly recorded in both books as Shs 720,000.

Present your work to the rest of the class.

## 2.4. THE LEDGER

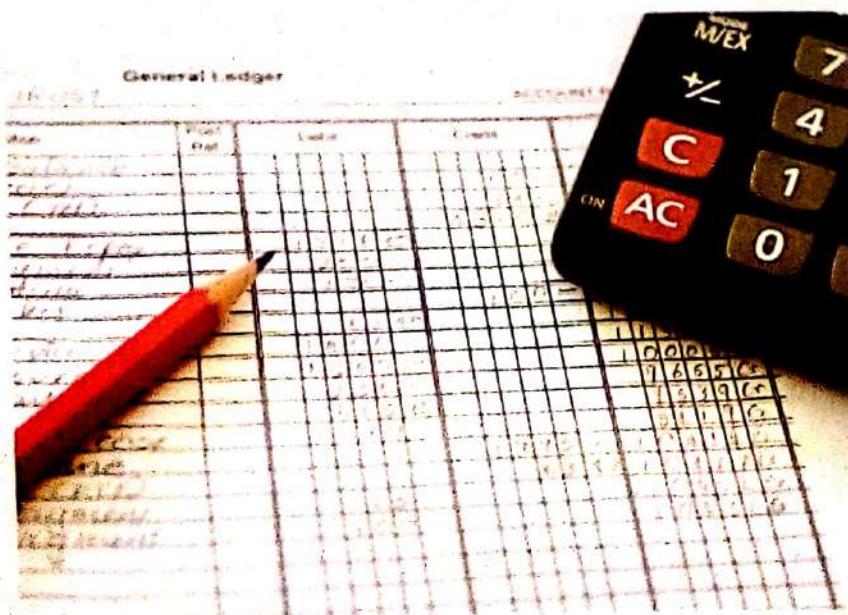


Figure 2.6: A copy of a handwritten ledger

**KEYWORDS**

- ▶ ledger
- ▶ transactions
- ▶ cash
- ▶ bank
- ▶ account
- ▶ single entry
- ▶ double entry
- ▶ balance carried down (c/d)
- ▶ balance brought down (b/d)

**LEARNING OUTCOMES**

By the end of this sub topic, you should be able to:

- (a) know the meaning of a ledger.
- (b) appreciate the different types of ledger.
- (c) prepare ledger accounts.

#### 2.4.1. The Meaning of Ledger

A ledger is the main book of accounts where all the details of the business transactions are recorded.

It is a permanent summary of all amounts entered in supporting journals which list individual transactions by date. Every transaction flows from a journal which you have learnt in the previous sub topic, to one or more ledgers.

Financial statements of a business are generated from summary totals in the ledgers.

#### Ledgers include:

- a. Sales ledger, also known as debtor's ledger, which records accounts receiving. This ledger consists of the financial transactions made by customers to the business. It accumulates information from the sales journal. The purpose of the debtor's ledger is to provide knowledge about which customers owe money to the business, and how much.
- b. Purchases ledger, also known as creditor's ledger, which records money spent for purchase of products by the business. It accumulates information from the purchases journal. The purpose of the creditor's ledger is to provide knowledge about which suppliers the business owes money to, and how much.
- c. General ledger represents the five main accounts, i.e. capital, income, expenses, assets and liabilities. It accumulates information

from journals. Each month, all journals are totalled and posted to the general ledger. Its purpose is, therefore, to organise and summarise the individual transactions listed in all the journals.

Therefore, for every debit recorded in a ledger, there must be a corresponding credit so that the debits equal the credits in the grand totals.

Nominal accounts are accounts which record losses, expenses, incomes or gains of the business. For example, a purchase account, sales account, salary account, commission account etc. The outcome of a nominal account is either a profit or loss, which is then transferred to capital account.

Real account is a general ledger account that does not close at the end of a trading period. Instead, it remains open and accumulates balances and is carried over into the next trading period. For instance, cash account, fixed assets (land, building, motor vehicle, equipment, furniture) account, etc.

#### 2.4.2. Preparation of Ledger Accounts

##### An Account

An account refers to a record where transactions which are similar in nature are kept. It is a statement in the ledger, which indicates the dealings with a particular person or item. All business transactions are recorded in an account.

Let us first look at the format of account in the ledger. In this format, the debit (abbreviated as DR) and the credit (abbreviated as CR) are presented on opposite sides of the same page.

##### FORMAT OF AN ACCOUNT

Debit (DR)	NAME OF ACCOUNT				Credit (CR)		
Date	Details	Folio	Amount (Shs)	Date	Details	Folio	Amount (Shs)

## How to Rule a Format of a Ledger Account

**Requirements:** A full page of your notebook, a pencil or a pen and a ruler.

Step 1: Fold the page of your notebook vertically into two halves.  
(Ignore the red line on the page.)

Step 2: Unfold the page to get the two equal halves.

Step 3: Use your ruler to draw a line running from left to right on top of the page.

Step 4: Draw a thick line running from top to bottom in the middle of the page (the fold mark).

Step 5: You now have two equal columns on the page.

Step 6: Name the two columns by writing the abbreviation DR (Debit) on the top left-hand corner and CR (Credit) on the top right-hand corner of the page.

Step 7: Divide each of these columns further into Date, Details, Folio and Amount columns.

Step 8: Write the name of the ledger account on the top of the page.

## Format of an Account Explained

- Date column records the day, month and year at which the transaction has taken place.
- Details column shows the brief description of the transaction.
- Folio/Reference column records the reference page at which the corresponding entry has been posted.
- Amount column records the amount shown in the transaction.
- Debit side records the receiver of value.
- Credit side records the giver of value.
- Heading of the account records the name of the person or the item to which the account belongs.

**Note:** In all accounts like cash account, a debit entry goes into the left-hand side of the page. Any entries on the left-hand side indicate the receiving of value, which leads to the increase in the overall account balance. A credit entry, which goes into the right-hand side of an account, indicates giving out of the value and therefore, a decrease in the overall account balance.

In the case of liabilities and capital accounts, the credit side indicates the giving of value 'to' the business while the debit side indicates the giving of value 'by' the business, i.e. the business gives out to the holder of the capital or liability account.

#### 2.4.3. Types/Methods of Bookkeeping

##### Single Entry Bookkeeping System

This is a system of bookkeeping where the recording of transactions (entries) is done only when cash is received or paid out by the business. This payment may be in cash or by cheque.

This system is outdated and common in small businesses, especially retail businesses, where recording of transactions is done only when cash moves into or out of a business in the form of cash or cheque.

This system is unsuitable for large businesses whose transactions are not necessarily effected on a cash basis.

##### Double Entry Bookkeeping System

For every business transaction, there must be two parties or accounts that are being affected where one party or account is receiving while the other is giving. The aspect of receiving is debited while the aspect of giving is credited.

A debit entry is when a transaction is recorded on the debit side of an account. Debit entries increase asset and expense accounts and decrease liability, income and capital accounts.

A credit entry is when the transaction is recorded on the credit side of an account. Credit entries increase liability, income and capital accounts and decrease asset and expense accounts.

The principle of double entry system is based on the concept of recording each transaction twice in the books of accounts. The double entry principle states that for every debit entry, there must be a corresponding credit entry and for every credit entry there must be a corresponding debit entry.

Therefore, using the double entry principle, while recording business transactions in books of accounts, we debit the receiver and credit the giver.

**Note:** To 'debit' means to record the transaction on the left hand side of an account, and to 'credit' means to record the transaction on the right hand side of an account.

### Example 10

The following transactions were carried out by Among Aisha during the month of June 2019.

- (i) On 1<sup>st</sup> June 2019, commenced business with cash amounting to Shs 270,000.
- (ii) On 4<sup>th</sup> June 2019, paid for rent in cash for Shs 30,000.
- (iii) On 6<sup>th</sup> June 2019, bought machinery for cash Shs 45,000.
- (iv) On 10<sup>th</sup> June 2019, sold goods in cash Shs 210,000.

