ਜਗਤ ਗੁਰੂ ਨਾਨਕ ਦੇਵ
ਪੰਜਾਬ ਸਟੇਟ ਓਪਨ ਯੂਨੀਵਰਸਿਟੀ
ਪਟਿਆਲਾ

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/DIPLOMA COURSE IN ACCOUNTING AND TAXATION

Address: c/28, The Lower Mall, Patiala-147001
Website: www.psou.ac.in

JAGAT GURU NANAK DEV
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Course Coordinator and Editor

Dr. Pooja Aggarwal

Assistant Professor

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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 ACCOUNTING AND TAXATION

BASICS OF FINANCIAL ACCOUNTING AND ACCOUNTING SOFTWARE

COURSE I – BASICS OF FINANCIAL ACCOUNTING AND ACCOUNTING SOFTWARE

Learning Objectives: The course aims to achieve following objectives-

1. To familiarize the students with concepts and applications of accounting principles to select business firms.
2. To equip with the understanding of counting process and preparation of finalaccounts.
3. To ensure the understanding of the subsidiary books and accounting softwares

Course Content:

Unit -I -Introduction and Accounting Process: Financial Accounting - Meaning – Definition – Functions - Advantages and Limitations – Users of Accounting Information – Principles of Accounting- Concepts and Conventions - Branches of Accounting – Accounting System- Types of Accounts – Accounting Cycle: Journal- Ledger and Trial Balance. (Including problems) **Subsidiary Books** Meaning –Types - Purchases Book - Sales Book - Purchases Returns Book - Sales Returns Book – Bills Receivables Book - Bills Payables Book - Single Column, Two Column, Three Column and Petty Cash Book - Journal Proper. (Including problems)
Unit -II Depreciation and Final account including adjustments
Unit III **Accounting using Tally**: Creation of Company Gateway of Tally Menu Buttons, Featuresand Continuation; Accounting Group Ledger, Cost Category, Currency. **Voucher and Entry in Books of Accounts**: Voucher Types and Classes; Accounts

Vouchers; Reversing Journal; Memorandum Voucher, Optional Voucher, Post-dated Voucher, Selection of voucher type for transactions; Vouchers for income and Expenditure .Vouchers Entry: Voucher Number and date settings, Voucher entry with more than one debit or credit accounts, Editing and deleting a voucher, Printing of Voucher and Cheque. **Accounting Vouchers**- Receipts Vouchers, Payment Vouchers, Purchase Vouchers Sales Vouchers, Contra Vouchers, Journal Vouchers Debit Note, Credit Note, Memorandum Vouchers
Unit -IV **ERP -**A Finance Perspective: Role of ERP in Finance, Accounting and Finance Processes: Cash management; Capital budgeting, Features of ERP Financial Module, Benefits of ERP Financial Module, Sage AccpacERP – A Financial ERP Tool, Benefits of ERP in Financial Accounting
Unit -V Accounting Database Management: Use of MS Excel and other software packages such asQuickBooks India, Zoho Books, MargERP 9+, Vyapar, myBooks.

Suggested Readings

1. Accountancy-I: Haneef and Mukherjee, Tata McGraw Hill Company.
2. Principles & Practice of Accounting: R. L. Gupta & V. K. Gupta, Sultan Chand.
3. Accountancy-I: S.P. Jain &K.LNarang, Kalyani Publishers
4. Bansal, Enterprise Resource Planning, Pearson
5. Maidasani,Dinesh.*MasteringTally*:FirewallMedia
6. TallyEducationPvt Ltd.*Official Guideto FinancialAccounting usingTallyERP9withGST*

7. *TallyERP9bookadvanceduser*,SwayamPublication(www.tallyerp9book.com)

8. Tarang,*TallyERP9.* ComputerWorldPublications.

UNIT- 1 INTRODUCTION AND ACCOUNITNG PROCESS

STRUCTURE

1.0 OBJECTIVES

After completing this Students will be able to

- Define financial accounting
- Understand principles of accounting
- Assess types of accounts
- State functions of accounting
- List users of accounting information
- Define subsidiary book
- Understand purchase books
- Assess types of subsidiary books
- List single column, two column and three column book

1.1 INTRODUCTION

Accounting is the method of recording monetary exchanges relating to a trade. The bookkeeping prepare incorporates summarizing, analyzing, and announcing these exchanges to oversight organizations, controllers, and charge collection substances. The budgetary articulations utilized in accounting are a brief outline of money related exchanges over a bookkeeping period, summarizing a company's operations, monetary position, and cash streams. Accounting is one of the key capacities of nearly any trade. It may be taken care of by a bookkeeper or a bookkeeper at a little firm, or by sizable fund divisions with handfuls of representatives at bigger companies. The reports generated by different streams of bookkeeping, such as taken a toll bookkeeping and administrative bookkeeping, are important in making a difference administration make educated commerce choices.

The financial statements that summarize a large company's operations, financial position, and cash flows over a particular period are concise and consolidated reports based on thousands of individual financial transactions. As a result, all professional accounting designations are the culmination of years of study and rigorous examinations combined with a minimum number of years of practical accounting experience.

Over the centuries, accounting has remained kept to the monetary record-keeping capacities of the bookkeeper. But, today's quickly changing commerce environment has constrained the bookkeepers to reassess their parts and capacities both inside the association and the society.

The part of an accountant has presently moved from that of a simple recorder of exchanges to that of the part giving pertinent data to the decision-making group. Broadly talking, bookkeeping nowadays is much more than fair bookkeeping and the arrangement of money related reports. Accountants are presently able of working in energizing unused development ranges such as: scientific bookkeeping (tackling wrongdoings such as computer hacking and the robbery of expansive sums of cash on the web); ecommerce (planning web-based installment framework); budgetary arranging, natural accounting, etc. This realisation came due to the fact that accounting is capable of providing the kind of information that managers and other interested persons need in order to make better decisions. This aspect of accounting gradually assumed so much importance that it has now been raised to the level of an information system. As an information system, it collects data and communicates economic information about the organisation to a wide variety of users whose decisions and actions are related to its performance. This introductory chapter therefore, deals with the nature, need and scope of accounting in this context.

In big organizations there are numerous transactions going on, in the midst of these transactions, it is not possible to keep and maintain a record of each and every business affair. While non-recording any minute transaction can be a havoc which the business will never resort to. This is when the subsidiary books come into the action and play as a saviour.

Subsidiary books are nothing but an arrange of support of recording comparative natured exchanges. Subsidiary books are the subdivisions of Diary. In this substance, we are going know in detail almost these books and sorts of auxiliary books with its function. Subsidiary books are books where exchanges of comparative nature are recorded chronologically. They are books where exchanges are recorded not be from the source reports and from which postings are made to the pertinent accounts within the record periodically. Business exchanges are to begin with recorded in subsidiary books some time recently being exchanged to the ledger. Subsidiary books exist to supply occasional sums for posting into the ledger. Subsidiary books are also called daybooks, books of unique passage, or books of prime entry. Subsidiary books don't frame portion of the double-entry. They are as it were to record cash and credit exchanges some time recently being exchanged to the ledger.

1.2 FINANCIAL ACCOUNTING- MEANING & DEFINITION

Definition of Financial Accounting:

Financial Accounting is concerned with giving data to outside clients. It alludes to the planning of common reason reports for utilize by people exterior a commerce undertaking, such as shareholders (existing and potential), leasers, money related investigators, work unions, government authorities, and the like. Financial accounting is situated towards the arrangement of financial statements which abridge the comes about of operations for chosen periods of time and appear the financial position of the commerce at specific dates.'

The following points are important to understand the scope and nature of financial accounting:

Contents:

The end product of the financial accounting process are the financial statements that communicate useful information to decision-makers. The financial statements reflect a combination of recorded facts, accounting conventions and personal judgments of the preparers.

There are three primary financial statements for a profit making entity in India, viz., the Income Statement (statement of revenues, expenses and profit), and the Balance Sheet (statement of assets, liabilities and owner's equity) and cash flow statement. The accounting information generated by financial accounting is quantitative, formal, structured, numerical and past-oriented material.

Meaning

Financial accounting is a field of accounting that focuses on recording, analyzing and reporting on a company's business transactions in order to generate statements that are used by internal and external shareholders to assess a company's financial stability.

Financial statements can allow investors and organizational leaders to assess the financial health of a company and examine its overall performance. This means that financial accounting and the statements it creates are essential in setting business goals, reviewing financial progress and allocating resources to internal departments and professionals. Statements follow requirements and guidelines set by the International Financial Reporting Standards (IFRS).

Fundamentals of Financial Accounting

Financial accounting is simply the **bookkeeping** and interpretation of transactions. It is carried out to gauge corporate performance and **profitability**. The regulatory bodies have stated some basic principles to standardize the process. In the US, companies follow the guidelines of **GAAP**.

All financial transactions revolve around five basic components, i.e., assets, liabilities, income, expenses, and equity. Also, every financial transaction has two equal aspects. For example, if cash is withdrawn from a bank in the company's book under the **double-entry system**, both cash and bank would be affected. Under the double-entry system, we call these two aspects; debit and credit. **Debit** is either the increase in assets and expenses or the decrease in liabilities and income. Credit is either the increase in liabilities and income or the decrease in assets and expenses.

1.3 FUNCTIONS

1. **Identifying**

Identification of the transactions relating to the business directly is the primary function of financial accounting from the root documents.

2. **Recording**

Once the business transactions are identified, the next step involves proper recording thereof in terms of money. Such recording of business transactions is carried out in a book termed as Journal which may be further subdivided for convenience sake into various Subsidiary Books.

3. **Classifying**

Various business transactions recorded in Journal are further classified based on their nature. Their posting follows similar items in another book called Ledger. Journal entries simply record various business transactions without any differentiation. Whereas, the Ledger posting is done after classifying each entry under the appropriate head transactions without any differentiation. Whereas, the Ledger posting is done after classifying each entry under the appropriate head.

4. **Summarizing**

It relates to the business transactions of an organization is very useful for the stakeholders both internal and external to the business. Internal users are generally the management and employees of the organization. Whereas, the external users are the creditors, investors, regulators, taxmen, labor unions, trade associations, etc.

5. **Analyzing**

An in-depth analysis of financial statements Profit and Loss Account and Balance Sheet of an organization. It helps identify the organization's financial strengths and weaknesses. Such analysis facilitates overcoming the flaws and utilizing the power for the betterment of the organization.

6. Interpreting

Interpretation is the essential function of financial accounting. It is helpful for the management in the decision-making process and formulating a future business strategy concerning growth, expansion, and diversification. Other stakeholders also benefit from such data in taking decisions from their perspective.

7. **Communicating**

Communicating the duly summarized and analyzed financial data to other stakeholders enables them to interpret the same in their ways. It considers their interests for decision-making at their own level.

All seven points refer to the function of financial accounting. If all functions are works properly then you can see the flow of financial accounting.

Now, we are moving on to the Advantages of financial accounting.

1.4 ADVANTAGES AND LIMITATIONS

Top 5 Importance/Advantages of Financial Accounting

1. **Helps in Management**

The information generated through the process of accountancy enables the management of a company. It is very helpful to perform their job efficiently by appropriate planning, monitoring, and taking decisions to the advantage of the business organization.

2. **Substitute to Memory**

Accounting necessitates recording all the business transactions in a scientific and classified manner. It eliminates the need to memorize all the transactions entered into by a business organization.

3. Comparative Study

The end products of Accounting are financial statements in the form of Profit and Loss Account and Balance Sheet. It allows the management of a company to compare the annual result of a year. Also, it can initiate requisite actions, necessary for the growth of the business …

4. Settlement of Taxation Liability

Proper maintenance of books of accounts ensures hassle-free assessment of tax liabilities by various Government Departments, especially Income Tax, Service Tax, and Sales Tax authorities. It is importance of financial accounting but sometimes it works as a function of financial accounting.

5. **Evidence in Court**

A systematic record of all the business transactions may be produced as evidence in the court of law. Courts are inclined to accept such records as good evidence.

In this portion, we have explained the essential advantages of financial accounting. But, we also need to know about all the disadvantages of financial accounting in the next segmentation.

Disadvantages of Financial Accounting

1. Non-Monetary Items Overlooked

Under the accounting system all the business transactions which can be expressed in terms of money are recorded. Non-monetary business transactions are completely out of the purview of the existing accounting system.

2. Original Cost

The original cost is considered while recording the details of fixed assets. The amount spent on them, which logically should be added to their acquisition cost, is not considered. As a result, their true value is not reflected in the 'Balance Sheet' of the business entity.

3. Possibility of Manipulation

The accounting System envisages profit to be the only parameter to assess the performance of the company's management. This concept is illogical and need not be considered trustworthy as certain major items especially those relating to Research and Development, Advertisement, etc., are excluded.

4. Bases on Estimates

Accounting data and books are reliable of accounts are sometimes based on estimation instead of the actual. Such data need not be correct. That is the major disadvantage of financial accounting.

5. Rule of Consistency

At times, some companies fail to observe the basic tenets of accounting. The underlying principles of companies are compromised infrequently in certain cases. Change is especially policy relating true in the two case depreciation of fixed on assets fixed assets, from a year few to year. The rule of consistency defines the continuous process then the function of financial accounting is not worked properly.

In this article, we explained the all major function of financial accounting. If you want to work properly then you need to use the all functions. Therefore, we also explain the advantages and disadvantages of financial accounting.

1.5 USERS OF ACCOUNTING INFORMATION

External users are creditors, investors, government, trading partners, regulatory agencies, international standardization agencies, journalists and internal users are owners, directors, managers, employees of the company.

Let's look at who are the internal and external users of account information and why they use it.

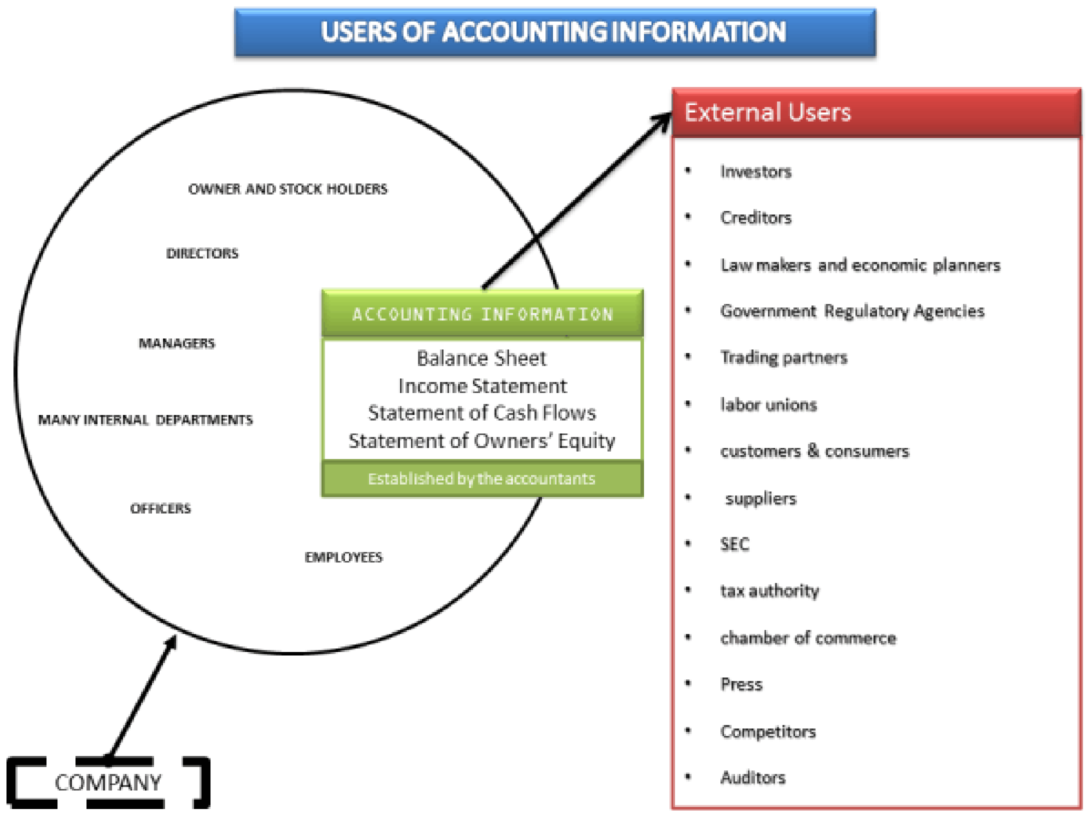


Fig :1.1 Users of Accounting Information

Internal users of Accounting information

Internal users are that individual who runs, manages and operates the daily activities of the inside area of an organization.

So who are the internal users of account information;

1. Owners and Stockholders.
2. Directors,
3. Managers,
4. Officers.
5. Internal Departments.
6. Employees
7. Internal Auditor.

Managerial accounting identifies, measures, analyzes and communicates the financial information needed by management to plan, control, and evaluates a company's operations for the internal users.

Accounting's goal is to provide necessary information for the management or also can be defined as Internal users.

External users of Accounting information

External users are those individuals who take interest in the account information of an organization but they are not part of the organization's administrative process.

External users have a direct or indirect interest in accounting information.

Financial accounting is the process for the preparation of financial reports of the enterprise for use by both internal and external parties.

These reports are important to the external users of accounting information.

Examples of external users of accounting information are;

- Creditors.
- Investors.
- Government.
- Trading partners.
- Regulatory agencies.
- International standardization agencies.
- Journalists.

Creditors and Investors are the most regular example of external users among many other external users.

The external users of accounting are;

Creditors

Creditors or lenders use the accounting information to find out the ability of the borrower to repay the loan, the number of assets and liabilities of the borrower, evidence of income, economic position, etc. before he or she lend the money to the economic entity.

Investors

Investors are the capital providers of a business.

Before investing, an investor sees the financial report for figuring out the possibilities of the business in the future. Financial information is important for an investor for making sure that the investment is secure.

Trading partners

Business needs business to do business, it is the truth.

Associate trading companies look at the financial information and decide to trade with the particular economic entity.

Government Regulatory Agencies

The financial information is vital for government regulatory agencies as it allows them to monitor the economy and market.

Lawmakers and economic planners

It is important to keep a nation's economic structure up-to-date with global changes. It is a job for lawmakers and economic planners.

The accounting information provides information that is necessary for making changes to the existing laws at the right moment for the economy and society betterment.

Other examples

There are other external users for example; labor unions, customers and consumers, suppliers, SEC, tax authority, chamber of commerce, press, competitors, auditors, etc.

Anybody outside of the managing radius of an economic entity is interested in the financial information of it, is defined as an external user.

For example to that statement; an MBA student looking for financial information on Google, he/she is the external user of the accounting information of Google.

The financial reports or information are the result of the accounting process that transferred to the users in two forms-internal and external.

These reports used for effective for operating the business by the internal users, on the other hand, the external users use the information to get a real picture of the financial state of the organization.

1.6 PRINCIPLES OF ACCOUNTING- CONCEPTS AND CONVENTIONS

Accounting principles are the set guidelines and rules issued by accounting standards like GAAP and IFRS for the companies to follow while recording and presenting the financial information in the books of accounts. These principles help companies present a true and fair representation of financial statements.

As the name suggests, these principles are rules and guidelines maintaining which a company should report its financial data.

In India, there are several rules which need to be followed while walking or driving on the road as it enables the smooth flow of traffic. Similarly, there are accounting rules that an accountant should follow while recording business transactions or recording accounts. They may be termed as accounting concepts. Hence, it can be said that: "The term accounting concepts refer to basic rules, assumptions, and principles which act as a primary standard for recording business transactions and maintaining books of accounts".

What are the Objectives of the Accounting Concept?

- The primary aim of accounting is to maintain uniformity and regularity in the preparation of accounting statements.
- Accounting concepts act as an underlying principle that helps accountants in the preparation and maintenance of business records.
- It aims to understand the business rules and regulations that are required to be followed by all types of business entities, and hence simplifying the detailed and comparable financial information.

What are the Different Accounting Concepts?

Following are the different accounting concepts that are widely used all around the world and hence are termed as universally accepted accounting rules. The different accounting concepts are:

Business Entity Concept

This concept assumes that the organization and business owners are two independent entities. Hence, the business translation and personal transaction of its owner are different. For example, when the business owner invests his money in the business, it is recorded as a liability of the business to the owner. Similarly, when the owner takes away from the business cash/goods for his/her personal use, it is not treated as a business expense. Thus, the accounting transactions are recorded in the books of accounts from the organization's point of view and not the person owning the business. Example: Suppose Mr. Birla started a business. He invested Rs 1, 00, 000. He purchased goods for Rs 50,000, furniture for Rs. 40,000, and plant and machinery for Rs. 10,000 and Rs 2000 remained in hand. These are the assets of the business and not of the business owner. According to the business entity concept, Rs.1,00,000 will be assumed by a business as capital i.e. a liability of the business towards the owner of the business. Now suppose, he takes away Rs. 5000 cash or goods for the same worth for his domestic purposes. This withdrawal of cash/goods by the owner from the business is his private expense and not the business expense. It is termed as Drawings. Therefore, the business entity concept states that the business and the business owner are two separate/distinct persons.

Accordingly, any expenses incurred by the owner for himself or his family from business will be considered as expenses and it will be represented as drawings.

Accrual Concept

The term accrual means something is due, especially an amount of money that is yet to be paid or received at the end of the accounting period. It implies that revenue is realized at the time of sale through cash or not whereas expenses are recognized when they become payable whether cash is paid or not. Therefore, both the transactions are recorded in the accounting period in which they relate. In the accounting system, the accrual concept tells that the business revenue is realized at the time goods and services are sold irrespective of the fact when cash is received for the same. For example, On March 5, 2021, the firm sold goods for Rs 55000, and the payment was not received until April 5, 2021, the amount was due and payable to the firm on the date goods and services were sold i.e. March 5, 2021. It must be included in the revenue for the year ending March 31, 2021. Similarly, expenses are recognized at the time services are provided, irrespective of the fact that cash paid for these services are made. For example, if the firm received goods costing Rs.20000 on March 9, 2021, but the payment is made on April 7, 2021, the accrual concept requires that expenses must be recorded for the year ending March 31, 2021, although no payment has been made until this date though the service has been received and the person to whom the payment should have been made is represented as a creditor of business firm. In brief, the accrual concept states that revenue is recognized when realized and expenses are recognized when they become due and payable irrespective of the cash receipt or cash payment.

Accounting Cost Concept

The accounting cost concept states all the business assets should be written down in the book of accounts at the price assets are purchased, including the cost of acquisition, and installation. The assets are not recorded at their market price. It implies that the fixed assets like plant and machinery, building, furniture, etc are recorded at their purchase price. For example, a machine was purchased by ABC Limited for Rs.10,00,000, for manufacturing bottles. An amount of Rs.2,000 was spent on transporting the machine to the factory site. Also, Rs.2000 was additionally spent on its installation. Hence, the total amount at which the machine will be recorded in the books of accounts would be the total of all these items i.e. Rs.10, 040, 00. This cost is also termed as historical cost.

Dual Aspect

The dual aspect is the basic principle of accounting. It provides the basis for recording business transactions in the books of accounts. This concept assumes that every transaction recorded in the books of accountants is based on dual concepts. This implies that the transaction that is recorded affects two accounts on their respective opposite sides. Hence, the transaction should be recorded at dual places. It implies that both aspects of the transaction should be recorded in the books of account. For example, goods purchased in exchange for cash have two aspects such as paying cash and receiving goods. Therefore, both the aspects should be registered in the books of accounts. The duality of the transaction is commonly expressed in the terms of the following equation given below:

Assets = Liabilities + Capital

The dual concept implies that every transaction has a similar effect on assets and liabilities in such a way that the value of total assets is always equal to the value of total liabilities.

Going Concepts

The Going concept in accounting states that a business activities will be carried by any firm for an unlimited duration This simply means that every business has continuity of life. Hence, it will not be dissolved shortly. This is an important assumption of accounting as it provides a base for representing the asset value in the balance sheet. For example, the plant and machinery was purchased by a company of Rs. 10 lakhs and its life span is 10 years. According to the Going concept, every year some amount of assets purchased by the business will be represented as an expense and the balance amount will be shown as an asset in the books of accounts. Thus, if an amount is incurred on an item that will be used in business for several years ahead, it will not be proper to charge the amount from the revenues of that particular year in which the item was purchased Only a part of the purchase value is shown as an expense in the year of purchase and the remaining balance is shown as an asset in the balance sheet.

Money Measurement Concept

The money measurement concept assumes that the business transactions are made in terms of money i.e. in the currency of a country. In India, such transactions are made in terms of the rupee. Hence, as per the money measurement concept, transactions that can be expressed in terms of money should be recorded in books of accounts. For example, the sale of goods worth Rs. 10000, purchase of raw material Rs. 5000, rent paid Rs.2000 are expressed in terms of money, hence these transactions can be recorded in the books of accounts.

Accounting Period Concepts

Accounting period concepts state that all the transactions recorded in the books of account should be based on the assumption that profit on these transactions is to be ascertained for a specific period. Hence this concept says that the balance sheet and profit and loss account of a business should be prepared at regular intervals. This is important for different purposes like calculation of profit and loss, tax calculation, ascertaining financial position, etc. Also, this concept assumes that business indefinite life is divided into two parts. These parts are termed accounting periods. It can be one month, three months, six months, etc. Usually, one year is considered as one accounting period which may be a calendar year or financial year. The year that begins on January 1 and ends on January 31 is termed as calendar year whereas the year that begins on April 1 and ends on March 31 is termed as financial year.

Realization Concept

The term realization concept states that revenue earned from any business transaction should be included in the accounting records only when it is realized. The term realization implies the creation of a legal right to receive money. Hence, it should be noted that selling goods is considered as realization whereas receiving order is not considered as realization. In other words, the revenue concept states that revenue is realized when cash is received or the right to receive cash on the sale of goods or services or both have been created.

Matching Concepts

The Matching concept states that revenue and expenses incurred to earn the revenue must belong to the same accounting period. Hence, once revenue is realized, the next step is to assign the relevant accounting period. For example, if you pay a commission to a salesperson for the sale that you record in March. The commission should also be recorded in the same month. The matching concept implies that all the revenue earned during an accounting year whether received or not during that year or all the expenses incurred whether paid or not during that year should be considered while determining the profit and loss of the business for that year. This enables the investors or shareholders to know the exact profit and loss of the business.

