



Ministry of Education
and Sports

HOME-STUDY LEARNING

SENIOR
3

ENTREPRENEURSHIP

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This material has been developed as a home-study intervention for schools during the lockdown caused by the COVID-19 pandemic to support continuity of learning.

Therefore, this material is restricted from being reproduced for any commercial gains.

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FOREWORD

Following the outbreak of the COVID-19 pandemic, government of Uganda closed all schools and other educational institutions to minimize the spread of the coronavirus. This has affected more than 36,314 primary schools, 3129 secondary schools, 430,778 teachers and 12,777,390 learners.

The COVID-19 outbreak and subsequent closure of all has had drastically impacted on learning especially curriculum coverage, loss of interest in education and learner readiness in case schools open. This could result in massive rates of learner dropouts due to unwanted pregnancies and lack of school fees among others.

To mitigate the impact of the pandemic on the education system in Uganda, the Ministry of Education and Sports (MoES) constituted a Sector Response Taskforce (SRT) to strengthen the sector's preparedness and response measures. The SRT and National Curriculum Development Centre developed print home-study materials, radio and television scripts for some selected subjects for all learners from Pre-Primary to Advanced Level. The materials will enhance continued learning and learning for progression during this period of the lockdown, and will still be relevant when schools resume.

The materials focused on critical competences in all subjects in the curricula to enable the learners to achieve without the teachers' guidance. Therefore effort should be made for all learners to access and use these materials during the lockdown. Similarly, teachers are advised to get these materials in order to plan appropriately for further learning when schools resume, while parents/guardians need to ensure that their children access copies of these materials and use them appropriately. I recognise the effort of National Curriculum Development Centre in responding to this emergency through appropriate guidance and the timely development of these home study materials. I recommend them for use by all learners during the lockdown.



Alex Kakooza
Permanent Secretary
Ministry of Education and Sports

ACKNOWLEDGEMENTS

National Curriculum Development Centre (NCDC) would like to express its appreciation to all those who worked tirelessly towards the production of home-study materials for Pre-Primary, Primary and Secondary Levels of Education during the COVID-19 lockdown in Uganda.

The Centre appreciates the contribution from all those who guided the development of these materials to make sure they are of quality; Development partners - SESIL, Save the Children and UNICEF; all the Panel members of the various subjects; sister institutions - UNEB and DES for their valuable contributions.

NCDC takes the responsibility for any shortcomings that might be identified in this publication and welcomes suggestions for improvement. The comments and suggestions may be communicated to NCDC through P.O. Box 7002 Kampala or email admin@ncdc.go.ug or by visiting our website at <http://ncdc.go.ug/node/13>.



Grace K. Baguma
Director,
National Curriculum Development Centre

ABOUT THIS BOOKLET

Dear learner, you are welcome to this home-study package. This content focuses on critical competences in the syllabus.

The content is organised into lesson units. Each unit has lesson activities, summary notes and assessment activities. Some lessons have projects that you need to carry out at home during this period. You are free to use other reference materials to get more information for specific topics.

Seek guidance from people at home who are knowledgeable to clarify in case of a challenge. The knowledge you can acquire from this content can be supplemented with other learning options that may be offered on radio, television, newspaper learning programmes. More learning materials can also be accessed by visiting our website at www.ncdc.go.ug or ncdc-go-ug.digital/. You can access the website using an internet enabled computer or mobile phone.

We encourage you to present your work to your class teacher when schools resume so that your teacher is able to know what you learned during the time you have been away from school. This will form part of your assessment. Your teacher will also assess the assignments you will have done and do corrections where you might not have done it right.

The content has been developed with full awareness of the home learning environment without direct supervision of the teacher. The methods, examples and activities used in the materials have been carefully selected to facilitate continuity of learning.

You are therefore in charge of your own learning. You need to give yourself favourable time for learning. This material can as well be used beyond the home-study situation. Keep it for reference anytime.

Develop your learning timetable to cater for continuity of learning and other responsibilities given to you at home.

