

# Business accounts, documents and records

## Introduction

This brochure gives basic information on the methods of accounting, record keeping and stock-in-trade for small and medium taxpayers deriving income from business.

A sample of business records to be maintained is also included for the guidance of small and medium taxpayers deriving income from business.

**This brochure is to assist the taxpayers and reflects the legal position at the time of printing. In case of any conflict the legal provisions of the law shall always prevail over the contents of this brochure.**

### Comments and suggestions

We welcome your comments about this brochure and your suggestions for future editions.

You can e-mail us at [membertpef@cbr.gov.pk](mailto:membertpef@cbr.gov.pk)  
or

You can write to us at the following address:

**Taxpayer Education and Facilitation,  
Central Board of Revenue,  
Constitution Avenue,  
Islamabad**

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## Record Keeping

### Why keep records?

Everyone in business must keep records. Good records will help you to do the following.

- **Monitor the progress of your business.**

You need good records to monitor the progress of your business. Records can show whether your business is improving, which items are selling, or what changes you need to make. Good records can increase the likelihood of business success.

- **Prepare your financial statements.**

You need good records to prepare accurate financial statements. These include income (profit and loss) statements and balance sheets. These statements can help you in dealing with your bank or creditors.

- **Income statement** shows the income and expenses of the business for a given period of time.

- **Balance sheet** shows the assets, liabilities, and your equity in the business on a given date.

- **Identify source of receipts.**

You will receive money or goods from many sources. Your records can identify the source of your receipts. You need this information to separate business from non-business receipts and taxable from non-taxable income/goods.

- **Keep track of deductible expenses.**

You may forget expenses when you prepare your tax return unless you record them when they occur.

- **Prepare your tax returns.**

You need good records to prepare your tax returns. These records must support the sales, income, expenses, deductions and credits you report. Generally, these are the same records you use to monitor your business and prepare your financial statements.

- **Support items reported on tax returns.**

You must keep your business records available at all times for inspection by the Tax Collector. If the Tax Collector examines any of your tax returns, you may be asked to explain the items reported. A complete set of records will speed up the examination.

### Kinds of records to keep

As a general rule you must maintain proper books of account, documents and records with respect to:

- all sums of money received and expended and the matters in respect of which the receipt and expenditure took place;

- all sales and purchases of goods; and

- all assets and liabilities;

so as to enable you to properly arrive at the income of the respective period.

Thus the business you are in, affects the type of records you need to keep. You must keep **supporting documents** and **books of account**

evidencing your sales, gross income, purchases, expenses, assets, liabilities and input tax claim under the Sales Tax Act, 1990 and reflecting the summaries of your business transactions. If you are in more than one business, you should keep a complete and separate set of records for each business.

However, both Income Tax and Sales law require maintenance of certain **“Minimum Books of Accounts, Documents and Records”**.

### **Supporting documents**

Purchases, sales, payroll, and other transactions you have in your business will generate supporting documents, which include cash memos, invoices and receipts etc. These documents contain the information you need to record in your books. It is important to keep these documents because they support the entries in your books and on your tax return. Keep them in an orderly fashion and in a safe place. For instance, organize them by tax period/year and type of income or expense.

- **Sales and gross receipts**

Sales and gross receipts are the income you receive from your business. You should keep supporting documents that show the amounts and sources of your sales and gross receipts. Documents that show sales and gross receipts include

- Carbon copies of cash memos, invoices and receipts etc.
- Cash register tapes, if using a fiscal cash register
- Bank deposit slips identifying the source

- **Purchases.**

Purchases are the items you buy and re-sell to customers. If you are a manufacturer, producer or involved in any process of value addition, this also includes the cost of raw materials or other items of value addition. Your supporting documents should show the amount paid and that the amount was for purchases. Documents for purchases include the following

- Cash memos, invoices and receipts
- Counter folios of cheque books

These records will also help you determine your claim of input tax under the Sales Tax Act, 1990 and the value of your inventory at the end of the year.

***Always make payments for purchases exceeding Rs. 50,000 by a crossed cheque or by a crossed demand draft or pay order or any other banking instrument showing transfer of the payment in favor of the supplier/seller from your business account to claim the input tax adjustment under the Sales Tax Act, 1990, if applicable.***

- **Expenses.**

Expenses are the costs you incur (other than purchases) to carry on your business. Your supporting documents should show the amount paid and that the amount was for a business expense. Documents for expenses include the following.

- Cash memos, invoices and receipts.
- Counter folios of cheque books
- Bank account statements

***The law requires that where your annual expenditure under a single account head exceeds Rs. 50,000, all individual payments in respect of such account head exceeding Rs. 5,000 should be made through crossed bank cheque or crossed bank draft in order to be an admissible deduction. Exception to the above rule is for the expenses on account of freight charges, travel fare, postage, utilities or payment of taxes, duties, fees, fines or any other statutory obligation.***

- **Payment to employees**

There are specific employment records under the Labor Laws, which you must keep. For Income Tax purposes the records necessary are

- Employee's record i.e.
  - employment agreement; or
  - application for employment and a letter of appointment.
  - copy of National Identity Card.
- Daily attendance record.
- Acknowledgment from the employee of the amount paid.

***The law requires that all payments to the employees exceeding Rs. 5,000 per month must be made through crossed cheque or by a direct transfer to the employee's bank account.***

- **Fixed assets.**

Fixed assets are the property, such as machinery and furniture that you own and use in your business. You must keep records to verify certain information about your business assets. You need records to figure the annual depreciation and the gain or loss when you sell the

assets. Your records should show the following information.

- When, how and from whom you acquired the asset
- Cost of acquiring the assets or of any improvements on already existing assets
- How you used the asset
- When, how and to whom you disposed of the asset
- Selling price and expenses of sale

- **Withholding taxes**

If you are a **tax-withholding agent** you need to retain copies of withholding tax deposit receipts (challans) and copies of certificates of deductions issued to every person from whom tax at source has been withheld.