What are Accounting Conventions?

Accounting conventions are certain restrictions for the business transactions that are

complicated and are unclear. Although accounting conventions are not generally or legally binding, these generally accepted principles maintain consistency in financial statements. While standardized financial reporting processes, the accounting conventions consider comparison, full disclosure of transaction, relevance, and application in financial statements.
Four important types of accounting conventions are:

- Conservatism: It tells the accountants to err on the side of caution when providing the estimates for the assets and liabilities, which means that when there are two values of a transaction available, then the always lower one should be referred to.
- Consistency: A company is forced to apply the similar accounting principles across the different accounting cycles. Once this chooses a method it is urged to stick with it in the future also, unless it finds a good reason to perform it in another way. In the absence of these accounting conventions, the ability of investors to compare and assess how the company performs becomes more challenging.
- Full Disclosure: Information that is considered potentially significant and relevant is to be completely disclosed, regardless of whether it is detrimental to the company.
- Materiality: Similar to full disclosure, this convention also bound organizations to put down their cards on the table, meaning they need to totally disclose all the material facts about the company. The aim behind this materiality convention is that any information that could influence the person's decision by considering the financial statement must be included.

1.7 BRANCHES OF ACCOUNTING

Financial accounting is a systematic method of recording any business transactions according to accounting principles. It is the original form of the accounting process. The primary purpose of financial accounting is to calculate the profit or loss of a business during a period and provide an accurate picture of the business's financial position as on a particular date.
The Trial Balances, Profit & Loss Accounts, and Balance Sheets of a company are based on the application of financial accounting principles. These are useful for creditors, banks, and financial institutions to assess the company's financial status.
Further, taxation authorities can calculate the tax based on these records only. These are just the primary help you can get from this accounting. Besides these, there are many other things, like knowing about bank balances, account receivables balances, account wise

summary, bank reconciliation, etc. The list is actually endless.

Cost Accounting

Cost accounting deals with evaluating the cost of a product or service offered. It calculates the cost by considering all factors, including manufacturing and administrative, that contribute to the output production. The objective of cost accounting is to help the management fix the prices and control the cost of production. It also pinpoints any wastages, leakages, and defects during manufacturing and marketing processes. Possibly, these short descriptions about the accounting branches may give an overlapping understanding of each branch of accounting.

Management Accounting

This branch of accounting provides information to management for better administration of the business. It helps in making important decisions and controlling of various activities of the business. The management can make decisions efficiently with the help of various Management Information Systems such as Budgets, Projected Cash Flow and Fund Flow Statements, Variance Analysis reports, Cost-Volume-Profit Analysis reports, Break-Even-Point calculations, etc.

Management accounting and financial accounting are not to be confused with each other. Both are different. Management accounting serves the management's needs in decision-making regarding minimizing the cost factor and enhancing profit-making. On the other hand, financial accounting serves the needs of shareholders, creditors, and financial institutions to ascertain the company's financial position. Management accounting records are kept secret for the use of management only. As a result, they are not made public.

Besides the above mentioned three branches of accounting, there are many other branches that are in practice and very useful for various purposes, as mentioned below:

Auditing

Auditing is a branch of accounting where an external certified public accountant known as an Auditor inspects and certifies the accounts of the business for their accuracy and consistency. Sometimes internal auditing is also practiced where an employee of the same company or external personnel audits the accounts regularly and aids the management keep accurate records for audit purposes.

In most countries, the auditor who certifies the accounts is the company's statutory auditor. These auditors have to be at arm's length distance with the company. This means they should not be able to get direct benefits from the company. On the other hand, the company should not be anyway related to these auditors. So that they can independently inspect and report about the status of their accounts. In listed companies, shareholders appoint these auditors. At the same time, the management of the company appoints internal auditors. These statutory auditors are responsible for reporting the right state of affairs to the shareholders of the company.

Tax Accounting

Tax Accounting deals with taxation matters. Its functions include preparing and filing various tax returns and dealing with their legal implications. Tax accountants help minimize tax payments and help financial accountants prepare financials for tax reporting to various authorities.

Tax accounting involves consultancy regarding the effect of taxes on different aspects of business, minimizing tax through legal ways, and also verifying the consequences of tax payable on business. We usually call this practice as tax planning. There is a big difference between tax planning and tax evasion. Broadly, tax planning means trying to minimize tax liability within legal boundaries. Whereas tax evasion is a crime. When a company enters into practices to evade tax, the tax authorities may put them in trouble.

Fund Accounting

It deals with keeping records for funds of non-profit business entities. Most importantly, separate fund accounts are maintained for separate works like welfare schemes of different natures to ensure proper funds utilization. If such an entity has raised 'x' funds for helping educate children and 'y' funds for widow women. Fund accounting ensures that the funds for the designated causes are utilized for the same purpose without any deviations.

Government Accounting

This branch of accounting is prevalent in Central Government (National Government) and State Government budget allocations and utilization. Keeping records ensures proper and efficient utilization of the various budget allocations and the safety of public funds.

Forensic Accounting

Forensic Accounting, also known as legal accounting, enables calculating damages or settling disputes in legal matters. It involves deep investigations, carrying out recalculations to evaluate the accounting. Such accounting techniques normally come into play when there are suspects of fraud or mismanagement inside an entity.

Fiduciary Accounting

It is the accounting and evaluation of a third party's business and property maintained under the guardianship of another person. To further clarify, assume there is a company that has filed for bankruptcy. In such situations, the whole function of accounting goes under the guardianship of a person or set of people who are not directly related to the company. We are referring to such a branch of accounting as fiduciary accounting.

Responsibility Accounting

As the name responsibility accounting suggests, here a person is assigned the responsibility of costs and budgetary control. It defines various responsibility centers such as cost centers, profit centers, investment centers, etc. It is therefore responsible for the internal accounting of these centers.

1.8 ACCOUNTING SYSTEM

The accounting system is what a company employs to record and manage its financial or accounting records, including income and expenses. It is guided by a set of accounting guidelines and procedures that help generate accurate financial documents, which are a ready reference for internal and external stakeholders to make effective business and investment decisions.

The system is broadly classified into two categories – single entry and double entry. No matter which version a firm use, it is a significant tool to track the performance of a business and accordingly help organizations plan different strategies for effective results.

How Accounting System Works?

An accounting system helps organizations maintain their accounts and record all the incoming and outgoing resources. As a result, they can track how much is being earned and what's being spent. In short, when companies use an organized system of accounting, it enables them to track their performance from a financial point of view.

When companies record transactions properly, the documents prepared are accurate and they act as a ready reference for businesses whenever they need to retrieve or check any particular transaction for a particular period. This account-keeping system, however, includes details about purchases, sales, and liabilities recorded as **expenses**, income and expenses, and funding and **accounts payable**.

As the data set is crystal clear, the details can be well represented via graphs and charts, providing a better comparative structure for businesses to assess. As a result, decision-making is more efficient and accurate.

Whenever a transaction, such as sales, purchase, expense, etc., occurs, it is recorded through proper journals, becoming the first entry in the system. As companies use the computerized accounting systems nowadays, the automated mechanism makes the respective entries in the correct account's ledger whenever users post a journal.

At the end of the period, however, it calculates the balance of each **ledger** and prepares different **financial statements** like **balance sheets**, **cash flows**, etc. Therefore, generating reports to refer to becomes easier, while assisting the management to make important financial decisions.

Types

Furthermore, the accounting system that companies use to record the transactions and prepare financial documents for financial reporting over a period can be classified into two broad categories – **single entry system** and **double entry system**.

A single-entry accounting system is one that records only expense or income. This is the traditional form of maintaining financial records. It is called a single entry accounting system as the entries are made only once to simultaneously reflect the expense and income. Thus, small organizations prefer this system as they do not deal with huge inflow or outflow of resources. However, due to the incomplete and unclear data, the tax authorities do not recognize this kind of **recordkeeping** for financial reporting.

On the contrary, users consider the double entry accounting system as more accurate, and the tax authorities recognize them. In the process, whenever a transaction occurs, it affects two different accounts at a time. This means that when there is an inflow, it is both income and asset, while if there is an outflow, it is both expense and liability. Here, the data is crystal clear. Hence, the preparation of graphs and charts is easier for reliable financial reporting.

Components

The accounting system is of no use if users do not have the components that help facilitate the process. Earlier, users operated the entire system manually. Hence, accounting executives and management had to check large registers, accounting books, etc., before making minor/major business decisions.

The major components of the conventional method are expenses, funding, invoices, etc. Thus, from the cash flows to preparing the balance sheet and other financial documents, this system utilizes the information gathered in various categories, constituting its components. These include **accounts payable**, **accounts receivable**, billings, **fixed assets**, **payroll**, and inventory.

Today, when everything is computerized and automated, the number of components has increased. Of course, the data required remains the same, but there is a software-driven **infrastructure** that supports the whole process. These include source documents, input devices, storage capacity, processors, and output devices.

Examples

As we proceed further, let us consider the following examples to understand how the accounting system works:

Example 1

Retailers buy and sell goods. So, their accounting system should concentrate on the inventory level and discounts they give or receive on each product. Thus, the whole system should be based on different products and their payable or receivable. It should help them with ratios like **gross profit margin**, **net profit margin**, and other required measures in their operation.

Example 2

The most crucial factor in the construction industry is the cost of material. Therefore, the system should be more elaborated on different types of **raw material** inputs and be able to retrieve different ratios, which shows the movement of cost.

Advantages & Disadvantages

As accounting systems are becoming computerized, things are smoother and more effective for businesses. However, these systems are not devoid of disadvantages. So, let us have a quick look at the pros and cons of the **online accounting system**:

Pros	**Cons**
Saves time and money	Computerized system has some challenges
Reduces errors	Change in programs required to prevent bugs and programming errors
Provides a better view of the financial data	
Improves management of cash flows	
Makes filing tax returns easier	

1.9 TYPES OF ACCOUNTS

According to the double entry system of bookkeeping, there are three types of accounts that help you to maintain an error-free record of your journal entries. Each account type has a rule to identify its debit and credit aspect called as the Golden Rule of Accounting. The accounts are:

- Personal Accounts
- Real Accounts
- Nominal Accounts

Personal Accounts

Ledger accounts that contain transactions related to individuals or other organizations with whom your business has direct transactions are known as personal accounts. Some examples of personal accounts are customers, vendors, salary accounts of employees, drawings and capital accounts of owners, etc.

The golden rule for personal accounts is: **debit the receiver and credit the giver**.

Example: **Payment of salary to employees**

In this example, the receiver is an employee and the giver will be the business. Hence, in the journal entry, the **Employee's Salary account** will be **debited** and the **Cash / Bank account** will be **credited**.

Real Accounts

The ledger accounts which contain transactions related to the assets or liabilities of the business are called Real accounts. Accounts of both tangible and intangible nature fall under this category of accounts, i.e. Machinery, Buildings, Goodwill, Patent rights, etc. These account balances do not come to zero at the end of the financial year unless there is a sale of the asset or payment made towards a liability or closure or acquisition of the business. These accounts appear in the Balance Sheet and the balances get carried forward to the next financial year.

The golden rule for real accounts is: **debit what comes in and credit what goes out**.

Example: **Payment made for a loan**

In this transaction, cash goes out and the loan is settled. Hence, in the journal entry, the **Loan**

account will be **debited** and the **Bank account** will be **credited**.

Nominal Accounts

Transactions related to income, expense, profit and loss are recorded under this category. These components actually do not exist in any physical form but they actually exist. For example, during the purchase and sale of goods, only two components directly get affected i.e. money and stock. But, apart from this we may incur profit or loss out of such transactions and we might incur some expenses for these transactions to happen. These secondary components fall under the **Nominal Category** and the accounts that are in Profit and Loss statement are shown under this category.

The golden rule for nominal accounts is: **debit all expenses and losses and credit all income and gains**.

Example of Nominal Account: **Shipping Charges account** and **Salary account**.

1.10 ACCOUNTING CYCLE: JOURNAL- LEDGER AND TRIAL BALANCE. (INCLUDING PROBLEMS)

The accounting cycle is a series of steps starting with recording business transactions and leading up to the preparation of financial statements. This financial process demonstrates the purpose of financial accounting–to create useful financial information in the form of general-purpose financial statements. In other words, the sole purpose of recording transactions and keeping track of expenses and revenues is turn this data into meaning financial information by presenting it in the form of a balance sheet, income statement, statement of owner’s equity, and statement of cash flows.

The accounting cycle is a set of steps that are repeated in the same order every period. The culmination of these steps is the preparation of financial statements. Some companies prepare financial statements on a quarterly basis whereas other companies prepare them annually. This means that quarterly companies complete one entire accounting cycle every three months while annual companies only complete one accounting cycle per year.

Accounting Cycle Steps

This cycle starts with a business event. Bookkeepers analyze the transaction and record it in the general journal with a journal entry. The debits and credits from the journal are then posted to the general ledger where an unadjusted trial balance can be prepared.

After accountants and management analyze the balances on the unadjusted trial balance, they can then make end of period adjustments like depreciation expense and expense accruals. These adjusted journal entries are posted to the trial balance turning it into an adjusted trial balance.

Now that all the end of the year adjustments is made and the adjusted trial balance matches the subsidiary accounts, financial statements can be prepared. After financial statements are published and released to the public, the company can close its books for the period. Closing entries are made and posted to the post closing trial balance.

At the start of the next accounting period, occasionally reversing journal entries are made to cancel out the accrual entries made in the previous period. After the reversing entries are posted, the accounting cycle starts all over again with the occurrence of a new business transaction.

Here are the 9 main steps in the traditional accounting cycle.

1. — Identify business events, analyze these transactions, and record them as journal entries
2. — Post journal entries to applicable T-accounts or ledger accounts
3. — Prepare an unadjusted trial balance from the general ledger
4. — Analyze the trial balance and make end of period adjusting entries
5. — Post adjusting journal entries and prepare the adjusted trial balance
6. — Use the adjusted trial balance to prepare financial statements
7. — Close all temporary income statement accounts with closing entries
8. — Prepare the post closing trial balance for the next accounting period
9. — Prepare reversing entries to cancel temporary adjusting entries if applicable

Some textbooks list more steps than this, but I like to simplify them and combine as many steps as possible.

Accounting Cycle Flow Chart

After this cycle is complete, it starts over at the beginning. Here is an accounting cycle flow chart.

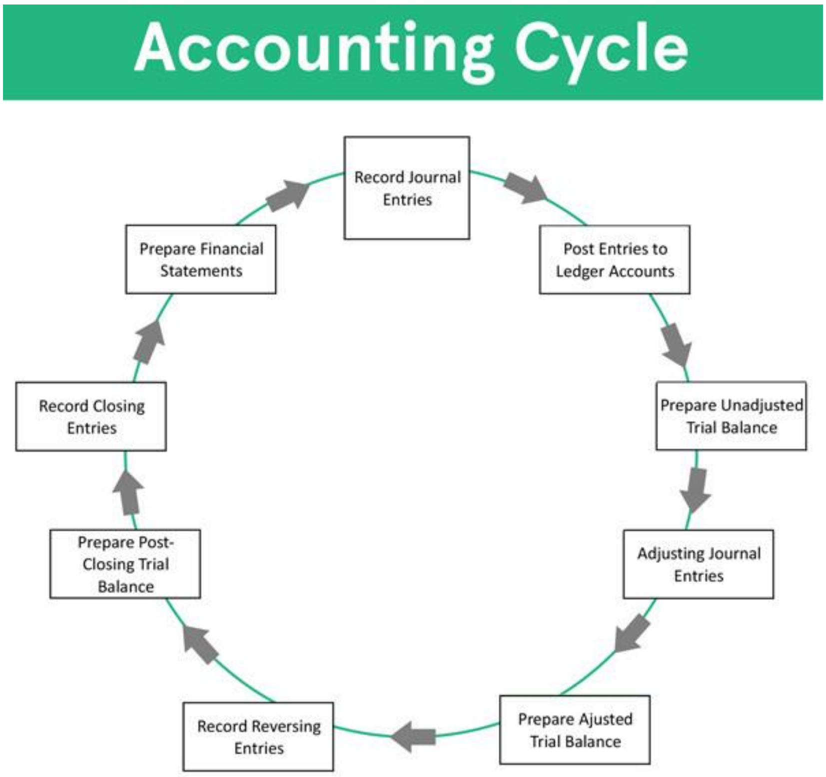


Fig :1.2 Accounting Cycle

As you can see, the cycle keeps revolving every period. Note that some steps are repeated more than once during a period. Obviously, business transactions occur and numerous journal entries are recording during one period. Only one set of financial statements is prepared however.

Throughout this section, we'll be looking at the business events and transactions that happen to Paul's Guitar Shop, Inc. over the course of its first year in business.

Journal Entries

(I) Simple Entries:

Simple entries are those entries in which only two accounts are affected, one account is related to debit and another account is related to credit.

ILLUSTRATION 1. **(Simple entry)** Goods sold for cash ₹ 5,000. Journalise.

SOLUTION: **JOURNAL**

Date	Particulars		L.F	Debit ₹	Credit ₹
	Cash A/c	Dr.		5,000	
	To Sales A/c				5,000
	(Being goods sold for cash)				

(II) Compound Entries:

Compound entries are those entries in which there are at least two debits and at least one credit or at least one debit and two or more credit items. Compound entries are recorded for those transactions which are similar in nature and occur on the same day.

ILLUSTRATION 2. **(Compound Entry)** On 31.12.2011, M/s Ram Traders paid the following expenses:

Salaries: ₹ 5,000; Wages: ₹ 400; Electricity charges: ₹ 3,560 and Transport Charges: ₹ 300. Journalise.

SOLUTION:

JOURNAL

Date	Particulars		LF	Debit ₹	Credit ₹
2011					
Dec. 31	Salaries A/c	Dr.		5,000	
	Wages A/c	Dr.		400	
	Electricity Charges A/c	Dr.		3,560	
	Transport Charges A/c	Dr.		300	
	To Cash A/c				9,260
	(Being expenses paid)				

(III) Opening Entry:

Opening entries are those entries which record the balances of assets and liabilities, including capital brought forward, from a previous accounting period. In the case of going concerns, there is always a possibility of having balances of assets and liabilities, including capital, which were lying in the previous accounting year. To show true and fair view of the business concern, it is necessary that all previous balances are to be brought forward in the next year by way of passing an opening entry.

ILLUSTRATION 3. **(Opening Entry-Calculation of Capital)** The following balances appeared in the books of Harish on 1-4-2011:

Assets: Cash ₹ 30,000; Stock ₹ 45,900; Debtors 20,980 (Rahim 4,000, Mohan 16,980); Computers ₹ 89,000; Fax Machine ₹ 12,900.

Liabilities: Creditors ₹ 45,000 (Jeetpal ₹ 34,000, Mohan Das ₹ 11,000); Bills Payable ₹ 34,000. Journalise.

SOLUTION:

Books of Harish

JOURNAL

Date	Particulars		LF	Debit ₹	Credit ₹
2011					
April 1	Cash A/c	Dr.		30,000	
	Stock A/c	Dr.		45,900	
	Rahim	Dr.		4,000	
	Mohan	Dr.		16,980	
	Computers A/c	Dr.		89,000	
	Fax Machine A/c	Dr.		12,900	
	To Jeetpal				34,000
	To Mohan Das				11,000

		LF	Debit	Credit
	To Bills Payable A/c			34,000
	To Capital A/c (balancing figure)			1,19,780
	(Being opening entry recorded in Journal, capital found by deducting liabilities from assets i.e. ₹ 1,98,780 – ₹ 79,000)			

ILLUSTRATION 4. (Opening Entry-Calculation of Goodwill) The following balances appeared in the books of Anil on 1-4-2011:

Assets: Cash ₹ 30,000; Bank ₹ 45,000; Stock ₹ 65,900; Debtors ₹ 50,900 (Jagmohan ₹ 4,900, Jagan ₹ 46,000); Computers ₹ 45,000; Fax Machine ₹ 22,000;

Liabilities: Creditors ₹ 34,000 (Gauri Shanker ₹ 13,000, Chander ₹ 21,000); Bank Loan ₹ 34,000; Bills Payable ₹ 24,000; Capital ₹ 2,00,000. Journalise.

SOLUTION: **Books of Anil**

JOURNAL

Date	Particulars		LF	Debit ₹	Credit ₹
2011					
April 1	Cash A/c	Dr.		30,000	
	Bank A/c	Dr.		45,000	
	Stock A/c	Dr.		65,900	
	Jagmohan's A/c	Dr.		4,900	
	Jagan's A/c	Dr.		46,000	
	Computers A/c	Dr.		45,000	
	Fax Machine A/c	Dr.		22,000	
	Goodwill A/c (balancing figure)	Dr.		33,200	
	To Gauri Shankar's A/c				13,000
	To Chander's A/c				21,000
	To Bank Loan A/c				34,000
	To Bills Payable A/c				24,000
	To Capital A/c				2,00,000
	(Being opening entry recorded in Journal, goodwill found by deducting assets from Liabilities i.e., ₹ 2,92,000 – ₹ 2,58,800)				

(IV) Transfer Entries:

Transfer entries are those entries through which amount of an account are transferred to another account. Usually, these entries are recorded for those transactions when wrong booking has been made in respect of any account.

ILLUSTRATION 5. (Transfer Entry) Mohinder purchased furniture of ₹ 30,000 and machinery of ₹ 20,000 on 12-4-2011. The accountant had booked the total amount of ₹ 50,000 to furniture account. Give a transfer entry for transferring the amount incurred for procurement of machinery to the machinery account.

SOLUTION **JOURNAL**

Date	Particulars		LF	Debit ₹	Credit ₹
12.4.2011	Machinery A/c	Dr.		20,000	
	To Furniture A/c				20,000
	(Being an amount overwritten to Furniture A/c, now posted to Machinery A/c)				

(V) Closing Entries:

Closing entries are those entries through which the balances of revenue and expenses are closed by transferring their balances to the Trading Account or Profit and Loss Account.

ILLUSTRATION 6. **(Closing Entry)** Make a closing entry for the balance of Sales Account ₹ 59,000.

SOLUTION: **JOURNAL**

Date	Particulars	L.F	Debit ₹	Credit ₹
	Sales A/c Dr. To Trading A/c (Being the amount of sales transferred to the trading account)		59,000	59,000

(VI) Adjustment Entries:

Adjusting entries are those entries through which assets and liabilities are recorded at their true values and revenues are matched with the expenses.

ILLUSTRATION 7. **(Adjustment Entries)** After closing the accounts of M/s Tulsi Traders, it was found that stock to be incorporated in the final accounts was ₹ 45,600.

SOLUTION:

Books of M/s Tulsi Traders
JOURNAL

Date	Particulars	L.F	Debit ₹	Credit ₹
	Stock A/c Dr. To Trading A/c (Being closing stock transferred to trading account)		45,600	45,600

(VII) Rectifying Entries:

Rectifying entries are those entries which are passed to make some corrections in the books of original entries or some accounts in the ledger.

ILLUSTRATION 8. **(Rectifying Entries)** ₹ 500 paid to Ram was recorded in the account of Shyam. Rectify the error by passing a journal entry.

SOLUTION:

Books of Shyam
JOURNAL

Date	Particulars	L.F	Debit ₹	Credit ₹
	Ram's A/c Dr. To Shyam' A/c (Being amount paid to Ram wrongly debited to Shyam, now rectified)		500	500

Format of Journal:

The format of Journal is as under:

JOURNAL

Date	Particulars	L.F.	Debit ₹	Credit ₹

Usually there are five columns in the journal:

They are:

(I) Date

(ii) Particulars

(iii) L.F.

(iv) Amount Dr. and

(v) Amount Cr.

(I) Date:

The 'Date' column shows the date of transaction. It should be noted that all the transactions are to be recorded in the journal in the chronological order.

(ii) Particulars:

In 'Particulars' column, the accounts which are to be debited and credited are written. The account(s) to be debited is written in the first row following the word 'Dr' towards the end of the row. Leaving sufficient margin on the left side in the next row, the account(s) to be credited is written and prefixed with the word 'To'. A brief description of the transaction is written below the credited account. This description prefixed with 'Being' or 'For', is known as narration and is given in the brackets after writing these two types of accounts.

(iii) Ledger Folio (L.F.):

Folio means page and the ledger folio means page number of ledger. In this column, page number of ledger on which debit and credit items are posted is written. In practical accounting, this column is very useful for cross-checking and auditing the accounts of an enterprise.

(iv) Amount (Debit):

In this column, the amount of the debit account is written. At the top of this column, the unit of measurement of monetary transactions viz. Rs. is written.

(v) Amount (Credit):

In this column, the amount of the credit account is written. At the top of this column, the unit of measurement of monetary transactions viz. Rs. is written.

Example:

Mr. Anil sell goods for cash Rs. 5,000. In this transaction, two accounts are involved viz. Cash Account and Sales Account. After proper analysis of rules of debit and credit, it can be established that Cash Account is to be debited and Sales Account is to be credited.

The entry in the journal will be shown as under:

JOURNAL

	Date	Particulars	L.F.	Debit ₹	Credit ₹
Debit Account →		Cash A/c Dr		5,000	
Credit Account →		To Sales A/c			5,000
Narration →		(Being goods sold for cash)			

Illustration 1:

Pass journal entries for the following transactions in the books of Nikhil Bhusan: 2010.

Rs.