Enjoy learning



TERM 1

TOPIC 1: BUSINESS PLAN PREPARATION

LESSON: Elements of a Business Plan

Learning Outcome

By the end of this lesson, you should be able to prepare a simple business plan for a selected business.

Introduction

Panning for a business is a very important activity in any venture. It enables you to do everything at the right time. You can also be able to know whether such a business is the right one for you. A business plan, therefore, gives you an understanding of your business in terms of the steps to take and the necessary resources you may need.

Meaning of a Business Plan

A business plan is a document which gives the details of the business by describing it and its objectives and how they are to be achieved.

A business plan answers questions on whether the business will be able to support itself through sales, income and earn profit.

Elements of a Business Plan

There are some guidelines for developing a business plan. They include;

- General description of the business
- Statement of mission, goals and objectives
- Marketing plan
- Production plan
- Organizational plan
- The financial plan.

General description of the business

Introduction

When planning for the business, you have to give its general outlook. You describe what it is and where it will be situated. All these are given in the general description of the business.

Therefore, general description is a summary of the type of business being planned for. It includes the name and address of the business, the needs it will fulfill and what makes the business different from others.

1. Statement of mission, goals and objectives

- i) Mission statement is a brief statement which indicates the purpose of the business. Mission is the very reason as to why the business exists; for example, “We are in the business of providing high quality textiles”.
- ii) Goals: A goal is a target that you intend to achieve in a given period using a given amount of resources. For example, to maximize profits. It is a brief clear statement of an outcome to be reached within a timeframe.
- iii) Objectives are specific targets that will move you to the direction of achieving your goal; for example, to increase sales by 20%, profits by 15%.
- iv) Objectives of a business must be SMART. In detail, SMART means:
 - a) Specific: This means the objectives must be clear enough to guide your actions; for example; to increase productivity by 10%, NOT; to increase productivity by a reasonable percentage.
 - b) Measurable: This means you must be able to measure and compare the performance to the set standards.
 - c) Attainable: This means you must project something that can be achieved within a specified period.
 - d) Realistic: The objectives must be achievable. They must be within your reach.
 - e) Time bound: You should specify the time within which they are to be achieved. They should be obtainable within the period you set.

Marketing Plan

When your product is ready, it needs to go to the market. Your customers have to know of its existence. In a marketing plan, you lay a strategy of how your target customers will know about the existence of the product and how the product is going to reach the target market.

The marketing plan, therefore, is an element of the business plan which involves studying the possible position and opportunities of a business being planned in the present market situation. In the marketing plan, you outline the methods of advertising you will use for your products. It covers areas like:

- i) Target market: Under this, you establish who your customers are; where they are located; their needs; and buying patterns; that is, how often they buy goods/services;
- ii) Nature of the product or service to be offered;
- iii) Position of competitors: Here you establish the position of firms dealing in similar products like yours;
- iv) Pricing strategies: You determine the prices at which you will offer your products;
- v) Distribution Strategy: This involves selection of the best distribution channel for goods and services in respect of reaching many customers;
- vi) Sales promotion and advertising strategy: This involves selecting the various ways through which you will communicate and influence the customers;
- vii) Expected sales: This shows the sales targets.

Activity 1

Prepare a marketing plan for a business of your choice.

Production Plan

This is an analysis of the projected needs for producing or buying the goods or services to complement the proposed marketing plan. It circles areas like,

- i) Business site and its location; under which you establish where to locate your business as well as the cost of land.
- ii) Production process, which includes how the business intends to produce or purchase the desired goods/ services.
- iii) Quantities /volumes of goods or services to be produced, purchased and for sale to customers
- iv) Specifications of machines, tools and equipment required for production purposes.
- v) Raw materials required for the production process in terms of quantity and quality. You have to plan for them.
- vi) Required utilities like water, electricity and communication. You will need a source of clean water for the birds and their young ones to drink and to clean their container.

Organizational Plan

This part of the business plan shows tools, equipment and workers that will be used in the business. It shows how the business will be organized and how machines will be utilized.

