



# JAGAT GURU NANAK DEV PUNJAB STATE OPEN UNIVERSITY, PATIALA

(Established by Act No. 19 of 2019 of the Legislature of State of Punjab)

The Motto of the University  
(SEWA)

SKILL ENHANCEMENT

EMPLOYABILITY

WISDOM

ACCESSIBILITY



## CERTIFICATE COURSE IN COMPUTER AIDED ACCOUNTING

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**PREFACE**

Jagat Guru Nanak Dev Punjab State Open University, Patiala, established in December 2019 by Act 19 of the Legislature of State of Punjab, is the first and only Open University of the State, entrusted with the responsibility of making higher education accessible to all especially to those sections of society who do not have the means, time or opportunity to pursue regular education.

In keeping with the nature of an Open University, this University provides a flexible education system to suit every need. The time given to complete a programme is double the duration of a regular mode programme. Well-designed study material has been prepared in consultation with experts in their respective fields.

The University offers programmes which have been designed to provide relevant, skill-based and employability-enhancing education. The study material provided in this booklet is self-instructional, with self-assessment exercises, and recommendations for further readings. The syllabus has been divided in sections, and provided as units for simplification.

The Learner Support Centres/Study Centres are located in the Government and Government aided colleges of Punjab, to enable students to make use of reading facilities, and for curriculum-based counselling and practicals. We, at the University, welcome you to be a part of this institution of knowledge.

Prof. G. S. Batra,  
Dean Academic Affairs

CERTIFICATE COURSE IN COMPUTER AIDED ACCOUNTING



# **BASICS OF COMPUTERIZED ACCOUNTING**



## COURSE I – BASICS OF COMPUTERIZED ACCOUNTING

**Learning Objectives:** The course aims to achieve following objectives-

1. Employ critical thinking skills to analyze financial data as well as the effects of differing financial accounting methods on the financial statements.
2. To learn accounting with tally so that the same could be maintained accurately
3. To increase learner's knowledge in accounting and to recognize and understand ethical issues related to the accounting profession.

**Course Content:**

### **Unit -I - Basic Accounting:**

Accounting – an Introduction, Accounting concepts & conventions, Accounting Equation, Journal & Ledger, Cash Book, - Special Purpose Books, Bank Reconciliation Statement,

### **Unit -II**

Bill of Exchange, Trial Balance, Errors & Rectification, Depreciation, Provisions & Reserves  
Preparation of financial statement-Sole trader & partnership firm.

**Computerized Accounting Systems:** Basics of Computerized accounting systems- Meaning, Importance; Difference between computerized, accounting and manual accounting; Scope of Computerized Accounting, Computerized Accounting Software, Software programs for computerized accounting.

### **Unit -III – Computerized Accounting Systems—**

Computerized Accounts by using any popular accounting software : Creating a Company; Configure and Features settings; Creating Accounting Ledgers and Groups; Creating Stock Items and Groups; Vouchers Entry.

### **Unit -IV – Company Accounts –**

Discount Management- Cash Discount, Trade Discount, Vouchers Types, Back up, Restore Bill wise details, Interest; Money Receipt and Cheques, Debit and Credit Notes Creating and Configuring New Company Accounts: Account masters 'maintenance, Account vouchers maintenance, inventory master's maintenance

### **Unit -V**

Factors, affecting selection of suitable Computerized accounting software; Procurement and installation of Computerized accounting software,  
Accounting Database Management: Use of MS Excel and other software packages such as QuickBooks India, Zoho Books, MargERP 9+, Vyapar, myBooks.

### **Suggested Readings:**

1. Agarwal, Garima. *Computerised Accounting*: Himalaya Publishing House.
2. Chheda, Rajesh. *Learn Tally. ERP 9 with GST and E-way Bill*: Ane's Student Education.
3. Grewal, T.S. *Introduction to Accountancy*. S. Chand and Co.
4. Gupta, R.L and Gupta, V.K. *Principles and Practice of Accounting*. Sultan Chand & Sons.
5. Haneef and Mukerjee. *Accountancy I*. Tata McGraw Hill Company.
6. Jain, S.P. and Narang, K.L. *Accountancy I*, Kalyani Publishers.
7. Jawahar Lal. *Financial Accounting*. Himalaya Publishing House.
8. Maidasani, Dinesh. *Mastering Tally*: Firewall Media
9. Nathani, Asok K. *Tally ERP 9 Training Guide*. BPB Publications
10. Sahgal, Deepak. *Fundamentals of Financial Accounting*. Tax Man Publication.
11. Tally Education Pvt Ltd. *Official Guide to Financial Accounting using Tally ERP 9 with GST*
12. *Tally ERP 9 book advanced user*, Swayam Publication ([www.tallyerp9book.com](http://www.tallyerp9book.com))
13. Tarang, *Tally ERP 9*. Computer World Publications.
14. Tulsiani, *Accountancy I*: Tata McGraw Hill Company
15. Yogeshwaran, G. *Computerised Accounting*. PBP Publications.

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# UNIT- 1 BASICS OF COMPUTERIZED ACCOUNTING

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## STRUCTURE

- 1.0 Objectives
- 1.1 Introduction
- 1.2 Accounting Concept and Conventions
- 1.3 Accounting Equation
- 1.4 Journal and Ledger
- 1.5 Cash Book
- 1.6 Special Purpose Books
- 1.7 Bank Reconciliation Statement
- 1.8 Unit End Questions
- 1.9 References

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## 1.0 OBJECTIVES

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**After completing this Students will be able to**

- Define Accounting equation
- Understand Accounting concept and conventions
- Define cash book
- Explain bank reconciliation statement

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## 1.1 INTRODUCTION

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Basic accounting is one of the business functions that companies have to perform efficiently for ensuring sustained success. Whether a business intends to do their own accounting or hire professionals for it, they can benefit a lot by familiarising themselves with basic accounting. In this article, we discuss the basics of accounting, including the components, key terminology, fundamental concepts and principles.

### **What is accounting?**

Accounting is the process of assessing, recording and communicating financial transactions. Organisations and individuals do accounting to develop detailed understanding of their



financial situation. An accountant is a finance professional who facilitates this, for companies and clients, by tracking their profits, losses, expenses and incomes.

Accountants are responsible for ensuring that their clients are made aware of their financial performance and legal obligations. They help companies make financial plans for the future and prepare budgets. The managerial staff of a company will often require an accountant's expertise to make decisions regarding transactions and investments.

### **What are the three fundamental concepts of accounting?**

To be able to do accounting, you should understand some of its central concepts. The 3 fundamental concepts of accounting are:

#### **Accruals concept**

The accruals concept states that revenues can be recognised only when they are earned, and expenses, when assets are used. This means that businesses do not have to go by cash value when they recognise profits, losses and revenue. For example, if your company sells a product, the value of that product will have to factor in additional costs like customer support and logistics, and not just the cost of production. It is general practice among auditors to verify that a company's financial statements are prepared following the accruals concept.

#### **Going concern concept**

In accounting, it is always assumed that a business remains in operation in future time periods. Expenses and revenue may be pushed to future periods, depending on the situation. For example, companies can defer debt amounts (or portions of it) to their next financial quarters, under the assumption that they will be operational in the future. Without the going concern concept, all potential future expenses will have to be accounted for in the current period and this can make it difficult for businesses to function, especially if they rely on credit/loans to function.

#### **Economic entity concept**

The economic entity concept maintains that business transactions be kept separate from the business owner's personal transactions. Auditors have to verify that there is no mixing of business and personal transactions in a company's financial records. If any person, including the owner, uses company funds for their own personal transactions, it is considered embezzlement of funds, which has legal and professional ramifications.

### **What are the basics of accounting?**

To understand the basics of accounting, it is important to look at its three main components and the terminology related to these components. The basic components of accounting are:

## Records

Companies must identify a clear approach to record-keeping, before they begin the accounting process. They have to set up some basic accounts in which to store information.

Accounts fall into the following classifications:

- **Assets:** These refer to resources or items that the company owns. Assets have future economic value that can be measured and can be expressed in monetary terms. Examples of a company's assets include investments, cash, inventory, accounts receivable, land, supplies, equipment, buildings and vehicles.
- **Liabilities:** These refer to the legal financial obligations or debts that companies incur during business operations. Liabilities can be limited or unlimited. They are settled over time through the transfer of economic benefits such as money, services or goods. Recorded on the right side of a company's balance sheet, liabilities include any payable amounts, loans, mortgages, earned premiums, deferred revenues and accrued expenses.
- **Equity:** Equity, also known as shareholder's equity, refers to the amount of money that a company must return to its shareholders after all of its assets are liquidated and all of its debt is paid off. Equity is calculated by subtracting a company's total assets to its total liabilities.
- **Expenses:** Expenses refer to the costs of operations that businesses incur to generate revenue. Common expenses include employee wages, payments to suppliers, equipment depreciation and factory leases.
- **Revenue:** Revenue refers to the income that a company generates from its normal business operations. It includes deductions and discounts for returned products. Revenue is the gross income figure from which costs are subtracted to determine net income.

## Transactions

The accountant is responsible for generating a number of business transactions, while others are forwarded to the accountant from other departments of a company. As part of these transactions, they are recorded within the accounts mentioned in the first point. Some crucial business transactions include:

- **Sales:** These are transactions in which products/services are transferred from buyers to sellers for cash or credit. Sales transactions are recorded in the seller's accounting journal (a document that contains a summary of the transaction) as a credit to the sales

account and a debit to cash or accounts receivable. Sales typically involve the creation of an invoice to be sent to the customers, detailing the amount that the customer owes.

- **Purchases:** These are transactions that businesses require in order to obtain materials and services necessary to accomplish their goals. Purchases made in cash are recorded as a debit to the inventory account and a credit to cash.
- If the purchase is made with a credit account, the credit entry would be recorded in the accounts payable account and the debit entry would be recorded in the inventory account. Purchases often involve the issuance of purchase orders and disbursement of supplier invoices.
- **Receipts:** These are the transactions that refer to a company getting paid for providing services or goods to customers. The receipt transaction is recorded in the journal for the seller as a credit to accounts receivable and a debit to cash.
- **Employees' compensation:** This requires information about the number of hours that employees spent at paid labour, which is then used to generate tax deductions, gross wage information and other deductions, which result in net pay to employees.

### **Financial statements**

Once all the company's transactions related to an accounting period have been completed, the accountant consolidates the information stored in the accounts and sort it into three documents that are collectively called financial statements. These statements include:

- **Income statement:** This document contains information about the company's revenues and deducts all expenses incurred to determine the net profit or loss for the reporting period. It measures the ability of a company to expand its customer base and operate efficiently.
- **Balance sheet:** This document contains information about a company's assets, liabilities and equity as of the end of the reporting period. It shows the financial position of an organisation as of a point in time and is carefully reviewed to determine an organisation's ability to pay its bills.
- **Statement of cash flows:** This document contains information about the uses and sources of cash during the reporting period. It's especially useful when the amount of net income that appears on the income statement is different from the net change in cash during the reporting period.

### **What are the five basic principles of accounting?**

These are five basic principles of accounting that are important:

#### **Revenue principle**

The revenue principle, also called the 'revenue recognition principle', determines when accountants may record transactions as revenue in their books. It states that businesses earn revenue when customers gain legal possession of a service or product, and not at the point of cash transaction between the company and the customer.

### **Expense principle**

The expense principle is similar to the revenue principle, but it deals with expenditure. The principle determines when an accountant can record a transaction as an expense in their books. It states that expenses occur when businesses accept the services or goods of another entity, regardless of when they may be billed for it.

### **Matching principle**

The matching principle states that a company should match all its revenue items with a corresponding expense item. For example, if your company makes garments, you should account for the cost of production, like fabric, dyes, threads, equipment and labour, and match it with the revenue the company earn when a customer purchases that product at a given price. Businesses who follow the revenue, expense and matching principle are said to operate under accrual accounting methods.

## **9 Accounting Principles**

Here are 9 accounting principles you must know before stepping into the accounting industry:

### **Monetary unit principle**

The monetary unit principle states that all business transactions must be in terms of money and Indian currency (₹). Money is the common unit used for recording business transactions such as capital, assets and liabilities. A business cannot report its assets as three buildings, two machines or one brand name. That is why the monetary unit stresses reporting only those transactions that you can express in monetary terms. However, you may record other types of transactions separately. The principle assumes that the purchasing power of money remains unchanged with time. This principle does not give importance to the concept of inflation.

For example, your organisation purchased a building worth ₹20 lakhs in 2012. Due to inflation, the building costs ₹40 lakhs in 2016. You cannot reflect the same in your accounts as per the monetary unit principle.

### **Going concern principle**

The going principle assumes that a business is likely to continue its activities for an indefinite period. It means that the organisation will not liquidate and will not be dissolved. Because of this principle, accountants can treat some items as assets instead of expenses because the business will operate and reap benefits from the asset in the future as a going concern.

For example, accountants report purchases of machinery as an asset instead of an expense because, as per the going concern principle, the organisation will continue in the foreseeable future. This helps the accountant allocate the cost of the machinery over its useful life.

The going concern principle is beneficial for investors, as it gives assurance that they will receive a return on their investment. The absence of going concern accounting principle will ensure that organisations report their expenses without deferring them.

### **Dual aspect of the duality principle**

The duality principle of accounting suggests that every business should record its transactions in two separate accounts.

Each transaction has an equal and opposite impact on the business. This concept is the foundation of double-entry bookkeeping and essential for creating financial reports. The equation of the dual aspect principle is:

$$\text{Assets} = \text{Liabilities} + \text{Equity}$$

The principle explains that there will be both a credit and debit for the same amount when a transaction occurs. For example, when organisations purchase computers and laptops through cheques, the accountant considers the transaction's two-fold effect. The credit side is owning machinery and the debit side is the reduction in the bank balance.

This accounting principle helps auditors find out potential loopholes and errors in the financial statements.

### **Cost principle**

The cost principle states that a business should record its assets at the purchase price and not the market price. The purchase price includes the installation and transportation charges.

For example, if an organisation purchases a piece of cosmetic manufacturing machinery for ₹2,00,000 and spends ₹2,000 on installation and ₹800 on transportation, the machinery's purchase price would be ₹2,02,800. If the same machinery's current market price is ₹5,00,000, the accounting books will still reflect ₹2,02,800 as the purchase price.

As the cost principle deals with cost in the past, the purchase price is known as the historical cost. So, the cost principle implies that if organisations pay nothing for acquiring the assets, they cannot include the asset in their financial statement. For this reason, goodwill appears in the financial statements only when organisations pay the price for this intangible asset.

### **Realisation principle**

The realisation principle states that a business should record the revenue from any business transaction only when realised. According to this principle, a business earns revenue when the organisation gives its goods and services to a customer through cash or some asset in

exchange. In short, the realisation accounting principle states that revenue is realised when a business earns it and not when it collects the revenue.

For example, a SaaS company receives an order for supplying software worth ₹4,00,000. The company supplies SaaS software worth ₹1,00,000 by 31st December 2021 and the rest of the order they supply in January 2021. The 2020 revenue for the SaaS company would be ₹1,00,000 because merely getting an order is not revenue until the goods or services reach the customer.

### **Accrual principle**

One of the essential principles of accounting is the accrual principle. It states that a business must record the transactions during the accounting period in which they occur, irrespective of when the business receives the cash flow for the transaction. In short, a business must record the accrued income in the period in which it arises rather than the subsequent period in which the business will receive the income.

Similarly, a business must record the accrued expenses in the accounting period in which it occurs rather than the period in which the business receives the payment.

Furthermore, this accounting principle advocates that a business must show all the prepaid expenses in the accounting period in which the business pays for it. The accrual accounting principle is essential because it ensures that expenses match the revenue in an accounting period.

For example, utility companies in India usually bill customers once a month for their service, whether it is electricity, water or gas. The company's accountant records the revenue when it bills the customer at the end of the month, even though the customer will submit the payment in the subsequent month.

### **Matching principle**

The matching principle directs that a business should report expenses on the income statement for the accounting period in which the business earned its related revenue. So, once the revenue becomes receivable, the business should allocate it to an appropriate accounting period with the accrual principle's help. If the business postpones the revenue to the next accounting period due to some circumstances, it should postpone the expenses to that accounting period.

For example, if a jewellery store spends ₹1,80,000 on social media marketing in 2018 with marketing strategies likely to benefit three accounting periods, 2018, 2019 and 2020, then in such a case, only ₹60,000 is an expense incurred in 2018. The accountant will report the remaining amount in 2019 and 2020.

### **Consistency principle**

Applying the consistency principle would mean that once a business adopts an accounting principle or method, they must follow this method or principle for all their accounting periods until an alternative method or principle comes into the market.

The consistency principle is beneficial for auditors, as it helps in comparing financial results from different accounting periods. Maintaining consistency in bookkeeping is imperative to avoid confusion and give insight into how a business reports specific numbers and information on its financial statement. For example, if a retail store uses the last-in, first-out (LIFO) method for reporting financial statements of 2018, they cannot switch to the first-in, first-out (FIFO) method in 2019.

### **Full disclosure principle**

Applying the full disclosure principle means that accountants include all the relevant and necessary information in the financial statements. The information could be how a business maintains the financial records and how the business operates. This principle ensures that users, investors, creditors and readers of the financial information receive no misleading information. A business should include all necessary details like disclosing the accounting method and non-monetary transactions, among other information.

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## **1.2 ACCOUNTING CONCEPTS & CONVENTIONS**

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In drawing up accounting statements, whether they are external "financial accounts" or internally-focused "management accounts", a clear objective has to be that the accounts fairly reflect the true "substance" of the business and the results of its operation.

The theory of accounting has, therefore, developed the concept of a "true and fair view". The true and fair view is applied in ensuring and assessing whether accounts do indeed portray accurately the business' activities.

To support the application of the "true and fair view", accounting has adopted certain concepts and conventions which help to ensure that accounting information is presented accurately and consistently.

### **Accounting Conventions**

The most commonly encountered convention is the "historical cost convention". This requires transactions to be recorded at the price ruling at the time, and for assets to be valued at their original cost.

Under the "historical cost convention", therefore, no account is taken of changing prices in the economy.

The other conventions you will encounter in a set of accounts can be summarised as follows:

### **Monetary measurement**

Accountants do not account for items unless they can be quantified in monetary terms. Items that are not accounted for (unless someone is prepared to pay something for them) include things like workforce skill, morale, market leadership, brand recognition, quality of management etc.

### **Separate Entity**

This convention seeks to ensure that private transactions and matters relating to the owners of a business are segregated from transactions that relate to the business.

### **Realisation**

With this convention, accounts recognise transactions (and any profits arising from them) at the point of sale or transfer of legal ownership - rather than just when cash actually changes hands. For example, a company that makes a sale to a customer can recognise that sale when the transaction is legal - at the point of contract. The actual payment due from the customer may not arise until several weeks (or months) later - if the customer has been granted some credit terms.

### **Materiality**

An important convention. As we can see from the application of accounting standards and accounting policies, the preparation of accounts involves a high degree of judgement.

Where decisions are required about the appropriateness of a particular accounting judgement, the "materiality" convention suggests that this should only be an issue if the judgement is "significant" or "material" to a user of the accounts. The concept of "materiality" is an important issue for auditors of financial accounts.

### **Accounting Concepts**

Four important accounting concepts underpin the preparation of any set of accounts:

#### **Going Concern**

Accountants assume, unless there is evidence to the contrary, that a company is not going broke. This has important implications for the valuation of assets and liabilities.

#### **Consistency**



Transactions and valuation methods are treated the same way from year to year, or period to period. Users of accounts can, therefore, make more meaningful comparisons of financial performance from year to year. Where accounting policies are changed, companies are required to disclose this fact and explain the impact of any change.

### **Prudence**

Profits are not recognised until a sale has been completed. In addition, a cautious view is taken for future problems and costs of the business (the are "provided for" in the accounts" as soon as their is a reasonable chance that such costs will be incurred in the future.

### **Matching (or "Accruals")**

Income should be properly "matched" with the expenses of a given accounting period.

### **Key Characteristics of Accounting Information**

There is general agreement that, before it can be regarded as useful in satisfying the needs of various user groups, accounting information should satisfy the following criteria:

#### **Understandability**

This implies the expression, with clarity, of accounting information in such a way that it will be understandable to users - who are generally assumed to have a reasonable knowledge of business and economic activities

#### **Relevance**

This implies that, to be useful, accounting information must assist a user to form, confirm or maybe revise a view - usually in the context of making a decision (e.g. should I invest, should I lend money to this business? Should I work for this business?)

#### **Consistency**

This implies consistent treatment of similar items and application of accounting policies

#### **Comparability**

This implies the ability for users to be able to compare similar companies in the same industry group and to make comparisons of performance over time. Much of the work that goes into setting accounting standards is based around the need for comparability.

#### **Reliability**

This implies that the accounting information that is presented is truthful, accurate, complete (nothing significant missed out) and capable of being verified (e.g. by a potential investor).

#### **Objectivity**

This implies that accounting information is prepared and reported in a "neutral" way. In other words, it is not biased towards a particular user group or vested interest

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## 1.3 ACCOUNTING EQUATION

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The accounting equation is the basic element of the balance sheet and the primary principle of accounting. It helps the company to prepare a balance sheet and see if the entire enterprise's asset is equal to its liabilities and stockholder equity. It is the base of the double-entry accounting system.

Double-entry accounting is a system that ensures that accounting and transaction equation should be equal as it affects both sides. Any change in the asset account, there should be a change in related liability and stockholder's equity account. While performing journal entries accounting equation should be kept in mind.

How to calculate the Accounting Equation?

The accounting equation on the basis of a balance sheet can be calculated as.

- The business total assets should be located on the balance sheet for a particular period
- The liabilities of a company should be listed separately in the balance sheet and calculated
- The total liability and total stockholder's equity should be added
- The total liabilities and equity will equal the company's asset

The Formula for the Accounting Equation

**Assets = Liabilities + Shareholder's Equity**

Example of Accounting Equation:

1. For the budgetary year, leading retailer ABC firm incorporated the following points on its balance sheet:

**Total assets: ₹190 crore**

- Total liabilities: ₹130 crore

**Total shareholders' equity: ₹60 crore**

If we evaluate the accounting equation (Liabilities + Equity), we arrive at (₹130Cr + ₹60Cr) = ₹190 crore, which equals to the calculation of the assets submitted by the company.

2. An organisation ABC wish to buy a ₹500 manufacturing machine using cash. This deal will result in debt of (-₹500) for equipment and (+₹500) as a credit to cash. Therefore, the accounting equation will be.

Assets	=	Liabilities	+	Shareholder's Equity
+500				
-500				
0	=	0	+	0

### **Double-Entry Accounting (Bookkeeping)**

In double-entry accounting or bookkeeping, total debits on the left side must equal total credits on the right side. That's the case for each business transaction and journal entry. As a result, the financial statements are in balance.

The monthly trial balance is a listing of account names from the chart of accounts with total account balances or amounts. Total debits and credits must be equal before posting transactions to the general ledger for the accounting cycle.

Double-entry bookkeeping started being used by merchants in Italy as a manual system during the 14th century.

Accounting software is a double-entry accounting system automatically generating the trial balance. The trial balance includes columns with total debit and total credit transactions at the bottom of the report.

### **Expanded Accounting Equation**

The expanded accounting equation lengthens the basic accounting equation (Assets = Liabilities + Shareholders' Equity). It shows items within the shareholders' equity section of the balance sheet in the formula.

The expanded accounting equation is:

$$\text{Total Assets} = \text{Total Liabilities} + \text{CC} +/- \text{AOCIL} + \text{BRE} + \text{R} - \text{E} - \text{D} - \text{SR}$$

Where terms from the Shareholder's Equity section of the balance sheet include:

CC is Contributed Capital

AOCIL is Accumulated Other Comprehensive Income (Loss)

BRE is Beginning Retained Earnings

R is Revenue

E is Expenses

D is Dividends (paid)

SR is Stock Repurchases

In this expanded accounting equation, CC, the Contributed Capital or paid-in capital, represents Share Capital. AOCIL is added for income or subtracted for loss. Retained Earnings is Beginning Retained Earnings + Revenue – Expenses – Dividends – Stock Repurchases.

Accumulated Other Comprehensive Income (Loss), AOCIL, is a component of shareholders' equity besides contributed capital and retained earnings. AOCIL includes unrealized gains or losses on available for sale securities, foreign currency translation gains or losses, and pension plan-related items, including gains or losses, prior pension service costs, and credits.

Share repurchases are called treasury stock if the shares are not retired. Treasury stock transactions and cancellations are recorded in retained earnings and paid-in-capital. The journal entry depends on transaction specifics.

Share capital consists of preferred stock, if any, and common stock. Retained Earnings is computed as Beginning Retained Earnings plus year-to-date additions to Retained Earnings (from Revenue minus Expenses = Net Income) minus Dividends paid minus Share Repurchases.

For EAE, you'll still need the Balance Sheet. Note that you'll also need the Income Statement and possibly the detailed Statement of Stockholders' Equity.

Not all companies will pay dividends, repurchase shares, or have accumulated other comprehensive income or loss.

### **Example On Accounting Equation**

**Analyze the following transactions under the Accounting Equation Approach.**

- 1. Commenced business with cash ₹500000**
- 2. Purchased goods ₹25000**
- 3. Paid salary ₹10000**
- 4. Sold goods costing ₹20000 at a profit of 25% on the cost**
- 5. Paid salary in advance ₹2000**
- 6. Introduced additional capital ₹10000**
- 7. Purchased computer ₹15000**
- 8. Deposited ₹50000 into the bank**

Ans.

Analysis of transactions:

1. It increases the Cash thus, add to cash. Also, it increases the Capital, hence add to Capital.
2. Goods are purchased thus, cash is decreasing. While, goods are coming in thus, they are increasing. Therefore, deduct cash and add goods.

3. Salary is paid therefore cash is decreasing. While salary is an expense. Thus, deduct cash and also deduct from Capital.
4. Goods are going out thus, deduct them. Thus cash is coming in, add it. Also, add the profit to Capital.
5. Salary is paid in advance which is a current asset. Deduct Cash is and add salary paid in advance.
6. Cash and Capital both are increasing. Hence, add Cash and Capital.
7. Cash is decreasing while the computer is increasing. Therefore, deduct cash and add to the computer.
8. Cash is decreasing and bank balance is increasing. Therefore, deduct cash and add to the bank.

Summary of transactions using the Accounting Equation

	ASSETS					LIABILITIES + CAPITAL		
	Cash	Stock	Com puter	Pre- paid Salar y	Ba nk	Total	Capital	Tot al
1	500000					50000	500000	500000
2	<u>(25000)</u>	<u>25000</u>				500	500000	500000
3	<u>(10000)</u>	25000				49000	<u>(10000)</u>	49000
4	<u>25000</u>	<u>(20000)</u>	-			4950	<u>5000</u>	4950

.	<b>90000</b>	<b>5000</b>	<b>00</b>	<b>495000</b>	<b>000</b>
		-			
5	<u>(2000)</u>	<b>5000</b>	<u>2000</u>	<b>4950</b>	<b>49</b>
.	<b>488000</b>		<u>2000</u>	<b>00</b>	<b>500</b>
					<b>0</b>
6	<u>10000</u> 4	<b>5000</b>		<b>5050</b>	<b>505</b>
.	<b>98000</b>		<b>2000</b>	<b>00</b>	<b>000</b>
7	<u>(15000)</u>	<b>5000</b>	<b>1500</b>	<b>5050</b>	<b>505</b>
.	<u>483000</u>		<b>0</b>	<b>00</b>	<b>000</b>
			<b>2000</b>		
8	<u>(50000)</u>	<b>5000</b>	<b>1500</b>	<b>50</b>	<b>5</b>
.	<u>433000</u>		<b>0</b>	<b>000</b>	<b>000</b>
			<b>2000</b>	<b>05000</b>	<b>000</b>

### Question 1:

Prepare Accounting Equation from the following: -

		(₹)
1.	Sandeep Started Business With Cash	1,00,000
2.	Purchased Furniture For Cash	5,000
3.	Purchased Goods For Cash	20,000
4.	Purchased Goods On Credit	36,000
5.	Paid For Rent	700
6.	Goods Costing ₹ 40,000 Sold At A Profit Of 20% For Cash	

### ANSWER:

#### ACCOUNTING EQUATION

S. No.	Transaction	Assets			=	Liabilities	+	Capital
		Cash	+ Furniture	+ Stock	=	Creditors		
(i)	Sandeep started business with	1,00,000					+	1,00,000

	cash							
(ii)	Purchased furniture for cash	1,00,000			=		+	1,00,000
		-5,000	+5,000					
(iii)	Purchased goods for cash	95,000	+	5,000	=		+	1,00,000
		-20,000				+20,000		
(iv)	Purchased goods on credit	75,000	+	5,000	+	20,000	=	+
						+36,000		+36,000
(v)	Rent paid	75,000	+	5,000	+	56,000	=	36,000
		-700						+ 1,00,000
(vi)	Goods costing Rs 40,000 sold at a profit of 20% for cash	74,300	+	5,000	+	56,000	=	36,000
		+48,000				-40,000		+ 99,300
		1,22,300	+	5,000	+	16,000	=	36,000
								+ 1,07,300

### Working Note:

#### WN1 Calculation of Sale Price

#### What is Accounting Process?

The primary objective of financial accounting is to record financial transactions to arrive at the results of the operations of the business during a year. This is done by preparing financial statements, *i.e.* Profit and Loss Account and Balance Sheet at the end of the year.

For preparing these **financial statements**, a business transaction has to pass through a number of stages in the accounting process. This means when a business transaction occurs, the process begins to record the transaction in the account books.

The accounting process is a series of steps that begin with a transaction taking place and ends with closing of the account books at the end of the year. Because the complete sequence of accounting procedure is repeated in the same order during each accounting year, it is also referred to as accounting cycle.

#### 2. Steps in Accounting Process

The main steps in the accounting process are described in Fig. 3.1. These steps are:

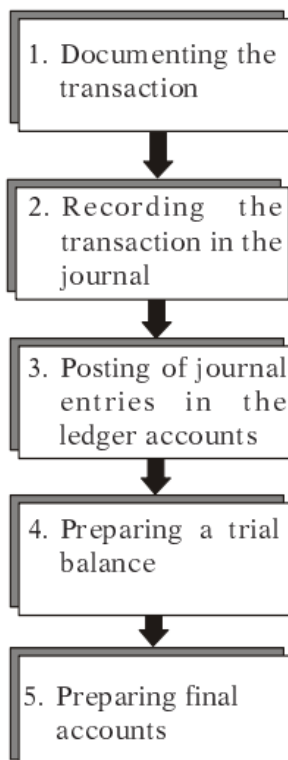
1. Source documents
2. Journal
3. Ledger

4. Trial balance
5. Final accounts

Of these five steps, first four steps are discussed in this chapter and the last step i.e. final accounts is discussed in a subsequent chapter.

### 3. Source Documents

The starting point in the accounting process is to record the transaction on the basis of a documentary evidence. This means that the origin of a transaction is the source document. In other words, source document is the voucher or written evidence on the basis of which transactions are recorded in the books of account. Such voucher may be generated within the business or may flow into the business from outside. Examples of vouchers are pay-in-slips of the bank deposit, cash memos, bills, invoices, rent receipts, order received, etc. These documents are the foundation of all accounting records.



There should be some documentary evidence (voucher) of each transaction. These documents reveal that transactions have occurred and initiate the accounting process.

On the basis of documentary evidences, the accountant makes a record of a transaction in journal in chronological order. Journal is a subsidiary book.

Information given in journal is then entered in ledger. This is known as posting. Ledger is a principal book having a set of accounts.

The equality of debits and credits in the ledger accounts is verified by preparing a trial balance at the end of the period.

Profit and Loss Account and Balance Sheet are the two basic financial statements, also known as final accounts, which are prepared from information given in the trial balance.

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## 1.4 JOURNAL

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### Journal in Accounting Process



Journal is a book of first entry. It is a preliminary book to provide a chronological record of transactions in which each transaction is recorded with relevant supplementary information. Journal is known as a book of original entry because the transactions are first recorded in journal and it is from this record that various accounts are posted in the ledger. Journal is also known as subsidiary book or day book. The process of recording transactions in journal is known as journalising.

A standard form of a journal is given below:

**Journal**

Date	Particulars	L.F. (Ledger Folio)	Amount	
			Debit ,	Credit ,

Journal has the following five columns:

- 1. Date** This column records the date when transaction is entered in journal.
- 2. Particulars** In this column the accounts to be debited and credited are entered. The name of the account to be debited is written first and in the next line, the account to be credited is written preceded by the word 'To'. A brief explanation of the transaction known as 'Narration' is also given below the account to be credited. (see Illustration 3.1)
- 3. L.F.** i.e. Ledger Folio means the page numbers of the ledger in which these accounts appear in the ledger.
- 4. Debit (Dr) Amount** In this column, amount to be debited is entered.
- 5. Credit (Cr) Amount** In this column, amount to be credited is entered.

**4.1 Recording in Journal**

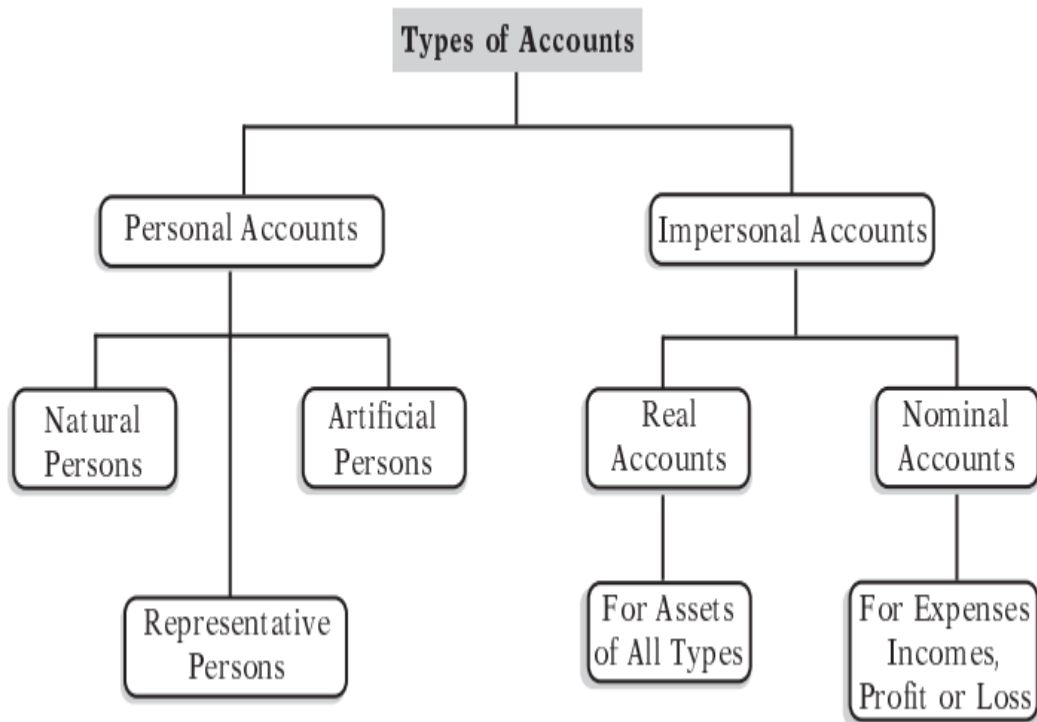
The transactions in journal are recorded on the basis of rules of debit and credit of double entry system. All financial transactions are classified into three categories:

- (i) transactions relating to persons,
- (ii) transactions relating to business assets and properties, and
- (iii) transactions relating to business expenses and incomes.

On the basis of this classification of transactions, accounts are classified as explained below.

**4.2 Types of Accounts**

There are three types of accounts, *i.e.*, personal, real and nominal.



## Types of Accounts

**Note:** One should know that short form of account is written as a/c.

**(a) Personal Accounts:** This includes:

**(i)** Accounts of natural persons, e.g., debtor's a/c, creditor's a/c, Ram's a/c, etc.

**(ii)** Accounts of artificial persons and body of persons e.g., partnership firm's a/c, company's a/c, bank a/c, club's a/c, insurance company's, etc.

**(iii)** Representative personal accounts When an account represent a certain person, it is called representative personal account. For example, if salary of 10 employees has not been paid, the total amount due to these employees will be added and shown under one common account called 'salaries outstanding a/c', but in the books the names of employees will appear. Therefore, salaries outstanding a/c is a personal account because it represents certain persons. Similarly, insurance prepaid a/c, rent outstanding a/c, interest accrued a/c, etc. are personal accounts.

**(b) Real Accounts:** These are accounts of things tangible or intangible, e.g., furniture a/c, cash a/c, goodwill a/c, patent rights a/c, machinery a/c, land and building a/c, etc.

**(c) Nominal Account:** These are accounts of expenses (and losses) and incomes (and gains), e.g., interest paid a/c, wages a/c, interest earned a/c, commission a/c, rent a/c, discount a/c, profit on sale of old machine a/c, etc.

### 4.3 Nominal Account V. Personal Accounts

Generally, there is a confusion regarding some of nominal accounts and personal accounts. A simple rule is that when a prefix or suffix is added to a nominal account, it becomes a personal account. For example, wages a/c is a nominal a/c but wages outstanding a/c is a personal a/c. Similarly, rent a/c and insurance a/c are nominal accounts but rent paid in advance a/c and unexpired insurance a/c are personal accounts.

<b>Golden Rules of Debit and Credit</b>		
(a) Personal Account:	<b>Debit</b> the receiver.	<b>Credit</b> the giver.
(b) Real Account:	<b>Debit</b> what comes in.	<b>Credit</b> what goes out.
(c) Nominal Account:	<b>Debit</b> the expenses and losses.	<b>Credit</b> the gains and incomes.

### **5. Compound Journal Entries**

Sometimes two or more transactions of the same nature take place on the same date. Instead of passing a separate entry for each transaction, a combined entry (known as compound entry) may be passed to record all these transactions. Such compound entries may be of three types:

1. One account to be debited and two or more accounts to be credited.
2. Two or more accounts to be debited and one account to be credited
3. Two or more accounts to be debited and two or more accounts to be credited.

### **EXAMPLE OF JOURNALS**

#### **QUESTION 1**

Mr. Nirmal has the following transactions in the month of April.

Write Journal Entries for the transactions.

10 <sup>th</sup> April	:	Commenced business with a capital of 1,00,000
11 <sup>th</sup> April	:	Purchased goods from Veeru for 20,000
13 <sup>th</sup> April	:	Purchased Goods for Cash 15,000
14 <sup>th</sup> April	:	Purchased Goods from Abhiram for cash 9,000
16 <sup>th</sup> April	:	Bought Goods from Shyam on credit 12,000
17 <sup>th</sup> April	:	Sold goods worth 15,000 to Tarun
19 <sup>th</sup> April	:	Sold goods for cash 20,000
20 <sup>th</sup> April	:	Sold goods to Utsav for cash 6,000
21 <sup>st</sup> April	:	Sold goods to Pranav on credit 17,000

22 <sup>nd</sup> April	:	Returned goods to Veeru 3,000
23 <sup>rd</sup> April	:	Goods returned from Tarun 1,000
25 <sup>th</sup> April	:	Goods taken by the proprietor for personal use 1,000
26 <sup>th</sup> April	:	Bought Land for 50,000
27 <sup>th</sup> April	:	Purchased machinery for cash 45,000
28 <sup>th</sup> April	:	Bought computer from Intel Computers for 25,000
28 <sup>th</sup> April	:	Cash sales 15,000
29 <sup>th</sup> April	:	Cash purchases 22,000
30 <sup>th</sup> April	:	Bought furniture for proprietor's residence and paid cash 10,000

### Solution

Journal in the books of Mr. Nirmal for the period from 1 <sup>st</sup> to 30 <sup>th</sup> April						
Date	V/R No.	Particulars		L/F	Amount (Dr)	Amount (Cr)
April 10 <sup>th</sup>	–	Cash a/c	Dr	–	1,00,000	1,00,000
		To Capital a/c		–		
		[Being the amount received from Mr. Nirmal in cash, the proprietor as his capital contribution vide receipt no:___ dated:___]				
11 <sup>th</sup>	–	Goods/Stock a/c	Dr	–	20,000	20,000
		To Veeru a/c		–		
		[Being the value of stock purchased from Mr. Veeru on credit vide bill no:___ dated:___]				
13 <sup>th</sup>	–	Goods/Stock a/c	Dr	–	15,000	15,000
		To Cash a/c		–		
		[Being the value of stock purchased for cash from M/s ___ vide bill no:___ dated:___]				
14 <sup>th</sup>	–	Goods/Stock a/c	Dr	–	9,000	9,000
		To Cash a/c		–		
		[Being the value of stock purchased for cash from Mr. Abhiram vide bill no:___ dated:___]				

16 <sup>th</sup>	–	Goods/Stock a/c To Shyam a/c	Dr	–	12,000	12,000
		[Being the value of stock purchased from Mr. Shyam on credit vide bill no:___ dated:___]		–		
17 <sup>th</sup>	–	Tarun a/c To Goods/Stock a/c	Dr	–	15,000	15,000
		[Being the value of stock sold on credit to Mr. Tarun vide invoice no:___ dated:___]		–		
19 <sup>th</sup>	–	Cash a/c To Goods/Stock a/c	Dr	–	20,000	20,000
		[Being the value of goods sold for cash vide receipt no:___ dated:___]		–		
20 <sup>th</sup>	–	Cash a/c To Goods/Stock a/c	Dr	–	6,000	6,000
		[Being the value of stock sold to Mr. Utsav for cash vide receipt no:___ dated:___]		–		
21 <sup>st</sup>	–	Pranav a/c To Goods/Stock a/c	Dr	–	17,000	17,000
		[Being the value of stock sold to Mr. Pranav on credit vide bill no:___ dated:___]		–		
22 <sup>nd</sup>	–	Veeru a/c To Goods/Stock a/c	Dr	–	3,000	3,000
		[Being the value of goods returned to Mr. Veeru vide returns bill no:___ dated:___]		–		
23 <sup>rd</sup>	–	Goods/Stock a/c To Tarun a/c	Dr	–	1,000	1,000
		[Being the value of stock returned by Mr. Tarun vide returns bill no:___ dated:___]		–		
25 <sup>rd</sup>	–	Drawings a/c To Goods/Stock a/c	Dr	–	1,000	1,000

		[Being the value of stock taken by the proprietor vide bill no: ___ dated: __]				
26 <sup>th</sup>	–	Land a/c To Cash a/c	Dr	– –	50,000	50,000
		[Being the amount paid for land purchased on: __]				
27 <sup>th</sup>	–	Machinery a/c To Cash a/c	Dr	– –	45,000	45,000
		[Being the amount paid for the purchase of machinery vide bill no: ___ dated: __]				
28 <sup>th</sup>	–	Computers a/c To Intel Computers a/c	Dr	– –	25,000	25,000
		[Being the value of a computer purchased from M/S Intel Computers on credit vide bill no: ___ dated: __]				
29 <sup>th</sup>	–	Cash a/c To Goods/Stock a/c	Dr	– –	15,000	15,000
		[Being the value of stock sold for cash vide receipt no: ___ dated: __]				
29 <sup>th</sup>	–	Goods/Stock a/c To Cash a/c	Dr	– –	22,000	22,000
		[Being the value of stock purchased for cash vide bill no: ___ dated: __]				
30 <sup>th</sup>	–	Drawings a/c To Cash a/c	Dr	– –	10,000	10,000
		[Being the amount of cash paid for furniture purchased for proprietor's residence vide bill no: ___ dated: __]				

## Question 2

Journalise the following transactions in the books of Rama & Sons

3 <sup>rd</sup> May	:	Cash deposited into bank 60,000
4 <sup>th</sup> May	:	Loan given to Bhuvan 20,000
4 <sup>th</sup> May	:	Paid cash to Veeru 20,000
5 <sup>th</sup> May	:	Paid to Veeru by cheque 15,000

5 <sup>th</sup> May	:	Cash received from Tarun 12,000
5 <sup>th</sup> May	:	Took loan from Anush 15,000
6 <sup>th</sup> May	:	Cheque received from Pranav 15,000
6 <sup>th</sup> May	:	Paid to Intel Computers by cheque 17,000
6 <sup>th</sup> May	:	Withdrew from bank 5,000
7 <sup>th</sup> May	:	Withdrew from bank for office use 8,000
7 <sup>th</sup> May	:	Cash received from Bhuvan on loan account 10,000
8 <sup>th</sup> May	:	Withdrew from bank for personal use 1,000
8 <sup>th</sup> May	:	Cash taken by proprietor for personal use 3,000
9 <sup>th</sup> May	:	Bought furniture and paid by cheque 15,000
9 <sup>th</sup> May	:	Paid to Anush by cheque on loan account 5,000
9 <sup>th</sup> May	:	Brought additional capital of 25,000

### Solution

Journal in the books of M/s Rama & Sons  
for the period from 1<sup>st</sup> May to 10<sup>th</sup> May

Date	V/R No.	Particulars	L/F	Amount (Dr)	Amount (Cr)
May 3 <sup>rd</sup>	–	Bank a/c To Cash a/c  [Being the amount of cash deposited into bank vide voucher no:___ dated:___]	Dr – –	60,000	60,000
4 <sup>th</sup>	–	Loan to Bhuvan a/c To Cash a/c  [Being the amount of cash given as loan to Bhuvan vide voucher no:___ dated:___]	Dr – –	20,000	20,000
4 <sup>th</sup>	–	Veeru a/c To Cash a/c  [Being the amount of cash paid to Veeru vide voucher no:___ dated:___]	Dr – –	20,000	20,000
5 <sup>th</sup>	–	Veeru a/c To Bank a/c	Dr –	15,000	15,000

Journal in the books of M/s Rama & Sons  
for the period from 1<sup>st</sup> May to 10<sup>th</sup> May

Date	V/R No.	Particulars	L/F	Amount (Dr)	Amount (Cr)
		[Being the amount paid to veeru on account by cheque no. ____ dated ____]			
5 <sup>th</sup>	–	Cash a/c <span style="float: right;">Dr</span> To Tarun a/c	– –	12,000	12,000
		[Being the amount of cash received from Tarun vide cash receipt no:____ dated:____]			
5 <sup>th</sup>	–	Cash a/c <span style="float: right;">Dr</span> To Loan from Anush a/c	– –	15,000	15,000
		[Being the amount of loan taken from Anush on:____]			
6 <sup>th</sup>	–	Bank a/c <span style="float: right;">Dr</span> To Pranav a/c	– –	15,000	15,000
		[Being the amount received by cheque no. ____ date ____from Pranav]			
6 <sup>th</sup>	–	Intel Computers a/c <span style="float: right;">Dr</span> To Bank a/c	– –	17,000	17,000
		[Being the amount paid by cheque no. ____ date ____to Intel Computers]			
6 <sup>th</sup>	–	Cash a/c <span style="float: right;">Dr</span> To Bank a/c	– –	5,000	5,000
		[Being the amount of cash withdrawn from bank]			
7 <sup>th</sup>	–	Cash a/c <span style="float: right;">Dr</span> To Bank a/c	– –	8,000	8,000
		[Being the amount of cash withdrawn from bank vide bill no:____ dated:____]			
7 <sup>th</sup>	–	Cash a/c <span style="float: right;">Dr</span> To Loan to Bhuvan a/c	– –	10,000	10,000



Journal in the books of M/s Rama & Sons  
for the period from 1<sup>st</sup> May to 10<sup>th</sup> May

Date	V/R No.	Particulars	L/F	Amount (Dr)	Amount (Cr)
		[Being the amount of cash received from Bhuvan as loan vide cash receipt no:___ dated:___]			
8 <sup>th</sup>	–	Drawings a/c <span style="float:right">Dr</span> To Bank a/c  [Being the amount of withdrawn from bank for personal use vide cheque no:___ dated:___]	– –	1,000	1,000
8 <sup>th</sup>	–	Drawings a/c <span style="float:right">Dr</span> To Cash a/c  [Being the amount of cash taken by the proprietor for personal purposes vide voucher no:___ dated:___]	– –	3,000	3,000
9 <sup>th</sup>	–	Furniture a/c <span style="float:right">Dr</span> To Bank a/c  [Being the amount paid by cheque no ____ date ____ towards the purchase of furniture vide bill no:___ dated:___]	– –	15,000	15,000
9 <sup>th</sup>	–	Loan from Anush a/c <span style="float:right">Dr</span> To Bank a/c  [Being the amount paid by cheque no ____ date ____ towards repayment of loan from Anush vide voucher no:___ dated:___]	– –	5,000	5,000
9 <sup>th</sup>	–	Cash a/c <span style="float:right">Dr</span> To Capital a/c  [Being the amount received from proprietor as capital vide cash receipt no:___ dated:___]	– –	25,000	25,000

### 1.5.1 LEDGER

### 6. Ledger in Accounting Process

The ledger is a set of accounts. In other words, the book which contains various accounts is known as ledger. It may be a bound book or a set of loose leaf pages or punched cards. Each account is opened on a separate page or card in the ledger.

A ledger has the following columns:

Dr.			Name of the Account			Cr.	
Date	Particulars	Journal Folio (JF)	Amount	Date	Particulars	Journal Folio (JF)	Amount

### 6.1 Points to be noted in the ledger

1. Every account in the ledger has a name which is written at the top of the account.
2. Ledger account is divided in two equal parts. The left side part is known as debit (Dr.) side and the right side is known as credit (Cr.) side.
3. JF column denotes the page (folio) number on which journal entry of this transaction has been recorded.

### 6.2 Distinction between Journal and Ledger

The main points of distinction between journal and ledger are as under :

#### 6.2.1 Subsidiary Book and Principal Book

Journal is a subsidiary book. It is also called a book of original entry or first entry. Ledger is the principal book, also known as a book of second entry. In other words, journal an original record while ledger is a derived record.

#### 6.2.2 Chronological and Analytical Record

Journal is a chronological record of day-to-day business transactions while a ledger is an analytical record of these transactions.

#### 6.2.3 Narrations

Journal entries are supported by narrations to help in properly understanding the entries. Ledger entries are not supported by narrations.

#### 6.2.4 Balancing

Journal is not balanced while ledger accounts are balanced.

### 6.3 Ledger Posting

The process of transferring the debits and credits from the journals to the ledger accounts is called posting. Each amount listed in the debit column of the journal is posted by entering it

on the debit side of the account in the ledger and each amount listed in the credit column of the journal is posted to the credit side of the ledger account. The following sequence is used for posting to ledger:

- (i) Open (or locate) in the ledger the first account named in the journal entry.
- (ii) Enter in the debit column of the ledger account the amount of the debit as shown in the journal. It is customary to write 'To' on the debit side with the name of the account and 'By' on the credit side with the name of the account.
- (iii) Enter the date of the transaction in the date column of the ledger account.
- (iv) Enter in journal folio column the number of the journal page from which the entry is being posted.
- (v) The recording of the debit in the ledger account is now complete. Return to the journal and enter in the ledger folio column, the number of the ledger page to which the debit was posted.
- (vi) Repeat the above five steps for the credit side of the journal entry.

**Example.** (Data is assumed)

**Journal Entry**

<i>Date 2013</i>	<i>Particulars</i>	<i>L.F.</i>	<i>Dr.</i> `	<i>Cr.</i> `
Jan. 1	Cash Account To Sales Account (Goods sold to R. C. & Co. on cash basis)	1 14	840	840

The two ledger accounts affected by this entry are:

- 1. Cash Account
- 2. Sales Account

These two accounts will appear in the ledger as follows :

Dr.			Cash Account		Cr.		
<i>Date</i> 2013	<i>Particulars</i>	<i>Journal Folio</i>	<i>Amount</i> `	<i>Date</i>	<i>Particulars</i>	<i>Journal Folio</i>	<i>Amount</i> `

Dr.			Cash Account		Cr.		
Jan. 1	To Sales	10	840				

Dr.			Sales Account			Cr.	
<i>Date</i>	<i>Particulars</i>	<i>Journal Folio</i>	<i>Amount</i>	<i>Date</i>	<i>Particulars</i>	<i>Journal Folio</i>	<i>Amount</i>
				2013			
				Jan. 1	By Cash	10	840

#### 6.4 Balancing of Ledger Accounts

Balancing is the process of equalising the two sides of an account. After posting has been completed, the difference between the totals of debit and credit sides is ascertained. This is known as balancing of accounts. If the total of the debit side is more than that of credit side, it is said to have a debit balance and vice versa, if credit side total is more than that of debit side, it is a case of credit balance. The difference between the two is placed on the shorter side by writing "To or By Balance c/d" so that the two sides become equal. Thus the total of the bigger side is written on both sides. In the next period, the account will start with the balance as "To or By Balance brought down". This is written on the side which has a bigger total.

If the totals of the two sides are equal, the account is said to be in balance.

#### 7. Trial Balance in Accounting Process

When all ledger accounts have been prepared and balanced off, a list of all debit balances and credit balances is prepared. In double entry system, the debits must be equal to credits. In other words, the total of the debit balances must be equal to the total of the credit balances. The proof of the equality of debit balances and credit balances is called a 'Trial Balance'. Thus a trial balance may be defined as 'a two-column schedule listing the balances of all the accounts as they appear in the ledger. The debit balances are listed in the left hand column and the credit balances in the right hand column'. The total of the two columns should agree. If the debit side and credit side of the trial balance are equal, it is proved that the account books are arithmetically correct. But it is not a conclusive proof that there are no errors.

#### 7.1 Objectives

The main objectives of preparing a trial balance are follows:

- 1. To test the arithmetic accuracy.** When a trial balance agrees, it is taken as a proof that double entry of all transactions is complete and arithmetically the books of account are correct. But it should not be taken as a conclusive proof that there no errors because certain errors are not disclosed by trial balance.
- 2. To detect errors.** When the total of the debit balances is not equal to the total of the credit balances, it means that there are certain errors.
- 3. To provide data for preparing financial statements.** Profit and Loss Account and Balance Sheet are prepared on the basis of trial balance data and additional information.

## 7.2 Solution

### Debit and Credit Items in Trial Balance

<b>Debit Balances</b>	<b>Credit Balances</b>
<b>Personal Accounts</b>	<b>Personal Accounts</b>
Bank	Capital
Sundry debtors	Bank (overdraft)
Drawings	Sundry creditors
Loan (given)	Loan (taken)
Prepaid insurance or other expenses	Outstanding wages or other expenses
<b>Real Accounts</b>	<b>Real Accounts</b>
Opening stock	Sales
Purchases	Purchases returns
Sales returns	<b>Nominal Accounts</b>
Plant	Discount received

Furniture Cash	Dividend received
Goodwill	Commission received
Investments Other fixed assets	Interest received and other incomes received
<b>Nominal Accounts</b>	Provisions and reserves
Wages, salaries, bad debts and other expenses and losses	

### EXAMPLE

**01. Journalise the following transaction, post them into Ledger, Balance the accounts and prepare a Trial Balance.**

2018		Rs
Mar.1	Shyam Sunder & Sons commenced business with cash	80,000
Mar.2	Purchased goods for cash	36,000
Mar.3	Machinery purchased for cash	4,000
Mar.4	Purchased goods from : Raghu	22,000
	Dilip	30,000
Mar.6	Returned goods to Raghu	4,000
Mar.8	Paid to Raghu, in full settlement of his account	17,500
Mar.10	Sold goods to Mahesh Chand & Co. for 32,000 at 5% trade discount	
Mar.13	Received cash from Mahesh Chand & Co.	19,800
	Discount allowed	200
Mar. 15	Paid cash to Dilip	14,850
	Discount received	150
Mar.20	Sold goods for cash	25,000
Mar.24	Sold goods for cash to Sudhir Ltd	18,000
Mar.15	Paid for Rent	1,500
Mar.16	Received for Commission	2,000
Mar.28	Withdrew by Proprietor for his personal use	5,000
Mar.28	Purchased a fan for Proprietor's house	1,200

**The solution of Question No 01 Chapter No 9: –**

**In the Books of Radhika Traders**

<b>Date</b>	<b>Particulars</b>	<b>L.F.</b>	<b>Debit</b>	<b>Credit</b>
<b>2019</b>				
<b>Mar.1</b>	<b>Cash A/c</b>	<b>Dr.</b>	<b>80,000</b>	
	<b>To Capital A/c</b>			<b>80,000</b>
	<b>(Being business started with cash)</b>			
<b>Mar.2</b>	<b>Purchases A/c</b>	<b>Dr.</b>	<b>36,000</b>	
	<b>To Cash A/c</b>			<b>36,000</b>
	<b>(Being Goods purchased for cash)</b>			
<b>Mar.3</b>	<b>Machinery A/c</b>	<b>Dr.</b>	<b>80,000</b>	
	<b>To Cash A/c</b>			<b>80,000</b>
	<b>(Being Machinery purchased for cash)</b>			
<b>Mar.4</b>	<b>Purchases A/c</b>	<b>Dr.</b>	<b>52,000</b>	
	<b>To Raghu's A/c</b>			<b>22,000</b>
	<b>To Dilip's A/c</b>			<b>30,000</b>
	<b>(Being Goods purchased on credit from Raghu and Dilip)</b>			
<b>Mar.6</b>	<b>Raghu's A/c</b>	<b>Dr.</b>	<b>4,000</b>	
	<b>To Purchases Return A/c</b>			<b>4,000</b>
	<b>(Being Goods returned to Raghu)</b>			
<b>Mar.8</b>	<b>Raghu's A/c</b>	<b>Dr.</b>	<b>18,000</b>	
	<b>To Cash A/c</b>			<b>17,500</b>
	<b>To Discount Received A/c</b>			<b>500</b>
	<b>(Being Cash paid to Raghu in full settlement)</b>			
<b>Mar.10</b>	<b>Mahesh Chand &amp; Co</b>	<b>Dr.</b>	<b>30,400</b>	
	<b>To Sale A/c</b>			<b>30,400</b>
	<b>(Being Goods sold to Mahesh Chand &amp; Co. at trade discount)</b>			

Mar.13	Cash A/c	Dr.	19,800	
	Discount Allowed A/c	Dr.	200	
	To Mahesh Chand & Co.			20,000
	(Being Cash received from Mahesh Chand & Co.)			
Mar.15	Dilip's A/c	Dr.	15,000	
	To Cash A/c			14,850
	To Discount Received A/c			150
	(Being Cash paid to Dilip)			
Mar.20	Cash A/c	Dr.	25,000	
	To Sales A/c			25,000
	(Being Goods sold for cash)			
Mar.24	Cash A/c	Dr.	18,000	
	To Sale A/c			18,000
	(Being Goods sold for cash)			
Mar.25	Rent A/c	Dr.	1,500	
	To Cash A/c			1,500
	(Being Rent paid.)			
Mar.26	Cash A/c	Dr.	2,000	
	To Commission A/c			2,000
	(Being Commission received)			
Mar.28	Drawings A/c	Dr.	6,200	
	To Cash A/c			6,200
	(Being Cash withdrawn and fan purchased for personal use)			

Dr.	Cash A/c						Cr.
Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount



<b>2018</b>				<b>2018</b>			
Mar. 1	To Capital A/c		80,000	Mar. 2	By Purchases A/c		36,000
Mar.13	To Mahesh Chand & Co. A/c		19,800	Mar.3	By Machinery A/c		4,000
Mar.20	To Sales A/c		25,000	Mar.8	By Raghu's A/c		17,500
Mar.24	To Sales A/c		18,000	Mar.15	To Dilip's A/c		14,850
Mar.26	To Commission A/c		2,000	Mar.25	To Rent A/c		1,500
				Mar.28	By Drawings A/c		6,200
				Mar. 31	By Balance c/d		64,750
			1,44,800				1,44,800

**Dr. Capital A/c**

**Cr.**

Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
2018				2018			
				Mar. 1	By Cash A/c		80,000
Mar. 31	To Balance c/d		80,000				
			80,000				80,000

**Dr. Purchases A/c**

**Cr.**

Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
2018				2018			
Mar. 1	To Cash A/c		36,000				
Mar.13	To Raghu's A/c		22,000				
Mar.20	To Dilip's A/c		30,000				
				Mar. 31	By Balance c/d		88,000
			88,000				88,000

**Dr. Machinery A/c**

**Cr.**

Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
2018				2018			
Mar.3	To Cash A/c		4,000				

				Mar. 31	By Balance c/d		4,000
			4,000				4,000

Dr. Raghu's A/c

Cr.

Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
2018				2018			
Mar.6	To Purchases Return A/c		4,000	Mar.4	By Purchases A/c		22,000
Mar.8	To Cash A/c		17,500				
Mar.8	To Discount Received A/c		500				
			22,000				22,000

Dr. Dilip's A/c

Cr.

Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
2018				2018			
Mar.15	To Purchases Return A/c		14,850	Mar.4	By Purchases A/c		30,000
Mar.15	To Cash A/c		150				
Mar.31	To Balance c/d		15,000				
			30,000				30,000

Dr. Purchases Return A/c

Cr.

Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
2018				2018			
				Mar.6	By Raghu's A/c		4,000
Mar.31	To Balance c/d		4,000				
			4,000				4,000

Dr. Discount Allowed A/c

Cr.

Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
------	-------------	------	--------	------	-------------	------	--------

2018				2018			
Mar.13	To Mahesh Chand & Co A/c		200				
				Mar. 31	By Balance c/d		200
			200				200

Dr. Discount Received A/c Cr.

Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
2018				2018			
				Mar.8	By Raghu's A/c		500
				Mar.15	By Dilip's A/c		150
Mar.31	To Balance c/d		650				
			650				650

Dr. Mahesh Chand & Co A/c Cr.

Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
2018				2018			
Mar.10	To Sales A/c		30,400	Mar.13	By Cash A/c		19,800
				Mar.13	By Discount Allowed A/c		200
				Mar. 31	By Balance c/d		10,400
			30,400				30,400

Dr. Rent A/c Cr.

Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
2018				2018			
Mar.25	To Cash A/c		1,500				
				Mar. 31	By Balance c/d		1,500
			1,500				1,500

Dr.	Commission A/c						Cr.
Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
2018				2018			
				Mar.26	By Cash A/c		2,000

Mar.31	To Balance c/d		2,000				
			2,000				2,000

Dr. DrawingsA/c

Cr.

Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
2018				2018			
Mar.28	To Cash A/c		6,200				
				Mar. 31	By Balance c/d		6,200
			6,200				6,200

Dr. Sales A/c

Cr.

Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
2018				2018			
				Mar.10	By Mahesh Chand & Co A/c		30,400
				Mar.20	By Cash A/c		25,000
				Mar.24	By Cash A/c		18,000
Mar.31	To Balance c/d		73,400				
			73,400				73,400

Trail Balance A/c

Particulars	J.F.	Debit	Credit
Cash A/c		64,750	
Capital A/c			80,000
Purchases A/c		88,000	
Machinery A/c		4,000	
Dilip's A/c			15,000
Purchases Return A/c			4,000
Discount Received A/c			650
Discount Allowed A/c		200	
Mahesh Chand & Co. A/c		10,400	
Rent A/c		1,500	
Commission A/c			2,000
Drawings A/c		6,200	
Sales A/c			73,400

1,75,050
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1,75,050
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## 1.5 CASH BOOK

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Cash is an essential medium of conducting transactions taking place in a business and needs to be recorded for maintaining proper bookkeeping of the transactions. Cash is a current asset, and examples of cash transactions can be bank overdraft, money orders, demand deposits.

This leads to the need for maintaining all cash transactions in one place for the business and necessitates the use of a cash book.

### Cash Book definition

Cash book is a special type of book that is only concerned with the recording of cash transactions of an organisation. It performs the dual role of both journal and a ledger for all the cash transactions taking place in a business organisation.

A cash book records all the cash receipts on the debit side and all the cash payments of the organisation on the credit side.

### Features of Cash Book

Cash book has the following features:

1. Acts as both a journal and a ledger.
2. Can be used as an alternative to a cash account for recording transactions.
3. It follows the dual entry system of accounting (i.e. Debit and credit side in cash book).
4. The debit side should be identical to the credit side.
5. Cash book should always have a debit balance.

### Types of Cash Book

There are four types of cash books used for accounting purposes. Let us have a look at the types of cash books.

1. Single column cash book
2. Double column cash book
3. Triple column cash book
4. Petty cash book

**Single column cash book:** Single column cash book is also called a simple cash book. It presents entries for cash received (receipts) on the left side or debit side and cash payments on the right hand side or credit side.

The bank transactions and the discounts that are given for transactions will be featured in separate ledger accounts in case of single-column cash books.

Cash books are updated on a daily basis in some business firms. The most striking feature of a cash book is that it can never have a credit balance. It should always show a debit balance.

### Example

#### Question 1:

Enter the following transactions in a Single Column Cash Book:—

2016		(₹)
May 1	Commenced business with Cash	25,000
3	Bought goods for Cash	10,000
3	Paid Carriage	200
4	Sold goods for Cash	6,000
10	Received from Ram	1,000
12	Paid to Shiv Kumar	2,600
15	Cash Sales	8,400
18	Purchased furniture for cash for office	5,000
20	Paid for Advertisement	500
20	Purchased goods from Mahesh on credit	6,000
24	Paid to Mahesh	4,000
25	Paid Wages	400
27	Received for Commission	1,500
28	Withdrew for personal use	2,200
31	Paid salary	700

Answer:

Cash Book							
Dr.				Cr.			
Date	Particulars	L.F.	Cash (Rs)	Date	Particulars	L.F.	Cash (Rs)
2016				2016			
May 01	Capital A/c		25,000	May 03	Purchases A/c		10,000
May 04	Sales A/c		6,000	May 03	Carriage A/c		200
May 10	Ram		1,000	May 12	Shiv Kumar		2,600
May 15	Sales A/c		8,400	May 18	Furniture A/c		5,000
May 27	Commission A/c		1,500	May 20	Advertisement A/c		500
				May 24	Mahesh		4,000
				May 25	Wages A/c		400
				May 28	Drawings A/c		2,200

				May 31	Salary A/c		700
				May 31	Balance c/d		16,300
			41,900				41,900
June 01	Balance b/d		16,300				

**Note:** Transaction dated May 20, 2016, will not be recorded in Cash Book because credit transactions do not affect the cash balance.

**Double Column cash book:** In a double column cash book, there is an additional column that is reserved for the discounts. Therefore, in a double-column cash book, also known as two-column cash book, the cash receipts and transactions are recorded in one column while the second column records discounts received and discounts provided.

Discount being a nominal account the discount provided is placed on the debit side of the cash book while discount received is placed on the credit side of the cash book.

At the end of the accounting period, both the columns are balanced, and the closing balances are transferred appropriately.

Prepare a Two Column Cash Book from the following transactions:—

2016	
May 1	Cash at office ₹ 72.
	Bank overdraft ₹ 1,250.
4	Received from Prem Chand a cheque for ₹ 1,875 in full settlement of his account of ₹ 1,900. The cheque was banked on the same day.
5	Bought goods and paid by cheque ₹ 500.
6	Narinder settled his account of ₹ 700 by a cheque. This was banked on the same day.
9	Paid to Manohar Lal by a cheque for ₹ 420. Discount received ₹ 80.
12	Cash sales to date ₹ 400 of which ₹ 300 were banked.
17	Sold old typewriter for cash ₹ 320.
20	Received a cheque for ₹ 400 from Naresh in full settlement of his account of ₹ 460. The cheque is endorsed to Suresh on 24th May in full settlement of his account of ₹ 420.
25	Received a cheque from Hari Prakash for ₹ 150. The cheque is endorsed to Raj Prakash on 27th May; Discount received ₹ 30.