Jan. 1 Commenced business with a capital 20,000

3 Amount deposited in S.B.I 5,000

6 Goods purchased for cash 7,000

10 Furniture purchased from Chinmoy 5,000

11 Goods sold to Anil Majumdar for cash 8,000

13 Goods sold to Ashim Das 2,000

25 Cash drew for private uses 500

31 Salaries paid 800

Journal

Date	Particulars	L. F.	Dr. Amount ₹	Cr. Amount ₹
1997 Jan. 1	Cash Account Dr. To Capital Account (Being capital invested)		20,000	20,000
3	Bank Account Dr. To Cash Account (Being cash deposited into bank)		5,000	5,000
6	Purchase Account Dr. To Cash Account (Being goods purchased for cash.)		7,000	7,000
10	Furniture Account Dr. To Chinmoy's Account (Being furniture purchased from Chinmoy.)		5,000	5,000
11	Cash Account Dr. To Sales Account (Being goods sold to Mazumdar on cash.)		8,000	8,000
13	Ashim Das' Account Dr. To Sales Account (Being goods sold to Ashim Das.)		2,000	2,000
25	Drawings Account Dr. To Cash Account (Being cash drew for personal use)		500	500
31	Salaries Account Dr. To Cash Account (Being salaries paid.)		800	800

Illustration 2:

On **April 01, 2016** Anees started business with Rs. 100,000 and other transactions for the month are:

2. Purchase Furniture for Cash Rs. 7,000.

8. Purchase Goods for Cash Rs. 2,000 and for Credit Rs. 1,000 from Khalid Retail Store.

14. Sold Goods to Khan Brothers Rs. 12,000 and Cash Sales Rs. 5,000.

18. Owner withdrew of worth Rs. 2,000 for personal use.

22. Paid Khalid Retail Store Rs. 500.

26. Received Rs. 10,000 from Khan Brothers.

30. Paid Salaries Expense Rs. 2,000

Solution:

General Journal

Date		Account Title and Explanations	Ref	Amount (Rs) Debit	Credit
2016					
April	*1*	Cash		100,000	
		Owner's Equity_ Anees			100,000
		(Started business with cash)			
	2	Furniture		7,000	
		Cash			7,000
		(Purchase furniture for cash)			
	8	Purchases		3,000	
		Cash			2,000
		Account Payable_ Khalid Retail Store			1,000
		(Purchase good on cash and credit)			
	14	Cash		5,000	
		Account Receivables_ Khan Brothers		12,000	
		Sales			17,000
		(Cash and Credit Sales recorded)			
	18	Drawing		2,000	
		Cash			2,000
		(Owner withdrew for personal use)			
	22	Account Payable_ Khalid Retail Store		500	
		Cash			500
		(Paid credit to Khalid Retail Store)			
	26	Cash		10,000	
		Account Receivable_ Khan Brothers			10,000
		(Receive cash from credit customer)			
	30	Salaries Expense		2,000	
		Cash			2,000
		(Paid expenses)			
		Total		**Rs. 141,500**	**Rs. 141,500**

Practice Sums

Q.1 Jeyaseeli is a sole proprietor having a provisions store. Following are the transactions during the month of January, 2018. Journalise them.

Jan Rs.

1 Commenced business with cash 80,000

2 Deposited cash with bank 40,000

3 Purchased goods by paying cash 5,000

4 Purchased goods from Lipton & Co. on credit 10,000

5 Sold goods to Joy and received cash 11,000

6 Paid salaries by cash 5,000

7 Paid Lipton & Co. by cheque for the purchases made on 4th Jan.

8 Bought furniture by cash 4,000

9 Paid electricity charges by cash 1,000

10 Bank paid insurance premium on furniture as per standing instructions 300

Solution

In the books of Jeyaseeli

Journal entries

Date	Particulars		L.F.	Debit ₹	Credit ₹
2018					
Jan. 1	Cash A/c	Dr.		80,000	
	To Jeyaseeli's Capital A/c				80,000
	(Jeyaseeli commenced business with cash)				
2	Bank A/c	Dr.		40,000	
	To Cash A/c				40,000
	(Deposited cash into bank)				
3	Purchases A/c	Dr.		5,000	
	To Cash A/c				5,000
	(Goods purchased by cash)				
4	Purchases A/c	Dr.		10,000	
	To Lipton & Co. A/c				10,000
	(Goods purchased on credit)				
5	Cash A/c	Dr.		11,000	
	To Sales A/c				11,000
	(Cash sales made)				

6	Salaries A/c Dr. To Cash A/c (Salaries paid)			5,000	5,000
7	Lipton & Co. A/c Dr. To Bank A/c (Payment made by cheque)			10,000	10,000
8	Furniture A/c Dr. To Cash A/c (Furniture bought for cash)			4,000	4,000
9	Electricity charges A/c Dr. To Cash A/c (Electricity charges paid)			1,000	1,000
10	Insurance premium A/c Dr. To Bank A/c (Insurance premium on furniture paid)			300	300

Q.2 Ananth is a trader dealing in textiles. For the following transactions, pass journal entries for the month of January, 2018.

Jan Rs.

1 Commenced business with cash 70,000

2 Purchased goods from X and Co. on credit 30,000

3 Cash deposited into bank 40,000

4 Bought a building from L and Co. on credit 95,000

5 Cash withdrawn from bank for office use 5,000

6 Cash withdrawn from bank for personal use of Ananthu 4,000

7 Towels given as charities 3,000

8 Shirts taken over by Ananth for personal use 12,000

9 Sarees distributed as free samples 3,000

10 Goods (table clothes) used for office use 200

Solution

In the books of Ananth

Journal entries

Date	Particulars		L.F.	Debit ₹	Credit ₹
2018					
Jan. 1	Cash A/c	Dr.		70,000	
	To Ananth's capital A/c				70,000
	(Commenced business with cash)				
2	Purchases A/c	Dr.		30,000	
	To X and Co. A/c				30,000
	(Credit purchases made)				
3	Bank A/c	Dr.		40,000	
	To Cash A/c				40,000
	(Cash deposited into bank)				
4	Buildings A/c	Dr.		95,000	
	To L and Co. A/c				95,000
	(Building bought on credit)				
5	Cash A/c	Dr.		5,000	
	To Bank A/c				5,000
	(Cash withdrawn from bank for office use)				
6	Drawings A/c	Dr.		4,000	
	To Bank A/c				4,000
	(Cash withdrawn from bank for personal use)				
7	Charities A/c	Dr.		3,000	
	To Purchases A/c				3,000
	(Goods given for charities)				
8	Drawings A/c	Dr.		12,000	
	To Purchases A/c				12,000
	(Goods taken over for personal use)				
9	Sales promotion A/c	Dr.		3,000	
	To Purchases A/c				3,000
	(Goods distributed as free samples)				
10	Office expenses A/c	Dr.		200	
	To Purchases A/c				200
	(Goods used for office use)				

Q.3 Arun is a trader dealing in automobiles. For the following transactions, pass journal entries for the month of January, 2018

Jan.Rs.

1 Commenced business with cash 90,000

2 Purchased goods from X and Co. on credit 40,000

3 Accepted bill drawn by X and Co. 20,000

4 Sold goods to D and Co. on credit 10,000

5 Paid by cash the bill drawn by X and Co.

6 Received cheque from D and Co. in full settlement and deposited the same in bank 9,000

7 Commission received in cash 5,000

8 Goods costing Rs. 40,000 was sold and cash received 50,000

9 Salaries paid in cash 4,000

10 Building purchased from Kumar and Co. for Rs. 1,00,000 and an advance of Rs. 20,000 is given in cash

Solution

In the books of Arun

Journal entries

Date	Particulars		L.F.	Debit ₹	Credit ₹
2018					
Jan. 1	Cash A/c	Dr.		90,000	
	To Arun's capital A/c				90,000
	(Arun commenced business with cash)				
2	Purchases A/c	Dr.		40,000	
	To X and Co. A/c				40,000
	(Credit purchases made)				
3	X and Co. A/c	Dr.		20,000	
	To Bills payable A/c				20,000
	(Bill drawn by X and Co. accepted)				
4	D and Co. A/c	Dr.		10,000	
	To Sales A/c				10,000
	(Goods sold on credit)				

5	Bills payable A/c Dr. To Cash A/c (Bills payable paid)		20,000	20,000
6	Bank A/c Dr. Discount A/c Dr. To D and Co. A/c (Cheque received from D and Co. in full settlement)		9,000 1,000	10,000
7	Cash A/c Dr. To Commission A/c (Commission received in cash)		5,000	5,000
8	Cash A/c Dr. To Sales A/c (Cash sales made)		50,000	50,000
9	Salaries A/c Dr. To Cash A/c (Salaries paid in cash)		4,000	4,000
10	Buildings A/c Dr. To Cash A/c To Kumar and Co. A/c (Building bought by giving advance money)		1,00,000	20,000 80,000

Q.4 Bragathish is a trader dealing in electronic goods who commenced his business in 2015. For the following transactions took place in the month of March 2018, pass journal entries.

March Rs.

1. Purchased goods from Y and Co. on credit 60,000
2. Sold goods to D and Co. on credit 30,000
3. Paid Y and Co. through bank in full settlement 58,000
4. D and Co. accepted a bill drawn by Bragathish 30,000
5. Sold goods to L on credit 20,000
6. Sold goods to M on credit 40,000

7 Received a cheque from M in full settlement and deposited the same to the bank 39,000

8. Goods returned to Y and Co. 4,000
9. L became insolvent and only 90 paise per rupee is received by cash in final settlement

10. Goods returned by M 3,000

Solution

In the books of Bragathish

Journal entries

Date	Particulars		L.F.	Debit ₹	Credit ₹
2018					
March 1	Purchases A/c	Dr.		60,000	
	To Y and Co. A/c				60,000
	(Goods purchased on credit)				
2	D and Co. A/c	Dr.		30,000	
	To Sales A/c				30,000
	(Credit sales made to D and Co.)				
3	Y and Co. A/c	Dr.		60,000	
	To Bank A/c				58,000
	To Discount received A/c				2000
	(Payment made to Y and Co. and discount received)				
4	Bills Receivable A/c	Dr.		30,000	
	To D and Co. A/c				30,000
	(Bills received from D and Co.)				
5	L A/c	Dr.		20,000	
	To Sales A/c				20,000
	(Goods sold on credit to L)				
6	M A/c	Dr.		40,000	
	To Sales A/c				40,000
	(Goods sold on credit to M)				
7	Bank A/c	Dr.		39,000	
	Discount allowed A/c	Dr.		1000	
	To M A/c				40,000
	(Cheque received and discount allowed)				
8	Y and A/c	Dr.		4,000	
	To Purchases returns A/c				4,000
	(Goods returned to Y and Co.)				
9	Cash A/c ($20,000 \times 0.9$)	Dr.		18,000	
	Bad debts A/c	Dr.		2,000	
	To L A/c				20,000
	(Cash received from L in final settlement)				
10	Sales returns A/c	Dr.		3,000	
	To M A/c				
	(Goods returned by M)				3,000

Ledger Accounts

Meaning of Ledger:

A ledger is a book of main entry and it contains various accounts such as personal accounts, real accounts, and nominal accounts. It is the Principal book of accounts where identical transactions related to specific person or thing are entered.

A ledger account is nothing but a summary statement of all transactions relating persons, assets or liabilities, and expenses or incomes, which have taken place during a period of time showing their net effect.

Journal records all business transactions separately and as per the order of the date of the transaction. The transaction pertaining to a particular person, asset or expenses are recorded at different places in the journal as they occur on different dates.

Hence, journal fails to bring the similar transactions together and it is not useful for any reference. In order to have a consolidated view of the similar transactions, the transactions entered in the journal are transferred to the ledger accounts. The transferring process from journal to ledger is known as posting.

Specimen Ledger Account:

This is the standard form of ledger account, which is in “T” form. It is widely used. Each account in the ledger is divided into two equal parts. The left hand side is the debit side [Dr.] and the right hand side is the credit side [Cr.].

Each of the two sides is further divided into four columns for recording the date of the transactions, the name of the account to be debited or credited, folio, and the amount of the transaction. J.F. stands for journal folio i.e., the page number in the journal or subsidiary book from where the posting to the account is made.

Running Balance Form of Ledger Account. This form has six columns, viz., (1) Date; (2) Particulars; (3) J.F.; (4) Dr. Amount [Rs.]; (5) Cr. Amount [Rs.]; and (6) Balance. Commercial banks and some business houses use this type of ledger.

Procedure for Posting of Journal Entries into Ledger Accounts:

Posting means transferring the debits and credits from the journal to ledger accounts. Each amount recorded in the debit column of the journal is posted to the debit side of an account in the ledger.

And each amount recorded in the credit column of the journal is posted to the credit side of an account in the ledger. Separate accounts should be opened in the ledger for posting transactions relating to separate persons, assets, expenses or incomes as shown in the journal.

The concerned account that has been debited in the journal should also be debited in the ledger. While debiting the concerned account, the name of the other account, which has been credited in the journal, is entered in the debit side of this account with a prefix 'To".

Similarly, the concerned account that has been credited in the journal should also be credited in the ledger. While crediting the concerned account, the name of the other account that has been debited in the journal, is entered on the credit side of this account with a prefix "By".

The date of the transaction in the date column, the page number of the journal from which the entry is posted in the J.F. column, and the amount of the transaction in the amount columns should be entered in the concerned account.

Finally the concerned account should be balanced in order to find out the net balance in the account.

What does 'Balancing of an Account' Mean?

The various transactions entered in the journal in the chronological order are posted to the concerned account in the ledger [as explained above]. At the end of a period, say a month, a quarter, or a year, the account will be closed in order to find out the net position shown by it.

Totaling the debits and credits of the account separately and finding the difference do this. The difference is entered on the side that is smaller and this difference is the 'closing balance' shown by the account and this will be carried forward to the next period as the 'opening balance' in the account.

This process is known as 'balancing the account'. If the debit side total is smaller than the credit side, the difference is entered on the debit side to close the account for the period and the balance is known as the credit balance.

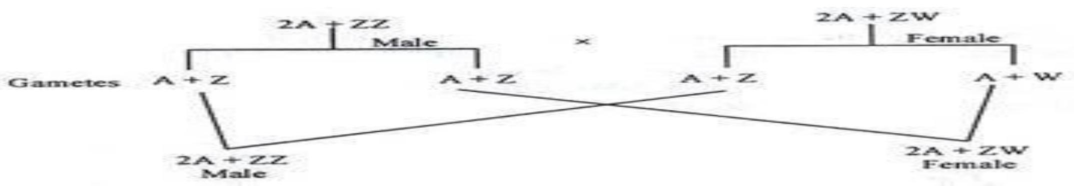
If the credit side total is smaller, the difference will be known as the debit balance.

Example 1:

On 31st January 2002 Commission paid Rs.5, 000.

Journal Entry:

The concerned accounts to be opened in the ledger are Commission a/c and Cash a/c. In the ledger, the Commission a/c should be debited and the Cash a/c should be credited.



Note:

C/D is the abbreviation for carried/down. It means that the closing balance in the concerned account is taken [carried] down to the next period as the opening balance.

B/d is the abbreviation for brought/fawn. It indicates that the closing balance of the previous period has been brought down as the opening balance.

Illustration:

Journalize the following transactions, post them in the ledger and balance the accounts as on 31st December 2001:

December 1 Rashmi started business with a capital of Rs.50,000

December 2 She purchased furniture for Rs.5,000

December 3 Bought goods on credit from Vinod for Rs.8,000

December 14 Sold goods to Suresh for Rs.5,000

December 15 Received cash from Suresh Rs.3,000

December 18 Purchased goods for cash Rs. 12,000

December 27 Sold goods for cash Rs.8,000

December 28 Paid rent Rs. 1,200

December 31 Paid Vinod Rs.3,000 on account

Solution:

Journal of Rashmi

Date	Particulars		J.F.	Dr. [Rs.]	Cr. [Rs]
2001 Dec. 1	Cash a/c	Dr.		50,000	
	To Rashmi capital a/c				50,000
	[Being capital introduced]				
2	Furniture a/c	Dr.		5,000	
	To Cash a/c				5,000
	[Being furniture purchased]				
3	Purchases a/c	Dr.		8,000	
	To Vinod a/c				8,000
	[Being credit purchases]				
14	Suresh a/c	Dr.		5,000	
	To Sales a/c				5,000
	[Being credit sales]				
15	Cash a/c	Dr.		3,000	
	To Suresh a/c				3,000
	[Being cash received]				
18	Purchases a/c	Dr.		12,000	
	To Cash a/c				12,000
	[Being cash purchases]				
27	Cash a/c	Dr.		8,000	
	To Sales a/c				8,000
	[Being cash sales]				
28	Rent a/c	Dr.		1,200	
	To Cash a/c				1,200
	[Being rent paid]				
31	Vinod a/c	Dr.		3,000	
	To Cash a/c				3,000
	[Being cash paid]				

Ledger of Rashmi

Dr. **Cash a/c** Cr.

Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
2001 Dec. 1	To Capital a/c		50,000	2001 Dec. 2	By Furniture a/c		5,000
15	To Suresh a/c		3,000	18	By Purchase a/c		12,000
28	To Sales a/c		8,000	28	By Rent a/c		1,200
				31	By Vinod a/c		3,000
				31	By balance c/d		39,800
			61,000				61,000
1-1-2002	To balance b/d		39,800				

Dr. **Rashmis Capital a/c** Cr.

Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
2001 Dec. 31	To balance c/d		50,000	2001 Dec. 1	By Cash a/c		50,000
			50,000				50,000
				1-1-2002	By balance b/d		50,000

Dr. **Furniture a/c** Cr.

Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
2001 Dec. 2	To Cash a/c		5,000	2001 Dec. 31	By balance c/d		5,000
			5,000				5,000
1-1-2002	To balance b/d		5,000				

Dr **Purchases a/c** Cr.

Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
2001 Dec. 3	To Vinod a/c		8,000	2001 Dec. 31	By balance c/d		20,000
18	To Cash a/c		12,000				
			20,000				20,000
1-1-2002	To balance b/d		20,000				

Dr. **Sales a/c** Cr.

Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
2001 Dec. 31	To balance c/d		13,000	2001 Dec. 14	By Suresh a/c		5,000
				27	By Cash a/c		8,000
			13,000				13,000
				1-1-2002	By balance b/d		13,000

Dr. **Vinod a/c** Cr.

Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
2001 Dec. 31	To Cash a/c		3,000	2001 Dec. 3	By Purchases a/c		8,000
31	To balance c/d		5,000				
			8,000				8,000
				1-1-2002	By balance b/d		5,000

Dr. **Suresh a/c** Cr.

Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
2001 Dec. 14	To Sales a/c		5,000	2001 Dec. 15	By Cash a/c		3,000
				31	By balance c/d		2,000
			5,000				5,000
2002 Jan. 1	To balance		2,000				

Dr. **Rent a/c** Cr.

Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
2001 Dec. 28	To Cash a/c		1,200	2001 Dec. 31	By balance c/d		1,200
			1,200				1,200
1-1-2002	To balance b/d		1,200				

Practice Sums

Q.1 Mr. Ramu has the following transactions in the month of July.

Record them into the journal and show postings in the ledger and balance the accounts.

July 1st	:	Ramu started business with a capital of 75,000
1st	:	Purchased goods from Manu on credit 25,000
2nd	:	Sold goods to Sonu 20,000
3rd	:	Purchased goods from Meenu 15,000
4th	:	Sold goods to Tanu for cash 16,000
5th	:	Goods retuned to Manu 2,000
6th	:	Bought furniture for 15,000
7th	:	Bought goods from Zenu 12,000
8th	:	Cash paid to Manu 10,000
9th	:	Sold goods to Jane 13,500

10th	:	Goods returned from Sonu 3,000
11th	:	Cash received from Jane 5,500
12th	:	Goods taken by Ramu for domestic use 3,000
13th	:	Returned Goods to Zenu 1,000
14th	:	Cash received from Sonu 12,000
15th	:	Bought machinery for 18,000
16th	:	Sold part of the furniture for 1,000
17th	:	Cash paid for the purchase of bicycle for Ramu's son 1,500
19th	:	Cash sales 15,000
20th	:	Cash purchases 13,500

Solution:

Journal in the books of M/s Rama & Sons
for the period from July 1st, _5 to July 31st, _5

Date	V/R No.	Particulars		L/F	Amount (Dr)	Amount (Cr)
July 1st	–	Cash a/c To Capital a/c	Dr	– –	75,000	 75,000
		[Being the amount received from Mr. Ramu, the proprietor as his capital contribution vide receipt no:___ dated:__]				
July 1st	–	Goods/stock a/c To Manu a/c	Dr	– –	25,000	 25,000
		[Being the value of stock purchased from Mr. Manu vide bill no:___ dated:__]				
July 2nd	–	Sonu a/c To Goods/stock a/c	Dr	– –	20,000	 20,000
		[Being the value of stock sold to Mr.Sonu vide bill no:___ dated:__]				
July 3rd	–	Goods/stock a/c To Meenu a/c	Dr	– –	15,000	 15,000
		[Being the value of stock purchased from Mr.Meenu on credit vide bill no:___ dated:__]				

July 4th	–	Cash a/c To Goods/stock a/c [Being the value of stock sold to Mr. Tanu for cash vide receipt no:___ dated:__]	Dr	– –	16,000	 16,000
July 5th	–	Manu a/c To Goods/stock a/c [Being the value of stock returned to Mr. Manu vide bill no:___ dated:__]	Dr	– –	2,000	 2,000
July 6th	–	Furniture a/c To Cash a/c [Being the value of furniture purchased from M/s ___vide bill no:___ dated:__]	Dr	– –	15,000	 15,000
July 7th	–	Goods/stock a/c To Zenu a/c [Being the value of stock Purchased from Mr. Zenu vide bill no:___ dated:__]	Dr	– –	12,000	 12,000
July 8th	–	Manu a/c To Cash a/c [Being the amount paid to Mr. Manu vide voucher no:___ dated:__]	Dr	– –	10,000	 10,000
July 9th	–	Jane a/c To Goods/stock a/c [Being the value of stock Sold to Ms.Zane vide bill no:___ dated:__]	Dr	– –	13,500	 13,500
July 10th	–	Goods/stock a/c To Sonu a/c [Being the value of stock returned from Mr. Sonu vide bill no:___ dated:__]	Dr	– –	3,000	 3,000
July 11th	–	Cash a/c To Jane a/c [Being the amount of cash received from Ms. Jane vide cash receipt no:___	Dr	– –	5,500	 5,500

		dated:__]				
July 12th	–	Drawings a/c To Goods/stock a/c	Dr	– –	3,000	 3,000
		[Being the amount of stock taken by Ramu for domestic use vide bill no:___ dated:__]				
July 13th	–	Zenu a/c To Goods/stock a/c	Dr	– –	1,000	 1,000
		[Being the amount of stock returned to Mr. Zenu vide bill no:___ dated:__]				
July 14th	–	Cash a/c To Sonu a/c	Dr	– –	12,000	 12,000
		[Being the amount of cash received from Mr. Sonu vide cash receipt no:___ dated:_]				
July 15th	–	Machinery a/c To Cash a/c	Dr	– –	18,000	 18,000
		[Being the amount paid for machinery purchased to M/s ____vide voucher no:___ dated:__]				
July 16th	–	Cash a/c To Furniture a/c	Dr	– –	1,000	 1,000
		[Being the amount received on sale of furniture vide cash receipt no:___ dated:__]				
July 17th	–	Drawings a/c To Cash a/c	Dr	– –	15,000	 15,000
		[Being the amount of cash paid for bicycle purchases for proprietor's son vide voucher no:___ dated:__]				
July 19th	–	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:__]				
July 20th	–	Goods/stock a/c To Cash a/c	Dr	– –	13,500	 13,500
		[Being the value of stock Purchased for vide voucher no:___ dated:__]				

General Ledger

[Books of Mr. Ramu]

Cash a/c

DrCr

Date	Particulars	J/F	Amount	Date	Particulars	J/F	Amount
01/10/_5 04/10/_5 11/10/_5 14/10/_5 16/10/_5 19/10/_5	To Capital a/c To Goods/stock a/c To Jane a/c To Sonu a/c To Furniture a/c To Goods/stock a/c	– – – – – –	75,000 16,000 5,500 12,000 1,000 15,000	06/10/_5 08/10/_5 15/10/_5 17/10/_5 20/10/_5 30/07/_5	By Furniture a/c By Manu a/c By Machinery a/c By Drawings a/c By Goods/stock a/c By Balance c/d	– – – – – –	15,000 10,000 18,000 15,000 13,500 53,000
	to		1,24,500		to		1,24,500
31/07/_5	To Balance b/d	–	53,000				

Capital a/c

DrCr

Date	Particulars	J/F	Amount	Date	Particulars	J/F	Amount
30/07/_5	To Balance c/d	–	75,000	01/10/_5	By Cash a/c	–	75,000
	to		75,000		to		75,000
				31/07/_5	By Balance b/d	–	75,000

Goods/stock a/c

DrCr

Date	Particulars	J/F	Amount	Date	Particulars	J/F	Amount
01/10/_5 03/10/_5	To Manu a/c To Meenu a/c	– –	25,000 15,000	02/10/_5 04/10/_5	By Sonu a/c By Cash a/c	– –	20,000 16,000

Goods/stock a/c

DrCr

Date	Particulars	J/F	Amount	Date	Particulars	J/F	Amount
07/10/_5	To Zenu a/c	–	12,000	05/10/_5	By Manu a/c	–	2,000
10/10/_5	To Sonu a/c	–	3,000	09/10/_5	By Jane a/c	–	13,500
20/10/_5	To Cash a/c	–	13,500	12/10/_5	By Drawings a/c	–	3,000
30/07/_5	To Balance c/d	–	2,000	13/10/_5	By Zenu a/c	–	1,000
				19/10/_5	By Cash a/c	–	15,000
	to		70,500		to		70,500
				31/07/_5	By Balance b/d	–	2,000

Manu a/c

DrCr

Date	Particulars	J/F	Amount	Date	Particulars	J/F	Amount
05/10/_5	To Goods/stock a/c	–	2,000	01/10/_5	By Goods/stock a/c	–	25,000
08/10/_5	To Cash a/c	–	10,000				
30/07/_5	To Balance c/d	–	13,000				
	to		25,000		to		25,000
				31/07/_5	By Balance b/d	–	13,000

Sonu a/c

DrCr

Date	Particulars	J/F	Amount	Date	Particulars	J/F	Amount
02/10/_5	To Goods/stock a/c	–	20,000	10/10/_5	By Goods/stock a/c	–	3,000
				14/10/_5	By Cash a/c	–	12,000
				30/07/_5	By Balance c/d	–	5,000
	to		20,000		to		20,000
31/07/_5	To Balance b/d	–	5,000				

Meenu a/c

DrCr

Date	Particulars	J/F	Amount	Date	Particulars	J/F	Amount

Meenu a/c

DrCr

Date	Particulars	J/F	Amount	Date	Particulars	J/F	Amount
30/07/_5	To Balance c/d	–	15,000	03/10/_5	By Goods/stock a/c	–	15,000
	to		15,000		to		15,000
				31/07/_5	By Balance b/d	–	15,000

