A Publication of the Federal Inland Revenue Service

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2016
Introduction

This guide is intended to provide our taxpayers, who have difficulty in maintaining records of their business transactions, with basic knowledge and skills of keeping business records. Using this guide, a person will be able to maintain the basic business records, understand and monitor the trend of his business in a simplified way. Using the same business records, the person will also easily manage his tax affairs, which will result in reduced compliance costs, especially under the Self-Assessment system which requires voluntary compliance.

Definition of Business Record

A business record is a written evidence summarising a transaction carried out by a person in his business at a given time or over a given period. Business records are normally kept in books in an organised form. Business records can also be maintained in electronic format.

Purpose of keeping Business Records

Keeping business records is a very important aspect of managing your business. The records help you

- Planning and monitoring your business transactions and the corresponding income and expenditure.
- Identifying easily and correctly whether your business is making a profit or loss at any given time on basis of facts and records.
- Following up consistently on your obligations with business partners (suppliers and customers)
- Providing a basis for mobilising additional capital from banking or co-operative institutions
- Providing a basis for preparing meaningful statements of accounts for the business and for carrying out audits.
- To separate private transactions from that of the business undertaking
To manage YOUR TAX AFFAIRS better by providing basis for;

- Computing correctly your tax liabilities by yourself
- Filing your tax returns accurately and on time
- Paying only the fair tax
- Claiming your lawful entitlements under the tax laws e.g. Allowable expenses, capital allowances on assets in use in your business as well as tax credits and tax refunds where applicable.
- Avoiding tax assessments raised by the Tax Authority using other methods under the laws that may not necessarily be favourable to you as a taxpayer.
- Avoiding protracted tax disputes.
- Avoid contravention of the tax laws

**Kinds of Business Records**

A Taxpayer should keep business records which provide enough details on all transactions undertaken at any given moment in a specified currency. These records should be based on documents containing primary information on each transaction carried out in the business. The documents should also be properly and safely kept. Generally, business records include the following;

**Fixed Assets** - are permanent or long term assets which a person acquires to use in running the normal business but are not part of his trading stock e.g. delivery van, plant and machinery, fittings and furniture.

Fixed assets records are kept in the **Fixed Assets ledger**.

- For each fixed asset record the date, type, details of supplier or buyer, quantity, price and value of the asset bought, or sold or written off.

**Expenditures** - on day-to-day running of business e.g. stationery, maintenance costs, travel, utilities (water, power, telephones, etc.);

- For every expenditure, record the date, type or class, quantity (where applicable) and value of expenditure item
**Tax affairs of your business** – evidence of tax payments (tax receipts, withholding tax Credit Notes, e-tickets, etc)

**Bank transactions** - e.g. bank statements. Bank transactions are kept in the Cash Book

**Additional financial capital into business** - record the date, type and purpose of loan, details of financier and value.

**Personal drawings** - cash or goods withdrawn from business for private use

For every personal drawing, record the date and value of cash or goods taken out of business for private use.

**Sales** - goods or services sold for profit in the ordinary course of business.

Sales records are kept in a Sales Book

**Purchases** - goods that constitute the trading stock of a person for resale for profit in the ordinary course of business. Purchases records are kept in a Purchases Book

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**Cash and Credit Transactions**

**Cash transactions** - are all activities of a business where cash is received or paid out. A Cash Book is used to record cash transactions in order to ascertain the correct cash balance at any given time

**Credit transactions** - are all activities of a business where cash is not immediately received or paid out on the date of the transaction.

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**Documents of Primary Information**

These are the documents issued by you to your customers or to you by your suppliers of goods or services as the first evidence of any transaction undertaken.

They include:

- Invoices for goods and services sold or bought
- Cash receipts for goods and services sold or bought
• Receipts for Taxes and other Government dues paid
• Vouchers prepared for various business expenses
• Receipts for payments made in respect of assets and utilities (power, water, telephone, etc.)
• Agreements relating to business contracts
• Cheque books and Bank statements
• Bills and orders, etc.
• Other business related correspondences and documents.