It includes the following;

- i) The people in the organization; including the major management roles and the individuals who will fill each position
- ii) Description of the duties and responsibilities of every manager
- iii) Explains how the business will be managed. You should be able to plan how you will run your business on a daily basis
- iv) Skills and knowledge possessed by each worker
- v) Amount to be paid to each worker
- vi) Motivation of workers. That is The benefits to be given
- vii) Which people will supervise or manage other people

Financial Plan

This covers all financial necessities and projections of the business. It shows what the business expects to spend and what it expects to earn. It includes the following;

- i) Source of funds for the business: Under this, you mention your source of capital. At your age, the major source of funds for your business may be your personal savings or from your parent or guardian.
- ii) How the business is going to spend: Here you give a detailed explanation of how you are to spend the money collected
- iii) What it will cost to set up the proposed business
- iv) Expected sales per product per period
- v) Expected profits
- vi) How the income will be used

Purpose of a Business plan

- It encourages you to think through your business thoroughly.
- It helps you define the specific goals and objectives which help you to constantly monitor the progress of the business by comparing what is being done with the stipulated objectives of the business.
- It encourages you to be focused on the business you are in now and what business you want it to be in future.
- It is a timetable for implementing the planned business activities in an organized way.
- It helps you to expand or improve the business by:
 - Deciding whether or not to continue with the business identified;
 - Obtaining external support for example, finances and tax exemptions; and
 - Setting production targets which helps you specify resources necessary to achieve the set targets.
- It helps the government to assess the possibility of success of a business to determine specific incentives like tax exemptions, credit etc.
- It helps the government to plan for the infrastructure and other services.
- It helps increase the business wants to obtain a loan. It gives the employees job security since they are sure of expected life cycle of the business.

Activity

Select a business of your choice and prepare a simple business plan answering the questions below:

What is the name of your business?	
Who are your target customers? Who are your major competitors? What price will you sell your products?	
Where will your business be located? How much will you produce per day?	
How many people will you employ? What skills should they possess?	
What will be your major source of funds? How will you spend these funds?	

TERM 2

TOPIC 2: FINANCIAL INSTITUTIONS

LESSON 1: Types of Financial Institutions and Services Offered by Financial Institutions

Learning Outcome

By the end of this lesson, you should be able to explain how to utilize the services of the different financial institutions in your community.

Introduction

You may have seen some financial institutions in your community without knowing the role they play. These financial institutions provide us with a medium of exchange which enables us carry out the different economic activities; they keep our money and also lend us money.

Meaning of Financial Institutions

These are businesses that specialize in providing customers with financial services. The services provided may include saving deposits, loans of different types, payments and settlements of debts. Examples of such financial institutions in Uganda include Absa Bank, Pride Microfinance, Stanbic Bank and Centenary Bank.

Types of Financial Institutions

There are many types of financial institutions in Uganda, including the following:

- a) The Central Bank
- b) Commercial banks
- c) Microfinance institutions
- d) Saving and Credit Cooperative Societies (SACCOs)

The Central Bank

We have one central bank in Uganda, which has the responsibility of supervising all the other financial institutions mentioned earlier.

The Central Bank is defined as a government bank established to supervise, guide and assist commercial banks and other financial institutions in the country. It provides banking services and financial advice to the government and commercial banks. Bank of Uganda, based in Kampala, is the central bank of Uganda.

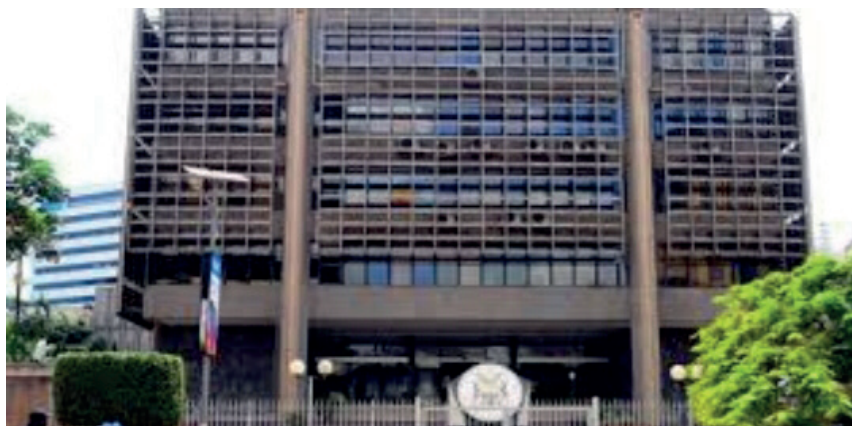


Figure 1: Shows Uganda's Central Bank

The central bank performs a number of functions, including:

- Issues currency in the country in form of bank notes and coins. All the money you see being used in the country is issued by the central bank. It also replaces all worn out bank notes.
- It is a bank for all commercial banks; it is where they keep part of their total deposits. Commercial banks are expected to keep part of their deposits with the central bank.
- It licenses and supervises all banking activities of commercial banks.
- All government bodies receive their funds through the central bank.
- It lends to commercial banks as lender of last resort.
- It controls money supply in the country by using interest rates, open market operations, selective controls, variable reserve requirements and other tools of monetary control.
- It advises government on the monetary policies meant to guide the economy.

Commercial Banks

This is a type of financial institution which deals directly with the public and offers a number of services. In Uganda, we have a number of commercial banks which provide these services.



Figure 2: One of the commercial banks in Uganda

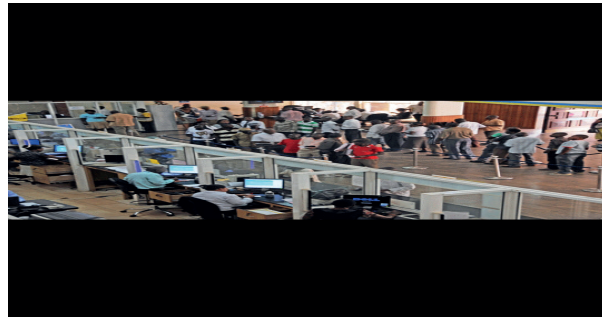


Fig.3: The public accessing different services in a commercial bank

Commercial banks deal directly with the public and provide a number of services, which include the following:

- Accepting deposits from customers and safeguarding the money deposited;
- Assisting in making payments and settlements by using cheques and payment orders;
- Assisting in transferring money by using bank drafts, standing orders, travelers' cheques and credit transfers;
- Providing finance to customers in form of loans and overdrafts;
- Buying and selling foreign currency on behalf of their customers;
- Assisting customers in international trade by selling travelers' cheques, bank drafts, letters of credit, etc.;
- Providing night safe custody services to their customers;
- Assisting customers to access their money any time they want it, through Automatic Teller Machines (ATM).

Micro-Finance Institutions (MFIS)

These are financial institutions which provide credit to customers. The amount of money normally given is usually small. Many of these financial institutions are located in rural areas. Examples in Uganda include Pride Micro-Finance and FINCA.

Savings and Credit Cooperative Societies

These are small financial institutions started by private people on their own. They mobilize savings from members and lend some of these savings to those who need loans. Many people in Uganda have started SACCOs and after the lockdown, the government has promised to support them, since many of these members have not been working.

ACTIVITY.

Identify any financial institution in your community and outline the services it offers to the public.

LESSON 2: Types of Accounts at Financial Institutions

Learning Outcome

By the end of this lesson, you should be able to describe the types of accounts used in financial institutions.

Introduction

A bank account is a record of transactions between you and the bank. This relationship can be shown by opening any of the following accounts:

These include savings account, current account, fixed deposit account, collection account and loan account.

a) Savings Account

b)

You know how important it is to save for any rainy day or for something special. Recently, the whole country has been under lockdown due to the COVID-19 pandemic. Most people have not been working. Those who had saved some money for this unforeseen situation have been able to go through this difficult time without much pain.



Fig. 4: Savings for different reasons

A savings account is an account that can be opened by an individual who would like to accumulate money for a particular purpose. Figure 4 shows money saved for various reasons.

Features of a Savings Account

- A minimum initial deposit is required at the time of opening it.
- You can deposit money on this account any time during working hours.