Following the double entry system of record keeping, the accounts would appear as shown below:

In transaction (i), the two accounts affected will be capital account and cash account.

After identifying the two accounts, we need to find out which account is the giving account and which is the receiving account, so that we debit (recording on left-hand side) the account receiving and credit (recording on the right-hand side) the account giving.

So in transaction (i) above, capital account gave out Shs 270,000, while the cash account received Shs 270,000. This record is entered in the

ledger by crediting the giver (capital a/c) and debiting the receiver (cash a/c), as shown below:

DR				CAPITAL ACCOUNT				CR			
Date 2019	Details	Folio	Amount (Shs)	Date 2019	Details	Folio	Amount (Shs)				
				1 <sup>st</sup> June	Cash	L2	270,000				

DR				CASH ACCOUNT				CR			
Date 2019	Details	Folio	Amount (Shs)	Date 2019	Details	Folio	Amount (Shs)				
1 <sup>st</sup> June	Capital	L1	270,000								

In transaction (ii), the two accounts will be cash a/c and rent a/c. Cash a/c gave out Shs 30,000 while rent a/c received Shs 30,000. This record is entered in the ledger by crediting the giver (cash a/c) and debiting the receiver (rent a/c) as shown below:

DR				CASH ACCOUNT				CR			
Date 2019	Details	Folio	Amount (Shs)	Date 2019	Details	Folio	Amount (Shs)				
				4 <sup>th</sup> June	Rent	L2	30,000				

DR				RENT ACCOUNT				CR			
Date 2019	Details	Folio	Amount (Shs)	Date 2019	Details	Folio	Amount (Shs)				
4 <sup>th</sup> June	Cash	L3	30,000								

In transaction (iii), the two accounts are cash a/c and machinery a/c. The cash a/c gave out Shs 45,000 while the machinery a/c received Shs 45,000.

### Activity 2.12

In the transactions (iii) and (iv) in Example 10:

- Identify the accounts to be debited and the ones to be credited in each case.
- Complete double entry for each of the above transactions.
- Share your findings with the class.

### Activity 2.13

Mariam is a businesswoman operating in Mbale town. She had the following transactions for the month of February 2021:

- 1<sup>st</sup> Started a business with Shs 880,000 in the bank
- 2<sup>nd</sup> Bought goods on credit from Kenneth Shs 76,000
- 5<sup>th</sup> Cash sales worth Shs 87,000
- 6<sup>th</sup> Paid wages in cash Shs 14,000
- 6<sup>th</sup> Sold goods on credit to Samuel Shs 30,000
- 9<sup>th</sup> Bought goods for cash worth Shs 46,000
- 10<sup>th</sup> Samuel returned some goods worth Shs 15,000
- 15<sup>th</sup> Bought furniture on credit from Super Furniture worth Shs 50,000
- 21<sup>st</sup> Paid Super Furniture a cheque for Shs 50,000
- 27<sup>th</sup> Kenneth paid by cheque for Shs 76,000
- 28<sup>th</sup> Bought furniture and paid by cheque Shs 40,000

In your groups, discuss and prepare Mariam's relevant books of accounts using the double entry system and balance all the ledger accounts.

## 2.5. THE TRIAL BALANCE

### KEYWORDS

- ▶ trial balance
- ▶ arithmetical
- ▶ accuracy
- ▶ similar total

### LEARNING OUTCOMES

By the end of this sub topic, you should be able to:

- (a) know a trial balance.
- (b) understand the uses of a trial balance.
- (c) prepare a trial balance.
- (d) identify and correct errors in a trial balance.

As seen in the double entry system of recording, there are many amounts entered in the ledger accounts. Making errors is very common. However, to check if you recorded the transactions correctly or not, you prepare a document called **trial balance**.

A trial balance is a list of all debit and credit balances extracted from different accounts in the ledger, to prove the arithmetical accuracy of the double entry system. To record items in the trial balance, the debit balances from the ledger will be listed in the debit column (DR side) while the credit balances will be listed in the credit column (CR side).

### FORMAT OF A TRIAL BALANCE

#### HEADING (Name of business, document and date)

Details/Particulars	DR (Shs)	CR (Shs)
	<b>Similar Total</b>	<b>Similar Total</b>

#### 2.5.1. Preparation of a Trial Balance

The steps to be followed when preparing a trial balance include:

- Check that all accounts are correctly posted to their respective accounts.
- Determine the balance of each account in the ledger, i.e. by balancing them off.

- List or record the account titles and their respective balances in the debit or credit columns.
- Get the sum of the debit and credit balances and prove the arithmetical accuracy (the totals should be equal).

**Note:** Cash balance and bank balance brought down in the cash book should also be recorded in the trial balance on their respective sides.

### Example 11

**TASK:**

Record the following transactions in Kamyा's cash account and balance it off at the end of the month January 2022.

January 2022

- 1<sup>st</sup> Started business with cash Shs 1,000,000  
 3<sup>rd</sup> Bought goods for cash Shs 300,000  
 6<sup>th</sup> Cash sales to date Shs 450,000  
 11<sup>th</sup> Bought land for cash Shs 400,000  
 14<sup>th</sup> Paid for office expenses in cash Shs 180,000  
 15<sup>th</sup> Paid for stationery in cash Shs 200,000  
 23<sup>rd</sup> Sold goods for cash Shs 480,000  
 28<sup>th</sup> Paid general expenses in cash Shs 220,000  
 31<sup>st</sup> Cash purchases for Shs 150,000

**SOLUTION:**

#### **KAMYA'S CASH ACCOUNT FOR THE MONTH OF JANUARY 2022**

DR					CR			
Date	Details	Folio	Amount (Shs)	Date	Details	Folio	Amount (Shs)	
1 <sup>st</sup>	Capital		1,000,000	3 <sup>rd</sup>	Purchases		300,000	

6 <sup>th</sup>	Sales		450,000	11 <sup>th</sup>	Land		400,000
23 <sup>rd</sup>	Sales		480,000	14 <sup>th</sup>	Office expenses		180,000
				15 <sup>th</sup>	Stationery		200,000
				28 <sup>th</sup>	General expenses		220,000
				31 <sup>st</sup>	Purchases		150,000
				31 <sup>st</sup>	Balance	c/d	480,000
			1,930,000				1,930,000
1 <sup>st</sup> Feb	Balance	b/d	480,000				

**Note:** In order to fulfil the double entry principle, these transactions are further shown or posted into the ledger book where the corresponding accounts being affected in each transaction are shown. This would appear as shown below:

DR (Shs)	Capital A/C	CR (Shs)
	1 <sup>st</sup> Jan 2022	Cash 1,000,000

DR (Shs)	Sales A/C	CR (Shs)
	6 <sup>th</sup> Jan 2022	Cash 450,000
	23 <sup>rd</sup> Jan 2022	Cash 480,000

DR (Shs)	Purchases A/C	CR (Shs)
3 <sup>rd</sup> Jan 2022	Cash 300,000	
31 <sup>st</sup> Jan 2022	Cash 150,000	

DR (Shs)	Land A/C	CR (Shs)
11 <sup>th</sup> Jan 2022	Cash 400,000	

<b>DR (Shs)</b>	<b>Office Expenses A/C</b>		<b>CR (Shs)</b>
14 <sup>th</sup> Jan 2022	Cash	180,000	

<b>DR (Shs)</b>	<b>Stationery A/C</b>		<b>CR (Shs)</b>
15 <sup>th</sup> Jan 2022	Cash	200,000	

<b>DR (Shs)</b>	<b>General Expenses A/C</b>		<b>CR (Shs)</b>
28 <sup>th</sup> Jan 2022	Cash	220,000	

Using the information above, you can extract a trial balance as shown below:

### KAMYA'S TRIAL BALANCE AS ON 31<sup>ST</sup> JANUARY 2022

<b>Details</b>	<b>DR (Shs)</b>	<b>CR (Shs)</b>
Cash	480,000	
Capital		1,000,000
Sales		930,000
Purchases	450,000	
Land	400,000	
Office expenses	180,000	
Stationery	200,000	
General expenses	220,000	
<b>Total</b>	<b>1,930,000</b>	<b>1,930,000</b>

**Note:** Sales a/c has two amounts. You add them up to get the total sales for the month ( $450,000 + 480,000 = 930,000$ ). Since there is no other amount on the other side, Shs 93,000 becomes the balance b/d on the credit side.