28	Withdrew from Bank for office use ₹ 100 and for personal use ₹ 100.
29	Withdrew (from office) for payment of private bills ₹ 425.
30	Paid by cheque salaries ₹ 160 and rent ₹ 100.
31	Bank charges as per Pass Book ₹ 5.

**ANSWER:**

<b>Cash Book</b>									
<b>D</b>									<b>Cr.</b>
<b>r.</b>									
<b>Date</b>	<b>Particulars</b>	<b>L.</b>	<b>Cash</b>	<b>Bank</b>	<b>Date</b>	<b>Particulars</b>	<b>L.</b>	<b>Cash</b>	<b>Bank</b>
		<b>F.</b>	<b>(Rs)</b>	<b>(Rs)</b>			<b>F.</b>	<b>(Rs)</b>	<b>(Rs)</b>
2016					2016				
May 01	Balance b/d		72		May 01	Balance b/d			1,250
May 04	Prem Chand			1,875	May 05	Purchases A/c			500
May 06	Narinder			700	May 09	Manohar Lal			420
May 12	Sales A/c		100	300	May 28	Cash A/c	C		100
May 17	Office Equipment A/c		320		May 28	Drawings A/c			100
May 28	Bank A/c	C	100		May 29	Drawings A/c		425	
					May 30	Salaries A/c			160
					May 30	Rent A/c			100
					May 31	Bank Charges A/c			5
					May 31	Balance c/d		167	240
			<b>592</b>	<b>2,875</b>				<b>592</b>	<b>2,875</b>
Apr.	Balance b/d		167	240					



01									
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**Working Note:**

<b>Journal Proper</b>				
<b>Date</b>	<b>Particulars</b>	<b>L.F.</b>	<b>Debit Amount (Rs)</b>	<b>Credit Amount (Rs)</b>
2016				
May 20	Cheques-in-Hand A/c	Dr.	400	
	Discount Allowed A/c		60	
	To Naresh			460
	(Received cheque from Naresh in full settlement of his claim)			
May 24	Suresh	Dr.	420	
	To Cheques-in-Hand A/c			400
	To Discount Received A/c			20
	(Cheque received from Naresh, endorsed to Suresh)			
May 25	Cheques-in-Hand A/c	Dr.	150	
	To Hari Prakash			150
	(Cheque received from Hari Prakash)			
May 27	Raj Prakash	Dr.	180	
	To Cheques-in-Hand A/c			150
	To Discount Received A/c			30
	(Cheque received from Hari Prakash, endorsed to Raj Prakash)			

**Triple column cash book:** In a triple column cash book, the two columns are similar to the double column cash book. While the additional column is for bank transactions.

Due to the advances in the banking industry, most firms deal in cheques and therefore, the presence of a bank column in a cash book is helpful in understanding the transactions properly.

**Petty cash book:** Petty cash book, as the name suggests, is for very small transactions that take place in an organisation. Such transactions can occur in a day and are repetitive in nature, which can put undue load on the general cash book. For this reason, it is maintained separately.

Examples of such transactions are: stationery, postage, food bills, etc.

#### Advantages of Cash Book

Cash book offers the following advantages:

1. It offers easy verification of cash by matching the balance in the cash book with actual cash in hand and is therefore helpful in identifying mistakes in the entry.
2. It helps in creating a regular record of transactions date wise for the convenience of accounting personnel.
3. As it is maintained date wise, any cash payments or the transaction can be correctly traced back in the cash book.
4. It is helpful in detecting any cash frauds in the organisation.
5. It helps in saving time and labour by reducing the workload

#### EXAMPLE

Record the following transactions in a Petty Cash Book drawn with suitable columns and then balance the same:

2017		(₹)
Jan. 1	Petty cashier is given a monthly imprest amount of ₹ 10,000. He spent last month ₹ 9,200 and got the balance from the head cashier today.	
Jan. 2	Paid for Wages	600
Jan. 3	Paid for sundry expenses	100
Jan. 5	Paid for stationery	700

Jan. 9	Paid for courier charges	200
Jan. 12	Stamps purchased	750
Jan. 14	Paid wages to casual labour	500
Jan. 16	Stationery purchased	400
Jan. 19	Paid for general expenses	610
Jan. 20	Paid for cartage	800
Jan. 22	Paid for advertising	900
Jan. 24	Paid for postage	400
Jan. 25	Paid for Taxi Fare	840
Jan. 27	Paid for entertainment	600
Jan. 29	Paid for carriage	500
Jan. 31	Paid for petty repairs	700

**Answer:**

Amount Received (Rs)	C. B. Folio	Date	V. No.	Particulars	Total Amount (Rs)	Conveyance	Printing & Stationery	Postage	Wages	Cartage	Miscellaneous Expenses
		20 17									
800		Jan. 01		Balance b/d							

9,200		Ja n. 01	Cash A/c							
		Ja n. 02	Wages A/c	600				600		
		Ja n. 03	Sundry Expens es A/c	100						100
		Ja n. 05	Station ery A/c	700		700				
		Ja n. 09	Courier charges A/c	200			200			
		Ja n. 12	Stamps A/c	750			750			
		Ja n. 14	Wages A/c	500				500		
		Ja n. 16	Station ery A/c	400		400				
		Ja n. 19	General Expens es A/c	610						610
		Ja n. 20	Cartage A/c	800					800	
		Ja n. 22	Advt. A/c	900						900

		Ja n. 24	Postage A/c	400			400			
		Ja n. 25	Taxi Fare A/c	840	840					
		Ja n. 27	Entertai nment A/c	600						600
		Ja n. 29	Carriag e A/c	500					500	
		Ja n. 31	Repair A/c	700						700
				<b>8,600</b>	<b>840</b>	<b>1,100</b>	<b>1,350</b>	<b>1,100</b>	<b>1,300</b>	<b>2,910</b>
		Ja n. 31	Balance c/d	1,400						
<b>10,000</b>				<b>10,000</b>						
1,400		Fe b. 01	Balance b/d							
8,600		Fe b. 01	Cash A/c							

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## 1.6 SPECIAL PURPOSE BOOKS

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Special Purpose Books Are A Set Of Journals That Record Transactions Only Of A Particular Nature. Examples Of These Books Are Cash Book, Purchases Book, Sales Book, Sales

Returns Book, Purchase Returns Book, Bills Payable Book, Bills Receivable Book And Journal Proper. These Are Subsidiary Books That Help To Record Entries Of A Similar Nature More Accurately And Efficiently. The Different Types Of Special Purpose Books Are As Follows:

**Purchases Book –** Purchases Book (Journal) Is A Book Of Original Entry. It Records Transactions Related To The Credit Purchases Of Items That A Firm Deals With For Its Business. The Cash Purchases Get Recorded In The Cash Book. The Credit Purchases For Items That The Firm Will Not Resell Don't Get Recorded In The Purchases Book. For Example, If A Firm Deals In Spare Parts For Vehicles, It Will Only Record The Credit Purchases Of Items Directly Related To Those Spare Parts In The Purchases Books. It Will Not Record The Credit Purchase Of Unrelated Items Like Furniture In The Book. Those Items Will Get Recorded In The Main Journal Or 'Journal Proper'.

**Sales Book –** Sales Book (Journal) Is A Book Of Original Entry. It Records Transactions Related To The Credit Sales Of Items That A Firm Deals With. The Cash Sales Get Recorded In The Cash Book. The Credit Sales For Items Unrelated To The Business Don't Get Recorded In The Sales Book. For Example, If A Firm Deals In Tyres, It Will Only Record The Credit Sales Of Items Directly Related To Those Tyres In The Sales Books. It Will Not Record The Credit Sales Of Unrelated Items Like Computers In The Book. Those Items Will Get Recorded In The Main Journal Or 'Journal Proper'.

**Purchase Returns Book –** The Purchase Returns Book (Journal) Records Transactions Related To The Return Of Goods Purchased By The Firm. Sometimes The Goods That The Firm Purchases From Suppliers Get Sent Back To Them Because They Were Defective, Damaged Or Not As Per The Order's Specifications. The Firm Also Prepares A Debit Note For This Transaction And Sends It To The Supplier.

**Sales Returns Book –** The Sales Returns Book (Journal) Records Transactions Related To The Return Of Goods Sold By The Firm. Sometimes The Goods That A Firm Sells To Customers Are Sent Back By Them Because Those Items Were Defective, Damaged Or Not As Per The Order's Specifications. The Firm Also Prepares A Credit Note For This Transaction In Favour Of The Customer.

**Bills Payable Book –** The Bills Payable Book (Journal) Records The Details Of Bills Payable For The Firm. The Accountants Will Debit The Individual Accounts Of The Entities With The Corresponding Amount, Which Gets Recorded In The Bills Payable Book. It Is The Money That The Firm Owes Its Creditors And Has To Pay Back That Amount Within A Stipulated Period.

**Bills Receivable Book –** The Bills Payable Book (Journal) Records The Details Of Bills Receivable For The Firm. The Accountants Will Credit The Individual Accounts Of The Entities With The Corresponding Amount, Which Gets Recorded In The Bills Receivable Book. It Is The Money That The Firm Will Receive From Its Creditors And Has To Receive That Amount Within A Stipulated Period.

**Cash Book –** Cash Book (Journal) Records The Cash And Bank Transactions Of A Business. It Fulfils The Purpose Of Both A Journal And A Ledger For Cash Inflows And Outflows Related To The Firm’s Operations.

**Journal Proper –** A Journal Proper Records All Other Transactions Which Do Not Find A Place In These Subsidiary Books. Some Of The Transactions Recorded In These Books Are Related To Opening Entries, Transfer Entries, Rectification Entries, Adjustment Entries, And Other Miscellaneous Entries That Do Not Get Recorded Anywhere Else.

**Conclusion**

These Special Purpose Books or Subsidiary Books Are Essential for A Firm to Keep Track Of The Business Activities Taking Place In The Organisation. It Is Also Beneficial for Preparing Ledger Accounts, Trial Balance and Financial Statements.

**Example**

Question 1:

Record the following transactions in the Purchases Book of Subhash General Stores, Delhi:

<b>2019</b>		
May 1	Bought from M/s. Chunni Lal Mam Raj, Delhi:	
	100 bags of ITC Wheat Atta @ ₹ 530 per bag	
	50 bags of Rice Basmati @ ₹ 500 per bag	
	<i>Less:</i> Trade Discount @ 10%	
	CGST and SGST @ 6% each was payable on the purchases	
May 3	Bought from M/s. Kanodia Oil Mills, Delhi:	

	40 tins Oil @ ₹ 1,500 per tin
	20 tins Banaspati Oil @ ₹ 900 per tin
	<i>Less: Trade Discount @ 5%</i>
	CGST and SGST @ 6% each was payable on the purchases
May 4	Purchased from M/s. Gupta Bros., Hapur:
	25 bags gram @ ₹ 480 per bag
	40 bags oats @ ₹ 25 per bag
	<i>Less: Trade Discount @ 5%</i>
	IGST @ 12% was payable on the purchases

**ANSWER:**

**Purchases Book**

Date	Particulars	Invoice No.	L.F.	Details	Cost	Input CGST	Input SGST	Input IGS	Total
2019 May 01	M/s Chunni Lal Mam Raj, Delhi 100 bags of ITC Wheat Atta @ Rs 530 per bag 50 bags of Rice Basmati @ Rs 500 per bag			53,00 0 25,00 0					
	<i>Less: 10% T.D.</i>			78,00 0 7,800					
	<i>Add: CGST @ 6% Add: SGST @</i>			70,20 0 4,212 4,212					



	6%							
			78,62	70,200	4,212	4,212	–	78,624
			4					
May 03	M/s Kanodia Oil Mills, Delhi 40 tins Oil @ Rs 1,500 per tin 20 tins Banapati Oil @ Rs 900 per tin		60,00					
			0					
			18,00					
			0					
			78,00					
			0					
	<i>Less: 5% T.D.</i>		3,900					
			74,10					
			0					
	<i>Add: CGST @</i>		4,446					
	6%							
	<i>Add: SGST @</i>		4,446					
	6%							
			82,99	74,100	4,446	4,446	–	82,992
			2					
May 03	M/s Gupta Bros., Hapur 25 bags gram @ Rs 480 per bag 40 bags Oats @ Rs 25 per bag		12,00					
			0					
			1,000					
			13,00					
			0					
	<i>Less: 5% T.D.</i>		650					
			12,35					
			0					

Add: IGST @ 12%	1,482						
	13,832	12,350	–	–	1,482	13,832	
		<b>1,56,650</b>	<b>8,658</b>	<b>8,658</b>	<b>1,482</b>	<b>1,75,448</b>	

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## 1.7 BANK RECONCILIATION STATEMENT

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Bank Reconciliation Statement Is a Record Book of the Transactions of a Bank Account. This Statement Helps the Account Holders to Check and Keep Track of Their Funds and Update the Transaction Record That They Have Made. Bank Reconciliation Statement Is Also Known as Bank Passbook. The Balance Mentioned in The Bank Passbook of the Statement Must Tally with The Balance Mentioned in The Cash Book. In The Statement, All The Deposit Will Be Shown in The Credit Column and Withdrawals Will Be Shown In The Debit Column. However, If The Withdrawal Exceeds Deposit It Will Show a Debit Balance (Overdraft).

### Importance Of Bank Reconciliation Statement

Generally While Making A Comparison Between The Company's Cash Book And Bank Balance, The Balance Does Not Tally. Therefore, It Is Important To Determine The Cause For The Difference And Display Them In The Bank Reconciliation Statement And Then Tally The Two Balances. The Bank Reconciliation Statement Helps In Explaining The Differences In The Amount Between The Company's Cash Book And Bank Balance. The Cash Book And The Bank Passbook Differences Are Caused By:

- The difference in timing recording the transactions: The difference in timing can be caused by many factors which are:
  - Bank-issued cheque but not yet deposited for payment
  - Paid cheque in the bank but yet not cleared
  - Bank made direct debit from the customer's side
  - Cheque/ amount deposited directly to the bank account
  - Dividends and Interest collected by the bank

- Bank made direct payment from the customer's side
- Cheques deposited/bills discounted dishonoured
- Errors made by the company or by the bank: In a few occasions, the error in two balances can be made from the bank side or in the company's cash book. Few errors are as follows:
  - Errors made while registering the transaction by the company
  - Errors made while registering the transaction by the bank

#### Types of Bank Reconciliation Statement

The Bank Reconciliation Statement can be prepared in 2 ways:

- Documenting of bank reconciliation statement without adjusting the cash book balance.
- Filing of bank reconciliation statement after adjusting the cash book balance.

Steps to Prepare Bank Reconciliation Statement:

- First, the date on which the statement is recorded is mentioned.
- After which the balance displayed in the cash book is mentioned in the statement. Sometimes, the balance mentioned in the passbook can also be mentioned.
- The deposited cheques which are not collected are deducted.
- Then the cheques issued but the deposited for payment, but amount directly deposited in the bank account are recorded
- All the transactions like overdraft interest, amount debited by the bank but not recorded in the cash book, cheques and bills dishonoured are deducted.
- All the credits and profit collected by the company and directly deposited in the bank is added.
- Adjustments of errors are made
- Now the balance between the cash book and statement should be equal or the same.

#### **Example**

From the following particulars a Bank Reconciliation Statement for the year ending on 31st March 2011

- (i) Bank balance as per Cash Book Rs 8,600
- (ii) Cheques of Rs 4,000 issued but not presented for payment
- (iii) Bank debited bank charges Rs 200

- (iv) Cheque of Rs 2,800 deposited into the Bank but not Credited by Bank
- (v) Bank paid Insurance Premium on our behalf directly Rs 2,500 not recorded in the Cash Book.
- (vi) Bank Credited interest on investment Rs 1,900 but not recorded in the Cash Book.

**ANSWER:**

<b>Bank Reconciliation Statement</b>			
as on March 31,2011			
<b>S. No.</b>	<b>Particulars</b>	<b>Amount (Rs)</b>	<b>Amount (Rs)</b>
	Balance as per the Cash Book (Dr.)		8,600
	<b>Add:</b>		
	Cheques issued but not presented for payment	4,000	
	Bank Credited interest on Investment	1,900	5,900
			14,500
	<b>Less:</b>		
	Bank Debited Bank Charges	200	
	Cheques Deposited into bank but not credited by the bank	2,800	
	Insurance premium directly paid by the bank	2,500	5,500
	Balance as per Pass Book (Cr.)		<b>9,000</b>

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## 1.8 UNIT END QUESTIONS

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### A. Descriptive Question

#### Short Questions

1. What are the five basic principles of accounting?
2. What are the three fundamental concepts of accounting?
3. What is accounting?
4. Define Cash Book.
5. What do you mean by Bank Reconciliation Statement?

#### Long Answer Questions

1. Explain Accounting concepts & conventions.
2. Describe the Accounting Equation?

3. Discuss in detail about Bank Reconciliation Statement.
4. Explain the difference Journal & Ledger.
5. Explain Accounting in detail with the help of example.

### **Multiple Choice Question**

1. The components of Computerised Accounting System are:
  - a. Data, Report, Ledger, Hardware, Software;
  - b. Data, People, Procedure, Hardware, Software;
  - c. People, Procedure, Ledger, Data, Chart of Accounts;
  - d. Data, Coding, Procedure, Rules, Output.
2. The Computerised Accounting System refers to:
  - a. Printing of Balance Sheet and Profit and Loss Accounts using computer;
  - b. Processing of accounting transaction through computer and produce records and reports;
  - c. Processing of accounting related data and printing reports;
  - d. None of the above
3. The components of Computerised Accounting System refers to:
  - a. Business transactions are analysed, transactions recorded, prepare trial balance, preparation of balance sheet and profit and loss account;
  - b. From data entry to preparation of final statements;
  - c. Transformation of manual accounting system to CAS;
  - d. None of the above.
4. The Grouping of Accounts means the classification of data from:
  - a. Asset, liabilities and capital
  - b. Asset, capital, liabilities, revenue and expenses
  - c. Asset, owners' equity, revenue and expenses
  - d. None of the above.
5. Codification of Accounts required for the purpose of:
  - a. Hierarchical relationship between groups and components
  - b. Data processing faster and preparing of final accounts
  - c. Keeping data and information secured
  - d. None of the above.

**Answers:** 1. b, 2. B, 3. a, 4. b, 5. A.



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## 1.9 REFERENCES

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# **UNIT- 2 BASICS OF COMPUTERIZED ACCOUNTING**

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## **STRUCTURE**

2.0 Objectives

2.1 Introduction of Bills of Exchange

2.2 Trial Balance

2.3 Errors and Rectification

2.4 Depreciation

2.5 Provisions & Reserves

2.6 Preparation of Financial Statement

2.7 Sole Trader & Partnership Firm

2.8 Computerized Accounting Systems

2.9 Basics of Computerized Accounting Systems- Meaning, Importance;

2.10 Difference Between Computerized, Accounting and Manual Accounting

2.11 Scope of Computerized Accounting

2.12 Computerized Accounting Software

2.13 Software Programs for Computerized Accounting

2.14 Unit End Questions

2.15 References

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## **2.0 OBJECTIVES**

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**After completing this Students will be able to**

- Define Bills of exchange
- Understand Computerised Accounting System
- Define Cash book
- Explain Bank reconciliation statement

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## **2.1 INTRODUCTION OF BILL OF EXCHANGE**

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According to the Negotiable Instruments Act 1881, a bill of exchange is defined as “an instrument in writing containing an unconditional order, signed by the maker, directing a



certain person to pay a certain sum of money only to, or to the order of a certain person or to the bearer of the instrument”.

### **Features of Bill of Exchange**

- It is important to have a bill of exchange in writing
- It must contain a confirm order to make a payment and not just the request
- The order should not have any condition
- The bill of exchange amount should be definite
- Fixed date for the amount to be paid
- The bill must be signed by both the drawee and the drawer
- The amount stated on the bill should be paid on-demand or on the expiry of a fixed time
- The amount is paid to the beneficiary of the bill, specific person, or against a definite order

### **Types of Bill of Exchange**

- **Documentary Bill-** In this, the bill of exchange is supported by the relevant documents that confirm the genuineness of sale or transaction that took place between the seller and buyer.
- **Demand Bill-** This bill is payable when it demanded. The bill does not have a fixed date of payment, therefore, the bill has to be cleared whenever presented.
- **Usance Bill-** It is a time-bound bill which means the payment has to be made within the given time period and time.
- **Inland Bill-** An Inland bill is payable only in one country and not in any other foreign country. This bill is opposite to the foreign bill.
- **Clean Bill-** This bill does not have any proof of a document, so the interest is comparatively higher than the other bills.
- **Foreign Bill-** A bill that can be paid outside India is termed as a foreign bill. Two examples of a foreign bill are an export bill and import bill.
- **Accommodation Bill-** A bill that is sponsored, drawn, accepted without any condition is known as an accommodation bill.
- **Trade Bill-** This kind of bill is specially related only to trade.
- **Supply Bill-** The bill that is withdrawn by the supplier or contractor from the government department is known as the supply bill.

### **Advantages of Bill of Exchange**

- **Legal Document-** It is a legal document, and if the drawee fails to make the payment, it will be easier for the drawer to recover the amount legally.
- **Discounting Facility-** In cases where the drawer is in immediate need of money, the bill can be converted into cash by discounting it from a bank by paying some nominal charges.
- **Endorsement Possible-** This bill of exchange can be exchanged from one individual to another for the adjustment of the debt.

### Bill of Exchange Format

₹4,00,000	Bangalore 1st June, 2018
Two months after date, pay to me or my order, the sum of Rupees Four lakh only, for value received	
<b>STAMP</b>	
Accepted (Signed) Raj Kiran 14, Bangalore	(Signed) Kunal Singh Lal Bagh, Bangalore

In the above-mentioned bill of exchange format, Kunal Singh is the drawer as well as the payee of the bill.

### Parties of Bill of Exchange

A bill of exchange has three parties:

#### (1) Drawer

- The drawer is the maker of a bill of exchange.
- The bill is signed by Drawer.
- A creditor who is entitled to receive payment from the debtor can draw a bill of exchange.

#### (2) Drawee

- Drawee is the person upon whom the bill of exchange is drawn.
- Drawee is the debtor who has to pay the money to the drawer.
- He is also known as 'Acceptor'.

#### (3) Payee

- The payee is the person to whom payment has to be made.
- The payee may be the drawer himself or a third party.

### **What is Promissory Note?**

The promissory note is defined as an instrument in writing (not being a banknote or a currency note), containing an unconditional undertaking signed by the maker, to pay a certain sum of money only to or to the order of a certain person, or to the bearer of the instrument.

### **Importance of Promissory note in Bill of Exchange.**

According to the Negotiable Instruments Act 1881, the meaning of promissory note is ‘an instrument in writing (not being a banknote or a currency note), containing an unconditional undertaking signed by the maker, to pay a certain sum of money only to or to the order of a certain person, or to the bearer of the instrument. However, according to the Reserve Bank of India Act, a promissory note payable to bearer is illegal. Therefore, a promissory note cannot be made payable to the bearer.’

### **Parties to a Promissory Note**

There Are Two Parties to a Promissory Note:

- (1) **Maker:** Maker or drawer is an individual or entity who makes or draws the promissory note with a promise to pay a certain sum as is specified in the promissory note. Maker is also known as promisor.
- (2) **Payee:** The payee is the person in whose favour the promissory note is drawn.

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## **2.2 TRIAL BALANCE**

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Trial Balance is the heart of a business. It is a summary of the business activities. It is also an indicator of the financial health of the business. There is a commonly heard advice that “If you want to invest in shares of a company, you must study its trial balance”.

### **What is a Trial Balance?**

Multiple entries in various accounts will make a ledger. Taking all the ledger balances and presenting them in a single worksheet as on a particular date is Trial Balance. To understand a trial balance, we must first understand the following-

- Double entry system – Recording two entries for a single transaction that is equal and opposite in nature
- Journal – All transactions recorded in double entry system of bookkeeping
- Ledger – Summary of all journals of a similar nature.

**Illustration:** Let's say we buy a book for say Rs.1,000 on credit. Now we receive the book and have to pay money. So this transaction has two activities.

- Buying the book
- Taking credit from seller

In accounting language, recording of this transaction by segregating into two activities is a double entry system of bookkeeping. In the above example, let's assume an organisation is trading in books, then the Journal entry will be-

<b>Purchase A/c</b>	Dr	1000	
<b>To Creditor A/c</b>			1000

In the above example, the Trial Balance as on date will look like the following Trial Balance as on.....

	<b>Debit ( Rs )</b>	<b>Credit ( Rs )</b>
<b>Purchase A/c.</b>	1000	–
<b>Creditor A/C.</b>	–	1000

### **Concept of Trial Balance**

Let's say you record all your activities in a diary. At month end you summarise your diary and classify it into various categories. Now, you make a sheet and divide the categories into productive/non-productive. That's exactly what businesses do.

- Recording of transactions is a journal entry.
- Summarising them and categorising them are ledgers.
- Creating a worksheet and classifying the ledgers is a Trial Balance.

A trial balance is a sheet recording all the ledger balances categorized into debit and credit. A typical trial balance will have the name of ledger and the balances. This is prepared as at a particular date which can be financial year end or calendar year.

### **Advantages of Trial Balance**

#### **Arithmetical accuracy-**

Given the nature of the double entry system, every transaction will result in two entries of equal and opposite nature. Hence at any point in time all debit ledger totals will match to credit ledger totals. Since Trial Balance lists all the accounts as on a particular date, the debit total of a trial balance must match to the credit total.

Therefore, a Trial Balance is an indicator of the arithmetical accuracy of the books of accounts.

With softwares being used for accounting, the above advantage of the trial balance is not very relevant. As data entry systems do not allow entries to be posted if there is a difference in the debit and credit amount hence leaving no room for error.

### **Bird's-eye view-**

A trial balance is a summary sheet listing all ledges and balances. Hence it provides a bird eye view of the accounting transactions of an organisation.

### **Prerequisite for preparation of Financial statements-**

An organisation needs to know profit or loss and financial position at year end. And thus to prepare financial statements, Trial Balance is prerequisite. All stakeholders also need this information. It is the first step towards closure of accounts for a particular period.

### **Uses of Trial Balance**

#### **Ease of posting adjustments**

A tallied Trial Balance offers significant comfort regarding accuracy and hence post trial balance adjustments can be affected.

#### **Aids in Audit**

Trial Balance gives a list of all ledgers with balances. For the purpose of audit the trial balance is analysed. For example if the nature of an account is debit, but it holds a credit balance, then the entire ledger will be scrutinised. So trial balance is also an important tool for auditors.

#### **Defines credibility**

Trial Balance is also used by banks and lending agencies to understand the borrowing capacity of the business and credibility.

Despite the numerous benefits of a Trial balance, it is imperative to understand that a tallied Trial Balance does not ensure zero errors. If there are offsetting errors, the Trial Balance will tally despite the error.

Also if some transactions have not been recorded, there will be no impact on the ledgers and hence the tallied Trial Balance will pose a wrong picture.

With softwares being used for preparation of accounts, today the Trial Balance from ERP system has automated a lot of processes. It includes ledger codes, ledger names, type of account, balance for the current period, balance for the previous period. Also for large organizations the trial balance can be extracted for any particular period.

Looking at all the pros and cons, it is very clear that preparation of Trial Balance has a lot of benefits and hence its preparation has become mandatory for closure of books of accounts. Even today the Trial Balance provides an excellent base for preparation of financial statements and analysis of business.

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## **2.3 ERROR AND RECTIFICATION**

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Rectification of errors is referred to as the procedure of revising mistakes made in recording transactions. These mistakes can occur while posting entries to ledger accounts, classifying accounts, carrying balance forward, etc.

The errors are broadly classified into two types:

1. Rectification of errors that do not influence the trial balance
2. Rectification of errors that influence the trial balance

### **Rectification of errors that do not influence the trial balance**

Rectification of errors that do not influence the trial balance include errors that involve errors on both sides of debit and credit and can be rectified by passing a journal entry.

These errors impact two accounts simultaneously and are therefore known as two-sided errors. The errors can occur both on the debit and credit side of the account and need to be corrected or rectified by passing a journal entry to correct the debit and credit.

An error can be rectified by reversing the impact of wrong entry on debit and credit side and restoring the correct debit and credit entry.

Whenever there is excess credit or shortage in debit, then debiting the concerned account is done, similarly when there is shortage of credit and excess of debit, then the concerned account should be credited.

### **Example**

Credit sales to Rajesh of ₹ 5,000 were not recorded in the sales book. Rectify the error.

The rectification of this error will be as follows:

Rajesh's A/c Dr. 5000

To Sales A/c 5000

(Being credit sales to Rajesh recorded correctly)

### **Rectification of errors that influence the trial balance**

Rectification of errors that influence the trial balance occurs on any one side of the trial balance and such errors can only be rectified by passing a journal entry along with opening of a suspense account.

Such errors are also known as one sided errors as it impacts only one side of the account (either debit or credit). Such errors are rectified by adding a note in account or by passing a journal entry by creation of a Suspense account.

The process of rectification is as follows:

1. Identification of account having error.
2. Determine the shortage or excess in the account.
3. If any difference is created due to excess credit and shortage in debit, then debit the account with the difference amount as determined earlier.
4. If any difference is due to excess debit and shortage of credit, then credit the account with the difference.
5. Finally, complete the rectification by debiting or crediting the suspense account.

### **Example**

Depreciation written off on machinery ₹4000 not recorded in Machinery account

Suspense A/c Dr. 4000

To Machinery A/c 4000

(Being rectification towards omission of posting in machinery account)

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## **2.4 DEPRECIATION**

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Depreciation is an accounting method that spreads the cost of an asset over its expected useful life. Businesses record depreciation as a periodic expense on the income statement. Assets lose value as they depreciate over time. There are four main methods used to calculate depreciation: straight-line, units of production, double declining balance and sum of the years' digits.

### **Types of depreciation**

Businesses have some control over how they depreciate their assets over time. Good small-business accounting software will help you calculate, record and track depreciation, but you'll still need to understand the process in order to make important decisions about how your business will record depreciation. Here are four common methods of calculating depreciation, along with when it's best to use them.

#### **1. Straight-line depreciation**

This is the most common and simplest depreciation method.

**Formula:**  $(\text{Cost of asset} - \text{Scrap value of asset}) / \text{Useful life of asset} = \text{Depreciation expense}$

**Most often used for:** Equipment that loses value steadily over time.

**Pros:** It spreads the expense evenly over each accounting period. It's also easy to automate the adjusting entry for straight-line depreciation in most accounting software.

**Cons:** Determining the useful life of the asset requires guesswork. A miscalculation could result in the asset being overvalued for several years.

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## 2. Units of production depreciation

Units of production depreciation is based on how many items a piece of equipment can produce.

**Formula:**  $(\text{Number of units produced} / \text{Life of asset in units}) \times (\text{Cost of asset} - \text{Scrap value of asset}) = \text{Depreciation expense}$

**Most often used for:** Manufacturing for equipment that is expected to produce a certain number of items before it's no longer useful.

**Pros:** Easy to calculate. Because it's tied to the number of items a piece of equipment produces, it creates a more accurate depreciation calculation.

**Cons:** You have to keep an accurate record of how many items the equipment has produced. Because production will likely vary from month to month, you'll need to manually enter this depreciation expense into your accounting software every month. The entry can't be automated, as it can with straight-line depreciation.

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## 3. Double declining balance depreciation

Double declining balance depreciation is an accelerated depreciation method. Businesses use accelerated methods when dealing with assets that are more productive in their early years. The double declining balance method is often used for equipment when the units of production method is not used.

**Formula:**  $(100\% / \text{Life of asset} = \text{Depreciation rate}) \times 2$

**Most often used for:** Vehicles and other assets that lose value quickly. It writes off an asset's value the quickest.

**Pros:** Represents the loss of certain assets' value more accurately than straight-line depreciation.

**Cons:** The calculations are more complex than the other methods. Usually business owners using accelerated methods will set up a depreciation schedule — a table that shows the depreciation expense for each year of the asset's life — so they only have to do the calculations once.



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#### 4. Sum of the years' digits depreciation

Sum of the years' digits depreciation is also an accelerated depreciation method. It doesn't depreciate an asset quite as quickly as double declining balance depreciation, but it does it quicker than straight-line depreciation.

**Formula:**  $(\text{Remaining life of the asset} / \text{Sum of the years' digits}) \times (\text{Cost of asset} - \text{Scrap value of asset}) = \text{Depreciation expense}$

**Most often used for:** Assets that could become obsolete quickly.

**Pros:** Lets you choose how many years you want to depreciate an asset, based on its useful life. This gives you control over the depreciation expense you record each month.

**Cons:** The most difficult depreciation method to calculate. If you use it with the wrong type of asset, you can easily overstate or understate your net income in a given accounting period.

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#### Depreciation examples

Let's say you purchase a piece of equipment for \$260,000. You anticipate using the equipment for eight years, and you anticipate the scrap value will be \$20,000. The annual and monthly depreciation expenses for the vehicle using the straight-line depreciation method would be:

- $(\$260,000 - \$20,000) / 8 = \$30,000$
- $\$30,000 / 12 \text{ months} = \$2,500 \text{ per month}$

Find out what your annual and monthly depreciation expenses should be using the simplest straight-line method, as well as the three other methods, in the calculator below.

#### Understanding depreciation in business and accounting

Depreciation is an expense, which means that it appears as a line item on your income statement and reduces net income. Many small-business owners find depreciation confusing because the depreciation expense on the income statement doesn't match cash flow. Remembering the following points can help simplify the concept.

- Depreciation is not a cash expense. That is, a business does not write a check to "depreciation." Instead, the business records or recognizes the cost of the asset over time on the income statement.
- Accordingly, depreciation usually doesn't coincide with when the business buys the asset, even if the purchase is made over time with installment payments.

- Depreciation matches expenses to a given time period, but it isn't strictly an accrual-basis concept. This calculation will appear on both cash basis and accrual-basis financial statements.

### **Using depreciation to manage cash requirements**

One often-overlooked benefit of properly recognizing depreciation in your financial statements is that the calculation can help you plan for and manage your business's cash requirements. This is especially helpful if you want to pay cash for future assets rather than take out a loan to acquire them.

Because you've taken the time to determine the useful life of your equipment for depreciation purposes, you can make an educated assumption about when the business will need to purchase new equipment. The earlier you can start planning for that purchase — perhaps by setting aside cash each month in a business savings account — the easier it will be to replace the equipment when the time comes.

### **Depreciation and taxes**

The four methods described above are for managerial and business valuation purposes. Tax depreciation is different from depreciation for managerial purposes.

Tax depreciation follows a system called MACRS, which stands for modified accelerated cost recovery system. MACRS is a form of accelerated depreciation, and the IRS publishes tables for each type of property. Work with your accountant to be sure you're recording the correct depreciation for your tax return.

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## **2.5 PROVISIONS AND RESERVES**

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### Meaning of Provisions

“Any amount written off or retained by the way of providing depreciation or diminution in the value of assets or for providing any known liability of which the amount cannot be determined with substantial accuracy.”

#### **- The Institute of Chartered Accountants of India**

“Liabilities which can be measured only by using a substantial degree of estimation.”

#### **- AS-29 issued by Institute of Chartered Accountants of India**

AS 29 also defines **liabilities** as “*a present obligation of the enterprises arising from past events, the settlement of which is expected to result in an outflow from the enterprise of resources embodying economic benefits.*”

Debiting Profit and Loss account, provisions are created and shown either deducting assets side or on the liabilities side under relevant sub-head of Balance Sheet.

Provision for bad and doubtful debts, Provisions for Repair & Renewals, and Provision for discounts & depreciation are the most common examples.

Meaning of Reserves

*“That portion of earnings, receipts or other surplus of an enterprise (whether capital or revenue) appropriated by the management for general or a specific purpose other than a provision for depreciation or diminution in the value of assets or for a known liability.”*

### **-ICAI**

Reserve is an appropriation of profits; on the other hand, Provision is a charge against profit.

Reserves are not meant to meet out contingencies or liabilities of a business. Reserve increases working capital of a company to strengthen the financial position.

There are two **types of reserves** –

- **Capital Reserve** – Capital reserve is not readily available for distribution as the dividends among the shareholders of the company, and it creates only out of capital profit of the company. It is like Premium on issue of shares or debentures and Profit prior to incorporation.
- **Revenue Reserve** – Revenue reserves are readily available for the distribution of profit as dividend to the shareholders of the company. Some of the examples of this are general reserve, staff welfare fund, dividend equalization reserve, debenture redemption reserve, contingency reserve, and investment fluctuation reserves.

Distinction between Provisions and Reserves

- Reserve can be made only out of profit and provisions are the charge to profit.
- Reserves reduce divisible profits and provisions reduce the profit.
- Reserves, if remain un-utilized for some period can be distributed as dividends, but provisions cannot be transferred to General Reserve for the distribution.
- Purpose of provision is very specific, but reserve is created to meet out any probable future liabilities or losses.
- Creation of provisions is legally necessary, but reserves are created to save a concern from the future losses and liabilities.

Secret Reserves

Banking Company, Insurance Company, and Electricity Companies create secret reserves, where the public confidence is required. In this case, to create secret reserve, assets showed at lower cost or liabilities at higher value. Some of the examples of it are as follows –

- By undervaluing goodwill or stock
- By excessive depreciation
- By creating excessive provisions
- Showing free reserves as creditors
- By charging capital expenditure to profit and loss account

#### Advantages of Secret Reserves

Some of the important advantages are given below –

- Without disclosing to its shareholders, it increases working capital of a concern, which is a clear indication of the sound financial position.
- With the help of secret reserves, directors can maintain the rate of dividends during the unfavorable time.
- Non-disclosure of a big profit is useful to avoid an un-due competition.

#### Limitations of Secret Reserves

Major limitations or objections of secret reserves are as follows –

- Due to non-disclosure of actual profit, financial statements do not presents true and fair view of the state of affairs.
- There are lots of chances of misuse of reserves by the directors for their personal benefits.
- Due to secret reserves, chances for the concealment of worst position of a company are very high.
- Company will get very lower amount of claim of insurance at the time of loss of stock or other assets, as valuation of the assets are done at very low value to create secret reserve.

#### General and Specific Reserves

Specific reserves are created and utilized for the purpose only for which they are created, like dividend equalization reserve and debenture redemption reserve.

General reserves are created for any future contingency or to utilize at the time of expansion of a business. Purpose of creation of General reserve is to strengthen the financial position of the company and to increase the working capital.

#### Sinking Fund

For the purpose to repay of any liabilities or to replace any fixed assets after particular period, sinking funds are created. For this, some amount are charged or appropriated from the profit and loss account every year and invested in any outside securities. Without any extra ordinary burden, replacement of an asset may be done in a systematic manner or pay any known liability on maturity of the sinking fund.

#### Investment of Reserves

It is a controversial issue, whether a reserve should be invested in outside securities or not. Thus, to decide anything, it is important to study the need and requirement of a firm according to the financial position of a firm. Therefore, investment in outside securities is justified only in a case where company has the extra fund to invest.

#### Nature of Reserve

In spite of showing reserves on the liabilities side of a Balance Sheet, reserves are actually not at all any liabilities of a firm. Reserve represents as accumulated profits, which are available to disburse among the shareholders.

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## **2.6 PREPARING FINANCIAL BUSINESS STATEMENTS**

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Financial statements, though often feared as a very intimidating portion of small business accounting, are just a matter of putting the trial balance amounts onto properly formatted statements. Learn how to prepare these documents you'll need for shareholders, potential financiers and your own insight.

After you have prepared your adjusting entries in the general journal, posted the general journal totals to the general ledger, and footed the general ledger accounts, you are ready to prepare financial statements. Like most of the accounting tasks we've reviewed, your accounting software can alleviate much of the legwork.

If all adjusting entries have been made, and a trial balance done, preparing financial statements is really just a matter of putting the trial balance amounts onto properly formatted statements.

#### Creating the components of a financial statement

The financial statements prepared for most small businesses comprise a balance sheet and an income statement

Usually these are prepared by an accountant. But with the help of computer software, you may be able to prepare your own financial statements. If you need to prepare financial

statements for a third party, such as a banker, sometimes the third party may request that the financial statements be prepared by a professional accountant or certified public accountant.

### Preparing a balance sheet

Also called a statement of financial position, a balance sheet is a financial snapshot of your business at a given date in time. It lists your assets, your liabilities and the difference between the two, which is your owner's equity, or net worth. The accounting equation (assets = liabilities + owner's equity) is the basis for the balance sheet.

The balance sheet is prepared after all adjusting entries are made in the general journal, all journal entries have been posted to the general ledger, the general ledger accounts have been footed to arrive at the period end totals, and an adjusted trial balance is prepared from the general ledger amounts. All amounts should be rounded to the nearest dollar, like in this example of a balance sheet for a sole proprietorship:

Beta Sales Company					
Balance Sheet					
December 31, 201X					
Assets			Liabilities and Capital		
<i>Current Assets</i>			<i>Current Liabilities</i>		
Cash	\$12,300		Accounts payable	\$8,900	
Accounts receivable	22,900		Wages payable	11,525	
Inventory	32,090		Total Current Liabilities		\$20,425
Prepaid Insurance	2,500		<i>Long-Term Liabilities</i>		
Total Current Assets		\$69,790	Bank Loan Payable	17,500	
<i>Fixed Assets</i>			Total Long-Term Liability		17,500
Equipment	100,200		Total Liabilities		37,925
Less: Accumulated Depreciation	(78,321)		<i>Capital</i>		
Total Fixed		21,879	Tom Beta,		53,744

Assets			Capital		
Total Assets		\$91,669	Total Liabilities/Capital		\$91,669

Tools to use

Among the *Business Tools* is a sample balance sheet. This spreadsheet can be used multiple times.

For more detailed information on balance sheets and other financial statements, read more about financial statements.

Preparing an income statement

Also called a profit and loss statement, or a "P&L," an income statement lists your income, expenses and net income (or loss). The net income (or loss) is equal to your income minus your expenses. Your business's tax return will use a variation of the income statement to determine your potentially taxable income.

The income statement is prepared after all adjusting entries are made in the general journal, all journal entries have been posted to the general ledger, the general ledger accounts have been footed to arrive at the period end totals, and an adjusted trial balance has been prepared from the general ledger totals.

Like financial statements, don't include cents on your income statements that might look something like this:

Beta Sales Company		
Income Statement		
For the Year Ended December 31, 201X		
Sales		\$462,452
<i>Cost of Goods Sold</i>		
Beginning Inventory	\$27,335	
Add: Purchases	235,689	
Total:	263,024	
Less: Ending inventory	32,090	
Cost of Goods Sold		230,934

Gross Profit		231,518
<i>Expenses</i>		
Advertising	1,850	
Depreciation	13,250	
Insurance	5,400	
Payroll taxes	8,200	
Rent	9,600	
Repairs and maintenance	13,984	
Utilities	17,801	
Wages	98,852	
Total Expenses		168,937
Net Income		\$ 62,581

Tools to use

In the *Business Tools* area is a sample income statement for your use. This spreadsheet can be used multiple times.

Prepare closing entries to get the books ready for the next accounting period

After financial statements are prepared, don't sit on the beach with a pina colada just yet. You need to get your books ready for the next accounting period by clearing out the income and expense accounts in the general ledger and transferring the net income (or loss) to your owner's equity account. This is done by preparing closing entries in the general journal.

The steps to closing the books

Note the distinction between adjusting entries and closing entries. Adjusting entries are required to update certain accounts in your general ledger at the end of an accounting period. They must be done before you can prepare your financial statements and income tax return. Closing entries are needed to clear out your revenue and expense accounts as you start the beginning of a new accounting period.

Preparing your closing entries is a very simple, mechanical process. Follow these steps:

1. Close the revenue accounts. Prepare one journal entry that debits all the revenue accounts. (These accounts will have a credit balance in the general ledger prior to the closing entry.) Credit an account called "income summary" for the total.



2. Close the expense accounts. Prepare one journal entry that credits all the expense accounts. (These accounts will have a debit balance in the general ledger prior to the closing entry.) Debit the income summary account for the total.
3. Transfer the income summary balance to a capital account. Prepare a journal entry that clears out the income summary account. This entry effectively transfers the net income (or loss) of the business to the owner's equity account.
4. Close the drawing account. If your business is a sole proprietorship or partnership, close the drawing accounts (if any) by preparing a journal entry that credits the drawing account and debits the owner's equity account.

### Example

You have finalized your general ledger and prepared a balance sheet and income statement for the year ended December 31, 2011. You want to get your books ready for next year. You prepare the four closing entries as follows:

	Debit	Credit
Sales	462,452	
Income summary		462,452
To close the revenue account on 12/31/2011		
	Debit	Credit
Income summary	399,871	
Purchases		230,934
Advertising		1,850
Depreciation		13,250
Insurance		5,400
Payroll taxes		8,200
Rent		9,600
Repairs and maintenance		13,984
Utilities		17,801
Wages		98,852
To close the expense accounts on 12/31/2011		
	<i>Debit</i>	<i>Credit</i>
<i>Income summary</i>	<i>62,581</i>	
<i>Tom Beta, capital</i>		<i>62,581</i>
<i>To transfer 12/31/2011X net income to the capital account</i>		

	Debit	Credit
Tom Beta, capital	12,000	
Tom Beta, drawing		12,000
To close drawing account for year ended 12/31/201X		

After all, closing entries are made, post the entry totals to the general ledger. Foot the general ledger accounts to arrive at the beginning amounts for the new accounting period. All revenue and expense accounts should have a zero balance.

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## **2.7 SOLE TRADING AND PARTNERSHIP FIRM**

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A sole trading concern is a business that is owned, managed, and controlled by a single individual, i.e. the proprietor himself. A partnership firm is one in which the partners share ownership.

The organising, management and operations of a business entity are all governed by the laws of the country in which the partnership entity is located. Individual proprietorship is one of the oldest and most straightforward forms of business ownership, and it is still widely practised around the world. Only one individual owns, manages, and controls the business activities in this sort of organisation. A sole proprietor, also known as a lone trader, is an individual who owns and operates a business on his own.

### **Sole trader**

A lone trader is the business owner who is responsible for the day-to-day operations of the business. To put it another way, a single trader is responsible for his or her own resources in order to conduct his business.

Individual proprietorship is distinguished by its intrinsic motivation, secrecy, freedom of trade choices, and so on. One of the primary goals is to create one's own opportunities while also assisting large businesses and making good use of finances.

### **Partnership**

An agreement between two or more individuals or corporations is defined as a legal relationship. Before launching their joint venture, they come to an agreement on its terms. Partnership businesses are distinguished by the fact that they have the same business goal, unlimited liability, profit sharing, and so on.

As a rule, there will be two types of partnerships: limited liability partnerships (LLPs) and general partnerships.

Generally, all rights and obligations are distributed equally among the partners in a general partnership. One of the partners will have limited authority over the business under a limited partnership.

### **Key Differences Between Sole trading and Partnership firm**

#### **Ownership**

A sole trader is an individual who owns and operates a business exclusively on his or her own. The business and the individual are inseparable, which means that the individual is responsible for both the business's profits and its responsibilities. The advantage of owning a sole trading entity is that the sole trader has complete control over the business and has the authority to make all business decisions.

A partnership is a commercial entity made up of two or more individuals who work together to accomplish a common goal. It is possible for partnerships to be restricted, which means that one of the individuals is simply investing in the firm while the other individual is in charge of running the business in question. Whenever possible, this business entity should document the terms of their collaboration in a contract.

#### **Liability**

Because a business entails risks, the people who own the business may be held accountable for the consequences of those risks. As soon as a lone trading business incurs obligations, the sole trader is held personally accountable for the repayment of those debts. The partners in a partnership may also be susceptible to personal liability; however, there are two exceptions to this rule that should be considered.

Personal liability in a partnership is shared, which means that all partners are jointly and severally accountable for the debts of the partnership.

Furthermore, if the partners formed a limited partnership, only the partner who was in charge of the business would be liable, not the partner who simply invested in the business as a means of diversifying their risk. As a result, adopting the appropriate type of partnership can assist you to avoid personal liability, which is inescapable while operating as a sole proprietorship.

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## **2.8 UNIT END QUESTIONS**

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### **A. Descriptive Questions**

#### **Short Questions**

1. What are the five basic principles of accounting?
2. What are the three fundamental concepts of accounting?
3. What is Depreciation?
4. Define Trial balance.
5. What do you mean by Computerised accounting software?

### **Long Questions**

1. Explain Preparation of financial statement.
2. Describe the Sole trader and Partnership?
3. Discuss in detail about Provisions and reserves.
4. Explain the difference Error and rectifications.
5. Explain Bills of exchange in detail with the help of example.

### **Multiple Choice Questions**

1. Method of Codification should be:
  - a. Such that it leads to grouping of accounts
  - b. An identification mark.
  - c. Easy to understand, cryptic, and leads to grouping of accounts
  - d. None of the above
2. The need of Codification is:
  - a. The Encryption of data
  - b. The Generation of mnemonic code
  - c. To secure the accounts, reports, etc.
  - d. Easy to process data, keeping proper records
3. What is the activity sequence of the basic information processing model?
  - a. Organise data, process data, and collect data
  - b. Collect data, organise and process data, and communicate information
  - c. Process data, organise data, and collect data
  - d. Organise data, collect data, and communicate information
4. What are internal controls designed to do?
  - a. safeguard assets and optimise the use of resource
  - b. only achieves maximum revenue
  - c. only safeguard assets
  - d. only ensures accurate accounting records
5. What is a firm's payment to a supplier for merchandise inventory recorded in?
  - a. Cash payment journal

- b. Purchases journal
  - c. Sales journal
  - d. Cash receipts journal
6. Where are amounts owed by customers for credit purchases found?
- a. accounts receivable journal
  - b. general ledger
  - c. sales journal
  - d. accounts receivable subsidiary ledger

**Answers:** 1. a, 2. a, 3. b 4. a, 5. a, 6. d.

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## 2.9 REFERENCES

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# UNIT - 3 COMPUTERISED ACCOUNTING SYSTEMS

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## STRUCTURE

3.0 Objectives

3.1 Computerised Accounting Systems

3.2 Basics of Computerized Accounting

3.3 Difference Between Manual Accounting and Computerized Accounting

3.4 Computerized Accounting Software

3.5 Software Programs for Computerized Accounting

3.6 Unit End Questions

3.7 Reference

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## 3.0 OBJECTIVES

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After completing this Students will be able to

- Define basics of computerized accounting
- Understand the Difference between Manual Accounting and Computerized Accounting
- Define computerized accounting software
- Explain Software Programs for Computerized accounting

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## 3.1 COMPUTERISED ACCOUNTING SYSTEMS

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Computerised accounting systems basically mean software tools that we can employ for accounting purposes. In other words, they help in maintaining accounting records digitally. They even generate financial statements automatically using the data users feed into them.

Tally is a great example of a computerised accounting system. It is a popular software that accepts accounting information, generates financial statements, maintains records, etc. Similarly, billing machines like the ones found in malls are also good examples of digital accounting systems. They help in calculating billing amounts, reducing discounts, adding information of customers, etc.



### **Evolution of Computerised Accounting Systems**

Manual accounting was the most popular method of accounting until recent times. Businesses had to hire a full-time or part-time accountant or book-keeper for this purpose. They would manually record transactions, generate books and ledgers, and prepare financial statements. They had to do all accounting work manually on paper.

Accounting process later moved to computerised systems like billing machines. As we read above, these machines resembled typewriters and calculators and people used them in stores. They performed tasks like calculating net totals, deducting discounts, recording billing information, etc.

With the advent of newer technology, modern computerised systems made accounting easier. They enabled users to enter accounting data real-time. Apart from basic outcomes, these technological innovations helped record sophisticated transactions as well.

The most important innovation in this regard was the Transaction Processing System. Let's take a look at it in detail.

#### **Transaction Processing System (TPS)**

The Transaction Processing System plays a huge role in recording and processing diverse business transactions. It basically records, corrects, validates, processes, stores and displays information. The business employing it can later retrieve this information and use it for various purposes.

The TPS performs its tasks using many steps and procedures. Some of these steps are as follows:

- **Entry of data:** Firstly, the user enters data into the system using input devices like keyboard, mouse, barcode scanner or interactive screen.

- **Validation of data:** Next, the system uses a set of programmes that compute and validate the data users enter in it.
- **Processing of data:** Once the system validates the data and checks its accuracy, it then processes it on the basis of the user's commands.
- **Storage of data:** After processing data, the system stores it either in its short-term memory or the long-term one. This depends on the user's command.
- **Reporting of information:** Finally, processed data is now called information, which is displayed to the user in pre-determined formats.

The Transaction Processing System also performs real-time accounting operations. Users can edit and use this data digitally using the internet. The reports generated by the system are stored and displayed in a language called Structured Query Language.

### **Features of Computerised Accounting Systems**

Let's take a look now at some basic features of these systems. A typical digital accounting system contains the following features:

- Data is inputted and stored online
- Accounts, transactions and records get unique codes for identification
- Users can print statements like bills and invoices
- Financial statements can be produced instantly and automatically

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## **3.2 BASICS OF COMPUTERIZED ACCOUNTING**

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Computerized accounting system refers to the system of maintaining accounts using computer. It involves the processing of accounting transactions using computer to maintain and produce accounting records and reports.

The applications of computerized accounting system are as follows:

### **Maintaining Accounting Records**

In computerized accounting system, accounting records can be maintained easily and efficiently for long time. It does not require a large amount of physical space. It facilitates fast and accurate retrieval of data and information.

### **Inventory Management**

Computerized accounting system facilitates efficient management of inventory, fast moving, slow moving and obsolete inventory can be identified. Updated information about availability of inventory, Level of inventory etc, can be obtained instantly.



### **Payroll Preparation**

Payroll involves the calculation of amount due to an employee. Pay of an employee may be calculated based on hours/days worked or units produced.

### **Report Generation**

Computerized accounting system helps to generate various routine and special purpose reports.

### **Data Import/Export**

Accounting data and information can be imported from or exported to other users within the organisation as well as outside the organisation.

### **Taxation**

Computerized accounting system helps to compute various taxes and to deduct these and deposit the same to the Government account.

Modern computerized accounting systems are based on the concept of database. A database is implemented using a database management system, which is define by a set of computer programmes (or software) that manage and organize data effectively and provide access to the stored data by the application programmes. The accounting database is well organized with active interface that uses accounting application programs and reporting system. Every computerized accounting system has two basic requirements:

### **Accounting Framework**

It consists of a set of principles, coding and grouping structure of accounting.

### **Operating Procedure**

It is a well-defined operating procedure blended suitably with the operating environment of the organisation.

The use of computers in any database-oriented application has four basic requirements as mentioned below:

- **Front-end Interface:** It is an interactive link or a dialog between the user and database-oriented software through which the user communicates to the back-end database.
- For example, a transaction relating to purchase of goods may be dealt with the accounting system through a purchase voucher, which appears on the computer's monitor of data entry operator and when entered the system is stored in the database. The same data may be queried through reporting system say purchase analysis software programme.

- **Back-end Database:** It is the data storage system that is hidden from the user and responds to the requirement of the user to the extent the user is authorized to access.
- **Data Processing:** It is a sequence of actions that are taken to transform the data into decision useful information.
- **Reporting System:** It is an integrated set of objects that constitute the report.

The computerized accounting is also one of the database-oriented applications wherein the transaction data is stored in well-organized database. The user operates on such database using the required and desired interface and takes the desired reports by suitable transformations of stored data into information. Therefore, the fundamentals of computerized accounting embrace all the basic requirements of any database-oriented application in computers. Accordingly, the computerized accounting system has the above four additional requirements.

## **Computerized Applications in Accounting**

### Computers in Accountancy

- Computers, today, are being extensively used for office administration and accounting to supply reliable and accurate information [relating to the company's financial performance] to various users.
- This is made possible through sophisticated computerized accounting systems.
- They handle large volumes of data, process information and data, present them graphically and constantly update the data.
- Finally, this data is presented to the decision makers.

**Spreadsheets** Electronic Spreadsheets allow you to do anything that you would normally do with a calculator, pencil, and columnar scratch pad. A typical integrated double entry accounting spreadsheet system will contain some of the following components: general ledger, inventory levels, order entry, payroll, time, and billing. Payroll records the calculation of wages and salaries involves several variables which relate to personal details of the employees, such as gross pay, individual deductions, and tax liabilities of the employee and so on. These facts can be retained in the computers and processed every month to produce pay slips.

**Stock Control** Inventory Control Electronic Inventory Control module has multiple functions, which includes tracking inventory for both costing and tax purposes, aid managers in

controlling purchasing (and the overall level of expenditure) and minimizing the investment in inventory (and subsequent loss of cash flow). It updates sales and purchases records, determines optimum re-order levels for different items and prints out the stock lists. The system can be designed that it triggers orders when required, tests those items which are slow moving or give lists for over-stock items.

Sale accounts records Programming can be done for any sales accounting system. The computer will pin-point defaulting debtors determine right limit of credit towards each debtor.

Costing, Budget control and planning Costing and budgetary control can be done through computer systems. The computer will point out variations from the planned performance.

Production Control The computer helps greatly in production planning and control. It is possible that scheduling of work may become necessary due to breakdowns and such unforeseen events. A new critical path may have to be worked out. A critical path is the shortest path to be followed in production to achieve production objectives. The computer helps management lay down this new critical path. Accounts Receivable and Accounts Payable Accounts Payable: are amounts a company owes because it purchased goods or services on credit from a supplier or vender. Accounts Receivable: are amounts a company has a right to collect because it sold goods or services on credit to a customer. Adjusting Entries, the computers can be programmed to accommodate adjustments [Depreciation, Prepaid expenses, outstanding items] in the financial statements and Final Accounts.

Financial Accounting is the system of Recording, Classifying, summarizing, Interpretation and Communicating accounting information to different users. Uses of computers in financial accounting Recording Transactions: The computer can be programmed to record and update both accounts affected in a transaction.

- Classifying: Excel Spreadsheets act as an aid to prepare ledgers for various accounts of a business enterprise. Balancing of accounts can be done accurately and in a shorter period. Preparing Trial Balance: The computer will prepare the trial balance and total it immediately [when needed]. Thereby, the arithmetical accuracy of the books can be ascertained.
- Final Accounts: The computer can be programmed to transfer the information contained in the Trial Balance relating to various accounts into the TRADING a/c, PROFIT AND LOSS a/c and finally the BALANCE SHEET Bank Reconciliation

Statement: The computer can quickly locate errors on comparison between the Cash Book and the Bank Book and aid in correcting them.

Interpretation and Presentation of data: The computer can analyse and draw several inferences to ascertain the performance levels. Comparisons can also be made. Furthermore, the computer can present the data graphically for enhanced understanding.

Management Accounting Is the application of appropriate techniques and concepts in processing historical and projected data of an organisation to assist the management in establishing plans for reasonable economic objectives and taking rational decisions with a view of achieving them. Computerization of Financial Accounting is a must for computerized Management Accounting.

Financial Statement Analysis Financial statement is essentially historical document which provides organized data according to logical and consistent accounting procedure and conveys an understanding of some financial aspects of a business firm.

Careful analysis of financial statements can help decision makers to evaluate an organisation's past performance and predict its future financial health. The computers can be programmed to draw conclusions and preset the data graphically. Cash Flow Analysis A statement of cash flows reports the cash receipts and cash payments of an organisation during a particular period. It is widely used as a tool for assessing the financial health of an organisation. Other important purposes of maintaining this statement are to predict future cash flows, to evaluate management's generation and use of cash and to determine a company's ability to pay interest, dividends, and to pay debts when they are due.

Inter-firm Comparison IFC is another technique of Management Accounting which is made by some inter-firm comparison ratios based on the financial and other records of the business. Top management can make decision by applying this technique and comparing the performance of two or more similar types of industry. Differential Costing Differential cost (revenue) is the difference in total cost (revenue) between two alternatives. Making or buying decision, accepting, or rejecting certain orders, deciding whether to discontinue an existing product or launce new one, expanding the existing business the decisions are required to be taken by the management. Budgetary Control Budgetary control is the system of management control in which all the operations, as sales, purchase, production etc. are forecasted in advance and the results, when known, are compared with the planned targets. The difference between the planned targets and actual results are analyzed and corrective steps are taken according to the original causes.

Share Accounting is concerned with maintaining the updated list of shareholders. For each shareholder, the information held by the company is name, number of shares held, address, and details of bank account. Applications of computers in Share Accounting

1. Share Transfer and Transmission The computer keeps track of the movement of shares between individuals. This makes it easier to know the current as well as past shareholders.

Splitting of share certificates: A person might want to transfer a portion of the total number of shares held by him. The computer will accurately maintain records of the newly added shareholders also updating certain information relating to the other shareholder.

Consolidation of shares the process by which a company changes the structure of its share capital by reducing the number of shares it has in issue and increasing the par value of each. For instance, a company with 100,000,000 shares in issue having a nominal value of Rs.10 can undertake to reduce the number of shares to 10,000,000 and changing the nominal value to 100. A computer can provide reliable, accurate information regarding this in a very short period. Providing and mailing list of shareholders and annual reports periodically to each shareholder.

### **Advantages and Disadvantages**

#### **Advantages of Computerized Accounting**

There are many advantages of computerized Accounting System. Let us discuss few of them in detail.

- **Automation:** As all the calculations are handled by the software, computerized accounting eliminates many of the mundane and time-consuming processes associated with manual accounting.

For example, once issued, invoices are processed automatically thus saving time. Accounting reports like cash book, trial balance and financial statements are generated automatically and are easily accessible just by a click of mouse. In the case of invoice building software, invoices are processed automatically, and it saves time and energy. Once all the details were entered, the computer automatically processed.

- **Accuracy:** This accounting system is designed to be accurate to the minutest detail. Once the data is entered into the system, all the calculations, including additions and subtractions, are done automatically by software. There is less space for error because only one account entry is needed for each transaction unlike repeated posting of the same accounting data in manual system. As compared to paper-based accounting, computerized accounting gives more accurate results. In this system, data needs to be

entered and the rest of the calculation is done by a computer. Also, there are lots of functions that are performed by accounting.

- **Data Access:** Using accounting software, it becomes much easier for different individuals to access accounting data outside the office, securely. This is particularly true if an online accounting solution is being used.

**Easy Representation of Data in Various Formats:** Viewing the accounts using a computer allows the users to take advantage of the option to view the data in different formats i.e., one can view data in tables and using different types of charts.

**Reliability:** Since the calculations are very accurate, the financial statements prepared by computers are highly reliable. Computer systems are immune to boredom, tiredness, or fatigue. Therefore, these can perform repetitive functions effectively and are highly reliable as compared to human beings.

**Scalable:** When a company grows, the number of transactions entered the system increases, because of which the need for accounting not only increases but also becomes more complex. With computerized accounting, everything is kept straight forward because shifting data using software is easier than sifting through a bunch of papers.

**Speed:** Using accounting software, the entire process of preparing accounts becomes faster. Furthermore, statements and reports can be generated instantly at the click of a button. Managers do not have to wait for hours, even days, to lay their hands on an important report. The computer is already known for faster speed. When it comes to accounting, it is faster than ever before. Everything can be created in accounts with just one click. Computers require far less time than human beings in performing a particular task. Therefore, accounting data is processed faster using a computerized accounting system.

**Security:** The latest data can be saved and stored in offsite locations, so it is safe from natural and man-made disasters like earthquakes, fires, floods, and terrorist attacks. In case of disasters, the system can be quickly restored on other computers. This level of precaution is taken by Computerized Accounting. The latest technology has developed integrated protection software where accounts can be saved for a longer period. It also gives password protection and access control.

**Cost-effective:** Since using computerized accounting is more efficient than paper-based accounting, than naturally, work will be done faster, and time will be saved. Computerized

accounting is efficient and economical than paper-based accounting. Nowadays some companies offer monthly subscriptions at lower charges.

**Easy Availability of Information:** The data can be made available to different users at the same time. This is called data sharing.

**Up-to-Date Information:** Account balances will always be up to date since the records are automatically updated as and when accounting data is entered or stored.

**Efficiency:** The computer-based accounting system ensures better use of time and resources.

**Storage and Retrieval:** Computer based systems require a fractional amount of physical space as compared to the books of accounts in the form of journals, ledgers, and accounting registers.

**Works as a Motivator:** Employees using computer systems feel more valued as they are trained and specialized for the job.

**MIS Reports:** It is easier to monitor and control the business using the real time management information reports generated by the computerized information systems.

**Minimize Calculation Error:** calculation in a computer is error-free unless the data is entered improperly.

### **Disadvantage of Computerized Accounting**

#### **High Cost of Installation**

The cost of the computer and its accessories are costly. Computer hardware requires lots of maintenance, repair and software need subscription fees. After some time of purchasing a system, its new version comes into the market and makes the old system become outdated. In case of computerized accounting, you must buy the software. Some software requires you to purchase upgrades or updates for additional features. You must also ensure your computer can run the software. If not, you'll need to upgrade your computer as well. Most accounting software requires you to have additional software to view reports. For instance, some programs allow you to export data as a PDF file or an Excel spreadsheet. This allows users without the accounting program to view the data. However, the viewing software may pose an additional expense to the user.

#### **Training Cost**

Operating a computer is not an easy task. A person needs to be well trained and skilled to use a computer. Knowledge of accounting software is also necessary to do accounting. To ensure

effective and efficient use of computerized system of accounting, newer versions of hardware and software are introduced. This requires special training and cost is incurred to train the staff personnel as specialists.

### **Time-Consuming**

Once there is any default in the system it takes a lot of time and effort to restore the system. Sometimes computers work slow due to weather and require air-conditioned room to work properly. To avoid loss of work at the time of system failure, there is a need for providing backup arrangements which is a time-consuming process.

### **Maybe Hacked**

In today's era, it is easy to hack someone's security system. Viruses and Malware can be entered into the system by hackers that cause danger to data. New generation computer comes with strong security it can combat this problem.

### **Health Issues**

It puts a lot of strain on the eyes. Also, excessive use of computers leads to muscular pain which results in inefficiency and higher health expenses to the employees.

### **Fear of Unemployment**

Reflects the feelings of the staff on the introduction of computerized accounting system. The staff fears redundancy and show less interest in computers.

### **Disruption in Work**

When computerized system is introduced, there might be loss in the work time and certain changes in the working environment.

### **System Failure**

The danger of a system crashing due to some failure in hardware can lead to subsequent loss of work. This occurs when no back-up is retained.

### **Unanticipated Errors Not Known**

Unlike human beings, computers do not have the capability to judge or detect unanticipated errors in the system.

### **Breaches of Security**

The danger of viruses and hacking into the system from outside creates a strong need for security of system. Similarly, the person who has created the specific program can easily defraud by tempering with the original records.

### **Reliance on Computers**

If your computer crashes or data is corrupted by a virus, you won't be able to use your accounting software until the problem is fixed. This also means you won't have access to any



entered data until the computer is running again. Your data can also be corrupted. It means you will have to re-enter information unless you've backed up your files. In addition, if there's a power failure, your software will be unusable unless you're on a battery-powered laptop.

### **Fraud**

Accounting software data requires extra levels of security to prevent fraud and embezzlement. Software makes it easier for users to alter data, making fraud easier to accomplish. As a result, there is an increased need for internal auditors to check for any data inaccuracies. Security measures must also be taken to limit the amount of control users have over any accounting software's features.