- You are paid interest on the balance on account at the end of a given period, which could be a month, quarter of a year, half year or a year.
- You can withdraw and deposit money at any branch within the country.
- You are not allowed to withdraw more money than what you have on the account.

c) Current account

This is an account available in financial institutions and is mostly operated by businesspeople. This account is ideal for persons and businesses with large sums of money, wishing to make large and frequent deposits and withdrawals.

Features of a current account

- A minimum initial deposit is required at the time of opening it.
- No minimum balance is required. You can withdraw all your money from the account and the account remains open, unless you tell the bank to close it.
- You can deposit any amount of money on it.
- No interest is paid on deposits kept on your current account.
- Overdrafts are allowed on a current account on special arrangement with the bank.

d) Fixed deposit account

This account is opened by an individual with a given amount of money for a stated period and promises not to withdraw it until the expiry of that period.

It has the following features:

- A minimum amount is required for a specific period.
- No further deposits or withdrawals are to be made on the fixed account until the expiry of the agreed time.
- Higher interest is paid to the account holder in comparison to other types of accounts.
- You are issued a receipt at the time of placing the deposit.
- When you withdraw your money before expiry of the fixed deposit period, you forfeit the interest expected on the account.

This type is ideal in case you have large sums of money you may not need over a specified period.

LESSON 3: Bookkeeping

Learning Outcome

By the end of this lesson, you should be able to define bookkeeping and give the importance of bookkeeping, identify users of accounting records and give the common basic terms and documents used in bookkeeping.

Introduction

Many business people don't keep records of their business activities, especially those related to finance, yet it is very easy to forget such important information. Therefore, to be a successful entrepreneur, you should keep proper business records to make them available whenever need arises.

Bookkeeping

Meaning

Bookkeeping is the recording of financial transactions in the necessary books in order to make them available for use. Such records may relate to purchases, sales, receipts and payments.

Bookkeeping is the process of recording, classifying and summarizing business transactions in terms of money in the books of account.

Importance of Bookkeeping

1. Bookkeeping helps the business in calculating the profits or loss made during a given period.
2. It helps the entrepreneur to keep records of the goods sold on credit.
3. It allows a business to keep accurate data concerning all resources of the business.
4. Bookkeeping records help the tax authorities to calculate the exact amount of tax to be paid by an entrepreneur.
5. Bookkeeping records help in the planning process because the business plans basing on the present and past accounting records.
6. They help the business to apply for a bank loan.
7. The records also help in determining the financial position of a business, through the use of a balance sheet.

Read the short story below and answer the questions that follow in your notebook.

Pakata is a businessman in your community, operating a small retail business. Pakata does not have any records concerning his business activities; he is only managing his records in his head.

Activity:

- i) How can Pakata keep records for his business?
- ii) Why is it important to keep records in the business?

Users of Bookkeeping

These are the different people or organizations who need the available accounting information in the process of performing their business duties:

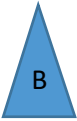
- Owners / management of the business
- Government bodies like tax authorities
- Banks and other money lenders
- Workers / employees
- Prospective co-investors
- Customers of the business
- Suppliers of goods

Common Terms Used in Bookkeeping

- **Capital.** This refers to all resources used by the entrepreneur to start a business. This covers money in form of cash, land, furniture, machinery, etc.
- **Purchases:** These are goods which are bought for resale with an aim of making profits.
- **Stock:** These are goods available in the business for sale.
- **Sales;** These are goods sold in the business within a given period.
- **Transaction:** This refers to any dealing between two or more persons involving exchange of goods or services with money. It may be a cash transaction or a credit transaction.
- **Income:** This refers to money received by the business from the sale of goods and services, loans, commission and profits.
- **Drawings:** This refers to money or goods taken by the owner from the business for personal use.
- **Debtor:** This is a person/organization who owes money to the business.
- **Creditor:** This a person/organization whom the business owes.
- **Expenses:** This is money spent by the business to pay for goods or services.
- **Assets:** These are resources of value possessed by the business. For example, land, buildings, furniture, machinery, motor van, etc.
- **Liabilities:** These are debts to be paid by the business to the owner or outsiders.

