

This document consists of notes of financial institutions that will help learners to be able to identify and explain financial institutions, their relevance and different documents/tools used while carrying out financial transactions in Uganda.

## 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**

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.

### **Activity**

- i) Who are the users of book keeping records?
- ii) List down some basic terms used in book keeping.

### **Source Documents**

A source document is a written note which shows the evidence that a particular transaction has taken place in the business.

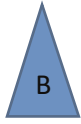
### **Importance of Source Documents**

- i) They provide details of goods sold or bought.
- ii) They provide details needed for book keeping.
- iii) They provide evidence for cash received or paid.

### **Examples of Source Documents 1. Receipts**

There are documents issued by a seller to buyers when payments are received for goods or services sold. They acknowledge that a stated amount of money has been received.

**BAKULU & SONS ENTERPRISES**



**P O BOX 3058 SOROTI**

**TEL. 0394-678000 No. 010**

**RECEIPT**

Date.....

Received with thanks from ..... Amount  
of .....

Being payment for.....

Shs

Cash/Cheque

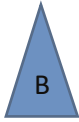
Received by.....

For Bakulu & Sons Enterprises

**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

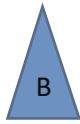
Goods once sold are not returnable

**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**



**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.....	<b>CBL CAPITAL BANK LIMITED</b>
Payee.....	<b>JINJA ROAD BRANCH</b>
Amount in figures.....	<b>780864</b> <b>43005006</b>
.....	Pay.....Or Order
Amount in words.....	Uganda Shillings.....
.....	..... UGX
	FARMPRISE <span style="float: right;">UGANDA</span>
	.....
	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 3<sup>rd</sup> June 2020:

Shs

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

2. Paid cash for the following on 5<sup>th</sup> 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**

<b>Particulars</b>	<b>Debit (Shs)</b>	<b>Credit (Shs)</b>
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
<b>TOTAL</b>	<b>2,155,000</b>	<b>2,155,000</b>

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		
<b>Gross profit</b>	<b>100,000</b>		
Total	300,000		300,000

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

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		
<b>Net profit</b>	<b>65,000</b>		
<b>Total</b>	<b>100,000</b>		<b>100,000</b>

Net profit = Gross profit - Expenses

= 100,000 – 35,000

= **Shs 65,00**

### 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.

### MTOTOO'S BALANCE SHEET AS AT 31/12/2019

	Shs		Shs
<b>LIABILITIES</b>		<b>ASSETS</b>	

#### 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**

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

**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.**

<b>Item</b>	<b>Shs</b>
<b>Capital</b>	<b>250,000</b>
<b>Net profit</b>	<b>90,000</b>
<b>Bank loan</b>	<b>70,000</b>
<b>Creditor</b>	<b>30,000</b>
<b>Land</b>	<b>180,000</b>
<b>Furniture</b>	<b>130,000</b>

<b>Debtors</b>	<b>90,000</b>
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<b>Cash</b>	<b>40,000</b>
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**Using the balances above, prepare a balance sheet.**