

ACCOUNTING HANDBOOK FOR SMALL & MEDIUM BUSINESSES

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ISBN: 969-8558-04-7

National Library of Pakistan

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First Edition

Address for orders:

Librarian

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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

Contents

1	What is Accounting?	22
2	What are Accounts?.....	22
2.1	Balance sheet	23
2.2	Profit & loss account	23
2.3	Cash flow statement	24
3	Why do Businesses Need Accounts?	24
3.1	Internal uses	24
3.2	External uses.....	25
4	Use Accounting to your Advantage.....	25
4.1	Benchmarking to acceptable standards.....	25
4.2	Budgeting & variance analysis.....	25
4.3	Product viability analysis.....	26
4.4	Financial projections	26
5	Basis of Accounting.....	32
5.1	Recording	32
5.2	Classifying.....	32
5.3	Summarizing.....	34
6	The Double Entry System of Accounting	35
6.1	T account.....	35
6.2	Debit & credit	36
7	Journal Entries	38
7.1	Methods of accounting	39
7.2	Cash basis.....	39
7.3	Accrual basis.....	40
7.4	Compliance with income tax	40
7.5	Comparison of two methods	40
8	Accounting Assumptions.....	41
8.1	Going concern.....	41
8.2	Matching concept.....	41

8.3	Consistency.....	41
8.4	Historical cost	41
8.5	Prudence	42
9	Accounting Regulatory Bodies	42
9.1	Companies Ordinance 1984.....	42
9.2	Institute of Chartered Accountants of Pakistan (ICAP).....	43
9.3	International Accounting Standards (IAS)	43
10	Double Entry & T Accounts – A Quick Recap	46
11	Books of Accounts.....	46
12	Books of Original Entry	46
13	Sales Day Book & Sales Ledger	48
13.1	Sales day book	48
13.2	Sales ledger	49
14	Purchase Day Book & Purchase Ledger	51
14.1	Purchase day book	51
14.2	Purchase ledger	52
15	Cash & Bank Book.....	53
16	Inventory Ledger.....	55
17	General Ledger.....	56
18	Vouchers.....	59
19	Case Studies.....	64
20	Books of Accounts – A Quick Recap	68
21	What is Capital?	68
22	What is Equity?	70
23	How much Capital should be Injected?	70
24	How Frequently should Capital be Injected?	70
25	Is Capital always in Cash?.....	71
26	Deciding on a Profit Share.....	72

27	Businesses are Separate from Owners.....	73
28	Capital for Companies.....	73
28.1	Share capital.....	74
28.2	Further capital	76
28.3	Other provisions.....	76
29	Books of Accounts – A Quick Recap	80
30	What are Purchases?	80
31	Why is it Important to Record Purchases?	80
32	Purchase Cycle	81
32.1	Ordering item - purchase order (PO).....	82
32.2	Receiving items - good received note (GRN).....	84
32.3	Booking liability for items received - purchase invoice (PI).....	85
32.4	Making payments.....	87
33	Other Situations in Purchase Cycle.....	88
33.1	Advance payments.....	88
33.2	Incorrect invoicing by supplier	90
33.3	Discounts received	94
33.4	Return outwards.....	97
34	Cash Flow & Cost Management Strategies – Some Tips	97
34.1	Short term liquidity improvement.....	97
34.2	Reduced cost of purchase.....	97
35	Books of Accounts – A Quick Recap	100
36	Why is it Important to Record Sales?	100
37	How should Sales be Recorded?	100
37.1	Receiving & confirming orders – sales order	101
37.2	Dispatching the ordered items – delivery note	102
37.3	Raising an invoice – sales invoice.....	103
37.4	Receiving payments	104
38	Know your Selling Price.....	105
38.1	Cost-plus basis	105