A **tax withholding agent** is a person obliged to withheld tax at source from certain payments made by him as required by the Income Tax Ordinance, 2001. For further details refer to our brochure – Withholding Taxes.

- **Books of account**

A good record keeping system includes a summary of your business transactions. (Your business transactions are shown on the supporting documents just discussed.) Business transactions are ordinarily summarized in books called petty cash book, cash book, bank book, journal and ledger. You can buy them at your local stationery or office supply store.

In **petty cash book** small payments made in cash are recorded and segregated under various heads like entertainment, postage, vehicle

running, etc. and at the end of each month the total of expenses under each head is posted in the ledger.

***Petty cash book allows you to make small payments without having to write cheques for small amounts.***

In ***cash book or bank book*** all payments other than those reflected in petty cash book and all incoming receipts are recorded. In case of cash transaction cash book is used and in case of bank transaction bank book is used. In small business these two books can also be combined. Individual transactions from these books under each head are posted in the ledger.

In ***journal*** all non-cash and non-bank business transactions are recorded. You may have to keep separate journals for transactions that occur frequently like purchase and sales journal. Individual transactions or monthly balances (in case of purchase and sales journals) from these books under each head are posted in the ledger.

A ***ledger*** is organized into different accounts that contain the entries from the petty cash book, cash book, bank book and journal. These accounts are balanced annually to prepare income statement and balance sheet.

Whether you keep petty cash book, cash book, bank book, journals and ledgers and how you keep them depends on the type of business you are in. For example, for a small business the following books of account might be sufficient:

- Cash memos, invoices and receipts of sales, gross income, purchases and expenses.

- Daily record of each transaction of receipts, sales, purchases and expenses.
- Annual summary of business transactions.

***Whichever system you use to record business transactions will be most effective if you follow good record keeping practices. For example, record expenses when they occur, and identify the source of recorded receipts. Generally, it is best to record transactions on a daily basis.***

### **Business bank account**

One of the first things you should do when you start a business is open a business bank account. You should keep your business account separate from your personal bank account.

The business cheque book is your basic source of information for recording your business expenses. You should deposit all daily receipts in your business bank account. Consider using the back of deposit slip to identify the source of deposits as business income, personal funds, or loans etc. and keep copies of all such slips. You should make all payments by cheque to document business expenses. Write cheques payable to yourself only when making withdrawals from your business for personal use. Avoid writing cheques payable to cash. If you must write a cheque for cash to pay a business expense, include the receipt for the cash payment in your records. If you cannot get a receipt for cash payment, you should make an adequate explanation in your records at the time of payment.

***Use your business account for business purposes only. Indicate the source of deposits and the type of***

**expense on the deposit slip and counter folios of cheque book. This will help you to identify and record your transactions.**

*You should reconcile your bank account each month. Before you start to reconcile your monthly bank statement, check your own figures.*

*To reconcile your account, follow these steps.*

- 1) *Compare the deposits listed on the bank statement with the deposits shown in your records. Note all differences in the amounts, if any.*
- 2) *Compare each withdrawal, including both cheque number and amount, with the entry in your records. Note all differences in the amounts, if any.*
- 3) *Mark the deposit and withdrawals in your records, which do not appear in the bank statement.*
- 4) *Prepare bank reconciliation.*
- 5) *Update your cheque book and journals for items shown on the reconciliation as not recorded (such as service charges) or recorded incorrectly.*

*At this point, the adjusted bank statement balance should equal your adjusted balance. If you still have differences, check the previous steps to find errors.*

### **Bookkeeping systems**

You must decide whether to use a single or a double entry book keeping system. The single-entry system of bookkeeping is the simplest to maintain, but it may not be suitable for everyone. You may find the double entry system better because it has built-in checks and balances to assure accuracy and control.

- **Single entry.**

A single-entry system is based on the income statement (profit or loss statement). It can be a simple and

practical system if you are starting a small business. The system records the flow of income and expenses through the use of a daily day book.

- **Double entry.**

A double-entry bookkeeping system uses cash book, bank book, journal(s) and ledger. Transactions are first entered in a cash book, bank book or journal and then posted to ledger accounts. These accounts show income, expenses, assets (property a business owns), liabilities (debts of a business), and net worth (excess of assets over liabilities). You close income and expense accounts at the end of each tax year. You keep asset, liability, and net worth accounts open on a permanent basis. In the double-entry system, each account has a left side for debits and a right side for credits. It is self-balancing because you record every transaction as a debit entry in one account and as a credit entry in another.

Under this system, the total debits must equal the total credits after you post the entries to the ledger accounts. If the amounts do not balance, you have made an error and you must find and correct it.

- **Computerized system**

Generally all fiscal enactments permit computerized and electronic record keeping. There are computer software packages that you can use for record keeping. They can be purchased in many retail stores. These packages are very useful and relatively easy to

use; they require very little knowledge of bookkeeping and accounting. If you use a computerized system, you must be able to produce sufficient legible records to support and verify entries made on your return and determine your correct tax liability. These records must provide enough detail to identify the underlying source documents. You must also keep a complete description of the computerized portion of your record keeping system. This documentation must be sufficiently detailed to show all of the following items.

- Functions being performed as the data flows through the system.
- Controls used to ensure accurate and reliable processing.
- Controls used to prevent the unauthorized addition, alteration, or deletion of retained records.
- Charts of accounts and detailed account descriptions.

### **How long to keep records**

The law requires that the records be kept for five years from the end of the relevant tax year (for Income Tax) or tax period (for Sales Tax).

