# ACCOUNTING HANDBOOK FOR SMALL & MEDIUM BUSINESSES

Small & Medium Enterprises Development Authority
6th Floor LDA Plaza Egerton Road Lahore
UAN: 042-111-111-456
Website: www.smeda.org.pk

Project Manager: Raja Hassanien Javed, Manager, SMEDA

Editor: Farah Mushtaq, Manager SMEDA, & Faisal Anwaar Khan



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Small & Medium Enterprises Development Authority

6th Floor, LDA Plaza, Egerton Road, Lahore

Tel: 042 111-111-456

Fax: 042 630 4926-27

Website: www.smeda.org.pk

## Preface

While there are plenty of books available on Accounting and Taxation, none of these books are written in a manner and style which makes Accounting & Taxation concepts easy to understand for small & medium enterprises.

It is felt that there is a growing awareness and requirement amongst the small & medium enterprises to maintain proper accounting records as well as to comply with Income & Sales Tax regulations. However, the complexity of law makes compliance too difficult and expensive for these businesses. Recognizing this urgent and growing need, Small & Medium Enterprises Development Authority decided to develop a Handbook aimed to serve the purpose of being a reference point for a Small & Medium Enterprise Business's Accounting, Income Tax and Sales Tax requirements.

This Handbook has been developed based on a survey carried out on small & medium enterprises to assess specific requirements of this sector. The writing style of the Handbook has been kept very simple and every effort has been made to relate the Accounting & Taxation concepts to situations practically faced by SME businesses. Examples have been used frequently to explain difficult concepts and two case studies have been used all along in the Chapters.

While every effort has been made to ensure that the contents of this Handbook are factually correct, readers are advised to remember that Accounting and Taxation regulations change frequently. It is in your interest to consult a professional advisor before taking any business decisions based on the contents of this Handbook.

Sultan M. Tiwana

General Manager, SMEDA

Message from Federal Minister

Ministry of Industries and Production

The Small and Medium Enterprises sector has attained great importance in the economy of Pakistan. It has, actually, become one of the key drivers of productivity in economic growth and development. Strengthening SME competitive markets and promoting social cohesion by means of their innovative capabilities and flexibilities, have been primary focus of the Ministry of Industries and Production.

A widespread weakness of Small and Medium Enterprises, that not only hampers their business growth but also limits government's ability to devise and implement effective development policies, is basically lack of documentation.

A successful SME in Pakistan may still not have documentation to support its growth plans. Such lack of business records restricts its access to vital business development initiatives as well as financial resources.

Small and Medium Enterprises Development Authority (SMEDA)'s publication "Accounting Handbook for Small and Medium Businesses" will facilitate SMEs in adopting good accounting practices. Better bookkeeping will, of course, enhance their business prospects and make them more bankable.

I am sure the this handbook will go a long way in facilitating bookkeeping requirements of SME businesses, setting a foundation for making them vibrant and dynamic component of Pakistan economy.

Jeeye Bhutto !

Mir Hazar Khan Bijarani

Federal Minister for Industries and Production

Message from Secretary

Ministry of Industries and Production

Small and Medium Enterprises are the stepping stone for a sustainable development of the economies towards industrialization. In Pakistan, SME sector has a share of over 30% in GDP and employs approximately 78 % of non-agricultural labour force thus making this sector a major driver of country's economy.

Best Business practices steer businesses towards competitiveness which is a key to survive in the seamless markets of globalization culture. Conversely, it is identified that poor business practices, particularly lack of documentation, is an obstacle in country's SME growth and development.

SMEDA's effort in the form of publication "Accounting Handbook for Small and Medium Businesses" is an important step towards improving business culture and the prevailing accounting and bookkeeping practices in SMEs.

I am confident that this publication, along with other similar initiatives by SMEDA, will bring a change in the business accounting practices and eventually improve competitiveness, setting the tone for a prosperous SME sector.

Abdul Ghaffar Soomro

Secretary –Ministry of Industries and Production

Message from Chief Executive

Small & Medium Enterprises Development Authority (SMEDA)

Small and Medium Enterprise (SME) sector is considered to be the backbone of a developing economy with its unique capability for employment creation, poverty alleviation, innovation and competitiveness. Owing to the emphasis by the Government together with the stakeholders' awareness, support efforts are directed towards SME development through creation of a business friendly environment as well as market development for financial and non-financial services.

In the domain of financial services, access to formal accounting facilities has been recognized as a major bottleneck. Lack of understanding of basic accounting concepts and practices is a widespread problem among small and medium entrepreneurs. SMEs generally do not have capabilities to follow and implement accounting requirements, and hence face difficulties in maintaining business records. To provide assistance in this regard, SMEDA has developed an information resource titled 'Accounting Handbook for Small & Medium Businesses". This handbook discusses a typical SME business cycle and accounting transactions related to it in a 'hands-on' manner.

SMEDA is poised to serve SMEs with a renewed focus. I am sure that the launch of this publication will be a stepping stone in bridging the information gap and will enhance SME efficiencies, leading to a profitable and competitive SME sector in Pakistan.

Shahid Rashid

CEO – SMEDA

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