2. Cash sale slips

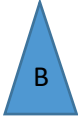
These are documents issued by a seller to the buyers who immediately pay for the goods or services on the spot. It serves the same purpose as a receipt.

BAKULU & SONS ENTERPRISES			
			
P O BOX 3058 SOROTI TEL. 0394-678000 No. 011			
		CASH SALE SLIP	Date.....
Received with thanks from			
Quantity	Particulars	Unit Price	Amount
E. & O E TOTAL			
Goods once sold are not returnable			

3. An invoice

This is a document issued by the seller to the buyer when goods / services have been sold on credit.

BAKULU & SONS ENTERPRISES

 **B**

P O BOX 3058 SOROTI
TEL. 0394-678000
No. 015

INVOICE Date.....

Ms

.....

.....

No.	Quantity	Particulars	Unit Price	Amount
-----	----------	-------------	------------	--------

E & OE TOTAL

Total amount.....

.....

Prepared by.....

Signature

4.

5. Cheque

It is a written order by a current account holder to his/her bank instructing it to pay a stated sum of money to the person named on its face.

Date.....	CBL CAPITAL BANK LIMITED
Payee.....	JINJA ROAD BRANCH 780864
Amount in figures.....	43005006
.....	Pay.....Or Order
Amount in words.....	Uganda Shillings.....
..... UGX
.....	FARMPRISE UGANDA
.....	780864 43005006 000341 FARMPRISE
.....	UGANDA

6. Cash deposit slip

This is a document used by a bank customer to deposit money on his/her account.

7. Bank statement

This is a document prepared and issued by a bank to an account holder that shows all the transactions between the bank and the account holder during a given period.

8. Payment voucher

This is a document which shows the amount of money that has been paid by the business on a given date, the purpose for the payment and who authorized the payment.

LESSON5: Methods of Bookkeeping

Learning Outcome

By the end of this lesson, you should be able to describe the methods of book keeping.

Methods of Bookkeeping

There are two methods of bookkeeping that can be used by a business.

Common Books Used in Bookkeeping

- Ledger book
- Cash book
- Journal proper

We are going to look at only the ledger book.

Ledger Book

This is a book which records transactions basing on the double entry system. The pages in the ledger book are called accounts and each page/account is given a name depending on the nature of the transaction.

Examples of pages/accounts include:

- Cash account
- Sales account
- Purchases account
- Rent account

Cash Account

This is an account which records cash receipts and payments basing on the double entry system.

All the cash received is recorded on the debit side and cash paid is recorded on the credit side of the cash account.

Each account is divided into different columns.

FORMAT OF THE CASH ACCOUNT

The cash account is also ruled with the following columns:

Debit (Dr)

Cash Account

Credit (Cr)

Date	Particulars	Folio	Amount	Date	Particulars	Folio	Amount

- i) Date column: This shows the date on which the transaction took place.
- ii) Particulars column: This shows the items for the source of money or on which money was spent.
- iii) Folio column: Shows the page number of the corresponding entry.
- iv) Amounts column: Shows the amount of money for a given transaction.

How to Record in the Cash Account

Record the following transactions in the cash account.

1. Received cash from the following on 3rd June 2020:

Shs

- Sales	80,000
- Bank	60,000
- Musa	50,000

2. Paid cash for the following on 5th June 2020:

- Rent	20,000
- Purchases	40,000
- Transport	10,000
- Wages	10,000

The above transactions are recorded as below.

Debit (Dr)		Cash Account		Credit (Cr)			
Date	Particulars	Folio	Amount	Date	Particulars	Folio	Amount
2020			Shs	2020			Shs
June	Sales		80,000	June	Rent		20,000
3	Bank		60,000	5	Purchases		40,000
June	Musa		40,000	June	Transport		10,000
3				5	Wages		10,000
June				June	Balance	c/d	100,000
3			180,000	5			
	Balance b/d		100,000	June5			180,000
July				June			
1				30			

Trial Balance

This is a list of balances relating to incomes/receipts and expenses/expenditures of the business for a particular period of time.