However, you must keep your records as long as they may be needed for the administration of any provision of the Income Tax Ordinance, 2001 or Sales tax Act, 1990. Generally, this means you must keep records that support an item of income or deduction on a return until the period of limitations for that return runs out. The period of limitations is the period of time in

which you can revise your return to correct an error or omission, or the Tax Collector can make an amended assessment.

***Keep copies of your filed tax returns. They help in preparing future tax returns and making computations if you later file a revised return.***

- **Assets.**

Keep records relating to property until the period of limitations expires for the year in which you dispose of the property. You must keep these records to figure any depreciation or amortization deduction, and to figure your basis for computing gain or loss when you sell or otherwise dispose of the property.

You must keep the records of the old property, as well as of the new property, until the period of limitations expires for the year in which you dispose of the property.

- **Records for non-tax purposes**

When your records are no longer needed for tax purposes, do not discard them until you check to see if you have to keep them longer for other purposes. For example, your bank, insurance company or creditors may require you to keep them longer than the Income Tax Ordinance, 2001 does.

## Methods of Accounting

A method of accounting is a set of rules adopted to determine when and how the income and expenses are recognized. There are two basic accounting methods.

- **Cash method**

Under the cash method, you report income (receipts and sales) in the tax year you receive it and deduct or capitalize expenses in the tax year you pay them.

- **Accrual method**

Under an accrual method, you report income (receipts and sales) in the tax year you earn it and deduct or capitalize expenses in the tax year you incur them, irrespective of the fact whether you have actually received the income or paid for the deductions or expenses in the relevant tax year.

You must use the same method of accounting to arrive at your taxable income and for keeping your books of account and records. The **choice of selection of a method of accounting** should be such that your taxable income is fairly and reasonably determinable;. You choose a method of accounting for your business when you file your first income tax return and that method has to be followed consistently in the subsequent years.

If you need to determine the value of **stock-in-trade** at the end of each tax year to correctly arrive at the income, you must generally use an accrual method of accounting for purchases and sales.

## Choice of selection of a method of accounting

You have the choice to adopt any method of accounting. However a company has no choice of selection of method of accounting. Under section 32(2) of the Income Tax Ordinance, 2001 a company is obliged to adopt the accrual method of accounting.

## Changing your method of accounting

Once you have adopted your accounting method you cannot change it without the prior approval of the Commissioner of Income Tax. A change in method of accounting not only includes a change in your overall system of accounting, but also a change in the treatment of any material item.

## Stock-in-trade

If you manufacture or produce and sell goods, or purchase and sell merchandise in your business, you must keep day-to-day quantitative and qualitative records of purchases, consumption, production and sale of **stock-in-trade** and use the accrual method for purchases and sales of stock-in-trade.

The record you must keep in respect of your stock-in-trade depends upon the business you are in. As a general rule following records will meet your obligations:

- Gate in-ward and out-ward registers
- Goods receiving note
- Goods delivery or issue note
- Stock registers or bin cards

If you are engaged in purchase and sale of merchandise as a retailer, you may choose to use the cash method of accounting and do not keep day-to-day records of stock-in-trade and instead maintain quarterly **stock taking records**.

### What is stock-in-trade?

'Stock-in-trade' includes anything produced, manufactured, acquired or purchased for manufacture, sale or exchange in the normal course of business, and any materials or supplies to be consumed in the manufacturing or production process. Things that are commercially regarded as trading stock generally fall within the definition stock-in-trade for tax purposes as well.

This also includes livestock, spare parts held for repairs or maintenance of plant and equipment, consumables and other inputs to manufacture and produce. However, stock-in-trade excludes standing or growing crops, timber or fruit while still attached to the tree (they only become stock-in-trade when they are picked or harvested).

### Stock taking records

In your business when purchase and sale of merchandise is an income-producing factor, you must take into account the value of all stock-in-trade to work out your income for the year. You need to do a stock taking of all your stock-in-trade on hand.

You should keep records of the stock taking:

- describing each article of stock on hand;
- its value;
- when it was done; and
- the basis of the valuation.

### How to value stock-in-trade?

Stock-in-trade valuation rules cannot be the same for all kinds of businesses. The method you use to value your inventory must conform to generally accepted accounting principles for similar businesses and must clearly reflect your income. Your stock-in-trade valuation practices must be consistent from year to year.

The basic principle to value the stock-in-trade is the lower of **cost** or market value (net realizable value).

To determine the cost a number of methods are available under the generally accepted accounting principles. However, where particular items of stock-in-trade are not readily identifiable, the Income Tax Ordinance, 2001 restricts the adoption of either the first-in-first-out method or average cost method.

**Cost** includes all costs connected with bringing the stock-in-trade into existence. The cost of finished goods, for example, should include such things as freight, customs duties and delivery charges, as well as the actual purchase price. For manufactured goods and work in progress, direct material cost, direct labour cost and all fixed and variable overheads costs such as fuel and power, gas, consumables, factory insurance, machinery repairs and maintenance, rent, rates and depreciation etc. associated with the production should be included in the cost price. This is called absorption cost method.

If you are following the **cash method of accounting** the law gives you an option to exclude fixed costs associated with production, which is called prime cost method.

### **Changing your method of valuation.**

Once you have adopted your method of valuation of stock-in-trade you cannot change it without the prior approval of the Commissioner of Income Tax.

## **Sample business records**

These records are to demonstrate a simple way of recoding business transactions of a retail business with annual turnover not exceeding Rs. 5,000,000 enrolled for turnover tax under the Sales Tax Act, 1990 and not a tax-withholding agent under the Income Tax Ordinance, 2001. Hence, does not cover all the situations and peculiar transactions associated with a particular type of a business.

### **Cash memo or invoice**

Cash-memo or invoice is an acknowledgment of a sale. The law requires that you issue cash-memo or invoice for each transaction of sale and retain a carbon or duplicate copy to support your tax returns. However, for single transactions of sale not exceeding Rs. 100 you may use one or more cash-memos every day to record such sales.