### **Human Error**

While it is easy to write down numbers incorrectly, it is even easier to mistype a number. Entering data into accounting software too quickly may result in serious errors. With the program performing calculations, it can be more difficult to trace the cause of the problem. Spreadsheets, digital ledgers, or written ledgers make tracking simpler and faster.

### **Training**

Accounting software requires you to take the time to learn how to use it. While you may be an experienced accountant, you'll still need to learn what each button and menu command does in order to use accounting software effectively. This learning curve can result in costly affairs. In some cases, paid training may be necessary to learn how to perform certain tasks. If you're not tech savvy, the process could be even more difficult.

### **Time**

Many accountants find that it takes more time to enter data into accounting software than it does to write it or type it into a spreadsheet. Due to step-by-step screens, the process often takes longer, especially for those who don't use the software often or are still new to using the program. If the software requires numerous steps to enter basic data, the time requirements may outweigh the benefits of automatic calculations.

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## **3.3 DIFFERENCE BETWEEN MANUAL ACCOUNTING AND COMPUTERIZED ACCOUNTING**

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Owners and other stakeholders of any business, whether large or small, want to know whether the business is making a profit or not. Many small businesses do their accounting

manually and they are happy with this setup. Others may be considering using a computerized system, since accounting software is also affordable these days. Manual and computerized accounting systems perform basically the same processes; the accounting principles and concepts are the same with differences lying in the mechanics of the process.

In accounting, the financial transactions are recorded, processed, and presented to generate financial statements that are useful to the readers, in making decisions. Traditionally, accounting is done manually, by a trained accountant, with the use of registers, account books, vouchers etc. But with the emerging technology, nowadays, computerized accounting is in vogue, due to its accuracy, convenience, and speed.

Both manual and computerized system is based on the same principles, conventions, and concept of accounting. However, they differ only in their mechanism, in the sense that manual accounting uses pen and paper, to record transactions, whereas computerized accounting makes use of computers and internet, to enter transactions electronically.

Let us now see the difference between these two:

### **Speed**

The main difference between manual and computerized systems is speed. Accounting software processes data and creates reports much faster than manual systems. Calculations are done automatically in software programs, minimizing errors, and increasing efficiency. Once data is fed into the system, one can create reports literally by pressing a button in a computerized system.

### **Cost**

Another difference between manual and computerized systems is cost. Manual accounting with paper and pencil is much cheaper than a computerized system, which requires a machine and software. Other expenses associated with accounting software include training and program maintenance. Expenses can add up fast with costs for printers, paper, ink, and other supplies. However, manual accounting requires more staff. Therefore, more expenditure on salaries/wages in case of manual accounting.

### **Backup**

A third difference between manual and computerized systems is the ease of backup of a computerized system. All transactions can be saved and backed up, in case of fire or other mishap. You cannot do this with paper records, unless you make copies of all pages—a long and inefficient process.

The following table makes a further attempt to explain the difference between the manual and computerized accounting systems:

## **Manual Accounting**

- **Definition:** Manual accounting is the system in which we keep physical register of journal and ledger for keeping the records of each transaction.
- **Ledger accounts:** We check the journal and then we transfer figures to related accounts. Debit or credit side by manually posting it.
- **Trail Balance:** We collect the information of all the balances of all accounts in our ledger and on this basis, we manually prepare the trial balance.
- **Adjustment Entries record:** Both. The adjustment journal entries and its posting in the ledger accounts will be done manually, one after another.

## **Computerized Accounting**

- **Definition:** In the system of accounting, we make use of a computer and different accounting. Software for maintaining a digital record of every transaction.
- **Ledger accounts:** Computerized accounting system will automatically process the system and will make all the account's ledgers since the voucher entries under its respective ledger account have already been passed.
- **Trial Balance:** The computerized accounting system will automatically produce the Trial Balance.
- **Adjustment Entries Record:** Only adjustment entries will be passed in the computerized accounting software, these will then be automatically posted to respective ledger accounts.

Point of Difference	Manual Accounting	Accounting Software
Speed	Recording financial transactions and retrieving them for report generation takes more time.	Accounting software saves a lot of time as it allows quick & seamless data entry, invoice preparation, generating reports, etc.
Accuracy	The biggest challenge while maintaining accounts manually is human error and so the chances of getting accurate results become low.	Accounting software allows automated calculations and thus can provide accurate results.
Automation	You need to add, edit and recheck the data manually which becomes tedious in case there are too many transactions.	As calculations are done automatically, it becomes easy to get results and come to a conclusion.
Integration	The transaction affecting other departments within an organization needs to be recorded at multiple places.	Accounting software integrates other business processes like banking, marketing, taxation, etc. and so a single data entry gets reflected in multiple reports.
Reporting	It is ambiguous and time-consuming to retrieve data from different books and compile it as a report.	With a single click of a mouse or a tap, customized reports can be generated within seconds.
Auditing & Taxation	With the growing complexities in auditing & taxation, it has just become next to impossible to complete these tasks manually in an accurate manner.	Accounting software allows automatic compliance testing of the transactions and filing returns based on accurate data.
Backup	It requires a lot of physical space to store the books and ledgers to maintain the backup.	The backup is stored in the computers automatically and so it becomes highly convenient.
Security	All the data is maintained in the books and ledgers which can be accessed by anyone and security can be compromised.	It requires a password to access the confidential information and thus using accounting software provides high-end security.

**Table 2.1: Difference between Manual Accounting and Accounting Software**

### **Scope of Computerized Accounting**

This Accounting System and its awareness among entities have become a necessity in the present environment.

Businesses of whatever field and size are shifting from the practice of maintaining accounts manually. The manual process is more time-consuming and exposed to human error.

Storage and retrieval of data and generation of a report cannot be ensured in real time in the traditional system. There is a need to shift to computerized accounting systems. They have empowered business to project accurate information of financial performance.

1. **Simple and Integrated:** It helps all businesses by automating and integrating all the business activities. Such activities may be sales, finance, purchase, inventory, and manufacturing etc. It also facilitates the arrangement of accurate and up-to-date business information in a readily usable form.
2. **Accuracy & Speed:** Computerised accounting has customized templates for users which allows fast and accurate data entry. Thus, after recording the transactions it generates the information and reports automatically.
3. **Scalability:** It has the flexibility to record the transactions with the changing volume of business.

4. **Instant Reporting:** It can generate a quality report in real time because of high speed and accuracy.
5. **Security:** Secured data and information can be kept confidential as compared to the traditional accounting system.
6. **Quick Decision Making:** This system Generates real-time, comprehensive MIS reports and ensures access to complete and critical information, instantly.
7. **Reliability:** It generates the report with consistency and accuracy. Minimization of errors makes the system more reliable.

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### 3.4 COMPUTERIZED ACCOUNTING SOFTWARE

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Computerized accounting software is used for evaluating the profitability and financial performance of different organizations. Manual accounting has become redundant nowadays, as they are prone to human error. Thus, businesses of all sizes rely on the best accounting software in India to make the complex accounting task more manageable and error-free.

Computerized accounting software is a software solution that can be installed on your computer for seamlessly managing your company's financial dealings, reports, data, and statements. The software can also be accessed remotely via your mobile device with the help of mobile data or a strong Wi-Fi connection.

Computerized accounting solutions acts as the primary tool for recording, tracking, and generating accounting transaction reports of small and medium-sized enterprises.

It comes with a host of modules such as bookkeeping for tracking and managing payments and collections; invoicing for generating invoices for your customers; general ledger for summarizing all the transactions taking place in your organization; inventory module for tracking products from purchase to sale; accounts payable for processing vendor invoices; accounts receivable for generating customer invoices; purchase order module for tracking and managing all inventory orders; and debt collection module for collecting late invoices. Some computerized billing apps also come with additional modules like electronic payment processing to help you make transactions via electronic medium. These modules help you control the different aspects of accounting processes efficiently.

Are you planning to switch over from manual accounting to automated accounting software? If yes, it would be useful to enlighten yourself about the features, advantages, and drawbacks of computerized accounting platforms, so that you can utilize it in the best possible manner.

## Features of Computerized Accounting Software

A robust accounting software solution is capable of taking your business to new heights of success. The best invoicing software not only gives you an overview of your financial transactions but also helps you meet the legal obligations required for running your business smoothly. Here are some of the useful features:

- **Invoicing:** This is the basic module of all accounting software that automates the process of collections so that you never forget to send out an invoice. An invoicing system stores all customer data and also generates accurate invoices for clients on time, besides reminding them about outstanding bills. What's more, it also helps you adhere to the effective practices of billing and invoicing as per the industry standards.
- **Reporting:** Software for computerized accounting features a broad array of reporting options such as balance sheet, income statement highlighting your profit and loss, cash flow statement, payroll summary, and so on. They also come with customizable reporting features to help you generate reports as per your preferences. Systems can also convert your financial data into graphs so that you can comprehend where your money is going.
- **Banking:** Computerized accounting software keeps track of your banking accounts and also imports data from your bank into the system. Its automatic payment module prints checks, and schedules bank payments and direct deposits, thus, automating your bank payment processes.
- **Budgeting and Forecasting:** A good tool calculates and depicts your financial performance for the current and upcoming fiscal year. It generates balance sheet summaries to portray how well your business is performing at the moment so that you can set up realistic sales targets.
- **Inventory Management:** An efficient billing software solution also manages your stock; this helps you keep tabs on the availability of your products so that you can quickly deal with delivery issues.
- **Payroll:** Some software also comes with sophisticated payroll modules for managing all aspects of payroll. This module enables you to generate employee payments and process their checks on time. It also simplifies the process of managing variable pay schedules along with bonuses, commissions, profit-sharing, etc. The software also allows you to adhere to your tax commitments with perfection.

- **Fund Accounting:** Accounting system designed for NGOs and public agencies come with fund accounting module for grant management, tracking donations, and managing GASB regulations.
- **Ability to Collaborate:** Computerized billing systems enable you to authorize contractual accountants to access your financial data. You can easily synchronize your data with your bank account and import your financial reports in seconds.
- **Multi-functionality:** If you are operating your business globally, you might know how difficult it is to manage finances across multiple currencies. However, with the right invoicing solution, you can make the process of accumulating data from multiple business locations much easier. An efficient billing software solution is also capable of recording and delineating financial dealings in multiple currencies.

### **Advantages of Computerized Accounting System**

Computerized Accounting Software streamlines accounting tasks and offers several benefits to its users. It not only automates your accounting tasks but also helps you chalk out a results-driven investment strategy. Here are the top perks of using such a solution:

- **Mobility:** Being cloud-based, automated billing software allows you to access your financial accounts from anywhere. Apart from supporting web browsers, advanced billing applications come with a mobile interface to enable you to manage daily accounting tasks such as expense tracking, attaching receipts, viewing invoice information, or sending bills directly from your iOS and Android devices. It also helps you stay connected with your clients and accounts team on the go.
- **Speed:** Computerized Account Software is known for its swiftness. Once you input data into a connected module, it processes and stores the information instantaneously.
- **Cost-effective:** Hiring an in-house accountant can be quite expensive for small business owners. Once you decide to deploy a computerized billing system, you can use the program after undergoing a customer training program to derive the maximum benefit from the software. What's more, you need to pay only for purchasing and installing the software and an occasional software upgrade.
- **Saves Time:** Compared to the time-consuming manual process of accounting, computerized accounting system saves your time, and boosts your productivity. The software is capable of performing accounting functions faster than manual

accounting. It centralizes the financial aspects of your business and enables you to deal with different accounting tasks within one unified accounting platform.

- **Reliability:** Computerized billing solution generates financial statements and reports with precision and consistency. Thus, you can completely rely on it.
- **Reduces Human Errors:** Computerized accounting system reduces errors, and eliminates the need for manually checking your accounts each time you input new data. Minimization of inaccuracies also makes this software more dependable.
- **Offers Real-Time Data:** The software can be synchronized with your online banking account. As a result, you always receive real-time information on paid invoices as well as your business expenditures.
- **Lightning-fast Decision Making:** Since computerized accounting solutions provide real-time financial information, it helps you make smarter financial decisions at lightning speed.
- **Security:** Computerized billing software comes with sophisticated security mechanisms to protect sensitive financial data. It keeps your financial data, passwords, and other information safe and confidential.
- **Helps You Allocate Resources the Right Way:** It is one of the key advantages of using this platform. It is important to comprehend the pattern of your financial performance to run your company advantageously. Computerized accounting system acts as your financial advisor, and gives you a clear overview of your financial activities, thus, helping you determine where to invest more, and where to cut costs.
- **Simplifies Tax Compliance:** Automated accounting software system gives you a quick overview of the amount of taxes that your company has paid till date. It also computes the amount of tax that you or your clients need to pay on each invoice.

### **Disadvantages of Computerized Accounting Software**

Along with its advantages, computerized invoicing software also has its share of disadvantages. Here are some of the negative aspects of the software that you should be aware of before authorizing the software to store your financial data:

- **Security Issues:** Some computerized billing systems are susceptible to cyber-security issues and misappropriation. Though your company's financial information is stored in the cloud, it can be easily hacked to access your



confidential data. This puts your assets at risk besides jeopardizing your business efforts.

**Technical Issues:** Since computerized accounting involves computers, you may come across several technical issues such as virus attack that destroys your stored data, power outage, system failure, etc., when dealing with computers. Additionally, if you operate the software incorrectly, it might prove disastrous to your business.

- **Not Error-free:** The efficacy of the data output is entirely dependent on your data input. In simple words, if you insert inaccurate or incomplete data, then the software will generate serious errors.
- **Involves High Expenses:** Computerized invoicing software may increase the total expenses of your organization as managing each aspect of the software involves high cost. Moreover, paid training can also prove quite expensive as you need to train your team from time to time to learn how to use the billing application smoothly. Moreover, if the software demands regular up-gradation, it may prove to be a costly affair for your business.
- **Time-Consuming:** Inputting data into an automated billing system takes a lot of time as it involves multiple steps to input basic data. If you are new to the invoicing software, it will take some time for you to get used to the program. Moreover, if your data gets corrupted owing to worms or virus attack, you will have to re-enter the lost data, which again consumes a lot of time.

Perhaps, these are a few reasons why some businesses avoid using automated invoicing software. However, you cannot deny the fact that the advantages of automated billing software outshine its drawbacks. Moreover, you can quickly mitigate the shortcomings of the software with the right integration and by taking proper precautions. For example, stringent measures should be taken to limit your employees' access to the software. At the same time, you should assign internal auditors to ensure there is no data inaccuracy. Some successful companies also prefer reaping the benefits of both manual and computerized mode of accounting instead of completely relying on computers.

### **Types of Computerized Accounting Software**

If you are looking for a results-driven accounting tool for your business, you will come across a lot of options. Each accounting software solution has its unique features; therefore, before picking accounting software, it is advisable to compare the different available software

solutions to determine which features are best suited for your business. Here is a list of different accounting software solutions that you can choose from:

- **Ready-to-use Accounting Software:** If you are a small business owner, this is the right billing application for you. Ready-to-use accounting software is easy to use and also reasonably priced. However, you may not be able to integrate ready-to-use accounting software with other available systems in your organization.
- **Customized Accounting Software:** This accounting software is tailored to cater to the specific accounting needs of your business. Customized Accounting Software is ideal for medium and large businesses having numerous divisions. Cost of customized billing software is somewhat high compared to other billing software solutions as it involves addition and modification to the basic accounting software. Last but not least, you need to undergo specialized training to use this software.
- **Commercial Accounting Software:** This solution is fit for small and medium-sized businesses. It not only handles the accounting needs of your business but also generates reports, data, and graphs to illustrate your company's financial standing.

Considering the factors mentioned above, we can conclude that computerized accounting software solutions have become a necessity for 21st-century businesses. It acts as a valuable business asset that helps you gain a competitive edge besides strengthening your relationship with your clients. However, since there are countless billing software solutions available in the market, you should carefully choose the right accounting software to take your business to the next level. The best way to pick the right software would be to analyze your company's accounting requirements along with the features, pros, and cons of the software.

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### **3.5 SOFTWARE PROGRAMS FOR COMPUTERIZED ACCOUNTING**

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Accounting is an ever-evolving field. New types of accounting techniques and focus areas arise. These include forensic accounting and green accounting. To keep up with these, together with the garden-variety financial kind, one needs to find flexible **accounting software** to handle all intricacies accurately and in real-time.

There are numerous accounting products available to cater to different business sizes, types, and niches. To jumpstart your search, we compiled the top products in the category. You can explore each product, determine if it matches your requirements, and narrow down your choices.



**Fig :3.1 Best Accounting Systems for Business**

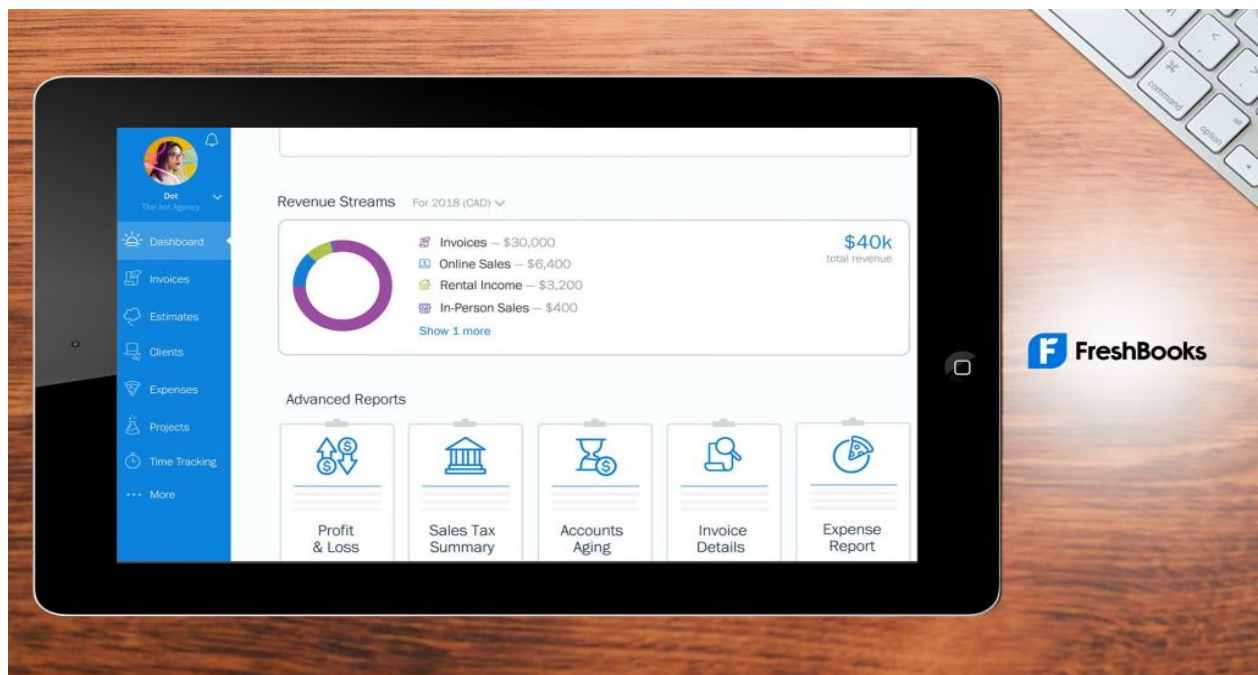
Thanks to the COVID-19 situation, remote work has become the norm. The pandemic fuelled a higher rate of cloud-based software adoption in many fields, including accounting. Hence, by using cloud-based tools, more businesses and professionals got to know the benefits of using them better.

With the way industries are shaping up, **remote work is here** to stay. So expect cloud-based accounting software adoption rates to shoot up in the next five years.

However, even before the outbreak, accounting professionals already had a positive stance towards the use of accounting software tools. About **67% of accountants** claimed tech in accounting enables them to be more efficient and to finish their work faster. Furthermore, in a 2020 report, 83% of accounting professionals believe that they need to keep up with tech adoption in order to be competitive. In particular, they are investing in the following emerging technologies:

# Emerging Technologies that Accounting Professionals Are Investing In

## 1. Fresh Books



**Fig: 3.2 Fresh Books**

**Fresh Books** is one of the leaders in our accounting software category. Our team found Fresh Books to be the easiest-to-use accounting solution for freelance accountants and small businesses currently in the market.

The software is being used by more than five million users around the world to streamline time tracking and invoicing. The vendor has recently updated the product to allow for easy collaboration between team members and has added a redesigned dashboard where you can prioritize tasks and manage payments. The classic features have not changed, and FreshBooks continues to offer top-rate invoice-to-payment functionalities, including direct **payment gateways**, overdue payment reminders, delay fees, and payment claims. You can use the system to collect payments easily and automate the recurring billing process to accept Google Checkouts, Amex, PayPal, and credit card payments.

What's more, is that pricing is affordable for almost any budget, and the vendor offers a convenient 30-day free trial to enable you to test drive the features before you decide to part with your money.

FreshBooks also recently added features such as bank reconciliations, invitations for up to 10 accountants, new balance sheet reports, directly adding the credit card to the client profile, and adding payments in bulk. It also improved the navigation experience by adding sections for Invoices, Reports, and Accounting.

FreshBooks has not neglected any utility, and companies can use it to manage invoices as well as expenses. You can easily generate insightful tax summaries and reports after the data is processed. The vendor also offers a handy mobile app. The system seamlessly integrates with other business apps, such as **billing and invoicing software**. You can rely on the support of knowledgeable and experienced agents if you have any issues.

## 2. NetSuite ERP

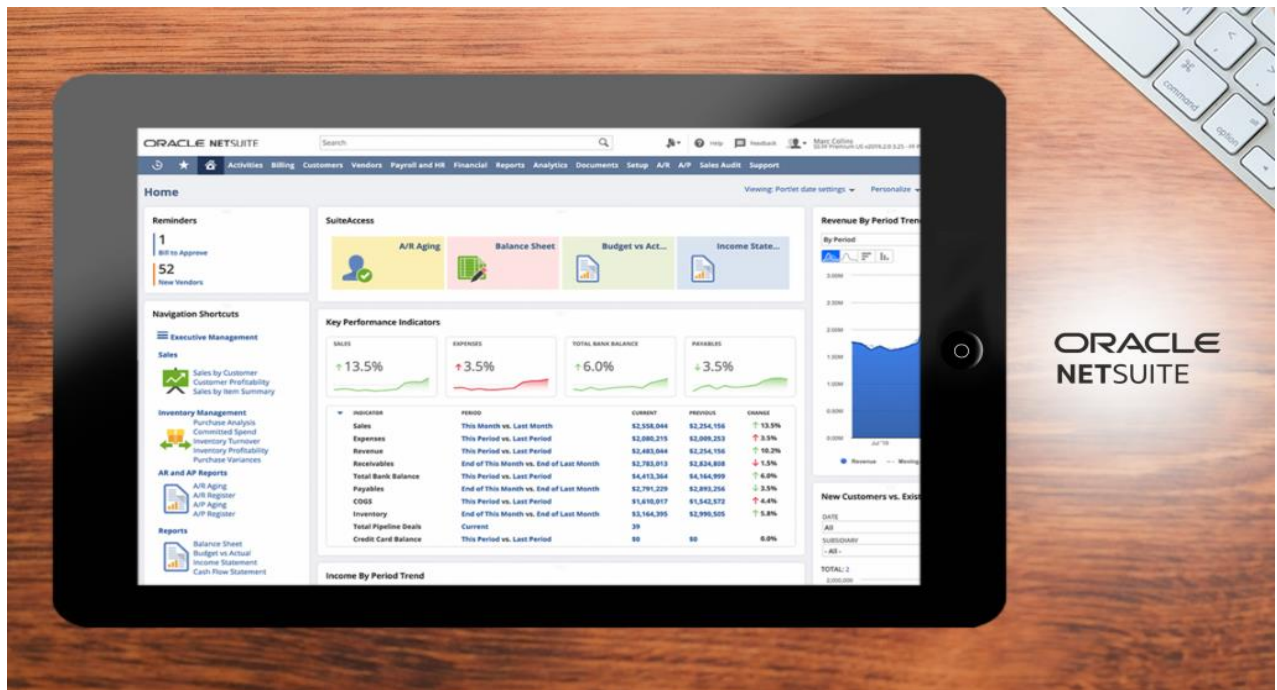


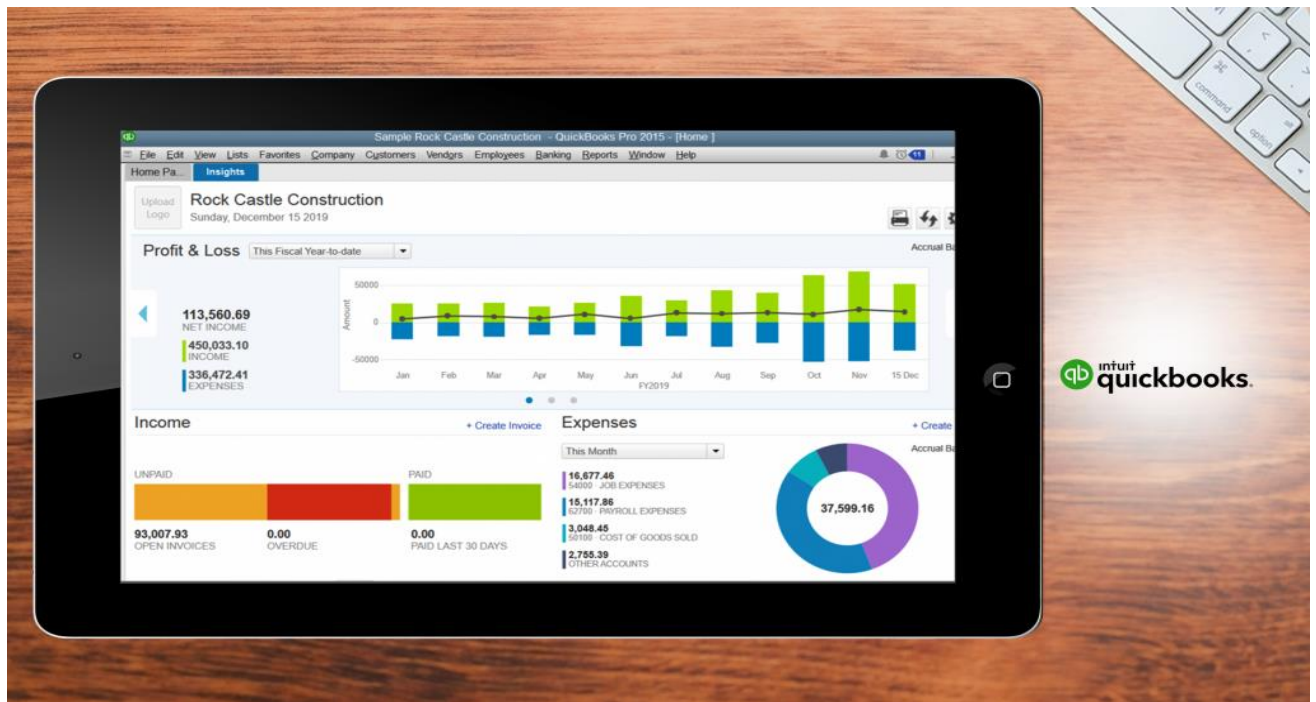
Fig :3.3 Net Suite Erp

**NetSuite ERP** is essentially a customer relationship management (CRM) solution, but the platform can be used for sales and marketing automation, as well as order management and customer support. It offers a myriad of tools and features to make financial management simple.

Standard features include pre-configured dashboards that can be customized by users for their specific needs. NetSuite ERP also offers robust automation and scalability features. It can grow with your company and automate processes such as financial management, order management, revenue management, fixed assets, inventory management, and billing.

The vendor offers a great demo of the product that will introduce you to all key features.

## 3. QuickBooks Online

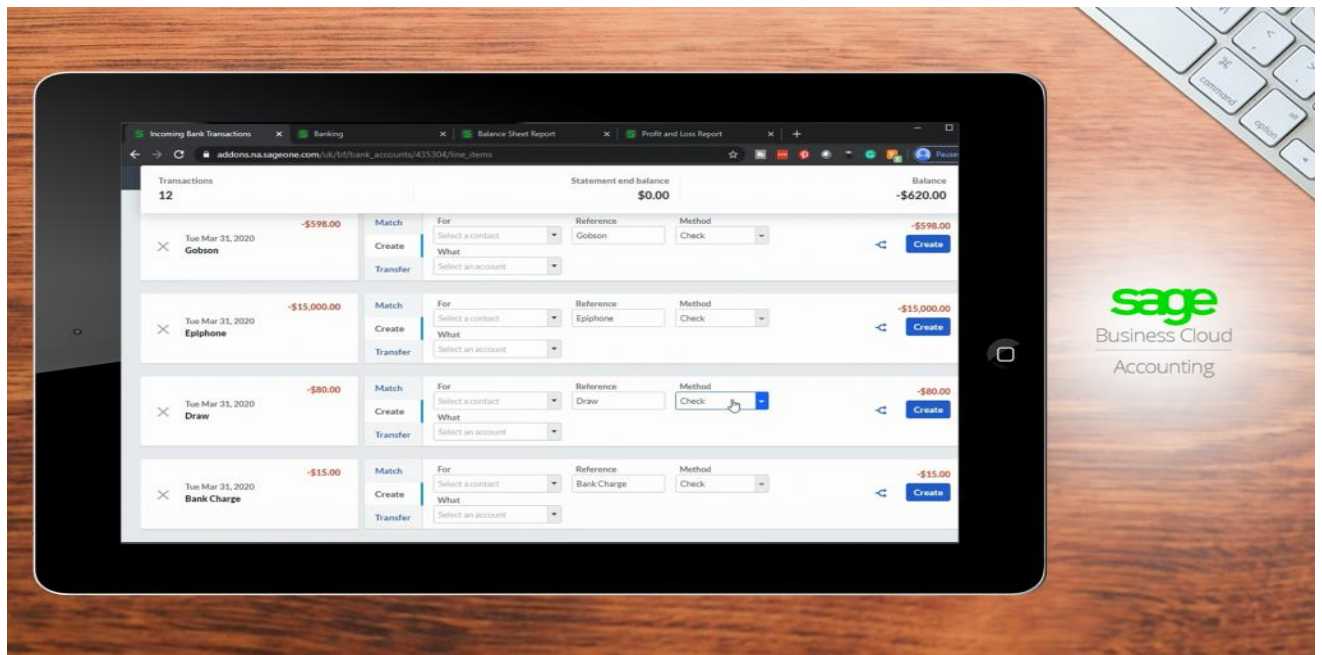


**Fig:3.4 Quick Books**

**QuickBooks Online** is an accounting solution for small businesses, freelancers, and independent accounting firms. This cloud-based application combines all essential accounting tools in a single platform to help small businesses streamline accounting and financial management tasks.

Among its features are automated tax calculations, expense tracking, invoice management, balance sheet reporting, bill management, sales monitoring, and more. QuickBooks Online supports multiple devices and is equipped with auto-syncing options so your data will be up to date no matter what device you are using.

#### **4. Sage Business Cloud Accounting**



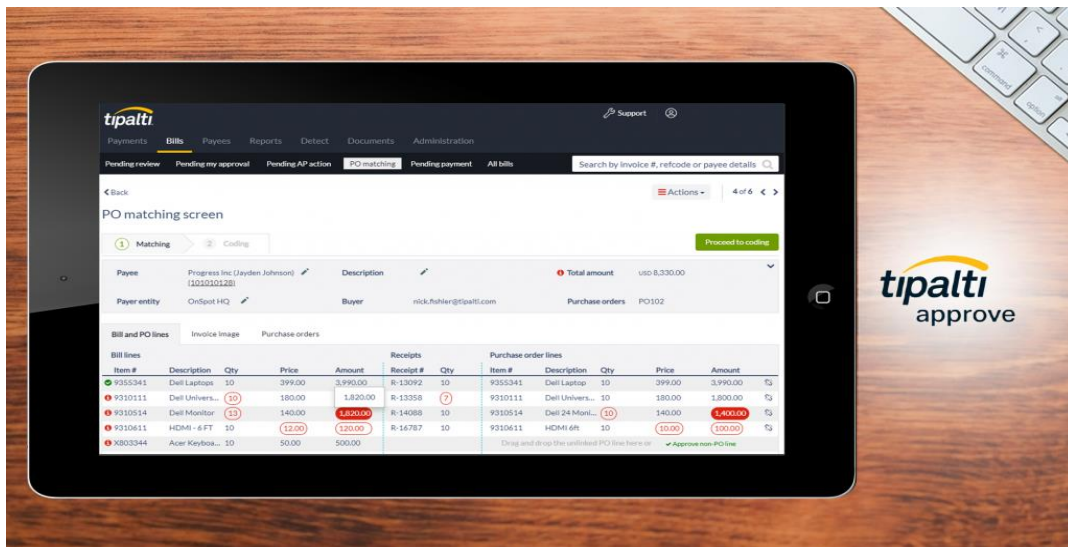
**Fig :3.5 Sage Business Cloud Accounting**

**Sage Business Cloud Accounting** is ideal for small businesses. With that, it offers two affordable plans designed to fit the budget and needs of small businesses. For sole traders and micro-businesses, you can make use of its entry-level accounting solution at \$10 per month. If you need invoicing and cash flow management features, you can opt for the app's higher plan at \$25 per month.

The product focuses on streamlining paperwork, minimizing spreadsheets, and staying on top of your finances. It simplifies business payroll and ensures compliance with the Affordable Care Act. It empowers financial management by consolidating data and automating complex financial processes. It also handles payments and banking.

The vendor offers a comprehensive free trial to get you up to speed with the features.

## **5. Tipalti Approve**



**Fig :3.6 Tipalti Approve**

**Tipalti Approve** is a cloud payment automation and management software that helps simplify global mass payments. This makes the software suitable for companies with offices worldwide. Notably, you can accept payments in more than 190 countries, use 120 currency options, and rely on six payment methods, including PayPal, wire, local bank transfer, and debit cards. Moreover, the software simplifies the daily task of ensuring that your company’s financial data and processes are timely, accurate, and easy to understand.

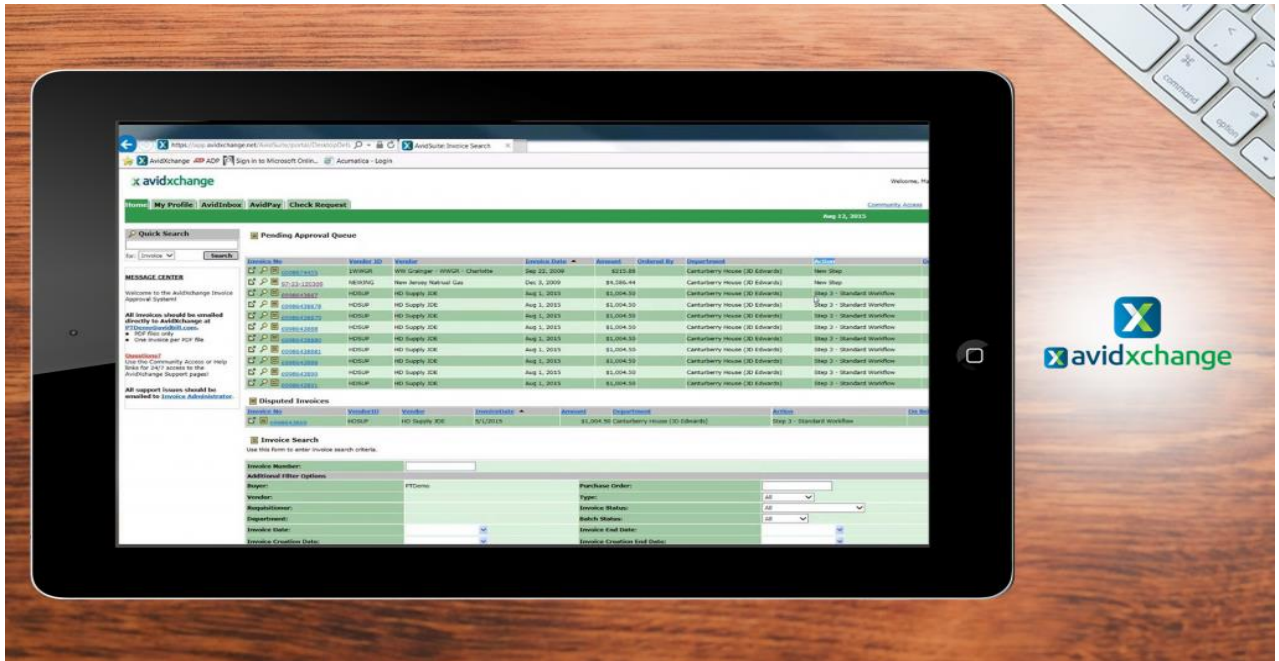
The software helps businesses avoid late payments, noncompliance, and over-tasking of the accounting team. It also has flexible payment reconciliation, AP, and financial reporting features that work with a myriad of payment gateways and **ERP systems**.

The vendor also offers an appealing test drive of all software features through its free trial.

With it, you can minimize, if not eliminate, downstream issues and human error, by letting suppliers input tax data directly in the Supplier Management portal. A Remittance Validation Engine, which monitors over 26,000 national and international standards, guarantees the integrity of supplier data.

## **6. Avid change**



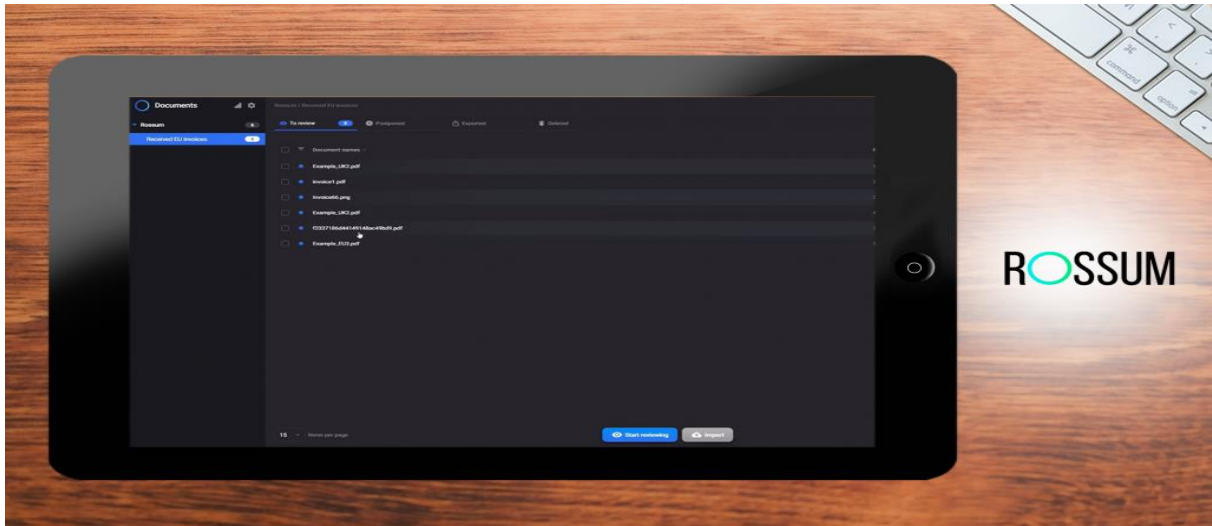


**Fig :3.7 Avid Change**

**Avid change** is a comprehensive invoice management and payment automation system built for businesses of all sizes. It is equipped with features for paperless invoicing, purchase order automation, as well as payment processing to help you streamline accounting operations. It also comes with a highly configurable interface and intelligent approval workflows to boost efficiency and reinforce visibility across your accounts payable processes. In addition, the platform has search and filter tools that make it easy to track invoices as well as review transactions.

Using AvidXchange, businesses can lower the cost of accounts payable processes as well as improve operational productivity. It also makes it easier for companies to pay their suppliers faster because payments can be made securely from the platform. More importantly, as AvidXchange comes with advanced security and fraud detection functionalities so users can prevent unauthorized transactions and payment requests.

## 7. Rossum



**Fig :3.8 Rossum**

**Rossum** is a powerful cloud-based platform designed to streamline account payable processes from importing documents, collecting and capturing data, purchase order matching, to invoice processing. This software's system is powered by a self-learning AI engine that automates various critical processes, thus reducing manual efforts and human error.

As an intelligent cloud-based platform, Rossum addresses the downsides of traditional OCR systems. By connecting Rossum to your document sources (i.e., document scanners, DMS systems, API, RPA, and email inboxes), it automatically imports all documents into the Rossum system. Its AI-powered engine also recognizes different document formats and layouts, thus there is no need to set up or create templates for documents and invoices. Furthermore, Rossum identifies duplicates, merged files, and auxiliary data and handles them accordingly to remove all unnecessary information and maintain a clean and organized curated feed of transactional data.

Another advantage Rossum has over other similar systems is its ability to incorporate the changes, customizations, and corrections set by the user. This is helpful when more data that the system was not set to detect before suddenly get added to the information that needs to be extracted from an invoice. All the user needs to do is check the imported invoice and customize the fields that need to be validated and the system will then apply the changes moving forward. Moreover, you can extend Rossum's functionality by integrating it with your existing systems, such as ERPs and RPAs.

## **8. A2X**

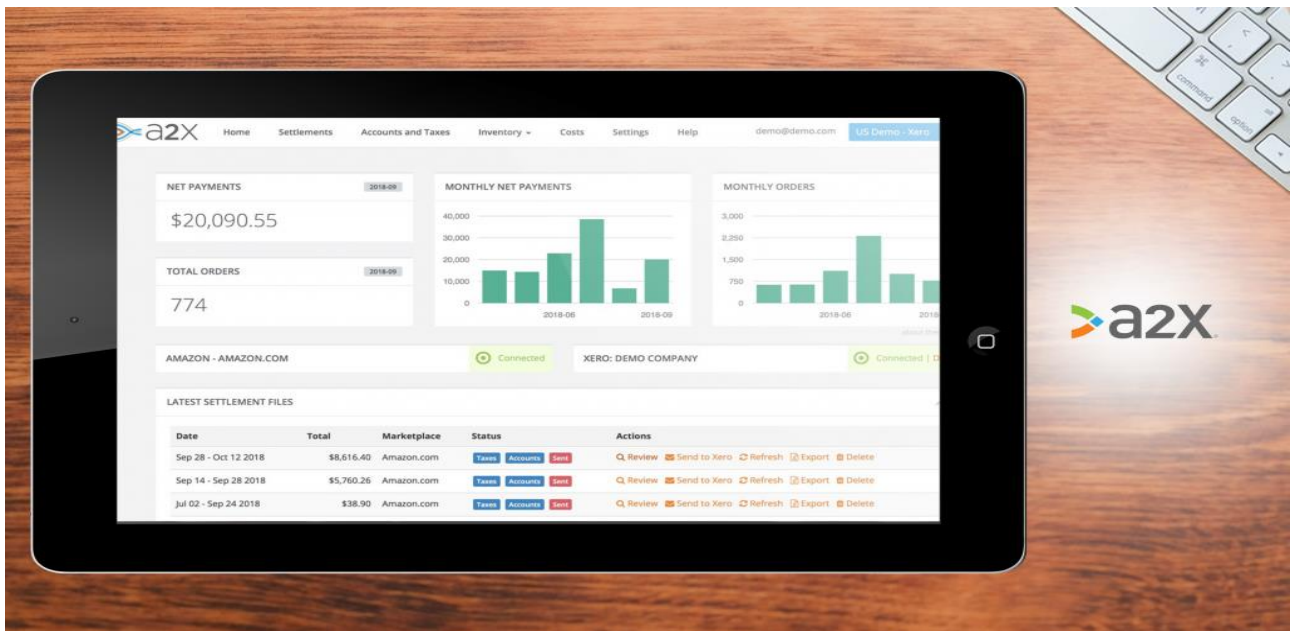


Fig :3.9 A2X

**A2X** promotes accurate bookkeeping by directing transactional data from sales channels like Amazon and Shopify to your accounting platform. Gone are the days of manually recording sales transactions and using spreadsheets for financial statements. Your financial details are transferred seamlessly into your books as it integrates with esteemed accounting solutions, such as Xero and QuickBooks.

A2x has a free trial plan and a wide variety of subscription plans, starting from \$19 per month.

## 9. Zoho Books

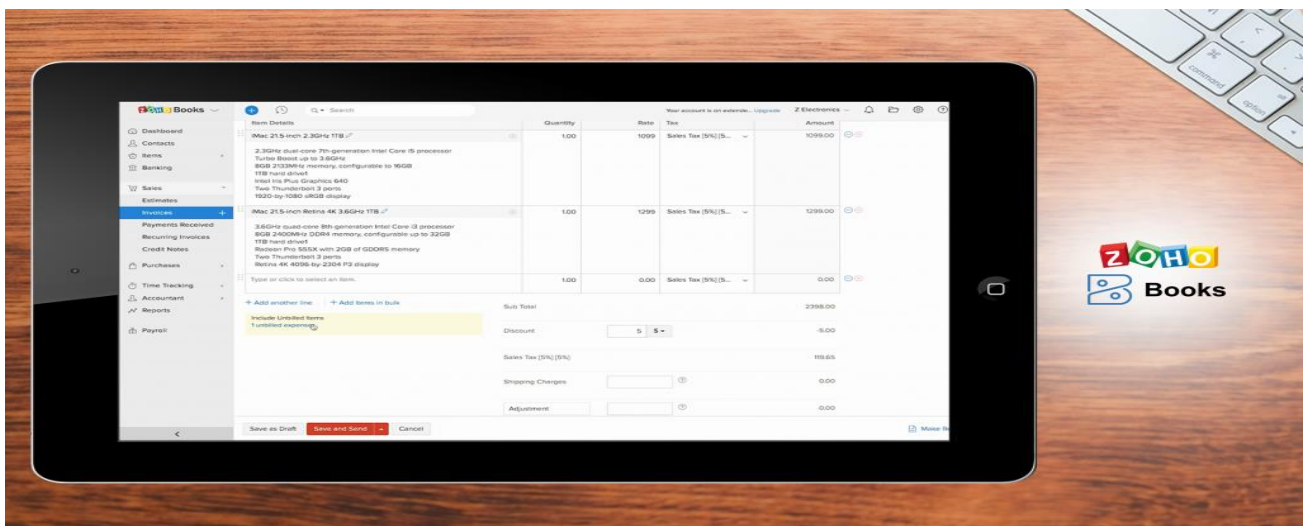
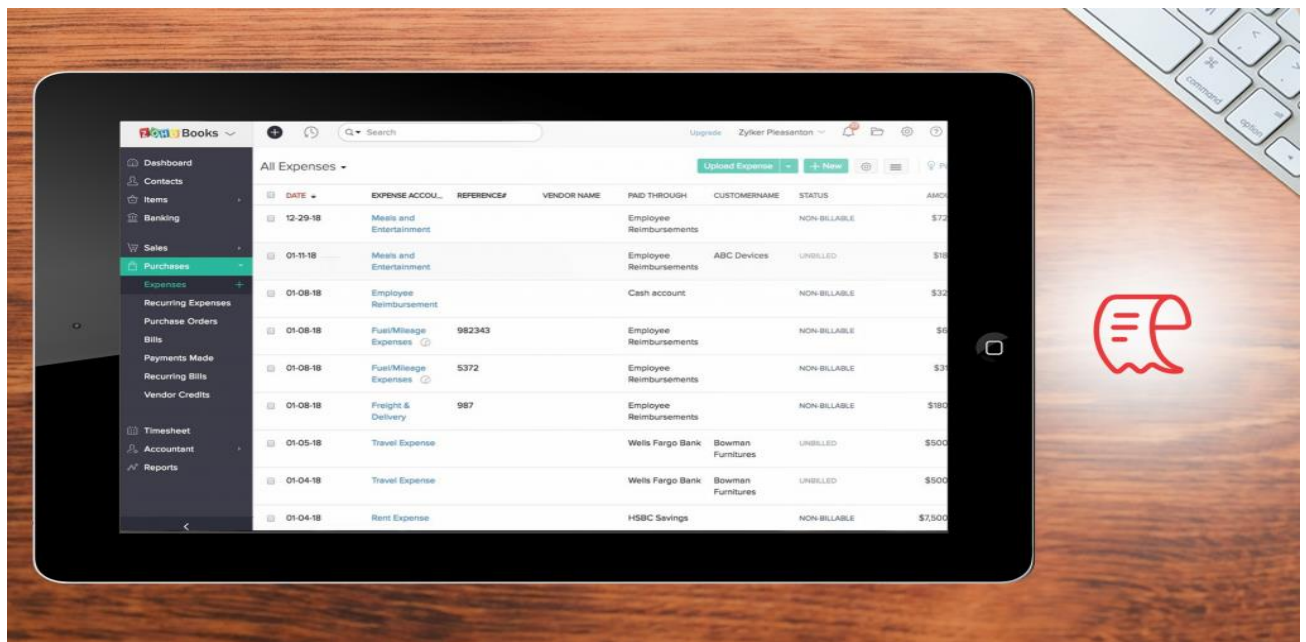


Fig :3.10 Zoho Books

Any member of the Zoho family is a good product, and you can rely on the company's productivity suite to streamline your business. Its accounting software, **Zoho Books** is also of top quality, which is why it got a high ranking on our list.

Why is Zoho Books on our list of **best accounting software**? The reason is this award-winning solution offers great value for money. It easily automates bank feeds, sends payment reminders automatically, and makes it easy to send and track retainer invoices. The system is unique as it integrates with Stripe and makes it simple to do payment reconciliation.

## 10. Zoho Expense



**Fig :3.11 Zoho Expense**

**Zoho Expense** automates a huge selection of operations related to expense handling, helping you document your transactions in an instant. You can automatically convert receipts into expenses and group them together so you can produce reports whenever necessary. This platform also automatically captures and transforms credit card transactions into expenses.

## 11. Sage 50cloud

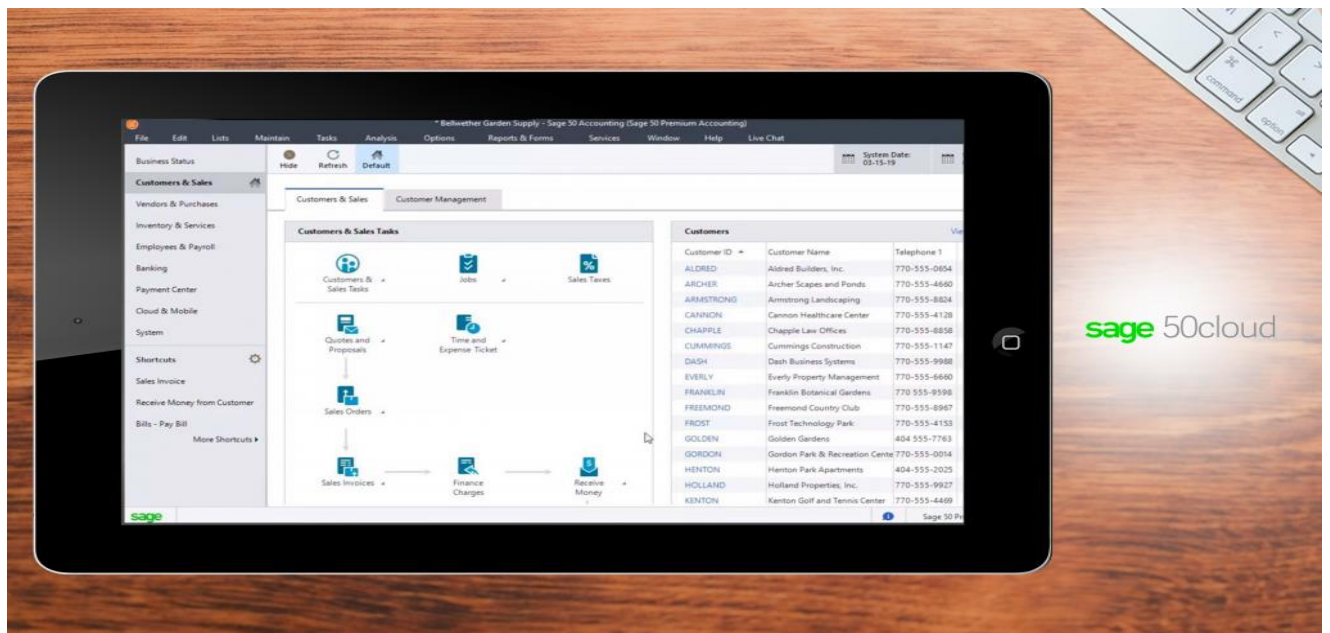


Fig :3.12 Sage 50Cloud

**Sage 50cloud** offers taxes, budgeting, inventory, invoicing, and cash flow solutions to small and mid-sized businesses. This online accounting software also provides a vast array of add-ons for payroll, credit card processing, and more. Its intuitive accounting best practices can be used to maintain compliance and monitor finances as well.

You can use Sage 50cloud for free for a limited time. If you feel like it fits your business, you may continue with its paid plans starting at \$50.58 monthly.

Sage 50cloud is generally a desktop tool with a cloud component. It can monitor purchases and vendors and pay bills. Its expense handling functionality has bank feeds and mobile payment. It can link you to your bank accounts, letting you record sales and receipts, transfer funds, monitor receivables, modify bank accounts and make deposits in real-time.

## 12. QuickBooks Enterprise



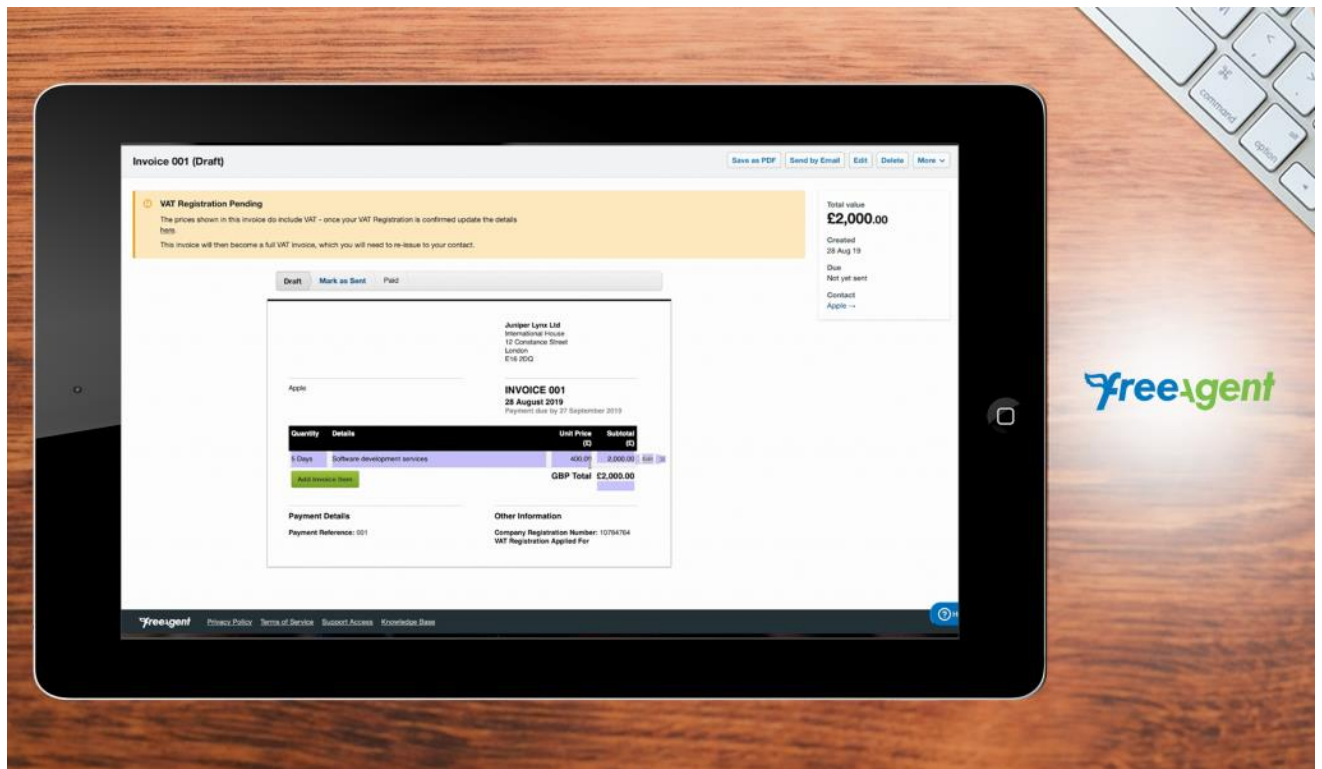
**Fig :3.13 Quick Books Enterprise**

**QuickBooks Enterprise** is a financial services tool created for growing businesses and nonprofits. It offers accounting solutions minus the ERP implementation. Its platform integrates tasks, such as inventory monitoring, payables, payroll, and more.

QuickBooks Enterprise comes with a free-trial period. On the other hand, you can subscribe to it for as low as \$140/month.

QuickBooks Enterprise is a stand-alone framework, but it offers progressive settings and functionalities that can be customized depending on your business or industry. Payroll, advanced pricing, and inventory monitoring are among its more advanced features. Plus, there are more data capacity, more intricate inventory handling, and various entity support.

### 13. Free Agent



**Fig :3.14 Free Agent**

**Free Agent** is a robust accounting software designed for freelancers and small businesses. From running payrolls to handling expenses, its features can help you take control of all aspects of your financial processes. You can send and monitor invoices made by the system. Expenses can be easily tracked as long as you capture a photo of your receipt and upload it to the platform.

Free Agent offers a free-trial period and the Universal Plan at \$10/monthly for six months.

With an intuitive stopwatch and timesheets, FreeAgent can keep time records. You can easily track cash flows, alongside tax bills, through its dashboard. It can be linked to bank accounts, too. FreeAgent also lets you know how much tax you owe, and even file for your own VAT, RTI, and Self Assessment returns. It has a total of 26 integrations, which include Stripe, Zapier, Receipt Bank, and PayPal.

## 14. Trolley

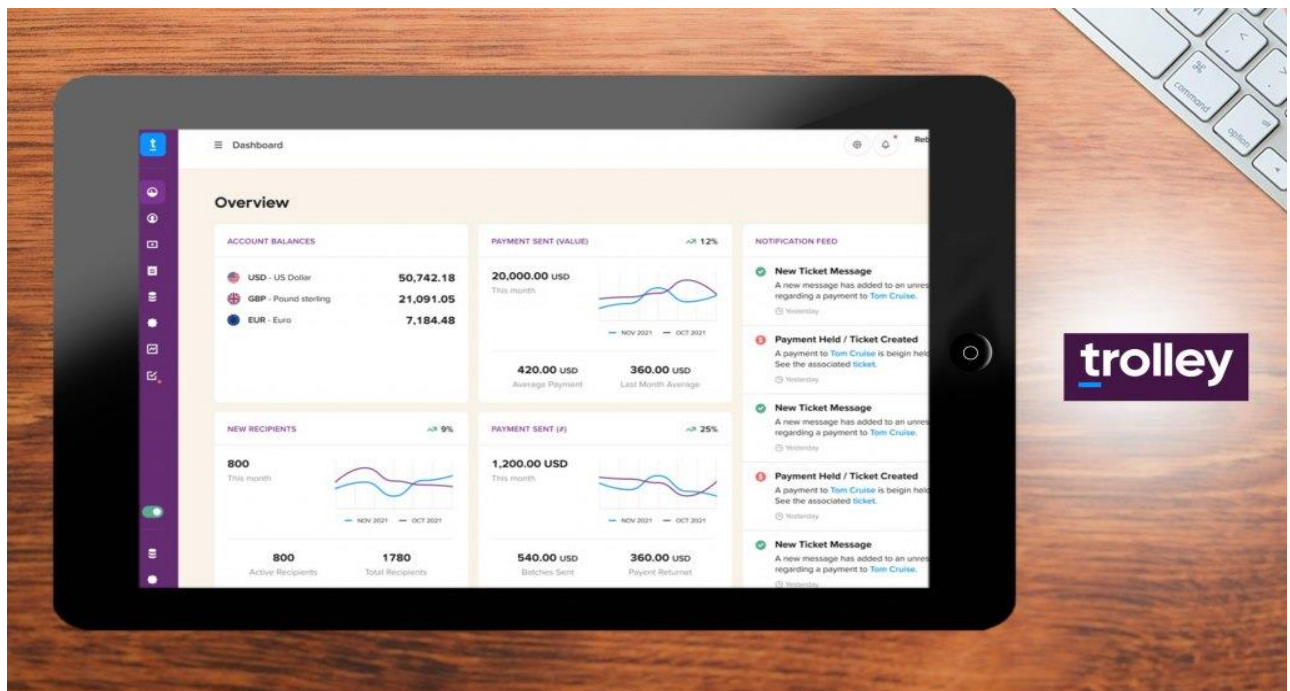


Fig :3.15 Trolley

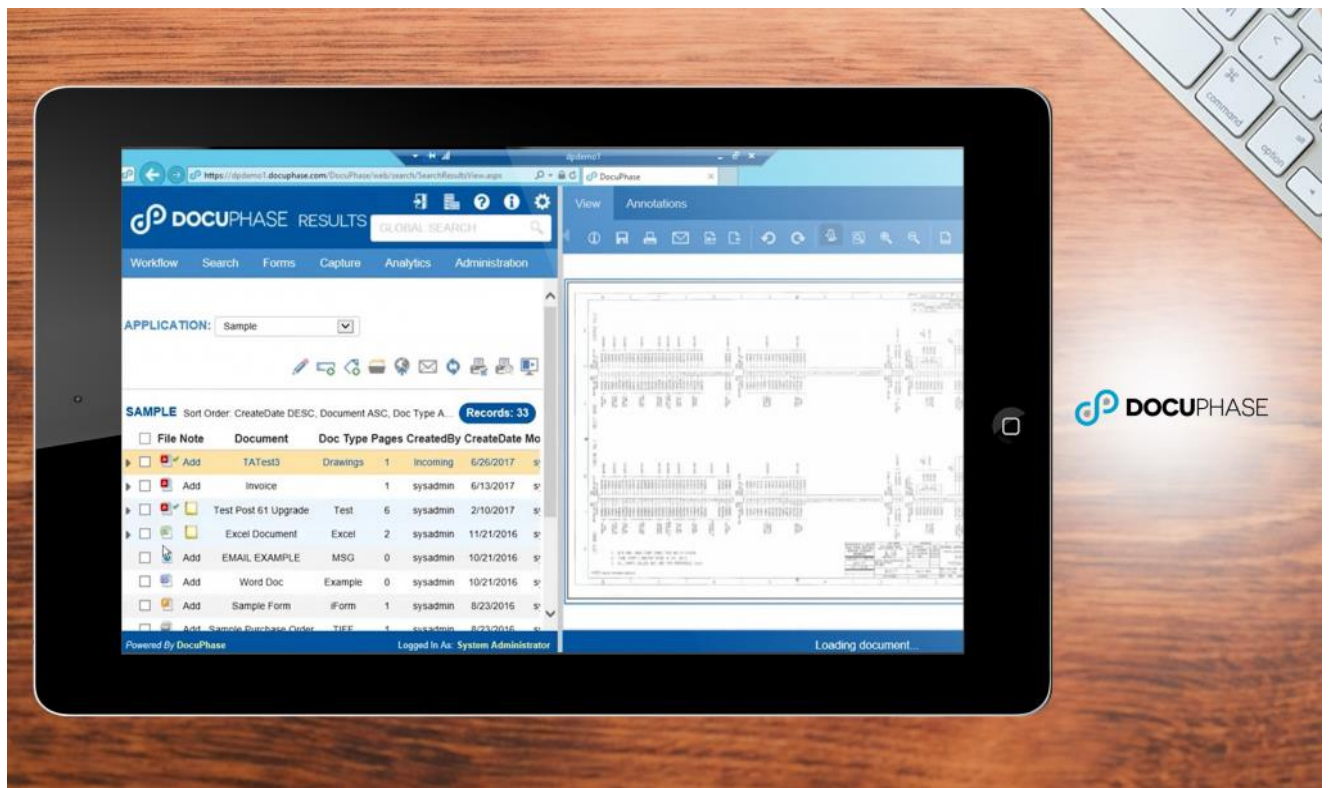
**Trolley**, previously Payment Rails, is an international payments software created to automate payouts for sellers and service providers across the globe. This platform simplifies payout processes and sending of mass payouts to over 200 countries and regions all throughout the world.

You can try Trolley for free, a paid subscription, or a by-quote plan.

Trolley streamlines payout processing and sending. It sets up and automates tailored payout approvals. For individuals designated with approval rights, emails are sent to them every time a payment is about to get approved. In this manner, this solution promotes transparency on who approves every payment. It delivers real-time payout tracking too.

Businesses can also use Trolley for tax compliance. It gathers and fulfills tax forms in accordance with IRS requirements. It helps in validating TINs and producing annual reports as well. Withholdings are updated regularly in compliance with tax regulations.

## 15. DocuPhase



**Fig :3.16 Docu Phase**

**DocuPhase** is a comprehensive automation solution that helps accounting teams surmount the challenges posed by repetitive tasks. It removes the three-way matching process as well as manual data entry. Because of this, users only need to step in when higher-level thinking is needed for a part of the workflow.

Among the processes that DocuPhase transforms is invoice management. It can save time by streamlining the approval process. Plus, it eliminates email-based invoice tracking to further cut down the time spent on the task.

If you are worried about not being able to have a bird's eye view of your accounting, you can rely on DocuPhase reporting. The solution can provide clear and detailed expense reporting so you can see exactly where your money goes. What's more, there is real-time analytics that you can turn to when you need immediate information.



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## 3.6 UNIT END QUESTIONS

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### A. Descriptive Questions

#### Short Questions

1. What is Computerized Accounting?
2. Briefly explain the components of computer software.
3. What do you mean by data, information and information system?
4. What are the advantages of computerized accounting system?
5. Define the scope of computerised accounting.

#### Long Questions

1. Explain in detail computerised accounting system.
2. Briefly explain the kinds of accounting software?
3. Explain software programs for computerized accounting?
4. Difference between manual accounting and computerized accounting?
5. Explain in software programs for computerised accounting.

### B. Multiple Choice Questions

1. What are the features of computerised accounting software?
  - a. Storage of accounting data and online input
  - b. Instantly produces different reports
  - c. Group different account
  - d. All of the above
2. A software must be easy to \_\_\_\_\_.
  - a. Install
  - b. Adapt
  - c. Understand
  - d. All of the above
3. If an organisation wants to develop a computerised accounting system according to its need as the business of the organisation is complex. Which software should opt for?

- a. Ready to use software
  - b. Customised software
  - c. Tailor-made software
  - d. All of the above
4. The \_\_\_\_\_ of a vendor is also an important factor to consider while opting for computerised accounting software.
- a. Level of profit
  - b. Honesty
  - c. Capability
  - d. None of the above
5. What are the factors to be considered while using source accounting software?
- a. Flexibility
  - b. Adaptability
  - c. Interest in management
  - d. Both an and b

**Answers:** 1. d, 2. d, 3. c, 4. a, 5. d

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### 3.7 REFERENCES

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## **UNIT - 4 COMPUTERIZED ACCOUNTING SYSTEMS**

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### **STRUCTURE**

- 4.0 Objectives
- 4.1 Introduction
- 4.2 Creating A Company
- 4.3 Configure and Features Settings
- 4.4 Creating Accounting Ledgers and Groups
- 4.5 Creating Stock Items and Groups
- 4.6 Vouchers Entry
- 4.7 Unit End Questions
- 4.8 References

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### **4.0 OBJECTIVE**

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After completing this Students will be able to

- Define computerized accounting systems
- Understand Creating Accounting Ledgers and Groups
- Define Vouchers Entry
- Explain Creating Stock Items and Groups

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### **4.1 INTRODUCTION**

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When the size and operations of a business increases, the transactions cannot be recorded and processed manually. Here comes the role of computers in accounting with which we can process huge volume of transactions using certain application software called accounting software. Now a day even small-scale business organisations can make use of accounting software.

