BASIC ACCOUNTING GUIDE FOR SMEs

The Modern Nigerian Edition: From First Principles to Digital Automation with Tracepos

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DEDICATION

To every resilient Nigerian business owner, trader, and entrepreneur—from the bustling open markets of Alaba, Idumota, and Onitsha, to the tech hubs of Yaba, the retail plazas of Abuja, and the growing industrial hubs across Port Harcourt, Kano, and Aba.

You navigate currency fluctuations, power supply hurdles, logistics bottlenecks, and shifting market dynamics every single day with relentless grit. This book is dedicated to helping you turn your sweat, hustle, and capital into structured, profitable, and enduring institutions.

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AUTHOR'S NOTE TO THE REVISED EDITION

When the first edition of Basic Accounting Guide for SMEs was published in 2019, my goal was simple: demystify debits, credits, and financial statements for business owners who never went to business school.

However, in the years that followed, two monumental shifts occurred in Nigeria:

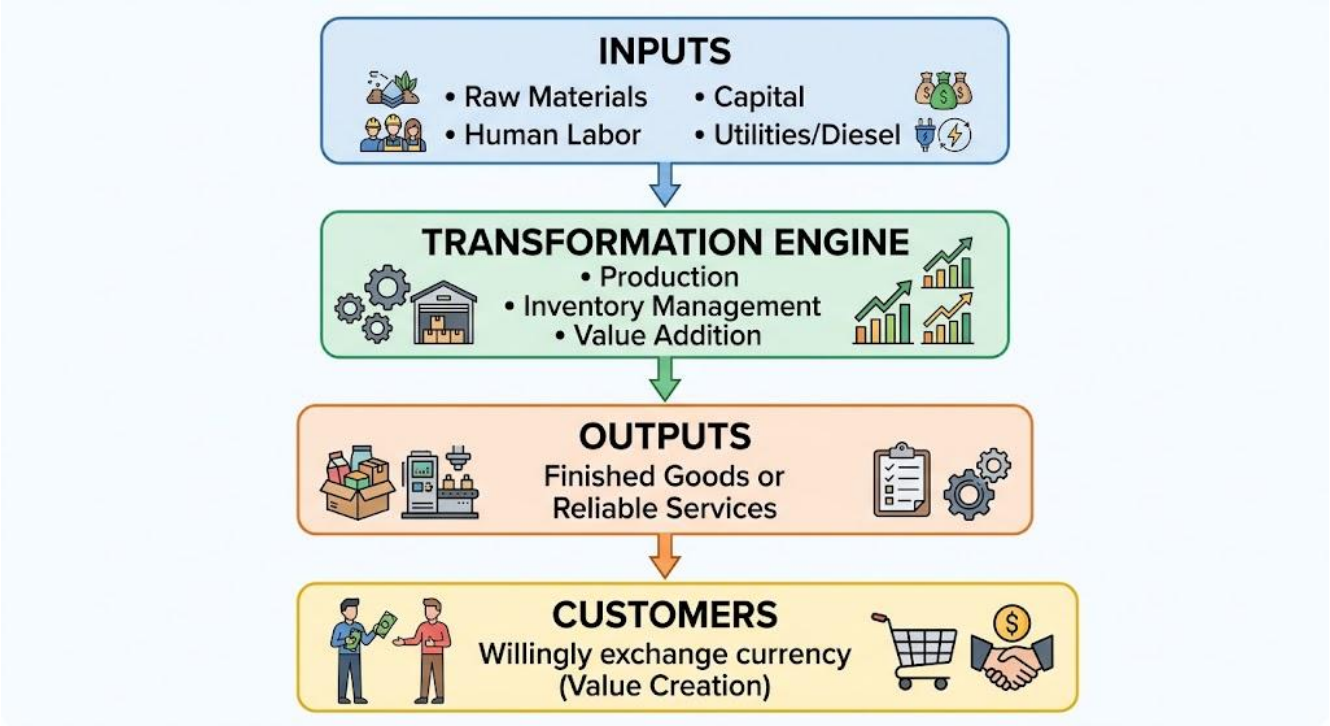
1. The Nigerian Business Environment Evolved: The enactment of the Companies and Allied Matters Act (CAMA) 2020 fundamentally reformed business registrations, corporate structures, and statutory obligations. At the same time, Nigeria's digital payment revolution exploded—cashless transactions, instant bank transfers, POS terminals (Moniepoint, OPay, bank terminals), and multi-channel commerce became the everyday reality for even the smallest neighborhood store.
2. Manual Ledger Bookkeeping Reached Its Breaking Point: In an economy dealing with inflation, rising operational costs, and inventory theft, writing transactions in paper notebooks or single-entry cashbooks is no longer just slow—it is an existential risk. A business owner cannot afford to wait until month-end to discover that raw materials were wasted, cash drawer collections do not match bank settlements, or delivery dispatch riders collected cash from customers without remitting it.