The cash memo you issue should be serially numbered, dated and depict your name or business name, address, national tax number and sales tax registration number (if any); and the description, quantity and value of goods sold.

You will receive similar cash memo or invoice for the purchases and expenses you incur.

This is generally as under:

**CASH MEMO/INVOICE**  
SELLER & CO.  
Street No. 3, Sector 3, City 1  
Tele: 9876543

NTN 1234567 Sales Tax No. 00123456

No. 40 Date 02-Jul-02

Name & Address:  
(Optional) \_\_\_\_\_

Description	Qty	Rate	Amount
Shampoo	1	110	110
Washing Powder	2	45	90
Soap	6	8	48
Laundry Soap	12	6	72
Blades	1	15	15
Cigarettes	2	30	60
Total			395

Signature \_\_\_\_\_  
(Prices are inclusive of Sales Tax where leviable)

This is your National Tax number

This is the serial number of your cash-memo or invoice

Name and address of the buyer

This is your name or your business name and address

This is your Sales Tax registration number, if any

Description, quantity and value of goods sold

### Cash book and/or bank book or daily record of business transactions

You need to record your daily transactions of receipts, sales, payments, purchases and expenses originating from the supporting documents (*explained earlier*) in a systematic manner so as to finally prepare the income statement and balance sheet.

The law only requires that you maintain either a cash book and/or bank book or a daily record of your receipts, sales, payments, purchases and expenses but does not prescribe

any specific format as it will vary from business to business and volume of transactions.

**Daily record of cash transactions** and **daily record of bank transaction** can be ideally maintained on separate sheets or register for cash transactions and bank transactions with necessary columns as explained below.



**DAILY RECORD OF CASH TRANSACTIONS FROM JULY 2002**

Date	Receipts				Particulars (Of Others Receipts & Payments)	Payments								
	Withdrawals from Bank	Sales		Others		Others	Deposits in Bank	Purchases	Freight etc. (Inwards)	Conveyance/	Entertain- ment	Repairs & Maint.	Stationery/ Postage	
		Ref No.	Amount											
1	2	3	4	5	6	7	8	9	10	11	12	13	14	
July														
1				8,250	Opening balance	From opening balance sheet								
1		1-20	14,750				5,000	7,000	420	250	55	210	125	
2		21-42	13,500	50,000	Investment by proprietor		50,000						12	
2					Electricity Bill June 2002		1,050							
2					I.Tax Electric Bill June 2002		60							
2					Mughal Furniture-Table		3,000							
2					Bills Payable - P & Co.,		10,250							
3		43-56	14,275		Telephone Bill June 2002		1,150			500		75		
3					I.Tax Telephone Bill June 2002		50							
3					Sh. Aftab - Tax Advisor Fee		2,000							
4	6,000	57-75	12,565		Staff Salaries		9,000			55				
4					Sales Tax Paid June 2002		2,995							
4					Rent of shop		3,500							
4				1,250	Bills Receivable - A & Co.,									
4					Bills Payable - M & Co.,		9,000							
15				3,150	Bills Receivable - C & Co.,									
30					Proprietors drawings		15,000							
	40,000		357,282	62,650	<b>Month End Total</b>		57,055	100,000	268,960	18,238	2,210	1,510	687	610

This balance should be equal to your cash withdrawals from the bank in the daily record of bank transaction

**Breakup of Other Receipts**

Opening Cash in hand  
Investment by proprietor  
Bills Receivable

8,250  
50,000  
4,400  
62,650

**Closing Cash in hand**

Total of Receipts (Columns 2,4 & 5)  
Deduct Total of Expenses (Columns 7 to 14)

459,932  
449,270  
10,662

This will be your opening cash for the next month

**TO ANNUAL SUMMARY**

This balance should be equal to your cash deposited in bank in the daily record of bank transaction

**Breakup of Other Payments**

Electricity Bills 1,050  
Income Tax Electricity/Telephone 110  
Furniture & Fixtures 3,000  
Bills Payable 19,250  
Telephone Bills 1,150  
Tax Advisor Fee 2,000  
Staff Salaries 9,000  
Sales Tax Paid 2,995  
Shop Rent 3,500  
Proprietors drawings 15,000

57,055

**DAILY RECORD OF BANK TRANSACTIONS JULY 2002**

Date	Cheque/ Deposit Number	Receipts			Particulars	Payments			
		Cash deposi- ted in Bank	Bills Receivable	Others		Others	Cash with- drawn Bank	Purchases	Bills Payable
1	2	3	4	5	6	7	8	9	10

July

1				15,250	Opening balance						
1	123451	5,000			Cash deposited						
1	894611				Novel Electronics - Computer etc	25,000					
2	123452	50,000			Cash deposited						
2	894612				Umer Steel			7,188			
2	123453		4,150		Bills Receivable - C & Co.,						
3	123454			20,000	Loan from Ghaffar						
3	894613				Abid & Co.			10,575			
3	-				Bank Charges - DD Abid & Co.	82					
4	894614				Cash withdrawn		6,000				
4	894615				Muzaffar Brothers		18,000				
4	894616				Managers Salary	6,500					
4	894617				Bills Payable - N & Co.,				2,160		
8	123455		2,200		Bills Receivable - A & Co.,						
8	894618				Bills Payable - P & Co.,					18,000	
30		100,000	35,210	35,250	<b>Month End Total</b>		31,582	40,000	32,275	38,210	

From opening  
balance sheet

**Breakup of Other Receipts**

Opening Bank Balance	15,250
Loan from Ghaffar	20,000
	<u>35,250</u>

**Breakup of Other Payments**

Bank Charges	82
Staff Salary	6,500
Computer	25,000
	<u>31,582</u>

TO ANNUAL  
SUMMARY

This balance should be equal to your deposit in bank in the daily record of cash transaction

This balance should be equal to your withdrawals from the bank in the daily record of cash transaction

**Closing Bank Balance**

Total of Receipts (Columns 3 to 5)	170,460
Deduct Total of Expenses (Columns 7 to 10)	110,485

All the sub-columns of receipts and payments, except “**Others**”, are used for head of accounts or items involving frequent transactions. You can increase or decrease the number of sub-columns or change the sub-headings to the specific needs of your business. The sub-column “**Others**” both under Receipts and Payments and the column of “**Particulars**” are used for head of accounts or items for which no specific column is earmarked.

balances of the daily records of cash and bank transactions are tabulated separately on sheets or at the end of respective registers as explained below.