Furniture a/c

DrCr

Date	Particulars	J/F	Amount	Date	Particulars	J/F	Amount
06/10/_5	To Cash a/c	–	15,000	16/10/_5 30/07/_5	By Cash a/c By Balance c/d	– –	1,000 14,000
	to		15,000		to		15,000
31/07/_5	To Balance b/d	–	14,000				

Zenu a/c

DrCr

Date	Particulars	J/F	Amount	Date	Particulars	J/F	Amount
13/10/_5 30/07/_5	To Goods/stock a/c To Balance c/d	– –	1,000 11,000	07/10/_5	By Goods/stock a/c	–	12,000
	to		12,000		to		12,000
				31/07/_5	By Balance b/d	–	11,000

Jane a/c

DrCr

Date	Particulars	J/F	Amount	Date	Particulars	J/F	Amount
09/10/_5	To Goods/stock a/c	–	13,500	11/10/_5 30/07/_5	By Cash a/c By Balance c/d	– –	5,500 8,000
	to		13,500		to		13,500
31/07/_5	To Balance b/d	–	8,000				

Drawings a/c

DrCr

Date	Particulars	J/F	Amount	Date	Particulars	J/F	Amount
12/10/_5	To Goods/stock a/c	–	3,000	30/07/_5	By Balance c/d	–	18,000
17/10/_5	To Cash a/c	–	15,000				
	to		18,000		to		18,000
31/07/_5	To Balance b/d	–	18,000				

Machinery a/c

DrCr

Date	Particulars	J/F	Amount	Date	Particulars	J/F	Amount
15/10/_5	To Cash a/c	–	18,000	30/07/_5	By Balance c/d	–	18,000
	to		18,000		to		18,000
31/07/_5	To Balance b/d	–	18,000				

Q.2 Journalise the following transactions in the books of Moon and post them into the ledger for the month of August

Aug 10th	:	Moon commenced business with a capital of 1,50,000
11th	:	Cash deposited into bank 50,000
12th	:	Bought equipment for 15,000
13th	:	Bought goods worth 20,000 from Star and payment made by cheque
14th	:	Sold goods to Sun for 15,000 and payment received through cheque
16th	:	Paid rent by cheque 5,000
17th	:	Took loan from Mr. Storm 25,000
18th	:	Received commission from Mr. Air by cheque 5,000
19th	:	Wages paid 15,000
20th	:	Withdrew from bank for personal use 3,000
21st	:	Withdrew from bank for office use 10,000
22nd	:	Bought goods for 25,000
23rd	:	Cash paid into bank 30,000
24th	:	Interest paid through cheque 2,000

25th	:	Gave loan to Mr. Wind 10,000
26th	:	Amount paid to Mr. Storm on loan account 15,000
27th	:	Salary paid to Manager Mr. Liquid 5,000
28th	:	Postage paid 1,000
29th	:	Received cheque from Mr. Wind on loan account 3,000
30th	:	Sold part of the equipment for 2,000

Solution:

Journal in the books of M/s Rama & Sons
for the period from August 10th, _5 to August 30th, _5

Date	V/R No.	Particulars		L/F	Amount (Dr)	Amount (Cr)
August 10th	–	Cash a/c To Capital a/c	Dr	– –	1,50,000	 1,50,000
		[Being the amount received from Mr. Moon, the proprietor as his capital contribution vide receipt no:__ dated:__]				
11th	–	Bank a/c To Cash a/c	Dr	– –	50,000	 50,000
		[Being the amount of cash deposited into bank vide bill no:___ dated:__]				
12th	–	Equipment a/c To Cash a/c	Dr	– –	15,000	 15,000
		[Being the value of equipment purchased from M/s___ for cash vide bill no:___ dated:__]				
13th	–	Goods/stock a/c To Bank a/c	Dr	– –	20,000	 20,000
		[Being the payment made for stock purchased vide Cheque no:__ dated:__]				
14th	–	Bank a/c To Goods/stock a/c	Dr	– –	15,000	 15,000

		[Being the amount received for stock sold to Mr. Sun vide Cheque no:__ dated:__]				
16th	–	Rent a/c To Bank a/c	Dr	– –	5,000	 5,000
		[Being the amount paid for rent vide voucher no:___ dated:__]				
17th	–	Cash a/c To Loan from Storm a/c	Dr	– –	25,000	 25,000
		[Being the cash received from Mr. Storm as loan vide receipt no:___ dated:__]				
18th	–	Bank a/c To Commission a/c	Dr	– –	5,000	 5,000
		[Being the amount received for commission vide cheque no:__ dated:__]				
19th	–	Wages a/c To Cash a/c	Dr	– –	15,000	 15,000
		[Being the amount paid for wages vide voucher no:___ dated:__]				
20th	–	Drawings a/c To Bank a/c	Dr	– –	3,000	 3,000
		[Being the amount withdrawn from bank for personal use vide cheque no:___ dated:__]				
21st	–	Cash a/c To Bank a/c	Dr	– –	10,000	 10,000
		[Being the amount withdrawn from bank for office purpose vide cheque no:___ dated:__]				
22nd	–	Goods/stock a/c To Cash a/c	Dr	– –	25,000	 25,000

		[Being the amount of cash paid for stock purchases vide voucher no:___ dated:__]				
23rd	–	Bank a/c To Cash a/c	Dr	– –	30,000	 30,000
		[Being the amount deposited into bank vide voucher no:___ dated:__]				
24th	–	Interest a/c To Bank a/c	Dr	– –	2,000	 2,000
		[Being the amount of interest paid vide cheque no:___ dated:__]				
25th	–	Loan to Mr. Wind a/c To Cash a/c	Dr	– –	10,000	 10,000
		[Being the amount of cash given to Mr. Wind as loan vide voucher no:___ dated:__]				
26th	–	Loan from Strom a/c To Cash a/c	Dr	– –	15,000	 15,000
		[Being the amount paid to Mr. Storm for repayment of loan vide voucher no:___ dated:__]				
27th	–	Salary a/c To Cash a/c	Dr	– –	5,000	 5,000
		[Being the amount paid for salary to Mr. Liquid vide voucher no:___ dated:__]				
28th	–	Postage a/c To Cash a/c	Dr	– –	1,000	 1,000
		[Being the amount paid for purchase of postage vide voucher no:___ dated:__]				
29th	–	Bank a/c To Loan to Mr. wind a/c	Dr	– –	3,000	 3,000

		[Being the Cheque no:___ date___ received from Mr. Wind for repayment of loan]				
30th	–	Cash a/c To Equipment a/c [Being the amount received on sale of equipment vide receipt no:___ dated:__]	Dr	– –	2,000	2,000

General Ledger

[Books of M/s Rama & Sons]

Cash a/c

DrCr

Date	Particulars	J/F	Amount	Date	Particulars	J/F	Amount
10/10/_5	To Capital a/c	–	1,50,000	11/10/_5	By Bank a/c	–	50,000
17/10/_5	To Loan from	–	25,000	12/10/_5	By Equipment a/c	–	15,000
21/10/_5	Storm a/c	–	10,000	19/10/_5	By Wages a/c	–	15,000
30/10/_5	To Bank a/c	–	2,000	22/10/_5	By Goods/stock a/c	–	25,000
	To Equipment a/c			23/10/_5	By Bank a/c	–	30,000
				25/10/_5	By Loan to Mr.	–	10,000
				26/10/_5	Wind a/c	–	15,000
				27/10/_5	By Loan from Strom	–	5,000
				28/10/_5	a/c	–	1,000
				31/08/_5	By Salary a/c	–	21,000
					By Postage a/c		
					By Balance c/d		
	to		1,87,000		to		1,87,000
01/09/_5	To Balance b/d	–	21,000				

Capital a/c

DrCr

Date	Particulars	J/F	Amount	Date	Particulars	J/F	Amount
31/08/_5	To Balance c/d	–	1,50,000	10/10/_5	By Cash a/c	–	1,50,000

Capital a/c

DrCr

Date	Particulars	J/F	Amount	Date	Particulars	J/F	Amount
	to		1,50,000		to		1,50,000
				01/09/_5	By Balance b/d	–	1,50,000

Bank a/c

DrCr

Date	Particulars	J/F	Amount	Date	Particulars	J/F	Amount
11/10/_5 14/10/_5 18/10/_5 23/10/_5 29/10/_5	To Cash a/c To Goods/stock a/c To Commission a/c To Cash a/c To Loan to Mr. wind a/c	– – – – –	50,000 15,000 5,000 30,000 3,000	13/10/_5 16/10/_5 20/10/_5 21/10/_5 24/10/_5 31/08/_5	By Goods/stock a/c By Rent a/c By Drawings a/c By Cash a/c By Interest a/c By Balance c/d	– – – – – –	20,000 5,000 3,000 10,000 2,000 63,000
	to		1,03,000		to		1,03,000
01/09/_5	To Balance b/d	–	63,000				

Equipment a/c

DrCr

Date	Particulars	J/F	Amount	Date	Particulars	J/F	Amount
12/10/_5	To Cash a/c	–	15,000	30/10/_5 31/08/_5	By Cash a/c By Balance c/d	– –	2,000 13,000
	to		15,000		to		15,000
01/09/_5	To Balance b/d	–	13,000				

Goods/stock a/c

DrCr

Date	Particulars	J/F	Amount	Date	Particulars	J/F	Amount
13/10/_5 22/10/_5	To Bank a/c To Cash a/c	– –	20,000 25,000	14/10/_5 31/08/_5	By Bank a/c By Balance c/d	– –	15,000 30,000

Goods/stock a/c

DrCr

Date	Particulars	J/F	Amount	Date	Particulars	J/F	Amount
	to		45,000		to		45,000
01/09/_5	To Balance b/d	–	30,000				

Rent a/c

DrCr

Date	Particulars	J/F	Amount	Date	Particulars	J/F	Amount
16/10/_5	To Bank a/c	–	5,000	31/08/_5	By Balance c/d	–	5,000
	to		5,000		to		5,000
01/09/_5	To Balance b/d	–	5,000				

Loan from Storm a/c

DrCr

Date	Particulars	J/F	Amount	Date	Particulars	J/F	Amount
31/08/_5	To Balance c/d	–	25,000	17/10/_5	By Cash a/c	–	25,000
	to		25,000		to		25,000
				01/09/_5	By Balance b/d	–	25,000

Commission a/c

DrCr

Date	Particulars	J/F	Amount	Date	Particulars	J/F	Amount
31/08/_5	To Balance c/d	–	5,000	18/10/_5	By Bank a/c	–	5,000
	to		5,000		to		5,000
				01/09/_5	By Balance b/d	–	5,000

Wages a/c

DrCr

Date	Particulars	J/F	Amount	Date	Particulars	J/F	Amount
19/10/_5	To Cash a/c	–	15,000	31/08/_5	By Balance c/d	–	15,000

Wages a/c

DrCr

Date	Particulars	J/F	Amount	Date	Particulars	J/F	Amount
	to		15,000		to		15,000
01/09/_5	To Balance b/d	–	15,000				

Drawings a/c

DrCr

Date	Particulars	J/F	Amount	Date	Particulars	J/F	Amount
20/10/_5	To Bank a/c	–	3,000	31/08/_5	By Balance c/d	–	3,000
	to		3,000		to		3,000
01/09/_5	To Balance b/d	–	3,000				

Interest a/c

DrCr

Date	Particulars	J/F	Amount	Date	Particulars	J/F	Amount
24/10/_5	To Bank a/c	–	2,000	31/08/_5	By Balance c/d	–	2,000
	to		2,000		to		2,000
01/09/_5	To Balance b/d	–	2,000				

Loan to Mr. Wind a/c

DrCr

Date	Particulars	J/F	Amount	Date	Particulars	J/F	Amount
25/10/_5	To Cash a/c	–	10,000	31/08/_5	By Balance c/d	–	10,000
	to		10,000		to		10,000
01/09/_5	To Balance b/d	–	10,000				

Loan from Strom a/c

DrCr

Date	Particulars	J/F	Amount	Date	Particulars	J/F	Amount
26/10/_5	To Cash a/c	–	15,000	31/08/_5	By Balance c/d	–	15,000

Loan from Strom a/c

DrCr

Date	Particulars	J/F	Amount	Date	Particulars	J/F	Amount
	to		15,000		to		15,000
01/09/_5	To Balance b/d	–	15,000				

Salary a/c

DrCr

Date	Particulars	J/F	Amount	Date	Particulars	J/F	Amount
27/10/_5	To Cash a/c	–	5,000	31/08/_5	By Balance c/d	–	5,000
	to		5,000		to		5,000
01/09/_5	To Balance b/d	–	5,000				

Postage a/c

DrCr

Date	Particulars	J/F	Amount	Date	Particulars	J/F	Amount
28/10/_5	To Cash a/c	–	1,000	31/08/_5	By Balance c/d	–	1,000
	to		1,000		to		1,000
01/09/_5	To Balance b/d	–	1,000				

Loan to Mr. wind a/c

DrCr

Date	Particulars	J/F	Amount	Date	Particulars	J/F	Amount
31/08/_5	To Balance c/d	–	3,000	29/10/_5	By Bank a/c	–	3,000
	to		3,000		to		3,000
				01/09/_5	By Balance b/d	–	3,000

Trial Balance:

When all accounts of the ledger are in balance, a Trial Balance is prepared. A Trial Balance is a listing of all the accounts and their respective balances. Trial Balance is a statement of debit balance and credit balance extracted from ledger accounts on a particular date. A Trial Balance is, thus, a summary of all the Ledger Balances outstanding as on a particular date.

Preformat of a Trial Balance is as follows:

Trial Balance as at ......

Ledger Accounts	Debit Balance	Credit Balance

Fig :1.4 Trial Balance

It must be stated here that total of debit balance column must be equal to total of credit balance column. This is so because under double entry system, for each item of debit there is a corresponding credit and secondly all the transactions recorded in the books of original entry are transferred to ledger.

Objectives of Preparing a Trial Balance:

The following are the objectives of preparing a Trial Balance:

1. To check the arithmetical accuracy of accounting entries posted in the ledger—When the trial balance tallies, it is an indication of the fact that ledger accounts are arithmetically accurate. It also indicates that:

(I) For each transaction, the debits and credits were recorded in equal amounts,

(ii) The balance (debit balances and credit balances) for each account was calculated correctly,

(iii) The balances of the various debit and credit accounts have been correctly added together to arrive at the total equality of the debits and credits. Of course there may be certain errors in the books of accounts in-spite of the agreement of Trial Balance.

2. To Provide a Basis for Financial Statements—Trial Balance is a first step towards preparation of financial statements of an organisation. If trial balance is not prepared, it will be impossible to prepare the financial statement.

3. Trial Balance serves as a summary of all the ledger accounts and provides a complete picture of each account in the ledger.

Illustration 1:

The following were the transactions of a firm dealing in furniture:

March 2012		(₹)
1	Started business with cash	2,00,000
	Bank	8,00,000
	Furniture (goods)	5,00,000
3	Bought furniture from Ratan Bros.	2,00,000
4	Bought furniture for the office	1,00,000
6	Sold furniture to J. Mitra	2,00,000
8	Bought furniture	1,80,000

March 2012		(₹)
10	Returned furniture to Ratan Bros.	5,000
12	J. Mitra returned furniture	20,000
14	Paid taxi fare	1,000
15	Sold to J. Kabiraj furniture for ₹ 50,000, less trade discount @ 10%	
17	Received commission from J. Das	1,500
18	Paid to Ratan Bros. by cheque	1,00,000
19	Sent to bank	20,000
20	Received a cheque for ₹ 42,500 from L. Kabiraj in full settlement of his account	
22	Received a cheque for ₹ 50,000 from J. Mitra and deposited the same into bank	
23	Loan to Naren	15,000
24	J. Mitra's cheque dishonoured	
25	Furniture taken away for personal use	40,000
26	Received interest	1,000
27	Received dividend	2,500
29	Paid for postage stamps	500
30	Paid house rent by cheque	10,000
31	Cash withdrawn from bank	2,00,000
31	Paid salary	30,000
31	Paid for taxes	15,000

Journalese the above transactions in the books of the firm and show the ledger postings. Also prepare a trial balance as on March 31, 2012.

Solution: **Journal**

Date 2012	Particulars	L.F.	Dr. (₹)	Cr. (₹)
Mar. 1	Cash A/c	Dr.	2,00,000	
	Bank A/c	Dr.	8,00,000	
	Stock A/c	Dr.	5,00,000	
	To Capital A/c			15,00,000
	(Brought into the business as capital)			
Mar. 3	Purchases A/c	Dr.	2,00,000	
	To Ratan Bros.			2,00,000
	(Being the purchase of goods (furniture)			
Mar. 4	Furniture A/c	Dr.	1,00,000	
	To Bank A/c			1,00,000
	(Being the purchase of furniture for office)			
Mar. 6	J. Mitra	Dr.	2,00,000	
	To Sales A/c			2,00,000
	(Being the sale of goods (furniture) to J. Mitra)			
Mar. 8	Purchase A/c	Dr.	1,80,000	
	To Bank A/c			1,80,000
	(Being the purchase of goods)			
Mar. 10	Ratan Bros.	Dr.	5,000	
	To Returns Outward A/c			5,000
	(Being goods (furniture) returned to Ratan Bros.)			
Mar. 12	Returns Inward A/c	Dr.	20,000	
	To J. Mitra			20,000
	(Goods returned by Mitra)			

Date 2012	Particulars	L.F.	Dr. (₹)	Cr. (₹)
Mar. 14	Conveyance A/c	Dr.	1,000	
	To Cash A/c			1,000
	(Being the payment of taxi fare)			
Mar. 15	J. Kabiraj	Dr.	45,000	
	To Sales A/c			45,000
	(Being the sale of goods worth ₹ 50,000 to J. Kabiraj, trade discount being 10%)			
Mar. 17	Bank A/c	Dr.	1,500	
	To Commission			1,500
	(Received commission from J. Das)			
Mar. 18	Ratan Bros.	Dr.	1,00,000	
	To Bank A/c			1,00,000
	(Being payment made to Ratan Bros.)			
Mar. 19	Bank A/c	Dr.	20,000	
	To Cash A/c			20,000
	(Being money sent to bank)			
Mar. 20	Bank A/c	Dr.	42,500	
	Discount A/c	Dr.	2,500	
	To Kabiraj			45,000
	(Being a cheque for ₹ 42,500 received from J. Kabiraj in full settlement of his account)			

Mar. 22	Bank A/c To J. Mitra (Being cheque received from J. Mitra)	Dr.	50,000	50,000
Mar. 23	Loan to Naren A/c To Bank A/c (Money given to Naren)	Dr.	15,000	15,000
Mar. 24	J. Mitra To Bank A/c (Being the cheque of J. Mitra dishonoured)	Dr.	50,000	50,000
Mar. 25	Drawing A/c To Purchases A/c (Being goods (furniture) taken for personal use)	Dr.	40,000	40,000
Mar. 26	Bank A/c To Interest A/c (Being interest received)	Dr.	1,000	1,000
Mar. 27	Bank A/c To Dividend A/c (Being the amount of dividend received)	Dr.	2,500	2,500
Mar. 29	Postage A/c To Cash A/c (Payment for postage stamps)	Dr.	500	500
Mar. 30	Rent A/c To Bank A/c (Being the payment of house rent)	Dr.	10,000	10,000
Mar. 31	Cash A/c To Bank A/c (Cash withdrawn from bank)	Dr.	2,00,000	2,00,000
Mar. 31	Salary A/c Tax A/c To Cash A/c (Being the payment for salary and taxes)	Dr. Dr.	30,000 15,000	45,000

Ledger

Cash A/c

Date 2012	Particulars	L.F.	Amount (₹)	Date 2012	Particulars	L.F.	Amount (₹)
Mar. 1	To Capital A/c		2,00,000	Mar. 14	By Conveyance A/c		1,000
Mar. 31	To Bank A/c		2,00,000	Mar. 19	By Bank		20,000
				Mar. 29	By Postage		500
				Mar. 31	By Salary A/c		30,000
				Mar. 31	By Taxes A/c		15,000
				Mar. 31	By Balance c/d		3,33,500
			4,00,000				4,00,000
April 1	To Balance b/d		3,33,500				

Bank A/c

Date 2012	Particulars	L.F.	Amount (₹)	Date 2012	Particulars	L.F.	Amount (₹)
Mar. 1	To Capital A/c		8,00,000	Mar. 5	By Furniture		1,00,000
Mar. 17	To Commission A/c		1,500	Mar. 8	By Purchase		1,80,000
Mar. 19	To Cash A/c		20,000	Mar. 18	By Ratan Bros.		1,00,000
Mar. 20	To J. Kabiraj		42,500	Mar. 23	By Loan to Naren		15,000
Mar. 22	To J. Mitra		50,000	Mar. 24	By J. Mitra		50,000
Mar. 26	To Interest A/c		1,000	Mar. 30	By Rent A/c		10,000
Mar. 27	To Dividend A/c		2,500	Mar. 31	By Cash A/c		2,00,000
				Mar. 31	By Balance c/d		2,62,500
			9,17,500				9,17,500
April 1	To Balance b/d		2,62,500				

Capital A/c

Date 2012	Particulars	L.F.	Amount (₹)	Date 2012	Particulars	L.F.	Amount (₹)
Mar. 31	To Balance c/d		15,00,000	Mar. 1	By Cash		2,00,000
					By Bank		8,00,000
					By Stock		5,00,000
			15,00,000	April 1	By Balance b/d		15,00,000

Stock A/c

Date 2012	Particulars	L.F.	Amount (₹)	Date 2012	Particulars	L.F.	Amount (₹)
Mar. 1	To Capital A/c		5,00,000	Mar. 25	By Drawings A/c		40,000
				Mar. 31	By Balance c/d		4,60,000
			5,00,000				5,00,000
April 1	To Balance b/d		4,60,000				

Purchase A/c

Date 2012	Particulars	L.F.	Amount (₹)	Date 2012	Particulars	L.F.	Amount (₹)
Mar. 3	To Ratan Bros.		2,00,000	Mar. 31	By Balance c/d		3,80,000
Mar. 8	To Bank A/c		1,80,000				
			3,80,000				3,80,000
April 1	To Balance c/d		3,80,000				

Ratan A/c

Date 2012	Particulars	L.F.	Amount (₹)	Date 2012	Particulars	L.F.	Amount (₹)
Mar. 10	To Returns Outward A/c		5,000	Mar. 3	By Purchase A/c		2,00,000
Mar. 18	To Bank A/c		1,00,000				
Mar. 31	To Balance c/d		95,000				
			2,00,000				2,00,000
				April 1	By Balance b/d		95,000

Furniture A/c

Date 2012	Particulars	L.F.	Amount (₹)	Date 2012	Particulars	L.F.	Amount (₹)
Mar. 5	To Bank		1,00,000	Mar. 31	By Balance c/d		1,00,000
April 1	To Balance b/d		1,00,000				1,00,000

J. Mitra

Date 2012	Particulars	L.F.	Amount (₹)	Date 2012	Particulars	L.F.	Amount (₹)
Mar. 6	To Sales A/c		2,00,000	Mar. 12	By Returns Inward A/c		20,000
Mar. 24	To Bank A/c		50,000	Mar. 22	By Bank A/c		50,000
				Mar. 31	By Balance c/d		1,80,000
			2,50,000				2,50,000
April 1	To Balance b/d		1,80,000				

Sales A/c

Date 2012	Particulars	L.F.	Amount (₹)	Date 2012	Particulars	L.F.	Amount (₹)
Mar. 31	To Balance c/d		2,45,000	Mar. 6	By Mitra		2,00,000
				Mar. 15	By J. Kabiraj		45,000
			2,45,000				2,45,000
				April 1	By Balance b/d		2,45,000

Returns Outward A/c

Date 2012	Particulars	L.F.	Amount (₹)	Date 2012	Particulars	L.F.	Amount (₹)
Mar. 31	To Balance c/d		5,000	Mar. 10	By Ratan Bros.		5,000
				April 1	By Balance b/d		5,000

Returns Inward A/c

Date 2012	Particulars	L.F.	Amount (₹)	Date 2012	Particulars	L.F.	Amount (₹)
Mar. 12	To J. Mitra		20,000	Mar. 31	By Balance c/d		20,000
April 1	To Balance b/d		20,000				

Conveyance A/c

Date 2012	Particulars	L.F.	Amount (₹)	Date 2012	Particulars	L.F.	Amount (₹)
Mar. 10	To Cash A/c		1,000	Mar. 31	By Balance c/d		1,000
April 1	To Balance b/d		1,000				

J. Kabiraj

Date 2012	Particulars	L.F.	Amount (₹)	Date 2012	Particulars	L.F.	Amount (₹)
Mar. 15	To Sales A/c		45,000	Mar. 20	By Bank A/c		42,500
				Mar. 20	By Discount A/c		2,500
			45,000				45,000

Commission A/c

Date 2012	Particulars	L.F.	Amount (₹)	Date 2012	Particulars	L.F.	Amount (₹)
Mar. 31	To Balance c/d		1,500	Mar. 17	By Bank A/c		1,500
				April 1	By Balance b/d		1,500

Discount Allowed A/c

Date 2012	Particulars	L.F.	Amount (₹)	Date 2012	Particulars	L.F.	Amount (₹)
Mar. 20	To J. Kabiraj		2,500	Mar. 31	By Balance c/d		2,500
April 1	To Balance b/d		2,500				

Loan to Naren A/c

Date 2012	Particulars	L.F.	Amount (₹)	Date 2012	Particulars	L.F.	Amount (₹)
Mar. 23	To Bank A/c		15,000	Mar. 31	By Balance c/d		15,000
April 1	To Balance b/d		15,000				

Drawings A/c

Date 2012	Particulars	L.F.	Amount (₹)	Date 2012	Particulars	L.F.	Amount (₹)
Mar. 25	To Purchases A/c		40,000	Mar. 31	By Balance c/d		40,000
April 1	To Balance b/d		40,000				

Interest A/c

Date 2012	Particulars	L.F.	Amount (₹)	Date 2012	Particulars	L.F.	Amount (₹)
Mar. 31	To Balance c/d		1,000	Mar. 26	By Bank		1,000
				April 1	By Balance b/d		1,000

Dividend A/c

Date 2012	Particulars	L.F.	Amount (₹)	Date 2012	Particulars	L.F.	Amount (₹)
Mar. 31	To Balance c/d		2,500	Mar. 27	By Bank		2,500
				April 1	By Balance b/d		2,500

Postage A/c

Date 2012	Particulars	L.F.	Amount (₹)	Date 2012	Particulars	L.F.	Amount (₹)
Mar. 29	To Cash A/c		500	Mar. 31	By Balance c/d		500
Mar. 31	To Balance b/d		500				

Rent A/c

Date 2012	Particulars	L.F.	Amount (₹)	Date 2012	Particulars	L.F.	Amount (₹)
Mar. 30	To Bank A/c		10,000	Mar. 31	By Balance c/d		10,000
April 1	To Balance b/d		10,000				

Salary A/c

Date 2012	Particulars	L.F.	Amount (₹)	Date 2012	Particulars	L.F.	Amount (₹)
Mar. 31	To Cash A/c		30,000	Mar. 31	By Balance c/d		30,000
April 1	To Balance b/d		30,000				

Taxes A/c

Date 2012	Particulars	L.F.	Amount (₹)	Date 2012	Particulars	L.F.	Amount (₹)
Mar. 31	To Cash A/c		15,000	Mar. 31	By Balance c/d		15,000
April 1	To Balance b/d		15,000				

Trial Balance as on March 31, 2012

Particulars	Dr. Balance (₹)	Cr. Balance (₹)
Cash A/c	3,33,500	
Bank A/c	2,62,500	
Capital A/c		15,00,000
Stock A/c	4,60,000	
Purchase A/c	3,80,000	
Ratan Bros		95,000
Furniture A/c	1,00,000	
J. Mitra	1,80,000	
Salary A/c	30,000	
Sales A/c		2,45,000
Returns Outward A/c		5,000
Returns Inward A/c	20,000	
Conveyance A/c	1,000	
Commission A/c		1,500
Discount A/c	2,500	
Loan to Naren A/c	15,000	
Drawings A/c	40,000	
Interest A/c		1,000
Dividend A/c		2,500
Postage A/c	500	
Rent A/c	10,000	
Taxes A/c	15,000	
Total	18,50,000	18,50,000

Illustration 2:

Journalise the following transactions, post them into the ledger and prepare a trial balance:

1. 09.2012 Started business by bringing in cash worth Rs. 2,00,000 out of which paid into bank— Rs. 80,000

02.09.2012 Bought furniture for Rs. 20,000 and machinery Rs. 40,000.

03.09.2012 Purchased goods for Rs. 56,000.

06.09.2012 Sold goods for Rs. 32,000

08.09.2012 Purchased goods from Jain & Co. on credit for Rs. 44,000

10.09.2012 Paid telephone rent for the year by cheque Rs. 2,000

11. 09.2012 Bought one typewriter for Rs. 8,400 from Standard Typewriter Co. on credit.