Similarly, purchases a/c also has two amounts. You add them up to get the total purchases of the month ( $300,000 + 150,000 = 450,000$ ). Since there is no other amount on the other side, purchases will have a debit balance of Shs 450,000.

### Activity 2.14

Use the data given below from Kasozi's cash book to prepare a trial balance.

July 2020

1 <sup>st</sup>	Commenced business with cash	Shs 320,000
3 <sup>rd</sup>	Bought goods in cash	Shs 48,000
5 <sup>th</sup>	Sold goods in cash	Shs 55,000
7 <sup>th</sup>	Bought tools and equipment	Shs 60,000
10 <sup>th</sup>	Paid for salaries in cash	Shs 26,500
15 <sup>th</sup>	Paid for rent in cash	Shs 15,000
22 <sup>nd</sup>	Paid for rates in cash	Shs 22,200
25 <sup>th</sup>	Received from Amaka cash	Shs 100,000
30 <sup>th</sup>	Cash purchases	Shs 54,400

Present your work to the class.

### 2.5.2. Purpose of the Trial Balance

The trial balance is prepared:

- To prove the arithmetical accuracy of accounts in the ledger.
- To provide a summary of the balances in the ledger, which are helpful in preparation of final accounts, i.e. trading, profit and loss account.

### 2.5.3. Errors in Trial Balance and Their Correction

When drafting a trial balance, you will follow the double entry bookkeeping system. This means that both sides of the trial balance have to agree, i.e. they have to be equal.

However, when the debit and credit totals in a trial balance do not agree, it could be due to errors.

Sometimes there may be errors but still the trial balance agrees. When such errors are detected, they must be corrected to reflect the true image of what transpired in the business.

There are commonly two types of errors in the trial balance, which include errors that will not affect the trial balance totals and errors that will affect the trial balance totals.

### **Errors That Will Not Affect the Trial Balance Totals**

Errors that will not affect or stop the totals of the trial balance to agree include:

- (a) **Errors of omission:** This happens if a transaction is not recorded anywhere in the books.
- (b) **Errors of principle:** This happens when a transaction is entered in a wrong class or type of accounts.
- (c) **Errors of commission:** This happens when a transaction is entered in a wrong account but in the same class of account.
- (d) **Errors of original entry:** This happens when a wrong entry is made in the journals and incorrectly entered in the ledgers.
- (e) **Errors of complete reversal of entries:** This happens when an account to be debited is credited and the account to be credited is debited with the same amount. This does not affect the trial balance as the error has been made on both sides and with the same amount.
- (f) **Errors of compensation/compensating errors:** This happens when a mistake made in one account on the debit side of any account is the same as the mistake made on the credit side of another account by coincidence. Therefore, the figures cancel each other and the trial balance agrees.

Examples of errors that do not affect the trial balance and how they can be corrected:

- (i) A credit sale of goods worth Shs 150,000 to Malinga Herbert was neither recorded in the sales account nor in Malinga Herbert's account.
- (ii) A purchase of a motor vehicle on credit worth Shs 2,000,000 from Aisha Auto Motors was entered in purchases account instead of motor vehicle account.

- (iii) Goods bought on credit from Mary Hope worth Shs 100,000 was entered in Mildred Hope's account, but both of them are creditors.
- (iv) Goods sold to Marlen Nandutu on credit worth Shs 250,000 was wrongly transferred from the sales day book and debited to Marlen Nandutu's account as Shs 520,000 and credited in the sales account as Shs 520,000.
- (v) Payment of rent in cash of Shs 50,000 is entered on the debit side of cash account and on the credit side of rent account instead of debiting rent account and crediting cash account.
- (vi) An overcast in the account of Yajo Winfred (debtor) of Shs 112,000 is cancelled by an overcast in the account of Bajo Gladys (creditor) by the same amount.

The above errors can be corrected through a journal proper as shown below:

Date	Account Titles and Narration	Debit (Shs)	Credit (Shs)
	(i) Malinga Herbert a/c Sales a/c Being an entry not recorded in any book and now recorded	150,000	150,000
	(ii) Motor vehicle a/c Purchases a/c Being a correction of an entry made in a wrong a/c	2,000,000	2,000,000
	(iii) Mildred Hope's a/c Mary Hope's a/c Being a correction of an entry made in a wrong personal account	100,000	100,000

	(iv) Sales a/c Marlen Nandutu a/c Being a correction of an overcast made in the books	270,000	270,000
	(v) Rent a/c Cash a/c Being a correction of an error of complete reversal of entries	100,000	100,000
	(vi) Bajo Gladys's a/c Yajo Winfred's a/c Being a correction of an overcast made on both accounts	112,000	112,000

### Errors That Will Affect the Trial Balance Totals

These are errors that will make the trial balance totals fail to agree. Such errors include:

- (a) **Errors of addition:** These may occur as a result of poor addition of figures, both in the trial balance and in the balances of different accounts in the ledgers. These figures could be either overcast (over added) or undercast (under added).
- (b) **Errors of transposition of figures:** For instance, you may write 450 or 405 instead of 540. This will lead to the trial balance totals disagreeing.
- (c) **Errors of recording:** This means recording the given transaction once instead of double entry recording. For instance, you record a cash sales transaction in the cash book but do not record the corresponding entry in the sales account.
- (d) **Omission of a balance from books:** For instance, you omit or skip an account balance (figure) in the ledgers, i.e. forget to record it in the trial balance. This will make the trial balance totals to disagree.

(e) **Entry of different figures in the different accounts being affected by the transaction:** For instance, recording Shs 100,000 as capital in the cash book and then recording Shs 1,000,000 as cash in the capital account. The trial balance totals will definitely be different.

To correct such errors that affect the trial balance, you need to use an account termed as the suspense account. This account will be opened with the difference in totals identified in the trial balance.

If the debit side total of the trial balance is more than the credit side total, the difference is recorded on the credit side of the suspense account and if the credit side total of the trial balance is bigger than the debit total, then the difference is recorded on the debit side of the suspense account.

After the correction of the identified errors, both sides of the suspense account totals should be equal.

### Example 12

#### TASK:

After checking the books of Ssebagala and Sons Ltd., it was found out that the debit side of the trial balance as on February 2020 was greater by Shs 550,000. Therefore, a thorough check was made and the following errors were discovered. Use them to open a suspense account to correct them.

- The discount received, worth Shs 70,000, was not posted in the ledger book.
- Rose's account was debited with Shs 240,000 instead of Shs 190,000.
- The sales account was undercast by Shs 130,000.
- The purchases account was overcast by Shs 300,000.

#### SOLUTION:

To correct these errors in a suspense account:

- Debit suspense a/c and credit discount received a/c with Shs 70,000.

- Debit suspense a/c and credit Rose's a/c with Shs 50,000, which is the difference.
- Debit suspense a/c and credit sales a/c with Shs 130,000.
- Debit suspense a/c and credit purchases a/c with Shs 300,000.

The entries in the suspense account would appear as shown below:

**DR                  SUSPENSE ACCOUNT AS ON FEBRUARY 2020                  CR**

Date	Particulars	F	Amount (Shs)	Date	Particulars	F	Amount (Shs)
	Discount Received		70,000		Difference in books		550,000
	Rose		50,000				
	Sales		130,000				
	Purchase		300,000				
			<b>550,000</b>				<b>550,000</b>

### Activity 2.15

In your groups:

- Discuss how the following errors can be corrected.
  - Journalise the information given below, clearly showing their narrations.
- A credit purchase of goods worth Shs 250,000 from Bwire was not recorded in any book.
  - A receipt of cash from sales worth Shs 180,000 was debited in sales account instead of crediting it.
  - A sale of an old machine worth Shs 350,000 to Buga Bob on credit was credited in the sales account instead of machine account.
  - A credit purchase of goods from Otim Peter worth Shs 5,700 was poorly recorded in both books as Shs 7,500.