These documents should be kept for at least six (6) years as they are always necessary for reference when the need arises and for tax purposes.

**Simple Business Records**

Every transaction will involve exchange of goods or service for money. Basic business records, especially for micro and small businesses will normally require consistent record of all cash and credit transactions.

**Simplified Cash Transaction Records Book**

It is important to keep track of all cash transactions. A transaction involving receipt of cash will increase the cash balance while that one which involves payment of cash will decrease the cash balance. Below is the illustration of a simplified cashbook in which cash transactions can be maintained:
**CASH BOOK**

<table>
<thead>
<tr>
<th>Date</th>
<th>Particulars of Receipts and Payments</th>
<th>Amount received N</th>
<th>Amount Paid N</th>
<th>Balance N</th>
</tr>
</thead>
<tbody>
<tr>
<td>01/05/14</td>
<td>Balance brought forward</td>
<td>0</td>
<td>0</td>
<td>450,000</td>
</tr>
<tr>
<td>01/05/14</td>
<td>Cash sales</td>
<td>105,000</td>
<td>0</td>
<td>555,000</td>
</tr>
<tr>
<td>02/05/14</td>
<td>Cash purchases</td>
<td>0</td>
<td>300,000</td>
<td>255,000</td>
</tr>
<tr>
<td>02/05/14</td>
<td>Transport charges</td>
<td>0</td>
<td>10,000</td>
<td>245,000</td>
</tr>
<tr>
<td>04/05/14</td>
<td>Cash sales</td>
<td>240,000</td>
<td>0</td>
<td>485,000</td>
</tr>
<tr>
<td>06/05/14</td>
<td>Payment by credit customer</td>
<td>150,000</td>
<td>0</td>
<td>635,000</td>
</tr>
<tr>
<td>07/05/14</td>
<td>Payment to credit supplier</td>
<td>0</td>
<td>220,000</td>
<td>415,000</td>
</tr>
<tr>
<td>10/05/14</td>
<td>Private drawings</td>
<td>0</td>
<td>50,000</td>
<td>365,000</td>
</tr>
<tr>
<td>14/05/14</td>
<td>Cash sales</td>
<td>180,000</td>
<td>0</td>
<td>545,000</td>
</tr>
<tr>
<td>16/05/14</td>
<td>Cash sales</td>
<td>140,000</td>
<td>0</td>
<td>685,000</td>
</tr>
<tr>
<td>20/05/14</td>
<td>Cash Purchases</td>
<td>0</td>
<td>300,000</td>
<td>385,000</td>
</tr>
<tr>
<td>23/05/14</td>
<td>Cash sales</td>
<td>235,000</td>
<td>0</td>
<td>620,000</td>
</tr>
<tr>
<td>25/05/14</td>
<td>Tax paid</td>
<td>0</td>
<td>50,000</td>
<td>570,000</td>
</tr>
<tr>
<td>26/05/14</td>
<td>Rent for shop</td>
<td>0</td>
<td>40,000</td>
<td>530,000</td>
</tr>
<tr>
<td>28/05/14</td>
<td>Cash sales</td>
<td>270,000</td>
<td>0</td>
<td>800,000</td>
</tr>
<tr>
<td>31/05/14</td>
<td>Cash balance carried forward</td>
<td>0</td>
<td>0</td>
<td>800,000</td>
</tr>
</tbody>
</table>

**Simplified Sales Records Book**

The other very important element of trade is the sales. The simplest way of tracking sales is to maintain both cash sales and credit sales in Sales Day Book as follows:

<table>
<thead>
<tr>
<th>Date</th>
<th>Invoice No.</th>
<th>Name Of Customer</th>
<th>Particulars of Goods/Services</th>
<th>Amount N</th>
<th>Cumulative Total N</th>
</tr>
</thead>
<tbody>
<tr>
<td>01/05/14</td>
<td>111</td>
<td>XYZ &amp; Co</td>
<td>Sugar</td>
<td>100,000</td>
<td>100,000</td>
</tr>
<tr>
<td>05/05/14</td>
<td>222</td>
<td>Jamil</td>
<td>Assorted merchandise</td>
<td>200,000</td>
<td>300,000</td>
</tr>
<tr>
<td>10/05/14</td>
<td>333</td>
<td>XYZ &amp; Co</td>
<td>Soap</td>
<td>70,000</td>
<td>370,000</td>
</tr>
<tr>
<td>15/05/14</td>
<td>444</td>
<td>Austin &amp; Brothers</td>
<td>Assorted goods</td>
<td>150,000</td>
<td>520,000</td>
</tr>
<tr>
<td>28/05/14</td>
<td>555</td>
<td>Jamil</td>
<td>Assorted goods</td>
<td>150,000</td>
<td>670,000</td>
</tr>
<tr>
<td>31/05/14</td>
<td></td>
<td></td>
<td>Total Sales for May 2014</td>
<td>670,000</td>
<td></td>
</tr>
</tbody>
</table>
Simplified Purchases Records Book

Another very important element of trade is the purchases. The simplest way of tracking purchases is to maintain both cash purchases and credit purchases in a Purchases Day Book as follows:

<table>
<thead>
<tr>
<th>Date</th>
<th>Invoice No.</th>
<th>Name Of Supplier</th>
<th>Particulars of Goods/Services</th>
<th>Amount N</th>
<th>Cumulative Total N</th>
</tr>
</thead>
<tbody>
<tr>
<td>04/05/14</td>
<td>123</td>
<td>ABC Ltd</td>
<td>Sugar</td>
<td>300,000</td>
<td>300,000</td>
</tr>
<tr>
<td>06/05/14</td>
<td>345</td>
<td>Abuja General Traders</td>
<td>Assorted merchandise</td>
<td>400,000</td>
<td>700,000</td>
</tr>
<tr>
<td>12/05/14</td>
<td>456</td>
<td>Sanitary Products Ltd</td>
<td>Soap</td>
<td>150,000</td>
<td>850,000</td>
</tr>
<tr>
<td>18/05/14</td>
<td>567</td>
<td>Abuja General Traders</td>
<td>Assorted goods</td>
<td>500,000</td>
<td>1,350,000</td>
</tr>
<tr>
<td>30/05/14</td>
<td>678</td>
<td>Abuja General Traders</td>
<td>Assorted goods</td>
<td>600,000</td>
<td>1,950,000</td>
</tr>
<tr>
<td>31/05/14</td>
<td>Total</td>
<td>Purchases for May 2014</td>
<td></td>
<td>1,950,000</td>
<td></td>
</tr>
</tbody>
</table>

Keeping Records for More Than One Business

- It is very common for one person to have more than one business. The best practice is to keep separate records for each business.
- Even in circumstances where some transactions are carried out for two or more businesses together, it is still necessary to separate as much as possible the portions of expenses or income relating to each business.
- It is important for a person to know clearly how each of the businesses is performing, and to identify which business is not doing well.

Legal Requirement for Keeping Business Records for Tax Purposes

- Various Tax Laws of the Federation of Nigeria require a taxpayer to keep proper records, books and accounts of all business activities which are adequate for the purposes of taxes.
- Some of the tax laws provide further that failure to maintain the records, books and accounts that are adequate for the purpose of taxes is an offence, and attracts penalty accordingly.
This implies that;
  • the records, books and accounts should reflect a true and fair view of the business to support any declarations made by a taxpayer for tax purposes
  • there are fines and penalties associated with a taxpayer failing to comply with the requirement to keep records, books and accounts
  • It is therefore mandatory for a person to keep proper business records. It is also beneficial to the business entity in ensuring good understanding of the affairs at any given time

...it pays to pay your tax