Purposes of the trial balance:

- i) Checks all errors/mistakes made while making entries
- ii) Checks whether double entry rule was well followed
- iii) Provides details needed when calculating profits.

Format of A Trial Balance

TRIAL BALANCE AS AT.....

Particulars	Debit (Shs)	Credit (Shs)

Note:

- The particulars column records the names of items relating to incomes and expenses.
- The debit column records the amounts relating to expenses.
- The credit column records the amounts relating to incomes.

The following guidelines are followed when preparing a trial balance:

- All receipts and incomes are recorded on the credit side. Examples include sales and rent income etc.
- All liabilities are recorded on the credit side. Examples include capital, bank loan, creditors, etc.
- All expenses are recorded on the debit side purchases, transport, rent, advertising, salaries and wages.

All assets are debited, and these include furniture, buildings, motor van, debtors, cash, bank, etc.

How to record items in the trial balance:

The balances below were listed from the ledger book of Mtoo Enterprises.

Balances	Shs
Cash	392,000
Bank	155,000
Purchases	440,000
Debtors	828,000
Furniture	100,000
Rent	80,000
Sales	850,000
Capital	900,000
Creditors	290,000
Bank loan	115,000

Below is a trial balance prepared from the balances given above:

TRIAL BALANCE AS AT 31/12/018

Particulars	Debit (Shs)	Credit (Shs)
Sales		850,000
Purchases	500,000	
Debtors	828,000	
Furniture	100,000	
Bank	155,000	
Cash	392,000	
Rent	180,000	
Capital		900,000
Creditors		290,000
Bank loan		115,000
TOTAL	2,155,000	2,155,000

Activity:

The balances below were listed from the ledger book of WAAKO LTD.

Balances	Shs
Cash	50,000
Bank	156,000
Purchases	560,000
Debtors	184,000
Furniture	400,000
Rent	100,000
Sales	650,000
Capital	500,000
Creditors	150,000
Bank loan	150,000

You are required to prepare a trial balance.

Final Accounts

These are accounts prepared at the end of the trading year, in order to determine the profits or losses made by the business, and determine the financial position of the business.

They are called final accounts because they finalize the accounting process.

Final accounts are divided into three areas:

- i) Trading account
- ii) Profit and loss account
- iii) Balance sheet

Trading Account

This is an account prepared to deal with the buying and selling of goods and services. It is, therefore, prepared to determine the gross profit or gross loss made by the business within a given trading period.

It contains the following items:

- Purchases

- Sales
- Opening stock
- Closing stock
- **Purchases.** These are goods bought for resale in the business.
- **Sales.** These are goods sold in the business to earn money. Also referred to as turnover.
- **Opening stock.** These are goods available in the business at the beginning of the trading period.
- **Closing stock.** These are goods which remain unsold at the end of the trading period.

How to Calculate Gross Profit

After preparing the trading account, you use the information to calculate the gross profit.

▪ $\text{Gross profit} = \text{Total sales} - \text{Cost price}$

Format of the Trading Account

Dr	Trading Account for the period ending 31/12/2019		Cr
	Shs		Shs

Example:

The following balances appeared in the trial balance of VERO Enterprises at the end of the trading period. Use the balances to prepare the trading account and calculate the gross profit.

Sales	Shs	300,000
Purchases	Shs	150,000
Opening stock	Shs	100,000
Closing stock	Shs	50,000

From the balances above, the trading account can be prepared as below.

VERO ENTERPRISES			
Dr	Trading Account for the period ending 31/12/2019		Cr
	Shs		Shs
Opening stock	100,000	Sales	300,000
Add: Purchases	150,000		
	250,000		
Less: Closing stock	50,000		

Cost price	200,000		
Gross profit	100,000		
Total	300,000		300,000

$$\begin{aligned}
 \text{Gross profit} &= \text{Sales} - \text{Cost price} \\
 &= 300,000 - 200,000 \\
 &= \underline{\text{Shs100,000/=}}
 \end{aligned}$$

The gross profit calculated is taken to the profit and loss account and used to calculate the net profit.