This revised edition bridges the gap between timeless double-entry accounting fundamentals and modern cloud-based point-of-sale automation. Using realistic Nigerian scenarios (denominated in Naira ₦) and showcasing the operational workflows of Tracepos, this book will equip you not only to understand accounting, but to build an unshakeable, fraud-resistant, and scalable enterprise.

CHAPTER 1: THE FOUNDATION OF BUSINESS AND ACCOUNTING

What is the Meaning of a Business?

At its most fundamental level, a **business** is an organized economic entity where basic resources—known as **inputs**—are gathered, assembled, transformed, and delivered to customers as goods or services—known as **outputs**—with the primary objective of earning a sustainable profit.



In the context of the Nigerian marketplace, this dynamic plays out millions of times every day across diverse sectors:

1. **A Bakery in Ikeja, Lagos**: Procures 50kg sacks of flour, sugar, butter, and yeast (inputs), powers an industrial oven using a diesel generator (utility input), employs bakers and packaging staff (labor input), and sells freshly baked sliced bread (output) to neighborhood supermarkets and walk-in customers.
2. **A Fashion Retailer at Trade Fair Complex, Ojo**: Purchases bulk fabrics or imported finished garments from manufacturers (inputs), rents a boutique showroom, manages digital advertising on Instagram (marketing inputs), and delivers customized apparel (output) to retail clients across Nigeria.
3. **A Pharmacy in Garki, Abuja**: Purchases wholesale pharmaceuticals from registered distributors (inputs), employs licensed pharmacists and inventory clerks, and dispenses prescription medications and wellness products (output) to patients.

The True Definition of Profit

Most entrepreneurs enter business to create wealth, but many harbor a dangerous misconception about what profit actually is.

Profit = Total Revenue (Value of Outputs Sold) - Total Expenses (Value of Inputs Consumed)

Notice the critical distinction: **Profit is not simply the cash left in your bank account or cash drawer**

at the close of the business day.

Consider a retail merchant in Kano who purchases ₦2,000,000 worth of grain on supplier credit, sells half of it for ₦1,400,000 in cash, and pays ₦100,000 in transport and warehouse rent. The merchant looks at their bank app, sees ₦1,300,000 in liquid cash, and mistakenly assumes they have pocketed ₦1,300,000 in profit. In reality, they still owe their supplier ₦2,000,000!

Without a disciplined accounting system, that merchant will likely withdraw that cash for personal use—buying private property, settling family requests, or paying personal bills—only to realize three weeks later that they cannot pay their supplier. This is the single most common reason why seemingly booming businesses in Nigeria suddenly collapse: **they confuse cash flow with actual profitability.**

The Role and Importance of Accounting in Decision Making

If business is the engine of commerce, **accounting is its instrument cluster**. Flying an aircraft through stormy clouds without altimeters, fuel gauges, or airspeed indicators is suicidal; running an SME in an inflationary, competitive economy without rigorous accounting is no different.

Accounting is defined as **the systematic process of identifying, recording, measuring, classifying, verifying, summarizing, interpreting, and communicating financial transactions**. Its primary objective is to present an accurate, transparent, and legally defensible picture of an enterprise's financial health, operational performance, and cash flows.

Accounting serves five indispensable pillars for any Nigerian SME:

1. Maintains an Unbroken Historical Record of Transactions

Memory fades, notebooks get misplaced, and staff members resign. Accounting creates a permanent, chronological audit trail of every Naira that entered or exited the company. When an enterprise maintains consistent books, it can compare performance across quarters, evaluate seasonal sales peaks (such as December holiday rushes or Eid festivities), and track whether production costs per unit are creeping upward over time.

2. Powers Intelligent Management Decision-Making

Entrepreneurs must make tough decisions daily:

- *Should we expand to a second retail branch in Lekki or Ibadan?*
- *Should we stop selling Product B because its margins no longer cover diesel operating expenses?*
- *Can we afford to hire two additional sales representatives on a ₦150,000 monthly base salary?*

Without accounting data, these decisions are based on emotional guesswork. With accounting data, the business owner calculates the **contribution margin**, checks working capital reserves, and acts on verified empirical facts.