Present your work to the rest of the class.

## 2.6. STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

### KEYWORDS

- » final accounts
- » income statement
- » trading account
- » gross profit
- » net profit
- » profit and loss account
- » comprehensive income

### LEARNING OUTCOMES

By the end of this sub topic, you should be able to:

- (a) know the statement of profit or loss and other comprehensive income.
- (b) prepare a statement of profit or loss and other comprehensive income.

After extracting a trial balance, the entrepreneur goes on to prepare final accounts. The performance of any business is measured by finding out whether it is running at a profit or loss. The profit or loss made by a business is calculated by means of extracting final accounts.

The final accounts include: the **income statement** and the **balance sheet**.

### 2.6.1. Income Statement

The income statement is also composed of two parts, i.e. the **trading account** and the **profit and loss account**.

#### (a) Trading Account

This is prepared to ascertain whether the business has got gross profit or gross loss in a given period. It is got through deducting all the costs of goods sold from the net sales.

You need to understand the formula of computing some key items in the trading account. These include:

- (i) The cost of goods sold (cost of sales), which refers to the expenses incurred or the costs at which the goods which have been sold were bought. Its formula is:

$$\text{Cost of goods sold} = \text{Opening stock} + \text{Net purchases} - \text{Closing stock}$$

- (ii) Net sales refers to the exact amount of money received in business after selling goods in a given period of time. Its formula is:

$$\text{Net sales} = \text{Total sales} - \text{Returns inwards}$$

(iii) Amount of goods available for sale

$$\text{Goods available for sale} = \text{Opening stock} + \text{Net purchases}$$

(iv) Net purchases

$$\text{Net purchases} = \text{Total purchases} - \text{Returns outwards}$$

(v) Carriage inwards is the transport cost incurred on goods that have been bought. It is added to the amount of net purchases. In this case, if there is carriage inwards, the formula for cost of sales is as follows:

$$\text{Cost of sales} = \text{Goods available for sale} + \text{Carriage inwards} - \text{Closing stock}$$

$$\text{or, Opening stock} + \text{Net purchases} + \text{Carriage inwards} - \text{Closing stock}$$

(vi) Carriage outwards is the transport cost incurred on goods that have been sold. It is added to operating expenses in the profit and loss account because it is an indirect expense.

**Note:** If the net sales are exceeding the cost of goods sold (cost of sales), it implies a gross profit, but if the cost of sales are exceeding the net sales, it implies a gross loss.

### Example 13

**TASK:**

Calculate the gross profit from the following information:

Items	Shs
Sales	400,000
Purchases	200,000
Purchases returns	16,200
Sales returns	50,000
Opening stock	100,000
Wages	30,000
Closing stock	98,000

**SOLUTION:**

Gross profit = Net sales – Cost of sales

But Net sales = Sales – Sales returns

$$= 400,000 - 50,000$$

$$= \text{Shs } 350,000$$

Cost of sales = Opening stock + Net Purchases + Wages – Closing stock

But Net Purchases = Purchases – Purchases returns

$$= 200,000 - 16,200$$

$$= \text{Shs } 183,800$$

$$\text{Hence, Cost of sales} = 100,000 + 183,800 + 30,000 - 98,000 \\ = \text{Shs } 215,800$$

$$\text{Therefore, Gross profit} = 350,000 - 215,800 \\ = \text{Shs } 134,200$$

**Example 14****TASK:**

Calculate the gross loss from the following information:

<b>Items</b>	<b>Shs</b>
Sales	300,000
Purchases	340,000
Opening stock	203,000
Closing stock	60,000
Carriage inwards	40,000

**SOLUTION:**

Gross profit = Cost of sales – Sales

But Cost of sales = Opening stock + Purchases + Carriage inwards – Closing stock

$$= 203,000 + 340,000 + 40,000 - 60,000$$

$$= \text{Shs } 523,000$$

Therefore, Gross loss = 523,000 – 300,000

$$= \text{Shs } 223,000$$

### (b) Profit and Loss Account

This is mainly a summary of gross income made by the business less operating expenses incurred in the business in a given trading period.

- It is prepared to ascertain whether the business has attained either a net profit or net loss.
- Gross income includes the amount of gross profit made by the business (which is calculated in the trading account) plus any other income from other sources apart from the sale of goods, e.g. commission received, rent income, discount received, etc.
- Operating expenses refer to the money spent on services rendered in running the business. They normally do not vary with the level of sales made or output, i.e. they have to be incurred irrespective of the level of output or volume of sales (whether profits have been realised or not). They include distribution expenses, salaries and wages, stationery, transport allowances, bad debts, discount allowed, telephone expenses, rates and rent, electricity and water bills, etc.

**Note:** Net profit is realised when gross income is exceeding operating expenses and a net loss is realised when operating expenses are exceeding gross income.

### Example 15

**TASK:**

Calculate net profit from the information given below:

Items	Shs
Gross profit	134,200
Total operating expenses	91,000

**SOLUTION:**

$$\begin{aligned}\text{Net profit} &= \text{Gross profit} - \text{Total expenses} \\ &= 134,200 - 91,000 \\ &= \text{Shs } 43,200\end{aligned}$$

Let's study a worked-out example of a trading account, using the information in Example 13:

### TRADING A/C FOR THE YEAR ENDED

DR				CR	
Details	Amount (Shs)	Amount (Shs)	Details	Amount (Shs)	Amount (Shs)
Opening stock		100,000	Sales	400,000	
Add purchases	200,000		Less Sales returns	50,000	
Add Wages	30,000		Net sales		350,000
Total purchases	230,000				
Less Purchases returns	16,200				
Net purchases		213,800			
Goods available for sale		313,000			
Less Closing stock		98,000			
Cost of sales		215,000			
Gross profit c/d		135,000			
<b>Total</b>		<b>350,000</b>	<b>Total</b>		<b>350,000</b>
			Gross profit b/d		135,000

Salaries and wages are treated as operating expenses in the profit and loss account. However, if the amount of wages is given as a separate figure from salaries, this is treated in the trading account, i.e. it is added to the amount of net purchases. This is because it will be assumed that such an expense was incurred on the goods that were bought for reselling and it was incurred before selling the goods, like loading and off-loading charges.

**Note:** When the trading account is combined with the profit and loss account, we get an account called **trading, profit and loss account or the income statement.**

### 2.6.2. Format of an Income Statement

There are two formats of drawing up an income statement: the 'T' format and the vertical format. The 'T' format, however, is a traditional format and not commonly used by firms. The two formats are shown below:

#### 'T' FORMAT OF AN INCOME STATEMENT

DR	INCOME STATEMENT			CR	
Details	Amount (Shs)	Amount (Shs)	Details	Amount (Shs)	Amount (Shs)
Opening stock		XX	Total sale	XXX	
Add purchases	XX		Less returns inwards	X	
Add carriage inwards	X		Net sales		XXX
Add wages	X				
Total purchases	XX				
Less returns outwards	XX				
Net purchases		XX			
Cost of goods available for sale					
Less closing stock		XX			
Cost of sales		XXX			

Gross profit c/d		XX			
		XXX			XXX
Less operating expenses			Gross profit b/d		XX
Rent	X		Add discount received	X	
Salaries	X		Add rent income	X	
Electricity	X		Total other/ supplementa- ry income		XX
Stationery	X		Gross income		XXX
Motor expenses	X				
Total operating expenses		XX			
Net profit c/d		XX			
<b>Total</b>		<b>XXX</b>			<b>XXX</b>
			Net profit b/d		XX