15.09.2012 Sold goods to Shiva worth Rs. 48,000

17.09.2012 Sold goods to Kumar for cash at Rs. 8,000

19.09.2012 Amount withdrawn from bank for personal use Rs. 6,000

20.09.2012 Withdrew from bank for business use Rs. 14,000

21.09.2012 Received cash from Shiva Rs. 47,600 and discount allowed Rs. 400

22.09.2012 Paid into bank Rs. 23,200

23.09.2012 Bought 100 shares in PQ & Co. Ltd. at Rs. 120 per share and brokerage paid Rs. 80

25.09.2012 Goods worth Rs. 4,000 which were defective were returned to Jain & Co. and the balance amount due to them was settled by issuing a cheque in their favour.

28.09.2012 Sold 40 shares of PQ & Co. Ltd. at Rs. 130 per share and brokerage paid Rs. 80

28.09.2012 Bought goods worth Rs. 8,400 from Peter and supplied them to Paul for Rs. 12,000

30.09.2012 Paul returned goods worth Rs. 400

Goods worth Rs. 280 returned to Peter.

Issued a cheque for Rs. 4,000 in favour of the landlord towards rent.

30.09.2012 Paid salaries to staff Rs. 6,000.

Received from travelling salesman Rs. 8,000 for goods sold by him after deducting his travelling expenses Rs. 400

30.09.2012 Paid for donations Rs. 402

Stationery Rs. 1,800

Postage Rs. 996

Solution: **Journal Entries**

Date	Particulars	L.F.	Dr. Amount (₹)	Cr. Amount (₹)
1.09.2012	Cash A/c Dr. To Capital A/c (Being cash brought in as capital))		2,00,000	2,00,000
1.09.2012	Bank Account Dr. To Cash A/c (Being cash deposited in bank)		80,000	80,000
2.09.2012	Furniture A/c Dr. Machinery A/c Dr. To Cash A/c (Being Furniture & Machinery purchased)		20,000 40,000	60,000
3.9.2012	Purchases Account Dr. To Cash Account (Goods purchased for cash)		56,000	56,000

Date	Particulars	L.F.	Dr. Amount (₹)	Cr. Amount (₹)
6.9.2012	Cash Account To Sales Account (Goods sold for cash)	Dr.	32,000	32,000
8.9.2012	Purchases Account To Jain & Co. A/c (Goods purchased on credit)	Dr.	44,000	44,000
10.9.2012	Telephone Rent Account To Bank Account (Telephone rent paid by cheque)	Dr.	2,000	2,000
11.9.2012	Office Equipment Account To Standard Typewriter Co. A/c (Typewriter purchased on credit)	Dr.	8,400	8,400
15.9.2012	Shiva's Account To Sales Account (Goods sold on credit)	Dr.	48,000	48,000
17.9.2012	Cash Account To Sales Account (Goods sold for cash)	Dr.	8,000	8,000
19.9.2012	Drawing Account To Bank Account (Amount withdrawn from bank for personal use)	Dr.	6,000	6,000
20.9.2012	Cash Account To Bank Account (Cash withdrawn for business use)	Dr.	14,000	14,000
21.9.2012	Cash Account Discount Allowed A/c To Shiva's Account (Amount received from Shiva and discount allowed)	Dr. Dr.	47,600 400	48,000
22.9.2012	Bank Account To Cash Account (Cash paid into bank)	Dr.	23,200	23,200
23.9.2012	Investment Account To Cash A/c (Purchase of 100 shares in PQ & Co. Ltd. at ₹ 120 and brokerage paid for ₹ 80 *i.e.*, cost of investment ₹ 120.80 per share)	Dr.	12,080	12,080
25.9.2012	Jain & Co. Account To Purchase Returns Account To Bank Account (Defective goods worth ₹ 4,000 returned to Jain & Co. and balance due settled by cheque)	Dr.	44,000	4,000 40,000
28.9.2012	Cash Account To Investments Account To Profit on Sale of Investments account (Sale of 40 shares at ₹ 130 per share and brokerage paid ₹ 80)	Dr.	5,120	4,832 288
28.9.2012	Purchase Account To Peter's Account (Goods purchased from Peter on credit)	Dr.	8,400	8,400
28.9.2012	Paul's Account To Sales Account (Goods sold on credit to Paul)	Dr.	12,000	12,000

Date	Particulars	L.F.	Dr. Amount (₹)	Cr. Amount (₹)
30.9.2012	Sales Returns Account To Paul's Account (Defective goods returned by Paul)	Dr.	400	400
30.9.2012	Peter's Account To Purchase Returns Account (Defective goods returned to Peter)	Dr.	280	280
30.9.2012	Rent Account To Bank A/c (Issued a cheque to the landlord towards rent)	Dr.	4,000	4,000
30.9.2012	Salaries A/c To Cash A/c (Being salaries paid to staff)	Dr.	6,000	6,000
30.9.2012	Cash A/c Travelling Expenses A/c To Cash A/c (Cash received from salesman for goods sold by him less travelling expenses)	Dr. Dr.	8,000 400	8,400
30.9.2012	Donation A/c Stationery A/c Postage A/c To Cash A/c (Amount paid towards donation, stationery and postage)	Dr. Dr. Dr.	402 800 996	2,198

Note: Sold 40 shares of PQ & Co. Ltd. at ₹ 130 per share and brokerage paid ₹ 80.

(*i*) Cash A/c Dr. = (₹ 130 × 40 shares) – ₹ 80 = ₹ 5,120

(*ii*) Profit on sale of investment:

Total profit on sale of investment	=	₹ 400
Less: Brokerage paid at the time of sale	=	–80
		320
Less: Brokerage paid at the time of purchase added to cost of investments (40 shares × 80 P.)		–32
		288

(*iii*) Investment A/c:

(40 shares × ₹ 120.80) = ₹ 4,832

Cost of investment = ₹ 120 + Brokerage paid per share

= ₹ 120 + .80 = ₹ 120. 80 per share

Ledger Accounts
Cash A/c

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
1.9.2012	To Capital A/c	2,00,000	1.9.2012	By Bank A/c	80,000
6.9.2012	To Sales A/c	32,000	2.9.2012	By Furniture A/c	20,000
17.9.2012	To Sales A/c	8,000	2.9.2012	By Machinery A/c	40,000
20.9.2012	To Bank A/c	14,000	3.9.2012	By Purchase A/c	56,000
21.9.2012	To Shiva's A/c	47,600	22.9.2012	By Bank A/c	23,200

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
28.9.2012	To Investment A/c	4,832	23.9.2012	By Investment A/c	12,080
28.9.2012	To Profit on Sales of Investment A/c	288	30.9.2012	By Salaries A/c	6,000
30.9.2012	To Sales A/c	8,000	30.9.2012	By Donation A/c	402
			30.9.2012	By Stationery A/c	1,800
			30.9.2012	By Postage A/c	996
			30.9.2012	By Balance c/d	74,242
	Total	3,14,720			3,14,720

Purchase Returns A/c

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
30.9.2012	To Balance c/d	4,280	25.9.2012	By Jain & Co. A/c	4,000
			30.9.2012	By Peter's A/c	280
	Total	4,280			4,280

Sundry Debtors A/c
Shiva's A/c

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
15.9.2012	To Sales A/c	48,000	21.9.2012	By Sales Returns A/c	47,600
			21.9.2012	By Discount A/c	400
	Total	48,000			48,000

Paul's A/c

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
28.9.2012	To Sales A/c	12,000	30.9.2012	By Sales Returns A/c	400
	By Balance c/d	11,600			
	Total	12,000			12,000

Jain & Co. A/c

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
25.9.2012	To Purchase Return A/c	4,000	8.9.2012	By Purchase A/c	44,000
25.9.2012	To Bank A/c	40,000			
	Total	44,000			44,000

Peter's A/c

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
30.9.2012	To Purchase Return A/c	280	28.9.2012	By Purchase A/c	8,400
	To Balance b/d	8,120			
	Total	8,400			8,400

Purchases A/c

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
3.9.2012	To Cash Book	56,000	30.9.2012	By Balance c/d	1,08,400
8.9.2012	To Jain & Co.	44,000			
28.9.2012	To Peter's A/c	8,400			
		1,08,400			1,08,400
1.10.2012	To Balance b/d	1,08,400			

Standard Typewriter

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
	To Balance c/d	8,400	11.9.2012	By Office Equipment	8,400
		8,400			8,400
				By Balance b/d	8,400

Drawings A/c

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
19.9.2012	To Bank A/c	6,000	30.9.2012	By Balance c/d	6,000
	Total	6,000			6,000

Discount Allowed A/c

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
19.9.2012	To Shiva's A/c	400	30.9.2012	By Balance c/d	400
	Total	400			400

Investment A/c

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
23.9.2012	To Cash A/c	12,080	28.9.2012	By Cash A/c	4,832
			30.9.2012	By Balance c/d	7,248
	Total	12,080			12,080

Profit on Investment A/c

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
3.9.2012	To Balance c/d	288	28.9.2012	By Cash A/c	288
	Total	288			288

Rent A/c

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
30.9.2012	To Bank A/c	4,000	30.9.2012	By Balance c/d	4,000
	Total	4,000			4,000

Travelling Expenses A/c

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
30.9.2012	To Sales A/c	400	30.9.2012	By Balance c/d	400
	Total	400			400

Donation A/c

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
30.9.2012	To Cash A/c	402	30.9.2012	By Balance c/d	402
	Total	402			402

Stationery A/c

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
30.9.2012	To Cash A/c	1,800	30.9.2012	By Balance c/d	800
	Total	1,800			800

Postage A/c

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
30.9.2012	To Cash A/c	996	30.9.2012	By Balance c/d	996
	Total	996			996

Salaries A/c

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
30.9.2012	To Cash A/c	6,000	30.9.2012	By Balance c/d	6,000
	Total	6,000			6,000

Sales A/c

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
30.9.2012	To Balance c/d	1,08,400	6.9.2012	By Cash A/c	32,000
			15.9.2012	By Shiva's A/c	48,000
			17.9.2012	By Cash A/c	8,000
			28.9.2012	By Paul's A/c	12,000
			30.9.2012	By Cash A/c	8,000
			30.9.2012	By Travelling Expenses A/c	400
	Total	1,08,400			1,08,400

Sales Returns A/c

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
30.9.2012	To Paul's A/c	400	30.9.2012	By Balance c/d	400
	Total	400			400

Furniture A/c

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
2.9.2012	To Cash A/c	20,000	30.9.2012	By Balance c/d	20,000
	Total	20,000			20,000

Machinery A/c

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
2.9.2012	To Cash A/c	40,000	30.9.2012	By Balance c/d	40,000
	Total	40,000			40,000

Capital A/c

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
30.9.2012	To Balance c/d	2,00,000	1.9.2012	By Cash A/c	2,00,000
	Total	2,00,000			2,00,000

Telephone Rent A/c

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
10.9.2012	To Bank A/c	2,000	30.9.2012	By Balance c/d	2,000
	Total	2,000			2,000

Office Equipment A/c

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
11.9.2012	To Standard Typewriter Co. A/c	8,400	29.9.2012	By Balance c/d	8,400
	Total	8,400			8,400

Bank A/c

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
1.9.2012	To Cash A/c	80,000	10.9.2012	By Telephone Rent A/c	2,000
22.9.2012	To Cash A/c	23,200	19.9.2012	By Drawings	6,000
			20.9.2012	By Cash A/c	14,000
			25.9.2012	By Jain & Co.	40,000
			30.9.2012	By Rent	4,000
			30.9.2012	By Balance c/d	37,200
	Total	1,03,200			1,03,200

Trial Balance as on 30.9.2012

Particulars	Debit Amount (₹)	Credit Amount (₹)
Cash	74,242	
Capital		2,00,000
Bank	37,200	

Particulars	Debit Amount (₹)	Credit Amount (₹)
Furniture	20,000	
Machinery	40,000	
Telephone rent	2,000	
Office equipment	8,400	
Standard Typewriter		8,400
Discount	400	
Drawings	6,000	
Investments	7,248	
Profit on investments		288
Peter		8,120
Paul	11,600	
Rent	4,000	
Salaries	6,000	
Travelling expenses	400	
Donations	402	
Stationery	1800	
Postage	996	
Purchase	1,08,400	
Purchase return		4,280
Sales		1,08,400
Sales returns	400	
Total	3,29,488	3,29,488

1.11 SUBSIDIARY BOOKS-MEANING

Subsidiary Books are those books of original entry in which transactions of similar nature are recorded at one place and in chronological order. In a big concern, recording of all transactions in one Journal and posting them into various ledger accounts will be very difficult and involve a lot of clerical work.

This is avoided by sub-dividing the journal into various subsidiary journals or books. The subdivisions of journal into various subsidiary journals for recording transactions of similar nature are called as 'Subsidiary Books.'

Definition: Subsidiary books are **special-purpose accounting books** that record transactions belonging to the same category in a particular book in a sequential manner. Also, the transactions are recorded in their original form, i.e. as and when the transactions occur, they are entered in the subsidiary book before posting them anywhere that is why they are also known as the book of original entry.

Subsidiary Book

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Basically, Journal is a book in which primary entries are made as and when they take place. However practically there is an end number of transactions that take place on a day-to-day basis, so it is not easy to record all the transactions in one place, i.e. journal, as it will become unnecessarily bulky and increase the occurrence of errors. For this purpose, the journal is sub-divided into special journals, which we call subsidiary books.

1.12 TYPES

There are four types of subsidiary books:

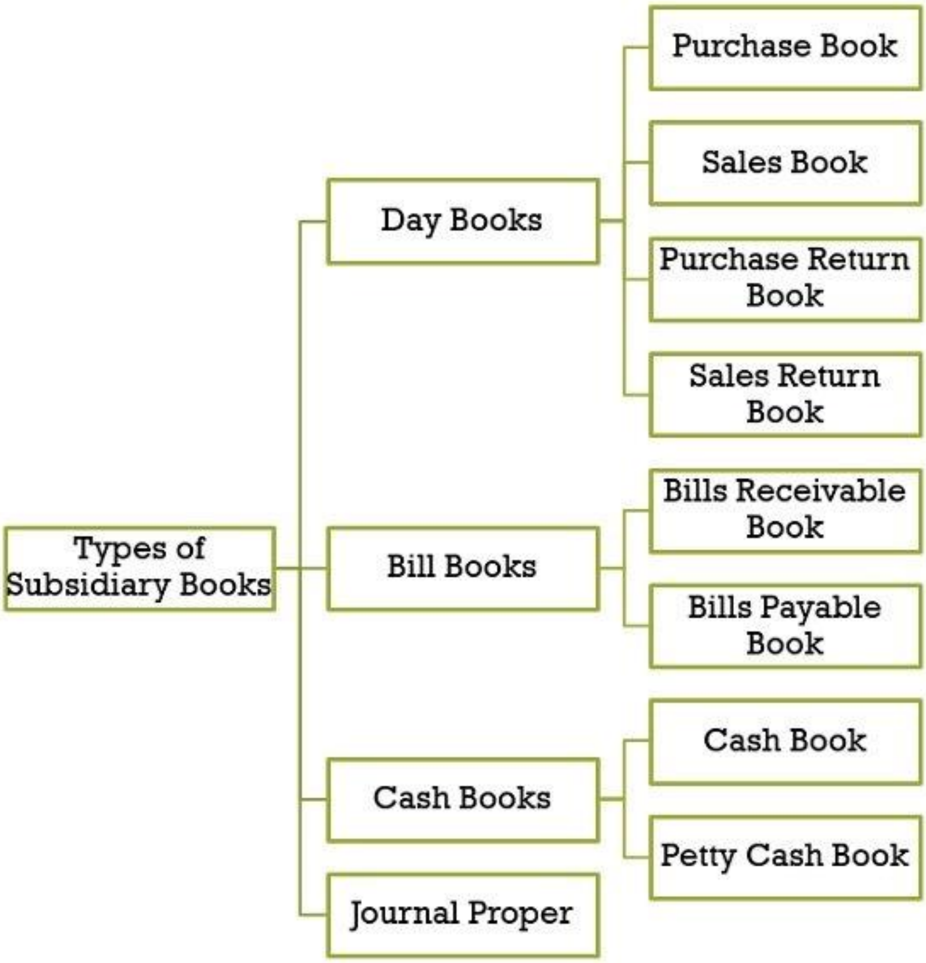

Fig: 1.5 types of subsidiary books

Advantages of Subsidiary Books

- **Automatic classification of transaction**: As a separate book exists for every category of the transaction, so the transactions belonging to a specific category are recorded in one place.
- **Easy for Reference**: As different books are maintained for different types of transactions, the reference becomes very easy as one can refer to the concerned subsidiary book, which reduces the wastage of time in finding the entries.
- **Facilitates division of work**: As the journal is divided into multiple subsidiary books, the work of recording the transactions is divided among different employees, which helps in the instant recording of transactions. And so the responsibility of maintaining the book can be entrusted to an employee who will keep it up to date.
- **Identification of Error**: In case the Trial Balance does not tally, the errors can be easily located and rectified.
- **Internal Check system**: As the recording of different transactions is done by different employees, the work is divided in a manner in which it the work performed by one person is automatically checked by another person. In this way, it enables internal checks and prevents the occurrence of errors and frauds.
- **Ease in transfer**: When the entries are made in separate books, they can be easily transferred to their concerned ledger account.
- **Classification of transaction**: Transactions can be easily classified into cash transactions and credit transactions.

1.13 PURCHASES BOOK

It is also known as a Purchase journal, Invoice book or Purchase daybook. Purchase book is a special purpose **subsidiary book** prepared by a business to record all credit purchases. Nowadays all these recordings occur in ERPs and only small firms resort solely to notebooks or MS-Excel.

Few things to note are,

- Purchases recorded are only for goods or items related to core business operations of a company i.e. goods procured for resale.
- **Example** – If a grocery business purchases office furniture it will not be posted in the purchases book as it is considered as “purchase of an asset” and not goods.

- Cash purchases are recorded in the **cash book** and credit purchases are recorded in purchase book.

Sample Format of Purchase Book

Date	Invoice No.	Name of the Supplier	L.F	Amount

The purchase book has ten columns:

1. Date: The date of the transaction is written in the first column.

2. Particulars: The name of the supplier, the name of the articles, and the quantities purchased are written in the particulars column.

3. Invoice Number: The invoice number of the goods purchased is written.

4. Ledger Folio(L.F.): At the time of posting the purchase in the ledger, the page number of the leger is written.

5. Details: The amount in respect of each article is written. If any trade discount is availed, it is deducted from the gross amount.

6. Purchase: The net amount of purchases, i.e., Purchases less trade discount is shown in this column.

7. Input Central GST (CGST): CGST is charged on those goods, which are purchased within the state, i.e., the seller and the buyer belong to the same state. A separate column is made to make entries for CGST. It is calculated on the net purchase value, i.e., Purchases less trade discount, and further shown on the debit side of the ledger account of Input CGST.

8. Input State GST (SGST): SGST is also charged on those goods which are purchased within the state, i.e., the seller and the buyer belong to the same state. A separate column is made to make entries for SGST. It is calculated on the net purchase value, i.e., Purchases less trade discount, and further shown on the debit side of the ledger account of Input SGST.

9. Input Integrated GST (IGST): IGST is charged on those goods which are purchased from outside of the state, i.e., the seller and the buyer does not belong to the same state. A separate column is made to make entries of the tax collected under IGST. It is also calculated on the net purchases value, i.e., Purchases less trade discount, and further shown on the debit side of the ledger account of Input IGST.

10: Total: Total amount of every transaction is shown in this column.

Illustration:

Prepare the Purchase Book for July 2022 of Sunita General Stores, Ranchi assuming CGST @ 5% and SGST @ 5%. The following information is given:

Date	Particulars
2022 July 2	Purchased from M/s. Sunil Lal, Main Road: 50 Bags of Baba Rice @ ₹900 per bag 30 Bags of Basmati Rice @ ₹ 750 per bag
July 5	Purchased from Shiv Lal, Upper Bazar: 75 tin of Mustard Oil @ ₹120 per tin 60 tin of Olive Oil @ ₹100 per tin Less: Trade Discount 6%
July 17	Purchased from Deva Store, Hyderabad: 100 packets of Good Day @ ₹22 per packet 85 packets of Rusk @ ₹15 per packet
July 22	Purchased from Amit General Store, Main road: 65 pieces of Lux soap @ ₹9 per soap 40 pieces of Dove soap @ ₹ 22 per soap 35 pieces of Johnson Baby soap @ ₹ 28 per soap Less: Trade Discount 10%

Solution:

Sunita General Stores, Ranchi
Purchase Book

Date	Particulars (Name of the Supplier's Account to be Credited)	Invoice No.	L.F.	Details ₹	Purchase ₹	Input CGST ₹	Input SGST ₹	Input IGST ₹	Total ₹
2022 July 2	M/s. Sunil Lal, Main Road, Ranchi:								
	50 Bags of Baba Rice @ ₹900 per bag			45,000					
	30 Bags of Basmati Rice @ ₹ 750 per bag			22,500					
				67,500					
	Add: CGST @5%			3,375					
	SGST @5%			3,375					
				74,250	67,500	3,375	3,375	-	74,250
July 5	Shiv Lal, Upper Bazar, Ranchi								
	75 tin of Mustard Oil @ ₹120 per tin			9,000					
	60 tin of Olive Oil @ ₹100 per tin			6,000					
				15,000					
	Less: Trade Discount @6%			900					
				14,100					
	Add: CGST @5%			705					
	SGST @5%			705					
				15,510	14,100	705	705	-	15,510
July 17	Deva Store, Hyderabad:								
	100 packets of Good Day @ ₹22 per packet			2,200					
	85 packets of Rusk @ ₹15 per packet			1,275					
				3,475					
	Add: IGST @10%			347.5					
				3,822.5	3,475	-	-	347.50	3,822.50
July 22	Amit General Store, Main Road, Ranchi:								
	65 pieces of Lux soap @ ₹10 per soap			650					
	40 pieces of Dove soap @ ₹ 22 per soap			880					
	35 pieces of Johnson Baby soap @ ₹ 28 per soap			980					
				2,510					
	Less: Trade Discount @10%			251					
				2,259					
	Add: CGST @5%			112.95					
	SGST @5%			112.95					
				2,484.9	2,259	112.95	112.95	-	2,484.90
July 31	**Total**				**87,334**	**4,192.95**	**4,192.95**	**347.50**	**96,067.40**

1.14 SALES BOOK

Sales book records all credit sales made by a business. It is one of the secondary book of accounts and unlike cash sales which are recorded in cash book, sales book is only to record credit sales. The amount entered in the sales book is on behalf of **invoices** supplied to purchasers, however, a copy remains with the firm.

Sales book is also called a **Sales Journal** or **Sales Day Book**.

Sample Format of Sales Book

Date	Particulars	Outward Invoice No.	L.F.	Details	Total
Date when Invoice Prepared	Details of purchase & customer	Invoice No. for sale	Page No. of Debtors' ledger	Value of goods sold	Actual amt receivable from debtor

Prepare the sales book of Unreal Pvt Ltd. from the following particulars given below,

Jan 7 – Sold 10 Keyboards to ABC Co. for 300 each.

Jan 24 – Sold 5 headphones to XYZ Co. for 200 each.

Sales book for Unreal Pvt Ltd.

Date	Particulars	Outward Invoice No.	LF.	Details	Total
Jan 7	ABC Co. 300×10 Keyboards			3,000	3,000
Jan 24	XYZ Co. 200×5 Headphones			1,000	1,000
				Total	4,000

How to do Ledger Posting **of Sales Book?**

After all the transactions are posted in sales book the business needs to post them to the related ledger accounts. Following are the steps that need to be followed to post the amounts from sales book to the **ledger**,

1. Each entry is posted to the debit side of appropriate individual account in the debtor's ledger at the end of the day, this keeps the accounts up to date.