38.2	<i>Gross margin basis.....</i>	105
39	My Customer has not paid me – What do I do?	106
39.1	<i>Bad & doubtful debts.....</i>	106
39.2	<i>Bad debts recovered</i>	111
39.3	<i>Advances, discounts and returns</i>	112
40	Convert your Receivables into Cash	112
41	Some Suggestions on Improving Liquidity.....	113
41.1	<i>Liquidity management</i>	113
41.2	<i>Early settlement discounts</i>	113
42	Books of Accounts - A Quick Recap	116
43	What are Fixed Assets?	116
44	Tangible & Intangible Assets.....	116
44.1	<i>Tangible assets.....</i>	117
44.2	<i>Intangible assets.....</i>	117
45	What is Cost of Fixed Assets?.....	117
46	Understanding the Terminology	122
47	What is Depreciation?.....	123
47.1	<i>Straight line method</i>	123
47.2	<i>Diminishing balance method.....</i>	124
48	Depreciation is not always Charged	126
49	My Fixed Assets are worth more now!.....	126
50	What happens when a Fixed Asset is Sold or Lost?	127
50.1	<i>Sale of Fixed Assets.....</i>	128
50.2	<i>Destruction or theft of an asset.....</i>	130
51	Using Fixed Assets to your Benefit!.....	131
51.1	<i>Reduction in tax liabilities</i>	131
51.2	<i>Revaluation reserve is equity!.....</i>	131
52	Books of Accounts – A Quick Recap	134
53	What is Lease?	134

54	Commonly Used Terms.....	134
55	Types of Leases.....	135
55.1	Finance lease	135
55.2	Operating lease	136
56	Why should a Business Lease?	136
56.1	Bank financing may not be available	136
56.2	Small upfront cash investment	136
56.3	Repayments spread over affordable tenure	136
56.4	Tax advantage	137
57	How are Leases Recorded?	137
57.1	Operating lease	137
57.2	Finance lease	138
57.3	Finance Leases vs. Operating Leases.....	142
58	Using Leasing to your Advantage!.....	143
58.1	Mark Up Rate vs. Tenure.....	143
58.2	Lease vs. Buy.....	144
59	Books of Accounts - A Quick Recap	148
60	What is Inventory?.....	148
60.1	Raw materials.....	148
60.2	Finished goods (which have been manufactured).....	149
60.3	Finished goods (which are purchased for re-sale).....	149
60.4	Work in process	149
61	Why Have Different Valuation Techniques?.....	149
62	What is Cost of Inventory?.....	150
63	How is Inventory Valued?	151
63.1	FIFO (first in first out).....	151
63.2	Weighted average method.....	156
64	Is Inventory Always Shown at Cost?.....	159
64.1	Net realizable value (NRV).....	160
65	How can Inventory Costs be Reduced?	162

65.1	<i>Forecast your sales accurately.....</i>	162
65.2	<i>Holding & storage costs</i>	162
65.3	<i>Buffer stocks.....</i>	163
65.4	<i>Economic order quantity (EOQ)</i>	163
66	<i>Books of Accounts – A Quick Recap</i>	168
67	<i>What type of Inventory is Manufactured?</i>	168
67.1	<i>Finished goods.....</i>	168
67.2	<i>Work in process</i>	168
68	<i>Why is Costing Important for a Manufacturer?.....</i>	170
69	<i>What is Cost of Manufactured Inventory?</i>	170
70	<i>Costing Terminology Made Easy!</i>	171
70.1	<i>Direct costs.....</i>	171
70.2	<i>Indirect costs</i>	171
70.3	<i>Variable costs</i>	172
70.4	<i>Fixed costs.....</i>	172
71	<i>What is a Typical Manufacturing Cycle?.....</i>	172
72	<i>How are Costs Classified?</i>	174
73	<i>How is Cost of Manufactured Inventory Calculated?</i>	175
73.1	<i>Absorption costing method</i>	175
73.2	<i>Marginal costing method.....</i>	188
73.3	<i>Comparison: absorption costing vs. Marginal costing</i>	189
73.4	<i>Impact on profit calculation</i>	190
74	<i>What is Accounting for Work in Process?.....</i>	191
75	<i>How should I Decide which Product to Manufacture?</i>	191
76	<i>How can these Costing Methods Help in Decision Making?</i>	192
77	<i>How much do I have to Produce before I Start Making Profits?</i>	193
78	<i>Are there Other Costing Methods?</i>	194
78.1	<i>Activity based costing (ABC).....</i>	194
78.2	<i>Job costing.....</i>	194
78.3	<i>Batch costing.....</i>	194

