

# Universal Self Assessment And Record Keeping

**(Taxpayers' Facilitation Guide)**

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## **Our Vision**

To be a modern, progressive, effective, autonomous and credible organization for optimizing revenue by providing quality service and promoting compliance with related tax laws.

## **Our Mission**

To enhance the capability of the tax system to collect due taxes through application of modern techniques, providing taxpayer assistance and by creating a motivated, satisfied, dedicated and professional workforce.

## **Our Values**

Integrity  
Professionalism  
Teamwork  
Courtesy  
Fairness  
Transparency  
Responsiveness

# Introduction

## Part I

Explains scope of Universal Self Assessment Scheme.

## Part II

Gives basic information on methods of accounting, recordkeeping and stock-in-trade.

## Part III

Explains the obligations for record keeping, under the Income Tax Ordinance, 2001, of small taxpayers deriving income from retail business.

### Disclaimer.

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

#### **Comments and suggestions**

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

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## Part I

### **No Hassle – Assess your tax yourself & pay accordingly**

#### **DO YOU KNOW THAT:**

**– A COMPLETE RETURN OF INCOME IS ACCEPTED AND IT STANDS ASSESSED ON FILING.**

**– IN THE CASE OF AN INCOMPLETE RETURN – WHERE DEFICIENCIES ARE MADE GOOD WITHIN GIVEN TIME IN RESPONSE TO THE REQUISITION BY THE TAX DEPARTMENT – IT SHALL ALSO BE ACCEPTED.**

#### **A return of income is complete if:**

- (i) Filed in the prescribed format.
- (ii) Filed within the stipulated time.
- (iii) Annexures, statements or documents, as prescribed, are filed with the return.
- (iv) Tax payable alongwith the Return is paid accordingly.

#### **Return is to be filed:**

##### **1. Companies:**

It is mandatory for the companies to e- file their return through FBR's e-portal.

##### **2. Returns (other than companies)**

e-filing is optional. Returns can also be filed manually.

##### **3. Salary Returns:**

e-filing is optional. Returns can be filed manually. However, annual withholding statements of salary (constituting returns in only salary income cases) are required to be e-filed by the employer.

#### **Assessment:**

Filing of a complete return constitutes assessment. However, a return can be subjected to Audit under the prescribed conditions.

## PART II

### Method 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 your 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 your 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 have the choice to adopt any method of accounting so that:-

- your taxable income is fairly and reasonably determinable; and
- is 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.

### Record Keeping

#### Why to keep records?

Law requires that everyone in business must keep records. Maintaining records will help you to do the following:

- To monitor the progress of your business;
- To prepare your financial statements;
  - o *Income statement*
  - o *Balance sheet*
- To identify source of receipts;
- To keep track of deductible expenses;
- To prepare your tax returns; and
- To support items reported on tax returns.

#### Kinds of records to keep

As a general rule you must maintain proper books of accounts, 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,

enabling you to properly arrive at the income of the respective period.

However, the Income Tax law requires maintenance of certain **“Minimum Books of Accounts, Documents and Records”** explained separately in this brochure.

## . Books of account

A good record keeping system includes a summary of your business transactions. (Your business transactions are shown on the supporting documents). Business transactions are ordinarily summarized in books called petty cash book, cash book, bank book, journal and ledger.

## Business bank account

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

*Use your business account for business purposes only. Indicate the source of deposits and the type of expense on the deposit slip and counter folio of cheque book. This will help you to identify and record your transactions.*

## How long to keep records

The law requires that the records be kept for five years from the end of the relevant tax year.

## Stock-in-trade

You must keep day-to-day quantitative and qualitative records of purchases and sale of **stock in- trade** and use the accrual method for purchases and sales of stock-in-trade.

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 annual **stock taking records**.

## . What is stock-in-trade?

Stock-in-trade' includes anything acquired or purchased for sale in the normal course of business.

## Stock taking records

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?

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

To determine the cost you can use 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.

**Part III  
Obligations under the Income Tax Ordinance, 2001 of taxpayers deriving income upto Rs. 200,000 from retail 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 return.

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, sales tax registration number, (if any) and description, quantity and value of goods sold. This is generally as under:

<b>CASH MEMO/INVOICE</b>			
SELLER & CO.			
Street No. 3, Sector 3, City 1			
Tele: 9876543			
NTN 1234567		Sales Tax No. 00123456	
No. <u>40</u>		Date <u>02-Jul-07</u>	
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
<u>Total</u>			<u>395</u>
Signature _____			
(Prices are inclusive of Sales Tax where leviable)			

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

**Daily record of receipts, sales, payments, purchases and expenses**

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

The law only requires for maintenance of such record but does not prescribe any specific format as it will vary from business to business and volume of transactions.

The simplest format for recording your daily business transactions where the number of transactions (other than sales) is few, can be as under:

DAILY RECORD OF RECEIPTS, SALES, PAYMENTS, PURCHASES AND EXPENSES				
DATE	PARTICULARS (Nature of receipt and Payment)	RECEIPT Sales etc. (Rupees)	PAYMENT Purchases Expenses (Rupees)	BALAN CE
01-Jul-07	Opening cash in hand	5,000		5,000
	Cash sales CM No. 1 to 50	7,850		12,850
	Purchases – Aftab & Co.		4250	8,600
	Entertainment – Tea, Cold drinks		45	8,555
	Conveyance – Taxi charges		25	8,530
	Stationery – Zafar stationers		100	8,430
02-Jul-07	Cash sales CM No. 51 to 86	6,500		14,930
	Purchases – Hamid & Co.		5,000	9,930
	Purchases – Aziz & Co.		2550	7380
	Entertainment – Tea, Cold drinks		40	7340
	Electricity Bill– Jun 02		185	7155
	Income Tax on Elec. Bill Jun 02		60	7095
03-Jul-07	Cash sales CM No. 87 to 102	3000		10095
	Purchases – Aftab & Co.		3000	7095
	Entertainment – Tea, Cold drinks		50	7045
	Conveyance – Taxi charges		35	7010
	Salary Salesman–Nawaz Jun 02		2200	4810
	Salary Helper–Shiraz Jun 02		1500	3310
	Telephone Bill – Jun 02		450	2860
	Income Tax – Tele Bill Jun 02		50	2810

**Vouchers of purchases and expenses**

Vouchers of purchases, payroll, and expenses of your business will generate supporting documents, which include:

- Original cash memos, invoices and receipts etc. of your purchases and expenses.
- Salary register, copies of national identity cards of employees, attendance records and acknowledgment of amount paid to employees.

The law requires that you must retain the above vouchers to support your tax return.

Other Facilitation and Taxpayers' Education Material  
Produced by  
**Federal Board of Revenue**

**Publications**

Brochure– Universal self-assessment and record keeping

Brochure – Business accounts, documents and records

Brochure – Taxation of income from salary

Brochure -- Frequently asked questions about Taxation of Salary

Brochure –Collection and deduction of tax at source

Brochure –Charitable Organizations

Brochure –Taxation of income from dividend

Brochure– The mechanism of Alternate Dispute Resolution

Brochure –Taxpayers' Charter

Brochure –Import of vehicles

Brochure –Passengers' Baggage Rules

Brochure - Sales Tax Facilitation Guide

Quarterly Review

Year Book