Activity:

Use the balances below to prepare a trading account and calculate the gross profit of the business for the period ending 31/12/2018.

Items	Shs
Sales	450,000
Purchases	250,000
Opening stock	50,000
Closing stock	60,000

Profit and Loss Account

This is an account prepared to determine the net profit (final profit) or net loss of the business at the end of the trading year.

It contains the following items:

- Gross profit
- Expenses

How to calculate net profit/loss

- Net profit = Gross profit - Expenses
- Net loss = Expenses - Gross profit

Note: Net profit calculated in the profit and loss account is taken to the balance sheet and added on capital, and the net loss is subtracted from capital.

Use the balances below to prepare the profit and loss account and thereafter calculate the net profit of the business.

Gross profit	Shs 100,000
Rent	Shs 20,000
Transport	Shs 15,000

VERO ENTERPRISES
Dr Profit and Loss Account for the period ending 31/12/2019 **Cr**

Expenses	Shs		Shs
Rent	20,000	Gross profit	100,000
Transport	15,000		
Total expenses	35,000		
Net profit	65,000		
Total	100,000		100,000

$$\begin{aligned}
 \text{Net profit} &= \text{Gross profit} - \text{Expenses} \\
 &= 100,000 - 35,000 \\
 &= \textbf{Shs 65,00}
 \end{aligned}$$

Activity:

Use the balances below to prepare a profit and loss account and calculate the net profit of the business for the period ending 31/12/2018.

Items	Shs
Gross profit	400,000
Rent	80,000
Transport	100,000
Salaries	60,000

Balance Sheet

This is a financial statement prepared by the business to determine the financial position of the business.

The financial position of the business is determined by the value of assets and liabilities. Therefore, the balance sheet records assets and liabilities.

The balance sheet must have a heading in three lines as seen below:

1. Line 1. Shows the name of the business
2. Line 2. Shows the name of the statement
3. Line 3. Shows the date at which it is being prepared.

MTOOTO'S
BALANCE SHEET
AS AT 31/12/2019

	Shs		Shs
LIABILITIES		ASSETS	

1. Assets

These refer to items of value acquired for use by the business. They include the following:

i) Fixed assets

These are items of value acquired by the business to be used for a long period, i.e. more than one trading year. Examples include land, buildings, machinery, motor vehicle, furniture, equipment and tools, fixtures and fittings.

ii) Current assets

These are items of value which are used for a short period, i.e. less than one trading year. Examples include stock of goods (closing), debtors, cash at bank and cash in hand.

2. Liabilities

These are debts which are supposed to be paid by the business to the owner and other outsiders. They are divided into two:

a. Long term liabilities

These are debts which are payable within a long period, i.e. more than one trading year. Examples include bank loans and individual loans (debenture).

b. Current/short-term liabilities

These are debts which are payable within a short period, i.e. less than one trading year. Examples include creditors and bank over drafts.

3. Capital

This refers to the resources contributed by the owner of the business towards starting it. These include cash and other tangible or physical items.

For Example:

The following list of assets and liabilities was drawn from the ledger of MTOOTO as at 31/12/2019.

Capital	Shs 165,000
Net profit	Shs 65,000
Bank loan	Shs 40,000

Creditors	Shs 20,000
Furniture	Shs 200,000
Debtors	Shs 60,000
Cash	Shs 40,000

MTOOTO'S**BALANCE SHEET****AS AT 31/12/2019**

Liabilities	Shs	Assets	Shs
Capital	175,000	Furniture	200,000
Add: Net profit	65,000	Debtors	60,000
Bank loan	40,000	Cash	40,000
Creditors	20,000		
Total	300,000		300,000

Note:

The two sides of the balance sheet must be equal.

Activity:

The following list of assets and liabilities was drawn from the ledger of CHAGAA as at 31/12/2018.

Item	Shs
Capital	250,000
Net profit	90,000
Bank loan	70,000
Creditor	30,000
Land	180,000
Furniture	130,000
Debtors	90,000
Cash	40,000

Using the balances above, prepare a balance sheet



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