78.4	<i>Process costing</i>	195
79	Books of Accounts - A Quick Recap	198
80	What are the Sources of Bank Financing?	198
81	What Types of Financing are Available to Businesses?.....	198
81.1	<i>Fixed asset (or project) financing</i>	198
81.2	<i>Working capital financing</i>	199
82	How are Payments Made to the Financing Bank?	201
82.1	<i>Financial charges</i>	202
82.2	<i>Principal repayments</i>	209
83	Using Long Term Financing to Your Advantage	210
84	Some Facts to Keep in Mind!	210
84.1	<i>Negative CIB checking is not a problem</i>	210
84.2	<i>Reduce your business's mark up cost</i>	211
84.3	<i>Know how much your business needs</i>	211
84.4	<i>How do you make long term financing cheaper?</i>	211
85	Books of Accounts – A Quick Recap	214
86	Employees are Important for a Business.....	214
87	What Are the Different Types of Payroll Costs?	215
87.1	<i>Wages</i>	215
87.2	<i>Salaries</i>	215
87.3	<i>Classification of payroll costs</i>	215
88	What is Included within Salaries?	216
89	Maintaining Employee Records.....	217
90	How is Salary Cost Recorded?	217
91	When & How is the Tax Department Informed?	224
91.1	<i>Tax challan</i>	224
91.2	<i>Quarterly statements</i>	224
91.3	<i>Salary certificates</i>	224
92	What Responsibilities are Placed on Businesses?.....	224

93	What are Overheads?	225
94	Why are Expenses Accrued?	229
94.1	How is provision for accrued expenses calculated?	230
94.2	How are accrued expenses accounted for?	230
94.3	What happens in the next month?.....	231
95	What are Prepaid Expenses?.....	234
95.1	How are prepaid expenses accounted for?.....	234
95.2	What happens in the next month?.....	236
96	Books Of Accounts - A Quick Recap.....	246
97	What are Foreign Currency Transactions?.....	246
98	Understanding the Terminology	247
99	What are the Different Types of Foreign Exchange Rates?	247
99.1	Spot rate.....	247
99.2	Forward rate.....	248
99.3	Buying rate	248
99.4	Selling rate.....	248
100	What is the Accounting for Foreign Currencies?	249
101	What is Exchange Gain or Loss?.....	249
102	What is the Accounting for Export Transactions?	250
102.1	At a spot rate against which payment has been received.....	250
102.2	At a spot rate against which payment is pending.....	253
102.3	At a forward rate	256
103	How Different is Accounting for Import Transactions?	258
104	What have We Covered So Far?	262
105	How Frequently are Accounts Prepared?	262
106	What are Accounts?	262
107	What are Final Adjustments?	262
107.1	Bank reconciliation	263
107.2	Types of differences	264

107.3	Bank rconciliation statement.....	265
107.4	Prepayments & accruals.....	267
107.5	Depreciation	267
107.6	Bad & doubtful debts.....	267
107.7	Stock adjustments.....	268
107.8	Classification.....	269
107.9	Consistency of policies.....	269
108	Closing of Accounts	270
108.1	Machinery account	270
108.2	Rent account.....	272
109	How is a Trial Balance Made?	273
110	Profit & Loss Account	277
110.1	Hanif Auto	277
110.2	Hussain Khaddar (Private) Limited.....	278
111	Balance Sheet.....	279
111.1	Hanif Auto	279
111.2	Hussain Khaddar (Private) Limited.....	280
112	Cash Flow Statement.....	281
112.1	Non-cash items	281
112.2	Hanif Auto Engineering	285
112.3	Hussain Khaddar (Private) Limited.....	286
113	A Quick Recap	290
114	What is Ratio Analysis?	290
115	How can these Ratios be Used in Businesses?	290
115.1	Liquidity Ratios	290
115.2	Activity Ratios.....	291
115.3	Solvency Ratios	294
115.4	Profitability Ratios	295
116	Disclaimer	298
117	What is Income Tax?	298