GNUKhata (pronounced as jee\_new\_khata) developed by Digital Freedom Foundation, a public charitable trust, in association with International Centre for Free and Open-Source

Software (ICFOSS). It supports a wide range of applications related with accounting and inventory management. It can be easily transformed into different Indian languages.

Recording transactions through voucher interface is called voucher entry. The voucher entries are made based on concerned source documents.

While recording a transaction through the voucher, the account to be debited and credited along with the amount and its narration should be given.

The significant change to be noted in Accountancy subject (Computerized Accounting) for Higher Secondary students is the avoidance of the accounting package, Tally which they study presently. This year onwards the students are advised to use the accounting package called GNU KHATA rather than using Tally. Tally software has occupied a foremost place in the area accounts.

Several computerized accounting software are available according to the need and use of business organisations which includes GNUKhata, SAP, Tata Ex, Peachtree, Daceasy, Tally, Fresh books, Quick books, Zoho books, Wave etc. In the above cited list GNUKhata is a Free and Open-Source Software (FOSS) and the rest are proprietary software. FOSS can be legally downloaded, copy, and customize without paying anything. In this unit we are discussing about GNUKhata which is functioning in Linux platform.

GNUKhata (pronounced as jee\_new\_khata) developed by Digital Freedom Foundation, a public charitable trust, in association with International Centre for Free and Open-Source Software (ICFOSS). It supports a wide range of applications related with accounting and inventory management. It can be easily transformed into different Indian languages.

#### Features of Accounting Software

An accounting software solution is one that cultivates under the same roof all systems and applications dedicated to managing and processing financial data. Professional accountants and bookkeeping teams use these programs to govern accounts and automate systematic operations, while certain systems are also enabled to record accounting data, measure indicators and report on the company's financial activity.

There are many contrasting ways in which accounting software can optimize your business, depending on its main features and objectives. From a simple task of invoicing to complex tax reporting, accounting systems come with all sorts of extras that are not even feasible without an appropriate system.

So here are some of the features of accounting software.

#### **Core Accounting**

Accounting is the bread of each system in this category and the one the businesses should be looking for first when choosing a reliable solution. What we mean by ‘accounting’ here is a general ledger, fixed assets, accounts payable & receivable, and bank reconciliation.

And off course these are the basic and most important ones, while advanced systems have much more to offer to their users.

### **Generating Invoice/Billing**

We can agree that there are accounting systems which are exclusively used for billing and invoicing, but most of them still treat the same as an integral module of any finance operation. Maybe it is a value addition to some businesses but most businesses today prefer a compact .

ERP system which not only just prepares invoices but does a complete routine of tasks related to accounts and finance and which also does meet the tax compliances just like Tally Prime software.

### **Preparing Budgets and Forecasting the Results**

This is a bundled feature which most of the accounting software’s offers with its prime line. This category here allows calculating and interpreting finance performance for the current year and helping to estimate the budget of the projected year using the data trend recorded from the last year. Using this feature, companies can prepare their estimates and set up real and optimistic sales targets.

### **Managing Payrolls**

Here the accounting software will be able to calculate and process the payments to be made to employees; it will also prepare and print their cheques without delays and be respond ready to all legal and tax commitments without errors. This will act as reminders for businesses of their responsibility to these financial obligations.

### **Asset Management**

Either as a separate tool or an inclusive module, this feature of accounting software “fixed asset management” helps manage financial data much more accurately. The category here combines features such as maintaining history of audits, cost records, calculating depreciation, allocating resource to departments etc.,

### **Inventory Management**

It’s a packed feature that accounting systems offer for performing stock control options based on the data provided by it. It is the factory where businesses will find all the necessary tools to give their business a higher shelf-life product line. It also means that they will be able to

control the availability and movement of products and avoid all sorts of delivery issues such as overstocking or under stocking.

### **Reporting Canvas**

Today accountants undertake vivid responsibilities in an organisation for the role play of taking care of corporate data and information. So as a professional requires tools to perform his duties, accounting software solutions offer that hand which accountants need to perform his duties.

Today the accounting solutions offer robust reporting and analytics tools which helps greatly in decision making over matters concerned with finance and figures. It provides accountants and finance managers with crucial financial insights and accurate financial information, all of which they can report to management for its guidance.

### **Tax Management**

Tax regulations change over time and one fine example is the introduction of Goods and Service Taxes Act in India. Accounting systems can help you manage all those compliance requirements with automatic calculations on tax for sales (GST) and payments as well as on withholdings for employee payroll (ESI, EPF etc.) and other direct tax taxation laws such as Tax deducted at Source (TDS).

As the accounting software keeps you updated and informed through automatic reminders and sorting everything, the risks of being penalized for late payments are also minimized if not eliminated.

### **Openness to Integration**

Accounting systems offer flexibility to integrate with third party business software's and productivity apps and services such as payment gateways, sales software, CRMs, business intelligence systems, project management tools, and many others.

This ability of accounting systems translates the businesses by being able to work on important events concerning the company's financials. This also opens the doors for ERP systems to work hand to hand with accounting software systems.

### **Steps in Installation of CAS**

#### **CAS Installation**

CAS is an application that implements a Single-Sign-On (SSO) mechanism. It is a good practice in production environments to install it and configure it so to have secure access to the Knowledge server applications. CAS expects the use of the HTTPS protocol.

#### **Deploy of the CAS application**

Carry Out the following steps:

- Shut down the server if running,
- Deploy CAS application,
- for Tomcat: unzip the cas.war file inside the TOMCAT\_HOME/webapps/cas.
- for JBoss: copy the cas.war file inside the JBOSS\_HOME/standalone/deployments.
- edit /cas/WEB-INF/classes/cas\_spagobi.properties inserting the connection parameters for the metadata database of Knowage, as following:

1. pagobi.datasource.driver=<driver JDBC>

spagobi.datasource.url=<URL JDBC>

spagobi.datasource.user=<user\_name>

spagobi.datasource.pwd=<password> encrypt.password=true

### **HTTPS Certificate**

Since CAS application requires the use of the HTTPS protocol, the user must own an SSL certificate: it can be released a Certification Authority (CA), or it can be self-signed.

In case the certificate self-signed, it must be inserted in the CA repository of the JDK (usually such a repository is in the JDK\_HOME/jre/lib/security) or in an ad-hoc repository, called truststore and conveniently configured in the application server in use. It is sufficient to `setthetwojavaproperties Djavax.net.ssl.trustStore=<truststore path> and Djavax.net.ssl.trustStorePassword=<truststore password>`

We suggest referring to the Java documents for more details. In the following we will restrict on give some useful commands of the keytool utility if the user intends to install a self-signed certificate:

- generate a copy of the public/private key-pair into a repository (keystore) called keystore.jks, as below:
- `$JAVA_HOME/bin/keytool -genkeypair -keystore keystore.jks -storepass <keystore password> -alias <certificate alias> -keyalg RSA -keysize 2048 -validity 5000 -dname CN=<server name that hosts Knowage >, OU=<organisation unit>, O=<organisation name>, L=<local`
- export a certificate in a cert.crt file, as suggested below:
- set the certificate inside the CA certificates of the JDK to make it accessible (the user will be asked the CA certificates password, the default one is changeit)

- \$JAVA\_HOME/bin/keytool -import -trustcacerts -alias <alias del certificado> -file cert.crt -keystore
- \$JAVA\_HOME/jre/lib/security/cacerts

### **Configuration of the HTTPS Protocol for Tomcat**

To enable the HTTPS protocol, it is necessary to operate according to these steps:

- copy the keystore which contains the pair public/private keys (keystore.jks) inside the TOMCAT\_HOME/conf.
- edit the TOMCAT\_HOME/conf/server.xml file, comment the HTTP connector on 8080 port and uncomment the HTTPS connector on 8443 port and configure it as below:

- i. <Connector acceptCount="100"
- ii. maxHttpHeaderSize="8192"

1. clientAuth="false"
2. debug="0"
3. disableUploadTimeout="true"
4. enableLookups="false"
5. SSLEnabled="true"
6. keystoreFile="conf/keystore.jks"
7. keystorePass="<keystore password>"
8. maxSpareThreads="75"
9. maxThreads="150"
10. minSpareThreads="25"
11. port="8443"
12. scheme="https"
13. secure="true"
14. sslProtocol="TLS"

### **15. Knowage Configuration**



16. Once the CAS has been installed, it is necessary to modify the Knowage configuration. The user must edit some values of the SBI\_CONFIG table using the administrator interface.
17. SPAGOBI\_SSO.ACTIVE:
18. set valueCheck to true
19. CAS\_SSO.VALIDATE-USER.URL:
20. set valueCheck to https://<URL of the CAS application>/cas
21. CAS\_SSO.VALIDATE-USER.SERVICE:
22. set valueCheck to https://<URL of the Knowage server>:8443/knowage/proxyCallback
23. SPAGOBI\_SSO.SECURITY\_LOGOUT\_URL:
24. set valueCheck to https://<URL of the CAS application>/cas/logout
25. Then set the sso\_class environment variable as below:
26. <Environment name="sso\_class" type="java.lang.String" value="it.eng.spagobi.services.cas.CasSsoService3NoProxy"/>
27. This variable is located:
28. Tomcat: in the TOMCAT\_HOME/conf/server.xml
29. JBoss: in the JBOSS\_HOME/standalone/configuration/standalone.xml
30. Edit all knowage\WEB-INF\web.xml to activate CAS filters.
31. <filter>
32. <filter-name>CAS Authentication Filter</filter-name>
33. <filter-class>org.jasig.cas.client.authentication.AuthenticationFilter</filter-class>
34. <init-param>
35. <param-name>casServerLoginUrl</param-name>
36. <param-value>https://<nome del server CAS>/cas/login</param-value>
37. </init-param>
38. <init-param>

39. <param-name>serverName</param-name>
40. <param-value><dominio di knowage, incluso il protocollo e la porta, se non standard></param-value>
41. </init-param>
42. </filter>
43. <filter>
44. <filter-name>CAS Validation Filter</filter-name>
45. <filter-class>org.jasig.cas.client.validation.Cas20ProxyReceivingTicketValidationFilter</filter-class>
46. <init-param>
47. <param-name>casServerUrlPrefix</param-name>
48. <param-value>https://<nome del server CAS>/cas/</param-value>
49. </init-param>
50. <init-param>
51. <param-name>serverName</param-name>
52. <param-value><dominio di Knowage Server, incluso il protocollo e la porta, se non standard></param-value>
53. </init-param>
54. <init-param>
55. <param-name>proxyReceptorUrl</param-name>
56. <param-value>/proxyCallback</param-value>
57. </init-param>
58. [Nelle web application knowageXXXengine presente anche questo parametro:
59. <init-param> <param-name>proxyCallbackUrl</param-name>
60. <param-value>

61. <dominio di knowage Server, incluso il protocollo e la porta, se nonstandard>/<knowageXXXengine>/proxyCallback </param-value>
62. </init-param>]
63. </filter>
64. <filter>
65. <filter-name>CAS HttpServletRequest Wrapper Filter</filter-name>
66. <filter-class>org.jasig.cas.client.util.HttpServletRequestWrapperFfilter</filter-class>
67. </filter>
68. <filter-mapping>
69. <filter-name>CAS Authentication Filter</filter-name>
70. <url-pattern>/servlet/\*</url-pattern>
71. </filter-mapping>
72. <filter-mapping>
73. <filter-name>CAS Validation Filter</filter-name>
74. <url-pattern>/servlet/\*</url-pattern>
75. </filter-mapping>
76. <filter-mapping>
77. <filter-name>CAS HttpServletRequest Wrapper Filter</filter-name>
78. <url-pattern>/servlet/\*</url-pattern>
79. </filter-mapping>
80. [Nelle web application knowageXXXengine presente anche questo mapping:
81. <filter-mapping>
82. <filter-name>CAS Validation Filter</filter-name>
83. <url-pattern>/proxyCallback</url-pattern>
84. </filter-mapping>]

All web.xml files have CAS filters already configured, but they are commented. The user must uncomment them, looking for the strings START-CAS, END-CAS and adjust the URL as the code above reports.

## **Use of Accounting Software**

### **To Simplify Accounts**

The accounting software solutions influence the control in the hands of a non-accounting audience, as they are designed to give numbers meaning and to perform automated calculations.

With little to spend on training costs, these systems enable the business owners to complete all accounting operations and comply with legal standards with ease and simplicity.

### **To Save Cost**

The accounting software solutions automate most of the core calculations and administrative procedures and thereby also take control of the revenue framework so that businesses will not be required to outsource finance management to an external expert.

On a parallel thought, they also reduce the costs related to printing and distribution of documents and store sensitive data in secure and monitored locations (say cloud computing)

### **Transparency**

A good accountancy system is one that avoids costly and recurring human errors. In the business sentiment, calculating inaccurate totals or failing to report data in time can lead to a crisis, and that's where automating calculations are most helpful which plays an important role in financial transparency audit.

### **Accurate Forecasting**

It's one of the major features of accounting software where, without a proper accounting system, detailing on the patterns and trends of financial performance would take ages to complete.

The accounting solution gives numbers a meaning, helping the management to understand where to save on the expenses or where to invest more.

The best accounting solution also helps in developing smart strategies and allocating resources to the right channel.

### **Productivity**

Accounting software in India is a complete package of digitized services which makes the most cumbersome, day-to-day tasks of companies look easier, and collects, organize, and analyze their outcomes.

Most importantly it makes smarter use of the available resources and thereby increase the efficiency of reporting standards by providing accurate data which in turn helps management in taking informed decision making.

### **Complying with Tax Laws**

The accounting systems of today are so comprehensive that they provide every detail, required to comply with taxation laws, for example, TDS compliance with Tally.ERP 9 is a very simple task as one just needs to activate it at the statutory information screen and Tally does the compliance part on its own.

### **Maintaining Customer Relationships**

It's impossible to negate the fact that accounting software has little to do with customer relationship management.

The accountings systems nowadays (regardless of their main functions) work around effective billing and invoicing and prevent all sorts of delays and miscommunication and thus, make companies' performance appear more professional and credible.

With accounting systems, we can convey any piece of information which is important or related to the product. We can wish the clients on their birthdays with the data stored in the systems. We can deliver Christmas mails or wish the client on any festival with the help of email IDs and phone numbers recorded in the accounting system.

We can send reminders of outstanding dues, and on receipt of the same, we can send the acknowledgement note to the customers or clients. All this go in building a strong customer relationship and makes the business viable for the long run.

### **Data Security**

Data related to the financial activity of a business is the most valuable information and it must be prevented from falling into the wrong hands.

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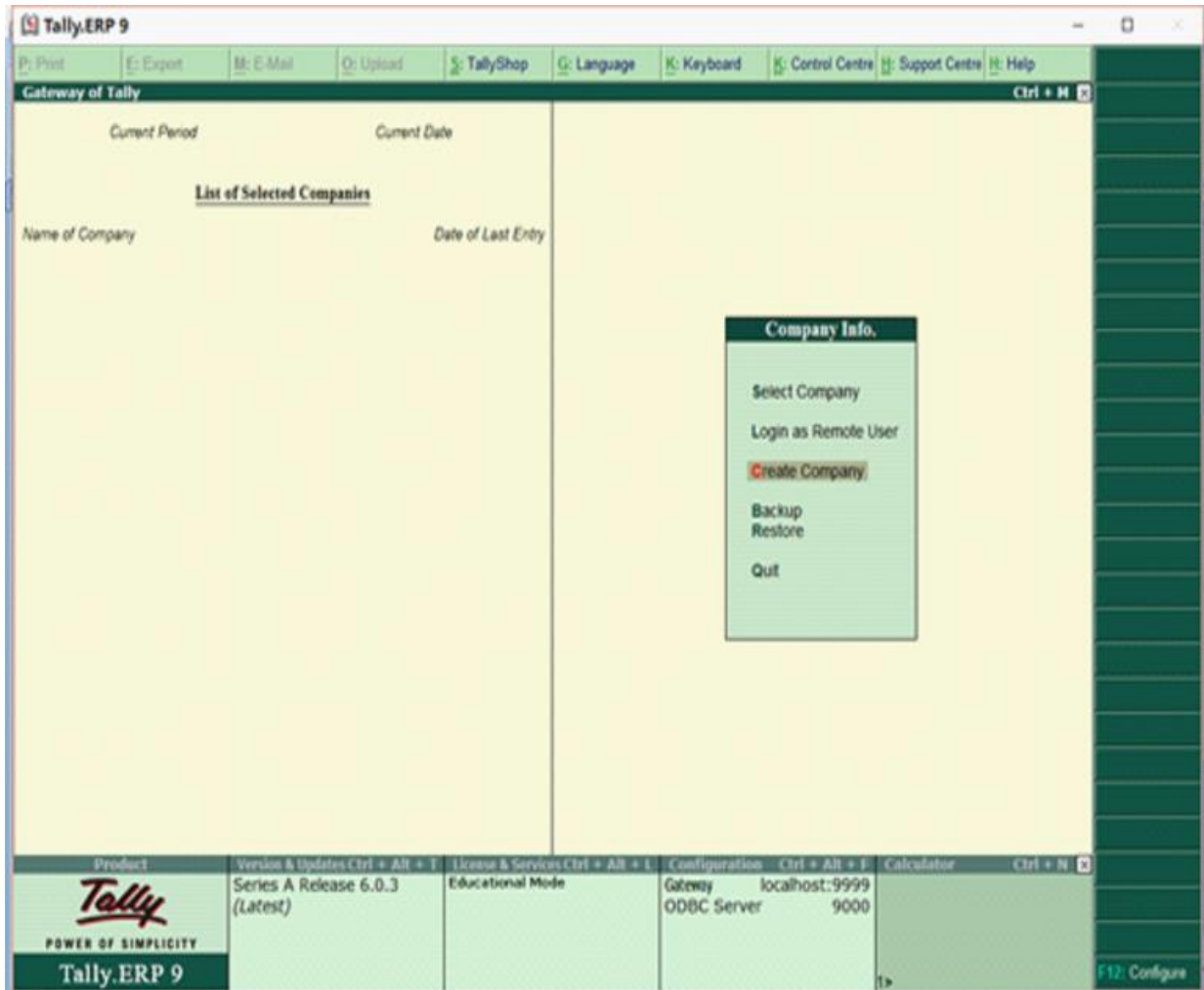
## **4.2 CREATION OF COMPANY**

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Creating company is the first step towards starting to work with Tally ERP.9. A company is an organisation for which financial records are to be maintained and therefore, it can be called as a central repository from where any financial statement or report can be extracted at any time. A company can be Partnership Firm or a Sole Proprietor or a Limited Liability Partnership or Non-Governmental Organisation or a Company registered under Companies Act, 2013.

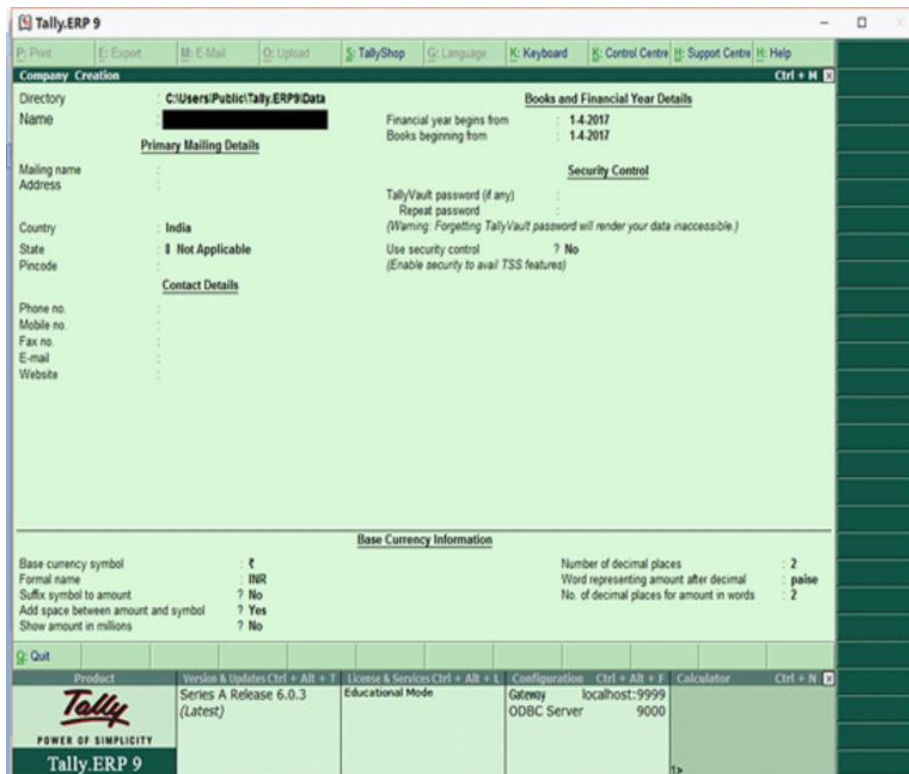
## Procedure of Creating a Company

To create a company, click on the 'create company' in 'Company Info'. Alternatively, one can press ALT+ F3 and the company info screen will appear as appeared in Figure. 1.1.



**Fig 4.1: Procedure of Creating a Company**

Once, you click 'create company', the following screen will appear as appeared in Figure. 1.2.



**Fig 4.2: Screen Appears after Creating a Company**

The various fields appearing in company creation are explained below.

**Directory:** It will display the path where your company data is stored. By default, it would automatically be stored in Tally ERP.9 data folder, but you can change its path and can specify any location where you want to store the data relating to the company by pressing backspace key.

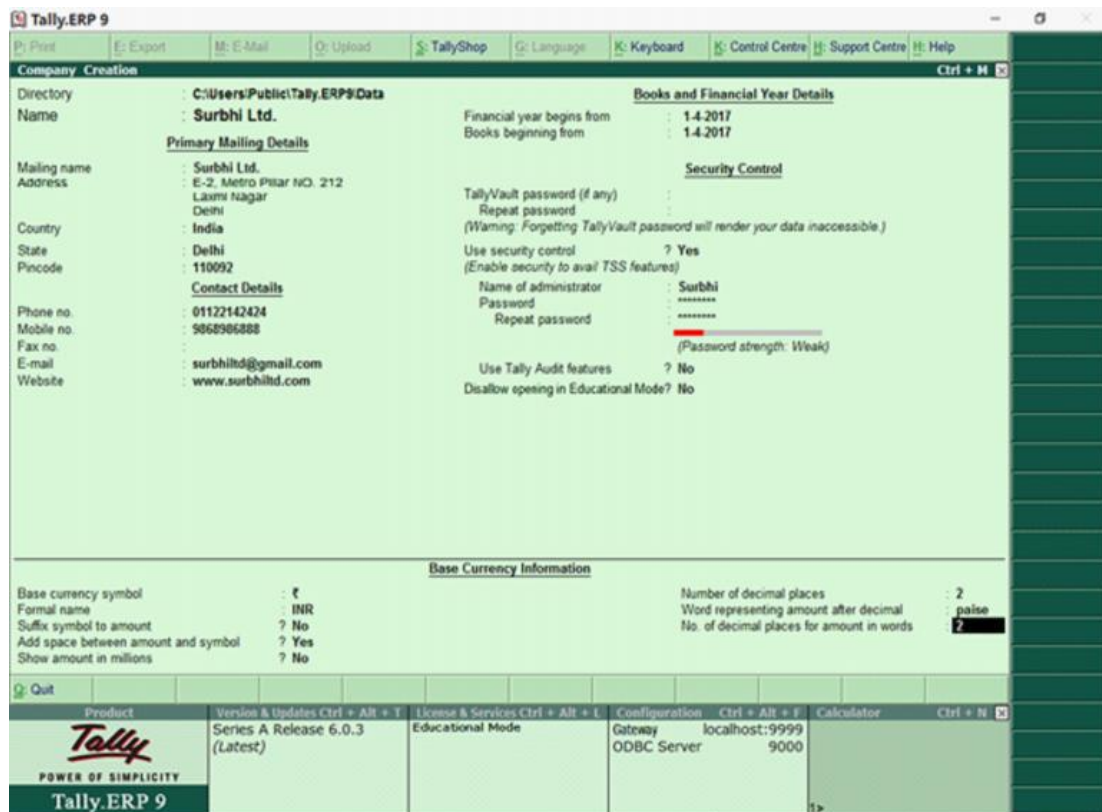
- **Name:** It means providing a name to the company. Example: Surbhi Ltd.
- **Primary Mailing Details:**
- **Mailing Name:** You can specify any other name if you want for mailing purpose. By default, it will always show the name which you have entered in the Name field earlier.
- **Address:** Provide the address of the company in this field **Statutory Compliance:** Choose the country in which the company is located. For example, we have selected India.
- **State:** Choose the state in which the company is located. For example, we have selected Delhi.

- **Pin-code:** Provide the Pin code for the company where it is located.
- **Contact Details**
- Provide telephone number, mobile number, and Fax number (if any) of the company. Also, provide the official email address of the company which would be further used for emailing of reports and statements.
- **Auto-Back up:** Putting 'Yes' to enable auto backup will result in automatically creating backup of the data of the company in the company data folder.
- **Company Details:**
- **Currency Symbol:** Once country is selected, Tally will automatically choose the currency of the country. In this example, we have selected India, so currency symbol would be of 'Rupee'.
- **Maintain:** If company maintains inventory with them, select accounts with inventory otherwise accounts only. Selecting accounts with inventory would combine both financial accounts and inventory books.
- **Financial Year:** Financial year is a period of 12 months starting from 1<sup>st</sup> April. The accounting period in this example, will begin from 1st April, 2017.
- **Books beginning from:** Provide a date at which you started maintaining your books. It can be a date later than 1stApril, 2017. By default, it would automatically take date mentioned in previous field.
- **Security Control:**
- **Tally Vault Password:** Entering this password will require, opening the company with password each time. The name of the company having tally vault password will be shown with asterisk '\*' mark.
- **Repeat Password:** Password entered in various field has to re-enter for confirmation. Use Security Control: Enabling this field as 'Yes' will allow to define access administrator user name and password. Every time you open a company, it would ask for name of administrator and password.
- **Base Currency Information:**



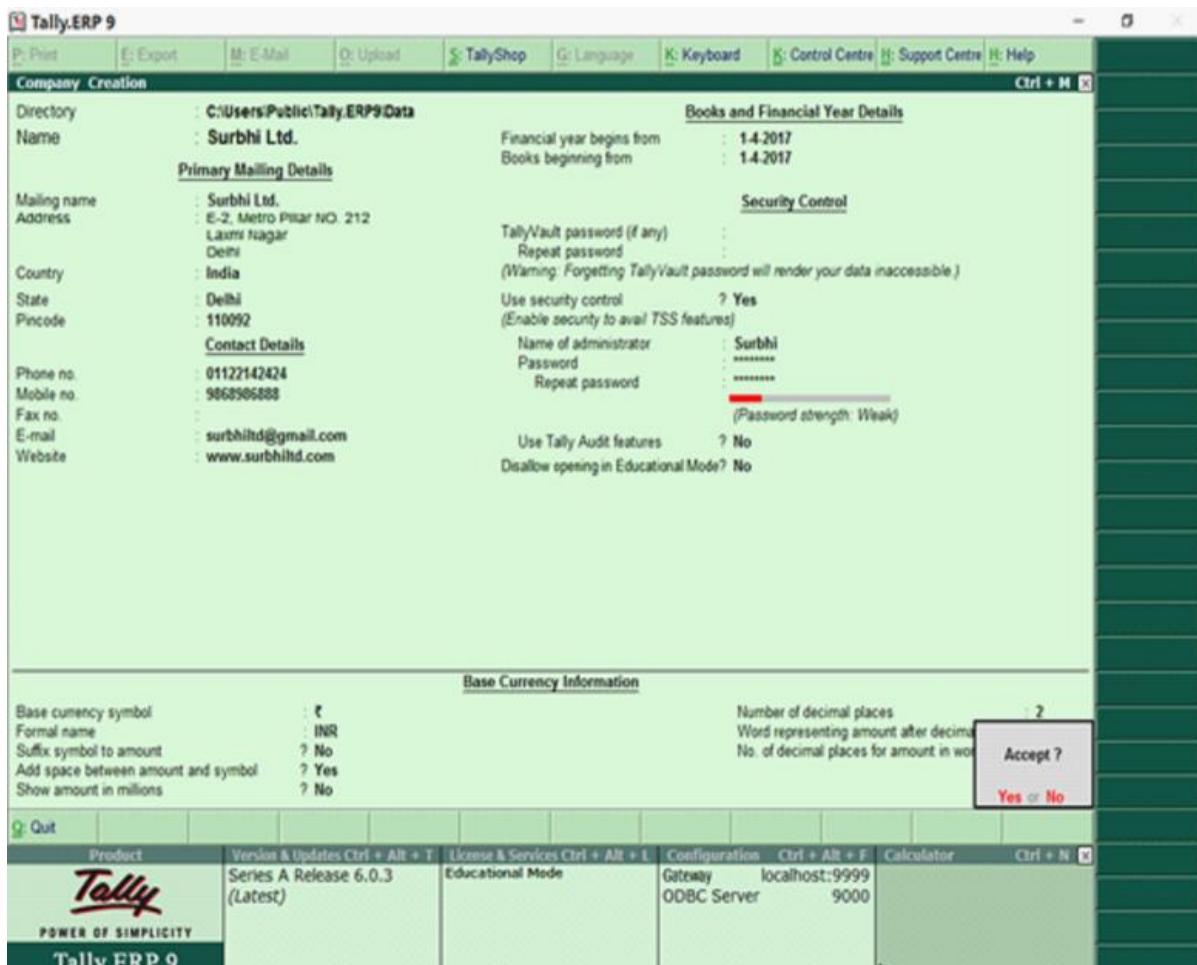
- Base Currency Symbol: The selection of country will define base currency symbol. In this example, we have selected India, so currency symbol would be of 'Rupee'
- Formal Name: The formal name of the currency like INR (Indian Rupee) will be displayed.
- Suffix Symbol to amount: This will allow putting symbol of currency after the amount.
- Add space between amount and symbol: This will allow space between amount and symbol. Show amounts in millions: This will allow the values of amount to be expressed in millions i.e. international system of numeration. Number of Decimal Places: By default, it will be set to 2 places only and Indian currency has 2 decimal places whereas some currency has 3 decimal places.
- It can go upto 4 decimal places. Words representing amount after decimal: By default, it will be automatically set according to currency.
- Number of Decimal places for amounts in words: Provide the number of decimal places for which printing is required. It can be equal to or less than number of decimal places field but can't be more than that.

After filling all the requisite details, the company creation screen will appear as follows shown in Figure. 3.3.



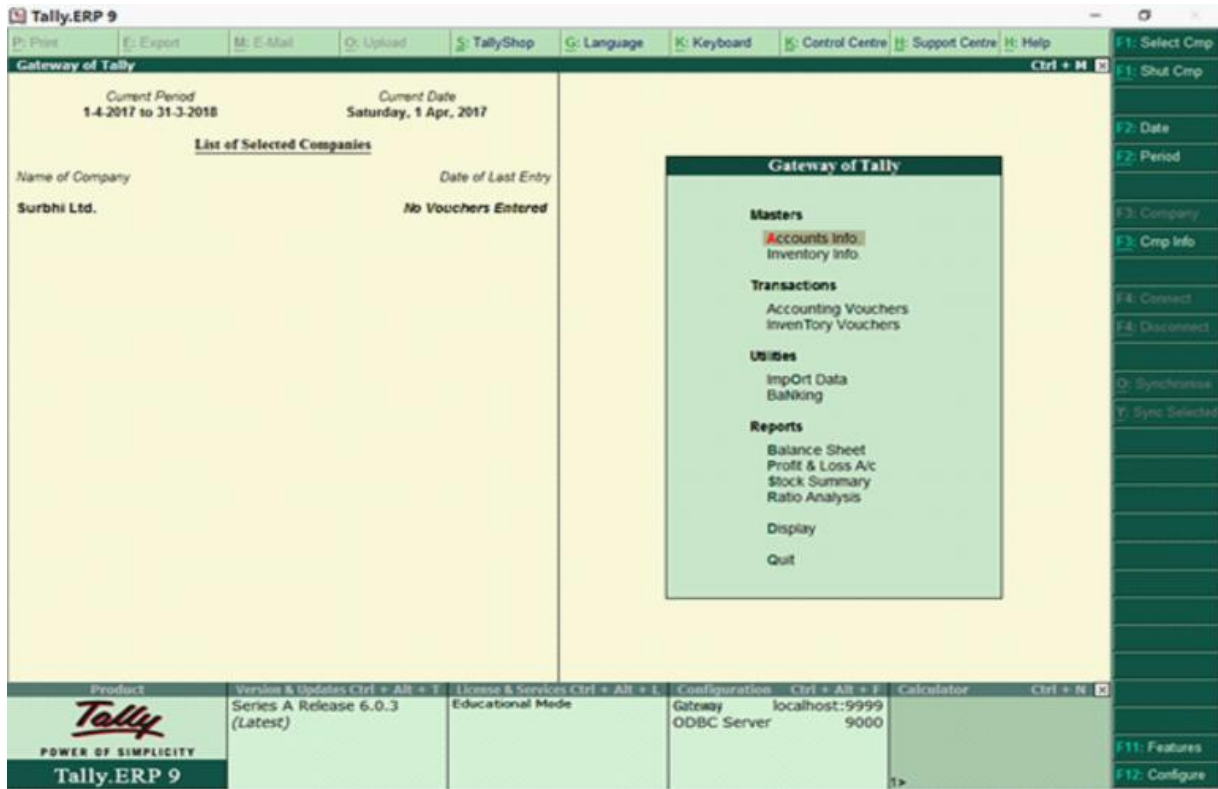
**Fig 4.3: Screen Appears After Filling the Details**

Once the details are filled and you press enter again, screen will display a box saying accept Yes or No? If all the details are correctly filled, then proceed to select 'yes' otherwise select 'No' as shown in Figure. 1.4.



**Fig 4. 4: Screen Appears to Accept After Filling All the Details**

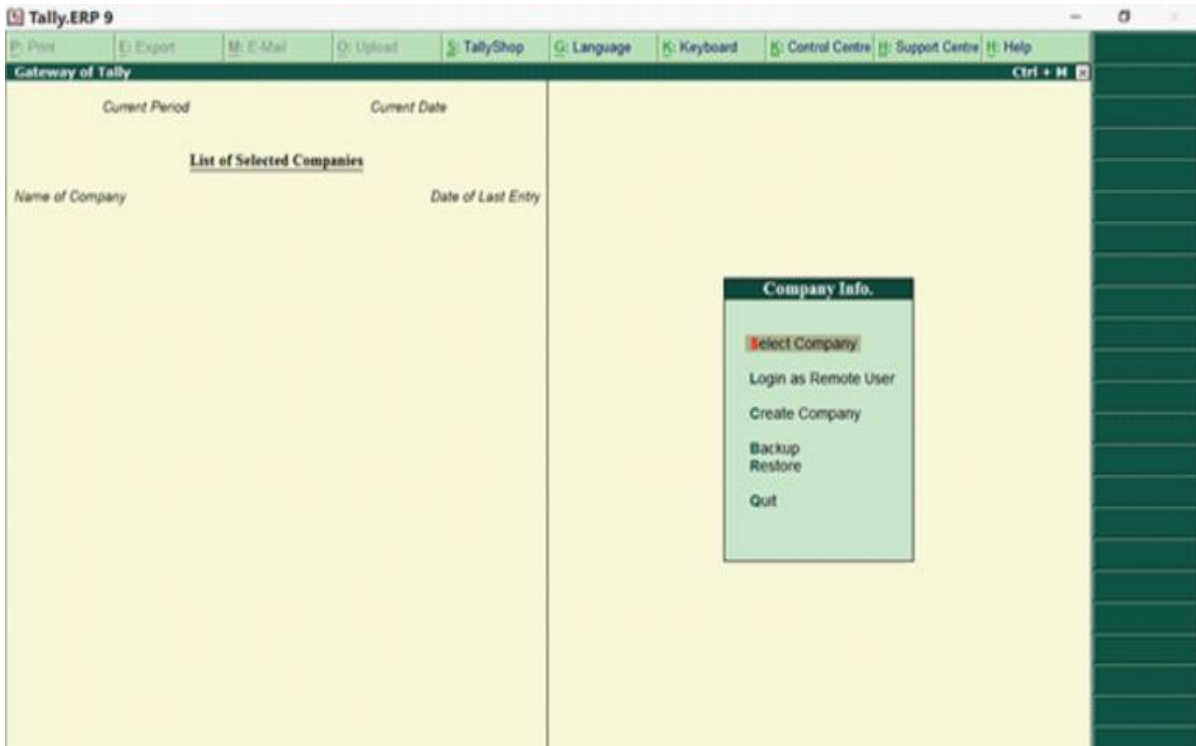
Once you select 'Yes', the company creation is complete, and the following screen will appear as shown in Figure. 3.5



**Fig 4.5: Screen Appears after Company Creation**

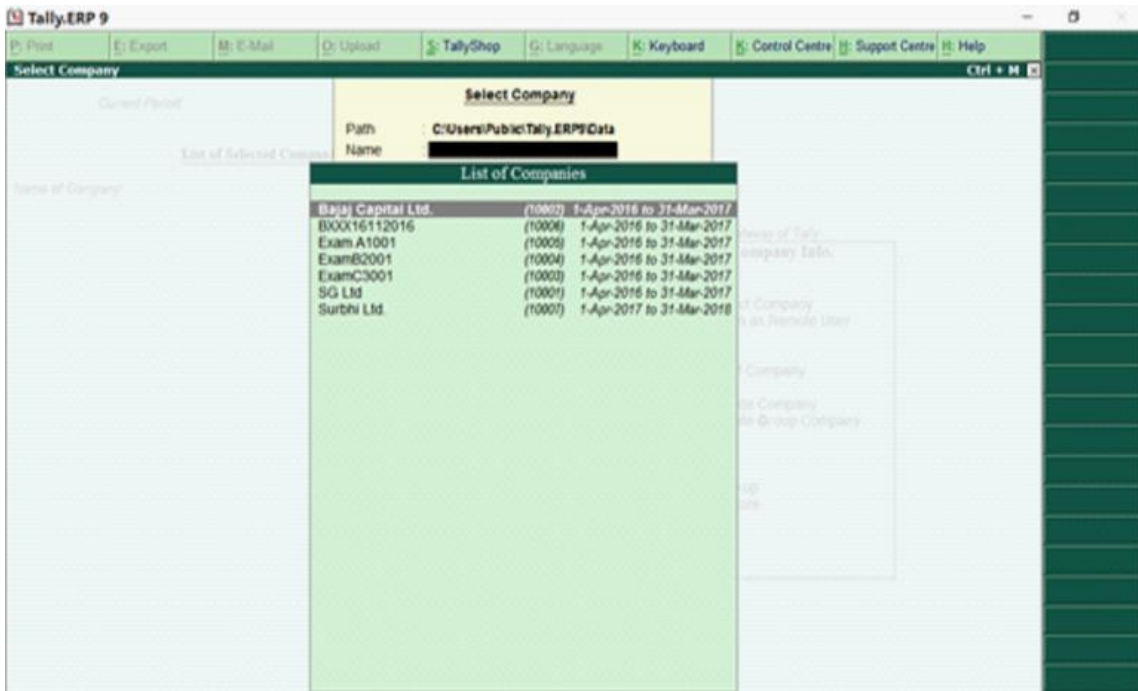
The Gateway of Tally will appear as above with current period and current date on left side pane of tally screen. Below that it will display the name of the company which is open. Since it is a new company created, therefore in date of last entry it is written no vouchers entered. In the right pane, you can see masters where ledger and group creation along with inventory are created. In transactions, vouchers are created related to accounting and inventory. Utilities consist of importing of data from outside and other banking related operations like cheque printing, deposit slip etc. Finally reports include all financial statements like balance sheet and profit and loss, stock summary and ratio analysis. Display includes trial balance, day book, cash/fund flow etc. and in the end finally quit where you will be able to close the tally programme if selected 'Yes'.

### Selecting a Company



**Fig 4.6: Choose The Selecting Company**

Once you click select company, the following screen will appear as shown in Figure. 3.7.

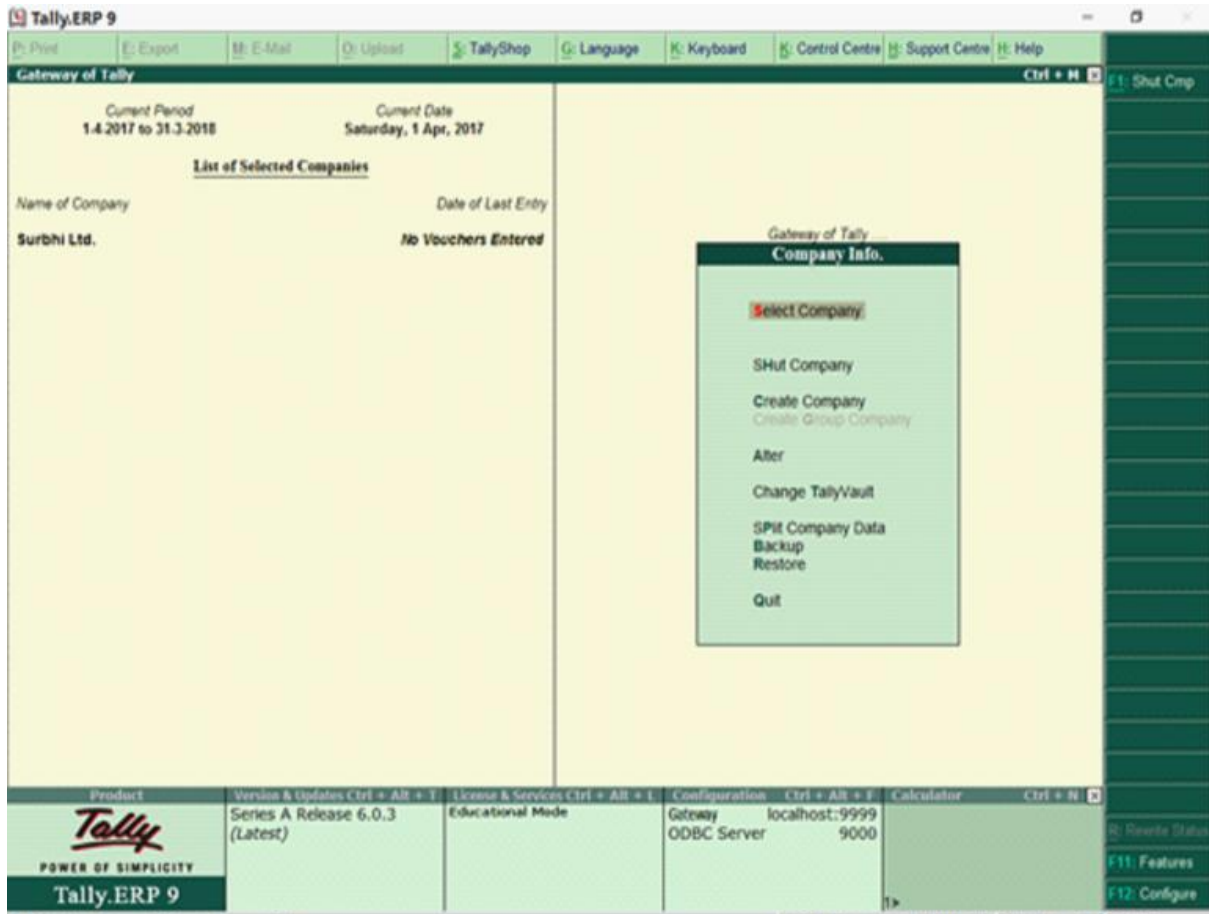


**Fig 4 .7: List of Companies Screen**

You can select the company which you want by using arrow key and then pressing enter or by clicking the company through mouse.

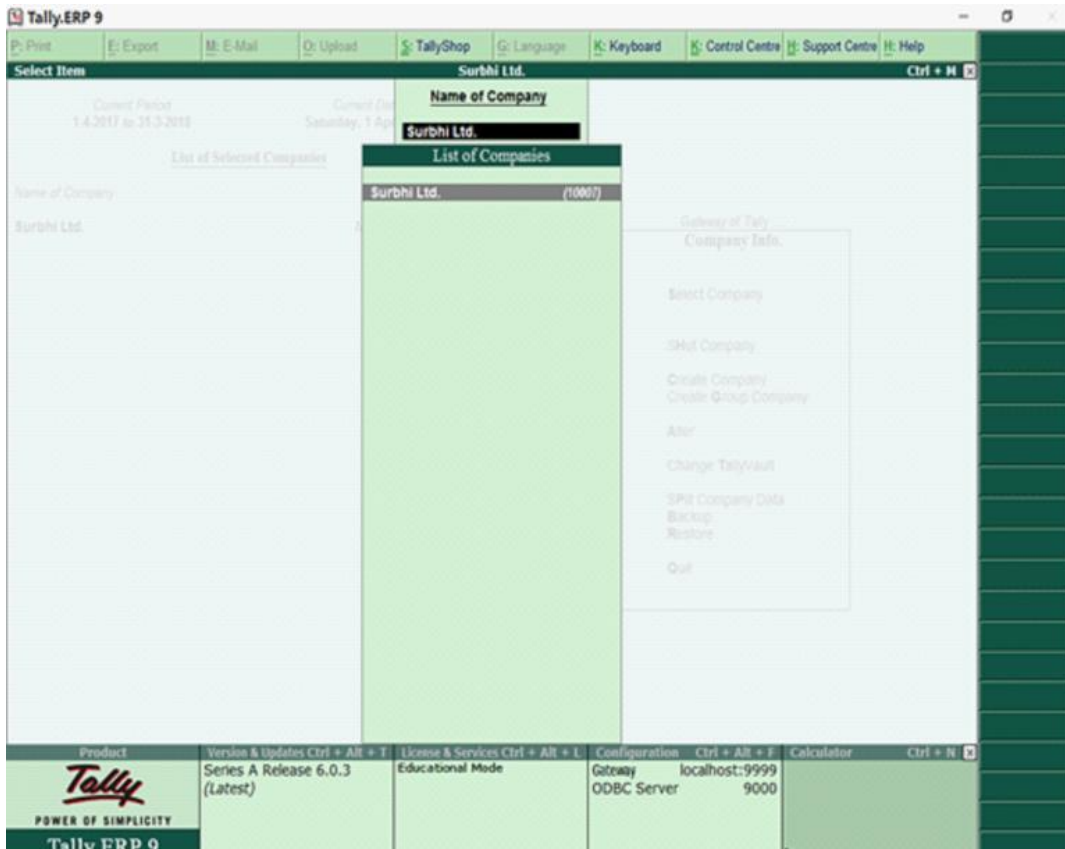
## Alteration of Details of a Company

Once company is created, you might need to update details related to company already created before. Again, go to gateway of tally, click company info, or Press F3, the following screen will appear as shown in Figure. 1.8.



**Fig 4.8: Gate Way Tally Screen**

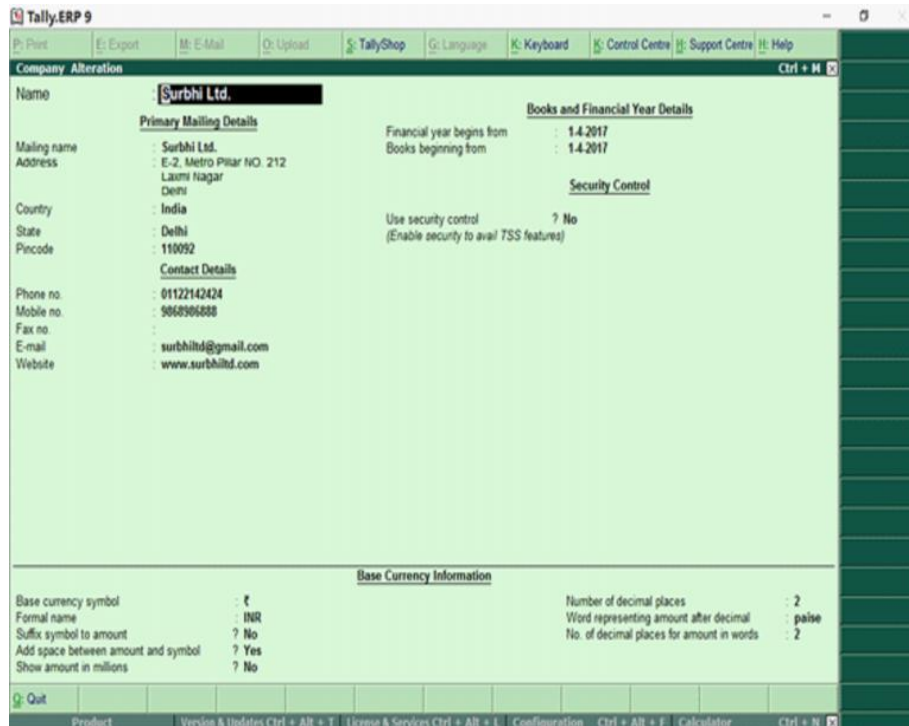
Once you click 'alter', the following screen shall appear as shown in Figure. 1.9.



**Fig 4.9: Company List Screen**

Select the company for which you wish to alter details and after selecting, the following screen will appear, and you can alter any details you want.

Select the company for which you wish to alter details and after selecting, the following screen will appear, and you can alter any details you want as shown in Figure. 1.10.



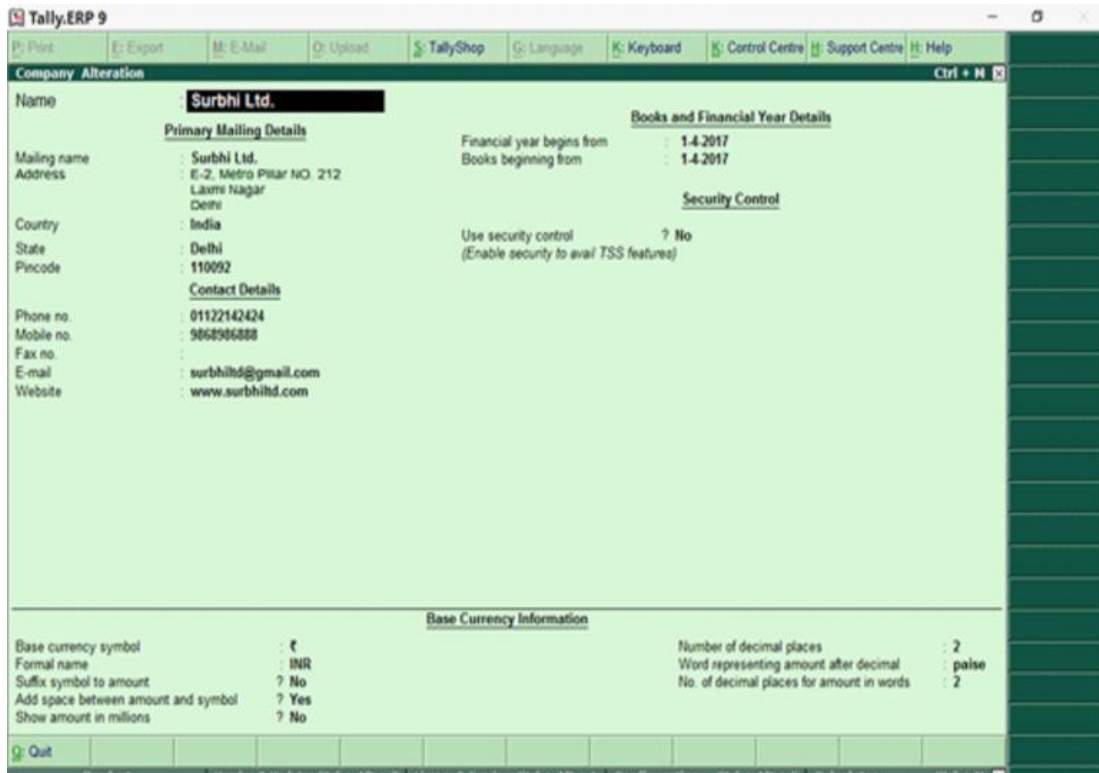
**Fig:4.10: Company Alteration**

After altering the same, once again a box will appear saying Accept 'Yes' or 'No'? Click yes' if alteration is done and click 'no' if you further wish to alter the details of the company.

### **Deletion of a Company**

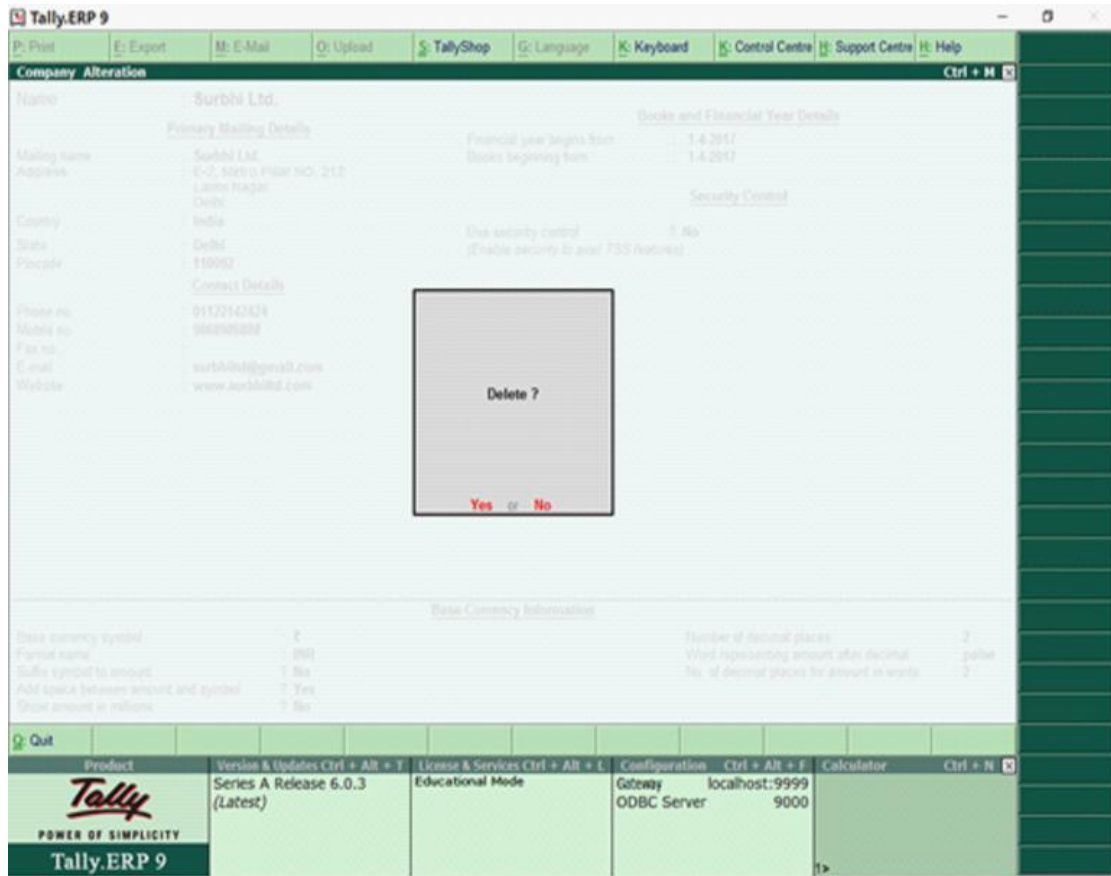
For deletion of a company, you must go to gateway of tally and then company info and then alter (same as alteration of details of a company). Once you click alter and select the company, the company details screen will appear as follows as shown in Figure. 1.11.





**Fig 4.11: Company Alteration Screen**

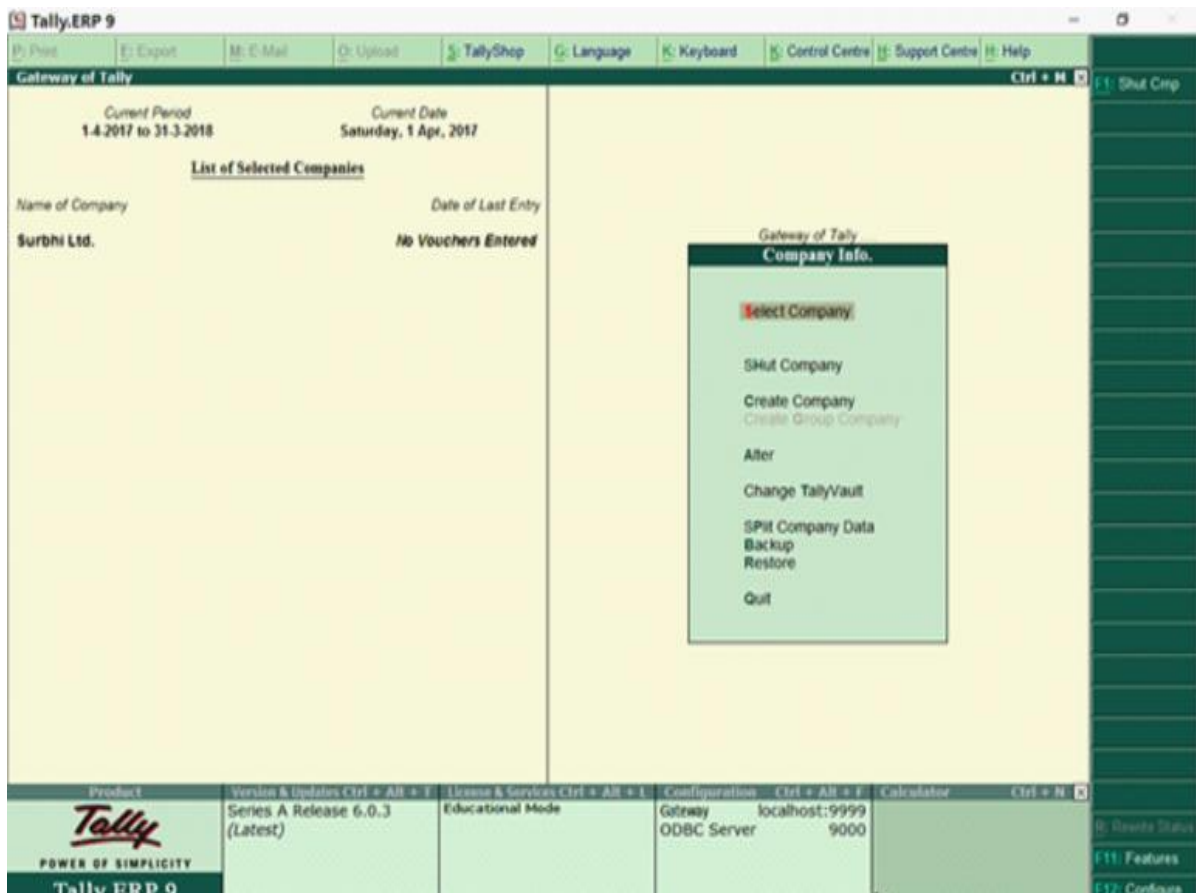
Now, Press Alt+ D and it will ask you to delete the company i.e., yes or No. If you wish to delete the company press 'Yes' or otherwise 'No'. Once you press Y or select 'Yes' through mouse click, company will be deleted, and the data will not be available as shown in Figure. 3.12.



**Fig 4.12: Delete Screen After Alteration**

### Shutting of a Company

Once company is created, if you want to shut the company which is already open, again go to gateway of tally, click company info or Press F3, the following screen will appear as shown in Figure. 3.13:



**Fig 4.13: Company Info Screen**

Press shut company field or Press H or Alt+ F1 or click F1: Shut Company on the right pane.

### Groups

Although Tally has pre-defined groups but if you wish to create new group to meet your specific business requirement, then you can create new group as well.

**Example:** Suppose you have raw material requirement which are met by suppliers in different parts of country and therefore, you need to categorize your creditors say as Creditors□□□□West or East.

Group - Creditors - East

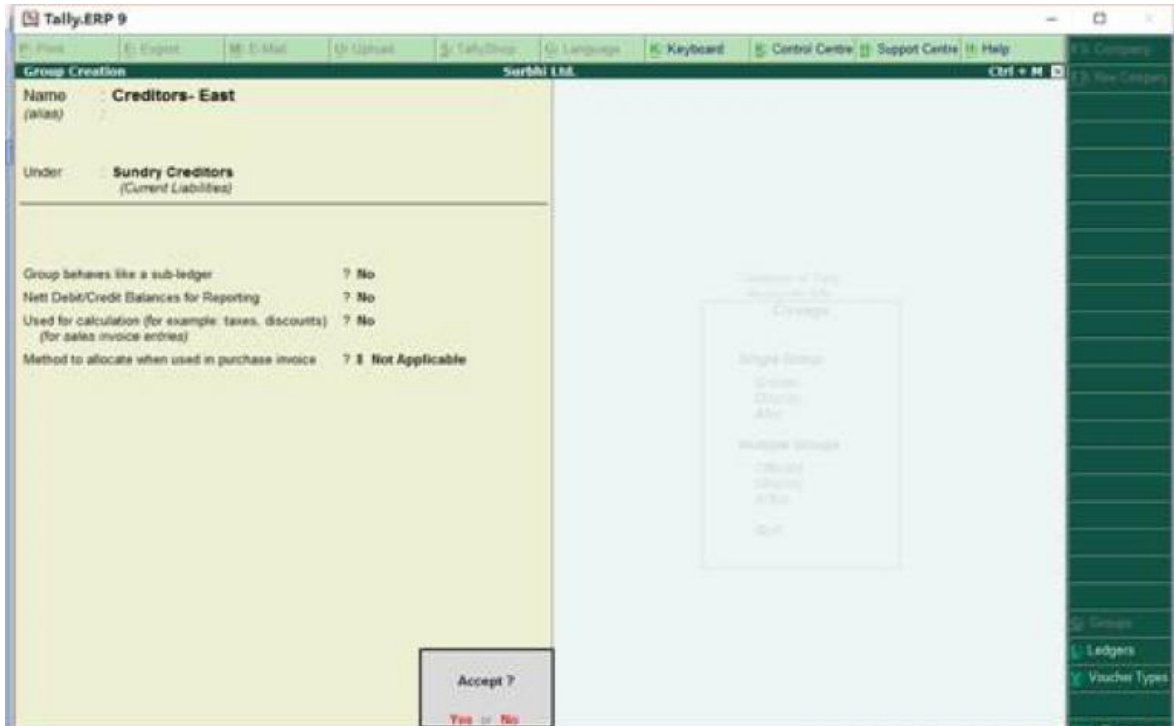
Under - Sundry Creditors

To create group

- Go to Accounts Info in masters in Gateway of Tally.
- Click Group.
- Now click single group – create.
- Type Creditors- East in Name.

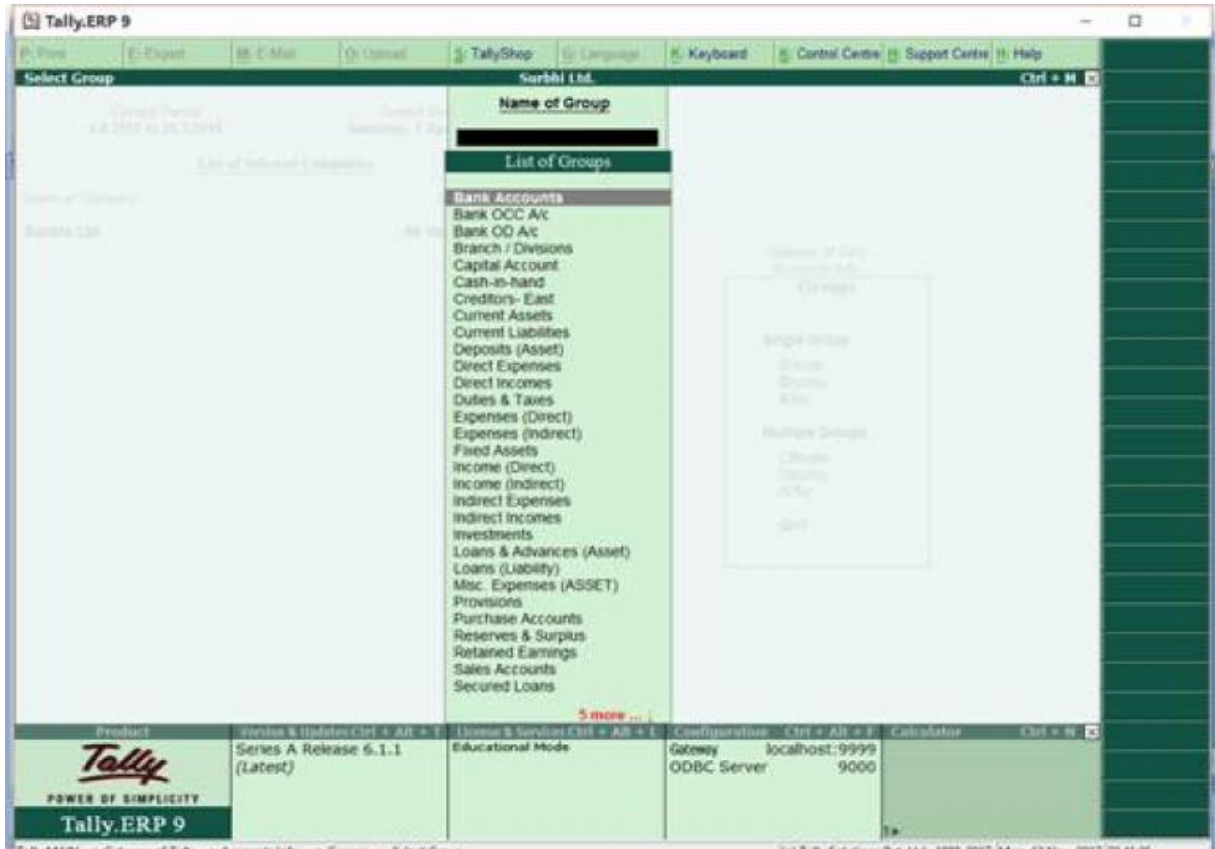
- Select Under- Sundry Creditors.
- Enter No to all other fields.
- Press Enter and Accept or Press Y.

Group has been created.



**Fig : 4.14: Group Creation Screen**

Once created, this will appear among list of groups.



**Fig .4.15: Company List Screen**

A group is the accounting group which consists of ledger accounts of similar nature. For example, Bank account group will have all bank accounts classified under it.

Tally has 198 predefined groups out of which 15 are main or primary groups and remaining 13 are sub-groups.

Out of 15 primary groups, 9 are related to balance sheet items and remaining 6 are Profit and loss related items.

All 28 predefined groups by going to Gateway of Tally Accounts Info. Groups Multiple Groups Display.