Arrange your daily supporting documents and make a consolidated entry of receipts and payments under each specific head of account.

Every month you close your daily record of cash and bank transactions and reconcile your cash and bank balance (*explained separately in this brochure*). You also prepare a breakup of “Other Receipts” and “Other Payments” under different heads of account or items during the month.

### **General ledger or annual summaries**

You also need maintain a general ledger or annual summaries of your daily transactions originating from the cash book and/or bank book or daily record of receipts, sales, payments, purchases and expenses.

Again the law does not prescribe any specific format of the general ledger or annual summaries, as it will vary from business to business and volume of transactions.

In the ***annual summary of cash transactions and annual summary of bank transactions*** monthly

**ANNUAL SUMMARY OF CASH TRANSACTIONS JULY 01, 2002 TO JUNE 30, 2003**

	<b>Particulars</b>	<b>Jul</b>	<b>Aug</b>	<b>Sep</b>	<b>Oct</b>	<b>Nov</b>	<b>Dec</b>	<b>Jan</b>	<b>Feb</b>	<b>Mar</b>	<b>Apr</b>	<b>May</b>	<b>Jun</b>	<b>Total</b>
<b>1</b>	<b>OPENING BALANCE</b>	8,250	10,662	7,953	10,638	15,860	15,973	22,012	26,369	30,398	30,864	43,394	38,177	8,250
	<b>RECEIPTS</b>													
<b>1</b>	Withdrawals from bank	40,000	90,000	70,000	50,000	60,000	40,000	60,000	60,000	55,000	45,000	50,000	55,000	675,000
<b>1</b>	Bills Receivable	4,400	8,800	9,680	10,648	17,889	19,678	17,710	19,481	17,533	19,286	17,357	19,038	181,500
<b>2</b>	Investment by proprietor	50,000	-	-	-	-	-	-	-	-	-	-	-	50,000
<b>3</b>	Sales	<u>357,282</u>	<u>360,855</u>	<u>364,770</u>	<u>401,247</u>	<u>361,122</u>	<u>397,234</u>	<u>357,511</u>	<u>393,262</u>	<u>353,936</u>	<u>389,330</u>	<u>350,397</u>	<u>385,437</u>	<u>4,472,383</u>
		<u>459,932</u>	<u>470,317</u>	<u>452,403</u>	<u>472,533</u>	<u>454,871</u>	<u>472,885</u>	<u>457,233</u>	<u>499,112</u>	<u>456,867</u>	<u>484,480</u>	<u>461,148</u>	<u>497,652</u>	<u>5,387,133</u>
	<b>PAYMENTS</b>													
<b>1</b>	Deposit in bank	100,000	110,000	121,000	109,000	119,600	107,000	117,000	128,000	115,000	103,500	113,000	124,300	1,367,400
<b>1</b>	Bills Payable	19,250	19,443	17,499	17,516	15,764	16,741	15,067	16,574	14,917	16,409	14,768	16,165	200,113
<b>2</b>	Proprietors drawings	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	180,000
<b>2</b>	Income Tax Electricity/Tel	110	110	110	110	110	110	110	110	110	110	110	110	1,320
<b>3</b>	Purchases	268,960	271,650	244,485	268,934	242,041	266,245	239,621	263,583	237,225	260,948	234,853	258,338	3,056,883
<b>3</b>	Freight etc. (Inwards)	18,238	18,420	16,578	18,236	16,412	18,053	16,248	17,873	16,086	17,695	15,926	17,519	207,284
<b>3</b>	Traveling/Conveyance/Vel	2,210	2,232	2,009	2,210	1,989	2,188	1,969	2,166	1,949	2,144	1,930	2,123	25,119
<b>3</b>	Entertainment	1,510	1,525	1,373	1,510	1,359	1,495	1,346	1,481	1,333	1,466	1,319	1,451	17,168
<b>3</b>	Repairs and Maintenance	687	694	625	688	619	681	613	674	607	668	601	661	7,818
<b>3</b>	Stationery/Postage	610	616	554	609	548	603	543	597	537	591	532	585	6,925
<b>3</b>	Electricity Bills	1,050	1,061	955	1,051	946	1,041	937	1,031	928	1,021	919	1,011	11,951
<b>3</b>	Telephone Bills	1,150	1,162	1,046	1,151	1,036	1,140	1,026	1,129	1,016	1,118	1,006	1,107	13,087
<b>3</b>	Tax Advisor Fee	2,000	-	-	-	-	-	-	-	-	-	-	-	2,000
<b>3</b>	Staff Salaries	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	108,000
<b>3</b>	Sales Tax Paid	2,995	7,951	8,031	8,158	8,974	8,076	8,884	7,996	8,795	7,916	8,707	7,836	94,319
<b>3</b>	Shop Rent	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	42,000
<b>4</b>	Furniture & Fixtures	3,000	-	-	-	2,000	-	-	-	-	-	1,800	-	6,800
		<u>449,270</u>	<u>462,364</u>	<u>441,765</u>	<u>456,673</u>	<u>438,898</u>	<u>450,873</u>	<u>430,864</u>	<u>468,714</u>	<u>426,003</u>	<u>441,086</u>	<u>422,971</u>	<u>458,706</u>	<u>5,348,187</u>
	<b>CLOSING CASH IN HAND</b>	<u><b>10,662</b></u>	<u><b>7,953</b></u>	<u><b>10,638</b></u>	<u><b>15,860</b></u>	<u><b>15,973</b></u>	<u><b>22,012</b></u>	<u><b>26,369</b></u>	<u><b>30,398</b></u>	<u><b>30,864</b></u>	<u><b>43,394</b></u>	<u><b>38,177</b></u>	<u><b>38,946</b></u>	<u><b>38,946</b></u>