### VERTICAL FORMAT OF AN INCOME STATEMENT

Details	Amount (Shs)	Amount (Shs)	Amount (Shs)
Total sales		XXX	
Less returns inwards		XX	
Net sales			XXX
Less cost of sales			

<b>Opening stock</b>		<b>XX</b>
<b>Add purchases</b>	<b>XX</b>	
<b>Add carriage inwards</b>	<b>XX</b>	
<b>Total purchases</b>	<b>XX</b>	
<b>Less returns outwards</b>	<b>XX</b>	
<b>Net purchases</b>		<b>XX</b>
<b>Cost of goods available for sale</b>		<b>XXX</b>
<b>Less closing stock</b>		<b>XX</b>
<b>Cost of sales</b>		<b>XX</b>
<b>Gross profit</b>		<b>XXX</b>
<b>Add discount received</b>	<b>XX</b>	
<b>Add rent income</b>	<b>XX</b>	
<b>Total supplementary income</b>		<b>XX</b>
<b>Gross income</b>		<b>XXX</b>
<b>Less operating expenses</b>		
Rent	<b>XX</b>	
Salaries	<b>XX</b>	
Electricity	<b>XX</b>	
Stationery	<b>XX</b>	
Motor expenses	<b>XX</b>	
<b>Total operating expenses</b>		<b>XX</b>
<b>Net profit</b>		<b>XXX</b>

### Example 16

TASK:

From the following information, which relates to the trial balance of Ayesiga and Company Ltd. as on 31<sup>st</sup> December 2019, prepare an income statement.

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Details	DR (Shs)	CR (Shs)
Purchases	220,500	
Stock (1 <sup>st</sup> January 2020)	100,000	
Sales		620,000
Insurance	10,000	
Advertising	17,500	
Drawings	75,000	
Salaries	54,500	
Commission received		13,500

Note: Closing stock was valued at Shs 130,000.

SOLUTION:

**AYESIGA AND COMPANY LTD.'S STATEMENT OF  
COMPREHENSIVE INCOME FOR THE YEAR ENDING 31<sup>ST</sup>  
DECEMBER 2019  
(Vertical Format)**

Details	Amount (Shs)	Amount (Shs)	Amount (Shs)
Sales		620,000	
Net sales			620,000
Opening stock		100,000	
<b>Add</b> purchases	220,500		
Net purchases		220,500	
Cost of goods available for sale		320,500	
<b>Less</b> closing stock		130,000	
Cost of sales			190,500
Gross profit			429,500
<b>Add</b> commission received		13,500	
Total supplementary income			13,500

Gross income		443,000
Less operating expenses	10,000	
Insurance	17,500	
Advertising	54,500	
Salaries		82,000
Total operating expenses		
Net profit		361,000

### Activity 2.16

In your groups, use the information given below to prepare an income statement.

The following trial balance was extracted from the books of Ayub, a sole trader in Arua town, as on 31<sup>st</sup> December 2020.

Details	Amount (Shs)
Stock (1 <sup>st</sup> January 2021)	25,000
Purchases	360,000
Sales	600,000
Wages and salaries	60,000
Returns inwards	40,000
Returns outwards	30,000
Discount allowed	18,000
Discount received	41,000
Telephone and postage	7,500
Insurance	13,500
Carriage inwards	2,000
Carriage outwards	8,500

Note: Closing stock was valued at Shs 30,000.

Present your work to the rest of the class.

## 2.7. STATEMENT OF FINANCIAL POSITION (THE BALANCE SHEET)

### KEYWORDS

- balance sheet
- assets
- liabilities
- capital
- balance sheet equation

### LEARNING OUTCOMES

By the end of this sub topic, you should be able to:

- (a) understand the key components of a balance sheet and how spreadsheets support them.
- (b) know the accounting equation, create and edit simple worksheets using the correct formulae.
- (c) prepare a balance sheet using spreadsheets and a calculator where appropriate.

The balance sheet or statement of financial position is prepared after extracting income statement.

It is a financial statement that shows the financial position of the business at a given date. It shows the **assets, liabilities and capital** of the business at a particular period of time.

It is prepared after the income statement has been prepared. The balance sheet shows a list of the remaining balances in the trial balance after trading, and profit and loss accounts have been prepared. The balance sheet is not an account and hence it is not part of double entry.

The balance sheet is prepared basing on the accounting equation which states that:

$$\text{Assets} = \text{Capital} + \text{Liabilities}$$

The above equation is also referred to as the **balance sheet** equation or bookkeeping equation of accounting. When the balance sheet prepared balances, it means that the above accounting equation has been satisfied.

### 2.7.1. Components of a Balance Sheet

There are three major components of a balance sheet. These are:

a. **Assets:** These are valuable items or things which a business possesses. They can be classified into fixed assets and current assets.

- (i) **Fixed Assets:** These are assets which are kept by a business for its use for a long period. For example, plant and machinery, motor vehicles, furniture, buildings, land, etc.
  - (ii) **Current Assets:** These are assets which are in form of cash or can be easily changed into cash in the shortest time possible. For example, cash in hand, cash at bank, stock, debtors, prepaid expenses,etc.
- b. Liabilities:** These are financial obligations or debts or amount of money a business owes to outsiders. They can be classified as long-term and short-term liabilities.
- (i) **Long-term Liabilities:** These are financial obligations (debts) of a business which are payable at a date which is more than one year, i.e. from the balance sheet date. Once it has been invested in a business by the owner, it is supposed to remain in the business for as long as the business continues.
  - (ii) **Current Liabilities or Short-term Liabilities:** These are short-term debts of a business which are repaid within a short time usually within one year, i.e. from the balance sheet date. For example, creditors, bank overdrafts, tax payable, accrued or outstanding expenses, etc.
- c. Capital:** This is money invested in the business by the owner or entrepreneur to either start or sustain it. It can be used to buy fixed assets or current assets.

### Activity 2.17

In groups, visit the school library or ICT laboratory, and:

- a. Research on a collection of balance sheets of businesses and discuss the key components with one another.
- b. Discuss and list the assets and liabilities of your school.
- c. Design a simple balance sheet from the assets and liabilities of your school that you have identified in (b) above.
- d. Share your findings with the class.

## 2.7.2. Format of a Balance Sheet

A balance sheet can also be drawn in the 'T' format and the vertical format, as shown below:

### 'T' FORMAT OF A BALANCE SHEET

Details	Amount (Shs)	Amount (Shs)	Details	Amount (Shs)	Amount (Shs)
Capital	XXX		Fixed assets	XXX	
Add net profit	XXX		Land	XXX	
	XXX		Furniture	XXX	
Less drawings	XX		Fittings	XXX	
Capital owned		XXXX	Motor vehicle	XXX	
Add long-term liabilities			Total fixed assets		XXXX
Bank loan		XXX	<b>Current assets</b>		
Add short-term liabilities			Debtors	XX	
Creditors	XX		Cash in hand	XX	
Overdraft	XX		Cash at bank	XX	
			Closing stock	XX	
Total short-term liabilities		XXX	Total current assets		XXX
		XXXXX			XXXXXX

**Note:** Both sides have to be equal, following the accounting equation:  
**Capital + Liabilities = Assets**

**VERTICAL FORMAT OF A BALANCE SHEET / THE STATEMENT  
OF COMPREHENSIVE POSITION**

<b>Details</b>	<b>Amount (Shs)</b>	<b>Amount (Shs)</b>	<b>Amount (Shs)</b>
Land		XXX	
Building		XXX	
Furniture		XXX	
Motor vehicle			XXXXX
<b>Total fixed assets</b>			
<b>Add working capital</b>			
<b>Current assets</b>			
Closing stock	XXX		
Debtors	XXX		
Cash at bank	XXX		
Cash in hand	XXX		
<b>Total current assets</b>		XXXX	
<b>Less current liabilities</b>			
Creditors	XXX		
Overdrafts	XXX		
<b>Total current liabilities</b>		XXXX	
<b>Working capital</b>			XXXX
<b>Capital employed</b>			XXXXX
<b>Financed by</b>			
Capital		XXXX	
<b>Add net profit</b>		XXX	
<b>Less drawings</b>		XX	
<b>Capital owned/Owner's equity</b>			XXX
<b>Add long-term liabilities</b>			
Bank loan		XXX	XX
<b>Capital employed</b>			XXXXX

Capital employed is the total of fixed assets plus the working capital, or it is the sum of capital owned and the long-term liabilities of a business.