S.No.	Name of Group	Under
1.	Capital Account	Primary
2.	Loans (Liability)	Primary
3.	Current Liabilities	Primary
4.	Fixed Assets	Primary
5.	Investments	Primary
6.	Current Assets	Primary
7.	Branch / Divisions	Primary
8.	Misc. Expenses (ASSET)	Primary
9.	Suspense A/c	Primary
10.	Sales Accounts	Primary
11.	Purchase Accounts	Primary
12.	Direct Incomes	Primary
13.	Direct Expenses	Primary
14.	Indirect Incomes	Primary
15.	Indirect Expenses	Primary
16.	Reserves & Surplus	Capital Account
17.	Bank OD A/c	Loans (Liability)
18.	Secured Loans	Loans (Liability)
19.	Unsecured Loans	Loans (Liability)
20.	Duties & Taxes	Current Liabilities
21.	Provisions	Current Liabilities
22.	Sundry Creditors	Current Liabilities
23.	Stock-in-hand	Current Assets
24.	Deposits (Asset)	Current Assets
25.	Loans & Advances (Asset)	Current Assets
26.	Sundry Debtors	Current Assets
27.	Cash-in-hand	Current Assets
28.	Bank Accounts	Current Assets

**Fig 4.16: Multi Group Display Screen**

By default, Tally.ERP 9 provides a list of Groups called pre-defined groups. The user can create any number of Primary Groups and Sub Groups which are again grouped under a Primary Group/Sub Group. There are 28 pre-defined Groups in Tally.ERP 9, out of which 15 are Primary Groups and 13 are Sub-Groups.

#### **15 Primary Groups:**

- Branch / Divisions
- Capital Account
- Current Assets
- Current Liabilities
- Direct Expenses
- Direct Incomes
- Fixed Assets
- Indirect Expenses
- Indirect Incomes

- Investments
- Loans (Liability)
- Misc. Expenses (ASSET)
- Purchase Accounts
- Sales Accounts
- Suspense A/c

### **13 Sub Groups**

- Bank Accounts
- Bank OD A/c
- Cash-in-hand
- Deposits (Asset)
- Duties & Taxes
- Loans & Advances (Asset)
- Provisions
- Reserves & Surplus
- Secured Loans
- Stock-in-hand
- Sundry Creditors
- Sundry Debtors
- Unsecured Loans

Out of the 15 Primary Groups, 9 Primary Groups appear in the Balance Sheet which are Capital in nature and 6 Primary Groups appear under Profit & Loss Account which are Revenue in nature.

13 Sub Groups are classified under the 15 Primary Groups, and they appear in the Balance Sheet.

### **Pre-Defined Sub Groups**

- Bank Accounts – Current Assets

- Bank OD A/c – Loans Liability
- Cash-in-hand – Current Assets
- Deposits (Asset) – Current Assets
- Duties & Taxes – Current Liabilities
- Loans & Advances (Asset) – Current Assets
- Provisions Current – Current liabilities

## **Ledgers**

### **Single Ledger Creation**

The required date for ledger depends upon the features opted by us. The ledger screen would provide minimal information if the settings of accounting features (F11) of the company were "No" for all options.

Tally automatically creates two ledger accounts, i.e., Profit & Loss account and Cash in Hand account. As per the requirements of the organisation, we can create the ledger accounts. In Tally, we cannot create another profit & loss account. We can create any number of cash accounts with different names.

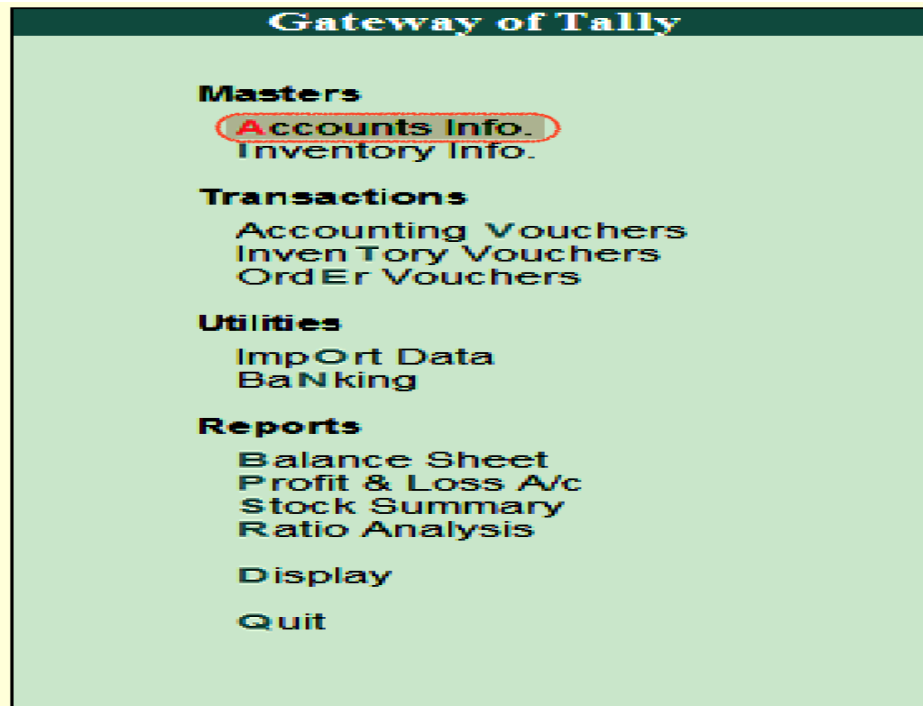
### **How to Create Ledger Account in Tally?**

Step 1: Use the following path to create ledger accounts in Tally.

Gateway of Tally → Accounts Info → Ledgers → Single Ledger → Choose Create.

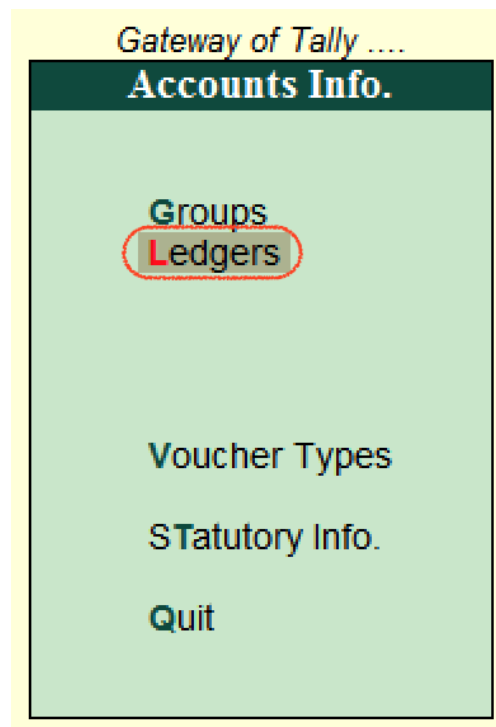
Step 2: Click on Accounts Info under Gateway of Tally screen.





**Fig 4.17: Gate Way of Tally Screen**

Step 3: Choose Ledger option under Account Info.



**Fig 4.18: Accounts Info Screen**

Step 4: Under Single Ledger, choose the option Create.

Step 5: Update the following details on Ledger creation screen.

Name: Specify the unique name of the ledger account.

Under: Under List of Groups, choose the group name that pertains to the ledger account.

**Ledger Creation** Ctrl + M

Name : **Axis Bank Account** **Total Opening Balance**  
(alias) : Axis **2,00,000.00 Dr**

**Under** : **Bank OD A/c**  
(Loans (Liability))

**Bank Account Details**

Set OD limit :  
A/c holder's name :  
A/c no. :  
IFS code :  
Bank name : **Not Applicable**  
Branch : **Vijayawada**  
BSR code :

**Bank Configuration**

Set cheque books ? No  
Set cheque printing configuration? No

**Mailing Details**

Name Address : **Axis Bank Account**  
Country : **India**  
State : **Andhra Pradesh** Pincode :  
Contact person : **Adarsh Kumar**  
Phone no. :  
Mobile no. :  
E-mail :  
CC to (if any) :  
Website :  
GSTIN/UIN :

**Tax Registration Details**

Set/alter service tax details ? No

**Accept ?**  
**Yes or No**

**Opening Balance ( on 1-Apr-2018 ) : 2,00,000.00 Dr**

Quit

**Q: Quit A: Accept D: Delete** Ctrl + N

**Fig 4.19: Ledger Creation Screen**

In Tally, choose the "Yes" option under Accept to save the configured details.

### **How to Display Single Ledger in Tally**

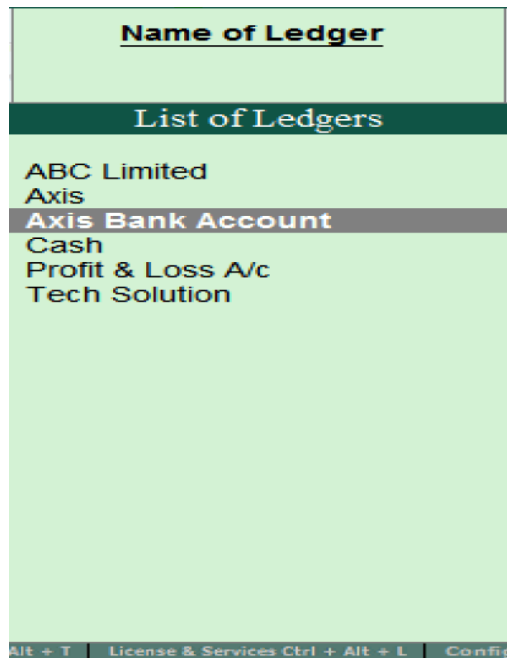
In Tally, after the creation of a single ledger account, we can view the details of the ledger by choosing the display option.

Refer the following steps to show how to display single ledger:

Step 1: Use the following path to display the single ledger in Tally.

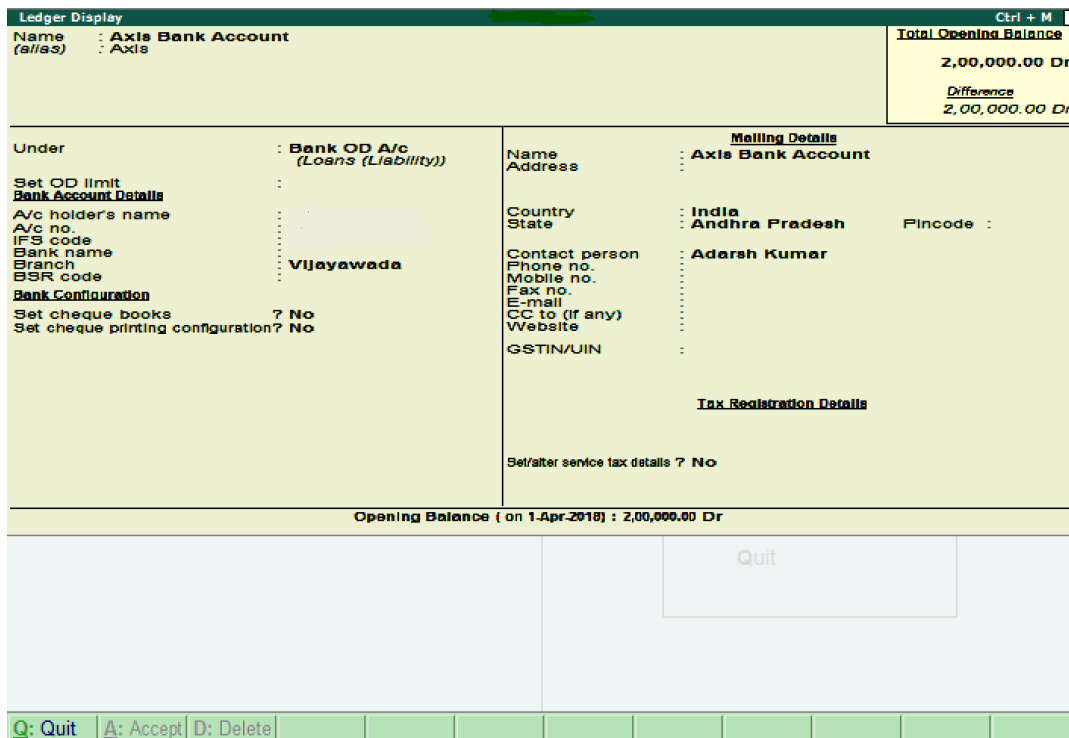
Gateway of Tally → Accounts Info → Ledgers → Single Ledger → Choose Display.

Step 2: Under List of Ledgers, choose the ledger account.



**Fig 4.20: List of Ledger Screen**

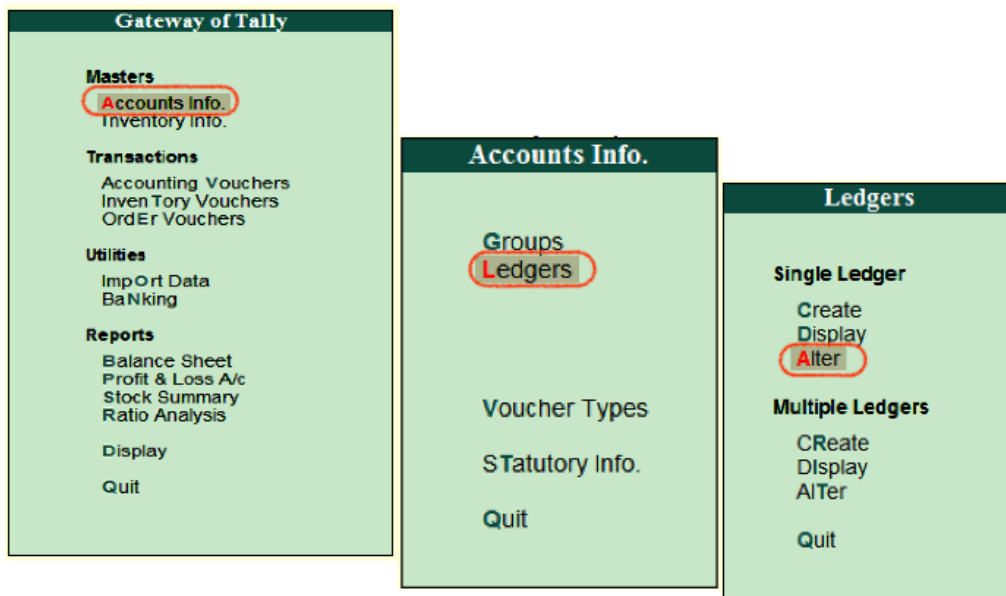
Step 3: Now, the following screen shows the complete details of ledger accounts.



**Fig 4.21: Ledger Display Screen**

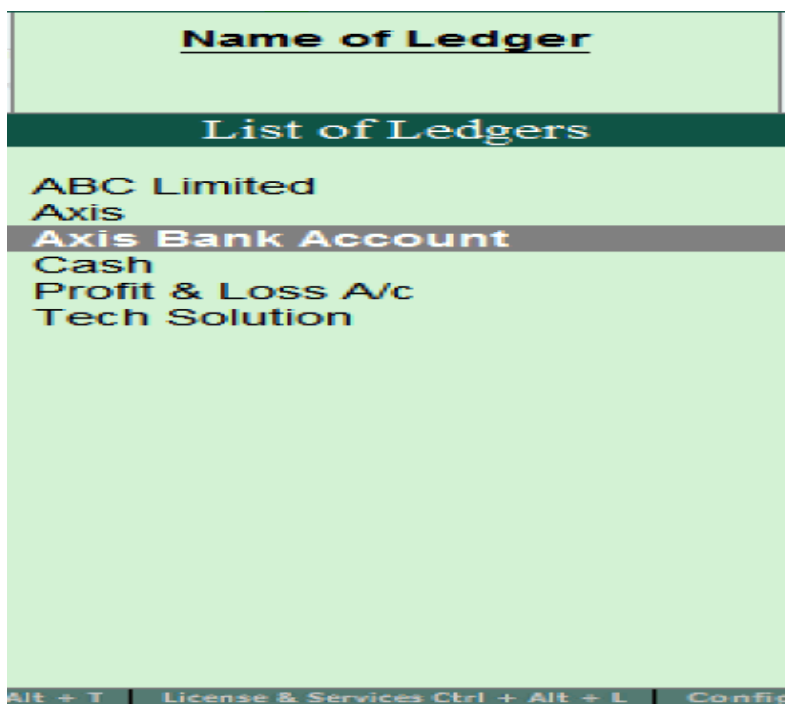
### How to Alter Single ledger in Tally?

Step 1: Use the following path to alter the single ledger in Tally.



**Fig 4.22: Alter the Single Ledger**

Step 2: Under the List of Ledgers, choose the ledger account option.



**Fig 4.23: List of Ledger Screen**

In Tally ERP 9, now modify/ alter the required details for ledger account. To save the changed details, click on A: Accept.

Ledger Alteration		Ctrl + M	
Name : <b>Axis Bank Account</b>		<b>Total Opening Balance</b>	
(alias) : <b>Axis</b>		2,00,000.00 Dr	
		<b>Difference</b>	
		2,00,000.00 Dr	
<b>Under</b> : <b>Bank OD A/c (Loans (Liability))</b> Set OD limit : <b>Bank Account Details</b> A/c holder's name : A/c no. : IFS code : Bank name : <b>Not Applicable</b> Branch : <b>Vijayawada</b> BSR code : <b>Bank Configuration</b> Set cheque books ? <b>Yes</b> Set cheque printing configuration? <b>No</b>		<b>Mailing Details</b> Name : <b>Axis Bank Account</b> Address : Country : <b>India</b> State : <b>Andhra Pradesh</b> Pincode : Contact person : <b>Adarsh Kumar</b> Phone no. : Mobile no. : Fax no. : E-mail : CC to (if any) : Website : GSTIN/UIN :  <b>Tax Registration Details</b> Set/alter service tax details ? <b>No</b>	
		<b>Accept ?</b>	
		<b>Yes or No</b>	
Opening Balance ( on 1-Apr-2018) : 2,00,000.00 Dr			
Quit			
Q: Quit    A: Accept    D: Delete			
Ctrl + N			

**Fig 4.24: Ledger Alteration Screen**

Let us create ledgers for company created.

Ledger: Surbhi Capital Account

Group: Capital Account

Amount: Rs. 5, 00,000

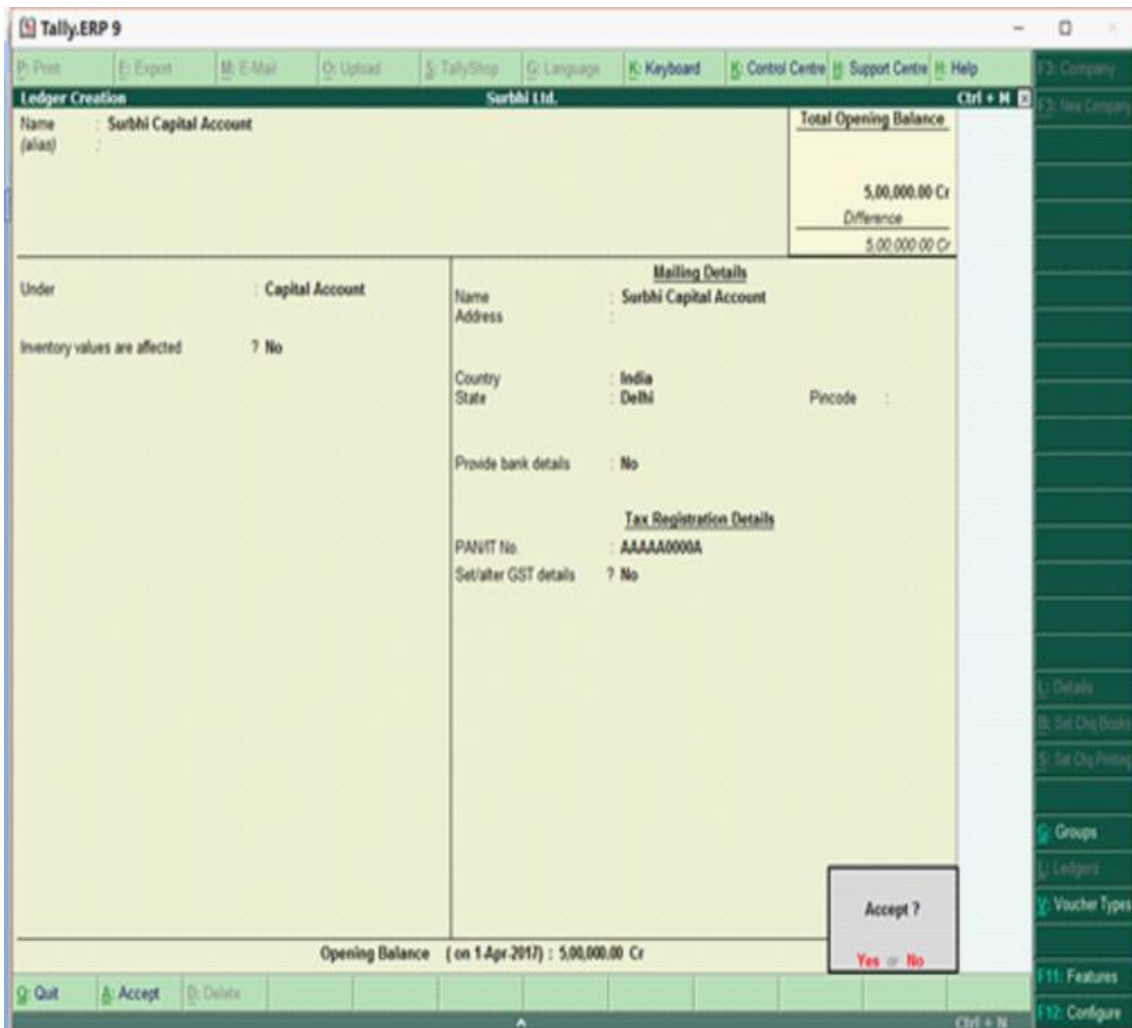
Ledger: Building

Group: Fixed Assets

Amount: Rs. 19, 00,000

Creating Surbhi Capital A/c

- Go to Accounts Info in masters in Gateway of Tally.
- Click Ledgers
- Now click single ledger - create.
- Type Surbhi Capital Account in Name
- Select Under - Capital Account
- Enter 5,00,000 in opening balance on 1-Apr-19017.



**Fig 4.25: Ledger Creation Screen**

Once you put opening balance, press enter, and a box will appear asking you to accept. Click 'Yes' and your ledger will be created. The screen shows that the ledger has been created:

### **Multiple Ledger Creation**

Multiple Ledger creation will enable to create same class of ledgers quickly.

As creating single ledger takes time.

Let us create ledger account of Furniture and Plant & Machinery.

Ledger: Furniture A/c

Group: Fixed Assets

Amount: Rs. 50,000

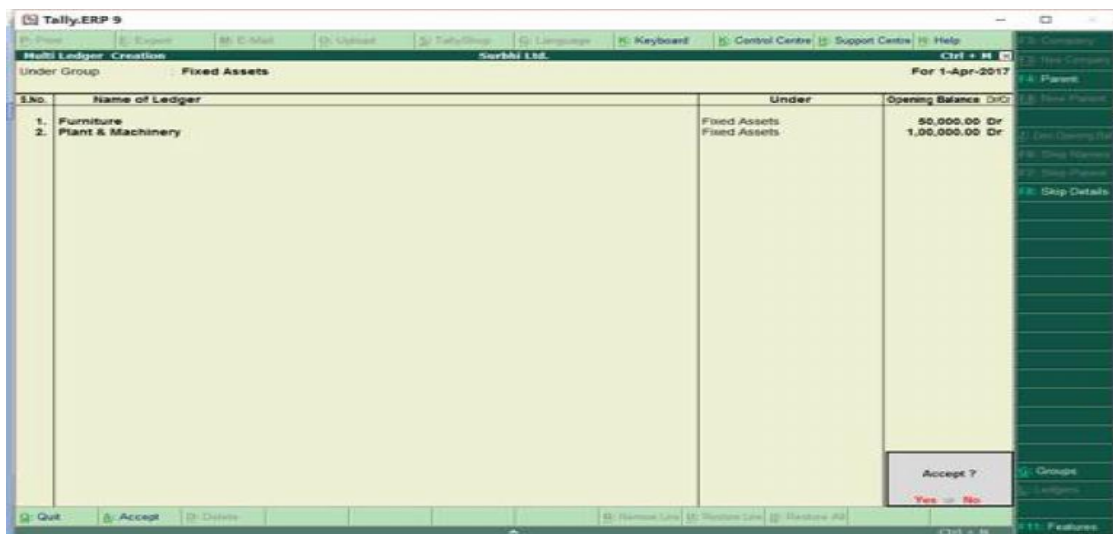
Ledger: Plant & Machinery A/c

Group: Fixed Assets

Amount: Rs. 1, 00,000

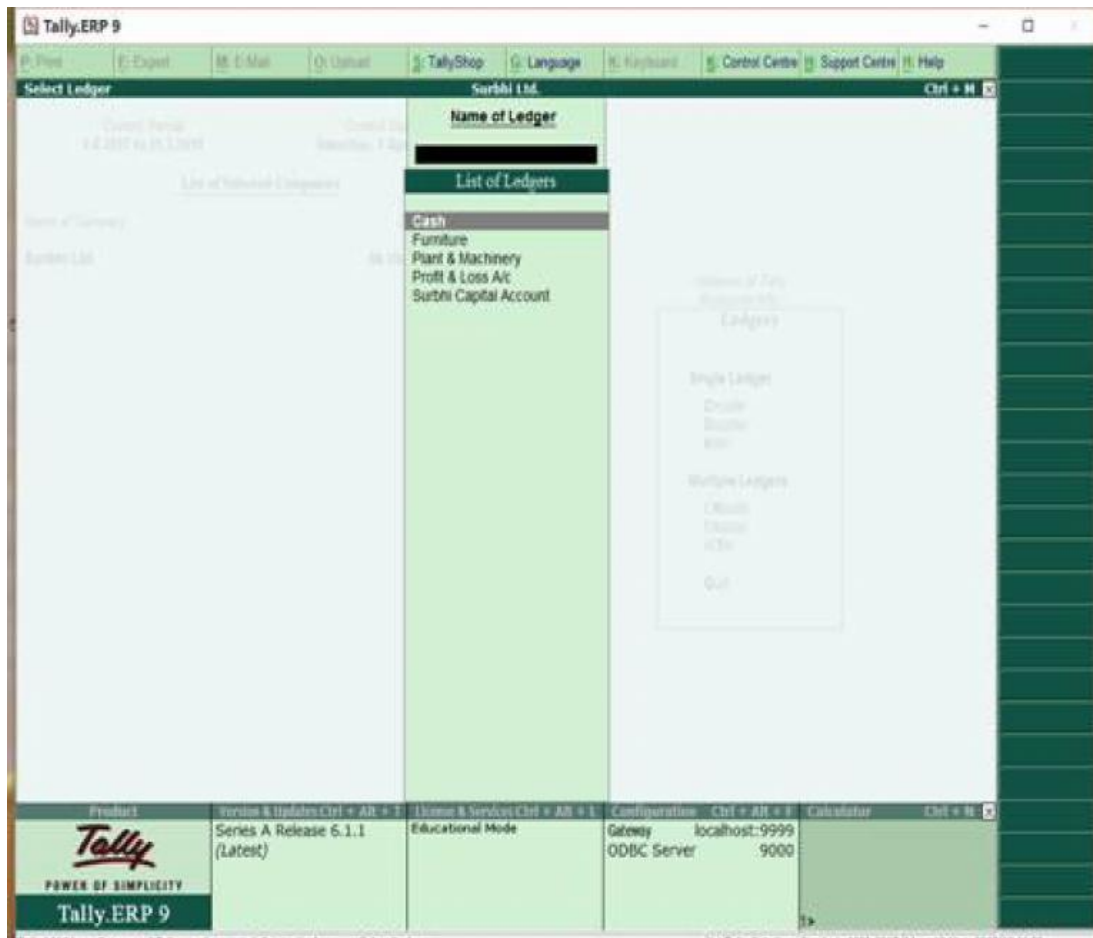
## Creating Both Ledgers

- Go to Accounts Info in masters in Gateway of Tally.
- Click Ledgers
- Now click multiple ledger – create.
- Select Under- Fixed Asset Account
- Type Furniture Account in Name of Ledger, Press Enter (Fixed Asset group will come automatically).
- Enter 50,000 in opening balance on 1-Apr-19017 and press enter.
- Type Plant & Machinery in Name of Ledger, Press Enter (Fixed Asset group will come automatically).
- Enter 1, 00,000 in opening balance on 1-Apr-19017.
- Press Enter and again press enter.
- Now, a box will appear asking you to Accept ‘Yes’.



**Fig 4.26: Multi Ledger Creation**

Once you accept, both the ledgers will be created.



**Fig 4.27: Select Ledger Screen**

### Altering and Displaying Ledger

**Example:** To change Building A/c ledger name as ‘Land & Building’

- Go to Accounts Info in masters in Gateway of Tally.
- Click Ledgers.
- Now click single ledger – alter.
- Select Building A/c from List of Ledgers.
- Change Building A/c to Land & Building A/c.
- Press Y or Accept Yes.

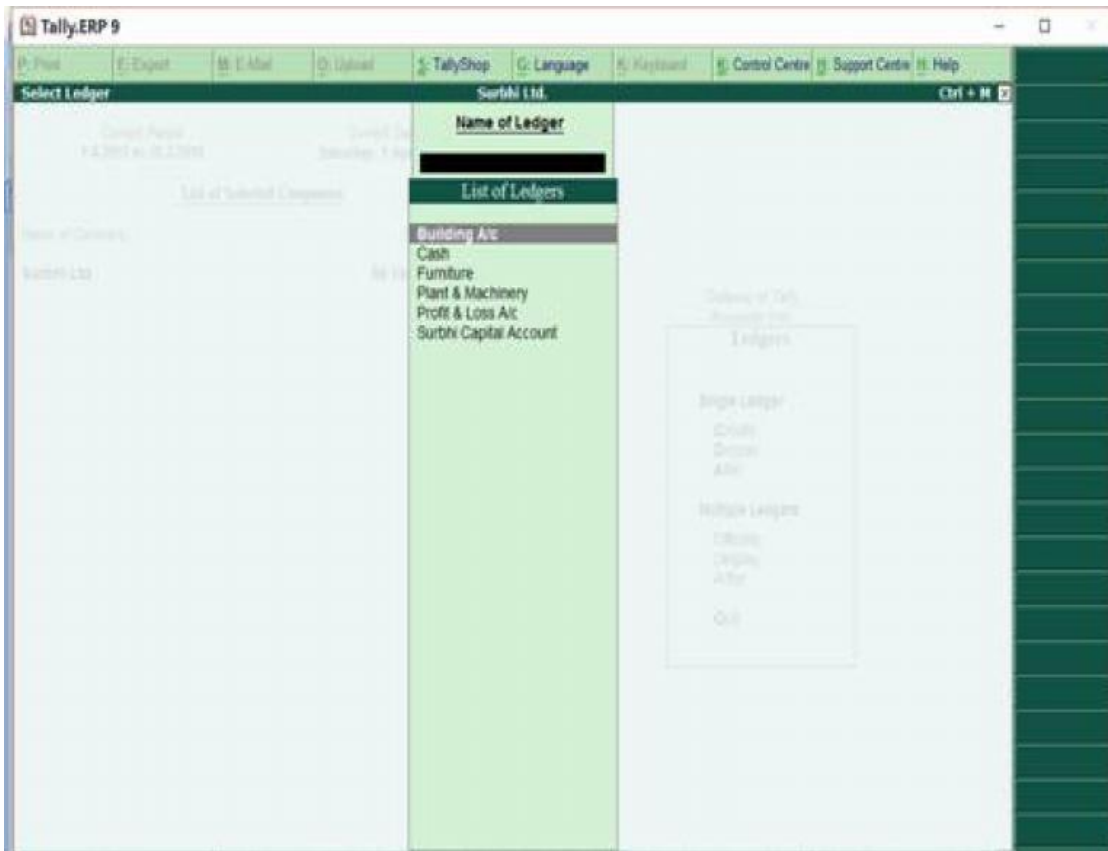
**Please note:** Even if ledgers are created in multiple, but alteration will always be done in single mode only.

Display will enable to view the ledger accounts.

- Go to Accounts Info in masters in Gateway of Tally.

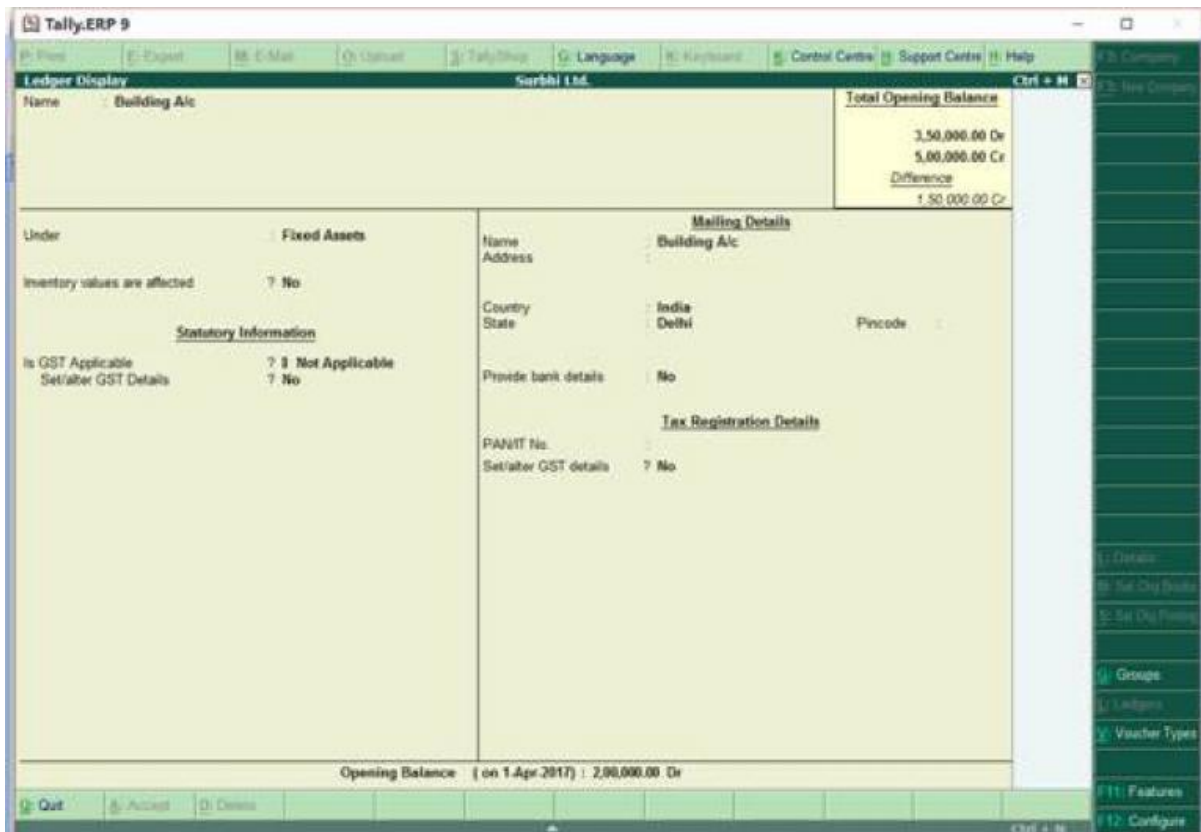


- Click Ledgers.
- Now click single ledger – Display.



**Fig 3.28: Select Ledger Screen**

Once you click single ledger display, the screen will appear and after selecting the ledger account, the ledger display will open. You can only view the ledger as appeared, but no change can be done in the ledger account.



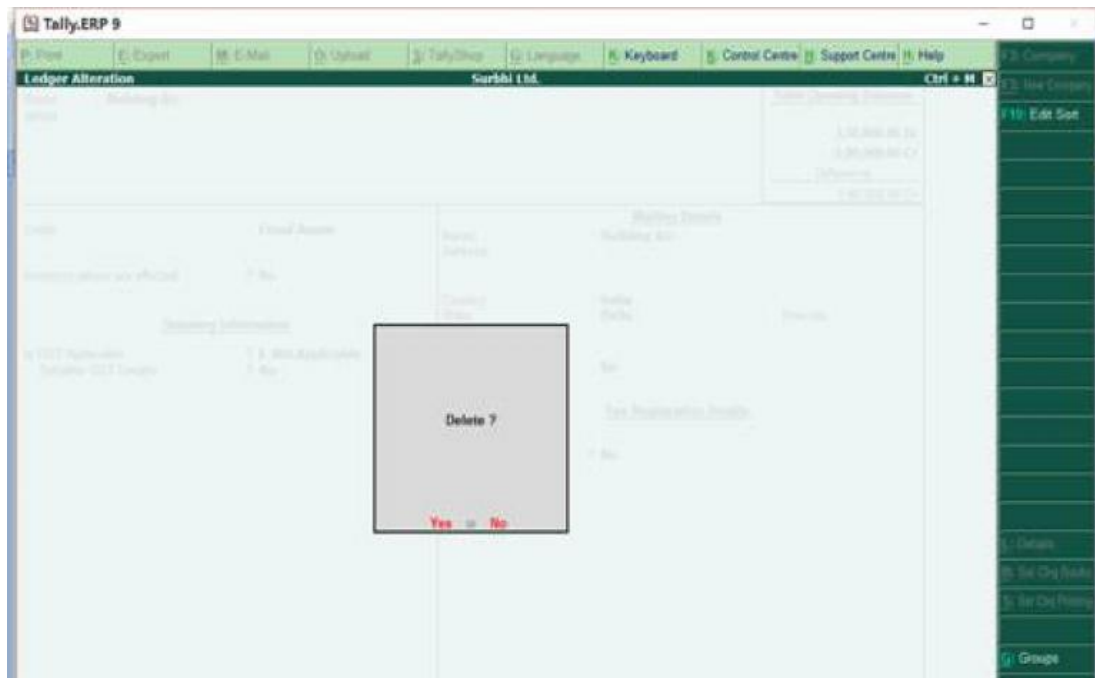
**Fig 4.29: Ledger Display Screen**

### Deleting Ledger

To delete a ledger:

- Go to Accounts Info in masters in Gateway of Tally.
- Click Ledgers.
- Now click single ledger – alter.
- Select Building A/c from List of Ledgers.
- Press Alt + D.
- Press Y or Accept Yes.

Ledger will be deleted as appeared.



**Fig 4.30: Delete Screen After Ledger Alteration**

To delete a ledger once accounting entry has already been entered in journal, you will need to delete journal entry first and then only you will be able to delete the ledger.

### **Pre-defined Vouchers**

Tally comprises of the following predefined Vouchers, to suit different business requirements for recording various transactions. Tally also allows you to create user-defined Vouchers (Voucher Types) as per your requirements.

- Contra Voucher
- Payment Voucher
- Receipt Voucher
- Journal voucher
- Sales Voucher / Invoice
- Debit Note Voucher
- Credit Note Voucher
- Purchase Voucher / Invoice

### **Contra Voucher**

As per the Accounting Principles, a Contra entry is a transaction involving transfer of cash between one Cash A/c to another or one Cash A/c to another Bank A/c i.e., is a transaction indicating transfer of funds from:

- Cash account to Cash account
- Cash account to Bank account
- Bank account to Cash account
- Bank account to Bank account

#### **To View the Contra Voucher Entry Screen**

- Go to Gateway of Tally > Accounting Vouchers.
- Select F4: Contra from the Button Bar or press F4.

#### **Recording Contra Entry in Single Entry Mode**

The Contra Voucher can be recorded using Single entry mode or Double Entry mode. To toggle between Single Entry and Double Entry mode, we need to change the setting Use Single Entry mode for Pymt/Rcpt/Contra to Yes/No Configure.

#### **To view Contra Voucher Creation Screen in Single Entry Mode**

Go to Gateway of Tally > Accounting Vouchers > Select F4: Contra

For example, to transfer funds from Cash Account to Bank Account:

- Debit the Bank Account.
- Credit the Cash Account.

The entry will be displayed as shown:

Accounting Voucher Creation		ABC Company	Ctrl + M
Contra No. 1		2-Apr-2012 Monday	
Account : HDFC Bank Cur Bal: 15,000.00 Dr			
Particulars	Amount		
<b>Cash</b> Cur Bal: 90,000.00 Dr	10,000.00		
<b>Petty Cash</b> Cur Bal: 45,000.00 Dr	5,000.00		
Narration:			15,000.00

**Fig 4.31: Accounting Voucher Creation Screen**

In the Bank Allocation screen, users can select the mode of transaction from the List of Transaction Type as shown:

Bank Allocations		ABC Company	Ctrl + M
Contra No. 9		List of Transaction Type	
Account : Hdfc Bank Cur Bal: 77,000.00 Dr		ATM	
Particulars		Cash	
Cash		Cheque/DD	
Bank Allocations for : Hdfc Bank For: 15,000.00		e-Fund Transfer	
Transaction Type	Amount		
Cash	15,000.00		
Inst. date : 4-Aug-2015			
Bank :			
Q: Quit			

**Fig 4.32: Bank Allocation Screen**

When Cash is selected as a Transaction Type, you can specify the cash denominations for the transaction in the voucher entry screen, if the option Show Cash Denomination Details set to Yes in F12: Configuration (By default, this option is enabled)

<u>Contra Configuration</u>	
Skip Date field during creation(faster entry)	? Yes
Use single entry mode for pymt/rcpt/contra	? Yes
Use Cr/Dr instead of To/By during entry	? Yes
Warn on negative cash balance	? Yes
Show ledger current balances	? Yes
Show balances as on voucher date	? No
Show Ledger Final balances	? No
Print Cheque after Saving Voucher	? Yes
Confirm each cheque before print	? Yes
Show Cash Denomination Details	? <b>Yes</b>
<u>Statutory Options</u>	
<u>Bank Allocations Configuration</u>	
Use defaults for bank allocations	? No
Use Auto Cheque Numbering	? Yes
Allow Selection of Cheque Range	? Yes
Show remarks	? Yes
Show E-mail	? No

**Fig 4.33: Setting Configuration Screen**

During Bank Allocation, a new screen – Cash Denominations will appear for Cash Transaction Type.

Cash Denominations		ABC Company	Ctrl + M
Contra No 9		4-Aug-2015 Tuesday	
Account: Hdfc Bank			
Cur Bal: 77,000.00 Dr			
Particulars		Amount	
Cash		10,000.00	
Bank Allocations for: Hdfc Bank			
For: 15,000.00		5,000.00	
Transaction Type		Amount	
Cash		15,000.00	
Inst. date: 4-Aug-2015			
<b>Hdfc Bank</b>			
Denominations For: 15,000.00			
Denominations		Amount	
2000 X	5	10,000.00	
1000 X	5	5,000.00	
500 X			
100 X			
50 X			
20 X			
10 X			
5 X			
2 X			
1 X			
Others		15,000.00	
<b>Total</b>		<b>15,000.00</b>	
Difference			
Q: Quit			

**Fig 4.34: Cash Denominations Screen**

The cash denominations entered here will be captured in the Cash Denomination details while printing a Cash Deposit Slip for this transaction.

The Difference field will give the difference between the total and the sum of amounts specified for the Denominations.

Advantages of Single-Entry Mode

- Faster data entry.
- When there is a Single Debit and Multiple Credits in the entry.

### Recording Contra Entry in Double Entry Mode

The Contra voucher can be recorded using Double Entry mode where we have the option to select multiple Debits and multiple Credits. To select multiple Debit and Credit ledgers in the Double entry mode, set Use Single Entry Mode for Payment/Receipt/Contra to No in F12: Configure.

### To Enter in Double Entry Mode

- Go to Gateway of Tally > Accounting Vouchers.
- Select F4: Contra from the Button Bar or press F4.

If you record the same entry (passed in single entry mode) in Double Entry Mode, it will be displayed as shown:

Accounting Voucher Creation		National Traders	Ctrl + M
<b>Contra</b> No. 1		2-Apr-2012 Monday	
Particulars	Debit	Credit	
Dr <b>HDFC Bank</b>	15,000.00		
<i>Cur Bal: 30,000.00 Dr</i>			
<b>ABC Company</b> 15,000.00 Dr			
National Traders      Cash		15,000.00	
<i>Inst. No. :                      Inst. Date : 2-Apr-2012      Bank : HDFC                      Branch : J.P Nagar</i>			
Cr <b>Cash</b>		10,000.00	
<i>Cur Bal: 90,000.00 Dr</i>			
Cr <b>Petty Cash</b>		5,000.00	
<i>Cur Bal: 40,000.00 Dr</i>			
Narration:		15,000.00	15,000.00

Fig 4.35: Accounting Voucher Creation Screen

Like the Contra entry in Single Entry Mode,

In the Bank Allocation screen, users can select the mode of transaction from the List of Transaction Type as shown:

Bank Allocations		ABC Company	Ctrl + M
Contra	No 10		4-Aug-2015 Tuesday
Particulars		Debit	Credit
Cr Cash			10,000.00
Cur Bal 1,00,977.19 Dr			
Cr Petty Cash			5,000.00
Bank Allocations for : Hdfc Bank		15,000.00	
For: 15,000.00			
Transaction Type		Amount	
Cash			15,000.00
Inst. date	: 4-Aug-2015		
Bank	:		
		15,000.00	15,000.00
Q: Quit			

**Fig 4.36: Bank Allocation Screen**

By default, Cheque /DD will be selected. When Cash is selected as the Transaction Type, a new screen – Cash Denominations.

The cash denominations entered here will be captured in the Cash Denomination details while printing a Cash Deposit Slip for this transaction.

The Difference field will give the difference between the total and the sum of amounts specified for the Denominations.

### **Payment Voucher**

Payment voucher is used to account all the payments made by the company by way of Cash/Bank.

Payment voucher can be passed using Single Entry or Double Entry mode by configuring the setting Use Single Entry mode for Pymt/Rcpt/Contra in F12 configuration.

Payment voucher is used to record all bank and cash payments. For example, a company settles a creditor's bill by cheque.

Go to Gateway of Tally > Accounting Vouchers > F5: Payment.



Payment voucher can be passed using Single Entry or Double Entry mode by configuring the setting Use Single Entry mode for Pymt/Rcpt/Contra in F12: Configure.

For example: The company settles expenses of Conveyance, Staff Welfare, Postage and Stationery through Cash in one voucher. This entry can be passed in single entry mode where you will be crediting the Cash Ledger only once and the entry appears as shown below:

Accounting Voucher Creation      ABC Company      Ctrl + M

**Payment**      No. 1      1-Apr-2008  
Tuesday

Account : **Cash - Location A**  
Cur Bal: 14,000.00 Dr

Particulars	Amount
<b>Conveyance</b> Cur Bal: 150.00 Dr	150.00
<b>Postage</b> Cur Bal: 250.00 Dr	250.00
<b>Staff Welfare</b> Cur Bal: 200.00 Dr	200.00
<b>Stationery</b> Cur Bal: 400.00 Dr	400.00

Narration:  
Payment towards Conveyance, Postage, Staff Welfare and Stationery

1,000.00

Accept ?  
Yes or No

**Fig 4.37: Accounting Voucher Creation**

**Payment in Voucher Entry Mode**

Accounting Voucher Creation		ABC Company		Ctrl + M
Payment No. 1		1-Apr-2008 Tuesday		
Particulars	Debit	Credit		
By Conveyance <i>Cur Bal: 150.00 Dr</i>	150.00			
By Postage <i>Cur Bal: 250.00 Dr</i>	250.00			
By Staff Welfare <i>Cur Bal: 200.00 Dr</i>	200.00			
By Stationery <i>Cur Bal: 400.00 Dr</i>	400.00			
To Cash - Location A <i>Cur Bal: 24,500.00 Dr</i>		500.00		
To Cash - Location B <i>Cur Bal: 24,500.00 Dr</i>		500.00		
		<hr/>		
		1,000.00	1,000.00	
Narration: Payment towards Conveyance, Postage, Staff Welfare and Stationery.				Accept? Yes or No

**Fig 4.38: Accounting Voucher Creation**

### Payment Entry with Narration for Each Entry

If you want the narration details for every ledger you debit or credit (Single narration), you can configure Tally.ERP's Narration details accordingly.

- Go to Gateway of Tally > Accounts Information > Voucher Types > Alter.
- Select the required Voucher Type.
- Enable the option Provide narration for each ledger in voucher? And accept the details.
- Return to Accounting Vouchers in Gateway of Tally and select the voucher type and pass the entry.

Voucher Type Alteration		ABC	Ctrl + M
Name : <b>Payment</b>			
<u>General</u>		<u>Printing</u>	<u>Name of Class</u>
Select type of voucher : <b>Payment</b>		Print voucher after saving ? <b>No</b>	
Abbreviation : <b>Pymt</b>			
Method of voucher numbering ? <b>Automatic</b>			
Use advanced configuration ? <b>No</b>			
Use effective dates for vouchers ? <b>No</b>			
Make this voucher type as 'Optional' by default? <b>No</b>			
Allow narration in voucher ? <b>Yes</b>			
Provide narrations for each ledger in voucher? <b>No</b>			
Enable default accounting allocations ? <b>No</b>			
Set/Alter Default Accounting Entries ? <b>No</b>			

**Fig 4.39: Voucher Type Alteration**

Provide narration for each ledger in voucher option is available for all Accounting Voucher Types. Given below is an example of a Payment transaction with narrations for each entry enabled:

Accounting Voucher Creation		ABC Company	Ctrl + M
<b>Payment</b> No. 1		1-Apr-2008 Tuesday	
Particulars	Debit	Credit	
By <b>Conveyance</b> Cur Bal: 500.00 Dr Narration : Conveyance Expenses paid to Employee A	500.00		
By <b>Postage</b> Cur Bal: 500.00 Dr Narration : Courier charges for 1st April 2008	500.00		
To <b>Cash - Location B</b> Cur Bal: 24,000.00 Dr Narration : Cash paid from Location B Account		1,000.00	
Narration: Cash paid towards Conveyance and Postage Expenses.		1,000.00	1,000.00

Accept ?
Yes or No

**Fig 4.40: Accounting Voucher Creation Screen**

The above entry consists of both common narration and narrations for each entry. In case of multiple debit/credit entries, you can give single line narration separately for every ledger account selected.

#### Special Keys for Voucher Narration Field

- **ALT+R:** Recalls the Last narration saved for the first ledger in the voucher, irrespective of the voucher type.
- **CTRL+R:** Recalls the Last narration saved for a specific voucher type, irrespective of the ledger.

#### Warn on Negative Cash Balance

You can configure Tally.ERP 9 to prompt you with a warning when the Cash ledger reaches a negative balance.

- Go to Gateway of Tally > Accounting Vouchers.
- Set the option Warn on negative cash balance to Yes in F12: Configure screen.

**Payment Standard Configuration**

**General Options**

Skip Date field during creation(faster entry)	? Yes
Use single entry mode for pymt/rcpt/contra	? Yes
Use payment/receipt as contra	? No
Use Cr/Dr instead of To/By during entry	? No
Warn on negative cash balance	? <b>Yes</b>
Show table of bill details for selection	? Yes
Show bill final balances	? Yes
Show bill-wise details	? Yes
Expand into multiple lines	? Yes
Show ledger current balances	? Yes
Show balances as on voucher date	? No
Show Ledger Final balances	? No
Print Cheque after Saving Voucher	? Yes
Confirm each cheque before print	? Yes

**Bank Allocations Options**

Use defaults for bank allocations	? No
Use Auto Cheque Numbering	? Yes
Allow Selection of Cheque Range	? Yes
Show remarks	? No
Show E-mail	? No

*Press F12 for more options.*

**Fig 4.41: Setting Option Screen**

- Accept the screen to save.

For example, let us assume there is a cash balance of Rs.25000 and you need to make a payment of Rs.26000 towards Advertising expenses. This results in a negative cash balance. The Payment entry is displayed as shown:

Accounting Voucher Creation		ABC Company	Ctrl + M
<b>Payment</b>	No. 1		1-Apr-2008 Tuesday
Particulars		Debit	Credit
By Advertising <i>Cur Bal: 26,000.00 Dr</i>		26,000.00	
To Cash - Location A <i>Cur Bal: 1,000.00 Cr</i>			26,000.00
Narration: <div style="float: right; border: 1px solid black; padding: 5px; margin-top: 10px;"> <p style="text-align: center; margin: 0;">Warning !</p> <p style="text-align: center; margin: 0;">Negative Cash!</p> <p style="text-align: center; margin: 0;">Rs. (-)1,000.00</p> <p style="text-align: center; margin: 0;">(press any key)</p> </div>			

**Fig 4.42: Accounting Voucher Creation**

Tally.ERP 9 prompts you with a negative cash warning message and the credit cash balance in RED Colour. This will help you to decide whether to proceed with the entry or not.

To enter a journal entry in Tally. ERP 9 follows these simple steps:

Step-1:

From the gateway of Tally.ERP 9, Go to Accounting Voucher, Gateway of Tally > Accounting Voucher.

Step-2:

Now hit F7 shortcut key for journal voucher entry or click on F - 7 Journal button on the right side of the screen.

Step-3:

Change the date by pressing shortcut key F2 or click on date button at the top right.

Step 4:

Under the column after By/Dr enter the ledger to be debited and amount of the transaction. The users can enter multiple debit aspects (ledger to be debited) one by one if needed.

Step-5:

After entering Debit aspect, select to/Cr and select the ledger to be credited and amount in the next field.

Step-6:

Now in the narration field, enter the details of transactions and hit enter to save the journal voucher.

### **Sales Voucher**

Sales can be of two types:

- Local Sales on which CGST and SGST are applicable.
- Interstate Sales on which IGST is applicable.

Before making sales entry in Tally, you need to create ledgers relates to sales. Let's first understand the creation of Ledgers.

**Ledger Creation:** You must create the following types of sales ledgers and fill the related information required to create these ledgers:

1. Local sales

Interstate sales

CGST

SGST

IGST

Item name

Party Account

Under Party account, you must also mention whether the party is composite dealer, consumer, registered or unregistered dealer.

Steps to Create Sales Invoice in Tally.ERP 9 Releases 6 for GST

**Step 1.** Go to Gateway of Tally > Accounting Vouchers > F8 Sales. For invoice no, write the serial number of the bill.

**Step 2.** In Party A/c name column, select the party ledger or the cash ledger.

**Step 3.** Select the relevant sales ledger. If it is local sale, then select sales ledger for local taxable sales and if it is interstate sale, then select the sales ledger for interstate sales.

**Step 4.** Select the required items and specify the quantities and rates.

**Step 5.** In case of local sales, select the central and state tax ledger. If it is interstate sales, select the integrated tax ledger.

Depending on your requirements, you can include additional details in your invoice by clicking F12: Configure such as buyer's order no, delivery note no etc. View GST details you can view the tax details by clicking A: Tax Analysis. Click F1: To view the detailed tax break-up. In the sales invoice, press Alt+P to print the invoice in the required format. For multiple copies: Press Alt+P and then Alt+C to select the number of copies. You can also create invoices using Cleartax Billbook. To understand how to create sales invoice in cleartax GST software, refer to the guide on Creation of Invoices . In case you want assistance only in terms of filing returns, then you can use ClearTax GST. It easily integrates with Tally, Excel & other accounting software. You can import invoice level data for Sales & Purchase in the cleartax GST and then it will calculate the data points to be filled on various GSTR forms. It automatically populates a lot of data to make sure the return is error free.

### **Debit Note Voucher**

Debit note is a document issued to a party stating that you are debting their account in your books of accounts for the stated reason or vice versa. It is commonly used in case of purchase returns, Escalation/De-escalation in price, any other expenses incurred by you on behalf of the party etc.

All features and functions of purchase Voucher and debit note Voucher are same. So just like purchase voucher, you can record transaction in Debit note either in accounting invoice or item invoice?

A debit notes to enable the feature in F11: Accounting or Inventory features.

- To use it in Voucher mode you need to enable the feature in F11: Accounting features - Use debit and credit notes.
- To make the entry in Invoice mode enable the option F11: Accounting Features – Record debit notes in invoice mode.

To go to Debit, Note Entry Screen,

- Go to Gateway of Tally >Accounting Vouchers.
- Click on Ctrl+F9: Debit Note on the Button Bar or Press Ctrl+9.

Pass an entry for the goods purchased Returned to supplier ACER India Ltd:

Item Invoice Mode:

You can toggle between voucher and Invoice mode by clicking CTRL.

Pass an entry for the goods purchased returned to Supplier A:

Name of Item	Quantity	Rate per	Amount
Item A	50 nos	10.00 nos	500.00
End of List			

Narration:  
Good Purchased returned to Supplier A.

50 nos

Accept?  
Yes or No

**Fig 4.43: Voucher Creation Screen**



- **ALT+R:** Recalls the Last narration saved for the first ledger in the voucher, irrespective of the voucher type.
- **CTRL+R:** Recalls the Last narration saved for a specific voucher type, irrespective of the ledger.

### **Credit Notes:**

- Step-1: From Gateway of Tally, press F11 – Shortcut for Company Features
- Step-2: Under Accounting Features screen > Under Invoicing, set the option Use debit/credit notes to YES.
- Step-3: Set the following tile to YES for: “Use invoice mode for Credit notes”.
- Step 1: From Gateway of Tally, we must follow to Accounting Vouchers screen
- Step 2: Press CTRL + F8 on the keyboard or just select Credit note from the side table using mouse pointer.
- Step 3: Create/getting the ledgers ready.
- Sales return ledger – Under Sales Accounts or having assumed that the given example is Inter State sale, then instead of creating Sales return account and crediting the same we can use the ledger used for passing Inter State sales as on a net it will reduce the sales.
- Recipient or Party or Debtor ledger would already be created at time of sales, so it’s not required to create a new ledger at this stage.
- Tax Ledger applicable for this particular transaction would be IGST (being Inter State transaction) even this would have already been created under Duties and Taxes with required rate of GST of 5% in this case.
- Step 4: Passing journal entry using Accounting Voucher Screen > Credit Note.
- Press F2 and enter the date of transaction to 01.12.2018.
- Select Credit Note in Invoice mode
- Give the details of original Invoice number against which the goods are being returned and fill the date of original invoice or sales (15-11-2018)

- Now select the party or debtor ledger (M/s XXX Ltd)
- Under ledger: Select the relevant in terms state GST sales ledger created or select the sales return ledger (separately created)
- Under Item Name: Provide the details of product, which is returned, and in Quantity column provide the number of units returned and in Rate column feed the rate at which the quantities we're purchased originally. (Let's assume in our example per unit price to be Rs. 10 thereby M/s XXX LTD has returned 500 units at unit price of Rs. 10)
- Now we must select the tax ledger (given case to be Inter State transaction, the ledgers to be selected is IGST ledger. (In the given case IGST calculates to Rs. 500) @ 5%)
- Select round off ledger (if required) to round off the transaction value)
- After you press enter, Tally will ask you to prepare E Way bill, since the value of transaction for an Inter state Invoice in the given case is Rs. 5500/- below the mandatory limit of Rs. 50,000/- Tally.ERP 9 will skip this field.
- [Note: For E Way bill to activate one must feed the details in Statutory Features Screen (F3) under F11 Features screen and define the value beyond which E Way bill must be mandatorily prepared) For Ex: This limit to be set at Rs. 50,000/- for mandating for preparation of E way bill]
- Press Enter and you will end up with narration screen where we can define the reason for passing Credit note memorandum (if required)
- Finally press enter to accept the screen and again press Enter to save the voucher.

### **Purchase Voucher**

While recording a purchase transaction, if you want to allocate cost centres, and then record the transaction in voucher mode else enter the transaction in item invoice mode.

- Go to Gateway of Tally > Accounting Vouchers.
- In the Voucher Creation screen select F9: Purchase.
- Select As Invoice.
- Enter the current date and reference.

- Select the Party to be credited from the List of Ledger Accounts in Party's A/c name.
- Select the required Purchase Ledger from the List of Ledger Accounts.
- Select an item from the Stock Items List of Items. On selecting the Item, an Item Allocations sub screen for the selected Item is displayed as shown.

Stock Item Allocations				ABC Company	Ctrl + M
Purchase	No. 1			2 Apr 2008	
Ref:				Wednesday	
Party's A/c Name : Supplier A					
Current Balance					
<b>Item Allocations for : Cement</b>					
Godown	Quantity	Rate per	Amount	Quantity	Rate per
Order No.: #	Not Applicable				
Bangalore	250 Bags	320.00 Bags	80,000.00	600 Bags	320.00 Bags
Order No.: #	Not Applicable				
Hyderabad	350 Bags	320.00 Bags	1,12,000.00		
600 Bags					
			1,92,000.00	600 Bags	1,92,000.00

**Fig 4.44: Stock Item Allocation Screen**

- Select the Go down and specify the quantity to be allocated under the Quantity field.
- Enter the Quantity and Rate, and the amount is automatically displayed in the Amount field.
- Select another Go down and follow the similar procedure for Item allocation.
- Enter Narration if required and accept to save.

The completed Accounting Voucher screen appears as shown below:

Accounting Voucher Creation		ABC Company		Ctrl + M
<b>Purchase</b> No. 1		2-Apr-2008 Wednesday		
Ref.:				
Party's A/c Name : <b>Supplier A</b>				
Current Balance :				
Purchase Ledger : <b>Project Purchase</b>				
Name of Item	Quantity	Rate per	Amount	
Cement	600 Bags	320.00 Bags	1,92,000.00	
Iron & Steel	1,024 Tons	9,000.00 Tons	92,16,000.00	
			<hr/>	
			94,08,000.00	
[ End of List				
Narration:				<hr/>
				94,08,000.00

**Fig 4.45: Accounting Voucher Creation**

- Enter Narration, if required.
- Press Enter to save the transaction.

### Displaying

To display any Inventory master like stock group, go to Inventory Info in Masters in Gateway of Tally   Stock Group   Single Stock Group   Display

Select stock Group from list of Stock group   Stock Group will be displayed. You can only view stock group.

To alter a stock group, go to single stock.

Group   Alter   Select stock Group from list of Stock group   Stock group will be displayed, and you can alter it as per need.

If you wish to delete it,

Press Alt +D, when promoted to delete Yes or No, Press Y or Select Yes with cursor.

Similarly, Stock category, stock item, go down and Unit of measure can be displayed and altered. But please note to delete stock group, stock category, unit of measure or go down, you need to delete stock item first as transaction (Stock Item) has already been recorded by using stock group, category, unit and go down.

To be precise, to delete the first step, the following steps need to be deleted first and then only the first step could be deleted.

#### Check Your Progress B

2. Create the rest stock items which are mentioned earlier in Table 19.1 inventory master.

State True or False:

- Go down is a place where stock items are stored.
- Accuracy is measured in units.
- Sakshi Ltd. deals in trousers. Pieces can be created as unit of measure for trousers.
- Main location is the pre-defined Go down in Tally.
- For deleting stock item, stock group should be deleted first and thereafter stock item can be deleted.

To display a voucher on the screen, selecting the following:

Accounts Information>Voucher>Display

This will lead you to existing Voucher types; select the one which you want to get displayed.

As in earlier cases, you get the voucher displayed here but cannot change it.

#### **Altering**

You can alter the vouchers from daybook or any voucher register, provided you have the rights to do the same.

To alter vouchers:

Go to Display > Day book > select the voucher that must be altered >Make the changes >Save the altered voucher.

Or

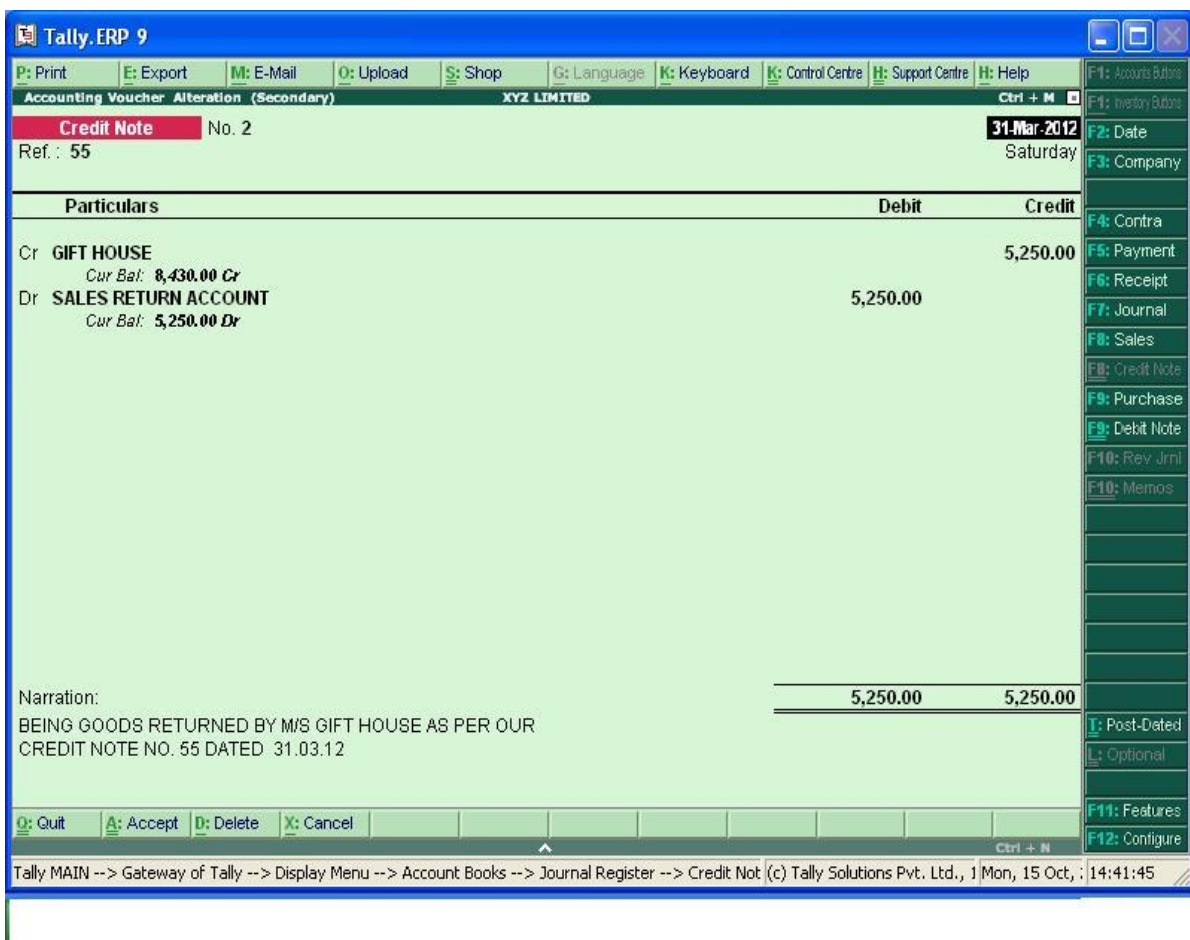
Go to Display > Account Books > Ledger > select the required Ledger > select transactions from Ledger Voucher list > drill down and alter the voucher > save the changes.