Annual total of items marked (1) are to be ignored while preparing income statement and balance sheet

Annual total of items marked (2) are to be taken to the balance sheet

Annual total of items marked (3) are to be taken to the income statement

Annual total of items marked (4) are to be taken to the schedule of fixed assets and depreciation

Annual total of your bills receivable should reconcile with cash receipts in the sales day book

Annual total of your bills payable should reconcile with cash payments in the purchase day book

**ANNUAL SUMMARY OF BANK TRANSACTIONS FROM JUL 01, 2002 TO JUNE 30, 2003**

<b>Particulars</b>	<b>Jul</b>	<b>Aug</b>	<b>Sep</b>	<b>Oct</b>	<b>Nov</b>	<b>Dec</b>	<b>Jan</b>	<b>Feb</b>	<b>Mar</b>	<b>Apr</b>	<b>May</b>	<b>Jun</b>	<b>Total</b>
<b>1 OPENING BALANCE</b>	15,250	28,393	2,309	3,449	2,549	2,321	4,161	1,867	5,293	6,526	1,032	5,787	15,250
<b>RECEIPTS</b>													
<b>1</b> Cash deposited in bank	100,000	110,000	121,000	109,000	119,600	107,000	117,000	128,000	115,000	103,500	113,000	124,300	1,367,400
<b>1</b> Bills receivable	35,210	31,689	28,520	25,668	24,385	26,824	24,142	26,556	23,900	26,290	23,661	27,055	323,900
<b>2</b> Loan from Ghaffar	20,000	-	-	-	-	-	-	-	-	-	-	-	20,000
	<u>170,460</u>	<u>170,082</u>	<u>151,829</u>	<u>138,117</u>	<u>146,534</u>	<u>136,145</u>	<u>145,303</u>	<u>156,423</u>	<u>144,193</u>	<u>136,316</u>	<u>137,693</u>	<u>157,142</u>	<u>1,726,550</u>
<b>PAYMENTS</b>													
<b>1</b> Cash withdrawals from	40,000	90,000	70,000	50,000	60,000	40,000	60,000	60,000	55,000	45,000	50,000	55,000	675,000
<b>1</b> Bills Payable	38,210	38,592	42,451	46,696	48,564	53,420	48,078	52,886	47,597	52,357	47,121	50,938	566,910
<b>3</b> Purchases	32,275	32,598	29,338	32,272	29,045	31,950	28,755	31,631	28,468	31,315	28,184	31,002	366,833
<b>3</b> Bank Charges	82	83	91	100	104	114	103	113	102	112	101	111	1,216
<b>3</b> Staff Salary	6,500	6,500	6,500	6,500	6,500	6,500	6,500	6,500	6,500	6,500	6,500	6,500	78,000
<b>4</b> Computer	25,000	-	-	-	-	-	-	-	-	-	-	-	25,000
	<u>142,067</u>	<u>167,773</u>	<u>148,380</u>	<u>135,568</u>	<u>144,213</u>	<u>131,984</u>	<u>143,436</u>	<u>151,130</u>	<u>137,667</u>	<u>135,284</u>	<u>131,906</u>	<u>143,551</u>	<u>1,712,959</u>
<b>CLOSING BANK BALANCE</b>	<u>28,393</u>	<u>2,309</u>	<u>3,449</u>	<u>2,549</u>	<u>2,321</u>	<u>4,161</u>	<u>1,867</u>	<u>5,293</u>	<u>6,526</u>	<u>1,032</u>	<u>5,787</u>	<u>13,591</u>	<u>13,591</u>

**Annual total of items marked (1) are to be ignored while preparing income statement and balance sheet**

**Annual total of items marked (2) are to be taken to the balance sheet**

**Annual total of items marked (3) are to be taken to the income statement**

**Annual total of items marked (4) are to be taken to the schedule of fixed assets and depreciation**

**Annual total of your bills receivable should reconcile with bank receipts in the sales day book**

**Annual total of your bills payable should reconcile with bank payments in the purchase day book**

The columns are used for the months and the rows are used for heads of account or items. The annual total of each head of account or item is then taken to the income statement (*your sales, purchases and expenses*) or balance sheet (*your equity, liabilities*

*and assets*) except opening balances of cash and bank, withdrawals and deposits in bank, receipts against bills receivable and payments against bills payable.

## Credit sales and purchases

Records for credit sales and purchases depend upon the frequency and number of transactions in your business. Where the transactions are few:

- Issue cash memos for cash sales and separate invoices for credit sales.
- Amounts received against credit sales or paid against credit

purchases should be recorded as receipts against *bills receivable* and *bills payables* respectively in the daily record cash and bank transactions. *Remember not to record such receipts and payments as Sales and purchases.*

- Maintain record of credit sales and bills receivables and credit purchases and bills payable on separate sheets or register in credit sale book and credit purchase book as explained below.