2. The column for "Total" is then summed at the end of each month & posted to the ledger.

Journal Entry for Credit Sale

Debtor's A/C	Debit
To Sales A/C	Credit

Example

Let's say total sundry debtors at the end of a month are 50,000 where credit sales made from A is 30,000 & B is 20,000 during the period.

Here are the 4 ledger entries that will be recorded,

Sales Account

Date	Particulars	Currency	Date	Particulars	Currency
			mm/dd	By Sundry Debtors per Sales Book	50,000

Sundry Debtors Account

Date	Particulars	Currency	Date	Particulars	Currency
mm/dd	To Sales A/C	50,000			

A's Account

Date	Particulars	Currency	Date	Particulars	Currency
mm/dd	To Sales A/C	30,000			

B's Account

Date	Particulars	Currency	Date	Particulars	Currency
mm/dd	To Sales A/C	20,000			

1.15 PURCHASES RETURNS BOOK

The goods returned to suppliers are recorded in the Purchases Returns Book. It's also known as a purchases returns day book or a returns outward book. Goods may be returned if they are the wrong kind, are not up to standard, or are damaged, among other reasons. This book's decision is identical to that of the purchases day book. The book is kept in the same way as the purchasing daybook, and entries are made in the same way.

Posting

The total of the purchases returns or returns outwards book is credited to the purchases return account or the returns outwards account (being the goods sent out). Individual suppliers are debited when products are returned (because they receive the goods).

Posting to personal accounts of creditors

Every day, by writing the words 'To Purchases Returns account,' each entry in the purchases returns book is posted to the debit side of the respective personal account of the creditor.

Posting to purchases returns account

The total of the purchase returns is calculated at the end of the month. It is the total purchases returns for the month, which is debited from the 'Sundry creditors account' and posted to the credit side of the purchases returns account.

Debit Note

When the items are returned to the suppliers, they receive notification in the form of a debit note. These debit notes act as receipts for these transactions. A debit note is a statement provided by a businessperson to another person that shows the amount debited from the latter's account. Debit notes are often serially numbered and created in the same manner as invoices.

1.16 SALES RETURNS BOOK

When a business sends the ordered goods back to a vendor it is recorded in the sales return book. At times the buyer may return goods due to poor quality, inaccurate quantity, untimely delivery or other reasons. It is also called **returns inwards** and an appropriate sales return or a returns inward book is maintained.

All returns are primarily recorded in the sales return book unless the returns are not that frequent, in which case they are recorded in the journal.

Sample Format of Sales Return Book

Date	Particulars	Credit Note No.	LF.	Currency	Amount

Note: A column for "Remarks" can also be added to the Sales return book which would include a brief description of the reason why the goods were returned.

When the goods are returned by the customer, a credit note will be prepared and sent out to his name. A duplicate copy is kept for recording and reference purposes. The returns inward book is totalled at the end of each month.

How to Post Entries from Sales Return Book into Ledger?

After the sales return book is properly updated and all transactions are entered into it, the total of the items is transferred to the ledger in an account called the "Sales returns account"

1. At the end of the day, each entry is posted to the credit side of the appropriate individual's account in the Debtors' ledger as this helps the account to remain up to date.
2. At the end of the month, the total of the "Amount" column is posted to the general ledger with the help of following journal entry.

Journal entry for sales returns

Sales Returns A/C	Debit
To Debtors	Credit

Let's assume that total sales returns made at the end of a month are 50,000.

1. **Returns made by A are 30,000.**
2. **Returns made by B are 20,000.**

These 4 different ledger accounts will be updated from the sales returns book.

Sales Return A/C

Date	Particulars	Amt	Date	Particulars	Amt
mm/dd	To Sundry Debtors A/C	50,000			

Sundry Debtors A/C

Date	Particulars	Amt	Date	Particulars	Amt
			mm/dd	By Sales Returns A/C	50,000

A's Account

Date	Particulars	Amt	Date	Particulars	Amt
			mm/dd	By Sales Returns A/C	30,000

B's Account

Date	Particulars	Amt	Date	Particulars	Amt
			mm/dd	By Sales Returns A/C	20,000

1.17 BILLS RECEIVABLES BOOK

It is utilized to record the full subtle elements of bills got from clients and others. Every one of the points of interest of the bill-date, acceptor's name, sum, term, place of payment, and so on are entered in the bills receivable book for introduction and further reference.

The performa of a bills receivable book is given below

No. of Bill	Date received	Date of Bill	From whom received	Drawer	Acceptor	Where payable	Term	Due date	Ledger folio

Amount	Cash book folio	Remarks

The bills receivable book, similar to some other subsidiary book, is totaled intermittently.

This total is charged to the "Bills Receivable Account" although the account of each individual indebted person whom the bills received is credited in the books.

The Bills Receivable Account is the account of an asset and would in any condition have a debit balance. This equalization on any date would show the number of bills receivable un-matured and on hand.

1.18 BILLS PAYABLES BOOK

It is kept up like a bills receivable book. It is intended to record every one of the detailed elements, identifying with the bills acknowledged by an entity or a party, which are held for being utilized later on, in the event of need.

The performa of a bills receivable book is given below

No. of Bill	Date of Bill	To whom given	Drawer	Payee	Where Payable	Term	Due Date	Ledger Folio	Amount paid

Date	Cash book folio	Remarks

Entries are made in the bills payable book at whenever bills payable are acknowledged. Quickly, the individual account in the record is debited.

Toward the month's end, the aggregate of bills payable book is presented creditor to whom to the credit of bills payable account is in the ledger, along these lines finishing the double entry for bills payable in the record.

Practice Sums

Q.1 **Prepare Proper subsidiary books and post them to the ledger from the following**

transactions for the month of February 2011

Rs1Goods sold to Sachin5,0004Purchase from Kushal Traders2,4806Sold goods to Manish Traders2,1007Sachin returned goods6008Return to Kushal Traders28010Sold to Mukesh3,30014Purchased from Kunal Traders5,20015Furniture purchased from Tarun3,20017Bought from Naresh4,06020Return to Kunal Traders20022Return to inwards from Mukesh25024purchased goods from Kirit&Co for list price5,700less 10% trade discount25Sold to Shri Chand goods6,600less5%trade discount26Sold to Ramesh Brothers4,00028Return outwards to Kirit&Coless%trade discount1,00028Ramesh Brothers returned goods500

Solution

Journal

Purchases Book

Date	Invoice No.	Name of Supplier (Accounts to be credited)		L.F.	Amount Rs
2011					
Feb.04		Kushal Traders			2,480
Feb.14		Kunal Traders			5,200
Feb.17		Naresh			4,060
Feb.24		Kirit and Co.	5,700		
		Less: Trade Discount 10%	(570)		5,130
		Purchases Account			16,870

Sales Book

Date	Invoice No.	Name of Customer (Accounts to be debited)		L.F.	Amount Rs
2011					
Feb. 01		Sachin			5,000
Feb.06		Manish Traders			2,100
Feb.10		Mukesh			3,300
Feb.25		Shri Chand	6,600		
		Less: 5% Trade Discount	(330)		6,270
Feb.26		Ramesh Brothers			4,000
		Sales Account			20,670

Sales Return Book

Date	Credit Note	Name of Customer (Accounts to be credited)	L.F.	Amount Rs
2011				
Feb.07		Sachin		600
Feb.22		Mukesh		250
Feb.28		Ramesh Brothers		500
		Sales Return Account		1,350

Purchases Return Book

Date	Debit Note	Name of Supplier (Accounts to be debited)		L.F.	Amount Rs
2011					
Feb.08		Kushal Traders			280
Feb.20		Kunal Traders			200
Feb.28		Kirit and Co.	1,000		
		Less: 10% Trade Discount	(100)		900
		Sales Return A/c			1,380

Journal Proper

Date	Particulars		L.F.	Debit Amount Rs	Credit Amount Rs
2011					
Feb.15	Furniture A/c	Dr.		3,200	
	To Tarun				3,200
	(Furniture purchased from Tarun)				

Ledger

Purchases Account

Dr. **Cr.**

Date	Particulars	J.F.	Amount Rs	Date	Particulars	J.F.	Amount Rs
2011				2011			
Feb.28	Sundries as per Purchases Book		16,870				
				Feb.28	Balance c/d		16,870
			16,870				16,870

Sales Account

Dr. **Cr.**

Date	Particulars	J.F.	Amount Rs	Date	Particulars	J.F.	Amount Rs
2011				2011			
				Feb.28	Sundries as per Sales Book		20,670
Feb.28	Balance c/d		20,670				
			20,670				20,670

Sales Return Account

Dr. **Cr.**

Date	Particulars	J.F.	Amount Rs	Date	Particulars	J.F.	Amount Rs
2011				2011			
Feb.28	Sundries as per Sales Return Book		1,350				
				Feb.28	Balance c/d		1,350
			1,350				1,350

Purchases Return Account

Dr. **Cr.**

Date	Particulars	J.F.	Amount Rs	Date	Particulars	J.F.	Amount Rs
2011				2011			
				Feb.28	Sundries as per Purchases Return Book		1,380
Feb.28	Balance c/d		1,380				
			1,380				1,380

Sachin's Account

Dr. **Cr.**

Date	Particulars	J.F.	Amount Rs	Date	Particulars	J.F.	Amount Rs
2011				2011			
Feb.01	Sales		5,000	Feb.07	Sales Return		600
				Feb.28	Balance c/d		4,400
			5,000				5,000

Kushal Traders' Account

Dr. Cr.

Date	Particulars	J.F.	Amount Rs	Date	Particulars	J.F.	Amount Rs
2011				2011			
Feb.08	Purchases Return		280	Feb.04	Purchases		2,480
Feb.28	Balance c/d		2,200				
			2,480				2,480

Manish Traders' Account

Dr. Cr.

Date	Particulars	J.F.	Amount Rs	Date	Particulars	J.F.	Amount Rs
2011				2011			
Feb.06	Sales		2,100				
				Feb.28	Balance c/d		2,100
			2,100				2,100

Mukesh's Account

Dr. Cr.

Date	Particulars	J.F.	Amount Rs	Date	Particulars	J.F.	Amount Rs
2011				2011			
Feb.10	Sales		3,300	Feb.22	Sales Return		250
				Feb.28	Balance c/d		3,050
			3,300				3,300

Kunal Traders' Account

Dr. **Cr.**

Date	Particulars	J.F.	Amount Rs	Date	Particulars	J.F.	Amount Rs
2011				2011			
Feb.20	Purchase Return		200	Feb.14	Purchases		5,200
Feb.28	Balance c/d		5,000				
			5,200				5,200

Furniture Account

Dr. **Cr.**

Date	Particulars	J.F.	Amount Rs	Date	Particulars	J.F.	Amount Rs
2011				2011			
Feb.15	Tarun		3,200				
				Feb.28	Balance c/d		3,200
			3,200				3,200

Tarun's Account

Dr. **Cr.**

Date	Particulars	J.F.	Amount Rs	Date	Particulars	J.F.	Amount Rs
2011				2011			
				Feb.15	Furniture		3,200
Feb.28	Balance c/d		3,200				
			3,200				3,200

Naresh's Account

Dr. **Cr.**

Date	Particulars	J.F.	Amount Rs	Date	Particulars	J.F.	Amount Rs
2011				2011			
				Feb.17	Purchases		4,060
Feb.28	Balance c/d		4,060				
			4,060				4,060

Kirit & Co. Account

Dr. **Cr.**

Date	Particulars	J.F.	Amount Rs	Date	Particulars	J.F.	Amount Rs
2011				2011			
Feb.28	Purchases Return		900	Feb.24	Purchases		5,130
Feb.28	Balance c/d		4,230				
			5,130				5,130

Shri Chand & Co. Account

Dr. **Cr.**

Date	Particulars	J.F.	Amount Rs	Date	Particulars	J.F.	Amount Rs
2011				2011			
Feb.25	Sales		6,270				
				Feb.28	Balance c/d		6,270
			6,270				6,270

Ramesh's Account

Dr. **Cr.**

Date	Particulars	J.F.	Amount Rs	Date	Particulars	J.F.	Amount Rs
2011				2011			
Feb.26	Sales		4,000	Feb.28	Sales Return		500
				Feb.28	Balance c/d		3,500
			4,000				4,000

Q.2 Prepare a Purchase Book in the books of M/s Modern Furniture House, Lucknow (U.P) from the following transactions assuming CGST @ 6% and SGST @ 6%: -

2017	
June 5	Bought from Mohan Lal & Co., Kanpur (U.P) :-
	20 Godrej Chairs @ ₹ 2,000 each
	5 Godrej Tables @ ₹ 6,000 each
	Trade Discount 20%
10	Purchased from Bharat Bhushan & Sons, Varanasi (U.P) :-
	5 Almirahs @ ₹ 12,000 each
	2 Revolving Chairs @ ₹ 20,000 each
	Trade Discount 10%
14	Purchased from Surya Traders, Lucknow (U.P)
	80 Desks @ ₹ 2,500 each
	10 Sofa Sets @ ₹ 20,000 each
	Trade Discount @ 15%
20	Purchased **for cash** from Gopi Chand Hali Ram, Delhi :-

	4 Tables @ ₹ 5,000 each
25	Bought Furniture **for office use** from New Furniture House, Faridabad on Credit : 5 Chairs @ ₹ 2,500 per Chair. 2 Tables @ ₹ 5,000 per Table.

ANSWER:

Purchases Book								
Date	**Particulars**	**Invoice No.**	**L.F.**	**Details**	**Cost**	**Input CGST**	**Input SGST**	**Total**
June 05	Mohan Lal & Company, Kanpur							
	20 Godrej Chairs @ ₹ 2,000 each			40,000				
	5 Godrej Tables @ ₹ 6,000 each			30,000				
				70,000				
	Less: 20% T.D.			14,000				
				56,000				
	Add: CGST @ 6%			3,360				
	Add: SGST @ 6%			3,360				
				62,720	56,000	3,360	3,360	62,720
June 10	Bharat Bhushan & Sons, Varanasi							
	5 Almirahs @ ₹ 12,000 each			60,000				
	2 Revolving Chairs @ ₹ 20,000 each			40,000				

				1,00,00 0				
	Less: 10% T.D.			10,000				
				90,000				
	Add: CGST @ 6%			5,400				
	Add: SGST @ 6%			5,400				
				1,00,80 0	90,000	5,400	5,400	1,00,80 0
June 14	Surya Traders, Lucknow							
	80 Desks @ ₹ 2,500 each			2,00,00 0				
	10 Sofa Sets @ ₹ 20,000 each			2,00,00 0				
				4,00,00 0				
	Less: 15% T.D.			60,000				
				3,40,00 0				
	Add: CGST @ 6%			20,400				
	Add: SGST @ 6%			20,400				
				3,80,80 0	3,40,00 0	20,40 0	20,40 0	3,80,80 0
					4,86,00 0	**29,16 0**	**29,16 0**	**5,44,32 0**

1.19 SINGLE COLUMN, TWO COLUMN, THREE COLUMN AND

PETTY CASH BOOK

Simple Column Cash Book: For recording cash transaction only.

This is the simplest form of Cash Book and is used in businesses where payments are made and received mostly in cash and where usually no cash discount is received or given. However, if there are any discount or cheque transactions, it is recorded in a separate account in the ledger. The ruling of a one-column Cash Book is like an ordinary cash account.

Format

Debit Side **Single Column Cash Book of...............** Credit Side

Date	Particulars	R. N.	L. F.	Amount Rs.	Date	Particulars	V. N.	L. F.	Amount Rs.

Double Column Cash Book: For recording and cash discount transaction.

This type of cash book has two columns, viz., cash column and discount column. Usually, the cash discount is allowed or received when payment is made. So, it is necessary to record this fact at the same place where the cash transaction is recorded. This type is similar to Simple Cash Book, except that one additional column on each side is provided for recording cash discount. As discount is a nominal account, discount allowed being a loss is shown on the debit side and discount received being a gain is shown on the credit side.

Dr. **DOUBLE COLUMN CASH BOOK** *Cr.*

Date	*Particulars*	*V. No.*	*L.F.*	*Cash Amount Rs.*	*Bank Amount Rs.*	*Date*	*Particulars*	*V. No.*	*L.F.*	*Cash Amount Rs.*	*Bank Amount Rs.*

Triple Column Cash Book: For recording cash, bank and discount transaction.

These days, it is difficult to carry on any business without having dealings with the bank. Normally, the bulk of its funds is kept by the business at a bank in a current account where frequent withdrawals and deposits are permitted. Bank transactions are numerous than cash transactions. Therefore it is appropriate as well as convenient that cash book should have on the additional column on each side to record money‟s deposited at the bank and the payment out of the bank.

Hafsa Noor Ayub

Cash Book (Triple Column)

For the month ended ....

Receipts						Payments					
Date	Description	Ref	Cash	Bank	Discount	Date	Description	Ref	Cash	Bank	Discount

Petty Cash Book

A **petty cash book** is maintained to record small **expenses** such as postage, stationery, and telegrams. A separate column is used for each type of expenditure.

The difference between the sum of the **debit** items and the sum of the credit items represents the balance of the petty cash in hand.

A petty cash book also refers to the book in which small payments are recorded, which are not convenient to record in the main **cash book**.

In all businesses, some payments are made by check for better **control** over **cash**. However, for the payment of small **expenditures** (e.g., stationery, travel, postage, and newspapers), paying by check is unreasonable.

In addition, the chief cashier in a large **business** is required to handle numerous large **transactions** on a daily basis. If they record petty expenses in the main cash book, then both the chief cashier and the main cash book will be overburdened.

To solve these problems, the chief cashier delegates responsibilities to another senior staff member to account for day-to-day small transactions. For this purpose, he is given a small amount and a separate book to record these small payments.

The book in which these small payments are recorded is known as the petty cash book. The **funds** used for small payments are known as petty cash, and the person responsible for making and recording these payments is the petty cashier.

Systems for Maintaining Petty Cash

Three different systems are used to maintain petty cash. These systems are:

- Open systems (or ordinary systems) for petty cash
- Fixed system for petty cash
- Imprest system of petty cash

Open or Ordinary System of Petty Cash

Under this system, the petty cashier is given a lump sum to meet petty expenses. When the whole amount of petty cash is spent, the petty cashier submits the account to the chief cashier who again pays a lump sum to the petty cashier.

Fixed System of Petty Cash

Under the **fixed system of petty cash**, a fixed amount is given to the petty cashier for a fixed period of time.

At the end of fixed period, the petty cashier submits the details of petty expenses, and the chief cashier again advances a fixed amount for the next fixed period.

Imprest System of Petty Cash

This is the most scientific approach to maintain Petty Cash.

Under the imprest system, total petty expenses for a specific period are estimated and the amount is advanced to the petty cashier. This amount is known as **imprest cash**.

The petty cashier spends the imprest cash during the period. At the end of the period, the petty cashier submits the statements covering petty expenditures to the chief cashier.

The amount spent by the petty cashier is reimbursed, thus making up the balance to the original amount.

In this way, the petty cashier will begin every period with an amount equal to imprest cash, and the amount held by the petty cashier will never exceed this.

Advantages of the Imprest System

The imprest system has the following advantages:

- Time savings for the chief cashier who is responsible for the main cash book.
- Reduction of the chance of cash misuse because the petty cashier is not allowed to keep idle cash.
- Reduction of the chance of misappropriation as the imprest cash is a small amount.
- Errors are corrected quickly because the the chief cashier checks the petty cash record periodically.
- Creation of opportunities for junior staff to learn how to handle money responsibly.

Types of Petty Cash Book

There are two main types of petty cash book:

1. Simple Petty Cash Book
2. Analytical Petty Cash Book

Simple Petty Cash Book

A simple petty cash book is just like the main cash book. Cash received by the petty cashier is recorded on the debit side, and all payments for petty expenses are recorded on the credit side in one column.

Analytical Petty Cash Book

An analytical petty cash book is the most effective way to record petty cash payments.

A separate column is assigned for each petty expense on the **credit** side. Whenever a petty expense is recorded in the total payment column, the same amount is recorded in the relevant petty expense column.

Operation of Petty Cash

When a petty cashier needs money, the main cashier gives them a cheque. This cheque is recorded on the payments side of the main Cash Book.

The petty cashier receives cash against the cheque from the bank and records the cheque in the receipts column of the petty cash book.

When a payment needs to be made from the petty cash fund, the petty cashier prepares a petty cash voucher (PCV). This **voucher** must be authorized by a responsible officer before the petty cashier makes the payment.

Before issuing the payment, the petty cashier records the payment date, payment details (in the particulars column), the PCV number, and the amount of the voucher (in the total payment column and also in the relevant analysis column).

The first PCV of the month is labeled with the numeral 1, followed by the number of the month. For example, the first voucher of May would be numbered as 1/5, the next as 2/5, and then as 3/5, and so on.

Posting Petty Cash Book to Ledger

At the end of each month, when the petty cashier approaches the main cashier for reimbursement, the latter will prepare a cheque voucher.

The cheque voucher lists the total of the various payment analysis columns of the petty cash book. For example, consider the following:

Wages	$113.20
Transport	$41.80
Stationary	$80.60
Staff Tea	$26.40
Telephone	$140.00
Total	**$402.00**

When a cheque (for $402.00) is issued to the petty cashier, the entries made in the main cash book are:

- The total, \$402.00, is shown on the credit side of the cash book (bank column) as payment.
- In the **ledger**, the wages **account** is debited by \$113.20, the transport account by \$41.80, the stationery account by \$86.60, the staff tea account by \$26.40, and the telephone account by \$140.00.

Therefore, the total debits in the ledger agree with the credit in the main cash book. In other words, the petty cash book does not form a part of **double-entry bookkeeping**.

The position of the petty cash book is similar to a subsidiary book. The petty cashier is always assumed to hold cash equal to the imprest account in the form of actual cash or paid-up PCVs.

Practice Sums

Q.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.

Q.2 Enter the following transactions in M/s Mukerjee & Bros. Single Column Cash Book:

2017		**(₹)**
April 1	Balance of Cash in hand	50,000
3	Purchased goods for cash	22,000
7	Purchased goods	15,000
10	Purchased goods from Gopi	30,000
13	Purchased goods from Gopi for cash	10,000
15	Sold goods	20,000
18	Sold goods to Vishwakarma	45,000
20	Sold goods to Raghunandan for cash	18,000
25	Received commission	5,000
30	Paid Rent	10,000

ANSWER:

Cash Book							
Dr.				**Cr.**			
Date	**Particulars**	**L.F.**	**Cash (Rs)**	**Date**	**Particulars**	**L.F.**	**Cash (Rs)**
2017				2017			
April 01	Balance b/d		50,000	April 03	Purchases A/c		22,000
April 15	Sales A/c		20,000	April 07	Purchases A/c		15,000
April 20	Sales A/c		18,000	April 13	Purchases A/c		10,000
April 25	Commission A/c		5,000	April 30	Rent A/c		10,000
				April 30	Balance c/d		36,000
			93,000				93,000
May 01	Balance b/d		36,000				

Q.3 Enter the following transactions in a Single Column Cash Book:

2017		**(₹)**
Feb. 1	Mr. Vipin commenced business with Cash	2,00,000
3	Opened a Bank Account and deposited	75,000
5	Purchased goods for Cash	30,000
7	Purchased goods	15,000
10	Purchased goods from Surya Kant	40,000
12	Paid to Surya Kant	38,800
	Discount received	1,200
15	Paid Wages in Cash	22,500
16	Paid to casual labor	1,500

20	Sold goods to Dev Raj for Cash	80,000
25	Paid electricity bill in Cash	12,000
26	Withdrew Cash from Bank	40,000
27	Received for Cash sales	5,000
27	Paid for miscellaneous expenses	500

ANSWER:

Cash Book

Dr.							**Cr.**
Date	**Particulars**	**L.F.**	**Cash (Rs)**	**Date**	**Particulars**	**L.F.**	**Cash (Rs)**
2017				2017			
Feb.01	Capital A/c		2,00,000	Feb.03	Bank A/c		75,000
Feb.20	Sales A/c		80,000	Feb.05	Purchases A/c		30,000
Feb.26	Bank A/c		40,000	Feb.07	Purchases A/c		15,000
Feb.27	Sales A/c		5,000	Feb.12	Surya Kant		38,800
				Feb.15	Wages A/c		22,500
				Feb.16	Wages A/c		1,500
				Feb.25	Electricity Charges A/c		12,000
				Feb.27	Miscellaneous Expenses A/c		500
				Feb.28	Balance c/d		1,29,700
			3,25,000				3,25,000
Mar.01	Balance b/d		1,29,700				

Q.4 Prepare Two Column Cash Book from the following transactions and balance the book on 31st Jan., 2014:-

2014	
Jan. 1	Cash in hand ₹ 50,000; Bank overdraft ₹ 1,90,000.
Jan. 2	Purchased goods from Rajesh Kumar of the list price of ₹ 50,000 at 5% trade discount and payment made by cheque.
Jan. 6	Goods sold for ₹ 80,000 and payment received by cheque. Cheque deposited into Bank on same day.

Jan. 10	Goods purchased for cash ₹ 19,800.
Jan. 15	Furniture sold for ₹ 1,77,000 and payment received by cheque & cheque deposited into Bank on same day.
Jan. 18	Salaries paid ₹ 4,500.
Jan. 21	Settled the amount due to Ram ₹ 2,000 by paying cash ₹ 1,910.
Jan. 22	Cash received from Jai ₹ 14,780 in full settlement of his account of ₹ 15,000.
Jan. 23	Paid Life Insurance premium ₹ 1,500.
Jan. 31	Deposited with bank the entire balance after retaining ₹ 7,000 cash in hand.

ANSWER:

	Cash Book								
Dr.									**Cr.**
Date	**Particulars**	**L.F.**	**Cash (₹)**	**Bank (₹)**	**Date**	**Particulars**	**L.F.**	**Cash (₹)**	**Bank (₹)**
2014					2014				
Jan 01	Balance b/d		50,000		Jan 01	Balance b/d			1,90,000
Jan 06	Sales A/c			80,000	Jan 02	Purchases A/c			47,500
Jan 15	Furniture A/c			1,77,000	Jan 10	Purchases A/c		19,800	
Jan	Jai A/c		14,78		Jan	Salaries A/c		4,500	

22			0		18				
Jan 31	Cash A/c			30,070	Jan 21	Ram A/c		1,910	
					Jan 23	Drawings A/c		1,500	
					Jan 31	Bank A/c		30,07 0	
					Jan 31	Balance c/d		7,000	49,570
			64,78 0	**2,87,07 0**				**64,78 0**	**2,87,07 0**

1.20 JOURNAL PROPER. (INCLUDING PROBLEMS)

Meaning of Journal Proper:

Journal proper [or General Journal] is a simple book of chronological record of business transactions. The use of this book is very much restricted in modern accounting system.