It is calculated by the formula:

Capital employed = Fixed assets + Working capital

or, Capital employed = Capital owned + Long-term liabilities

In case of a net loss, it is deducted from capital instead. This is because a loss reduces someone's capital.

Let us use Example 16 to complete the balance sheet using both the methods as below:

Either:

### AYESIGA AND COMPANY'S BALANCE SHEET

AS ON 31<sup>ST</sup> DECEMBER 2019

(‘T’ Format)

Details	Amount (Shs)	Amount (Shs)	Details	Amount (Shs)	Amount (Shs)
Capital	594,000		<b>Fixed assets</b>		
<b>Add net profit</b>	361,000		Building	500,000	
	955,000		Furniture	150,000	
<b>Less drawings</b>	75,000		Total fixed asset		650,000
Equity capital		880,000	<b>Current assets</b>		
			Stock	130,000	
<b>Add short-term liabilities</b>			Debtors	100,000	
Creditors		62,500	Cash at bank	62,500	
			Total current assets		292,500
<b>Total</b>		<b>942,500</b>	<b>Total</b>		<b>942,500</b>

**Note:** Both sides have to be equal, following the accounting equation,  
i.e. Capital + Liabilities = Assets

You should not forget the heading and the date when the balance sheet  
was extracted.

Or:

**AYESIGA AND COMPANY'S BALANCE SHEET**  
**AS ON 31<sup>ST</sup> DECEMBER 2019**  
**(Vertical Format)**

Details	Amount (Shs)	Amount (Shs)
<b>Fixed assets</b>		
Building	500,000	
Furniture	150,000	
<b>Total fixed assets</b>		650,000
<b>Add Current assets</b>		
Stock	130,000	
Debtors	100,000	
Cash at bank	62,500	
<b>Total current assets</b>	292,500	
<b>Less current liabilities</b>		
Creditors	62,500	
Working capital		230,000
<b>Capital employed</b>		880,000
<b>Financed by</b>		
Capital	594,000	
<b>Add net profit</b>	361,000	
Capital equity/Capital owned		955,000
<b>Less Drawings</b>		75,000
<b>Capital employed</b>		880,000

**Activity 2.18**

In groups, use the information extracted from the books of Masaka Traders, as on 31<sup>st</sup> December 2021, to prepare their balance sheet as at that date.

Items	Shs
Plant and machinery	200,000
Motor vehicle	80,000
Cash in hand	36,000
Debtors	55,000
Creditors	46,600
Net profit for the year	117,400
Closing stock	30,000
Bank overdraft	37,000
Capital	250,000
Drawings	50,000

Present your findings to the rest of the class.

**Activity 2.19**

In pairs, use the information in the trial balance given below, which was extracted from the books of Yakani, a wholesaler in general merchandise in Koboko town, as on 31<sup>st</sup> December 2019, to prepare an income statement and balance sheet as on that date.

Details	DR (Shs)	CR (Shs)
Cash in hand	420,000	
Cash at bank	800,000	
Stock (1 <sup>st</sup> January 2020)	1,000,000	

Creditors		1,000,000
Returns inwards	150,000	
Sales		5,600,000
Purchases	3,150,000	
Salaries	40,000	
Water and electricity	60,000	
Postage	20,000	
Stationery	150,000	
Drawings	89,000	
Returns outwards		100,000
Furniture and fittings	7,500,000	
Motor van	1,350,000	
Equipment	3,161,000	
Loan		3,000,000
Rent income		120,000
Carriage inwards	70,000	
Carriage outwards	100,000	
Capital		8,240,000
<b>Total</b>	<b>18,060,000</b>	<b>18,060,000</b>

**Note:** Closing stock was valued at Shs 135,000.

Present your work to the rest of the class.

## Sample Activity of Integration

Read the case study given below and answer the following questions.

Matua and Anguzu operate a partnership business dealing in produce. The shop trades in groundnuts, beans, maize, soya beans and cow peas. Matua always keeps all the money from the sale in a drawer, without recording anything.

Anguzu has a habit of taking cash from the drawer frequently for his personal use. When Matua complained to Anguzu about it, he told Matua that if it was not for him, their business couldn't have started.

Matua then decides to record transactions for each item separately so as to pay Anguzu according to his cash contribution. Anguzu happily agrees to it.

Some days later, Matua applies for a loan to expand their business and the bank asks him for a balance sheet of the previous trading period. His accounts have the following information:

Item	Amount (Shs)
Capital	100,000
Motor Vehicle	30,000
Net Profit	50,000
Debtors	20,000
Closing Stock	90,000
Bank Overdraft	30,000
Trade Creditors	40,000
Cash at Bank	10,000
Furniture	40,000
Equipment	20,000



Figure 2.7: Matua and Anguzu's shop

**Task:**

1. Identify the accounts that should be maintained by the business to reduce improper bookkeeping.
2. Help Matua prepare a balance sheet to present to the bank.

### CHAPTER SUMMARY

In this chapter, you have learned the meaning of bookkeeping and accounting, and the importance of keeping accounting information using spreadsheets. You also learnt about the various source documents and the books of original entry and how to prepare them. You learned the principles of posting business transactions into a ledger account and balancing off accounts. You understood the meaning of trial balance and learned to identify and correct errors. You also learned how to prepare final accounts and balance sheet.

# TAX ADMINISTRATION IN UGANDA



Uganda Revenue Authority  
DEVELOPING UGANDA TOGETHER



## TAXATION HANDBOOK A Guide to Taxation in Uganda

SECOND EDITION

Figure 3.1: URA taxation handbook

### INTRODUCTION

In this chapter, you will understand the concept of tax administration, appreciate the role of URA in Uganda's tax administration, know the taxes collected by URA and identify the non-tax revenue collected by other Government Agencies.

### 3.1. TAX ADMINISTRATION IN UGANDA



Figure 3.2: Paying tax



Figure 3.3: Assessing tax

#### KEYWORDS

- ▶ tax
- ▶ taxation
- ▶ tax administration
- ▶ tax assessment
- ▶ import duty
- ▶ export duty
- ▶ excise duty
- ▶ Local Governments
- ▶ income tax
- ▶ sales tax
- ▶ property tax
- ▶ non-tax revenue
- ▶ recurring

#### LEARNING OUTCOMES

By the end of this sub topic, you should be able to:

- (a) know tax administration.
- (b) appreciate the role of Uganda Revenue Authority (URA) in tax administration.
- (c) know the taxes collected by URA.
- (d) know the taxes and duties collected by the Local Government Authorities.
- (e) identify the non-tax revenue collected by other Government Agencies.

Every country depends on the revenue it collects from both the nationals and foreigners to finance government activities.

This requires a proper system of assessing and collecting taxes, enforcing tax laws and accounting for the tax levied on citizens by the government authority. Such a system is known as **tax administration**.

Tax administration in Uganda is the responsibility of Uganda Revenue Authority (URA), as mandated by the 1991 Act of Parliament.

### 3.2. THE ROLE OF URA IN TAX ADMINISTRATION

URA is guided by a Board of Directors, which is the policy-making body entrusted with general oversight role of the organisation.

#### Activity 3.1

Your teacher has invited a guest speaker from URA to your class. Have an open interview with him/her and ask about:

- a. The roles of URA in administering tax in Uganda.
- b. Taxes collected by URA.
- c. Taxes collected by Local Government Authorities.
- d. Non-tax revenue collected by other government agencies.
- e. From the guest speaker's presentation, write a report on tax administration in Uganda.
- f. Present your report to the rest of the class.