### CREDIT SALES BOOK FROM JULY 01, 2002 TO JUNE 30, 2003

Date	Name and Address of Customer	Invoice			Receipt			Remarks	
		Date	Number	Amount	Date	Amount			Folio
						Cash	Cheque		
1	2	3	4	5	6	7	8	9	10
July	<b>UN-REALIZED SALES OF LAST YEAR</b>								
1	A & Co., Street 1, Sector 1, City 1	15-06-02	99	1,250	04-07-02	1,250			Paid in full
1	B & Co., Street 1, Sector 1, City 1	18-06-02	104	1,800					
1	C & Co., Street 1, Sector 1, City 1	25-06-02	118	4,150	02-07-02	4,150			Paid in full
			Sub-Total (A)	<u>7,200</u>		<u>1,250</u>	<u>4,150</u>		
	<b>CREDIT SALES FOR THE YEAR</b>								
1	A & Co., Street 1, Sector 1, City 1	01-07-02	119	2,200	08-07-02		2,200		Paid in full
2	C & Co., Street 1, Sector 1, City 1	02-07-02	120	3,150	15-07-02	3,150			Paid in full
3	B & Co., Street 1, Sector 1, City 1	03-07-02	121	2,100					
June									
30	Z & Co., Street 1, Sector 1, City 1	30-06-02	260	1,965					
			Sub-Total (B)	<u>525,210</u>		<u>180,250</u>	<u>319,750</u>		
			Grand Total (C)= (A+B)	<u>532,410</u>		<u>181,500</u>	<u>323,900</u>		
	<b>Credit sales for the year to income statement</b>			<u>525,210</u>					
	<b>Bills Receivable at the year end</b>								
	Bills Receivable of last year			7,200					
	Add Credit Sales for the year			525,210					
	Deduct Receipts both Cash and Bank during the year			-505,400					
	<b>Bills Receivable at the year end to balance sheet</b>			<u>27,010</u>					

These should reconcile with you're annual total of receipts against bills receivable as per summary of cash transactions and bank transactions

**CREDIT PURCHASE BOOK FROM JULY 01, 2002 TO JUNE 30, 2003**

Date	Name and Address of Supplier	Invoice			Payments			Remarks	
		Date	Number	Amount	Amount		Folio		
					Cash	Cheque			
1	2	3	4	5	6	7	8	9	10
July	<b>UN-PAID PURCHASES OF LAST YEAR</b>								
1	M & Co., Street 2, Sector 2, City 2	18-06-02	575	3,500					
1	N & Co., Street 2, Sector 2, City 2	21-06-02	810	2,160	04-07-02		2,160		Paid in full
1	P & Co., Street 2, Sector 2, City 2	29-06-02	1020	<u>10,250</u>	02-07-02	<u>10,250</u>			Paid in full
			Sub-Total (A)	<u>15,910</u>		<u>10,250</u>	<u>2,160</u>		
	<b>CREDIT PURCHASES FOR THE YEAR</b>								
1	M & Co., Street 2, Sector 2, City 2	02-07-02	710	9,000	04-07-02	9,000			Paid in full
2	P & Co., Street 2, Sector 2, City 2	04-07-02	1095	18,000	08-07-02		18,000		Paid in full
3	N & Co., Street 2, Sector 2, City 2	08-07-02	975	24,363					
June									
30	X & Co., Street 2, Sector 2, City 2	30-06-02	857	29,310					
			Sub-Total (B)	<u>810,250</u>					
			Grand Total (C)= (A+B)	<u>826,160</u>					
						<u>189,863</u>	<u>564,750</u>		
						<u>200,113</u>	<u>566,910</u>		
			Credit Purchases for the year to income statement	<u>810,250</u>					
			<b>Bills Payable at the year end</b>						
			Bills Payable of last year	15,910					
			Add Credit Purchases for the year	810,250					
			Deduct Payments both Cash and Bank during the year	<u>-767,023</u>					
			<b>Bills Payable at the year end to balance sheet</b>	<u>59,137</u>					

These should reconcile with you're annual total of payments against bills payable as per summary of cash transactions and bank transactions

- These records will help you to figure out your annual credit sales and purchases and bills receivable (unrealized credit sales) and bills payable (un-paid credit purchases) at the end of the year.

unrealized sales and unpaid purchases but you also need to identify the customer and supplier from/to whom the amounts are receivable or payable. Thus, you require a detailed and separate account for each customer and supplier. The books of account commonly used are:

Where the frequency and number of transactions are voluminous, you not only need to know the amount of

### SALES DAY BOOK

Date	Invoice No.	Name of Customer	Folio in Ledger	Amount (Rupees)

### SALES LEDGER OF \_\_\_\_\_ (Name of Customer)

Date	Particulars	Folio in Ledger	Debit (Rupees)	Credit (Rupees)	Balance (Rupees)

Amount of invoice from sales day book	Receipts as per daily record of cash and bank transaction
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### PURCHASE DAY BOOK

Date	Name of Supplier	Invoice		Folio in Ledger	Amount (Rupees)
		Date	No.		

### PURCHASE LEDGER OF \_\_\_\_\_ (Name of Supplier)

Date	Particulars	Folio in Ledger	Debit (Rupees)	Credit (Rupees)	Balance (Rupees)

Payments as per daily record of cash and bank transaction	Amount of invoice from purchase day book
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### Depreciation

Depreciation is an allowance for wear and tear on fixed assets. Fixed assets include building, machinery, tools, computers, furniture and fittings and motor vehicles etc.

A deduction for depreciation is allowable on fixed assets owned by your business and used during the tax year to generate taxable income. This deduction allows the capital cost of fixed assets to be written off at a

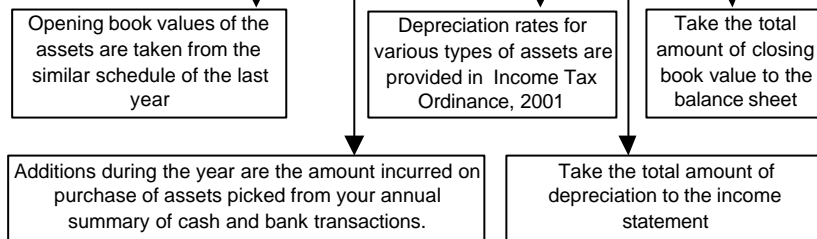
fixed percentage every year using the diminishing value method.