118	Laws Governing Income Tax.....	298
119	To Whom do Income Tax Regulations Apply?.....	298
120	Income Tax Terminology Made Simple.....	299
121	How to Apply for a National Tax Number?	299
121.1	Partnership firm.....	300
121.2	Sole proprietor.....	300
121.3	Limited company	300
122	Income Tax Law – Brief Overview.....	300
123	What is a Tax Year?	301
124	What is Income Tax Cycle?	301
124.1	Payments for goods, services & rent.....	302
124.2	Receipts from customers.....	304
124.3	Advance tax.....	304
124.4	Salaries paid to employees.....	306
125	Arriving at Taxable Profits	306
125.1	Admissible expenses and allowances / deductions allowed.....	307
125.2	Tax depreciation	307
125.3	Initial allowances.....	307
125.4	Bad & doubtful debts.....	308
125.5	Unpaid trading liability	308
125.6	Operating & finance leases	308
125.7	Tax rates for business individuals and firms.....	309
125.8	Tax rates when income includes agricultural income	310
125.9	Tax rates for salaried individual.....	311
125.10	Calculation of taxable profits.....	313
125.11	Assessment.....	315
125.12	Accounting entries	316
125.13	Balance tax to pay	317
126	Universal Self Assessment Scheme.....	318
127	Refunds.....	318
127.1	Application procedure.....	319

127.2	<i>Time limit</i>	319
127.3	<i>Delay in refund by tax department</i>	319
128	Penalties	320
129	Small Company.....	321
130	Disclaimer	328
131	What is Sales Tax?	328
132	How to Register for Sales Tax?	329
132.1	<i>Registration procedure</i>	329
132.2	<i>Change in registration</i>	330
132.3	<i>De-registration</i>	330
133	Understanding the Terminology.....	330
134	What is the Benefit of Sales Tax Registration?	331
135	Minimum Value Addition	333
136	What is a Sales Tax Invoice?	334
137	Input Tax not Claimable	335
138	Filing of Sales Tax Return.....	335
138.1	<i>Accounting system</i>	335
138.2	<i>Sales tax records</i>	336
138.3	<i>Mode of payments</i>	337
138.4	<i>Due date and specimen of sales tax return</i>	337
138.5	<i>Procedure for filing of sales tax return</i>	337
138.6	<i>Time period to claim input tax</i>	338
138.7	<i>Sales tax Is payable or refundable?</i>	338
138.8	<i>What happened In October '05?</i>	345
138.9	<i>Expenses on sale</i>	347
138.10	<i>Carry forward – only for manufacturers</i>	348
139	Refund or Carry Forward	348
139.1	<i>How to file a refund claim?</i>	348
139.2	<i>Time period</i>	349
139.3	<i>Delays In cash refund</i>	350

140	Penalties	350
140.1	<i>Non-filing of sales tax return</i>	<i>350</i>
140.2	<i>Issuance of sales tax invoice</i>	<i>350</i>
140.3	<i>Non-payment of sales tax</i>	<i>350</i>
140.4	<i>Non-registration</i>	<i>350</i>
140.5	<i>Other penalties</i>	<i>350</i>
140.6	<i>Failure to provide records</i>	<i>351</i>
140.7	<i>Default surcharge</i>	<i>351</i>
141	e-Filing of Sales Tax Return	351
141.1	<i>Procedure for filing of e-sales tax return</i>	<i>352</i>

Table of Annexure:

Appendix 01-01	Balance Sheet
Appendix 01-02	Profit & Loss Account
Appendix 01-03	Cash Flow Statement
Appendix 03-01	Cash Payment / Bank Payment Voucher
Appendix 03-02	Journal Voucher
Appendix 12-01	Tax Challan
Appendix 12-02	Quarterly Statement
Appendix 12-03	Salary Certificate
Appendix 16-01	Form IT-A
Appendix 16-02	Form IT-B
Appendix 16-03	Tax Payment Challan
Appendix 16-04	Application for Refund of Tax
Appendix 17-01	ST 1
Appendix 17-02	ST 2
Appendix 17-03	ST 3
Appendix 17-04	Sales Tax Return
Appendix 17-05	Sales Tax Return for Distributors & Wholesalers
Appendix 17-06	Sales Tax Return for Retailers
Appendix 17-07	Sales Tax Return for Commercial Importers
Appendix 17-08	Sales Tax Return for Jewelers
Appendix 17-09	Advance Payment Receipt
Appendix 17-10	Nil Return
Appendix 17-11	Documents to be attached along with Returns of Traders