### 3.3. TAXES COLLECTED BY URA

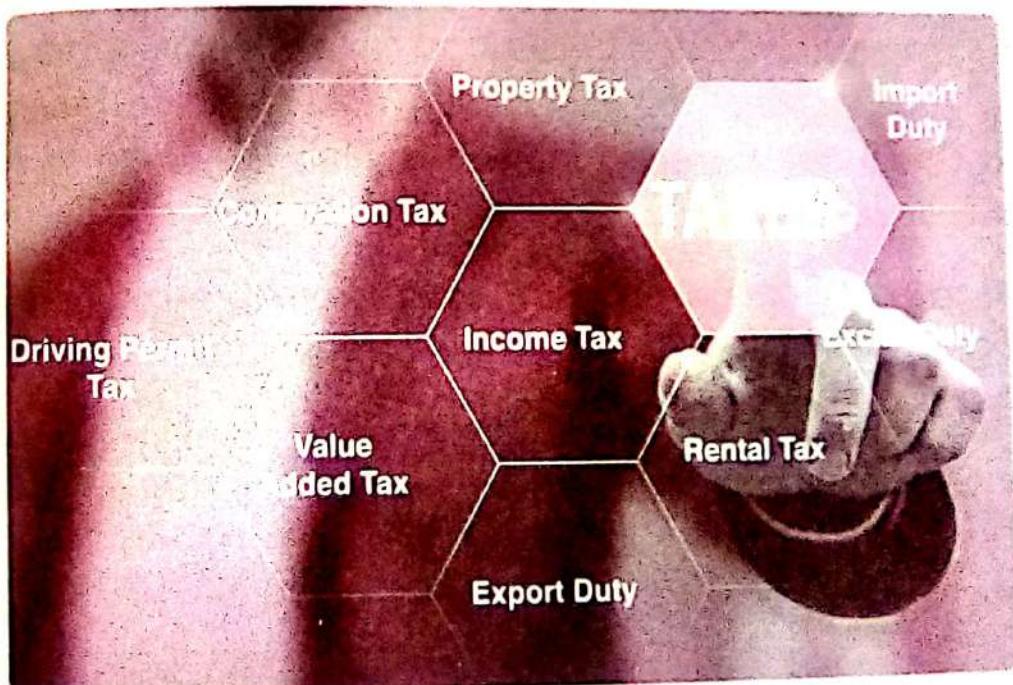


Figure 3.4: Examples of taxes collected by URA

### International Trade Taxes

These are taxes which are imposed on goods entering or leaving the country. In Uganda, this role is performed by URA's Customs and Excise department.

## **Domestic Taxes**

In Uganda, these taxes are collected by the domestic taxes department.

### **International Trade Taxes**

- Import duty
- Export duty
- Value Added Taxes (VAT) on import
- Withholding tax on imports
- Excise duty
- Environmental levy/Sumptuary tax

### **Domestic Taxes**

- Corporation tax
- Individual income tax
- Rental tax
- VAT
- Excise duty
- Motor vehicle registration tax
- Driving permit tax
- Gaming tax
- Stamp duty

### **3.4. TAXES AND DUTIES COLLECTED BY LOCAL GOVERNMENT AUTHORITIES**

The Local Governments Act Section 80 provides that: Local Governments may levy, charge and collect fees and taxes, including rates, rents, royalties, stamp duties and registration and licensing fees, and the fees and taxes that are specified in the Fifth Schedule to the Local Government Act.

The local governments collect tax revenues from three primary sources. These include income tax, sales tax and property tax.

Income and sales taxes make up the majority of combined tax revenue, while property taxes are the largest source of tax revenue for Local Governments, including schools in districts.

#### **Activity 3.2**

In your groups, discuss the different taxes collected by:

- a. URA
- b. Local Government Authorities
- c. Present your work to the rest of the class.

### **3.5. NON-TAX REVENUE COLLECTED BY OTHER GOVERNMENT AGENCIES**

#### **(a) Meaning of Non-Tax Revenue**

**Non-tax revenue** is the revenue raised by the government from sources other than taxes.

While taxation is a primary source of revenue for the government, it also earns some recurring revenue other than tax, which is called non-tax revenue. While sources of tax revenue consist of direct and indirect taxes, the number of sources of non-tax revenue are very large with wide quantity of collections per source.

Although there are large sources of non-tax revenue, the revenue collected per source is much less than that of tax collections. For instance, when people avail services offered by the government, like electricity, telecommunication, broadband, among others.

The government also collects interest as non-tax revenue on the loans and funds advanced to states for various purposes.

#### **(b) Non-Tax Revenue Collected by Government Agencies**

Types of non-tax revenues collected by government agencies include:

- Bond issues
- Visa fees
- Penalties
- License fees
- Broadcasting fees
- Dividends and profits from state-owned companies
- Examination fees collected by examination bodies like UNEB, UNMEB, UBTEB, UAHEB, among others.
- Passport fees
- Court fees
- Fines
- Road/bridge usage fees
- Power supply fees

### **Impact of Taxes on the Community**

- It reduces income inequality among the people. For example, progressing tax is based on "the more you earn the more you pay".
- It is used to discourage the consumption of harmful goods in the community with high taxes being charged on potentially harmful goods. For example, drugs.

- It reduces dumping of goods in a community by other countries, especially developed countries, with taxes forcing them to charge high prices for imported goods.
- It controls inflation; through taxes, people's income can be taxed to reduce income and therefore expenditure.
- It leads to development of community infrastructure; tax revenues are used to develop roads, health centres, among others.
- It controls monopoly power; monopolies that would otherwise charge high prices are controlled through taxes.

### **Activity 3.3**

In groups, write a letter through your Entrepreneurship Education teacher to your Head Teacher, requesting for permission to form a tax club in your school. In the letter, you should state how the club will benefit the learners and what role it will play in the school as far as tax education is concerned.

Present your work to the class.

### **❖ Sample Activity of Integration**

Hajat Nanyanzi Shifa is the proprietor of Makeke Hotel in Ndejje. Two weeks back, the URA officials put a seal on her hotel, claiming that she owed a lot of tax arrears. Upon receiving the news, she drove straight towards the hotel. About 100 metres away from the hotel, her car hit a big pothole in the middle of the road and went off road, where it hit a tree and the window screen got damaged. She was disturbed by the incident but managed to somehow reach the hotel to meet the tax officials who were waiting for her. Since she was already upset, on seeing them, she immediately started accusing them of being unfair as she had the receipts of all the tax payments for rental tax and PAYE (only). She also accused them for not repairing the roads, leading to accidents such as the one in which she was involved; corruption and discriminative taxation. She threatened to cause danger in case the officials do not remove the seal from her hotel.