#### **Deleting of Vouchers**

- Open Tally program.
- Select your Company. In our case, we shall select M/s XYZ Limited.
- Select 'Display' under gateway of tally.
- Select 'Account Books'

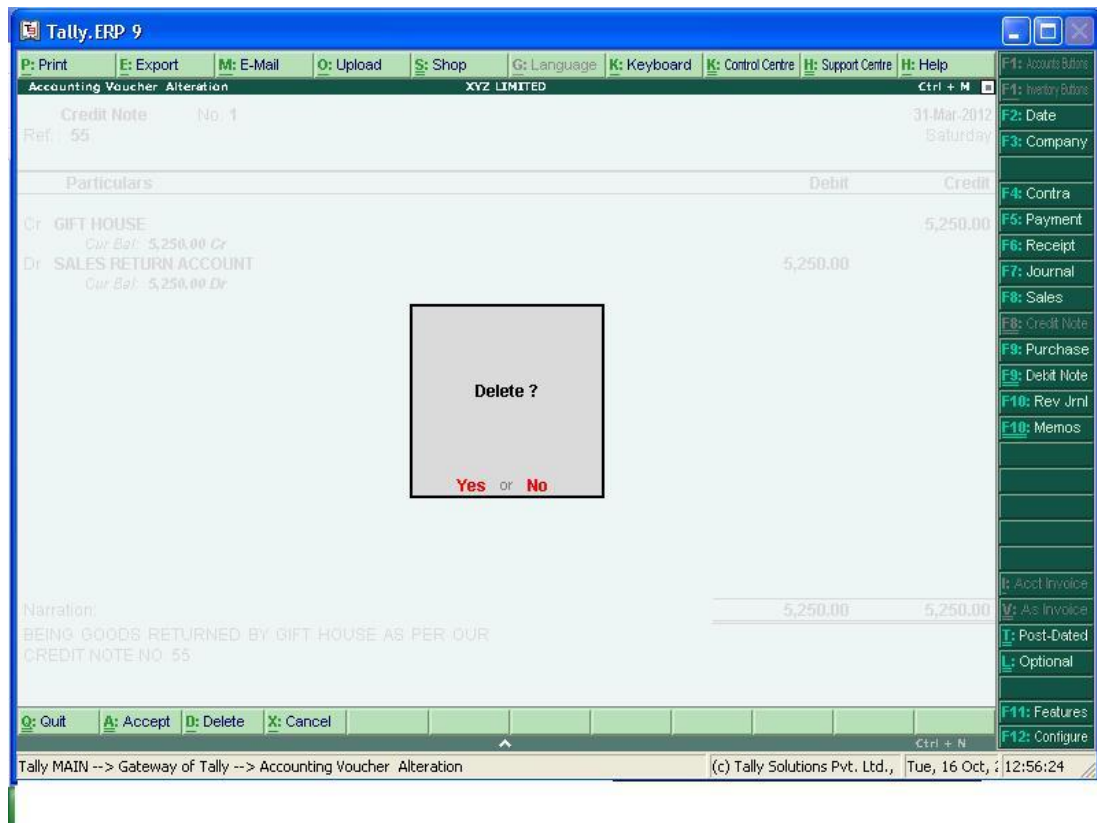
- Since the above voucher is 'Credit Note' and 'Credit Note comes under 'Journal Register, therefore, select 'Journal Register'.
- Select 'Credit Note Register'
- Voucher date is 31.03.12 so select 'March'.
- Now, you can see you voucher on 31.03.12.
- Press enter on your voucher which is supposed to be modified. Here, we want to modify the voucher dated 31.03.12 of M/s Gif House, so press enter here.

Now the screen will be as under: -



**Fig 4.46: Accounting Voucher Alteration Screen**

Now, press 'ALT + D'. After you give this command, the screen will be seen as under:



**Fig 4.47: Accounting Voucher Alteration Screen**

- Finally, tally asks you 'Yes' or 'No'.
- Here you just check that everything is in order. If alright, then press 'Y' otherwise press 'N' and you again will reach in beginning of the voucher.

## Ledger and Company

### Ledger:

Journal is a memorandum book to record transactions date wise. On a particular date, what are total purchases, total sales, debtors, creditors, incomes, expenses may not be known as journal. And to get information about the above, the entries passed in the journal are classified based on their nature in another book which is known as ledger.

An account represents a detailed record of changes that have occurred in a particular asset, liability, expense, loss, gain or capital during the accounting period. All these separate accounts are kept in a loose-leaf binder, and the entire group of accounts is called a ledger.

- The ledger is a master record of all the accounts of a business unit.
- It is a principal book of double entry system of accounting which provides all important information.

- Separate accounts are maintained based on their nature, so all information relating to transactions may be obtained through ledgers, such as to whom what is payable, from whom what is receivable, what is the position of assets and liabilities of the business.
- Ledger helps us preparing the trial balance to ensure the arithmetical accuracy of the account.
- Moreover, ledger assists us in preparing trading, profit and loss account and Balance sheet.

There is a total of 2 major ways to create a ledger in Tally.

- One way is to create a Single Ledger.
- Another way is to create it with Multiple Ledgers.
- To create ledger from voucher screen by pressing ALT + C.

Explanation: When we need to create 1 or 2 ledgers, we can create it with the help of the Single Ledger option. On the other hand, when we need to create more ledgers, we can create it easily with the help of an option called Multiple Ledgers.

### **Method 1: Single Ledger Creation in Tally**

Step 1: From Gateway of Tally, go to Accounts Info.

Step 2: Go to Ledger.

Step 3: Under single ledger, select the option Create.

Step 4: Fill the particulars in the Ledger Creation screen displayed:

Name: The first box is the Name of the ledger. Enter the name of the ledger, for example, Furniture A/c; Party ledger account (sales).

Under: Every ledger requires a group to operate in. For example, Furniture A/c will be under Fixed Assets group and party ledger account (sales) under Sundry debtors as they are receivables which the company will realize on the future point of time.

[Rule: The rule is very simple we just must select the group that is required as per the nature of the ledger.]

Inventory values are affected: This needs to be set to yes if we have stock to be maintained.

Mailing details: Details like Name, Address, Country, and Bank Details for the ledger must be filed [Note: It is for the ledgers such as debtors and creditors which require these kinds of details.]

Tax Registration Details: Tax registration details include:



PAN/IT No.:

Registration Type:

GSTIN/UIN:

Set/Alter GST details:

[Note: Like mailing details, these details are also of people and not for ledgers like furniture, building etc.]

Opening balance: This is the opening balance of the ledger if any. Any balance of the ledger which is being carried forward from the previous year will have to be entered as the opening balance.

Method 2: Multiple Ledger Creation in Tally

The process is almost the same as the single ledger method. Only one step is different.

Step 1: From Gateway of Tally, go to Accounts Info.

Step 2: Go to Ledger.

Step 3: Under Multiple ledgers, select the option Create.

Step 4: Fill the particulars in the Ledger Creation Screen:

Under Group: This option is like the under option under the Single Ledger Method. For example, Furniture A/c, Electrical and Fittings will be under Fixed Assets group, Investment in shares, Investment in Fixed deposit account under Investment group etc., this works well if we create ledgers under only one group. This type of ledger creation is also not useful for creating Sundry debtor's ledger and sundry creditor's ledger as we must also fill up GST details of individual creditors and debtors while creating ledger account for them.

Your business general ledger is the foundation of your books. Your ledger is a record used to sort and summarize your transactions.

In your ledger, you're responsible for recording debits and credits. Your credits and debits in your business ledger must always be in balance. Unbalanced credits and debits can impact your business's financial statements and give you inaccurate financial reports.

A company ledger is typically broken down into five main categories. You can also use sub-categories or sub-ledgers to give additional details about business transactions.

The most common accounts used in a small Company include:

- Assets
- Liabilities
- Equity

- Revenue
- Expenses
- Assets are items that add value to your small business. Assets can be tangible (physical) or intangible (non-physical). Property, vehicles, trademarks, and patents are just a few examples of assets your business might have.
- Liabilities are existing debts your business owes. Money owed to another business, vendor, organisation, employee, or government agency is usually considered a liability. Some examples of liabilities include loans, mortgages, and accrued expenses.
- Equity, also called net assets, net worth, and owner's equity, is the amount of ownership you have in your company. You can calculate equity by subtracting your total liabilities from your total assets.
- Revenue is the amount of money your business receives during a period. You earn operating revenue from main business operations and activities, such as sales. You can also earn revenue from activities that aren't directly related to your business (e.g., renting a building), called non-operating revenue.

Expenses are costs associated with business operations. You likely have a variety of business expenses, including fees, equipment, supplies, rent, and utilities.

### **Examples How Co-Creation Help Companies Innovate.**

**LEGO** is one of the best examples of co-creation. Its online community, LEGO Ideas, allows passionate enthusiasts and creators to create, vote and give feedback for new LEGO kits. Projects that receive over 10,000 votes will be reviewed by senior management to decide whether the product is viable for production. Because of the voting threshold, LEGO already knows that the product resonates well with customers, thereby saving resources normally used for market research. When the creator earns final product approval, he will receive 1% of the net sales of that product and be recognised as the creator on all packaging and marketing. This is a great example of open innovation and co-creation, where consumers have actively participated from idea to development.



**DHL**, the global market leader in logistics, provide an excellent example of a company that uses co-creation to generate new business ideas. As part of their R&D process, DHL hosts Customer Innovation Workshops and invites their customers to interact with DHL employees to share ideas with each other. From this collaboration, a number of new ideas have emerged, one of the more eye catching including the Parcelcopter, which is an idea to use drones for delivery to places with difficult terrains and in challenging weather conditions. Another one is “Smart glasses” co-created with DHL customer Ricoh, to improve inventory and warehouse picking efficiency by 25%.

There is evidence (suggesting) customer satisfaction improved after DHL begun using co-creation. According to Forbes, DHL’s co-creation efforts created an increase of over 80% in customer satisfaction scores.

**Xiaomi** is the last in our row that embraced co-creation. Xiaomi the Chinese tech company , has been in constant contact with its loyal customers for years on their co-creation community forum MIUI forum, which has over 10 million registered users and more than 100,000 daily publication. This is where the brand’s most hardcore fans meet to discuss gadgets, share knowledge and generally hang out. Fans would also voice out what they would like the next version of mobile phones to be like. Over 200 of Xiaomi’s employees monitor the forum, continuously looking for customer feedback and possible improvements. Reward mechanisms such as points for participation, access discounts and other exclusive benefits are further implemented to create a loyal following in the community. Read more about Xiaomi’s co-creation process [here](#).

Co-creation is quickly becoming an established feature of design practice for many successful companies. It increases empathy among stakeholders and designers, forcing businesses and designers to confront the realities of customer emotions and the motivations behind their behaviour. This enables companies to differentiate themselves from competitors by encouraging consumer-centric innovation.

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## 4.3 CONFIGURE AND FEATURES SETTINGS

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By default, accounts are created with one bill unit. When you create account hierarchies in Customer Centre, the bill units are automatically assigned the same hierarchical position as the accounts to which they belong. To create account hierarchies, see "Creating Hierarchical Account Groups".

If you want your customers to be able to receive multiple bills for different services, you can create additional bill units per account. When accounts in a hierarchy have multiple bill units, you must also create bill unit hierarchies. See "Creating Hierarchical Bill Units".

In the Customer Centre Account Creation wizard, you can create either paying or non-paying child accounts. The paying and non-paying designation is assigned to the account's default bill unit when the account is created.

- After creating a standalone account, make it a child account. For more information, see the Customer Centre Help.

### **Creating Hierarchical Bill Units**

You create a bill unit hierarchy when you set up account hierarchies in Customer Centre. You specify which of an account's bill unit the paying and non-paying bill unit is.

The bill units of accounts that do not belong to the same hierarchical account group can form a bill unit hierarchy. Bill units in a child account can be subordinate to bill units in a different parent account.

For information on using BRM opcodes to create bill unit hierarchies in custom code, see "Managing Bill Units with Your Custom Application" in BRM Configuring and Running Billing.

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## 4.4 CREATING ACCOUNTING LEDGERS AND GROUPS

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### 3.4.1 Account Group of Balance Sheet

Grouping of account is a method of organizing the large number of ledger accounts into sequential arrangement for recording and summarization of accounting data. GNUKhata has predefined Groups and Sub-Groups.

They are:

#### 3. Balance Sheet Groups

Profit & Loss / Income & Expenditure Account Group

#### 1. Balance sheet Groups in GNUKhata

Sl. No.	Group Name	Sub-Group Name
1	Capital /Corpus	None
2.	Current Assets	Bank, Cash, Loans & advances, Sundry Debtors
3.	Current Liability	Provisions, Sundry creditors for expenses, Sundry creditors for purchase
4.	Fixed Assets	Building, Furniture Land and Building Plant and Machinery
5.	Investments	Investment in Bank Deposit, Investment in shares & Debentures.
6	Loans (Assets)	None
7	Loans (liability)	Secured, Unsecured
8	Miscellaneous Expenses (Assets)	None
9	Reserves	None

**Table 4.1: Balance Sheet**

#### Description of the Groups and Sub Groups

- Capital: Amount contributed by proprietor, partners and share holders is recorded in this group.

- Corpus: Amount Contributed by the members of a non-profit organisation (capital fund) are recorded in this group.
- Current Assets: The assets which are consumed in operations are known as current assets. Accounts of such assets generated while doing business are recorded in this group. The sub groups are:

### 3. Bank-(Deposits)

Cash – (in hand, at factory, petty cash)

Inventory- (closing stock)

Loans and Advances- (temporary advance to Staff)

Sundry Debtors – (Credit sales)

- Current Liability: The liabilities which are to be paid within a short period (less than one year) are called current liabilities. The subgroups of current liabilities are.

Provisions: (PF, ESI, TDS dues, etc.)

Sundry Creditors for Expenses: (Outstanding expenses)

Sundry Creditors for Purchase: (Amount payable to suppliers)

- Fixed Assets: Accounts of all fixed assets (life span more than one year) are recorded in this Group. The subgroups are:

Building

Furniture

Land

Plant and Machinery

- Investments: Contains accounts of investment made by the organisation. The subgroups are.
  - Investment in Bank Deposits
  - Investment in shares and Debentures
- Loan (Assets): Includes accounts of long-term loans given.

- ii. Loans (Liability): Amount borrowed from financial institutions. The sub-Groups are.

Secured: (Loan against Security)

Unsecured: (No Security)

- iv. Miscellaneous Expenses (Assets): This includes preliminary and preformation Expenses to the extent those are not written off.
- iii. Reserves: Contains retained earnings reserves and surplus.

### 3.4.2 Account Group of Profit and Loss Account

S.No.	Group Name	Sub-Group Name
1	Direct Income	None
2	Indirect Income	None
3	Direct Expenses	None
4	Indirect Expenses	None

**Table 4.2: Profit & Loss Account**

#### Description

- Direct Income: Income from sale of goods, included in this group. If it is a service organisation, income from fees will come under this group.
- Indirect Income: All incomes which are not a direct income come under this group. Eg: rent received, discount received, dividend received etc.
- Direct Expenses: Expenses of purchase or manufacturing of goods are included in this group. Eg. Wages, carriage inward, consumables etc. GNUKhata opens Opening Stock Account under this group.
- Indirect Expenses: All office, administration selling, and distribution expenses are coming under this group.

- Eg: Salary, Interest, depreciation, etc.

### **3.4.3 Account Masters/Masters Menu**

All groups and sub groups have been created in master's Menu. When we created groups and sub groups, we must select from the master's menu.

### **3.4.4 Account Groups and Sub Groups**

GNUkhata has 29 predetermined Groups and sub-Groups. Out of these 13 are Groups and 16 are sub-Groups. 25 Predefined Groups and subgroups are related with Balance sheet. Out of these 9 are Groups and 16 are Sub Groups. 4 Groups are related with Profit and Loss Account/ Income and Expenditure Account.

In GNUkhata, there are 4 system generated ledger accounts. We can neither change the name nor delete these accounts. Do not create accounts with similar names. These are.

When an organisation is created the software automatically creates ledgers. These accounts can neither be modified nor deleted.

### **Opening Stock and Closing Stock**

The nature of closing stock is asset and opening stock is direct expense. Stock at the beginning account is temporarily used to switch over closing stock to opening stock by the following entry:

Opening Stock A/c Dr

To Stock at the beginning A/c

### **Method of Entering Opening Stock**

Step – 1: Edit the Stock at the Beginning Account

Master – Edit Account – Select Stock at the Beginning Account – Edit – Enter Opening Balance.

Step – 2: Voucher – Select Journal Voucher – Enter Voucher No. & Opening Date – Debit Opening Stock and Credit Stock at the Beginning.

### **Method of Entering Closing Stock**

Step – 1: Open Journal voucher → Enter Voucher No: and Closing date → Debit Closing Stock and credit Profit & Loss account.



## **Options on Menu Bar in GNUKhata**

### **Master**

- Create Account
- Edit Account
- Edit Organisation Particulars (to enter address, email, tax number etc.)
- Cost Centre (Cost allocation is possible)
- Bank Reconciliation Statement (To prepare BRS)

### **Vouchers**

Different vouchers are available in this option through which transactions are recorded.

- Receipt
- Payment
- Sale
- Purchase
- Contra
- Journal
- Sale Return
- Purchase Return
- Credit Note
- Debit Note
- Find / Edit Voucher

### **Report**

- Ledger
- Trial balance
- Cost Centre Statement
- Cash Flow

- Balance Sheet
- Consolidated Final Accounts
- Profit & Loss
- List of Accounts
- List of Deleted Vouchers
- List of Users
- Activity Log

### **Administration**

To protect the data GNUKhata provides certain security features through this menu.

- New User
- Remove User
- Change Password
- Close Books / Roll Over
- Organisation Preferences
- Export Data
- Delete Organisation
- Import Data

### **Help**

- Manual
- Short-cuts
- Authors etc.

**Editing Ledger Accounts** – To edit a Ledger account, select Edit Account from Master menu. Here we can change Account Name and Opening Balance, if any, but cannot change the name of Group and Sub-Group.

**Deleting Ledger Accounts** – Select **Edit Account** from **Master menu**. Select the ledger Account to be deleted, click on Delete Button, and confirm the deletion. System generated account and the ledger account already used in voucher cannot be deleted.

**Creation of New Sub-Group** – New sub-groups can be created under pre-defined groups. But we cannot create a new account group. Once a sub-group is created it cannot be deleted.

For example, a new sub-group named 'Purchases' can be created under the main group 'Direct Expenses' and various accounts can be opened under this sub-group such as 'Purchase of Raw Materials', 'Purchase of Finished Goods' etc.

### **3.5.6 Account Ledger Creation**

**Ledger Creation** – To create a ledger account select the option Create Account from Master Menu. While creating ledger account only accounts relating to Balance Sheet group will have opening balances. There is no need to enter opening balances for income and expense account.

Multiple ledger accounts can be created by giving a check mark (✓) on “Create Multiple Accounts”.

A ledger account contains record of all transactions relating to Assets, Capital, Liabilities, Expenditure and Revenues. A ledger account is to be created under any of the above five groups. Based on the group under which a ledger account is created, the “balance of the ledger account will be appeared either in Trading, Profit and loss account or in Balance sheet.

### **3.4.7 Account Creation**

#### **1. Steps for Creation of Ledger Accounts:**

- Step 1: Click on Master Menu or Press Shift + Control + M or Press F2
- Step 2: Select Create Account option. Then a dialogue box appears. Enter all the details.
  - v. Group Name: Select the name of the group from the drop-down list.
  - iv. Subgroup name: Select the name of subgroup from the drop-down list depending on the group we selected. A new subgroup can also be created.
  - v. Account name: Enter the name of account which we want to create.
- Step 3: Click on Save button

**Display Ledger Accounts:**

To display Ledger accounts, select List of Accounts from Report menu. Now we can see a table containing a list of all ledger accounts along with its group name and sub group name.

**Editing a ledger account:**

To edit a ledger account, select Edit Account from Master menu. Here we can change Account name and opening balance. But we cannot change the name of Group and sub-Group.

**Deleting a ledger account:**

To delete a ledger account, select Edit Account from Master menu. Select the ledger account we want to delete, click on Delete Button, and confirm the deletion. System generated account and the ledger account already used in voucher cannot be deleted.

**3.4.8 Trial Balance**

A trial balance is a summary of all ledger balances and helps in checking whether the transactions are correct and balanced. If journal entries are error-free and posted correctly to the general ledger, the total of all debit balances should be equal the total of all credit balances.

- Go to Gateway of Tally > Display > Trial Balance. The Trial Balance appears as shown below:

Trial Balance		ABC Company		Ctrl + M
Particulars	ABC Company			
	1-Apr-2008 to 31-Mar-2009			
	Closing Balance			
	Debit	Credit		
Capital Account		24,00,000.00		
Loans (Liability)		12,00,000.00		
Current Liabilities	5,45,257.50		2,38,27,223.75	
Fixed Assets		2,00,000.00		
Current Assets	4,08,56,757.00			
Branch / Divisions			8,600.00	
Sales Accounts			3,90,55,008.75	
Purchase Accounts	2,47,70,497.50			
Direct Expenses		2,62,587.50		
Indirect Expenses		69,475.00		
Profit & Loss A/c			2,26,300.00	
Unadjusted Forex Gain/Loss		12,558.00		
<b>Grand Total</b>		<b>6,67,17,132.50</b>	<b>6,67,17,132.50</b>	

**Fig 4.48 : Trial Balance**

- Press F12 to configure the Trial Balance, as required.
- Press Ctrl+A to accept.

#### **Display Trial Balance:**

- Step1: Click on Report tab from the menu bar.
- Step 2: Select Trial balance from the menu.
- Step 3: Enter From date and To date.
- Step 4: Select the Trial Balance Type
- Step 5: Click on view button to view the Trial Balance.

### **3.4.9 Balance Sheet and Profit and Loss Account**

#### **Steps to Prepare Balance Sheet**

You need to consider all the ledgers which are non-revenue in nature. In other words, all the ledgers except the one which you have already considered for Trading and Profit & loss account should be considered for the balance sheet.

Broadly, the balance sheet consists of assets and liabilities. In the process of preparing a balance sheet, first, start with the assets side. Start capturing fixed assets ledgers like land and

buildings, furniture, etc. and then investments and the all the current assets like cash, Bank, Accounts receivables, Closing stock etc.

Next step is to bring all the ledger having nature of liability under the liabilities side of the balance sheet. Remember, if there is any adjustment like depreciation, bad debts etc. you can do it in the balance sheet as well.

Once you have captured all details into the balance sheet, the assets side should be equal to the liabilities side of the balance sheet. Only then, your balance sheet is arithmetically correct.

A balance sheet is a financial statement that reports a company's financial position. This report shows the balance between the assets and liabilities of a firm. The balance sheet follows the fundamental accounting equation:  $\text{Assets} = \text{Liabilities} + \text{Owner's Equity}$ . You can view this report in browser.

4. Go to Gateway of Tally > Display > Balance Sheet.

Press F12 to configure the Balance Sheet.

Press Ctrl+A to accept.

While providing the opening balance in ledgers, an equivalent contrary balance will appear as Difference in opening balances to match the assets and liabilities, or debit and credit balances. The entry passed for the difference will affect the closing balance, but the Balance Sheet will display the difference in the amount. To balance the difference in the opening balance, you must adjust it with the opening balance of another ledger.

#### **Steps to Prepare Profit and Loss Account:**

Profit and loss accounts is a financial statement prepared to know the profitability of the business. This consists of 2 sections namely trading account and profit & loss account. Most businesses combine these two in a single statement and few, especially into manufacturing segment prefer to prepare separately.

Trading Account reflects the result of buying and selling of goods including the direct cost associated with it. It shows the gross loss or gross profit without considering the operational expenses and incomes. On the other side, profit & loss account shows you the net profit considering the gross profit/loss and all the indirect expenses and income.

Trading and Profit & loss account consists of all the ledger accounts having a nature of the purchase, sales, direct expense and income, indirect expenses and income. While preparing Trading and profit & loss account, you need to post only the ledgers belong to above nature.

The Profit & Loss A/c is a periodic statement, which shows the net result of business operations for a specified period. All the expenses incurred, and incomes earned during the reporting period are recorded here.

The Profit and Loss Account in Tally.ERP 9 displays information based on the default primary groups. It is updated with every transaction/voucher that is entered and saved.

You can view the Profit & Loss account details in Tally.ERP 9 for a specified period. You can view this report in browser.

- Go to Gateway of Tally > Display > Profit & Loss A/c.
- Click F1: Detailed to view the Profit & Loss Account in detailed format. The Profit & Loss Account appears as shown below:

Profit & Loss A/c		ABC Company 11-12		Ctrl + M
Particulars	ABC Company 11-12 1-Apr-2010 to 31-Mar-2012	Particulars	ABC Company 11-12 1-Apr-2010 to 31-Mar-2012	
Opening Stock	16,81,848.44	Sales Accounts	4,32,99,616.28	
Purchase Accounts	2,74,43,682.50	Direct Incomes	56,550.00	
Direct Expenses	43,000.00	Closing Stock	75,94,295.06	
Gross Profit c/o	2,17,81,930.40			
	<u>5,09,50,461.34</u>		<u>5,09,50,461.34</u>	
Indirect Expenses	73,30,923.75	Gross Profit b/f	2,17,81,930.40	
Nett Profit	1,55,01,006.65	Indirect Incomes	10,50,000.00	
<b>Total</b>	<b>2,28,31,930.40</b>	<b>Total</b>	<b>2,28,31,930.40</b>	

**Fig 4.49 : Profit & Loss A/C**

The Profit & Loss Account is generated and updated immediately from the date of opening of books till the date of last entry.

3. Press F2: Period to change the period as required.

The Profit & Loss A/c is in horizontal form, by default. You can view the report in vertical format by enabling the option Show Vertical Profit & Loss? by clicking F12: Configure. You can view additional information or toggle to another report using the options available in the button bar.

4. Click S: Schedule VI in the Schedule VI Profit & Loss A/c, as shown below:

Schedule-VI Profit and Loss A/c		ABC Company 11-12		Ctrl + M
Statement of Profit and Loss for the year ended 31-Mar-2012		In ₹ (Rupees)		
Particulars	Note No.	ABC Company 11-12 1-Apr-2011 to 31-Mar-2012	ABC Company 10-11 1-Apr-2010 to 31-Mar-2011	
I Revenue from Operations		4,33,56,166.28	4,33,81,830.00	
II Other Income		10,50,000.00	730.00	
III TOTAL REVENUE (I + II)		4,44,06,166.28	4,33,82,560.00	
IV EXPENSES				
Cost of Materials Consumed				
Purchases of Stock-in-Trade		2,74,43,682.50	2,73,92,897.50	
Changes in Inventories		(59,12,446.62)	6,20,574.91	
Employee Benefit Expenses		25,64,791.00	25,63,991.00	
Finance Costs				
Depreciation and Amortization Expenses				
Other Expenses		48,09,132.75	34,94,275.86	
TOTAL EXPENSES		2,89,05,159.63	3,40,71,739.27	
V Profit before Exceptional and Extraordinary Items and Tax (III-IV)		1,55,01,006.65	93,10,820.73	
VI Exceptional Items				
VII Profit before Extraordinary Items and Tax		1,55,01,006.65	93,10,820.73	
VIII Extraordinary Items				
IX Profit Before Tax		1,55,01,006.65	93,10,820.73	
X Tax Expense				
Current Tax				
Deferred Tax				
XI Profit/(Loss) for the period from Continuing Operations(IX-X)		1,55,01,006.65	93,10,820.73	
XII Profit/(Loss) from Discontinuing Operations				
XIII Tax Expense of Discontinuing Operations				

Fig 4.50 : Profit & Loss A/c

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## 4.5 CREATING STOCK ITEMS AND GROUPS

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Stock Groups is nothing but a grouping of stock items. It enables in the classification of stock items. It can be grouped based on its product type, brand name, common features, etc.

Grouping of stock items is not mandatory in TallyPrime. Suppose you had created stock items without creating a stock group, it will consider all stock items under an internal group i.e. **“Primary Group”**.

### **Examples of Stock Groups**

For example your business deals in Mobile and computer devices then you group it as per your need:

#### **Mobile Stock Group consists of following items:**

1. Samsung Galaxy M31
2. Samsung Galaxy M31s
3. Samsung Galaxy A71 etc.

Similarly you can add stock item as you required.

#### **Computer Stock Group Consists of the following:**

1. Lenovo IdeaCentre AIO 330 19.5-inch All-in-One Desktop
2. Lenovo IdeaCentre AIO 3 21.5-inch Full HD All in One Desktop
3. Lenovo Ideacentre A340 23.8-inch Full HD IPS All in One Desktop

Similarly you can add stock item as you required.

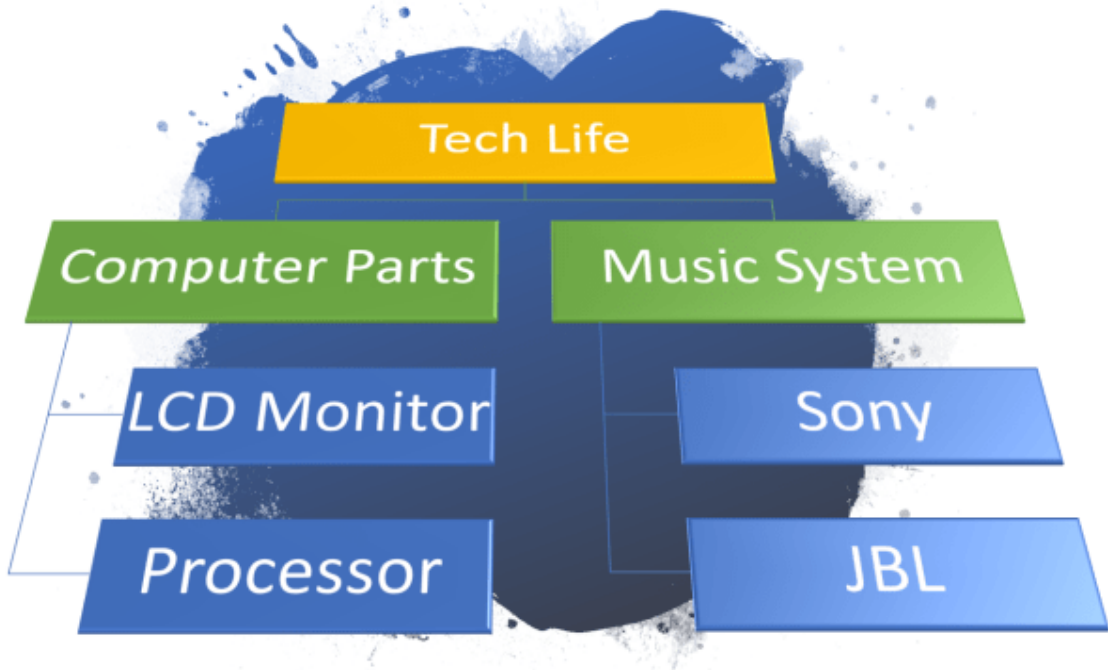
### **Let's Create Stock Group With Practical Examples**

Creating stock groups and stock items is super flexible now in TallyPrime. You can create stock groups from any screen using **“Go To”**

Tech Life is a company that indulges in the trading business of computer parts and music systems. Many times they may want to know how many stock items of computer parts and music systems are available for sale.

For Tech Life,

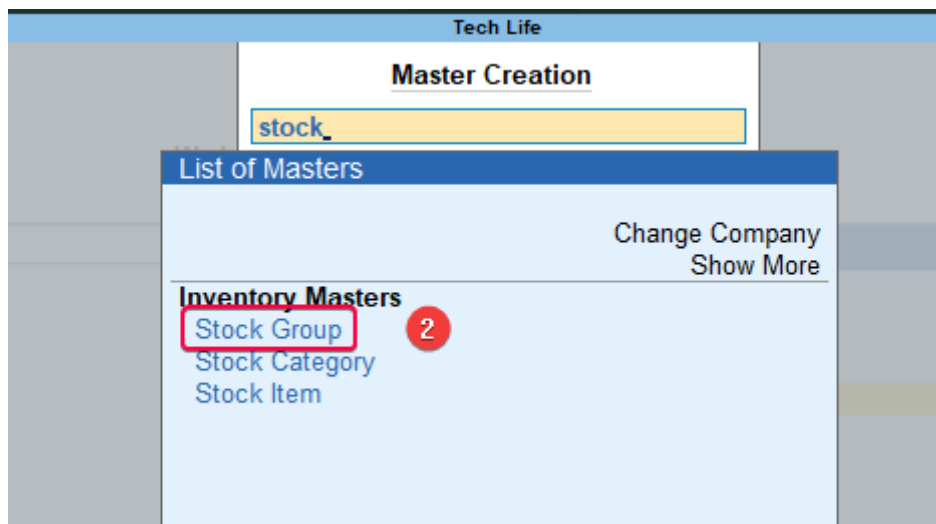
We will create two groups one computer Parts and second Music System under that create subgroups as shown below:

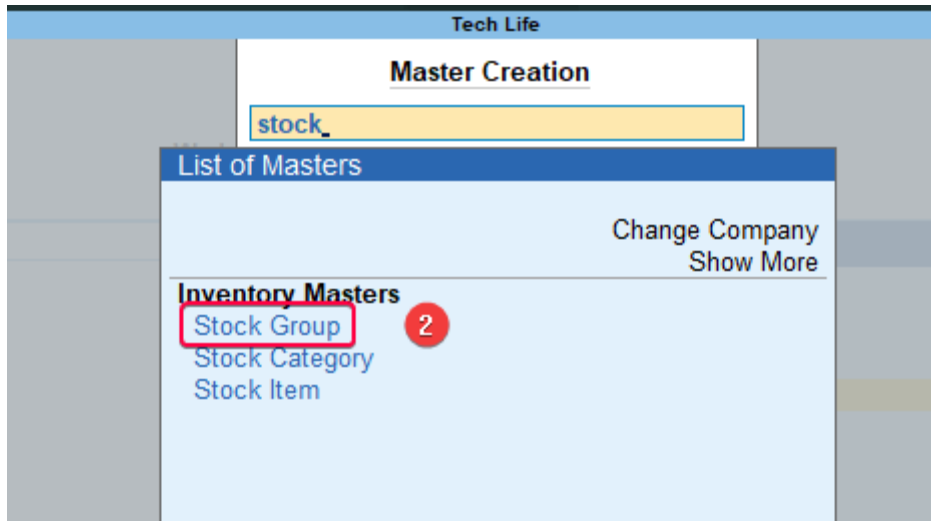
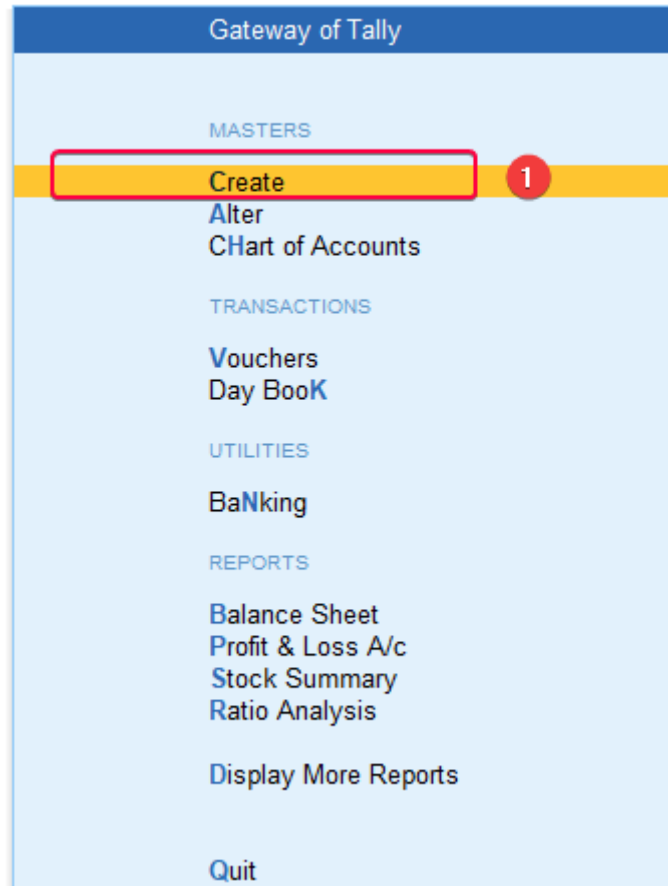


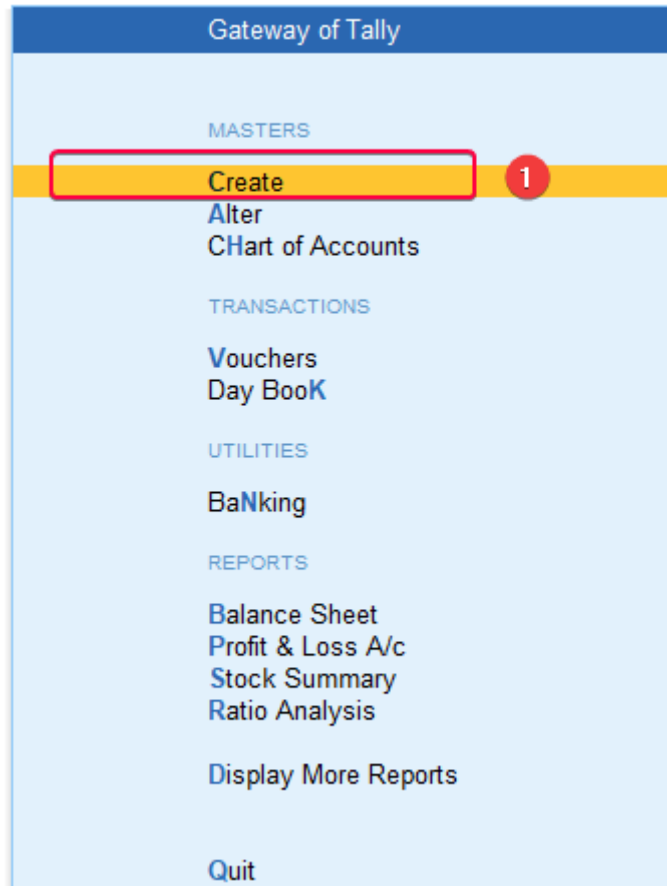
**Create Stock Group from Gateway of Tally:**

Launch TallyPrime

From the gateway of TallyPrime press “C” or click on create, master creation screen will be visible after that search for “Stock Group” click on that.







After that “**Stock Group Creation**” screen will appear, under the Name type “**Computer Parts**” press enter, since this is the main stock group we will select it as “**Primary**”. Press “CTRL + A” to save it.

Similarly, **create a** second stock group under the name type “**Music System**” and press “CTRL+ A” to save it.



Two stock groups have been created, From the same screen now we will create subgroups

Under the stock group computer Parts create two sub group:

1. LCD Monitor
2. Processors

From the same screen, in the “**Stock Group Creation**” type name “LCD Monitor”, In under select list of Groups “**Computer Parts**” press “**CTRL + A**” to save it.

Similarly create second subgroup “Processors” and save it.

The screenshot shows a 'Stock Group Creation' dialog box. The title bar includes 'Stock Group Creation' and a menu bar with 'Company', 'Data', and 'Exchange'. The main content area contains the following fields and options:

- Name** : [Empty text box]
- (alias)** : [Empty text box]
- Under** : **Primary** (selected from a dropdown menu)
- Should quantities of items be added** : **No** (radio button selected)
- Set/Alter GST Details** : **No** (radio button selected)

Similarly create two subgroup of stocks under “**Music System**”.

### **Create Stock Item’s**

From the “Stock Group Creation” screen press “**F10**” i.e. for the creation of “Other Masters”. Master creation screen will be visible from there select “**Stock Item**” from the list.

Type the name of the stock item “**Dell 24 Inch Full HD Monitor**”, this is where you can group your stock items under the stock group as we created above.

We will select here “**LCD Monitors**”. After that, we will create a unit of measure. Press “**Alt + C**” or select create from the list. Since LCD Monitors are measured in numbers give the symbol name “**Nos**” and formal name as “Number” press “**CTRL + A**” to save it.

Similarly, create other stock items, name it as “**Intel Core i5-10400 Processor (12M Cache, up to 4.30 GHz)**”. Select the stock group “**Processors**” and for Units select “**Nos**” from the list as we created for the first stock item.

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## 4.6 VOUCHER ENTRY

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Recording a transaction through voucher is called voucher entry. While recording a voucher the debit part of the transaction recorded first and there after credit part. We can add any number of debits and credits in a voucher.

### **Finding and Editing a Voucher Entry:**

To edit a voucher entry, it must be found out first. For this, the given steps are to be followed.

- Step 1: Select Find/ Edit voucher from voucher menu.
- Step 2: Select any one Criteria and press Enter key. All transactions fulfilling the criteria will be displayed.
- Step 3: Select the transaction that we want to edit, and press Enter key.
- Step 4: Click Edit button to open the transaction in edit mode make necessary changes.
- Step 5: Click on save button to save changes.

### **Deleting a Voucher Entry:**

To delete a voucher, first find it and click on Delete, after confirmation, the record will be deleted. Deleted vouchers cannot be restored.

### **Add Account While in Voucher Entry:**

While recording transactions in voucher entry mode, we can add a ledger account by clicking on Add Account, select the Group, sub-Group, and enter the account name and opening balance, if any. Click on Save Button and return to Voucher entry mode.

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## 4.7 UNIT END QUESTIONS

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### **A. Descriptive Questions**

#### **Short Questions**

1. Define vouchers entry.
2. Describe stock items and group.
3. Define a company.
4. Define computerised accounting system.
5. How to create accounting ledgers.

#### **Long Questions**

- 1 Explain in detail creating a company.
- 2 Discuss about configure and features and settings.
- 3 Describe creating accounting ledgers and groups.
- 4 Explain computerised accounting system.

### **B. Multiple Choice Questions**

1. What are the features of computerised accounting software?
  - a. Storage of accounting data and online input
  - b. Instantly produces different reports
  - c. Group different account
  - d. All of the above
2. A software must be easy to \_\_\_\_\_.
  - a. Install
  - b. Adapt
  - c. Understand
  - d. All of the above
3. If an organisation wants to develop a computerised accounting system according to its need as the business of the organisation is complex. Which software should opt for?
  - a. Ready to use software
  - b. Customised software
  - c. Tailor-made software
  - d. All of the above
4. The \_\_\_\_\_ of a vendor is also an important factor to consider while opting for computerised accounting software.
  - a. Level of profit
  - b. Honesty
  - c. Capability
  - d. None of the above
5. What are the factors to be considered while using source accounting software?
  - a. Flexibility
  - b. Adaptability
  - c. Interest in management
  - d. Both a and b

**Answers:** 1. d, 2. d, 3. c, 4. a, 5. d

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## 4.8 REFERENCES

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## **UNIT-5 COMPANY ACCOUNTS**

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### **STRUCTURE**

5.0 Objectives

5.1 Introduction

5.2 Cash Discount

5.3 Trade Discount

5.4 Vouchers Types

5.5 Backup and Restore

5.6 Bill Wise Details

5.7 Interest, Money Receipt and Cheques

5.8 Debit and Credit Notes Creating and Configuring

5.9 New Company Accounts: Account Masters 'Maintenance, Account Vouchers Maintenance, Inventory Master's Maintenance

5.10 Unit End Questions

5.11 References

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### **5.0 OBJECTIVE**

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After completing this Students will be able to

- Define cash account
- Understand vouchers types
- Define trade discount
- Explain new company account

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### **5.1 INTRODUCTION**

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Though it may seem that many companies have forgotten, business is essentially about generating long-term profits. For profit-generation, 'pricing' is one of the most efficient tools

at business managers' disposal, which is why some companies are willing to pay vast sums to undertake market research of their customers' willingness to pay - if the price setting is optimized with respect to the competition and the company's marketing strategy, this can truly enhance the bottom-line. However, for companies that grant discounts on a regular basis, 'pricing' becomes more complex than merely getting the initial list price right.

Discounting is often at the salespeople's discretion rather than a systemic process, and thus, procurement professionals have become quite good at turning this gut feel approach in their favour.

### **Why Are Discounts Granted?**

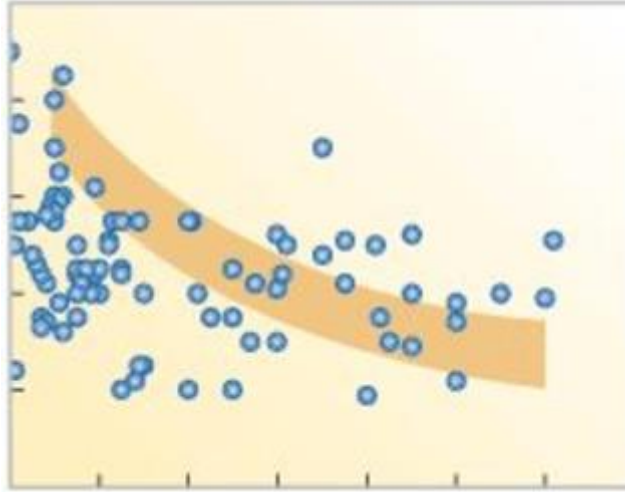
First, let's look at why salespeople give discounts in the first place. Discounting in itself is not a bad thing, especially in for B2B companies where discounts are considered to be standard. There is no exhaustive list of why companies give discounts, but some common types of discounts are ones that are given to:

- Encourage large-quantity purchases
- Obtain favourable terms of payment
- Obtain favourable terms of delivery
- Get customer to promote the product
- Performance penalties
- Get specific shelf-space Etc.

Discounting goes wrong when salespeople start giving discounts without being able to categorize them, or when it makes sense from a revenue-perspective but not a profit-perspective. Common excuses for such behaviour is "I'm about to bag a large order, next time they'll buy much more" or "I had to give it to close the deal".

### **When and How to Use Discounts**

Discounts should be used when there is something in it for the company, as also stated above. However, without keeping track of when and why discounts are given, it is impossible to diagnose where the 'profit leak' is. Most firms will keep track of discounts between the list-price and the invoice price, but then stop keeping track. Which leads to poor correlation between order quantity and discounts, as illustrated in the image below:



Discounting should reflect the willingness to pay of the customer or get the company something in return, however, due to the often careless discounting behaviour inherent in some salespeople, the largest discounts are granted to those with clever procurement professionals.

### **Differentiating by Willingness to Pay**

Just as with end-consumers, it is important to know how price sensitive a procurement department is and what they are actually willing to pay. Especially companies doing business globally need to know how willingness to pay differs on a country-level so such differences can be accounted for through discounting. As differentiating list prices typically leads to substantial risks of parallel imports and key account risks, this is where discounting plays a pivotal role. It's the differential pricing of the B2B environment, and just as differential pricing in B2C, prices should be differentiated based on willingness to pay rather than who appears to be the angriest.

### **Getting Something in Return**

As described above, it is possible to get a quid-pro-quo deal with retailers and the like, where you, for instance, give a discount to get attractive shelf-space, get your payment early or reward a large order quantity. We are not arguing these discounts should be dropped, but it is incredibly important that there is a system and clear guidelines for giving such discounts. We refer to this as 'counter discount management', i.e. having salespeople clearly reporting *why* they give discounts, and then have managers oversee and approve discounts that deviate from what is considered normal. While it may seem like micromanaging, it is just as much a tool to foster self-regulation among salespeople as the system forces them to ask 'Why?'.

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## 5.2 CASH DISCOUNT

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What comes to mind when we hear the word 'DISCOUNTS'? It's all about the reduction in selling price. While this looks obvious, a business does offer a kind of discount which is not at the time of selling but at a later stage.

This sounds little different, isn't it? Why? We all have personally experienced a discount which is an upfront reduction in selling price. While the business does offer such type of discount (upfront reduction in selling price), there is another type which is popularly known as 'Cash Discount'.

Generally, business practises 2 types of discount as shown in the below image.



In this article, we will understand the Cash discount and how to calculate it.

### **What is Cash Discount?**

Every trader is pleased when they see that their customers have paid the invoices made out to them. And to grant an incentive for this, many service providers and distributors offer a price reduction in the amount of a certain percentage of the invoice total. This price reduction is called a cash discount.

In simple words, a cash discount can be termed as an incentive that a seller offers to a buyer in return for paying a bill owed before the scheduled due date.

## Terms of Cash Discounts

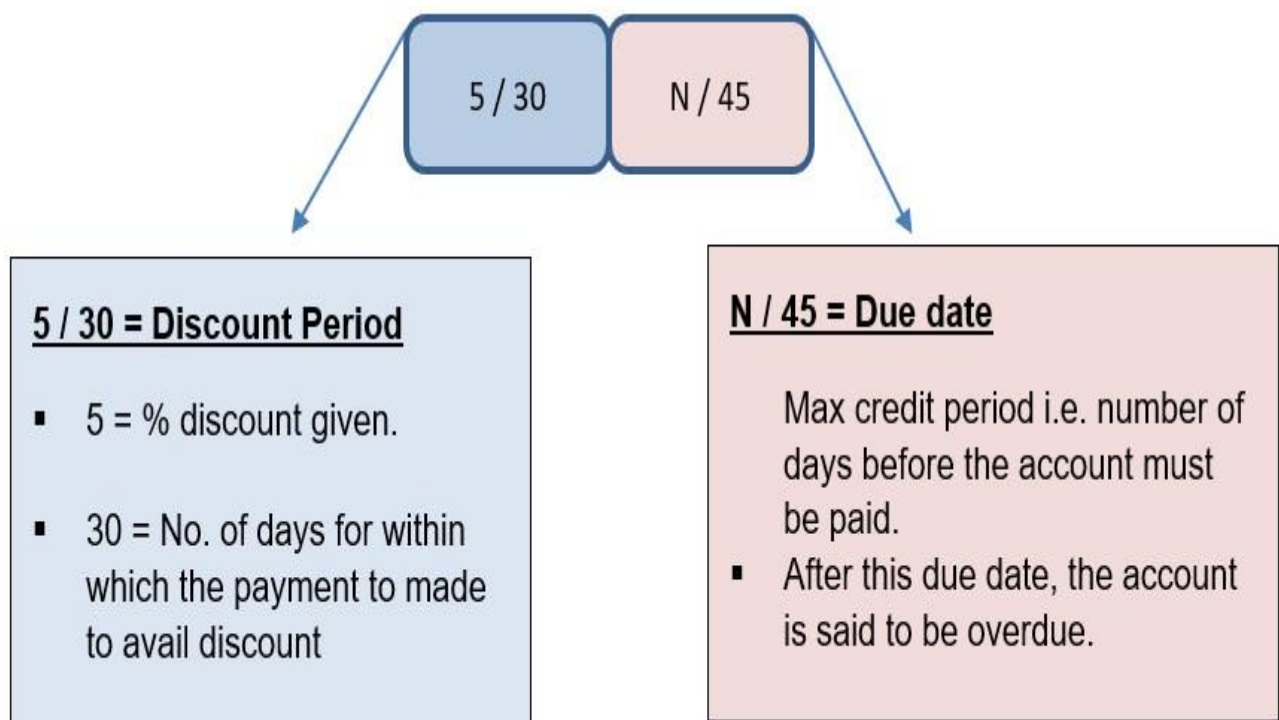
Cash discounts also called as 'early payment discount' or 'prompt payment discount'. Although we have defined cash discount above, understanding the concept still involves understanding the related terms. Here are three terms you should know:

Period of discount -	The time a customer is given to pay the invoice and receive the discount before the deadline.
Percentage discount -	The percentage amount that can be deducted from the total invoice amount.
Amount of cash discount -	The price reduction that results once the discount percentage has been applied.

The cash discount is generally written in the following manner:

5/30, N/45

This is not a location coordinates. This is the way cash discount terms are written. Let's understand this:





### **Cash Discount – Advantages and Disadvantages**

#### Advantages of cash discount

- Encourage debtors to pay on time
- Reduces the chances for the occurrence of bad debts
- Helps in running of trade cycle as cash will be available earlier due to reduced length of time
- Cash discounts may increase sales as new customers will be entertained with the cash discount part that the firm offers.

#### Disadvantages of cash discount

- Results in reduced cash inflows from debtors as cash discounts are offered.
- Net profits are affected as discount expenses are charged to profits.

### **Cash Discount Methods and Examples**

#### Ordinary dating method

A credit term of [ 2/10, n/30] means that you will get a discount of 2% if you clear your account within 10 days. In other words, if you make the payment within 10 days from the date of the invoice, you will be eligible for a 2% discount. It also means that you must pay the bill within 30 days to avoid interest charges.

Let's understand this with an example

Mr Rahul received an invoice for Rs. 3,000 /- dated 22 November 2019 with terms [ 2/10, n/30]. He paid the whole amount on 30 November 2019. How much did Mr Rahul effectively paid for the bill?

- Date of Invoice: 22<sup>nd</sup> November 2019
- Day 1 of the cash discount period. : 23<sup>rd</sup> November 2019

- Last day of the Cash discount period: 31<sup>st</sup> November 2019
- Date of payment: 30<sup>th</sup> November 2019

$$\begin{aligned}
 \text{Cash discount.} &= \text{Price} \times \text{Discount rate} \\
 &= \text{Rs. } 3,000 \times 2/100 \\
 &= \text{Rs. } 60
 \end{aligned}$$

$$\begin{aligned}
 \text{Amount effectively paid by Mr Rahul.} &= \text{Bill value (-) Cash discount} \\
 &= \text{Rs. } 3,000 \text{ (-) Rs. } 60 \\
 &= \text{Rs. } 2,940 \text{ /-}
 \end{aligned}$$

End of the month method [ E.O.M ]

A credit term of [ 2/10,n/30 **E.O.M** ] means that you will get a discount of 2% if you pay your account within the first 10 days of next month. In other words, if you make the payment within the first 10 days of next month from the date of the invoice, you will be eligible for a cash discount. It also means that you must pay the bill within the first 30 days of next month to avoid interest charges.

Let's understand this with an example

Mr Amit received an invoice for Rs. 3,000 /- dated 05<sup>th</sup> November 2019 with terms [ 2/10, **E.O.M** ]. He paid the whole amount on 10<sup>th</sup> December 2019. How much did Mr Amit effectively paid for the bill?

- Date of Invoice: 05<sup>th</sup> November 2019
- Day 1 of the cash discount period: 01<sup>st</sup> December 2019
- Last day of the Cash discount period: 10<sup>th</sup> December 2019
- Date of payment. : 10<sup>th</sup> December 2019

$$\begin{aligned}
 \text{Cash discount} &= \text{Price} \times \text{Discount rate} \\
 &= \text{Rs.} 3,000 \times 2 / 100 \\
 &= \text{Rs. } 60
 \end{aligned}$$

$$\begin{aligned}
 \text{Amount effectively paid by Mr Amit} &= \text{Bill value (-) Cash discount} \\
 &= \text{Rs. } 3,000 \text{ (-) Rs. } 60 \\
 &= \text{Rs. } 2,940 \text{ /-}
 \end{aligned}$$

Receipt of goods dating method [ R.O.M ]

A credit term of [ 2/10 **R.O.M** ] means that you will get a discount of 2% if you make the payment within the first 10 days after the goods are received.

Let's understand this with an example

Mr Jagdish received an invoice for Rs. 3,000 /- dated 10<sup>th</sup> November 2019 with terms [ 2/10, n/30 **R.O.G**] for a shipment that arrived on 5<sup>th</sup> of December 2019. Mr Jagdish paid for the bill in full on the 10<sup>th</sup> of December 2019. How much did Mr Jagdish effectively paid for the bill?

- Date of Invoice: 10<sup>th</sup> November 2019
- Day 1 of the cash discount period: 06<sup>th</sup> December 2019
- Last day of the Cash discount period: 14<sup>th</sup> December 2019
- Date of payment: 10<sup>th</sup> December 2019

$$\begin{aligned}\text{Cash discount} &= \text{Price} \times \text{Discount rate} \\ &= \text{Rs. } 3,000 \times 2 / 100 \\ &= \text{Rs. } 60\end{aligned}$$

$$\begin{aligned}\text{Amount effectively paid by Mr Jagdish} &= \text{Bill value} (-) \text{Cash discount} \\ &= \text{Rs. } 3,000 (-) \text{Rs. } 60 \\ &= \text{Rs. } 2,940 /-\end{aligned}$$

Now we have understood the cash discount and methods to calculate it, the next big question as a business owner you must answer is should you avail the cash discount? it's obvious that opting discount looks beneficial as you are going to pay lesser but owing to certain factors, it is not beneficial always.

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## 5.3 TRADE DISCOUNT

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A trade discount is the reduction in price a manufacturer or wholesaler gives a wholesaler or retail when they buy a product or group of products. In other words, a trade discount is a certain percentage a manufacturer is willing to reduce its list price for wholesalers or retailers.

### What Does Trade Discount Mean?

Manufacturers and wholesalers typically produce catalogs for customers and vendors to order products from. The prices listed in the catalogs are often called list prices or manufacturers suggest retail price (MSRP). Other business within the industry that use the manufacturers products rarely pay list price for them. Instead, the manufacturer gives the wholesaler or retailer a discount on each purchase or a percent off of the list price.



A trade discount is different than a sales discount because a trade discount does not have the same restrictions as a purchase discount.

Trade discounts are usually given to wholesalers that order large quantities of a product as well as retailers with good relationships with the manufacturer. Purchase discounts or cash discounts are based on payment plans not order quantities.

### **Example**

The amount of the trade discount varies depending on who is ordering the products and the quantities they are ordering. For instance, a retailer might only order 100 t-shirts from a manufacturer at a time and receive a 5 percent trade discount. A wholesaler, on the other hand, might order 1,000 t-shirts at a time and could receive a 12 percent discount. Trade discounts are also based on customer loyalty and vendor relationships over time.

### **DIFFERENCE BETWEEN TRADE AND CASH DISCOUNT**

Businesses all over the world use a tried and tested process of increasing sales of the products by offering discounts. Discount results in the reduction of the selling price of the product, which makes it more attractive for the customer.

Reduction in price makes a psychological impact on the customer which results in the purchase. The two types of discount offered are trade discount and cash discount.

### **Meaning of Trade Discount**

Trade discount is referred to as the discount that is offered by a seller to the buyer of the product in the form of reduction in the price of the item.

Trade discounts are offered to increase the sales of the product and make the customers feel that they are getting the best offer. No accounts are maintained for keeping track of the discounts that are offered.

### **Meaning of Cash Discount**

Cash discount is referred to as the discount that is offered by the seller of a product to the buyer at the time of payment for the purchase. This reduction is provided at the value of the invoice.

Cash discount is offered to make the customer or the buyer pay for the product promptly, it helps the business in reducing or avoiding the credit risk completely.

Such discounts are mostly used in business transactions, where a creditor will be reducing the amount to be paid by the debtor, if the payment is processed within the time limit.

Proper records are maintained for all such discount transactions both by the buyer and seller.

These points highlight the differences between the trade discount and cash discount.

<b>Basis of Comparison</b>	<b>Trade Discount</b>	<b>Cash Discount</b>
<b>Meaning</b>	It is the type of discount that is offered by the seller to the buyer as a reduction in the price of the product	This discount is offered by the seller to the buyer on the invoice amount at the time of making payment within the stipulated time
<b>Purpose of offering discount</b>	To ensure bulk sales of the product	To ensure prompt payment for the items purchased
<b>Accounting treatment</b>	Not shown in any books of accounting, reduction adjusted with final price and the discounted price is added to record books	It is properly recorded in the books of both buyer and seller. Recorded in profit and loss statement as an expense
<b>When discount is allowed</b>	At the time the purchase is made	It is allowed at the time of payment
<b>Allowed on transactions</b>	Both cash and credit transactions	Only transactions involving cash payment are allowed.

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## **5.4 VOUCHERS TYPES**

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A voucher is a supporting document for entries passed in accounting books. A voucher is prepared when an invoice is received from the supplier and payment is done. It serves as proof of the occurrence of a transaction and retains effective control over the payables process.

### **Importance of creating vouchers**

Creating vouchers ensures that every payment is authorised and the item purchased is received. It provides an effective internal control mechanism. They are also very helpful during audits. They serve as evidence of transactions reported in the financial statements.

### **Types of vouchers Explained**

**Let us understand the types of vouchers used:**

**(1) Receipt voucher-** It is also called a credit voucher. A receipt voucher is used to keep a record of cash or bank receipt. They are of two types:

1. Cash receipt voucher- It contains information about cash received in hand.
2. Bank receipt voucher- It contains information about cheque received, demand draft or any other mode.

Some of the instances when a receipt voucher is prepared are:

- Cash sales
- Customer advances received
- Receipt of interest, rent, etc.
- Refund of tax

Entry passed-

- Cash/bank account is debited
- Debtor account is credited

**(2) Payment voucher-** It is also called a debit voucher. A payment voucher is used to keep a record of payments made in cash or through the bank. They are of two types:

1. **Cash payment voucher-** It contains information about cash payments.
2. **Bank payment voucher-** It contains information about payments made by the bank.

Some of the instances when a payment voucher is prepared are:

- Payment of expenses such as rent, security, operating expenses, printing and stationery, etc.
- Payment for purchase of raw material

Entry passed-

- Creditor account is debited
- Cash/bank account is credited

**(3) Journal voucher-** A journal voucher is also called a non-cash voucher or transfer voucher. They serve as proof of non-cash transactions.

Example-

1. In case of credit sales, cash, or bank account is not affected, the entry below will be passed:

- Debtor account is debited
- Sale on a credit account is credited

2. Depreciating fixed assets of the company:

- The depreciation account is debited
- A fixed asset account is credited

**(4) Supporting vouchers-** It serves as documentary evidence of transactions that happened in the past. Example- One can attach the bill of an expense along with the primary voucher to support the same. Fuel bills are attached with conveyance vouchers.

Every company prepares such accounting vouchers as they are extremely important for a business to track down its income and expenses and ensure compliance with statutory requirements.

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## 5.5 BACK UP AND RESTORE

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This web page describes how to use EasyAs to backup your Accounting Data, if you are looking for information on how to implement a strategy of regular backups please see our our information page regarding **regular data backups and data management**. Perform Data Backups can be one of the most important, if not THE Most important thing you do.

**Data Backups should be done Daily or Weekly depending on your needs. Naturally this** depends on how you use the software, if you enter information every day into the program then a daily backup might be what is needed, if you only use the program to enter bulk information once a week or once a month then a weekly or monthly backup might do. In the end its your choice; however your data is only as good as its oldest backup. Because if your backup is 6 months old and your pc crashes then you have lost the last 6 months of information.

Basic Principles are the same no matter what you are applying them to, and backing up your Accounting Data is NO different.

Having a backup of your data is no good if the backup is out of date or corrupted. This is one of the most fundamental mistakes many businesses make.

We have personally seen many businesses make the mistake of backing up at irregular intervals, or maintaining only one backup.

**If I was to have a pc crash today, will I be in trouble?**

If you answer YES, then your priority before you do anything else today should be to Backup your information. Not just the accounting data, but any other file you have in relation to your business which could cause you problems with your business if you lost them.

We have found that many people are scared about this topic. Either they feel that they are tempting fate by putting attention to it, or they just have no idea how to go about it, so they do nothing.

**Backing Up and Restoring your Data Files**

When I try to open the backup files I do not see any of my Data

From time to time we receive emails from clients telling us that they have followed all the steps to backing up but when they try to open up the backup files they don't see any data, in most cases all they see is a blank screen.

Please be aware that **this is normal**, as there is no way of looking at the data in the backup files, the only way that the data can be viewed is by the EasyAs Program itself.

**An important point to note:** The files that you backup are the files that contain all your accounting information, the information stored in those files is stored in a series of tables. If you were to accidentally make a change to the information in any of the key locations in any of the tables this could potentially render all your accounting information useless. This is why under normal conditions the only way to be able to view the information in the backup files is by using the EasyAs Accounting Software.

The most important point to remember is to backup. If you follow the steps to backing up and you have backed up your files then you should be fine..

It is important to backup regularly and to keep staggered copies of your data to protect yourself against data corruption.. I personally keep up to 3 months of data backups, backing up once a week, so in total I have 12 different sets of backups (call me paranoid but its what I do):

How do I personally backup my own pc:

My Main Pc has 2 separate hard drives. Consisting of a Drive C and a Drive D

All of my documents get saved to the "My Documents" Folder, except the easyas data and a couple of other programs I use.

I now run a program on the main office computer that backups all documents from CDrive to DDrive every 6 hours. This way if my CDrive suddenly craps itself I have a total backup that is only 6 hours old that is on another hard drive that is physically separate from my CDrive. Naturally the only issue I have to ensure that I perform manual backups of my accounting data and any other programs that don't save files to the "My Documents" Folder. But this is easy as I have a regimental schedule that gets done each morning before anything else, I simply spend 10 minutes and perform all backups, the EasyAs Backups takes about 1 minute each morning.

I do this so that I know that when my pc performs its 6 hours backup it will also include these newly backed up data files.

But I don't stop there... Because I have seen too many people (myself included) lose too much information I now have an external hard drive that I connect to my pc once a week. I then backup all my data to the external hard drive.

I do this second backup to my external hard drive just incase for some unforeseen reason everything goes totally to crap.

But I don't stop there, I now also backup to an online service. At EasyAs we decided to do this after we experienced a major crash in December of 2011 where we lost two backups in one day..

We now have 3 separate redundancies as we cannot count that a fire will not destroy this place, its pointless having all my backups in this one office when its very easy for someone to come along and put a match to the place and burn it down.

Of course you may not need to go to the extremes that I go to secure my data. However you should have at least **one other backup on another drive**. The cost of drives these days are so cheap that you should not even hesitate.

This simply involves placing of another hard drive into your pc.. You still use your CDrive as you always have, but if you use software to backup your "My Documents" Folder it will take care of daily backups to the other drive. In the end the other drive only becomes useful if you have a major crash. Of course its your choice, but I don't want you to become one of those individuals whom email us looking for help because they have lost everything. However if you have found your way here because you are one of these individuals then your data might still be saveable; see the page that discusses how to perform a manual backup.

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## 5.6 BILL WISE DETAILS

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If we make an entry to a ledger that needs bill wise details, we have to give the details of the bill at the voucher entry itself. Where we can see the details of bills, specific credit periods and get the correct outstanding result [balance] of each ledger.

But when there are a lot of entries it becomes difficult to match a payment to an invoice. It is so that the details of creditors and debtors are maintained at the invoice level and called as Bill-Wise Accounting system.

### **Where do we find Bill wise Accounting feature in Tally.ERP 9?**

We find this feature of Bill wise Accounting in Tally.ERP 9 under the Accounting feature head (F11)

**Update:** TallyPrime is the latest version of Tally. Simplicity, speed, flexibility, and reliability are a trademark of Tally products and with TallyPrime you will experience them at a whole new level. You can multitask without losing the progress, navigate and discover the product much easier, invoice with amazing simplicity and much more to delight you.

Read ' 5 Things in TallyPrime for Enhanced Business Efficiency to know how TallyPrime helps your business. Also, take a look at a list of how-to videos on TallyPrime

Route to Access:

To enable the accounting features Go to Gateway of Tally > F11: Features > F1: Accounts.

We can now activate Bill wise accounting feature under the heading outstanding management features.

Bill wise Accounting:

Enable this option to display the option Maintain balances bill by bill in all ledgers created under sundry debtors and creditors. Where we enter the details of sales and purchases with the bill wise option activated, Tally.ERP 9 prompts us to identify the invoice with an appropriate reference number.

### **Types of Bill wise details in Tally.ERP 9**

There are four types of bill wise detail.