3. Communicates Credibility to External Stakeholders

No serious external stakeholder will commit capital based on verbal assurances:

- **Commercial Banks (Zenith, Access, GTBank, First Bank):** When applying for an SME loan, overdraft facility, or Bank of Industry (BOI) intervention fund, banks demand three years of audited financial statements, cash flow projections, and management accounts.
- **Equity Investors & Venture Capitalists:** Angel investors and growth funds look for verifiable unit economics, revenue growth rates, and clean balance sheets.

• **Suppliers and Trade Creditors**: Major FMCG distributors (e.g., Unilever, Nestlé, Nigerian Breweries) only extend 14-day or 30-day credit lines to retailers who can prove reliable payment discipline through historical trade references.

4. Ensures Strict Compliance with Nigerian Statutory & Legal Obligations

Operating in Nigeria requires navigating a well-defined regulatory framework:

• **Federal Inland Revenue Service (FIRS / Nigeria Revenue Service)**: Companies must accurately compute, declare, and remit **Companies Income Tax (CIT)**, **Education Tax (EDT)**, and **Value Added Tax (VAT)** at the statutory 7.5% rate. Under-declaring or failing to file returns triggers severe penalties, bank account freezing orders (post-no-debit), and operational closures.

• **State Internal Revenue Services (e.g., LIRS in Lagos, FCT-IRS in Abuja)**: Proper payroll accounting is mandatory to compute and deduct **Pay-As-You-Earn (PAYE)** tax and withholding taxes on rent and vendor contracts.

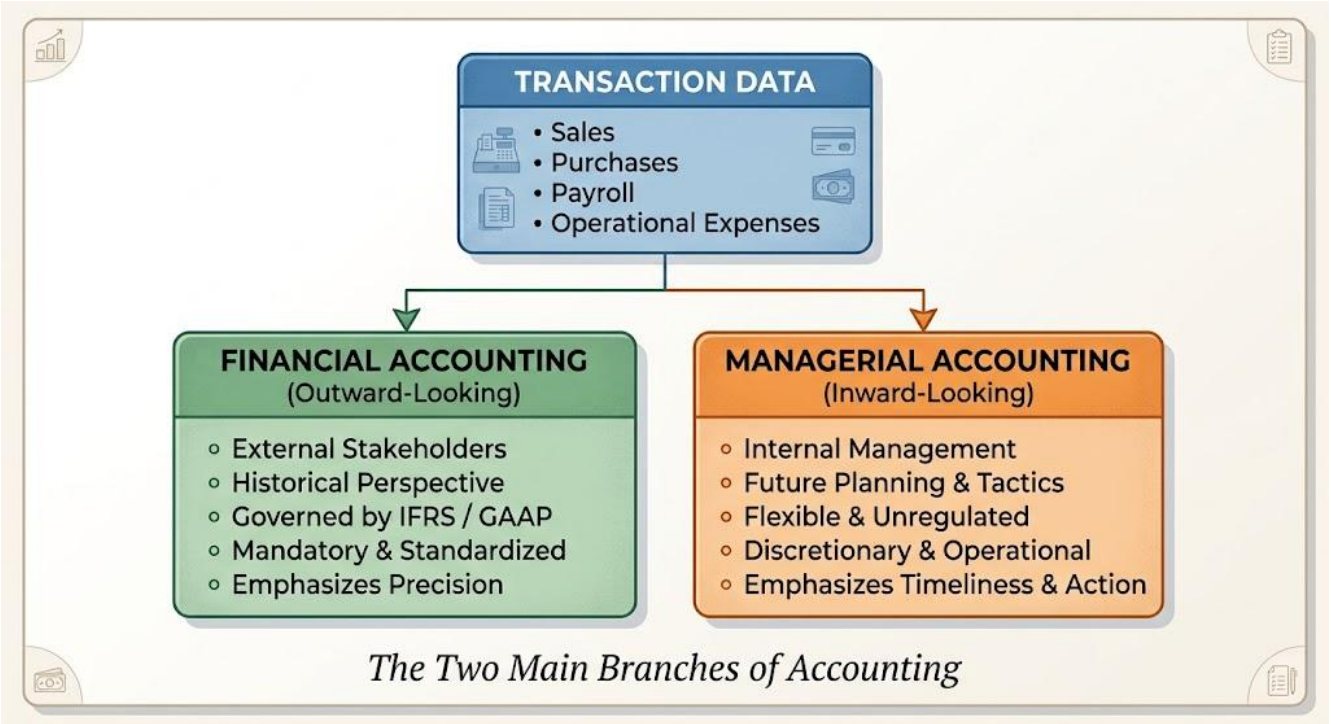
• **Corporate Affairs Commission (CAC)**: Registered companies are legally mandated under CAMA 2020 to file annual returns accompanied by compliant financial statements.