Only those transactions, which cannot be conveniently recorded in any of the other books of original entry i.e., subsidiary books or which are not sufficiently numerous to necessitate a special book being devised for them, are recorded in this book.

Transactions to be Recorded in Journal Proper:

This journal is now used to record the following transactions only:

(a) Opening Entries:

These entries are needed for opening accounts in the beginning of the financial year. All assets accounts are debited and all liabilities accounts credited and the difference is credited to Capital account.

(b) Transfer Entries:

These entries are needed to record transfer from one account to another. For example, an asset purchased is wrongly debited to purchases account, then to rectify the mistake the following entry will have to be passed.

Asset a/c To Purchases a/c	Dr.		

(c) Rectification Entries:

When certain errors are committed in the books. These entries are passed in order to nullify the effect of errors. For example, goods sold for Rs.5000 to Mr. Ram has been entered in the Sales Day Book as Rs.500. This mistake is corrected by passing the following rectifying entry.

Ram a/c To Sales a/c	Dr.	Rs. 4500	Rs. 4500

(d) Adjustment Entries:

When accounts are closed at the end of a financial year, before preparing final accounts certain adjustments have to be made relating to certain items like depreciation, outstanding expenses, interest on capital, etc. For example, if rent is outstanding for one month say, Rs.500, then the following entry will be passed in order to charge one full year's rent to final accounts.

Rent a/c To Outstanding Rent a/c	Dr.	Rs. 500	Rs. 500

(e) Closing Entries:

These entries are needed at the end of accounting period to close certain accounts. Transferring their balances to some other accounts does this. For example, transferring its balance to Profit and loss account closes the petty cash account.

(f) Compound Entries:

Sometimes, compound entries are passed through journal proper to make the record of the transaction more clear. For example, goods sold for cash after allowing trade and cash discounts can be recorded in this journal.

(g) Casual Entries:

Journal Proper may also used to record such transactions, which do not occur so frequently so that a separate book may not be provided for them. For example, if sales returns are rare, then instead of opening a Sales Returns Book, such rare cases can be recorded in Journal Proper.

Illustration:

Pass necessary entries in Journal Proper for the following transactions:

1. Opening Balances:

Cash a/c Rs. 10,000; Stock a/c Rs. 20,000; Debtors a/c Rs. 80,000; Buildings a/c Rs. 160,000; Creditors a/c Rs. 10,000; and Bills Payable a/c Rs.40, 000.

2. Transfer Rs.2000 from the credit of X a/c to the credit of Y a/c.

3. Rs.400 repairs to furniture debited to Furniture a/c by mistake.

4. Provide 10% depreciation on Buildings.

5. Rent unpaid Rs. 2400.

Solution:

JOURNAL PROPER

Date	Particulars	LF	Debit Rs.	Credit Rs.
1	Cash a/c Dr.		10,000	
	Stock a/c Dr		20,000	
	Debtors a/c Dr		80,000	
	Buildings a/c Dr.		160,000	
	To Creditors a/c			10,000
	To Bills Payable a/c			40,000
	To Capital a/c (bal fig)			220,000
	[Being opening balances]			
2	X a/c Dr.		2,000	
	To Y a/c			2,000
	[Being transfer]			
3	Repairs a/c Dr.		400	
	To Furniture a/c			400
	[Being repairs wrongly debited to Furniture a/c, now rectified].			
4	Depreciation a/c Dr.		16,000	
	To Buildings a/c			16,000
	[Being provision for depreciation]			
5	Rent a/c Dr.		2,400	
	To Outstanding Rent a/c			2,400
	[Being rent unpaid]			

Illustration 1:

From the following particulars, prepare the Purchase Book of a general merchant:

2001,

December 1 Bought from K & Bros., at 10% trade discount:

3 doze pens at Rs.120 per doz.

20 doze ink bottle at Rs.30 per doz.

December 7 Purchased for cash 50 reams of ruled paper at Rs.40 per ream from RS Paper House.

December 11 Purchased from Mani Stores:

6 doze packets Glico biscuits at Rs.5 per packet.

15 doz. Packets salt biscuits at Rs.2.5 per packet.

December 18 Purchased from Sarasvati Stores:

6 doz. packets Deluxe erasers at Rs.2.40 per packet.

20 doz. Penholders at Rs.7.50 per doz.

December 27 Bought from Deluxe Furniture Mart on credit:

12 Godrej chairs at Rs.200 per chair

Solution:

PURCHASES DAY BOOK

Date	Particulars	Invoice No.	L.F.	Details Rs.	Amount Rs.
2001	K & Bros:				
Dec.1	3 doz. pens @ Rs.120 per doz.			360.00	
	20 doz. Ink bottles @ Rs.30 per doz.			600.00	
	Less trade discount at 10%			960.00	
				96.00	864.00
	Mani Stores:				
11	6 doz. Packets biscuits at Rs.5 per packet			360.00	
	15 doz packets salt biscuits at Rs.2.50 per packet			450.00	810.00
	Saraswathi Stores:,				
18	6 doz. Packets Deluxe erasers at Rs.2.40 per packet			172.80	
	20 doz. Penholders at Rs.7.50 per doz.			150.00	322.80
					1996.80

The transaction on $7^{th}$is cash purchases and on $27^{th}$is assets purchased. Hence these transactions are not entered in the Purchases Day Book.

Illustration 2:

Prepare the Sales Day Book from the following particulars extracted from the books of Meenu Electricals.

2002,

January 6 Sold on credit to Malachi:

100 Phillip lamps at Rs.50 per lamp.

200 Mysore lamps at Rs.45 per lamp.

Sylvania lamps at Rs.40 per lamp.

January 10 Sold to Rani for cash:

10 electric iron boxes at Rs.180 per iron box.

5 electric stoves at Rs.156 per stove.

January 14 Sold to Vici:

6 table lamps at Rs.30 per lamp.

6 Orient fans at Rs.400 per fan.

12 Kassel [36″] fans at Rs.480 per fan.

January 18 Sold furniture to Ambala on credit Rs.1000.

January 30 Sold to Janie Traders:

10 Toasters at Rs.90 per toaster.

12 Phillips tube at Rs.50 per tube.

10 Table lamps at Rs.30 per lamp.

Solution:

SALES DAY BOOK

Date	Particulars	Invoice No.	L.F.	Details Rs.	Amount Rs.
2002,					
Jan.6	Malathi:,				
	100 Phillip lamps @ Rs.50.00			5000	
	200 Mysore lamps @ Rs.45.00 per lamp			9000	
	200 Sylvania lamps @ Rs.40.00 per lamp			8000	22000
	Viji:,				
14	6 table lamps @ Rs.30			180	
	6 Orient fans @ Rs.400			2400	
	12 Kassels fans @ Rs.480			5760	
				8340	
	Less 5% trade discount			417	7923
	Janshi Traders:,				
30	10 Toasters @ Rs.90			900	
	12 Phillip tubes @ Rs. 50.			600	
	10 Table lamps @ Rs. 30			300	1800
					31723

Illustration 3:

Enter the following transactions in the proper subsidiary books and post them in the ledger.

2002 January	
1	Bought goods from Bala Rs.15,000.
2	Sold goods to Prem Rs.25,000 and for cash Rs.10,000.
9	Sanjay sold goods to us Rs.10,000 at a trade discount of 10%.
14	Sold goods to Mahesh Rs.12,000.
18	Received goods returned by Prem Rs.500.
20	Returned goods to Sanjay worth Rs.900.
31	Returned goods by Mahesh Rs.1,200.

Solution:

Purchases Book

Date	Particulars	L.F.	Inward Invoice No.	Amount Rs.
2002 January 1	Bala			15,000
9	Sanjay			9,000
				24,000

Sales Book

Date	Particulars	L.F.	Inward Invoice No.	Amount Rs.
2002 January 2	Prem			25,000
14	Mahesh			12,000
				37,000

Purchases Returns Book

Date	Particulars	L.F.	Inward Invoice No.	Amount Rs.
2002 January 20	Sanjay			900
				900

Sales Returns Book

Date	Particulars	L.F.	Inward Invoice No.	Amount Rs.
2002, January 18	Prem			500
31	Mahesh			1,200
				1,700

Ledger

Bala A/C

Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
				2002 Jan. 1	By Purchases a/c		15,000

Sanjay A/C

Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
2002 Jan. 20	To Purchases Returns a/c		900	2002 Jan. 9	By Purchases		9,000

Prem A/C

Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
2002 Jan. 2	To Sales a/c		25,000	2002 Jan. 18	By Sales Returns a/c		500

Mahesh A/C

Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
2002 Jan. 14	To Sales a/c		12,000	2002 Jan. 31	By Sales Returns a/c		1,200

Purchases A/C

Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
2002 Jan. 31	To Sundries		24,000				

Sales A/C

Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
				2002 Jan. 31	By Sundries		37,000

Purchase Returns A/C

Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
				2002 Jan. 31	By Sundries		900

Sales Returns A/C

Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
2002 Jan. 31	To Sundries		1,700				

1.21 UNIT END QUESTIONS

A. Descriptive Questions

Long Answer Questions

1. Explain the advantages and disadvantages of financial accounting

2. Who all are the users of financial information?
3. What are the Different Accounting Concepts?
4. Mr. Ramu has the following transactions in the month of July. Record them into the journal and show postings in the ledger and balance the accounts.

July 1st	:	Ramu started business with a capital of 75,000
1st	:	Purchased goods from Manu on credit 25,000
2nd	:	Sold goods to Sonu 20,000
3rd	:	Purchased goods from Meenu 15,000
4th	:	Sold goods to Tanu for cash 16,000
5th	:	Goods retuned to Manu 2,000
6th	:	Bought furniture for 15,000
7th	:	Bought goods from Zenu 12,000
8th	:	Cash paid to Manu 10,000
9th	:	Sold goods to Jane 13,500
10th	:	Goods returned from Sonu 3,000
11th	:	Cash received from Jane 5,500
12th	:	Goods taken by Ramu for domestic use 3,000
13th	:	Returned Goods to Zenu 1,000
14th	:	Cash received from Sonu 12,000
15th	:	Bought machinery for 18,000
16th	:	Sold part of the furniture for 1,000
17th	:	Cash paid for the purchase of bicycle for Ramu's son 1,500
19th	:	Cash sales 15,000
20th	:	Cash purchases 13,500

5. Enter the following transactions of M/s Kenan in Purchase Book, Sales Book, Purchase Returns Book and Sales Returns Book.

2011 March	
1	Sold goods to Siddha Stores Rs 29,000 at 10% trade discount.
3	Purchased goods from Meghdoot Traders Rs 37,350 and paid carriage Rs 150.
6	Siddha Stores returned goods of Rs 3,220 (Net).
10	Cash purchases Rs 18,600 and Cash Sales Rs 61,000.
13	Jays invoiced goods to us as per our order placed on 28th Feb. 2011 Rs 27,000.

17	Sold goods worth Rs 33,400 to Nadine at 10% trade discount.
20	Returned goods to Jays Rs 2,850 as they were defective.
22	Credit purchases from Micky Traders Rs 19,450 and they allowed a trade discount of Rs 150.
23	Nadine returned goods of Rs 1,900 (Gross) as they were damaged.
26	Purchased office furniture on credit from Shane Furniture Mart Rs 55,000.
29	Purchased goods from Grime Stores for Rs 8,000 and sold the same to Anita at 25% profit on cost.
31	Sent a debit note to Micky Traders for Rs 3,200

Short Answer Questions

1. Explain the fundamentals of financial accounting
2. What are the branches of accounting?
3. How Accounting System Works?
4. What is subsidiary books?
5. How to do Ledger Posting of Sales Book?

B . Multiple Choice Questions

1. The main Purpose of Financial Accounting is?

a) To Provide financial information to shareholders
b) To maintain balance sheet
c) To minimize taxes.
d) To keep track of liabilities

2. Internal users of accounting information are:

a) Researchers
b) Managers
c) Potential investors
d) Creditors

3. Which convention is also knowns as doctrine of prudence?

a) convention of materiality
b) convention of full disclosure
c) convention of conservatism
d) convention of consistency

4. Users of accounting information include ____________.

a) Tax authorities
b) Investors
c) Creditors
d) All of these

5. Final accounts must be prepared on a periodic basis rather than waiting till the business is terminated

a) accounting period concept
b) dual aspect concept
c) cost concept
d) money measurement concept

Answer : 1-a, 2-b, 3-c, 4-d, 5-a

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UNIT -2 DEPRECIATION AND FINAL ACCOUNT INCLUDING ADJUSTMENTS

STRUCUTRE

2.0 OBJECTIVES

- Explain the meaning of depreciation
- Describe different adjustments in final accounts
- Discuss Profit & loss account and balance sheet
- Illustrate and practice final accounts

2.1 INTRODUCTION

Depreciation is an accounting concept through which businesses calculate the declining values of their assets over time. The introduction of depreciation means a fall in the value of assets with time due to use or obsolescence. It is regarded as a non-cash transaction and does not represent real cash flow. So here's the depreciation introduction and further, we'll cover depreciation methods in India, depreciation presentation, and depreciation accounting methods.

The primary function of accounting includes computing the net result of operations of the business for the current period. To meet out this purpose, Income statement and Balance sheet are prepared. These two documents are popularly called as Final Accounts. It is the last phase of Accounting Process.

The components of final accounts depend upon the type of entity. In case of non-manufacturing entities, the business operations include purchase and sale of goods. That is why Trading Account is prepared to calculate Gross Profit. But a manufacturing entity is interested in computation of total cost of manufacturing the finished products.

For this purpose, separate account is prepared as Manufacturing Account.

2.2 DEPRECIATION

Meaning **of Depreciation:**

In common usage the term 'depreciation' refers to a decline in the value of any kind of property. But in Accounting its use is restricted to the expiration of the cost of tangible fixed assets. Except land, all other physical assets have a limited period of useful life.

They are used to generate income over its economic life. Hence, their cost should be properly allocated as expense to the accounting periods in which these assets are used.

The accounting process for this gradual conversion of the cost of fixed assets into expense is called as 'depreciation'. Depreciation is defined as "a permanent, continuing and gradual shrinkage in the book value of a fixed asset due to use, wear and tear, obsolescence or efflux ion of time."

The Accounting Standard No.6 of the Institute of Chartered Accountants of India (I.C.A.I) defines depreciation as a measure of wearing out, consumption, or other loss of value of a depreciable asset arising from use, efflux ion of time, or obsolescence through technology and market changes.

Depreciation is allocated so as to charge a fair proportion of the depreciable amount in each accounting period during the expected useful life of the asset.

Characteristics of Depreciation:

(a) Depreciation refers to fall or shrinkage rather than an increase in the value of an asset.

(b) It refers to a fall in book value of the asset. This value may or may not be equal to the market value or the cost price of the asset.

(c) The fall in book value is a slow and gradual process rather than a sudden event. It is always continuing and a permanent shrinkage.

(d) Depreciation is restricted to the fall in the value of fixed assets. Once a fixed asset is put to use, depreciation begins to occur and it stays there forever.

Objectives or Need for Providing Depreciation:

(a) To ascertain true profits:

Depreciation is a charge for capital assets used in earning profits and therefore, it should be viewed as business expenditure. Unless proper charge for this expense is made in accounts, the correct profit cannot be ascertained.

(b) To show the assets at their proper values:

Depreciation must be accounted for in order to show the assets at their proper values and thereby present a true and fair view of the financial position of the business. Unless depreciation is provided, the value of the assets will be overstated in the Balance Sheet and it will not reflect the true and fair view of the business.

(c) To create funds for replacement of assets:

Depreciation is non-cash expenditure. Hence, the amount of depreciation charged to Profit and Loss account remains in the business and the amount thus accumulated during the working life of the asset provides funds for its replacement at the end of the working life of the asset.

(d) To keep the capital in tact:

If depreciation is not charged, the amount of profit will be inflated. If such profits are distributed among the owners, then it will amount to the distribution of fixed capital from the business. In the long run it will affect the financial health of the business.

(e) Statutory Need: Provision of depreciation is a statutory need:

Section 205 of the Indian Companies Act has made compulsory for a joint stock company to provide for depreciation before distributing the profits as dividends.

Causes of Depreciation:

1. Wear and Tear:

Some assets physically deteriorate due to wear and tear in use. When an asset is constantly used for production, the asset wears out. More and more use of an asset, the greater would be the wear and tear. Physical deterioration of an asset is caused from movement, strain, friction, erosion etc. For instance, building, machineries, furniture, vehicles, plant etc. The wear and tear is general but primary cause of depreciation.

2. Lapse of Time:

There are certain assets like leasehold property, patents, copy-right etc. that are acquired for a particular period. After the expiry of the period, they are rendered useless i.e. their value ceases to exist. Thus, their cost is written off over their legal life.

3. Obsolescence:

Appearance of new and improved machines results in discarding of old machines. Thus new inventions, change in fashions and taste, market condition, Government policies etc. are the causes to discard the value of an asset. But this is not the cause of depreciation and not depreciation in real sense.

A new machine performs the same function more quickly and cheaply than the existing machine. As such, existing machine may become out of date or outmoded or obsolete.

4. Exhaustion:

Some assets are of wasting nature. For instance, quarries, mines, oil-well etc. It is the reduction in the value of natural deposits as resources have been extracted year after year. As such these assets are known as wasting assets. The coalmine or oil well gets physically exhausted by the removal of its contents.

5. Non-Use:

Machines which are idly lying become less and less useful with the passage of time. Certain types of machines exposed to weather conditions, may have more depreciation from not using it than from its use.

6. Maintenance:

A good maintenance of machine will naturally increase its life. When there is no maintenance, there is more depreciated value. When there is good maintenance, there is longer life to the machines. The long life of machine depends upon good and skilled maintenance.

7. Market Trend:

The market price may fluctuate in case of certain assets, for instance, investments in gilt-edged securities. When the prices go down, the concerned asset may depreciate its value. In certain cases, accident causes diminution in the value of assets.

Need for Depreciation:

Depreciation is provided for the assets with a view to achieve the following results:

1. To Ascertain the True Working Result:

Asset is an important tool in earning revenues. Huge amounts are spent for acquisition of assets which are worn out in the process of earning income. Thus, the assets get depreciated in their value, over a period of time due to many reasons explained above.

When the value of assets decreases, this loss must be brought into account; otherwise a true working result cannot be known. Depreciation is an operating expense of a physical asset, the same should be considered in arriving the true profit earned during each year.

The basic need of depreciation is to ascertain the true income. If depreciation is ignored, the loss that is occurring in respect of fixed assets will be ignored. So, depreciation should be debited to Profit and Loss Account before profit is ascertained.

2. To Ascertain True Value of Asset:

The function of the Balance Sheet is to show the true and correct view of the state of affairs of a business. If no depreciation is charged and when assets are shown at the original cost year after year, Balance Sheet will not disclose the correct state of affairs of a business.

3. To Retain Funds for Replacement:

Assets used in the business need replacement after the expiry of their service. It is always not possible to determine the useful life of assets. But, in certain cases, machine often becomes, obsolete long before it wears out because of rapid changes in tastes and technology. It is a permanent loss in value of the asset. When an asset is continuously used, a time will come when the asset is to be given up and hence its replacement is essential.

Therefore, if no depreciation is charged against the profit, during the life time of the asset, it will be very difficult to find cash to replace the asset and if replaced it may cripple resources. Therefore, it is necessary to make provision and create funds to replace such assets, in proper time.

4. To Reduce Tax Liability:

Depreciation is a tax deductible expense. As such, it is permitted by the prevailing taxation laws to be deducted from profit. Consequently, the owner of a business may avail himself of this benefit by charging depreciation to his profit and reducing his tax liability.

5. To Present True Position:

Financial position can be studied from the Balance Sheet and for the preparation of the Balance Sheet fixed assets are required to be shown at their true value. If assets are shown in the Balance Sheet without any charge made for their use, (that is, depreciation) then their value must have been overstated in the Balance Sheet and will not reflect the true financial position of the business.

Therefore, for the purpose of reflecting true financial position, it is necessary that depreciation must be deducted from the asset and then at such reduced value may be shown in the Balance Sheet.

Consequences of Not Providing for Depreciation:

If depreciation is not accounted for, the profit of the company is overstated, in turn; it is distributed among the shareholders. Thus there is no provision for replacement of machine. It must be pointed out that depreciation by itself does not create funds; it merely draws attention to the fact that out of gross revenue receipts a certain amount should be retained to replace the asset used for carrying on activities. The Companies Act of 1956 now makes it compulsory to write off depreciation on fixed assets before declaring dividend.

Practice Sums

Q.1 On 1st April, 2015, a limited company purchased a Machine for 1,90,000 and spent 10,000 on its installation. At the date of purchase, it was estimated that the scrap value of the machine would be ₹ 50,000 at the end of sixth year.

Give Machine Account and Depreciation A/c in the books of the Company for 4 years after providing depreciation by Fixed Instalment Method. The books are closed on 31st March every year.

ANSWER:

Machinery Account

Dr.			**Cr.**		
Date	**Particulars**	**Amount (₹)**	**Date**	**Particulars**	**Amount (₹)**
2015			2016		
Apr. 01	Bank A/c (1,90,000 + 10,000)	2,00,000	Mar. 31	Depreciation A/c	25,000
			Mar. 31	Balance c/d	1,75,000
		2,00,000			**2,00,000**
2016			2017		
Apr. 01	Balance b/d	1,75,000	Mar. 31	Depreciation A/c	25,000
			Mar. 31	Balance c/d	1,50,000
		1,75,000			**1,75,000**
2017			2018		
Apr. 01	Balance b/d	1,50,000	Mar. 31	Depreciation A/c	25,000
			Mar. 31	Balance c/d	1,25,000
		1,50,000			**1,50,000**
2018			2019		
Apr. 01	Balance b/d	1,25,000	Mar. 31	Depreciation A/c	25,000
			Mar. 31	Balance c/d	1,00,000

		1,25,000			**1,25,000**

Depreciation Account					
Dr.			**Cr.**		
Date	**Particulars**	**Amount (₹)**	**Date**	**Particulars**	**Amount (₹)**
2016			2016		
Mar. 31	Machinery A/c	25,000	Mar. 31	Profit and Loss A/c	25,000
		25,000			**25,000**
2017			2017		
Mar. 31	Machinery A/c	25,000	Mar. 31	Profit and Loss A/c	25,000
		25,000			**25,000**
2018			2018		
Mar. 31	Machinery A/c	25,000	Mar. 31	Profit and Loss A/c	25,000
		25,000			**25,000**
2019			2019		
Mar. 31	Machinery A/c	25,000	Mar. 31	Profit and Loss A/c	25,000
		25,000			**25,000**

Working Note: Calculation of Depreciation

$$\text{Annual Depreciation} = \frac{\text{Cost of Asset} - \text{Scrap Value}}{\text{Estimated Useful Life of Asset}}$$

$$= \frac{2,00,000\ (1,90,000 + 10,000) - 50,000}{6}$$

$$= \text{Rs } 25,000$$

$$\text{Rate of Depreciation} = \frac{\text{Amount of Depreciation}}{\text{Total Cost of Asset}} \times 100$$

$$= \frac{25{,}000}{2{,}00{,}000} \times 100$$

$$= 12.5\%$$

Q.2 On 1st April, 2015, a Company bought Plant and Machinery costing 68,000. It is estimated that its working life is 10 years, at the end of which it will fetch 8,000. Additions are made on 1st April, 2016 to the value of 40,000 (Residual value 4,000). More additions are made on Oct. 1, 2017 to the value of 9,800 (Break-up value 800). The working life of both the additional Plant and machinery is 20 years.

Show the Plant and Machinery account for the first four years, if depreciation is written off according to Straight Line Method. The accounts are closed on 31st March every year.

ANSWER:

Plant & Machinery Account

Dr.			Cr.			
Date	**Particulars**	**Amount (₹)**	**Date**	**Particulars**		**Amount (₹)**
2015			2016			
Apr. 01	Bank A/c (P1)	68,000	Mar. 31	Depreciation A/c		6,000
			Mar. 31	Balance c/d		62,000
		68,000				**68,000**
2016			2017			
Apr. 01	Balance b/d (P1)	62,000	Mar. 31	Depreciation A/c		
Apr. 01	Bank A/c (P2)	40,000		P1	6,000	
				P2	1,800	7,800
			Mar. 31	Balance c/d		
				P1	56,000	
				P2	38,200	94,200

			1,02,000				**1,02,000**
2017				2018			
Apr. 01	Balance b/d			Mar. 31	Depreciation A/c		
	P1	56,000			P1	6,000	
	P2	38,200	94,200		P2	1,800	
Oct. 01	Bank A/c (P3)		9,800		P3 (for 6 months)	225	8,025
				Mar. 31	Balance c/d		
					P1	50,000	
					P2	36,400	
					P3	9,575	95,975
			1,04,000				**1,04,000**
2018				2019			
Apr. 01	Balance b/d			Mar. 31	Depreciation A/c		
	P1	50,000			P1	6,000	
	P2	36,400			P2	1,800	
	P3	9,575	95,975		P3	450	8,250
				Mar. 31	Balance c/d		
					P1	44,000	
					P2	34,600	
					P3	9,125	87,725
			95,975				**95,975**

Working Note: Calculation of Depreciation

$$\text{Annual Depreciation} = \frac{\text{Cost of Asset} - \text{Scrap Value}}{\text{Estimated Useful Life of Asset}}$$

P1	**P2**	**P3**

$=\dfrac{68,000-8,000}{10}$ $=\text{Rs }6,000$	$=\dfrac{40,000-4,000}{20}$ $=\text{Rs }1,800$	$=\dfrac{9,800-800}{20}$ $=\text{Rs }450$

Q.3 Chandra Ltd. purchased a second-hand machine for 8,000 plus CGST and SGST @ 6% each on 1st July, 2015. They spent ₹ 3,500 on its overhaul and installation.