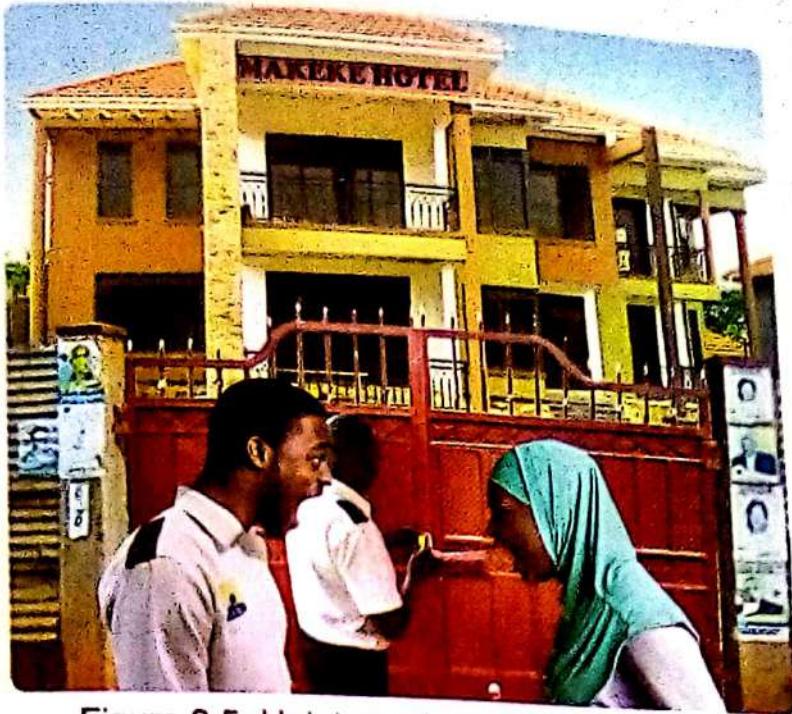


Figure 3.5: Hajat arguing with URA officials

**Task:**

You have been identified by the URA officials to come and write an article to sensitise Hajat on:

1. The role played by URA in Uganda's tax administration, and
2. The types of taxes collected by URA.

### CHAPTER SUMMARY

In this chapter, you learnt the meaning of tax, taxation and tax administration. You also learnt the role of URA in the tax administration. You learned the different stakeholders in tax administration and the taxes collected by URA and Local Government Authorities. You also learnt about the various sources of non-tax revenue in Uganda.

## GLOSSARY

<b>Account</b>	: is a record of transactions of a similar nature in the ledger.
<b>Accounting</b>	: is the process of recording, classifying and summarising, analysing and interpreting of business information which is financial in nature.
<b>Action plan</b>	: is a business management tool that details steps needed to attain business goals, usually covering the coming year or period of time ahead. It gives a timetable for each task, a description of who will do what, when and the resources needed.
<b>Assets</b>	: are valuable items or things possessed by an entrepreneur or a business.
<b>Balance sheet</b>	: is a financial statement showing the assets, liabilities and capital of a business or other organisation, as at a particular date.
<b>Bookkeeping</b>	: is a process of recording, summarising and classifying all business transactions that have taken place in the course of the business. It is an important part of accounting that largely focuses on recording day-to-day financial transaction of the business.
<b>Books of accounts</b>	: are books where all financial information of a business is collected and recorded. Ledgers and journals are examples of books of account.
<b>Business plan</b>	: is a written document prepared by the entrepreneur that describes all the relevant internal and external elements and strategies for starting a new business.

**Capital**

: is the amount of cash and other physical assets invested in the business by the owner(s).

**Cash flow**

: is the movement of cash into and out of a business.

**Ethics**

: are the moral or honest ways to behave.

**Etiquettes**

: are the polite and proper ways to behave, for instance, chewing food with your mouth closed, saying 'please' and 'thank you', etc.

**Expenses**

: are the costs of business operations that are incurred to generate revenue, e.g. transport, wages and salary to workers, stationery purchased, rent, etc.

**Implementation plan** : is the process that turns strategies into actions in order to accomplish set objectives and goals.

**Income**

: is the money that an individual or business receives, usually in exchange for providing goods or services or through investing capital, e.g. rent income, interest received, commission received, etc.

**Income tax**

: is the tax imposed by the governments on the income generated by businesses and individuals.

**Investment**

: an item ventured into with the hope of generating income at some point in the future.

**Ledger**

: is the main book of accounts in which transactions of financial nature are recorded.

**Liabilities**

: refer to something a person or a company owes, usually a sum of money to the outsiders, e.g. loans, accounts payable (creditors), mortgages, deferred revenues, bonds, warranties, accrued expenses, etc.

- Local Governments** : are the authorities who have the mandate to make decisions or pass laws in a small geographic area near to them, e.g. Districts, City Councils, Town Councils, etc.
- Loss** : is an occurrence where a business has more expenses than earnings (income) during a trading period. It means that a business has spent more than the amount of revenue made.
- Mission of a business**: is a formal summary of aims and values of a business or an organisation to explain in simple and concise terms, its purpose(s) for existence or being, usually in one sentence or a short paragraph, explaining its culture, values and ethics.
- Networking** : is the exchange of information and ideas among people with a common profession or special interest, usually in an informal social setting.
- Objectives of a business** : are the stated and measurable targets of how to achieve business aims.
- Parliament** : is the national legislative body where elected and appointed members from all over the country meet to draft, debate and pass laws/legislation.
- Principles of ethics** : are a part of a normative theory that justifies or defends moral rules and/or judgements. They are not dependent on one's subjective viewpoints.
- Profit** : is a financial benefit realised when revenue generated from a business activity exceeds the expenses, costs and taxes involved in sustaining the activity in question.

**property tax**

: is a tax paid on property owned by an individual or other legal entity. It is calculated by a local government where the property is located and paid by the owner of the property.

**Sales tax**

: is a consumption tax imposed by the government on the sale of goods and services. It is levied at the point of sale and remitted to the government.

**Source documents**

: are original documents that contain the details of a business transaction. They capture the key information about a transaction, such as the names of the parties involved, amounts paid (if any), the date, and the substance of the transaction.

**Spreadsheet**

: is a file that consists of cells in rows and columns and can help arrange, calculate and sort data. Data in a spreadsheet can be numeric values, as well as text, formulas, references and functions.

**Stakeholder**

: is a party that has an interest in a business and can either affect or be affected by the business. The primary stakeholders in a typical business are its investors, employees, customers and suppliers.

**SWOT**

: is a strategic planning technique used to help a person or an organisation to identify the strengths, weaknesses, opportunities and threats related to business competition or project planning.

**Tax**

: is a compulsory financial charge, or some other type of levy, imposed on a taxpayer by the government in order to fund government spending and various public expenditures.

- Tax administration** : Is the process of administering, managing, conducting, directing and supervising the execution and application of the internal revenue laws or related statutes.
- Tax assessment** : Is the process of attaching value to a real property and business property for the purpose of levying and collecting tax revenue by the Local Governing Authority.
- Tax control** : Is an instrument used by the government to focus on the implementation of tax legislation by tax payers, as well as detecting, preventing and eliminating tax offenses.
- Taxation** : Is the means by which a government or the taxing authority imposes or levies a tax on its citizens and non-citizens and business entities.
- Timetable** : Is setting a date or time or period for the activities that are planned to be done or reached.
- Transaction** : Is a completed agreement between a buyer and a seller to exchange goods, services or financial assets for a consideration.
- Trial balance** : Is a list of all debit and credit balances extracted from accounts in the ledger at a given date to prove the accuracy of double entry system.
- Uganda Revenue Authority** : Is a government revenue collection agency established by the Parliament of Uganda. Operating under the Ministry of Finance, Planning and Economic Development, the URA is responsible for enforcing, assessing, collecting and accounting for the various taxes imposed in Uganda.
- Vision of a business** : Is a mental image of what you want your business to be at some point in the future, based on your goals and aspirations.



# ENTREPRENEURSHIP

## LEARNER'S BOOK

SENIOR 3

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Entrepreneurship Learner's Book Three strictly follows the syllabus prescribed by the National Curriculum Development Centre (NCDC), Kampala. Due importance has been given to the skills and values prescribed in the syllabus during the composition of the text, so that they develop naturally among the learners. This book is accompanied by a Teacher's Guide that assists the teacher to enhance the pupil's learning.

### The salient features of this book include:

- **Learning Outcomes and Keywords:** Each topic begins with its learning outcomes and related keywords.
- **Use of Tables and Examples:** Ample tables and examples have been given in the text to support the textual element.
- **Activities:** To make the learning process easy and fun, different competence-based activities like field trips, interaction with resource persons, etc. have been included.
- **Individual and Group Work:** Projects and activities have been included to help the learners develop their personality, interpersonal relationship and community awareness.
- **Activities of Integration:** An activity of integration is given at the end of each chapter for the learners to enhance their critical-thinking and problem-solving skills.
- **Summary:** Each chapter includes a summary of the content at the end for a quick recapitulation of the lesson.
- **Glossary:** New and difficult terms used in the text have been explained at the end of the book.



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