In the **diminishing value** method the deduction in the first year is calculated by multiplying the depreciation rate for that item by its initial cost. In subsequent years, the rate is applied to the amount remaining after deducting the depreciation claimed in all previous years from the initial cost

Prepare a schedule of fixed assets and figure out your claim of depreciation as explained below.

**SCHEDULE OF FIXED ASSETS AND DEPRECIATION AS ON JUNE 30, 2003**

Particulars	Opening Book Value	Additions	Total	Depreciation		Closing Book Value
				Rate %	Amount	
1	2	3	4=(2+3)	5	6=(4x5)	7=(4-6)
Office Equipments	10,000	-	10,000	10	1,000	9,000
Furniture	8,000	6,800	14,800	10	1,480	13,320
Computer	-	25,000	25,000	30	7,500	17,500
Motor Cycle	55,000	-	55,000	20	11,000	44,000
<b>Total</b>	<b>73,000</b>	<b>31,800</b>	<b>104,800</b>		<b>20,980</b>	<b>83,820</b>



**Income statement and balance sheet**

Before you prepare your income statement and balance sheet you require:

- The balances of your business equity (capital), liabilities and

assets under various distinctive heads e.g. loans, bills payable, fixed assets, security deposits, stock-in-trade, bills receivable, bank balance and cash balance at the beginning of the year as explained below.

**BALANCE SHEET AS ON JUNE 30, 2002 (OPENING BALANCES)**

**Liabilities**

Proprietors' Equity	1,092,590	<b>To balance sheet as on June 30, 2003</b>
<b>Current Liabilities</b>		
Bills Payable	15,910	<b>To credit purchase book - unpaid purchases of last year</b>
	<u>1,108,500</u>	

**Assets and Property**

<b>Assets</b>		
As per Schedule	73,000	<b>To schedule of fixed assets &amp; depreciation</b>
Security Deposits	3,250	<b>To balance sheet as on June 30, 2003</b>
<b>Current Assets</b>		
Stock-in-trade	1,001,550	<b>To income statement</b>
Bills Receivable	7,200	<b>To credit sale book - unrealized sales of last year</b>
Bank Balance	15,250	<b>To daily record of bank transactions - opening balance</b>
Cash in hand	8,250	<b>To daily record of cash transactions - opening balance</b>
	<u>1,108,500</u>	

- Stock taking and valuation of stock-in-trade at the end of the year (*explained separately in this brochure*).
- Annual summary of cash and bank transactions, *explained earlier*.
- Annual credit sales and purchases,

bills receivable and bills payable *explained earlier*.

- Schedule of fixed assets and depreciation *explained earlier*.

Once you have finalized the above proceed to prepare your income statement and balance sheet as explained below.

### INCOME STATEMENT FOR THE YEAR ENDED JUNE 30, 2003

#### Income

Sales		
Cash	4,472,383	From annual cash and bank summary
Credit	<u>525,210</u>	From credit sale book
	4,997,593	
Closing Stock	<u>1,194,800</u>	From year end stock-in-trade valuation
	6,192,393	

#### Direct Expenditure

Opening Stock	1,001,550	From opening balance sheet
Purchases		
Cash	3,056,883	From annual cash and bank summary
Bank	366,833	From annual cash and bank summary
Credit	810,250	From credit purchase book
Freight (Inwards)	<u>207,284</u>	From annual cash and bank summary
	5,442,800	

#### Gross Profit

749,593 Total of income less direct expenditure

#### Other Expenditure

Traveling/Conveyance/Vehicle	25,119	} From annual cash and bank summary
Entertainment	17,168	
Repairs and Maintenance	7,818	
Stationery/Postage	6,925	
Electricity Bills	11,951	
Telephone Bills	13,087	
Tax Advisor Fee	2,000	
Staff Salaries		
Cash	108,000	
Bank	78,000	
Sales Tax Paid	94,319	} From schedule of fixed assets & depreciation
Shop Rent	42,000	
Bank Charges	1,216	
Depreciation	<u>20,980</u>	
	428,583	

#### Net Profit

321,010 Gross profit less other expenditure  
Taken to balance sheet

## BALANCE SHEET AS ON JUNE 30, 2003

### Liabilities

Proprietors' Equity		
Opening balance	1,092,590	From opening balance sheet
Add Fresh Investment	50,000	From annual cash and bank summary
Add Profit for the year	<u>321,010</u>	From income statement
	1,463,600	
Deduct Income Tax paid	1,320	From annual cash and bank summary
Deduct Proprietors drawings	<u>180,000</u>	From annual cash and bank summary
	<u>1,282,280</u>	

### Current Liabilities

Loan from Ghaffar	20,000	From annual cash and bank summary
Bills Payable	<u>59,137</u>	From credit purchase book
	<u>1,361,417</u>	

### Assets and Property

#### Assets

As per Schedule	83,820	From schedule of fixed assets & depreciation
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#### Security Deposits

	3,250	From opening balance sheet
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#### Current Assets

Stock-in-trade	1,194,800	From year end stock-in-trade valuation
Bills Receivable	27,010	From credit sale book
Bank Balance	13,591	From annual cash and bank summary
Cash in hand	<u>38,946</u>	From annual cash and bank summary
	<u>1,361,417</u>	

All the figures you need to prepare your income statement and balance sheet will originate from the annual summary of cash and bank transactions, credit sale and purchase book and last year's balance sheet except the value of stock-in-trade and book value of the fixed assets at the year-end and depreciation for the year.

The value of stock-in-trade at the year-end is to be incorporated in the income statement as well as balance sheet.