5. Guards Against Fraud, Embezzlement, and Inventory Leakage

In retail and hospitality, staff pilferage and inventory shrinkage are chronic threats. When sales recording is decoupled from inventory tracking, a cashier can sell items, collect cash, pocket the money, and claim the item "broke" or "got lost." Strict double-entry accounting—especially when reinforced by modern POS systems like **Tracepos**—instantly flags any deviation between expected inventory balances and physical stock on hand.

Financial Accounting vs. Managerial Accounting

Accounting is broadly divided into two primary disciplines: **Financial Accounting** and **Managerial Accounting**. While both draw from the same stream of transaction data, they serve fundamentally different audiences, obey different rules, and fulfill distinct corporate purposes.



The Two Main Branches of Accounting

Comprehensive Comparison

Feature	Financial Accounting	Managerial Accounting
Primary Audience	External: Tax authorities (FIRS, SIRS), banks, external shareholders, regulatory bodies (CAC).	Internal: Business owners, managing directors, store managers, production supervisors.
Primary Purpose	To report the financial position and performance of the enterprise to the outside world.	To aid operational planning, daily control, pricing strategy, and resource allocation.
Governing Standards	Strictly regulated by **IFRS** (International Financial Reporting Standards) and Nigerian GAAP.	No mandatory external rules; designed entirely according to what helps management run the business.
Time Horizon	Historical: Looks backward at what has already occurred (e.g., Q1 Financial Year 2026).	Forward-looking: Focuses on current real-time operations, forecasts, budgets, and what-if models.
Reporting Frequency	Periodic: Monthly closes, quarterly reviews, and statutory annual audited accounts.	Continuous: Daily sales summaries, hourly cashier reports, weekly inventory velocity logs.
Level of Detail	Aggregated: Summarizes the overall company (Total Inventory: ₦45,000,000).	Granular: Item-level margins (Profit per 500g loaf of bread vs. 1kg loaf of bread).

Financial Accounting in Practice

Financial accounting produces the three universally recognized financial statements:

1. **The Statement of Profit or Loss (Income Statement)**
2. **The Statement of Financial Position (Balance Sheet)**
3. **The Statement of Cash Flows**

Because external parties rely on these reports to commit capital or levy taxes, financial statements must adhere to strict objectivity, consistency, and standard disclosure rules. A Nigerian bank evaluating a ₦20,000,000 loan request cannot rely on a store manager's private notebook; it demands an IFRS-compliant balance sheet signed by an accredited chartered accountant (ICAN or ANAN).

Managerial Accounting in Practice

Managerial accounting is operational warfare. It answers the questions that determine whether the business survives until tomorrow morning:

- *What is our food cost percentage per plate of Jollof Rice at our Victoria Island restaurant?*
- *How much diesel did our 60kVA generator consume this week relative to our retail revenue during power outages?*
- *Which cashier has the highest return/void rate at checkout?*
- *What is our break-even sales volume per day to cover rent, salaries, and generator maintenance?*

One specialized branch of managerial accounting critical for SMEs is **Cost Accounting**. Cost accounting breaks down every unit cost—direct materials, direct labor, and factory overheads—ensuring that selling prices are never set below the true cost of production.

How Modern POS Systems Bridge the Divide

Historically, small business owners suffered under an agonizing trade-off: they spent their days fighting operational fires (managerial concerns) and neglected their formal ledgers, only to panic at the end of the year when tax auditors or bank managers requested financial statements.

Modern digital platforms like **Tracepos** dismantle this wall. By capturing granular operational events at the front counter; every barcode scanned, every recipe deducted in the kitchen, every delivery dispatched to a logistics rider, and every payment received via POS terminal or bank transfer—Tracepos automatically updates the underlying double-entry accounts in real time.

The cashier focuses on serving customers quickly, the store manager monitors real-time sales and stock levels, and the business owner automatically receives both managerial operational intelligence and IFRS-ready financial accounting data at the click of a button.