New Reference	This is used at the time of passing sales and purchase entries which will later serve for Against reference entries to be passed under Sundry debtors and creditors ledger.
Against Reference	This reference is used when we pass receipt entries or payment

	entries against the references created at the time of passing of original entries such as sales and purchase.
Advance	<p>This reference is used when any amount is received in advance for any services rendered or for any outward supplies of goods is made or when any amount is paid in advance for purchases to be made at the future date.</p> <p>In other words, this type of bill wise detail is maintained where the nature of service or nature of product or terms of business demands advance receipts/ advance payments to be made and to track these when the business gets materialized at the time of raising of bill or invoice, these entries would serve as reference.</p>
On Account	<p>An interest receipt entry, interest payment entries uses these types of references. But apart from these, this type of reference is also used when we are unsure of as of against which bill the sum has been settled by the debtor.</p> <p>So, all those types of entries are kept under this reference till the time it gets cleared as to which Invoice the sum relates to.</p>

### **Overview of bill-wise details in TallyPrime**

#### **Benefits of maintaining Bill wise details in Tally.ERP 9**

- To easily maintain/generate outstanding reports of Receivables and Payables
- To maintain & track Accounts Receivable and Accounts Payable based on every bill
- The primary benefit of this capability is the speed and ease which is enabled by Tally.ERP 9
- Helps in generating Age wise analysis report for receivables and payables

#### **How to activate Bill wise Accounting in Tally.ERP 9?**

It just takes few steps to activate this feature in Tally.ERP 9

Step 1:	To set Maintain Bill wise Details to Yes in F11: Accounting Features window
Step 2 :	To create a Party (Ledger A/c) under Sundry Debtors / Sundry Creditors group
Step 3 :	To set maintain balances bill by bill to Yes for the parties during ledger creation
Step 4 :	From Gateway of Tally > Accounting Vouchers > Sales (F8) or Purchase



	(F9) accordingly and enter the transaction by specifying a Bill reference No. along with due dates for the amount to be received or paid in the Bill Allocations for the screen (we can also break up the amount into multiple reference numbers with different due dates)
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**To generate various types of Bill wise summary report in Tally.ERP 9**

Generally, to view Receivables / Payables Reports, we have to proceed to Gateway of Tally > Display > Statement of Accounts > Outstandings > Receivables (to view due to the company). This report displays a bill by bill outstanding for all the parties with the pending amount along with the due date.

Report Type	Description
Individual party wise – Bill wise outstanding	<ul style="list-style-type: none"> <li>• Select Ledger in the Outstandings menu</li> <li>• We will now get a report displaying bill-by-bill details of all outstandings for the concerned party along with the total outstanding amount</li> </ul>
Group Outstanding report – Bill wise outstanding	To View Group Outstanding Report, select Group in the Outstandings menu and then select the specific group or sub group
Ageing analysis report – Bill wise outstanding	<ul style="list-style-type: none"> <li>• We can also view Ageing Analysis of Outstandings, by defining various ranges of periods and view outstanding across the specified time slabs</li> <li>• Such as 0 to 30 days, 30 to 45 days and 45 to 75 days and so on</li> <li>• To View Ageing Analysis Report , go to Gateway of Tally &gt; Display &gt; Outstandings &gt; Receivables or Payables</li> <li>• Select F6 (Age wise)</li> <li>• Specify Ageing Methods and the Periods</li> </ul>

**Bill wise accounting for Non – Trading accounts**

Maintaining details of every bill for trading accounts is possible in Tally.ERP 9 using Bill wise Details. The same powerful and convenient feature is available for tracking and managing non- trading accounts like Loans, Advances and Installment Payments etc. as well. Using this feature, business owners can easily track bills for expenses, any installments to be paid or loan amounts to be received. 'Bill wise Details' hence can be used to track the details of any already made or due payments and also to generate payables or receivables reports with minimum effort.

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## 5.7 INTEREST, MONEY RECEIPT AND CHEQUES

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### INTEREST

In accounting, interest refers to the cost of money borrowed from a lender. Usually a percentage of the principal amount borrowed, interest can be either simple or compound. Interest is the amount charged when a debt is incurred through the borrowing of money. Because it can take a business or individual time to pay a debt, interest is often added on a regular basis to encourage fast repayment of the original amount.

The two types of interest

While it seems fairly straightforward, interest charged in a given situation can take one of two different forms: simple interest or compound interest.

#### **Simple interest:**

Simple interest is the fast and simple way of determining the amount due on a loan. It is calculated by multiplying the interest rate by the principal by the number of days between dates when payments are made.

#### **Rate x Principal x Number of days = Simple interest**

This type of interest is typically used for determining the interest for short-term loans and for car loans.

For example:

- Shelly takes out a loan that has a principal balance of £5,000
- The interest rate for her loan is 6%
- If Shelly's payment date is March 1st, and is paid exactly on that date, then her interest is
- calculated based on the 28 days of February, making her interest for the month: £24

- However, if Shelly pays on February 25th, then her interest is calculated on the 24 days of the

month, making her interest: £21

In this equation, the number of days is converted to decimal form as a percentage of the year ( $28/365 = 0.08$ ) in order to determine the simple interest.

### **Compound interest:**

Compound interest is the more common form of interest charged on loans and will cause the amount to increase much more quickly than in that of simple interest.

Compound interest also involves a more intimidating formula, but essentially it takes the principal amount of the debt and the interest accumulates over time. There are a number of online calculators that are helpful in calculating compound interest. Depending on how often the compound interest is charged, the amounts can differ significantly.

With compound interest, the closing balance for a specified period is carried over to the next opening balance and the interest rate charged on the total amount. This continues through each period, meaning that more periods result in increased compound interest.

For

example, if the interest compounds once a year, the result is much lower than if it is once a quarter.

For example:

- If Shelly's £5,000 loan compounds once a year, the first year would be: £5,300
- The second year: £5,618
- The third year: £5,995.08
- The fourth year: £6,354.78
- However, if it compounds quarterly, Shelly's loan will reach £6,354.78 at the close of the
- first year.

### **Why interest is charged**

Interest has been around for hundreds of years. It is believed the concept of compound interest arose in 17th century Europe, as a means for the lender to make income on the money lent.

The reasoning behind interest survives to this day. The charge on the loaning of money to either an individual or business is standard practice.

## **How an interest rate is determined**

The interest rate can vary depending on the borrower. There are several important factors that are generally taken into consideration when the rate of interest is determined at the time the loan is issued. In the case of a small business, these include:

- The total amount requested
- The credit score/record of the borrower
- The inflation rate

For example - if Shelly's business has a trackable record of making payments on time, she will likely be offered a more favourable interest rate than a competitor who has regularly been late in making payments on loans in the past.

Interest and small businesses

It is not uncommon for those just starting out to take a small business loan. Depending on the factors covered above and the type of interest, the loan can fall anywhere on a range of favourable to not ideal.

It's therefore crucial to keep up with payments and track the progress of repaying debt. In Debtor invoicing software, you can easily register a small business loan and the regular payments and remaining balance.

## **Money Receipt**

The Money Receipt screen is the sixth drop-down on the Accounts Receivables 'Data Entry' menu. This screen allows the user to process income received directly to the Order or Receipt number.

Money Receipt does not have provision for the entry of any Client information. Only Order and Receipt numbers are expected to be entered in this screen.

Some things to note before entering a Money Receipt:

- Money Receipt is very similar to the Money Payment function in Account Payables.
- Sapphire One Accounting Software will automatically display the E.F.T option by default

for Transaction Payment. Other forms of payment can be selected in the drop-down menu.

The screenshot displays the 'Money Receipt (MR) Cash 942: item 6 of 6' window. It is divided into several sections:

- TRANSACTION:** Includes fields for Order No (12345), Receipt No (942), Date In (10/02/2021), Period (8), Total (\$110.00), Payment (E.F.T.), and Paid To (5500-0 Main Bank, Bank Assets).
- Bank Controls G.L. Trans. Error Code:** A list of account details including Account ID (5500-0), Department (Sydney), Class (55), Class Name (Bank Assets), Type (Bank Assets), Group (Total Assets), Project (No), Tax Code/Rate (Z, %), and Notes (ANZ Bank).
- STANDING TRANSACTIONS:** Shows a 'Scheduled' dropdown set to 'Monthly' with 'Start/Next' (10/03/2021) and 'Stop Date' (30/06/2021).
- DESTINATION:** A table with columns for Account, Account Name, Net Amount, Tax, Code, %, Amount, and Total. It shows a single entry for 'Sales - Appliances' with a net amount of \$100.00 and tax of \$10.00, totaling \$110.00.
- Summary Table:** A table with columns for Account, Name, Amount, Tax, Total, and Project. It shows a total of \$100.00 for the account, \$10.00 for tax, and \$110.00 for the total.

## Transaction Area within Money Receipt

How to enter details in the Money Receipt Transaction Area:

1. **Order Number** – Enter the Order No if applicable.
2. **Receipt No** – SapphireOne Accounting Software will automatically generate a Receipt No sequentially. You can overwrite this if required.
3. **Date In** – SapphireOne Accounting Software will automatically enter in today's date . To select an alternative date, click on the underlined Date In for a pop-up calendar or manually type in the date.
4. **Period** – SapphireOne Accounting Software will automatically enter in the current Period or the Period relating to the Date you have entered. To select a different period, click on the underlined Period for a pop-up period list. Some Periods may not appear on the list as they may be locked (i.e. Transactions for the period are complete and have been locked by a user in Utilities mode).
5. **Total** – Enter the Total Cost of the transaction including Tax.
6. **Payment Type** – SapphireOne Accounting Software will automatically assume the payment is to be processed immediately and display EFT option.
7. **Paid To** – Once the payment type has been selected, check the payment has been allocated to the right Bank Account- with the account ID and description. There is a

default bank account in the General Ledger which can be changed if required.

8. **Memo** – Enter any data. By selecting the green icon the user can date and time stamp the memo.

9. **Document Paperclip** – Scan and attach any documents relating to the money receipt.

#### Information Tab Area

The Money Receipt Information area is used to display additional information about the current transaction. You may only view information here, not alter it. The Information tabs change automatically for the different transactions being viewed.

There are five main tabs in the Money Receipt Information area. The tabs for this type of transaction include as follows:

- **Bank** – This tab displays details about the Bank account that has been selected.
- **Controls** – This tab lists the details of when the transaction was entered, created, posted

and by whom. It shows % that has been allocated, if it has been modified and by whom, any errors and discounts used.

- **G.L.** – This tab displays the General Ledger details for the General Ledger account entered into this receipt.
- **Transaction** – This tab displays the last 20 transactions. By selecting a historical transaction and then right mouse clicking you can: Copy Transaction, Copy Lines, Open In Inquiry.
- **Error Code** – Error Codes are displayed under the Controls Tab, and all additional information on an error in a transaction is displayed under this Error Code tab.

#### Standing Transactions Area

The Money Receipt Standing Transactions area is used to set up recurring transactions and controls how often the record is to be created for each period. A Standing Transaction is usually given a start date and a finish date.

- **Scheduled** – You can choose the frequency for creating this transaction by selecting from the following options: Monthly, 30 Days, Fortnightly, Weekly, Yearly, or Other. By

default, the scheduled drop-down menu is set to none, but users can select other options

from the menu. If the user selects an option other than none, they may be able to access

start and stop dates for the scheduled task.

- **Start/Next Date and Stop Date** – By default, SapphireOne will not set any Start/Next or Stop dates for a task. Users must select these dates either from the provided date picking calendar or by entering them manually.

Standing Transactions will only be created if the previous periods Standing Transactions have been posted.

If the Stop Date is set as 00/00/00 the standing transaction will continue to be automatically created by SapphireOne until the user modify's or deletes it.

#### Transaction Destination Area

The Money Receipt Destination area is where the lines are stored that go to make up this transaction. Depending on the transaction, this can be from a single line in accounts mode to a hundred or more in Inventory mode.

#### How to enter details in the Destination Area

- **Account** – This is a linked field and the User can use the Wildcard [( @ or ? ) and TAB ] option to search for the Account ID.
- **Account Name** – Once the Account ID is entered, SapphireOne Accounting Software will automatically populate this field with the account name.
- **Net Amount** – Type in the Net Amount.

This is the amount minus tax or tab though and

enter in Total Amount. SapphireOne will either forward or reverse calculate as required.

- **Tax Code** – Use the Wildcard [( @ or ? ) and TAB ] options to search for the appropriate Tax Code, or accept the default code. % field will automatically populate with the

appropriate tax percentage based on the tax code selected. If you would like to change the tax code, simply over-type. The Tax Codes are set up on a Company by Company basis

and may be viewed or set up by going to:

- o Go to Mode drop-down menu in the top left corner.
- o Select Utilities.
- o In the top tool bar under Controls select Company.
- o Click on the company you would like to set up the tax code.
- o Go to Page drop-down menu in the top left corner.
- o Select “Periods & Taxes” to set up the Tax Codes.
  - **Amount** – SapphireOne will automatically populate this field with the appropriate tax as a dollar amount based on the tax code selected.  
Total – If the User has entered in the Net Amount, SapphireOne Accounting Software will automatically populate this field of the total amount based on the amount and tax amount.  
Alternatively the user may enter the total including tax and SapphireOne will re-calculate the amount.
  - **Project** – Is a linked field and the User can use the Wildcard [ ( @ or ? ) and TAB ] option to search for the Project ID. A retention can be set by the project, which will automatically apply a retention. The percentage retained is displayed, and this may be altered on an invoice by invoice basis if required.
  - **Project Name** – Once the Project ID is selected, SapphireOne will automatically populate this field with the Project Name.
  - **Notes** – Any additional information relating to each transaction line can be inserted here.



- **Transaction List** – All of the lines in the transaction are displayed here. It is a simplified list which displays only the basic details of each transaction. You cannot edit directly from this list. To view or modify any line in this Line Listing area- select/highlight a line. Additional data entry fields will then be displayed for you to view or modify immediately above the list
- **Company** – This button is only displayed if you have multiple companies set up in your SapphireOne data file. It will direct you to a new screen where you can manage and allocate percentages or fixed amounts across the various companies.

Transaction Footer Area within Money Receipt

The Money Receipt Transaction Footer is the information bar along the bottom of the screen, and allows you to check the critical details of a transaction. These details include:
- **Sequence** – SapphireOne Accounting Software automatically generates a unique sequence number.
- **Batch** – SapphireOne Accounting Software automatically generates the batch total. This is the total of all the client invoice that have been entered at any given time.
- **Out of Balance** – SapphireOne Accounting Software automatically generates the Out of Balance Total. The Out of Balance amount must be 0.00 to enable the saving of the transaction.
- **Rules Level** – This is a linked field. The User can click on the Rules Level and a pop-up Organisation Chart will appear. Select the Level you would like to apply and hit OK.
- **Tag** – A drop-down menu allows the User to mark the transaction with a tag. To add a new Tag category, type the name of new tag into the tag box on the screen and then hit the tab

key. Then select 'Yes' from the pop-up window to confirm. Alternatively, if you wish to remove a Tag from the list, simply select the drop-down menu and click on the name of the Tag you wish to remove whilst simultaneously holding down the Command (MacOS) or Control (Windows) key.

Then select 'Yes' from the pop-up window to confirm the deletion from your current list.

## CHEQUE

Cheques are written, dated, and signed documents that instruct a bank to pay a certain amount of money to the bearer. The entity who writes the cheque is called the drawer or payor, while the person to whom the cheque is addressed is called the payee. Drawees are the banks on which cheques are drawn.

### **Cheque: Characteristics**

- A cheque must be written and properly signed by the drawer.
- An unconditional order is contained in a cheque.
- Cheques are issued only to a specific bank.
- The amount specified is always sure and should be clearly stated in both words and figures.
- Cheques always have a certain payee.
- On-demand, a cheque is always payable.
- A cheque must be dated, or else it is invalid and will not be honoured by the bank.

### **Cheque: Types**

Cheques can be used for many different purposes.

#### **Certified cheque**

A certified cheque verifies that the drawer's account has enough funds to honour the cheque's amount. This ensures the cheque will not bounce. It is necessary to present the cheque at the bank on which it is drawn for the bank to verify its authenticity.

#### **Cashier's cheque**

The bank guarantees cashier's cheques and signs them by a bank cashier, so the bank is responsible for them. When purchasing a car or home, this type of cheque is often required.

#### **Payroll cheque**

Payroll cheques, or paychecks, are another example of how employers compensate their employees. Direct deposit and other electronic transfer methods have replaced physical paychecks in recent years.

### **Bounced cheque**

The cheque cannot be negotiated when the amount written is greater than the balance in the checking account. It is also called a 'bounced cheque'. In most cases, the payor is penalised when a cheque bounces. Payees are charged fees in some cases as well.

Where can I find the cheque number?

You will need the cheque number if you wish to track its status. The cheque number is the first six numbers on the bottom of the cheque.

### **How do cheques work?**

Cheques are bills of exchange that guarantee a certain amount of money. The drawing bank gives it to the payor, who uses it to pay the account holder. Payors write cheques and present them to payees, who then take them to their bank or a financial institution to negotiate for cash or to deposit them into an account.

Cheques allow two or more parties to conduct a monetary transaction without exchanging physical currency. Rather, the cheque amount is a substitute for the physical currency of the same amount.

You can cash or deposit cheques. The funds are drawn from the payor's bank account when the payee presents a cheque to a bank or other financial institution for negotiation. Cheques are typically written against a checking account, but they can also be used to negotiate funds from a savings account or other type of account.

Cheques can be used to pay bills, make gifts, or transfer money between two people or entities. A third party cannot cash a lost or stolen cheque, as only the payee can negotiate the cheque.

Debit cards, credit cards, wire transfers, and internet banking are all modern alternatives to cheques.

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## **5.8 DEBIT AND CREDIT NOTES CREATING AND CONFIGURING**

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Debit notes and Credit notes play a huge role in proper Accounting management. With the Accounting module, you can easily manage Debit notes and Credit notes.

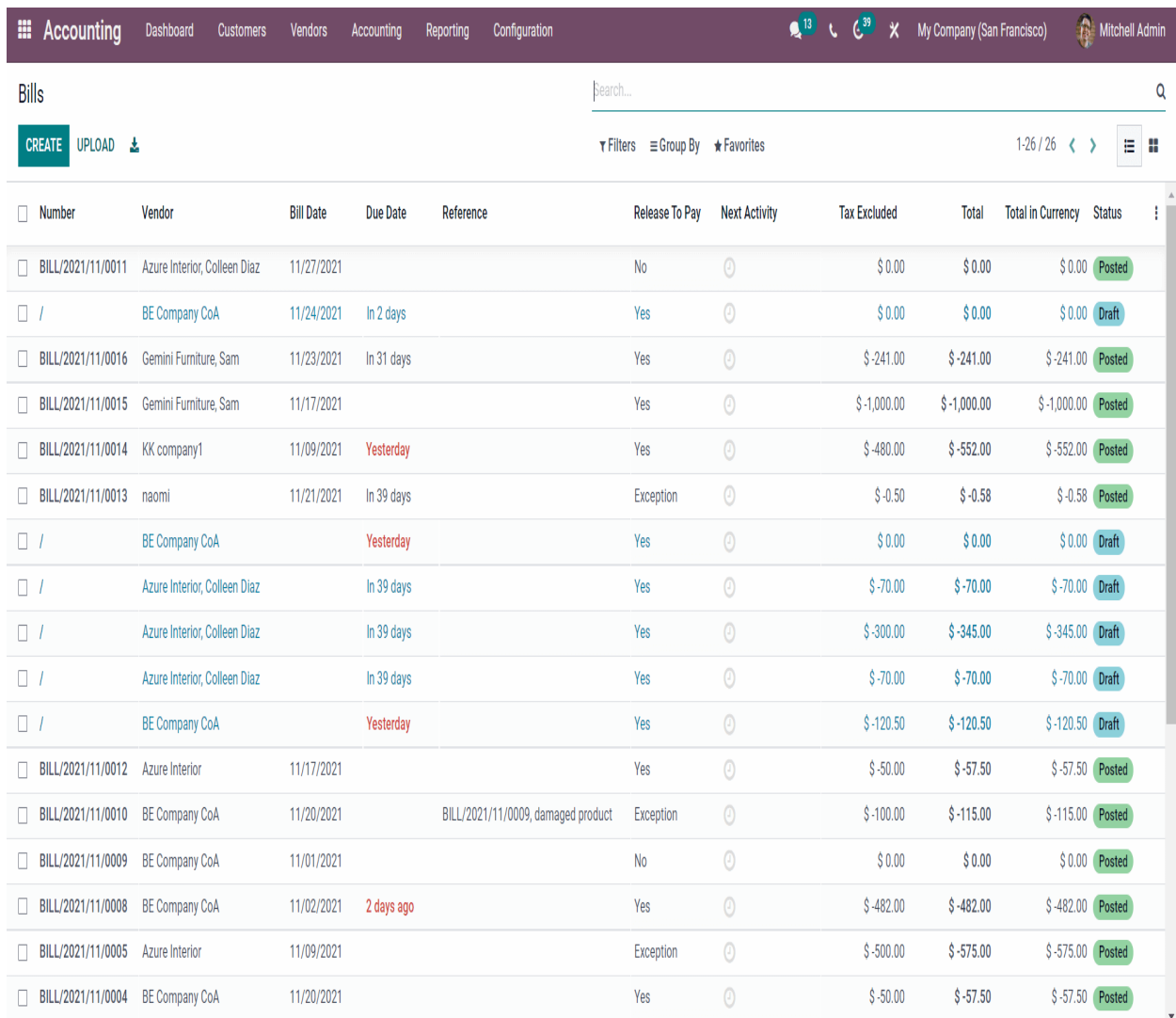
This Blog will give you a detailed note on configuring and using Debit notes and Credit notes with the Odoo 15 Accounting module.

## Debit Notes

Debit notes are essential documents issued when the goods are returned due to many factors, including Damage to the goods or issues in services and many more. You can manage these inconveniences in business with Odoo. Managing debit notes is essential to keep an excellent customer-to-business relationship.

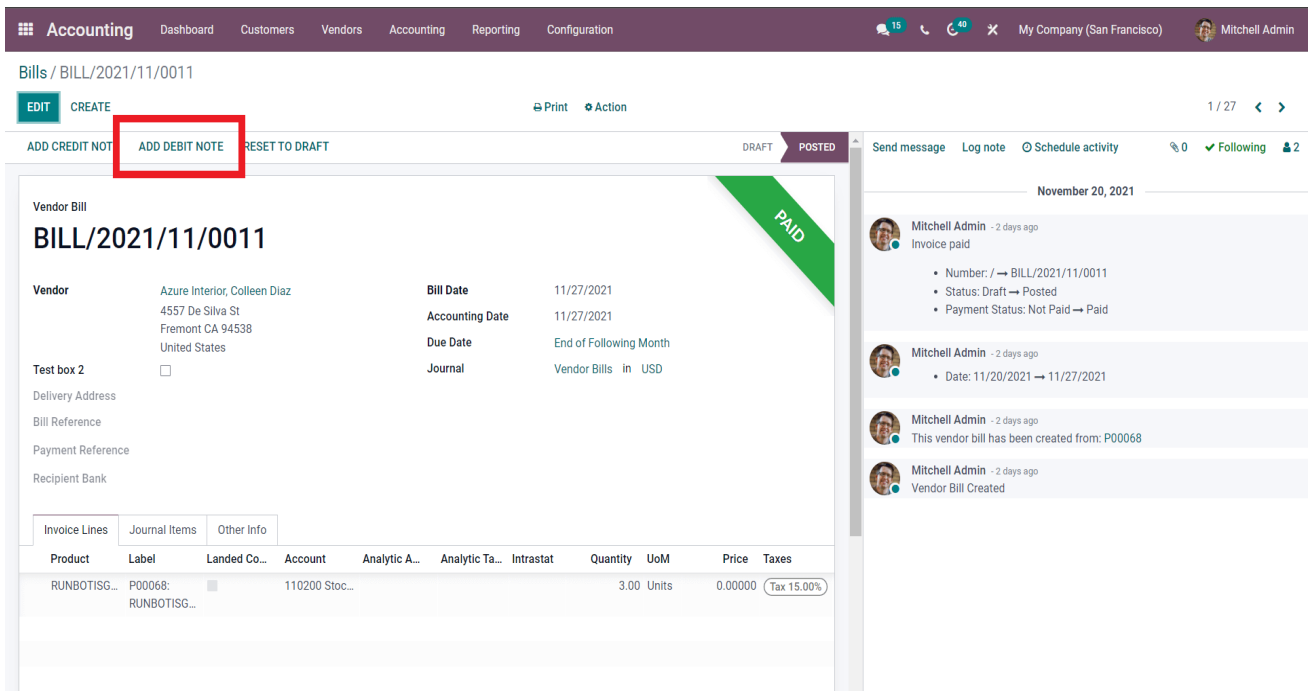
To use Debit Notes in the Accounting module of Odoo15, go to the module's dashboard, and under the Vendor tab, select Bills.

The page with Bill listed will open out as shown below.

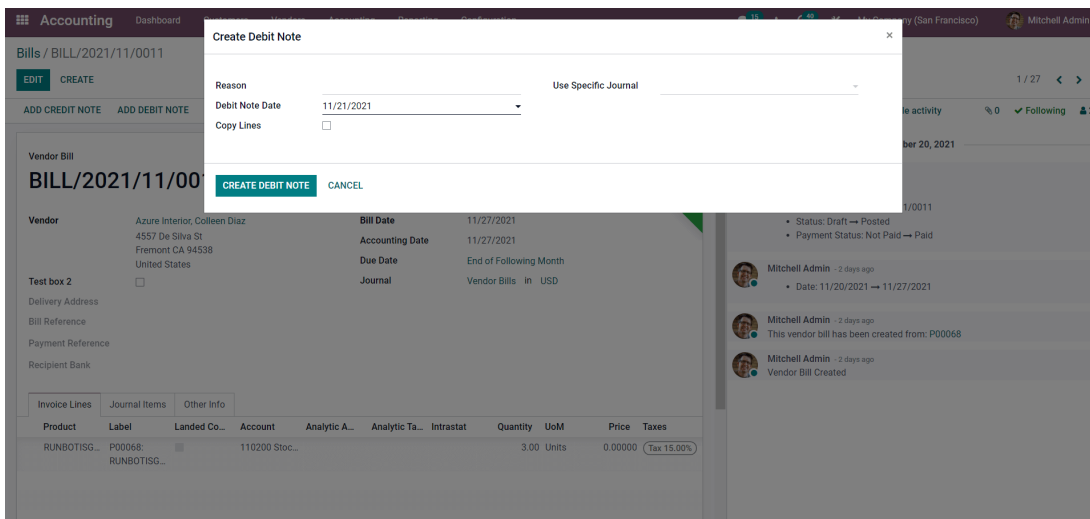


<input type="checkbox"/>	Number	Vendor	Bill Date	Due Date	Reference	Release To Pay	Next Activity	Tax Excluded	Total	Total in Currency	Status
<input type="checkbox"/>	BILL/2021/11/0011	Azure Interior, Colleen Diaz	11/27/2021			No		\$ 0.00	\$ 0.00	\$ 0.00	Posted
<input type="checkbox"/>	/	BE Company CoA	11/24/2021	In 2 days		Yes		\$ 0.00	\$ 0.00	\$ 0.00	Draft
<input type="checkbox"/>	BILL/2021/11/0016	Gemini Furniture, Sam	11/23/2021	In 31 days		Yes		\$ -241.00	\$ -241.00	\$ -241.00	Posted
<input type="checkbox"/>	BILL/2021/11/0015	Gemini Furniture, Sam	11/17/2021			Yes		\$ -1,000.00	\$ -1,000.00	\$ -1,000.00	Posted
<input type="checkbox"/>	BILL/2021/11/0014	KK company1	11/09/2021	Yesterday		Yes		\$ -480.00	\$ -552.00	\$ -552.00	Posted
<input type="checkbox"/>	BILL/2021/11/0013	naomi	11/21/2021	In 39 days		Exception		\$ -0.50	\$ -0.58	\$ -0.58	Posted
<input type="checkbox"/>	/	BE Company CoA		Yesterday		Yes		\$ 0.00	\$ 0.00	\$ 0.00	Draft
<input type="checkbox"/>	/	Azure Interior, Colleen Diaz		In 39 days		Yes		\$ -70.00	\$ -70.00	\$ -70.00	Draft
<input type="checkbox"/>	/	Azure Interior, Colleen Diaz		In 39 days		Yes		\$ -300.00	\$ -345.00	\$ -345.00	Draft
<input type="checkbox"/>	/	Azure Interior, Colleen Diaz		In 39 days		Yes		\$ -70.00	\$ -70.00	\$ -70.00	Draft
<input type="checkbox"/>	/	BE Company CoA		Yesterday		Yes		\$ -120.50	\$ -120.50	\$ -120.50	Draft
<input type="checkbox"/>	BILL/2021/11/0012	Azure Interior	11/17/2021			Yes		\$ -50.00	\$ -57.50	\$ -57.50	Posted
<input type="checkbox"/>	BILL/2021/11/0010	BE Company CoA	11/20/2021		BILL/2021/11/0009, damaged product	Exception		\$ -100.00	\$ -115.00	\$ -115.00	Posted
<input type="checkbox"/>	BILL/2021/11/0009	BE Company CoA	11/01/2021			No		\$ 0.00	\$ 0.00	\$ 0.00	Posted
<input type="checkbox"/>	BILL/2021/11/0008	BE Company CoA	11/02/2021	2 days ago		Yes		\$ -482.00	\$ -482.00	\$ -482.00	Posted
<input type="checkbox"/>	BILL/2021/11/0005	Azure Interior	11/09/2021			Exception		\$ -500.00	\$ -575.00	\$ -575.00	Posted
<input type="checkbox"/>	BILL/2021/11/0004	BE Company CoA	11/20/2021			Yes		\$ -50.00	\$ -57.50	\$ -57.50	Posted

You can create, manage and have a complete overview of the Bills from here. To use the Debit note feature, select from the Bills or create a new bill and a configuration page on the Bill open up as shown below.

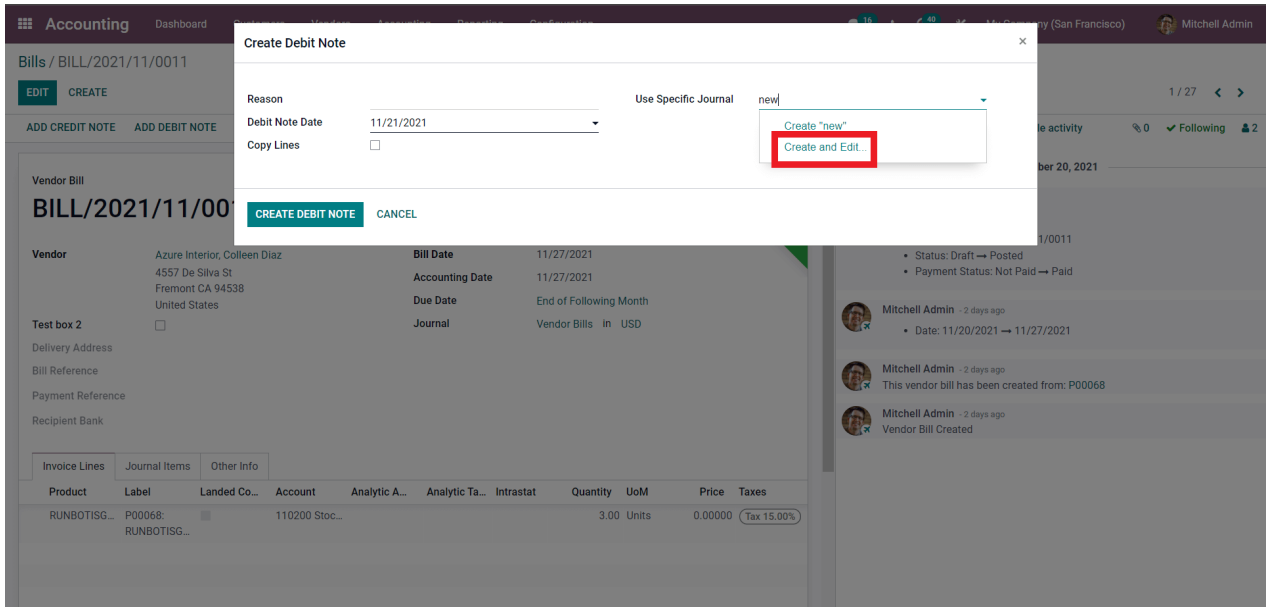


From the preceding Configuration page as shown below you can create a debit note.

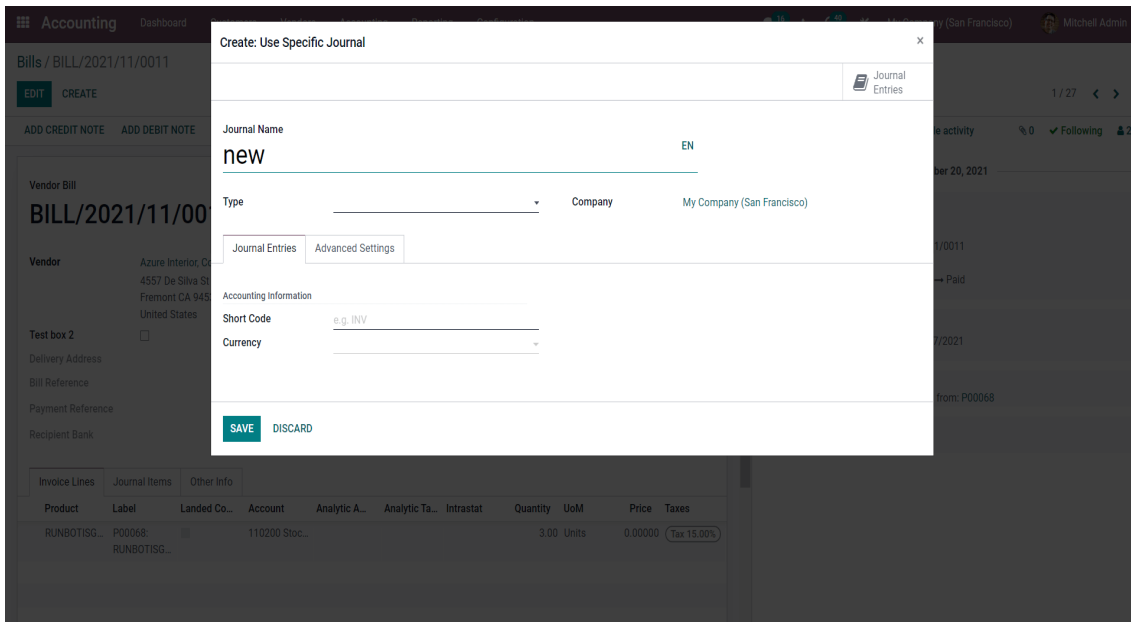


Here you can type in the reason for the debit note in the Reason section. You can use a specific Journal for the Debit note from the Use Specific Journal section. Click on the fields next to it to view the Journals defined and choose from them.

If you want to create a new journal just type in the name of the new Journal, and a Create and Edit button will appear as highlighted below.



A Specific Journal configuration tab will appear.



You can create the New Specific Journal from here. After the configuration, save it and add it to the Debit note if necessary.

Choose the Debit Note Date from the Debit note configuration section. After the configurations, click on the 'CREATE DEBIT NOTE BUTTON' and create the debit note. The Vendor bill page will open up after the Debit Note configurations. Add the product under the 'Invoice Lines' tab below and click on the Confirm button.

Accounting Dashboard Customers Vendors Accounting Reporting Configuration My Company (San Francisco) Mitchell Admin

Bills / BILL/2021/11/0011 / Draft Bill BILL/2021/11/0028 (BILL/2021/11/0011, New case)

EDIT CREATE Print Action 1 / 1 < >

**CONFIRM** CANCEL DRAFT POSTED Send message Log note Schedule activity 0 Following 2

Today

Mitchell Admin - now  
• Status: Posted → Draft

Mitchell Admin - a minute ago  
• Number: / → BILL/2021/11/0028  
• Status: Draft → Posted

Mitchell Admin - a minute ago  
• Untaxed Amount: \$ 0.00 → \$ 500.00

Mitchell Admin - 3 minutes ago  
This debit note was created from: BILL/2021/11/0011

Mitchell Admin - 3 minutes ago  
This entry has been duplicated from BILL/2021/11/0011

Mitchell Admin - 3 minutes ago  
Vendor Bill Created

Vendor Bill

### BILL/2021/11/0028

**Vendor** Azure Interior, Colleen Diaz  
4557 De Silva St  
Fremont CA 94538  
United States

**Bill Date** 11/21/2021

**Accounting Date** 11/21/2021

**Due Date** 11/21/2021

**Journal** Vendor Bills in USD

**Test box 2**

**Delivery Address**

**Bill Reference** BILL/2021/11/0011, New case

**Payment Reference**

**Recipient Bank**

Product	Label	Landed Co...	Account	Analytic A...	Analytic Tags	Intrast...	Quantity	UoM	Price	Taxes
[DESK0004] ...	[DESK0004] Customizable Desk (Aluminium, Black)		110200 Stoc...				1.00	Units	500.00000	Tax 15.00%

Add a line Add a section Add a note

The confirmation button will proceed you to the next stage or section of the process, as shown below.

Accounting Dashboard Customers Vendors Accounting Reporting Configuration My Company (San Francisco) Mitchell Admin

Bills / BILL/2021/11/0011 / BILL/2021/11/0028 (BILL/2021/11/0011, New case)

EDIT CREATE Print Action 1 / 1 < >

**REGISTER PAYMENT** ADD CREDIT NOTE RESET TO DRAFT DRAFT POSTED Send message Log note Schedule activity 0 Following 2

You have outstanding debits for this vendor. You can allocate them to mark this bill as paid.

Vendor Bill

### BILL/2021/11/0028

**Vendor** Azure Interior, Colleen Diaz  
4557 De Silva St  
Fremont CA 94538  
United States

**Bill Date** 11/21/2021

**Accounting Date** 11/21/2021

**Due Date** 11/21/2021

**Journal** Vendor Bills in USD

**Test box 2**

**Delivery Address**

**Bill Reference** BILL/2021/11/0011, New case

**Payment Reference**

**Recipient Bank**

Product	Label	Landed Co...	Account	Analytic A...	Analytic Tags	Intrast...	Quantity	UoM	Price	Taxes
[DESK0004] ...	[DESK0004] Customizable Desk (Aluminium, Black)		110200 Stoc...				1.00	Units	500.00000	Tax 15.00%

Today

Mitchell Admin - now  
• Number: / → BILL/2021/11/0028  
• Status: Draft → Posted

Mitchell Admin - now  
• Untaxed Amount: \$ 0.00 → \$ 500.00

Mitchell Admin - 2 minutes ago  
This debit note was created from: BILL/2021/11/0011

Mitchell Admin - 2 minutes ago  
This entry has been duplicated from BILL/2021/11/0011

Mitchell Admin - 2 minutes ago  
Vendor Bill Created

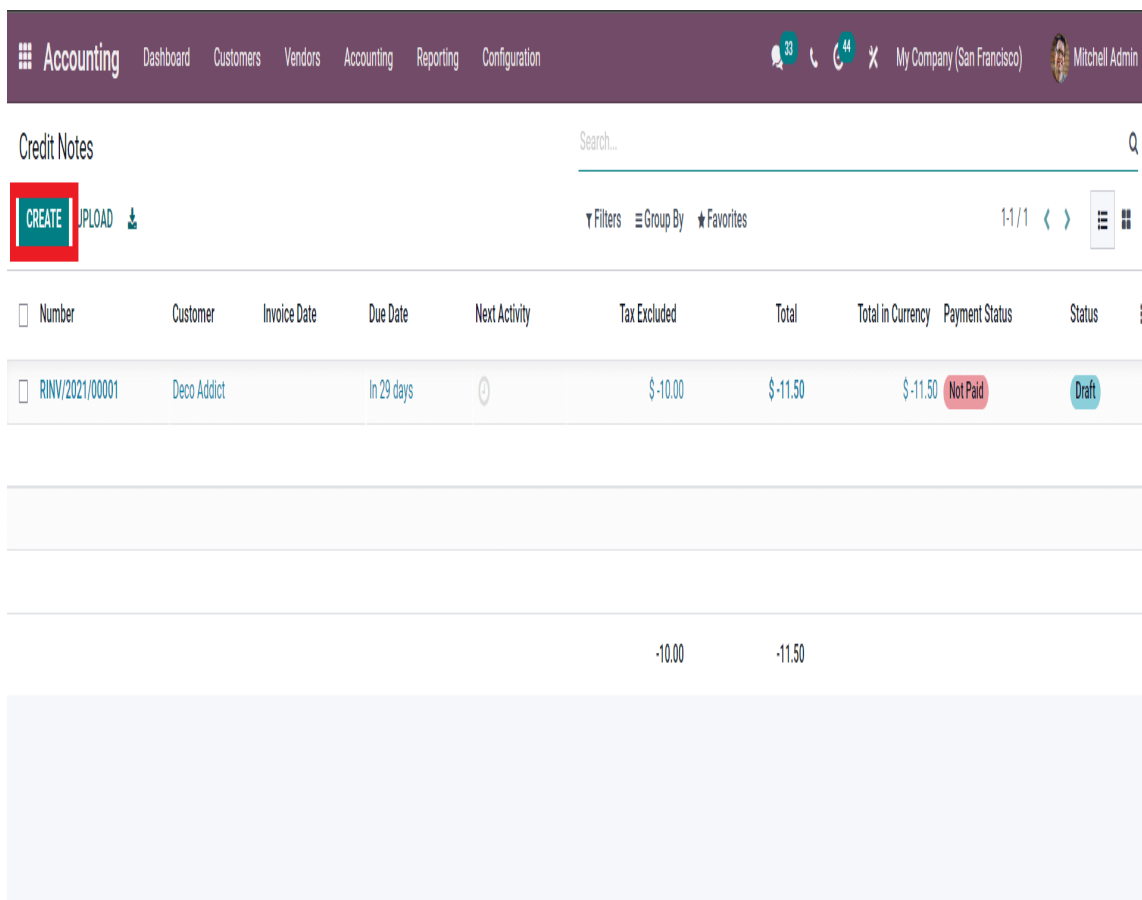
Here in the Bill reference section, you can see the name of the Debit Note. Here the Name is Following the bill number, 'New Case.' Click on the REGISTER PAYMENT button to Register the payment.

This is how you create and configure the Discount notes in Odoo.

## Credit Notes

Credit Notes are short documents issued to the Customers as a notification that a certain amount has been credited from them. Credit Notes are triggered due to a mistake in the invoice, a rejection of the services, damaged items or goods, and sending wrong items. For this matter, Credit Notes play a massive role inefficient management.

It is effortless to use and manage credit notes with the Odoo 15 Accounting module in any of these cases. To issue a Credit note or Credit Memo, go to your Accounting module. From the Dashboard of Accounting module under the Customer tab, you can find Credit Notes; click on it to go to the Credit notes below.



The screenshot displays the Odoo 15 Accounting module interface. At the top, there is a navigation bar with the following items: Accounting, Dashboard, Customers, Vendors, Accounting, Reporting, and Configuration. On the right side of the navigation bar, there are notification icons for 33 and 44, and the user information 'My Company (San Francisco)' and 'Mitchell Admin'.

Below the navigation bar, the page title is 'Credit Notes'. To the right of the title is a search bar labeled 'Search...'. Below the search bar, there are buttons for 'CREATE' (highlighted with a red box), 'UPLOAD', and a download icon. To the right of these buttons are 'Filters', 'Group By', and 'Favorites' options. Further right, there is a pagination indicator '1-1/1' and a list view icon.

The main content area contains a table with the following columns: Number, Customer, Invoice Date, Due Date, Next Activity, Tax Excluded, Total, Total in Currency, Payment Status, and Status. The table has one row of data:

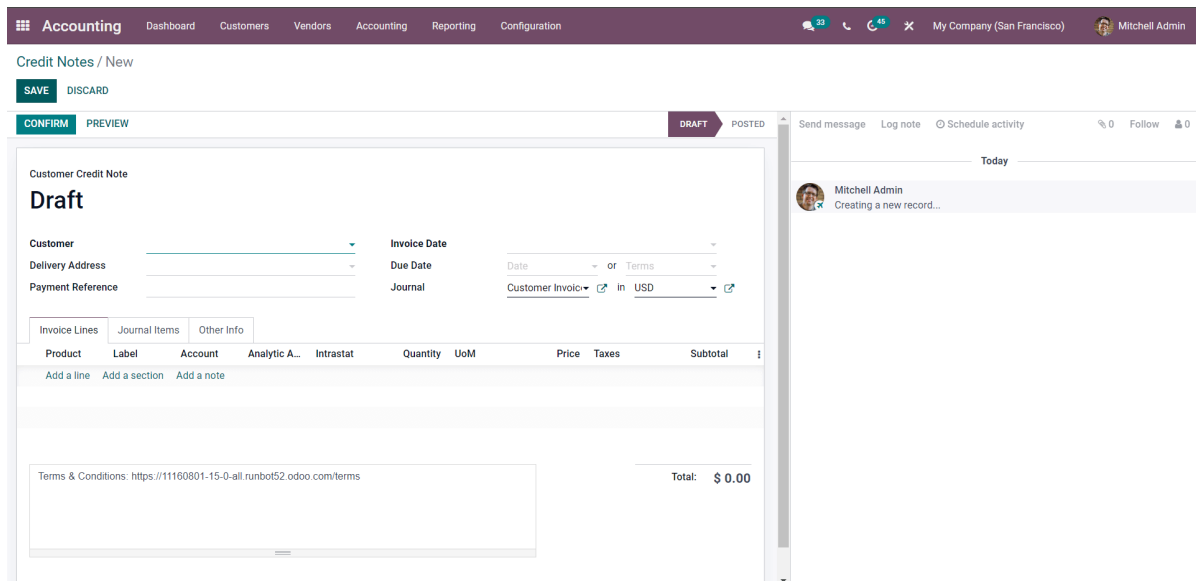
Number	Customer	Invoice Date	Due Date	Next Activity	Tax Excluded	Total	Total in Currency	Payment Status	Status
RINV/2021/00001	Deco Addict		In 29 days		\$-10.00	\$-11.50	\$-11.50	Not Paid	Draft

Below the table, there is a summary row showing the total values: Tax Excluded: -10.00, Total: -11.50.

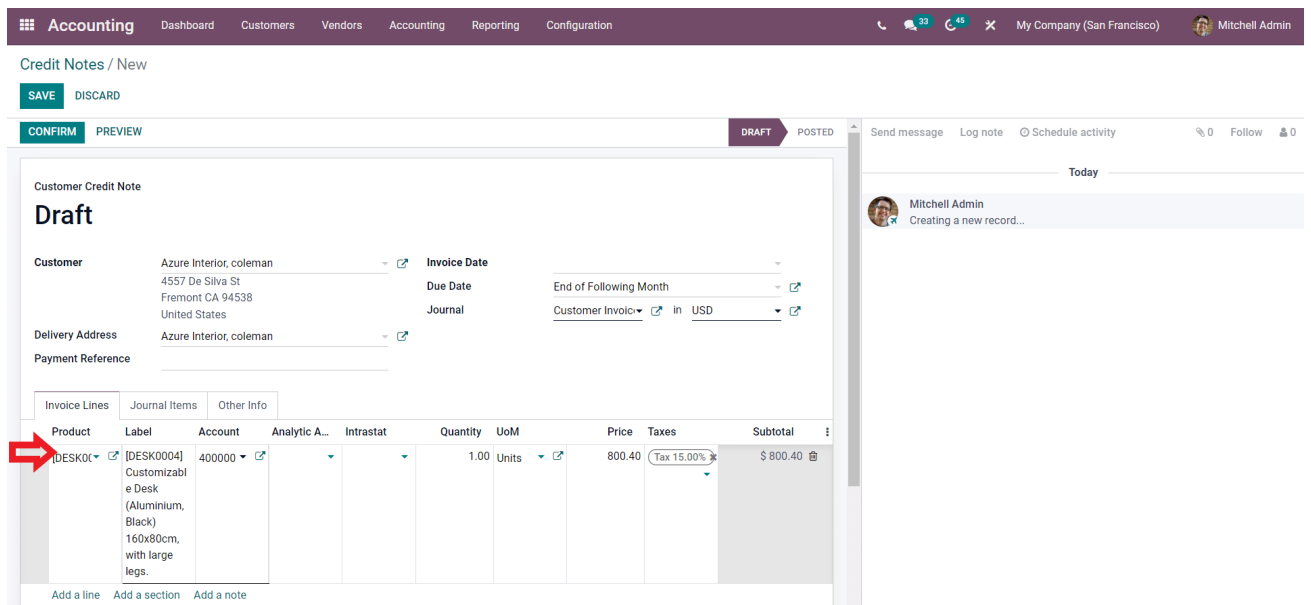
All of the Created Credit Reports will be listed here for you to overview and manage at any time.

Use the CREATE button highlighted in the image above to create a new Credit Note. A configuration page will open up for you to configure the Credit note directly from the customer invoice, as shown below.





The primary step is to choose the Customer and set the delivery address. After the configurations on the upper section of the invoice under the invoice tab, you can add the products by clicking on the Add a line button. Choose the product and add it to the invoice as shown below.



Type in the Invoice Date, Due date, Delivery address, and choose the Journal. Add the Product, and in the Journal items, you can check the Journal items, and you can have and add more info under the Other info tab.

After the configuration, use the CONFIRM button, for confirmation.

Accounting Dashboard Customers Vendors Accounting Reporting Configuration My Company (San Francisco) Mitchell Admin

Credit Notes / RINV/2021/00002

SAVE DISCARD 1 / 1 < >

SEND & PRINT REGISTER PAYMENT PREVIEW ADD DEBIT NOTE RESET TO DRAFT DRAFT POSTED Send message Log note Schedule activity 0 Following 2

You have outstanding payments for this customer. You can allocate them to mark this invoice as paid.

Customer Credit Note  
**RINV/2021/00002**

Customer: Azure Interior, coleman  
4557 De Silva St  
Fremont CA 94538  
United States  
Invoice Date: 11/22/2021  
Due Date: End of Following Month  
Journal: Customer Invoices in USD

Delivery Address: Azure Interior, coleman  
Payment Reference

Product	Label	Account	Analytic Acco...	Intrastat	Quantity	UoM	Price	Taxes	Subtotal
[DESK0004] Cu...	[DESK0004] Customizable Desk (Aluminium, Black) 160x80cm, with large legs.	400000 Product...			1.00	Units	800.40	Tax 15.00%	\$ 800.40

From here, click on the REGISTER PAYMENT button.

Accounting Dashboard Customers Vendors Accounting Reporting Configuration My Company (San Francisco) Mitchell Admin

Credit Notes / RINV/2021/00002

EDIT CREATE 1 / 2 < >

SEND & PRINT REGISTER PAYMENT You have outstanding payments for this customer. You can allocate them to mark this invoice as paid.

Customer Credit Note  
**RINV/2021/00002**

Customer: Azure Interior, coleman  
4557 De Silva St  
Fremont CA 94538  
United States  
Invoice Date: 11/22/2021  
Due Date: End of Following Month  
Journal: Customer Invoices in USD

Delivery Address: Azure Interior, coleman  
Payment Reference

Product	Label	Account	Analytic Acco...	Intrastat	Quantity	UoM	Price	Taxes	Subtotal
[DESK0004] Cu...	[DESK0004] Customizable Desk (Aluminium, Black) 160x80cm, with large legs.	400000 Product...			1.00	Units	800.40	Tax 15.00%	\$ 800.40

**Register Payment**

Journal: Bank Amount: \$920.46 USD

Payment Method: Manual Payment Date: 11/22/2021

Recipient Bank: Account: Memo: RINV/2021/00002

CREATE PAYMENT CANCEL

Note that the Files will be automatically filled in concerning the product you have chosen. After the configuration, click on the CREATE PAYMENT button, and the invoice will display with the tag as IN PAYMENT, as shown below.

Accounting Dashboard Customers Vendors Accounting Reporting Configuration 15 44 That will teach you to put a record rule :) Enjoy English Mitchell Admin

Credit Notes / RINV/2021/00002

EDIT CREATE Print Action 1 / 1 < >

SEND & PRINT PREVIEW ADD DEBIT NOTE RESET TO DRAFT DRAFT POSTED Send message Log note Schedule activity 0 Following 2

Customer Credit Note

## RINV/2021/00002

**Customer** Registered Customer  
201, Second Floor, IT Tower 4  
InfoCity Gate - 1, Infocity  
Gandhinagar 382007  
Gujarat GJ  
India - 12GEOPS0823BBZH

**Invoice Date** 11/22/2021  
**Due Date** 11/22/2021  
**Journal** Customer Invoices in USD

**Delivery Address** Registered Customer

Payment Reference

TAAB

Invoice Lines Journal Items Other Info

Product	TAAB	Label	Account	Analytic Ac...	Intrastat	Quantity	UoM	Price	Taxes	Subtotal
[DESK0004]	<input type="checkbox"/>	[DESK0004] Customizable Desk (Aluminium, Black) 160x80cm, with large legs.	400000 Prod...	[AGR] S0004...		1.00	Units	800.40	(Tax 15.00%)	\$ 800.40

**INPAYMENT**

Today

Mitchell Admin - now  
• Payment Status: Not Paid → In Payment

Mitchell Admin - 20 minutes ago  
Invoice validated  
• Number: / → RINV/2021/00002  
• Status: Draft → Posted

Mitchell Admin - 20 minutes ago  
Invoice Created

## From customer invoice

You can also create Credit notes Directly from the Customer Invoice. To do this, go to the Customer Tab from the Dashboard of the Accounting module and click on the CREATE button to create a new invoice.

Accounting Dashboard Customers Vendors Accounting Reporting Configuration 15 44 That will teach you to put a record rule :) Enjoy English Mitchell Admin

Invoices / New

SAVE DISCARD CONFIRM PREVIEW DRAFT POSTED Send message Log note Schedule activity 0 Follow 0

Customer Invoice

## Draft

**Customer**  **Invoice Date**

**Delivery Address**  **Due Date**  or  **Terms**

**Payment Reference**  **Journal**  in

TAAB

Invoice Lines Journal Items Other Info

Product	TAAB	Label	Account	Analytic ...	Intrastat	Quantity	UoM	Price	Taxes	Subtotal
Add a line Add a section Add a note										

Terms and Conditions

Total: \$ 0.00

Today

Mitchell Admin  
Creating a new record...

You can configure the Invoice form here. Type in the details and add the Product here and click on CONFIRM.

Accounting Dashboard Customers Vendors Accounting Reporting Configuration 15 44 x That will teach you to put a record rule :) Enjoy English Mitchell Admin

Invoices / INV/2021/00016

SAVE DISCARD 19 / 19 < >

SEND & PRINT REGISTER PAYMENT PREVIEW **ADD CREDIT NOTE** ADD DEBIT NOTE RESET TO DRAFT DRAFT POSTED

You have outstanding payments for this customer. You can allocate them to mark this invoice as paid.

Customer Invoice  
**INV/2021/00016**

Customer: Azure Interior, 4557 De Silva St, Fremont CA 94538, United States  
 Invoice Date: 11/22/2021  
 Due Date: End of Following Month  
 Delivery Address: Azure Interior  
 Payment Reference: INV/2021/00016  
 Journal: Customer Invoices in USD

Product	TAAB	Label	Account	Analytic Ac...	Intrastat	Quantity	UoM	Price	Taxes	Subtotal
[DESK0004] ...		[DESK0004] Customizable Desk (Aluminium, Black) 160x80cm, with large legs.	400000 Prod...	[AGR] S0004...		1.00	Units	800.40	Tax 15.00%	\$ 800.40

Invoice Lines Journal Items Other Info

Send message Log note Schedule activity 0 Following 2

Today

- Mitchell Admin - now Invoice validated
  - Number: / → INV/2021/00016
  - Status: Draft → Posted
- Mitchell Admin - now Journal Item #1214 updated
  - Label: → INV/2021/00016
- Mitchell Admin - now Invoice Created

From here, click on the ADD CREDIT NOTE. As shown below, a configuration tab will open up to configure the Credit note.

Accounting Dashboard Customers Vendors Accounting Reporting Configuration 15 44 x That will teach you to put a record rule :) Enjoy English Mitchell Admin

Invoices / INV/2021/00016

SAVE DISCARD 19 / 19 < >

SEND & PRINT REGISTER PAYMENT

You have outstanding payments for this customer.

Customer Invoice  
**INV/2021/00016**

Customer: Azure Interior, 4557 De Silva St, Fremont CA 94538, United States  
 Delivery Address: Azure Interior  
 Payment Reference: INV/2021/00016

Invoice Lines Journal Items Other Info

Product TAAB Label Account Analytic Ac... Intrastat Quantity UoM Price Taxes Subtotal

[DESK0004] ... [DESK0004] 400000 Prod... [AGR] S0004... 1.00 Units 800.40 Tax 15.00% \$ 800.40

Customizable Desk (Aluminium, Black) 160x80cm, with large legs.

REVERSE CANCEL

**Credit Note**

Credit Method:  Partial Refund  Full Refund  Full refund and new draft invoice

The credit note is created in draft and can be edited before being issued.

Reason: \_\_\_\_\_ Use Specific Journal: Customer Invoices

Reversal Date:  Specific  Journal Entry Date Refund Date: 11/22/2021

Mitchell Admin - 6 minutes ago Invoice Created

There are three Credit Methods: Partial Refund, Full Refund, Full Refund, and New Draft Invoice.

Selecting the Partial refund creates the Draft credit note prefilled with the original invoice information.

If you choose Full Refund, the credit note will be automatically validated and will be reconciled with the invoice. If you select Full Refund and New Draft Invoice, then the credit note will be auto validated and will also be reconciled with the invoice. The original or the real invoice will be saved and duplicated as a new Draft.

And Similar to the Debit Note, you can Use a specific Journal if necessary. Type in the reason for the Credit note in the 'Reason' section. You can choose between Reversal Date between Specific or Journal entry date. If you select Specific, you can configure and enter a custom date, and if you select the Journal entry date, it will be automatically updated concerning the journal entry date.

After the Configurations, click on the REVERSE button to finalize the process and Confirm it by clicking on the CONFIRM button from the invoice configuration section below.

Accounting Dashboard Customers Vendors Accounting Reporting Configuration 15 44 That will teach you to put a record rule :) Enjoy English Mitchell Admin

Invoices / INV/2021/00016 / Draft Credit Note (\* 289) (Reversal of: INV/2021/00016)

EDIT CREATE Print Action 1 / 1 < >

**CONFIRM** PREVIEW CANCEL **DRAFT** POSTED

Send message Log note Schedule activity 0 Following 1

Today

Mitchell Admin - 3 minutes ago  
Invoice Created

**Customer Credit Note**  
**Draft**

**Customer** Azure Interior  
4557 De Silva St  
Fremont CA 94538  
United States

**Invoice Date** 11/22/2021  
**Due Date** 11/22/2021  
**Journal** Customer Invoices in USD

**Delivery Address** Azure Interior

Payment Reference

TAAB

Product	TAAB	Label	Account	Analytic A...	Intrastat	Quantity	UoM	Price	Taxes	Subtotal
[DESK0004]		[DESK0004] Customizable Desk (Aluminium, Black) 160x80cm, with large legs.	400000 Prod...	[AGR] S0004...		1.00	Units	800.40	Tax 15.00%	\$ 800.40

Add a line Add a section Add a note

The final page for the entire process will open up as shown below.

Accounting Dashboard Customers Vendors Accounting Reporting Configuration 15 44 That will teach you to put a record rule :) Enjoy English Mitchell Admin

Invoices / INV/2021/00016 / RINV/2021/00003 (Reversal of: INV/2021/00016)

SAVE DISCARD DRAFT POSTED 1 / 1 < >

SEND & PRINT REGISTER PAYMENT PREVIEW ADD DEBIT NOTE RESET TO DRAFT **DRAFT** **POSTED**

You have outstanding payments for this customer. You can allocate them to mark this invoice as paid.

Send message Log note Schedule activity 0 Following 2

Today

Mitchell Admin - 3 minutes ago  
Invoice validated  
• Status: Draft → Posted

Mitchell Admin - 3 minutes ago  
• Status: Posted → Draft

Mitchell Admin - 4 minutes ago  
Invoice validated  
• Number: / → RINV/2021/00003  
• Status: Draft → Posted

Mitchell Admin - 8 minutes ago  
Invoice Created

**Customer Credit Note**  
**RINV/2021/00003**

**Customer** Azure Interior  
4557 De Silva St  
Fremont CA 94538  
United States

**Invoice Date** 11/22/2021  
**Due Date** 11/22/2021  
**Journal** Customer Invoices in USD

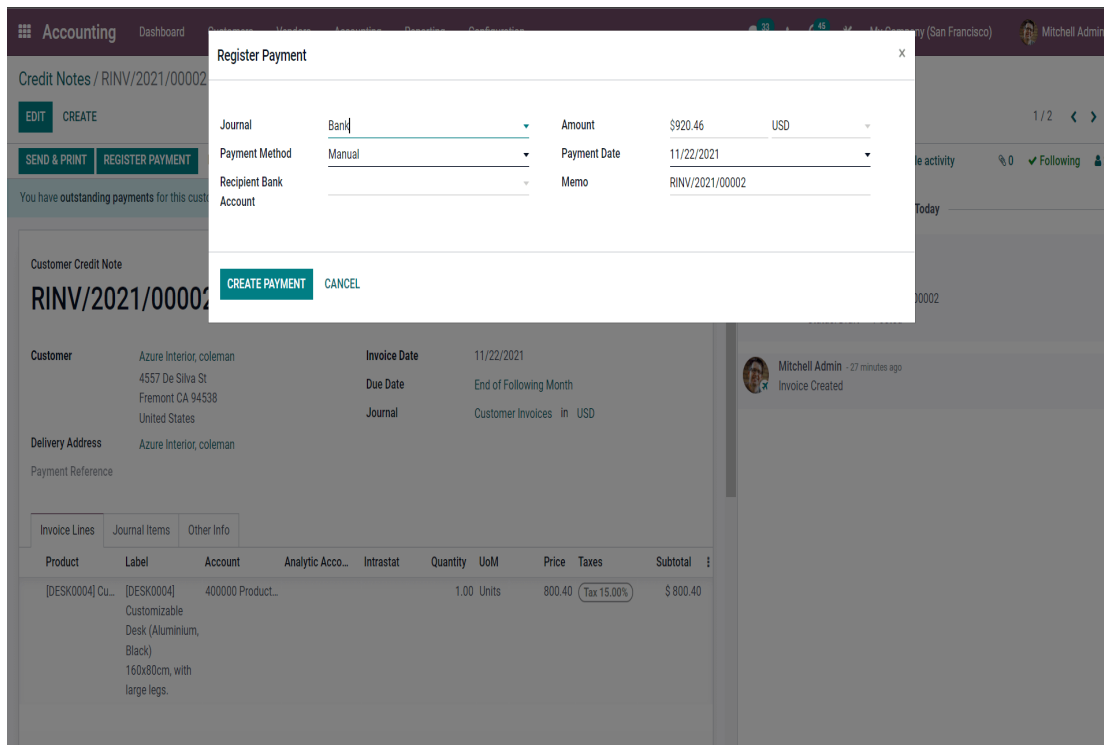
**Delivery Address** Azure Interior

Payment Reference

TAAB

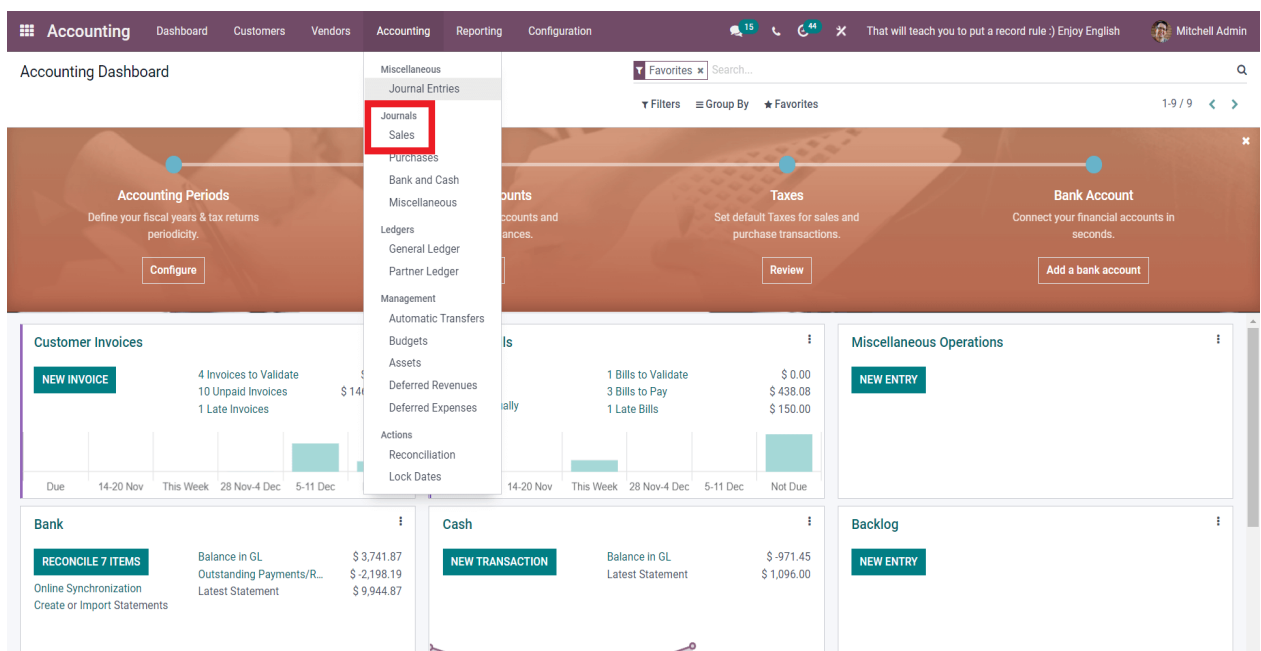
Product	TAAB	Label	Account	Analytic Ac...	Intrastat	Quantity	UoM	Price	Taxes	Subtotal
[DESK0004]		[DESK0004] Customizable Desk (Aluminium, Black) 160x80cm, with large legs.	400000 Prod...	[AGR] S0004...		1.00	Units	800.40	Tax 15.00%	\$ 800.40

Click on the REGISTER PAYMENT button after a final check, and a configuration tab will open up for Register Payment, as shown below.



All of the details will be auto-filled, and if you want to change the configuration, you can do it from here. After the setup, click on the CREATE PAYMENT, and the formats will be saved.

After this, the Credit note will be available to view in the Sales Journal. Go to the Accounting tab from the Dashboard of the Accounting module, under the Journal section, select Sales as shown below.



This will take you to the Sales section shown below, where the newly created Credit Note will be displayed in the list.

Account	Label	Amount in Currency	Debit	Credit	Matching	Taxes	Tax Gri...
11/22/2021, RINV/2021/00003	(Reversal of: INV/2021/00016) - Azure Inte...	0.00	920.46	920.46			
251000	Tax 15.00%	\$ 120.06	\$ 120.06	\$ 0.00			
121000	Account Receivable	\$ -920.46	\$ 0.00	\$ 920.46	A16		
11/22/2021, RINV/2021/00002	Registered Customer	0.00	920.46	920.46			
400000	Product Sales [DESK0004] Customizable Desk (Alumin...	\$ 800.40	\$ 800.40	\$ 0.00		Tax 15.00%	
251000	Tax 15.00%	\$ 120.06	\$ 120.06	\$ 0.00			
121000	Account Receivable	\$ -920.46	\$ 0.00	\$ 920.46	A15		
11/22/2021, INV/2021/00016	Azure Interior	0.00	920.46	920.46			
400000	Product Sales [DESK0004] Customizable Desk (Alumin...	\$ -800.40	\$ 0.00	\$ 800.40		Tax 15.00%	
251000	Tax 15.00%	\$ -120.06	\$ 0.00	\$ 120.06			
121000	Account Receivable INV/2021/00016	\$ 920.46	\$ 920.46	\$ 0.00			
11/22/2021, INV/2021/00015	(Shop/0003) - Yousef	0.00	695.50	695.50			
400000	Product Sales [FURN_0269] Office Chair Black	\$ -120.50	\$ 0.00	\$ 120.50			
400000	Product Sales Room 201	\$ -500.00	\$ 0.00	\$ 500.00		Tax 15.00%	
251000	Tax 15.00%	\$ -75.00	\$ 0.00	\$ 75.00			
121000	Account Receivable INV/2021/00015	\$ 695.50	\$ 695.50	\$ 0.00	A13		
11/22/2021, INV/2021/00013	Azure Interior	0.00	92.00	92.00			

Having an Efficient Credit and Debit note management system is essential for keeping the integrity of the business and will help you tremendously in achieving good customer relations.

### Debit or Credit Note Printing Configuration

Using the **Debit/Credit Note Printing Configuration** you can configure the dimensions and details of Debit/Credit Note, you can set the size, top margin of voucher, leave space on voucher for signature or verification purpose, you can also print the full ledger details like inventory details, bill-wise details, cost centre details and narrations.

1. Go to **Gateway of Tally > F12: Configure > Printing > Debit / Credit Note** .

The **Debit/Credit Note Printing Configuration** screen appears as shown below:

<u>Debit/Credit Note Printing Configuration</u>	
Print company logo	? <b>Yes</b>
Height of voucher (in inches)	: 6
Width of voucher (in inches)	: 5
Margin on top (default 0.25)	: 0.25
Margin on left (default 0.75)	: 0.75
Print complete mailing details	? No
Print full Ledger details	? No
Print Inventory details	? No
Print with Narrations	? No
Print narration for each entry	? No
Print bill-wise details	? No
Print Bill Due Date also	? No
Print Cost Centre Details	? No
Print space for Checked/Verified by details	? Yes
Print Amount in Foreign Currency	? Yes
Print Base Currency Symbol for Total	? Yes
Print Company's PAN / Income Tax No.	? Yes
Print Party's PAN / Income Tax No.	? No
Print e-SUGAM No	? Yes

2. Enable the required options.
3. Press **Ctrl+A** to accept.

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## 5.8 NEW COMPANY ACCOUNTS

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### Introduction to Company Accounts

Company accounts are known as a summarization of an organization's financial activity which has been performed over a period of 12 month. They are prepared for Companies House and HM Revenue & Customs every year and consist of the Balance Sheet, the Profit and Loss Statement, and the Cash Flow Statement. (“Company Profit Sharing Accounts”) and any contributions made by an Employer under prior plans, as well as to any income and/or earnings attributable to such Company Contributions and prior plan contributions.

Basic Concept of Company Accounts for New Entrepreneurs & Purpose of Company Accounts:

Company accounts are a summary of an organization’s financial activity over 12 months. They are prepared for Companies House and HM Revenue & Customs every year and consist of the Balance Sheet, the Profit and Loss Statement, and the Cash Flow Statement.



### Purpose of Company Accounts:

Company accounts are used to track the cash balance, money owed to the business, money owed to creditors, Excess, and access and the payroll paid to employees.

Company accounts are an analysis of an organization's financial activity over a period (12 months). For showing the financial performance of a company, accounts are maintained and they are prepared in corporate accounting.

It is a recording of the issue of shares, debentures, etc. of the company. Other routine accounts of the company are also recorded. With all these details, every year the company prepares accounts consisting of the Cash Flow Statement, the Profit and Loss Statement, and Balance Sheet.

### Company Accounts- Issue of Shares

The issue of shares is a process in which a company allocates new shares to the public. The company issues prospectus, receives applications and then allocates them to the public. Shares are issued either at par or a premium or a discount. If the shares of a company are issued at a price more than the face value of the shares, the excess amount is called the premium. If the shares are issued at a price less than the face value of the share, it is called shares issued at a discount. The image below gives a clear idea of the issue of shares.

### Company Accounts- Accounting for Share Capital

A company cannot generate its capital, which has to be necessarily collected from several persons. The persons who contributed the amount are the shareholders and the amount thus collected is the share capital of the company. The capital amount collected is kept in a "Share Capital Account".

From the point of accounting, the share capital of the company is classified as (1) Authorized Capital, (2) Issued Capital, (3) Subscribed Capital, (4) Called up Capital, (5) Paid-up Capital, (6) uncalled capital, and (7) Reserve Capital.

The issue of ordinary shares is accounted for by allocating the proceeds under (1) Share Capital Account and (2) Share Premium Account. All the money received along with the application is deposited with a scheduled bank in a separate account as above opened for the purpose.

### Company Accounts– Notes

Company accounts are a consolidation of a company's financial activities for one year. It consists of the Cash Flow Statement, Balance Sheet, and Profit & Loss Account.

The Cash Flow Statement reveals the movement of cash in and out of the business over the financial year. There are three categories in the cash flow statement. One is Operating

activities, which reveals the amount of cash that came from the sales of goods and services less the amount needed to sell goods/ services. The second one is Investing activities, which shows the amount of cash spent on capital expenditure. And, the third one is Financing activities, which shows the amount of cash spent on outside financing.

The Balance Sheet of a company gives an insight into the assets, liabilities, and shareholders' equity at a specific point in time. It indicates the financial health of the company.

In a Profit & Loss Account, we can see the details of the revenues and expenses of business throughout the financial year. It differs from the balance sheet as it records performance over some time rather than a snapshot.

### **How to Start an Accounting System for a New Business?**

An accounting system is an important part of a business. Without a definitive system in place, a business cannot keep track of what it owns, to whom it owes money and any outstanding accounts from its customers. Also, a company's cash flow must be tracked to ensure it is not spending needlessly and as a gauge for its pricing. Creating an accounting system need not be an overly complicated task; as long as a business knows what it owns and to whom it owes money, an accounting system can be set up with relative ease.

1. Open a bank account for the business. The bank account will be necessary for accepting payments and paying your creditors. If you will have employees, a separate payroll account should be set up as well. When you accept a payment in cash, credit card transactions clear the credit card company and you need to pay your employees, this account is where the money will be deposited and withdrawn.
2. Make a list of creditors. This list will become your liability accounts in your accounting system. Include everyone to whom you owe money, such as vendors, credit card companies, mortgage companies, banks and finance companies. Make sure to include the amounts owed to each of your creditors.
3. Create a list of items and materials the company owns. This list will become your assets in the accounting system. Examples include cash, office equipment, buildings, vehicles and office supplies. Include the value of the assets when you make your list.
4. Determine the amount of discounts you will offer. If you are going to extend credit to your customers, determine if you will offer a discount to customers who pay promptly. For example you could offer your customers a 3 percent discount if they pay off their accounts within 10 days of purchase.

5. Choose a computerized accounting system and enter the data. A business can choose from various accounting systems, including Peachtree, Quicken and QuickBooks. Choose the accounting system that works best for your business. Keep in mind that each computerized accounting system requires a certain level of experience. Peachtree is for users with at least a familiarity with accounting, and QuickBooks can be used by someone with limited or no accounting experience.

### **Inventory Master's Maintenance**


The **Inventory Maintenance System** provides the facility to maintain product information and to manage and alter prices. Outlined below are the basic functions of the Inventory Maintenance System:

- Maintains the inventory master file.
- Prints inventory master lists, check lists, price lists and condensed lists.
- Deletes inventory records provided there are no sales, back-orders or purchase orders outstanding for the product.
- Maintains special pricing and product group discounts through Customer Special Pricing tables.
- Prints special price lists by customer showing the pricing structure for that customer.
- Maintains flyer-pricing tables.
- Maintains future selling prices and future customer special prices.
- Provides a selling price recalculation program.
- Maintains product substitution master file.
- Maintains the inventory set master file, which lists the product components that make up an inventory set.
- Maintains the model and option master file, defines model groups and provides a list of models and their components.
- Maintains user-defined information.
- Maintains customer part number cross-reference.
- Allows for maintenance by product code, serial and lot number control flags.
- Allows for a second level of security to be maintained by inventory adjustment type code.
- Allows for maintenance of a general ledger inventory adjustment-relating table for automatic update to the General Ledger when stock adjustments are processed with the maintained codes.

## Account Voucher Maintenance

Vouchers are used to register the receipt of the invoice. Details of the invoice are input details of the invoice and create a “voucher” for it within the system.

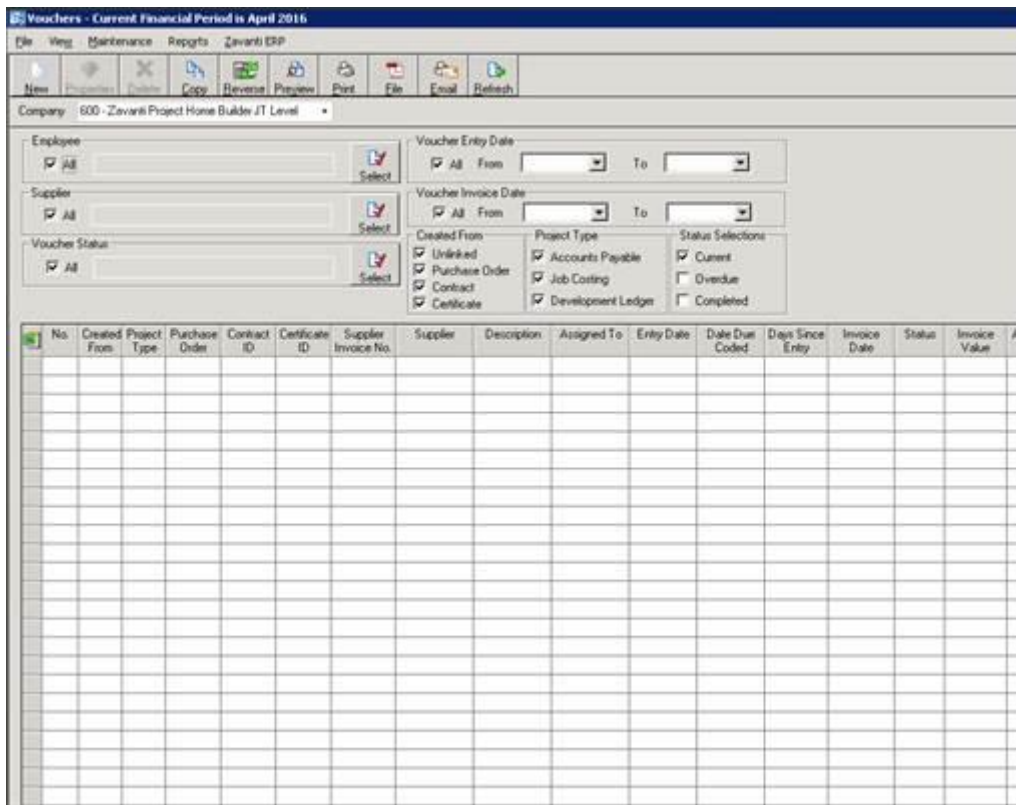



1. Select the Voucher  button from the Toolbar or the Menu Path Accounts Payable Ø Transactions Ø Voucher Maintenance.



Note that this transaction initiates the Voucher module. If the Voucher module has not been implemented, this function will not be enabled.


2. The following window will be displayed:

A screenshot of a software window titled "Vouchers - Current Financial Period is April 2016". The window has a menu bar with "File", "View", "Maintenance", "Reports", and "Zavanti ERP". Below the menu bar is a toolbar with icons for "New", "Properties", "Delete", "Copy", "Reverse", "Preview", "Print", "File", "Equal", and "Refresh". The main area of the window is divided into several sections. On the left, there are three sections: "Employee" with a "Select" button, "Supplier" with a "Select" button, and "Voucher Status" with a "Select" button. On the right, there are three sections: "Voucher Entry Date" with "From" and "To" dropdowns, "Voucher Invoice Date" with "From" and "To" dropdowns, and "Created From" with a list of options: "Unlinked", "Purchase Order", "Contract", and "Certificate". Below these are "Project Type" with "Accounts Payable", "Job Costing", and "Development Ledger" options, and "Status Selections" with "Current", "Overdue", and "Completed" options. At the bottom of the window is a large table with the following columns: "No.", "Created From", "Project Type", "Purchase Order", "Contract ID", "Certificate ID", "Supplier Invoice No.", "Supplier", "Description", "Assigned To", "Entry Date", "Date Due", "Days Since Entry", "Invoice Date", "Status", "Invoice Value", and "Ac.". The table is currently empty.

3. Select the New  button from the Toolbar. The following window will be displayed:

4. The Voucher Number field will default to blank. The system will generate a unique number if the user leaves the field blank. For the purposes of this exercise, we will leave this field blank and press the Tab key.
5. The Entry Date field will default to the current date. Leave the value as defaulted and press the Tab key.
6. A value must be selected from the Supplier pick list. Select the arrow  from the Supplier pick list. Press the Tab key.
7. Once a Supplier has been selected, the Terms pick list will default to the payment terms specified against the Supplier record. Leave the Terms as defaulted, and press the Tab key.
8. The Project Type radio buttons are used to indicate the type of invoice it is and where it will be posted. For overhead/running cost expenses, the invoice should be posted to Accounts Payable. For job cost expenses, the invoice should be posted to the Job Costing or Development Ledger. For this exercise, leave the Accounts Payable radio button selected and press the Tab key.
9. The Coding Due Date will default to the current date and is used to indicate when action is required by.

10. The Status pick list is used to denote where the Voucher and invoice are at within the process. Select a value from the pick list and press the Tab key.

	A user may create new items within a code list by using the Maintenance function or by right clicking the field and selecting New.
---	--

11. The Assigned to pick list allows a user to select the person within their organisation that will action the voucher. Select a value from the list and press the Tab key.

12. The Notes field allows a user to specify instructions or further details of the invoice. Enter a value and press the Tab key.

13. This Invoice section is to capture the details of the Invoice. The Invoice Date field is for the date on the Invoice. The system will default the value to the current date. Select a date in the past and press the Tab key.

14. The Value field is required to capture the amount of the invoice. This should be the total amount payable (i.e. inclusive of any taxes) and should be entered in dollars and cents. Press the Tab key.

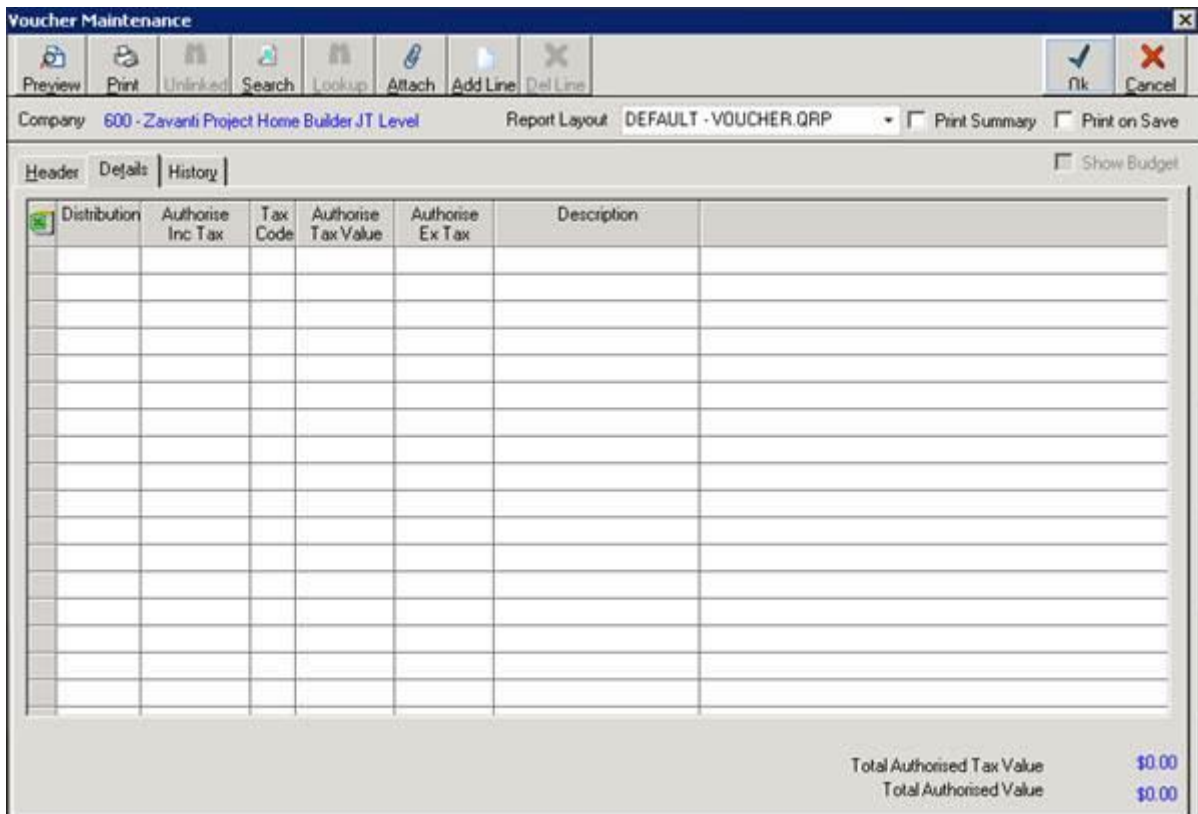
15. The Supplier Inv field is used to input the Supplier's reference that is the Invoice number. Enter a value and press the Tab key.



16. The Authorised field is used when the entry in the Details tab has been completed and an authorised amount assigned to the voucher.

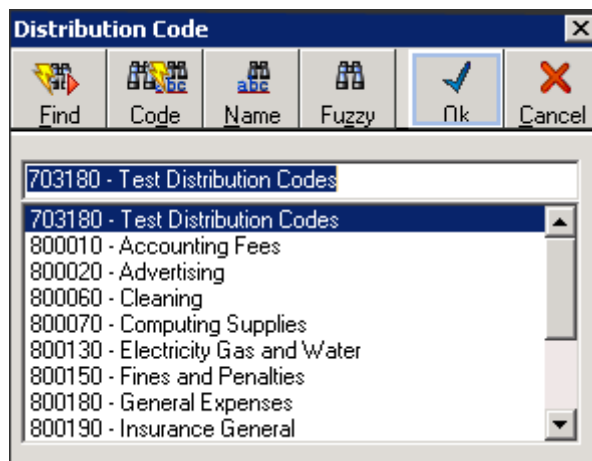
17. The Description field is used to enter a short description of the invoice. Type in a short description and press the Tab key.


18. The Completed  check box will default to blank. This is used to indicate when the voucher has been actioned. Leave the check box blank.

19. Select the Details tab. The following window will be displayed:



20. Select the Add Line  button. The line will now be enabled for entering details of the invoice. The cursor will be positioned in the Distribution field. Select the  Lookup button. The Distribution Code list will be displayed as follows:



21. Select a code from the list and press the OK  button. Press the Tab key.

22. In the Authorise field, enter the amount of the Invoice. Press the



Save button. The following dialogue box will be displayed:



23. When complete, select the No  button.

24. Click on OK to confirm.

### Account Master Maintenance

You will usually hear 'Masters in Accounting' referred to in one of three ways: Master of Accounting (MAcc or MAc), Master of Professional Accounting (MPAcy, MPA, MPAc or MPAcc) or Master of Science in Accounting (MSA). You may also be able to complete a Master of Business Administration (MBA) with a focus on accounting. Some countries and institutions may use the term 'Accountancy' instead of 'Accounting'.

Masters in Accounting programs usually last one or two years. In either case, students are expected to complete 30 to 36 credit or semester hours in order to qualify for their degree. This, coupled with the 120 hours studied at the undergraduate level means students will be able to take professional-level accountancy examinations such as the Uniform Certified Public Accountant Examination in the US, the Chartered Institute of Management Accountants qualification in the UK, or the Certified Practicing Accountants program in Australia.

As a Masters in Accounting student, you can expect to be taught through a combination of lectures, seminar classes, case studies and project work, including a significant amount of independent research, ending in a dissertation. Some students may also be offered the opportunity to undertake a project for an external organization.

Entry requirements for a Masters in Accounting



Institutions base their entry requirements on the bachelor's degree subject held by the candidate, grades and professional experience, with additional requirements (such as language proficiency tests) for international candidates.



Generally, students are expected to have a 2:1 bachelor's degree in accounting or a related quantitative subject such as commerce, computing, business studies, economics, engineering and finance. While some institutions may not insist on an accounting- or finance-related undergraduate degree, the candidate must be able to prove s/he is suitably numerate. Some institutions only accept professionally qualified accountants onto the Masters in Accounting program, and will specify the accreditations they accept.

Depending on your previous education, you may need to take extra courses to strengthen your background knowledge of accounting, mathematics or finance before you start your master's degree. This could be through a summer school program, or a distance-learning or online learning scheme. This applies to students whose bachelor's degrees did not include a substantial amount of accounting-based courses, students who wish to switch disciplines entirely, and students who have been out of academia for too long.

Candidates may be required to take the Graduate Management Admissions Test (GMAT) or the Graduate Record Examinations test (GRE) and international candidates may need to prove their proficiency in the language of teaching.

### Key Skills

Common skills gained with a Masters in Accounting include:

- Understanding of standard accounting practices, principles, regulations and industry
- Enhanced numerical and quantitative skills and techniques
- Knowledge of qualitative research methodology
- Knowledge of business

- High level accounting skills
- Understanding of ethical, legal and social responsibility in business, including accountability
- Advanced analytical and problem-solving ability
- Ability to analyse complex data sets
- Ability to make financial decisions
- Ability to work in a team, both in leadership and collaborative roles
- Ability to approach issues from multiple perspectives
- Ability to tactfully deal with sensitive information
- Project management skills
- Logical decision-making and strategic and creative thinking abilities
- Time management and self-reliance
- Clear and concise oral and written communication skills, aimed towards financial and non-financial audiences

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## **5.9 UNIT END QUESTIONS**

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### **A. Descriptive Questions**

#### **Short Questions**

1. Define cash discount.
2. Define trade discount.
3. Discuss bill wide detail.
4. List vouchers list.
5. What do you mean by company accounts?

#### **Long Questions**

1. Explain in detail about company accounts.
2. Discuss about in details cash and trade discount.
3. Describe Account masters 'maintenance.
4. Explain Debit and Credit Notes Creating and Configuring.

## **B. Multiple Choice Questions**

1. Securities premium can not be applied \_\_\_\_\_.
  - a. For paying dividends to members
  - b. For issuing bonus shares to members
  - c. For writing off preliminary expenses of the company
  - d. For writing off discount on issue of debentures
2. What does reserve capital mean?
  - a. A part of subscribed uncalled capital
  - b. Reserve profit
  - c. A part of capital reserve
  - d. A part of capital redemption reserve
3. An issue of shares that is not a public issue but offered to a selected group of persons is called \_\_\_\_\_.
  - a. Public offer
  - b. Private placement of shares
  - c. Initial public offer
  - d. None of the above
4. When shares are forfeited, the share capital account is debited with \_\_\_\_\_.
  - a. Nominal value of shares
  - b. Market value of shares
  - c. Called-up value of shares
  - d. Paid-up value of shares
5. Forfeiture of shares results in the reduction of \_\_\_\_\_.
  - a. Paid-up capital
  - b. Authorised capital
  - c. Fixed assets
  - d. Reserve capital

**Answers:** 1. a, 2. a, 3. b, 4. c, 5. a

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## **5.10 REFERENCES**

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# UNIT- 6 FACTORS

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## STRUCTURE

6.0 Objectives

6.1 Introduction of Factors, Affecting Selection of Suitable Computerized Accounting Software;

6.2 Procurement and Installation of Computerized Accounting Software,

6.3 Accounting Database Management:

6.4 Use of Ms Excel and Other Software Packages Such as Quickbooks India, Zoho Books, Margerp 9+, Vyapar, Mybooks.

6.5 Questions for Practice

6.6 References

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## 6.0 OBJECTIVES

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After completing this Students will be able to

- Define Factors
- Understand Procurement and installation of Computerized accounting software
- Define MS Excel
- Explain Accounting Database Management

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## 6.1 INTRODUCTION

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Accounting is an important part and is a requirement of any successful business. It shows that every business has a financial system that works primarily for accountability and profitability. Many businesses use a manual system to manage the accounting section of an organization. Manual data processing is not effective when you have to process huge amounts of data. This leads to the loss of data.

A Brief Note on Accounting Software

Accounting software is a digital platform that evaluates and takes care of the financial condition of a business. It is recommended by experts to ensure stable cash flow to any small

or large organizations. It mainly deals with capital needs, structure, investment opportunities, setting financial policies, and determining financial decisions.

The software allows business owners to track every financial matter inside the organization, including management of accounts payable, accounts receivable, ledgers, invoices, salaries, and even the company's assets reports. It automates the tasks involved, reduces accounting costs, eliminates redundant data entry, and makes better financial decisions through real-time reporting.

So many options for accounting software is available in the market, **finding the right accounting software** for your business can be difficult. Here, I am discussing some factors that you need to consider when choosing accounting software for small businesses.

8 Factors to consider in choosing accounting software for small business

#### 1. User-Friendly Software

The success of any software depends upon how smartly it is handled by the user and how smart software accomplishes your business needs. User-friendliness can be applied to every operating system, end-user application, proprietary in-house application, and many more technologies. It measures the success of the entire system. Whether small or large businesses, you need to search for a product that meets all financial accounting requirements in search of an accounting software solution.

#### 2. Consider your financial needs

The right software means that it meets all your business requirements and provides you with the best opportunity to grow. A software-based on your needs looks at how your business operates and meets all your accounting needs. For this, you must first research and decide the features that you want strongly in your accounting software. Also, you need to consider whether your bank supports it, whether it should be online or set up, or whether it comes with a free trial.

#### 3. Focus on add-on features

Add-on features are points that are intentionally included in the software for some business-specific requirements. Specific requirements may include system access, payment option compatibility, or allowing integration with other features. You need to pay full attention to it. The software also provides you with features to remove additional features that are not suitable for your business. This makes your business less complicated.

#### 4. Integration with Other Business Software

You should always be attentive while looking for upgrading your accounting software or search for the new one. You need to select software that is seamlessly integrated with other software in your business. Accounting is a crucial part of any business; thus, you need to choose it correctly so that it will not harm your business.

#### 5. Compatible with banks

Good accounting software will give you an accounting package that will allow integration with your bank.

This integration will make it easy to transact with your bank and you will be fully able to reconcile with your bank automatically. In this way, your time will be saved and you will be able to deal with the transaction soon. Thus, accounting software will give you a solution that will remove all the discrepancies in your small business and attract customers.

#### 6. Scalability

An accounting system plays an important role in growing any business. Will be required which may increase with it. Accounting software includes features that also meet all the requirements of a multi-user accounting system. It introduces you to all the near-future demand and helps you in making the right business strategy. Therefore, it is a good idea to check what upgrades you will need to deal with in the future expansion of your business. And, you should also check how much those upgrades cost.

#### 7. Data Security

When you choose online accounting software, data security is an essential aspect to investigate. While selecting accounting software, you need to ask for some details. Ask the company how they store application data and check whether software services are using HTTPS connections or not. The HTTPS protocol ensures that data transferred from your computer to the software company's servers is encrypted and cannot be seen by hackers.

#### 8. Customer Support

After choosing the right and advanced software solution, you must get timely support from the customer support team/expert for any query. Support offered by the development company for its accounting software is one of the vital factors to consider when selecting a software package. If your workers are not happy with the software or need some advanced features, they will directly call Customer Care for customization.

#### Other Features

**Here is a list of other essential features that your account software should have.**

- Inventory, Out of Stock, and Waste Management

- Easy billing, invoice, and GST filing
- Tracking of expenses/projects by categories
- Perform bank reconciliation
- Manage details of customers and vendors
- View account payments and receipts
- View balance sheet, profit, and loss statement
- Reporting
- Manage employees and process payroll
- Centralized control
- **GST filling in accounting software**

Goods and Service Tax (GST) was introduced by Government in July 2017. With the introduction of GST, other indirect taxes like VAT, excise duty, and service tax were abolished.

With the introduction of GST, many development companies began to develop or upgrade their existing software with GST compatibility. They wanted to develop solutions for their existing users as well as attract new ones. Thus, he developed good **GST enabled accounting software**. The software enables taxpayers, accounting professionals, and business owners to create seamlessly prepared invoices for GST, file GST returns, prepare GST reports, and manage their accounting data seamlessly. The following are some important features that GST software must-have.

- GST Ready Invoices
- GST Ready Reports
- ITC Match/Mismatch Reports
- Supports Cloud Technology
- Auto Calculation of Taxes
- HSN/SAC Code Lookup
- Data Security
- Cost-Effective

Wrapping up

Once you put your time and money into an accounting system for error-free accounting, you want the best solution. Once you keep using it, switching to other software solutions is not



acceptable. So, you need to be very careful about finding the **best accounting software for small businesses**.

We at SWIL provide our clients with an astonishing software solution that is compliant with business intelligence across industry verticals. Visit our website, get in touch for free trial versions, and see how the software fits your business requirements.

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## **6.2 PROCUREMENT AND INSTALLATION OF COMPUTERIZED ACCOUNTING SOFTWARE**

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Setting up accounting software may seem like a daunting task; you might be intimidated by the mere thought of it. But when you think of all the time wasted trying to produce information about your business from your paper records, it should become clear that having an automated accounting system is a necessity. The time spent setting it up will save time every single day going forward. Once you get started you will be pleasantly surprised at how easy it is to set up an off-the-shelf accounting package.

Choose an accounting software package. Today's off-the-shelf accounting packages are powerful and can easily handle the accounting needs of a small business. There are several packages to choose from, but once you have it set up, you are locked into using that package for a long time unless you want to start over.

So it is important to do some research before choosing an accounting software package. There is plenty of information and reviews available on these products.

Choose a start date for your computerized records. The best time to start setting up is at the beginning of an accounting period. This way you will have the account balances available from the close of the prior period. These account balances from the prior period are entered into the accounting program as the beginning balances.

Find and assemble all of your business records. The main accounts for most small businesses are bank accounts, accounts receivable and accounts payable. If you are starting a new business the beginning balances will be zero. Account balances build up over time as transactions are entered. The start date will usually be the date you open your bank account. New accounts may be created in the system over time as the need arises.

Set up your general ledger accounts. These accounts summarize and categorize your transactions and are listed in the chart of accounts. The program will recommend a standard chart of accounts which can be modified over time as the need arises. The setup wizard for

your accounting package will walk you through the process of creating financial accounts and entering beginning balances. When you choose a business type, the wizard will recommend a standard chart of accounts to start with.

Enter your transaction data. Enter transactions for each month, taking time to reconcile your accounts at the end of each month. Record any payments received against customer invoices, then enter your bank deposits. Enter your bills, record payments checks written from the bank account. Using vendor statements enter finance charges and verify that vendor balances are accurate. As you complete each month, reconcile each account to ensure accuracy. All of the transactions from the start date to the current date must be entered; this will bring your account balances up to date and allow you to create financial statements. Once you have your accounts up to date, keep up with it each month and you will have accurate financial records on an ongoing basis.

### **Steps in Installation of Management Accounting System**

#### **1. Preparation of Organization Manual**

The organization manual contains the duties, powers, scope and responsibilities of each executive in an organization. Moreover, it indicates the means and line of communication between the executives. This prevents the overlapping of functions.

#### **2. Appointment and Training of Employees**

Right candidates should be appointed and suitable training should be provided to them. If so, they can perform their work independently very effectively.

#### **3. Preparation of Various Forms and Reports**

The top management can design various forms and decide the contents of reports according to the needs of managerial decision making. The main objective of preparing various forms and reports is avoiding “Bureaucratization”.

#### **4. Classification and Codification of Accounts**

The financial accounting information is classified and codified for effective analysis and interpretation. The accounts are classified on the basis of nature of accounts. The codification accounts facilitates for easy identification of accounts.

#### **5. Setting up of Cost Centres**

There is a need of setting up of cost centre, profit centre, investment centre and budget centre. If so, only relevant information are collected and analysed in relation to each of them.

#### **6. Integration of Cost and Financial Data**

Both cost accounting data and financial accounting data are used in the management accounting. Hence, there is a need of suitable system to integrate both cost accounts and

financial accounts. It avoids duplication of data. The integration system should be accurate and reliable.

#### 7. Introducing Management Accounting Techniques

The needs of one business organization is differing from another. The top management can introduce various management accounting techniques on the needs of organization and practicability.

#### 8. Setting up of Budgetary Control System

Every organization should prepare the budgets in order to achieve its objectives economically and efficiently. Hence, the management should establish suitable budgetary control system. Moreover, the proposed system should be flexible and accommodate the changes in future.

#### 9. Using of Operations Research Techniques

Every business is running under fast changing economic, political and social environment. Everyday number of new types of problems may be encountered by the management. The Operations Research Techniques are highly useful to cope with the emerging problems.

#### 10. Formulating Standard Costing Techniques

The top management can fix the standard for every business activity relating to cost and revenue. If so, the actual performance can be used to measure the deviations from the standard. Thus, standards are fixed at all levels. The standard should be one which can be adopted by a normal employee. Procurement software is a computer program or suite that allows an organization to automate the processes of purchasing materials and maintaining an inventory of goods. Procurement software can generate purchase orders, execute the ordering process online, match invoices to materials received, and pay all bills electronically.

In more complete terms, well-written procurement software can carry out the following functions:

- Create an original purchase order based on need, inputted from appropriate personnel.
- Verify a purchase order with line items to be completed by a vendor.
- Submit a pending purchase order to appropriate personnel for approval or rejection.
- Automate electronic purchase-order transmission.
- Generate reminders to confirm recent purchase orders (or confirm recent cancellations).
- Maintain an inventory of goods sufficient to prevent spot shortages.
- Execute financial and inventory-related transactions as materials arrive.
- Gather data and analyze trends to maximize or improve profitability.
- Streamline administration and standardization across multiple platforms.

## **Installation Of A Computerized Accounting System**

The following steps are required for the installation of a computerized accounting system;

1. Insert CD in the system.
2. After inserting CD select the option in the next steps;
  - a. Select any (C: or E: or D:) from My Computer icon on the desktop. Double click on install.exe
- OR
- b. Select start > run > type the file name E:\install.exe
3. After the above process, the default directories of application, data, and Configuration opens in a window.
4. In case, the user wants to change the default directories then it can be changed by providing the desired drive and file name/directory name for example D:\software name, instead of C:\accounting software (default name)
5. Click on install and installation process begins, accounting software displays the Message of successful installation, then this CD can be removed.

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## **6.3 ACCOUNTING DATABASE MANAGEMENT**

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A Database management system is a computerized record-keeping system. It is a repository or a container for collection of computerized data files. The overall purpose of DBMS is to allow the users to define, store, retrieve and update the information contained in the database on demand. Information can be anything that is of significance to an individual or organization.

**Databases touch all aspects of our lives. Some of the major areas of application are as follows:**

1. Banking
2. Airlines
3. Universities
4. Manufacturing and selling
5. Human resources

Uses of DBMS:

Data that is well organized and integrated is very useful in decision making.

**Thus, we can infer some of the following uses of DBMS:**

- (i) Effective and efficient management of data
- (ii) Query processing and management
- (iii) Easy to understand and user friendly
- (iv) Security and integrity of data
- (v) Better Decision making
- (vi) Data sharing and storage
- (vii) Better access to accurate data
- (viii) Ensures error free information

Components of DBMS:

A DBMS constitutes of five components that help in the use and management of data in an organization.

**These are:**

- (i) Data,
- (ii) Hardware,
- (iii) Software
- (iv) User and
- (v) Procedure.

**(i) Data**

Data is a collection of raw facts that are stored and used inside a database in order to form meaningful information.

**(ii) Hardware**

Hardware is a collection of physical components of a computer system. It includes secondary storage devices like disk drives (floppy, CD.), processor, etc.

**(iii) Software**

Software refers to the program that a database system uses in order to run a DBMS application. It is the platform through which data is accessed from the physical location (hardware) where data is stored. For example, a Software named “Database Manager”.

**(iv) User**

Users are the people who use the database applications. They can be Database Administrators, Application programmers, Database designers, End users, etc.

**(v) Procedure**

A set of instructions that describe the working of a DBMS is called its procedure.

Accounting and DBMS:

DBMS performs many necessary functions to ensure effective running of accounting system in a business.

**Some of them are listed below:**

**(i) Data storage management**

DBMS stores a variety of data and data related forms, reports, etc. related to accounting system.

**(ii) Data dictionary management**

The data dictionary is automatically updated in case of any modification, alteration, addition, deletion in the database. This dictionary is used to lookup the required data or components in a journal, ledger, etc.

**(iii) Security management**

It is very important to maintain the security and privacy within the database from the outside environment.

**(iv) Backup and recovery management**

DBMS provides adequate backup and recovery procedures in order to ensure the safety of information in accounting software.

**(v) Database communication interface**

DBMS uses the internet services to communicate reports, queries and distribute other information throughout the accounting system. The process of computerized accounting system uses databases to store and retrieve data in the form of inter-related data tables. To understand how a database is designed, let us first know about data processing cycle. Data Processing is a technique of collecting, sorting, relating, interpreting and computing data in order to produce meaningful information which can be used for decision making.

**In the context of Accounting, data processing cycle requires the following steps:**

**(i) Source documents**

The first step is to prepare a document, called voucher, in order to record and express an accounting transaction in a systematic manner.

**(ii) Input of data**

The accounting data in the voucher needs to be recorded in the computer using software called data entry form.

**(iii) Storage of data**

Storage structures are tables which are designed to store the data in the database.

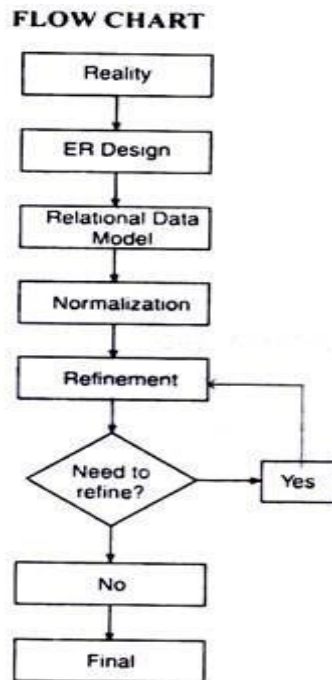
**(iv) Computation of data**

The stored data is presented in the form of final reports.

### (v) Output of data

The output of data is presented in the form of ledger, trial balance, balance sheet etc. in pre designed formats. This is how data is stored in a structured manner in the database.

Let us now understand the process of designing data structures as per accounting transactions with the help of a flow chart.



#### **Reality**

Refers to situations of the real world for which database has to be created.

#### **ER Design**

It is a pictorial representation of the reality.

#### **Relational Data Model**

A data model that represents ER Design and transforms it into data tables. The inter-related data tables ensure the integrity of the stored data by following certain restrictions and rules.

#### **Normalization**

It is a process of refining the database design in order to prevent the redundancy or duplicity of data.

#### **Refinement**

Outcome of the normalization process is termed as refinement.

The final outcome is arrived at after the refinement process is complete.

Concept of Entity and Its Attributes:

Entities are specific objects or things in the mini world that are represented in the database.

For example Employee John Smith, the research Department, are independent entities.

The properties that are used to describe an entity are known as Attributes; for example an Employee entity may have a Name, Gender, Date of Birth of his/her attributes.

If book is regarded as an entity then Author's name, Price, Published by, etc. are its various attributes. A Specific entity will have a value for each of its attributes. Thus an entity has a value for each attribute.

**Attributes are of many types:**

**(i) Single-valued and Multi-valued attributes**

An attribute having a single value such as age of a person, is called single valued attribute and vice versa.

**(ii) Composite and simple attributes**

Composite attributes can further be sub-divided into smaller attributes with independent meanings, such as name of a person has 3 parts-first name, middle name and last name. A simple attribute cannot be divided further.

**(iii) Stored and derived attribute**

An attribute that is stored in such a way that other attributes depend upon it and are thereby derived from it, is known as stored attribute. For example. Date of birth of a person is a stored attribute, while his age is a derived attribute.

**(iv) Complex attribute**

When composite or multi-valued attributes are grouped, they form complex attributes.

**(v) Null values**

When the value of an attribute is unknown, it is referred to as a null attribute.

**Entity Relationship:**



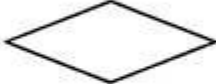





An entity by itself and alone does not mean anything. But when it is related to some other entity or entities, a significant relationship can be established. A relationship relates two or more distinct entities with a specific meaning, for example, Employee 'A' works on Project 'X'.

**Entity Relationship Diagram (ERD):**

A diagram representing entities and relationships among them is known as entity relationship diagram. The major elements used in an ER diagram are entities, attributes, identifiers and relationships that express a reality for which the database is designed.

**The model is depicted using the following symbols:**



SYMBOLS	MEANING
	ENTITY TYPE
	WEAK ENTITY TYPE
	RELATIONSHIP TYPE
	IDENTIFYING RELATIONSHIP TYPE
	ATTRIBUTE
	KEY ATTRIBUTE
	MULTI VALUED KEY ATTRIBUTE
	DERIVED ATTRIBUTE BY DASHED LINE OVALS

**Let us study the meaning of these symbols:**

**(i) Entity type**

It symbolizes anything in the real world that has multiple existence.

**(ii) Weak entity type**

An entity set that does not have a primary key is referred to as a weak entity set. Here a primary key refers to the unique attribute about an entity.

**(iii) Relationship type**

A diamond box is used to represent the relationship between two entities. Relationships can be one-to-one, one-to-many or many-to-many.

**(iv) Identifying relationship type**

The relationship type that is used to relate a weak entity type to its owner is shown by double lined diamond shaped box.

**(v) Attribute**

Characteristics of interest that describe the various properties of an entity.

**(vi) Key attribute**

A key attribute is one for which each entity has a unique value. It is represented by an oval shape with the attribute name underlined.

**(vii) Multi valued attribute**

An entity that has multiple values for that attribute is called multi valued attribute.

**(viii) Derived attribute**

As discussed earlier, an attribute whose value depends upon the value of the stored attribute. It is represented using a dashed oval shape.

**In a database system, we deal with various types of keys as follows:**

**1. Candidate Key**

Minimal set of attributes that uniquely identifies each occurrence of an entity type.

**2. Primary Key**

Candidate key selected to uniquely identify each occurrence of an entity type.

**3. Unique key**

Can accept unique or null values.

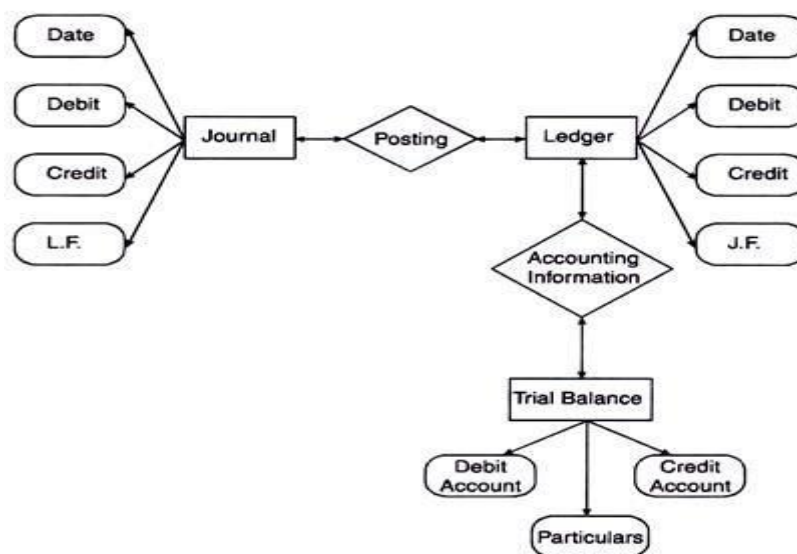
**4. Composite key**

A key that consists of two or more attributes and removal of even one of them would result in loss of intended information.

Entity and Relationship in an Accounting System:

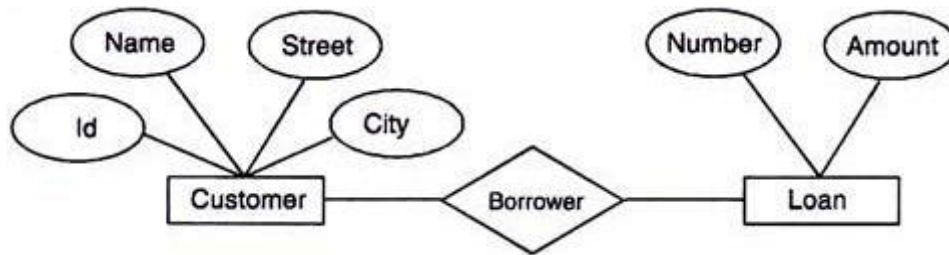
The entity relationship can be applied in the case of accounting. In accounting, the data from books of original entry say Journal can be posted to their respective ledger accounts and from there to Trial Balance.

**The following diagram clearly establishes the entity relationship in accounting:**



**Interaction among the Journal, Ledger and Trial Balance for posting of Accounts.**

The following example shows an ER diagram using two entities Customer and Loan along with the underlined primary key attributes. This depicts the relationships in borrowing loan money by the customer.



## 6.4 USE OF MS EXCEL AND OTHER SOFTWARE PACKAGES SUCH AS QUICKBOOKS INDIA, ZOHOO BOOKS, MARGERP 9+, VYAPAR, MYBOOKS

### USE OF MS EXCEL

#### Microsoft Excel Definition

Excel definition: a software program created by Microsoft that uses spreadsheets to organize numbers and data with formulas and functions. Excel analysis is ubiquitous around the world and used by businesses of all sizes to perform financial analysis.

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  - Interactive exercise 4
    - MULTIMEDIA
  - Tracing precedents and dependents
    - VIDEO
  - Go to special, conditional formatting
    - VIDEO

What is Excel used for?

Excel is typically used to organize data and perform financial analysis. It is used across all business functions and at companies from small to large.

The main uses of Excel include:

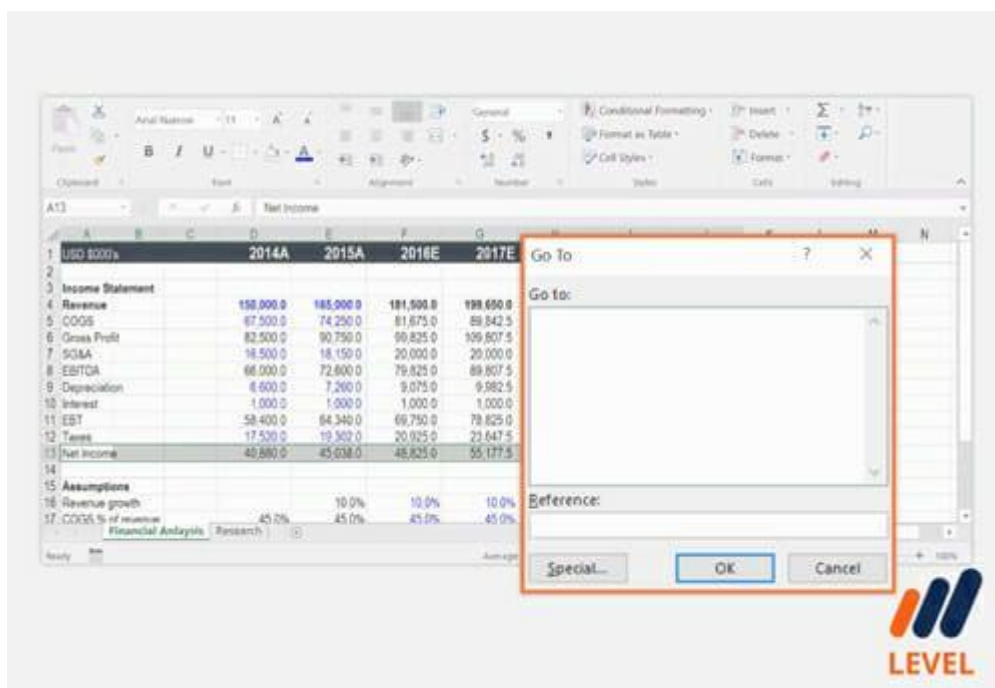
- Data entry
- Data management
- Accounting
- Financial analysis
- Charting and graphing
- Programming
- Time management
- Task management
- Financial modeling
- Customer relationship management (CRM)
- Almost anything that needs to be organized!

### Data functions, formulas, and shortcuts

The Excel software program includes many functions, formulas, and shortcuts that can be used to enhance its functionality.

We have defined the key functions and formulas below in our Excel guide:

- Free Guide: Excel shortcuts, functions and definitions



Financial and accounting uses

Excel is used extensively in finance and accounting functions. In fact, many organizations run their entire budgeting, forecasting, and accounting functions entirely out of Excel spreadsheets.

While Excel is defined as a “data” management tool, the data that is most commonly managed is financial. At CFI, we would define Excel as the ultimate financial software. While there are other pieces of financial software that are tailored toward performing specific tasks, the strongest point about Excel is its robustness and openness. Excel models are as powerful as the analyst wishes them to be.

Accountants, investment bankers, analysts, and people in all types of financial career paths rely on excel to perform their daily job functions.

Additional Resources

Thank you for reading CFI’s guide to Microsoft Excel. To keep learning and developing your career, these additional CFI resources will be helpful:

Free Excel Fundamentals Course

- Free Excel Course
- Keyboard shortcuts
- Advanced formulas in Excel
- Financial modeling

### **Software Packages**

Accounting displays the financial health of an organisation. Profits must be calculated, and books of accounts must be kept for a small or large business to keep track of its financial situation. Difficult situations, an operational budget, more customers, and massive ledger data are part of financial accounting manipulations. As the company expands, it faces difficulties managing large accounts and fiddling with proper instruments. Good financial bookkeeping and appropriate software result in a simple, proactive, and robust solution.

So, how does a business perform financial accounting while avoiding a large number of ledger entries? Accounting software is the answer to all of your company’s issues! It is crucial to any firm since it allows for analysing earnings and losses. A simple software system allows the organisation to keep track of spending and income while automating reporting duties by removing manual entries.

Simplified software has been produced by software development businesses, making the tedious work of manual ledger entries easier and eliminating human errors. Accounting

software has revolutionised the world of corporate management. Regardless of their size or nature, all businesses use the programme. What's surprising is that even small companies incorporate software into their systems for basic functions.

India's tax structure has improved, making it one of the most lauded countries for its expected economic growth of 7%. Indian legislation has replaced multiple indirect taxes with a single indirect tax, GST, that applies to the entire country. GST rates have been revised in four separate slabs, necessitating complex computations. For manual operators, performing bookkeeping and keeping track of various GST rates is nearly complicated. As a result, Indian software development businesses have produced basic software with GST features to ensure that the process is compliant with the new tax system.

This article has compiled a list of the top 10 accounting software for small and mid-sized businesses in India. This software is equipped to meet all of India's existing tax structure requirements. The programme is scalable, helpful, and dependable, with standardised functionality for general processes.

**The Top 10 Accounting Softwares in India are listed below.**

**1. Tally.ERP 9**



**POWER OF SIMPLICITY**

As current reformer adjustments happen in the financial system of India, Tally. ERP 9 tops our list of software as an end-to-end answer to GST statutory rules. Tally has error detection features that reduce the risk of GST returns being rejected. Tally is your business acquiescence partner for making invoices, ledgers, printing cheques, stock ageing analysis, cost estimations, auto bank reconciliation, and any overviews. Tally assists you in generating

immediate reports and making swift decisions as your organisation grows. Tally enables a company to manage accounting and manufacturing details with minimal resources.

### **Tally's Primary Benefits-**

- **ERP 9 Easily manage your accounts:** Tally streamlines processes in novel ways to provide simple solutions to complicated corporate problems. View reports and profit analyses to help you make swift business decisions. To manage capital control and complications, get a bird's eye view of each ledger.
- **Your One-Stop Shop for GST Preparation:** The Goods and Services Tax (GST) is the most recent statutory amendment to the Indian tax structure. It has been further subdivided into four slabs, each of which requires strict adherence to business regulations. Tally.ERP 9 makes it error-free and straightforward to file GST returns. With Tally as your compliance partner, you can now reduce the possibilities of GST rejection.
- **Streamlined banking for you:** Auto bank reconciliation can be generated to save time and avoid manual errors. Tally.ERP 9 makes invoices seem cleaner and keeps track of all post-dated checks and bank transactions. Not only can users bank, but they can also keep track of their cash receipts and payments with the help of an easy tracking feature.
- **Make a quick decision:** Making company judgments is aided by a final detail report for stock ageing analysis, profit analysis, cash, and bank transaction. Tally. ERP9 aids in the study of special reports, cost forecasts, and year-end earnings for improved financial progress. Users can use complex filters, change, and comparative approaches to get the correct detail.

## **2. QuickBooks India**



This software that gives smooth, comprehensive data on a single tool appeals to modern enterprises. QuickBooks India is a sophisticated management programme that provides you with the most accurate results for your organisation. Businesses may track sales, produce and send invoices, and generate a database from the cloud-based portal. QuickBooks is designed for inexperienced users and does not require any knowledge of financial accounting. The software includes powerful invoicing tools, payment reminders, sales and inventory tracking, auto banking resolution, and a simple navigation interface. QuickBooks makes jobs more accessible and gives you a 360-degree view of your business from any place.

### **Key Benefits Of Quickbooks India**

- Access your account, manage your business, and remain organised on your computer, mobile device, or tablet from anywhere: QuickBooks gives you access to your accounts and lets you manage your business regardless of where you are or what device you're using. QuickBooks is the best software inaccessibility and functionality that every expanding company requires.
- Create personalised, professional invoices, sales receipts, and estimates in minutes: QuickBooks is an excellent programme with customisable features appropriate for many business types. The software includes a powerful invoice tracking system, sales order management, and cost management system to make your team more effective and productive.
- Your statements and transactions will be immediately updated when you use the QuickBooks Online banking integration feature: Connect your bank accounts to QuickBooks for automatic bank reconciliation reports and transaction categorisation. Sync the transaction for a quick view of featured transaction statements. With online banking connectivity, you can see your cash receivables and payables in real-time.

### **3. Zoho Books**





Zoho Books is a famous online software in India that provides end-to-end financial solutions. Zoho Books is GST-compliant, automates corporate operations, and manages financial and departmental management from a single platform. According to financial experts, Zoho Books is one of the most popular systems for expanding businesses. Zoho Books handles everything from sales orders to invoicing to boring GST invoices, bookkeeping, large ledgers, and numerous chores. Zoho Books is feature-rich software that allows you to manage cash receivables, payables, banking, inventories, timesheets, company connections, and generate reports. Zoho Books is an economical GST filing solution that makes the process simple and error-free.

### **Key Benefits of Zoho Books-**

- End-to-end accounting: For error-free invoicing, Zoho Books is an effective end-to-end solution. With this programme, you can manage sales orders, invoices, and other monotonous activities. Account administration is no longer a concern for management, allowing them to focus entirely on business development.
- GST compliance:
  - Knowing your tax liability.
  - Filing returns.
  - Ensuring that your firm is GST compliant are required.
- Zoho Books is one of India's top ten software packages, helping you to reduce your tax liability and file error-free returns. Zoho Books is your GST compliance partner, providing you with all of the tools you need to overcome your fear of tax return cancellations.
- Integrated platform: Zoho Books is your GST compliance partner, providing you with all of the tools you need to overcome your fear of tax return cancellations. Zoho Books is an integrated platform with over 40 apps that can handle all of your business
- Create e-way bills for consignment: Consignments and transactions that require e-way statements are automatically detected by Zoho Books. With Zoho Books' straightforward e-way billing system, you can capture e-way bills in your invoices, send copies to selected customers, and keep track of them across departments.

#### 4. MargERP 9+



MargERP 9+ is an India-based GST-enabled inventory and software that simplifies GST billing and filing. Create invoices by batch, acquire complete information on a business transaction, use auto bank reconciliation, encode and centralise barcodes, and submit GST transactions through the site. MargERP 9+ assists in choosing the appropriate GST slab and categorising transactions correctly. The programme directs and automates SGST, CGST, and IGST calculations. MargERP9+ is a trade-specific solution with a low pricing point and a wide range of capabilities. The software is simple to use and allows you to add functionality to business support with over 2500 software configurations and 500 tutorial videos.

##### **Key Benefits of Margerp 9+**

- **GST Compliant:** Effective software with GST-compliant capabilities aids in the production of effective financial reports, the completion of tax computations, and the filing of GST returns. For better tax reporting, businesses can generate GST invoices and statements.
- **Simple Setup:** Once you've downloaded this powerful software, you'll be able to start charging and keeping inventory records right away. The local centres assist in the simple implementation of the programme. Several customer service representatives provide round-the-clock assistance and updated tutorials and manuals.

- Customisable and team-based: An essential layer of functionality is automating business workflow according to the firm's needs. MargErp9+ adapts invoices to the needs of the business and supports even the most unusual business types.
- MargErp9+ allows the company to generate invoices: Make orders, and check server progress by enabling collaboration between suppliers and the business. Marg ERP 9+ provides exceptional partnership without collecting additional expenses.
- Customer-driven and revenue-increasing: Increasing business can be gratifying and provide your company with a competitive advantage in the market.
- MargERP9+ provides timely upgrades and innovations thanks to its features and flexible approach. Businesses may expect to improve performance and maximise benefits with the self-customisation platform.

## 5. Vyapar



Vyapar is the best software for small enterprises in India. The software is a free platform that allows you to keep track of daily company activities, create invoices, get inventory records, manage books of accounts, and handle invoices while focusing on your organisation's growth rate. The software reduces paperwork and allows business owners to spend more time on business development. Vyapar is a perfect solution for most small businesses that want a digital update. Vyapar is GST compliant, allowing error-free tax returns by removing human calculations errors. Vyapar is in charge of managing individual company units, creating customised invoices, and automating payment reminders.

### **Key Benefits of Vyapar**

- Become GST-compliant: GST has evolved into an essential aspect of the commercial tax system requiring automated calculations. Vyapar makes small businesses GST compliant

by providing a digital platform for keeping multiple tax slabs. Companies may now file returns quickly and easily, with no risk of human error.

- Easily manage all stakeholders in one spot and sell your business: Collaboration with suppliers and vendors and centralising all business documents are two critical components of a successful organisation. Vyapar has revolutionised the industry by allowing companies to monitor all parties, generate invoices, and remain ahead of the competition.
- Set up “Auto Backup” to protect your business data against data loss.
- Accounting for a business without the internet: Securing business data is critical and the essential aim of any company. Due to a lack of resources, small enterprises face safety risks. Vyapar provides automatic backup services to prevent data loss due to the loss of papers. Every record should be saved on a digital platform to be retrieved as needed.
- Vyapar has offline capabilities, allowing businesses to complete tasks without connecting to the internet. One can complete transaction entry and then connect to the internet to sync and backup files.
- Track business performance and individual control units: Vyapar is an inventory and management software that allows you to keep track of individual units by expiry dates, batch numbers, and other features that assist you in selecting the best product during sales. Analysing sales and cash invoices can also help business managers keep track of team performance—this aids in the decision-making process for future advances.

## 6. myBooks



MyBooks software is ideal for entrepreneurs, accountants, small IT and financial businesses, and freelancers. Small business owners would appreciate MyBooks GST Software, which can be utilised for any small firm. This GST software for all transactions can relieve your task tension. Mybooks was created with small business owners in mind, and we made sure that the user experience was as simple as possible. As a result, formal training will not be required. It

also includes helpful hints throughout the product so you can quickly learn about its features and functions.

### **Key Benefits of Mybooks**

- **Easy GST Compliance:** Send professional-looking invoices GST In just a few clicks, you can create compliant invoices and send them to your customers via email. Create invoices with your unique logo in under 60 seconds. File GSTR1 through GSTR9 from a single platform, track down your issue and correct any discrepancies in time for final submissions.
- **Simple Bank Reconciliation:** With myBooks, SME's may issue invoices in the currency of their customers' needs and connect to their bank account transaction tracking capabilities. You can also categorise bank statements several times with a single click. You can effortlessly organise 20 business dinner receipts into the appropriate categories with a single click. You may order meal receipts in Go by selecting 20 of them. This will produce 20 expenses for you and balance your books automatically.
- **Backup & Security:** Backups and security are kept in the myBooks cloud daily. You can also order a data backup at any time. On servers and for data moved between your computers, myBooks employs bank-level security, ensuring complete data security.
- **Free Mobile Apps:** myBooks includes a free mobile app for Android and iOS. Create invoices for clients from your smartphone and be paid on time using your mobile apps. It is straightforward to invoice your customer from your mobile device.
- **Financial report and dashboard:** myBooks dashboard charts and information are always at your fingertips. One can effortlessly keep track of your company's finances. The software myBooks loads in a matter of seconds. MyBooks is built on cutting-edge cloud platforms that make processing millions of transactions a breeze.

### **7. Busy**

# Busy<sup>®</sup>

## BUSINESS ACCOUNTING SOFTWARE

Busy is Windows-based integrated software intended to reform the computerised accounting system. Active has grown to become one of India's most popular online accounting software, with the primary goal of delivering digitalisation and a computerised software solution. IT professionals put together busy to advance business accounting. Fortune 500 companies in India have embraced the software with enthusiasm. Busy Accounting Software provides a wide range of accounting software solutions to cater to the needs of diverse industries. Micro, small, and medium-sized organisations can use the software classified into three categories.

### **Key Benefits of Busy**

- **Financial Accounting (Multi-Currency):** Busy is a popular programme that supports many currencies. This opens up the possibility for multinational corporations with offices worldwide. With this advanced function, centralising financial accounting has become more accessible.
- **GST Invoicing and Reports:** Since the introduction of GST, online software has proven to be a valuable tool for filing tax returns without errors. Busy comes with a suite of powerful capabilities that simplify businesses to file tax returns and analyse profit data—busy displays pertinent information, including GSTINs for contacts.
- **Management information systems (MIS) reports and analysis:** Top-level management can rely on MIS reports and analysis of day-to-day management activities. Busy generates comprehensive MIS reports that allow you to keep track of work progress and make rapid decisions based on the information provided.

### **8. Logic**



## **Total Integrated ERP**

Logic is Indian online software that fills the gap in a strategic ERP system's accounting and finance module. Business executives eagerly await financial reports that will assist them in making timely decisions. Logic is a sophisticated computer program that allows for error-free financial administration, budgeting, planning, forecasting, efficient performance analysis, and general ledger and data integration. Logic's rich data allows business management to maintain cross-communication with other departments and facilitate collaboration with business delegations. With its powerful unified tools for managing Human Resources, Inventory, and Accounting, the programme illuminates corporate performance.

### **Key Benefits of Logic**

- **Powerful financial consolidation tools:** A manual system's fundamental flaw has been overcome by computerised accounting software: minor errors. Logic's leading ERP solution eliminates massive losses. Logic provides effective accounting procedures for future expansion with sophisticated financial consolidated instruments.
- **On the move, generate financial reports, balance sheets, and profit and loss statements:** To understand better business requirements for greater growth, financial reports, balance sheets, and profit-loss statements are studied. Logic gives you real-time access to business reports that help you make better decisions and share information with your colleagues.
- **Effective cash management, asset management, and human resource management:** Logic enables for the integration of enterprise accounting data as well as other business management systems. It's a one-stop-shop for ERP database management. It is now easier to extract analyses of human resource advancements, asset management, and cash flow data through a single platform.

### **9. Giddh**



Giddh is an all-in-one, modern software in India that leverages your local database and generates personalised reports for your business's success. The software manages your bank accounts' financial administration and inventory, stock management, and high-level security. Giddh is GST compliant and provides insight reports for better accounting stability analysis. Multi-currency features in the software allow you to manage worldwide departments from a single location. The accounting software enables the company to exchange data with team members to maintain track of elements that demand immediate attention.

#### **Key Benefits of Giddh**

- **GST Compliance:** File your GST returns without fear of having your tax files cancelled. Giddh is GST compliant and allows for error-free tax reporting on time.
- **Invoicing:** Giddh is a cutting-edge finance and accounting system. Customisable templates are included in the software, allowing you to create invoices that appear professional.
- **Reporting and analysis, as well as multiuser support:** Giddh features an instant reporting and analysis tool that aids in making quick and informed decisions. It also allows the company to share reports with other team members to analyse and work on the most important ones.

#### **10. ProfitBooks**



## FREE Invoicing Software For Smart Entrepreneurs

**ProfitBooks** is a powerful billing system that helps you create professional invoices and get paid faster while taking care of financial accounting in the background.

Create Your FREE Account Now



ProfitBooks is one of India's top ten software packages, with features such as inventory management and accurate tax reporting that aid in business stability. Financial planning and inventory management are equally crucial in aligning sales and product insights for a developing company. ProfitBooks provides a stable platform for tracking management processes and filing tax returns, whether you're a manufacturing unit, wholesaler, or retailer. ProfitBooks is the greatest accounting and inventory management solution, from handling income and cost statements to tracking the total cash flow. ProfitBooks has been a lifesaver for many luxury firms and new projects for its vividly advanced capabilities.

### Key Benefits of Profitbooks

- **Invoicing & Billing:** ProfitBooks allows a company to make an unlimited number of invoices and sales bills while keeping track of inventory. A manufacturing company must send invoices and track bills to maintain inventory flow and handle outstanding debts.
- **Service Tax, VAT, and GST:** ProfitBooks provides detailed tax reporting and simplifies tax filing. Businesses can create VAT reports and GST analyses based on the various tax slabs in India's tax structure. This not only saves time but also eliminates human error while submitting taxes.
- **Profit & Loss Statement:** ProfitBooks includes complete profit and loss statements for a better understanding of business operations, in addition to financial planning. ProfitBooks enables the interpretation of income and cost management, which aids in knowing the company's actual profit and loss position.

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## 6.5 UNIT END QUESTIONS

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### A. Descriptive Questions

#### Short Questions

1. Define factors.
2. Discuss Factors, affecting selection of suitable computerized accounting software.
3. Define Accounting Database Management.
4. List the uses of MS Excel.
5. Define Zoho Books.

#### Long Questions

1. What is accounting software?
2. Why is it essential to integrate your business with accounting software?
3. What are features of an advanced accounting software?
4. What factors to keep in mind while choosing accounting software?
5. How can Accounting Software help your business?

### B. Multiple Choice Questions

1. How do you display current date only in MS Excel?

- a. date ()
- b. today ()
- c. now ()
- d. time ()

2. How do you wrap the text in a cell?

- a. format cells font
- b. format cells protection
- c. format cells number
- d. format cells alignment

3. What does COUNTA () function do?

- a. counts cells having alphabets
- b. counts empty cells

c. counts cells having number

d. counts non-empty cells

4. What is the short cut key to highlight the entire column?

a. ctrl + c

b. ctrl + enter

c. ctrl + page up

d. ctrl + space bar

5. in the formula, which symbol specifies the fixed columns or rows?

a. \$

b. \*

c. %

d. ;

**Answer:** 1. b, 2. d, 3. d, 4. d, 5. a

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## 6.6 REFERENCES

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