Depreciation is written off 10% p.a. on the original cost. On 30th September, 2018, the machine was found to be unsuitable and sold for 6,500. Prepare the Machinery A/c for four years assuming that accounts are closed on 31st March.

ANSWER:

Machinery Account					
Dr.			Cr.		
Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
2015			2016		
July 01	Bank A/c (8,000 + 3,500)	11,500	Mar. 31	Depreciation A/c (for 9 months)	863
				Balance c/d	10,637
		11,500			11,500
2016			2017		
Apr. 01	Balance b/d	10,637	Mar. 3	Depreciation A/c	1,150

			1		
				Balance c/d	9,487
		10,637			10,637
2017			2018		
Apr. 01	Balance b/d	9,487	Mar. 31	Depreciation A/c	1,150
				Balance c/d	8,337
		9,487			9,487
2018			2018		
Apr. 01	Balance b/d	8,337	Sept. 30	Depreciation A/c	575
				Bank A/c (*Sale*)	6,500
				Profit and Loss A/c (*Loss on Sale*)	1,262
		8,337			8,337

Working Note: Calculation of Profit or Loss on Sale

Particulars	**Amount (₹)**
Value of Machinery on Apr. 01, 2018	8,337

Less: Depreciation for 6 months	575
Value of Machinery on Sept. 30, 2018	7,762
Less: Sale Value	6,500
Loss on Sale	**1,262**

2.3 FINAL ACCOUNT INCLUDING ADJUSTMENTS

The final accounts are primarily prepared for ascertaining the operational result and the financial position of the business. These are prepared with the help of Trial Balance.

The final accounts consist of the following two accounts:

1. Profit and Loss Account, and

2. Balance Sheet.

How are these two accounts prepared is explained and exemplified subsequently.

1. Profit and Loss Account:

The Profit and Loss Account is prepared for ascertaining whether the business earned profit or incurred loss during a particular period of time called accounting period. All nominal accounts are entered into Profit and Loss Account. As a rule, all expenses and losses are shown on the debit side and all incomes and gains are shown on the credit side of the Profit and Loss Account.

Then, the totals of debit side and credit side are compared for ascertaining profit or loss of the business during the accounting period. If the total of credit side exceeds the total of debit side, the excess will be profit earned during the period.

On the contrary, if the total of debit side exceeds the total of credit side, the excess will be loss incurred during the period. The net result, whether profit or loss, is transferred to the Balance Sheet also called 'Position Statement'.

Taking our previous Illustration 1 here again, let us study how the Profit and Loss Account is prepared. Remember, the first part of the Profit and Loss Account contains the Trading Account which contains information on opening stock, purchases, direct expenses and sales.

2. Balance Sheet:

Having ascertained the operational results, i.e., profit or loss by preparing the Profit & Loss Account, one final account still remains to be prepared is the Balance Sheet. The Balance Sheet is primarily prepared to know the financial position of the business.

Hence, the Balance Sheet is also called 'Position Statement.' In other words, the Balance Sheet shows what the business owns and what it owes to others, or say, how much assets and how much liabilities it has.

As already mentioned, all nominal accounts i.e., accounts relating to expenses, losses, profits, incomes, gains, etc. are shown in the Profit and Loss Account. All remaining accounts representing personal and real accounts are shown in the Balance Sheet. The accounts showing debit balances represent assets and the accounts showing credit balances represent liabilities.

All assets and liabilities are, then, shown on their respective sides in the Balance Sheet. Like Trial Balance, the total of asset side should be equal to the total of liability side. The reason being the double entry passed for every transaction.

For every debit entry, there is an equal and corresponding credit entry and vice versa. However, if the two totals do not tally, it implies that some errors have been committed in the books of accounts. These errors need to be traced out and, then, rectified.

Types of Adjustments Entries in Final Accounts

Closing Stock:

As the value of closing inventories is ascertained at the end of the accounting year, it appears as an adjustment. It should be credited to Trading a/c and shown in the asset side of the B/S.

The adjusting entry is:

Closing Stock a/c Dr.

To Trading a/c

Trading Account

		Rs.
	By Sales By Closing Stock	

Balance Sheet Cr

Liabilities	Rs.	Assets	Rs.
		Closing Stock	

Outstanding Expenses:

These are the expenses incurred within the accounting year but the payment has not been made. Outstanding or unpaid expenses should be added to the concerned expenses a/c in P&L a/c and will be shown as a current liability in the B/S.

For example, the Rent for the month of December 2002 Rs. 1,000 remain unpaid. The calendar year is the accounting year.

Adjusting Entry:

Rent account Dr. Rs.1000

To Outstanding Rent a/c Rs. 1,000

Profit and Loss Account

			Rs.	
To Rent Account	[11 months rent]	11,000		
Add: Outstanding	[December]	1,000	12,000	

Balance Sheet as on 31st December 2002

Liabilities	Rs.	Assets	
Outstanding Expenses:			
Rent	1,000		

Prepaid Expenses:

These are the expenses, which have been paid, but part of the amount paid extends to the next year. It is also called as 'Un-expired expenses'. Advance amount paid should be deducted from the concerned expenses and be shown as a Current Asset in the B/S.

For example, the insurance premium of Rs. 2,400 a year was paid on 1st July 2002. The calendar year is the accounting year. Since one year's premium has been paid on 1st July, the premium for 6 months, i.e., half the amount relates to the current year and the other half relates to the next year.

Hence, Rs. 1,200 must be treated as prepaid and deducted from the premium paid and be shown as an asset in the B/S.

Adjusting Entry:

Prepaid Insurance a/c Dr. Rs. 1, 200

To Insurance Premium a/c Rs. 1, 200

Profit and Loss Account

	Rs.	Rs.	
To Insurance Premium a/c	2,400		
Less: Prepaid insurance	1,200	1,200	

Balance Sheet

Liabilities	Rs.	Assets	Rs.
		Prepaid Insurance	1,200

Accrued Income:

It is the income that has already been earned [i.e., the service has already been rendered] but the money has not been received. For example, Interest on investments accrued Rs. 1,200.

The interest for the current year is due at the close of the year. The amount may be actually received in the next year. At present it represents an income, which has become receivable or accrued. Hence it is credited to P&L a/c and being accounts receivable, shown as an asset in the B/S.

Adjusting Entry:

Accrued Interest a/c Dr. Rs. 1,200

To Interest a/c Rs. 1,200

Profit and Loss Account

	By Interest on investments	......	
	Add: Interest accrued	1,200	

Balance Sheet

Liabilities	Rs.	Assets	Rs.
		Interest accrued	1,200

Incomes Received in Advance:

These are incomes received during the current year, but part of the amount received relates to the next year. Such amount must be deducted from the total amount received in P&L a/c and shown on the liabilities side of the B/S as it represents an amount, which the business is obliged to return.

For example, a business concern has received apprentice premium for three years amounting to Rs.6, 000. In this amount Rs.2, 000 i.e., 1/3 of Rs.6, 000 is for current year and should be credited to P&L a/c as income. And the balance Rs.4, 000 represents a liability as the business is obliged to return.

Adjusting Entry:

Apprentice Premium a/c Dr. Rs. 4000

To Apprentice Premium received in advance Rs. 4000

Profit and Loss Account

		Rs.	Rs.
	By Apprentice Premium	6,000	
	Less: Received in advance	4,000	2,000

Balance Sheet

Liabilities	Rs.	Assets	Rs.
Apprentice Premium received in advance	4,000		

Depreciation on Assets:

Depreciation means diminution or fall in value of an asset due to its constant use. It may also arise on account of wear and tear, lapse of time and obsolescence. It is a loss to the business.

It is usually calculated at a certain percentage on the value of asset and the amount so obtained is first shown on the debit side of the P&L a/c and then deducted from the original value of asset in the B/S.

For Example, a business has furniture of the value of Rs.50, 000 at the end of the year it is depreciated at 5%.

Adjusting Entry:

Depreciation a/c Dr. Rs. 2,500

To Furniture a/c Rs. 2,500

[5% on Rs.50, 000 = 2,500]

Profit and Loss Account

	Rs.	
To Depreciation a/c Furniture	2,500	

Balance Sheet

Liabilities	Rs.	Assets		Rs.
		Furniture	50,000	
		Less: Depreciation	2,500	47,500

Bad Debts:

Debts represent money due from debtors [i.e., uncollected portion of credit sales]. When debts become irrecoverable, it becomes bad debts and is treated as a loss. The amount of bad debts is debited to P&L a/c and is deducted from Sundry Debtors in the B/S.

For example, the ledger balance in respect of sundry debtors of a trader shows Rs.20, 000 and of this Rs. 1,000 is estimated to be irrecoverable.

Adjusting Entry:

Bad Debts a/c Dr. Rs. 1,000

To Sundry Debtors a/c Rs. 1,000

Provision for Bad and Doubtful Debts:

Every business has a lot of dealings by way of credit transactions. This gives rise to a sizable amount of book debts or debtors. But it is seldom that 100 percent of these debts will be recovered.

Hence, it becomes necessary to bring down the debtor's balance to it true position. The usual practice is to calculate such doubtful debts at a certain percentage, based on past experience on debtors. It is called as Provision or Reserve for Doubtful Debts.

However, the provision for bad and doubtful debts is calculated on good debts i.e., after deducting bad debts not adjusted earlier.

Example:

The sundry debtors of a trader at the close of the year stood at Rs.21, 000. It is estimated that Rs. 1,000 is written off as bad debts and 5% provision is created for doubtful debts.

Adjusting Entries:

Bad Debts a/c Dr. Rs. 1,000

To Sundry Debtors a/c Rs. 1,000

Profit and Loss a/c Dr. Rs. 2,000

Too Bad Debts a/c Rs. 1,000

To Provision for Doubtful Debts 1,000

Profit and Loss Account

	Rs.	
To Bad Debts	1,000	
To Reserve for Doubtful Debts	1,000	

If there is an old provision for doubtful debts, it should be adjusted [deducted] against the new provision.

Balance Sheet

Liabilities	Rs.	Assets		Rs.
		Sundry Debtors	21,000	
		Less: Bad Debts	1,000	
			20,000	
		Less: Provision for Doubtful Debts	1,000	19,000

Provision for Discount on Debtors:

Cash discounts are allowed to debtors in order to encourage them to make prompt payments. After providing for bad and doubtful debts, the balance of debtors represents debts due from sound parties.

They may try to pay their dues on time and avail themselves of the cash discounts permissible. Hence, this discount should be anticipated and provided for. It is, therefore, the usual practice in business is to provide for discount on debtors at certain percentage on good debts.

Example:

Suppose a trader has sundry debtors amounting to Rs.20, 000 and he estimates that after a provision of 5% for doubtful debts, a provision for discounts at 2% is desirable. Then, on the sound debts, i.e., Rs. 19,000 a provision of 2% is made as Reserve for Discount on Debtors.

Adjusting Entry:

Profit and Loss a/c Dr. Rs.380

To Reserve for Discount on Debtors a/c Rs.380

Profit and Loss Account

	Rs.	
To Bad Debts		
To Reserve for Doubtful Debts	1,000	
To Reserve for Discount on Debtors	380	

Balance Sheet

Liabilities	Rs.	Assets		Rs.
		Sundry Debtors	20,000	
		Less: Provision for Doubtful Debts	1,000	
			19,000	
		Less: Provision for Discounts on Debtors	380	18,620

Provision for Discount on Creditors:

Creditors represent the amount owed by the business to suppliers of goods on credit. Sound business concerns make it a practice to settle accounts with creditors in time to earn goodwill of the creditors and also the discount allowed by them.

In that case the liability in respect of sundry creditors can be reduced to the extent of discounts anticipated. Based on the past practice, a certain percentage on creditors balance is calculated as Provision for discounts and deducted from the creditors balance in the B/S and the same amount is credited as gain in the P&L a/c.

Example:

A trader had sundry creditors at Rs. 10,000 on 31st December 2002. It is desired to make a provision of 3% on this amount for discounts.

Adjusting Entry:

Reserve for Discounts on Creditors a/c Dr. Rs. 300

To Profit and Loss, a/c Rs. 300

Profit and Loss Account

	Rs.		Rs.
		By Reserve for Discount on Creditors	300

Balance Sheet

Liabilities	Rs.			
Sundry Creditors	10,000			
Less: Reserve for Discounts	300	9,700		

Interest on Capital:

Often, interest at a normal rate is allowed on the capital of the proprietor employed in the business. This is necessary in order to assess the efficiency of the business. Otherwise the profits would include the interest and appear at a higher rate.

The interest so charged is a loss to the business and gain to the proprietor. So it is debited to the Profit and Loss a/c and added to the capital in the Balance Sheet.

Adjusting Entries:

Interest on Capital a/c Dr.

To Capital a/c

Profit and Loss a/c Dr.

To Interest on Capital a/c

Interest on Drawings:

Drawings are money withdrawn by the proprietor from his capital. Just as the business allows interest on capital, it charges interest on drawings. It is a gain to the business and a loss to the proprietor. So, it is credited to the Profit and Loss a/c and deducted from the capital in the Balance Sheet.

Profit and Loss Account

	Rs.		Rs.
To Interest on Capital		By Interest on Drawings	

Balance Sheet

Liabilities	Rs.		
Capital Add: Interest on Capital Less: Drawings Interest on Drawings			

Format of Final Accounts

Trading Account

Particulars	**Amount**	**Particulars**	**Amount**
To opening stock	–	By sales (less returns)	–
To purchases (less returns)	–	By closing stock	–
To fuel and power	–	By gross loss (transfer to P & L A/C)	–
To wages	–		
To carriage inwards	–		

To freight and octree	–		
To direct expenses			
To gross profit (transfer to P & L A/C)	–		

Profit and Loss Account

The profit and loss account determines the net profit or net loss of the business for the accounting period. It begins with the balance carried down from the Trading Account. The revenues and expenses that are indirect or that do not form a part of the Trading account, form a part of the Profit and Loss Account. When the credit side of the Profit and Loss Account exceeds the debit side, it shows net profit and vice-versa.

The net profit or loss is then shown as an addition or deduction respectively, from the Capital account in the Balance Sheet.

Some expenses that form a part of the Profit and Loss Account are:

1. Sales Tax
2. Provisions
3. Maintenance
4. Administrative Expenses
5. Selling and Distribution Expense
6. Depreciation
7. Freight and carriage on sales
8. Wages and Salaries

Some revenues that appear on the credit side of the Profit and Loss Account Are Commission received, Discount received, profit obtained on sale of assets, etc.

Closing Entries for Net Loss or Net Profit are as follows:

For Net Loss

Capital A/c – Dr.

To Profit and Loss, A/c

For Net Profit

Profit and Loss A/c Dr.

To Capital A/c

Format for Profit and Loss Account

Profit & Loss Account

Particulars	**Amount**	**Particulars**	**Amount**
To gross loss		By gross profit	
To salaries		By rent received	
To rents and taxes		By discounts earned	
To travelling expenses		By interests earned	
To stationary/printing expenses		By bad debts recovered	
To postage		By commissions earned	
To audit & legal charges		By dividends received	
To telephone expenses		By income from other sources	
To insurance premium		By Net Loss (transferred to Capital A/C)	
To marketing/advertisement			
To interest paid			
To discount allowed			
To sundry expenses			
To carriage outwards			
Too bad debts			
To depreciation			
To loss by fire/theft			
To any other expenses			
To net profit (transferred to Capital A/C)			

Balance Sheet

The balance sheet is a statement showing the total assets, total liabilities and the capital of the business. It shows the financial position of the business on the last day of the financial year i.e. 31st March.

The assets are on the Right-hand side of the Balance sheet while Capital and liabilities are on the Left-hand side. The total assets need to be equal to the total liabilities and capital for the Balance sheet to match.

Format of Balance Sheet

Balance Sheet

Balance Sheet

Liabilities	Amount	Assets	Amount
Capital (Less: drawings Add: profit)		Land and building	
Reserves and surplus		Plant and machinery	
Outstanding expenses		Furniture	
Loans		Stock	
Trade creditors		Sundry debtors	
Bills payable		Bills receivable	
		Misc. investments	
		Cash in hand	
Total	xx	Total	xx

Problems # 1:

From the following particulars taken out from the books of Abdul Hanna & Co. You are required to prepare Trading and Profit & Loss Account and Balance Sheet as at December 31st, 2019.

Sundry debtors	Rs. 52,000	Insurance premium (paid on 1.10.19)..............	Rs. 2,400
Account payable	22,000	Cash at bank	6,200
Cash in hand	2,392	Machinery	24,000
Furniture	3,500	Wages	23,600
Motor car	22,000	General expenses	2,680
Purchases	145,000	Carriage inward	2,040
Sales	292,000	Carriage outward	1,630
Sales return	2,600	Transportation in	6,430
Salaries	8,420	Owner equity	20,000
Opening stock	11,400	Drawing	8,000
Motor car expenses	3,600	Rent and taxes	3,600
Equipment	2,508		

Adjustments:

(a) Closing stock Rs, 35,000.

(b) Provision for doubtful debts at 5% of sundry debtors.

(c) Depreciation furniture and machinery by 10%.

(d) Commission of Rs. 3,600 has been earned but not received till the closing of accounts.

Solution:

Abdul Hanan & Co.

Trading and Profit & Loss Account

For the Year ended 31st, December 2019

Particulars	***Amount***	***Particulars***	***Amount***
Opening Stock	11,400	Sales 292,000	
Purchases	145,000	Sales return (2,600)	289,400
Wages	23,600	Closing stock	35,000
Carriage inward	2,040		
Transportation in	6,430		
Gross Profit c/d	*135,930*		
Total	**Rs. 324,400**	**Total**	**Rs. 324,400**
Salaries	8,420	*Gross Profit b/d*	*135,930*
Motor car expenses	3,600	Commission	3,600
Insurance premium 2,400			
Prepaid insurance (1,800)	600		
General expenses	2,680		
Carriage outward	1,630		
Rent and taxes	3,600		
Provision for doubtful debts	2,600		
Dep. expense_ furniture	350		
Dep. expense_ machinery	2,400		
Net Profit c/f to B/S	*113,650*		
Total	**Rs. 139,530**	**Total**	**Rs. 139,530**

Abdul Hanan & Co.

Balance Sheet

As on 31st, December 2019

Equities		Amount	Assets		Amount
Owner's Equity:			***Fixed and Long Term:***		
Owner equity	20,000		Furniture	3,500	
Drawing	(8,000)		Dep. expense	(350)	3,150
Profit b/f	113,650	125,650	Motor car		22,000
			Machinery	24,000	
			Depreciation	(2,400)	21,600
			Equipment		2,508
Current Liabilities:					
Account payable		22,000			
			Current Assets:		
			Cash in hand		2,392
			Cash at bank		6,200
Long Term Liability:			Sundry debtors	52,000	
			Provision for bad debts	(2,600)	49,400
			Stock		35,000
			Commission receivable		3,600
			Prepaid insurance		1800
Total		**Rs. 147,650**	**Total**		**Rs. 147,650**

Problems # 2:

From the following trial balance of Farris Ali Qureshi & Bros. and additional information, prepare Trading and Profit & Loss account and Balance sheet for the year ended June 30th, 2019.

Particular	Dr	Cr	Particular	Dr	Cr
Capital		100,000	Transportation out	7,000	
Furniture	20,000		Creditors		120,000
Purchases	150,000		Provision for bad debts		6,000
Debtors	200,000		Printing and stationery	8,000	
Interest earned		4,000	Insurance expense	12,000	
Salaries	30,000		Opening stock	50,000	
Sales		321,000	Office expenses	12,000	
Purchases returns		5,000	Bank overdraft		2,000
Wages	20,000		Drawing	24,000	
Rent	15,000				
Sales return	10,000		**Total**	**Rs. 558,000**	**Rs. 558,000**

Additional Information

1. Depreciation furniture by 10% by written down method (WDM).
2. A provision for doubtful debts is to be created to the extent of 5% on sundry debtors.
3. Salaries for the month of June, 2019 amounting to Rs. 3,000 were unpaid which must be provided for. However, salaries included Rs. 2,000 paid in advance. Office expenses outstanding Rs. 8,000.
4. Insurance amounting to Rs. 2,000 is prepaid.
5. Stock use for private purpose Rs. 6,000 and closing stock Rs. 60,000.

Solution:

Faris Ali Qureshi & Bros.

Trading and Profit & Loss Account

For the Year ended 30th, June 2019

Particulars		***Amount***	***Particulars***		***Amount***
Opening stock		50,000	Sales	321,000	
Purchases	150,000		Sales return	(10,000)	311,000
Purchases returns	(5,000)		Closing stock		60,000
Drawing	(6,000)	139,000			
Wages		20,000			
Gross Profit c/d		*162,000*			
Total		**Rs. 371,000**	**Total**		**Rs. 371,000**
Salaries	30,000		*Gross Profit b/d*		*162,000*
Outstanding	3,000		Interest earned		4,000
Prepaid	(2,000)	31,000			
Rent		15,000			
Transportation out		7,000			
Printing and stationery		8,000			
Insurance expense	12,000				
Prepaid	(2,000)	10,000			
Office expenses	12,000				
Outstanding	8,000	20,000			
Depreciation exp. _furniture		2,000			
Provision for bad debts:					
New	10,000				
Old	(6,000)	4,000			
Net Profit c/f to B/S		*69,000*			
Total		**Rs. 166,000**	**Total**		**Rs. 166,000**

Faris Ali Qureshi & Bros.

Balance Sheet

As on 30th, June 2019

Equities		*Amount*	*Assets*		*Amount*
Owner's Equity:			***Fixed and Long Term:***		
Capital	100,000		Furniture	20,000	
Drawing	(24,000)		Dep. expense	(2,000)	18,000
Stock withdrawal	(6,000)				
Profit b/f	69,000	139,000			
			Current Assets:		
			Debtors	200,000	
			Provision for b/d	(10,000)	190,000
Current Liabilities:			Stock		60,000
Bank overdraft		2,000	Prepaid Expenses:		
Creditors		120,000	Salaries		2,000
Outstanding liabilities:			Insurance		2,000
Salaries		3,000			
Office expenses		8,000			
Total		**Rs. 272,000**	**Total**		**Rs. 272,000**

Problems # 3:

The following Trial Balance of Amina Mustad Ahmed & Brothers on June 30th, 2020, Prepare Profit and Loss Account and Balance Sheet.

Particular	Dr	Cr	Particular	Dr	Cr
Owner's Equity		4,000	Note Payable		560
Account Payable		5,200	Note Receivable	720	
Plant and Machinery	5,000		Return Inward	930	
Office Furniture & Fittings	260		Provision for Bad Debts		250
Opening Inventory	4,800		Drawing	700	
Motor Van	1,200		Return Outward		550
Account Receivables	4,570		Rent	600	
Cash in Hand	40		Excise duties	80	
Cash at Bank	650		Insurance	630	
Wages	15,000		General Expenses	100	
Salaries	1,400		Bad Debts	250	
Purchases	21,350		Discount	650	370
Sales		48,000	**Total**	**Rs. 58,930**	**Rs. 58,930**

Adjustments:

- Stock at the end of year Rs. 5,200 and Three Months Excise duties is due, but not paid Rs. 30.
- 5 percent depreciation to be written-off on furniture and write-off further bad debts Rs. 70.
- The provision for bad debts to be Rs. 300 and provision for discount on debtor @ 2 % to be made.
- During the year machinery was purchased for Rs. 2,000, but was debited to Purchase account.

Solution:

Amna Mushtaq Ahmed & Brothers

Trading and Profit & Loss Account

For the Year ended June 30th, 2020

Particulars		***Amount***	***Particulars***		***Amount***
Opening inventory		4,800	Sales	48,000	
Purchases	21,350		Return Inward	(930)	47,070
Returns outward	(550)		Closing Stock		5,200
Machinery purchase	(2,000)	18,800			
Wages		15,000			
Excise duties	80				
Outstanding	30	110			
Gross Profit c/d		*13,560*			
Total		**52,270**	**Total**		**52,270**
Salaries		1,400	*Gross Profit b/d*		*13,560*
Rent		600	Discount		370
Insurance		630			
General expenses		100			
Bad debts	250				
Additional	70	320			
Discount		650			
Depreciation exp. _furniture		13			
Provision for bad debts:					
New	300				
Old	(250)	50			
Provision for discount on debtor (4,200@2%)		84			
Net Profit c/f to B/S		*10,083*			
Total		**Rs. 13,930**	**Total**		**Rs. 13,930**

Amna Mushtaq Ahmed & Brothers

Balance Sheet

As on June 30th, 2020

Equities		*Amount*	*Assets*		*Amount*
			Fixed and Long Term:		
Owner's Equity:			Plant and machinery	5,000	
Capital	4,000		Additional	2,000	7,000
Drawing	(700)		Office furniture & fitting	260	
Profit b/f	10,083	13,383	Depreciation	13	247
			Motor van		1,200
Current Liabilities:			***Current Assets:***		
Note payable		560	Cash in hand		40
Account payable		5,200	Cash at bank		650
Outstanding excise duties		30	Note receivable		720
			Account receivable	4,570	
			Further bad debts	(70)	
			Provision for bad debts	(300)	
			Provision for dis. on debtor	(84)	4,116
			Closing stock		5,200
Total		**Rs. 19,173**	**Total**		**Rs. 19,173**

Practice Sums

Q.1 Following is the Trial Balance of Rajesh Ltd., Gurgaon as on 31.12.2009.

Particulars	Debit (Rs)	Credit(Rs)
Share capital		80000
(8000 shares of Rs. 10/- each)		
Stock on 1.1.2009	51000	—
Purchases and sales	220000	330000
Returns	3800	—
General Expenses	1800	—
Wages	12000	—
Salaries	18700	—
Travelling Expenses	3200	—
Advertisement	1550	—
Rent and Taxes	4900	—
Discount Received	—	2200
Bank Interest	850	—
Bad Debts	2500	—
Buildings	95000	—
Plant and machinery	98000	—
Sundry Debtors and Creditors	45000	55500
Loan	—	25000
Cash	1400	—
Reserve Fund	—	23000
Preliminary Expenses	11000	—
Profit and Loss Account (Cr.)	—	55000
	570700	570700

Adjustments:

1. Transfer Rs. 10000 to Reserve Fund.
2. Provide depreciation on building at 5%.
3. Stock on 31.12.2009 was valued at Rs. 12000.
4. Dividend at 15% on share capital is to the provided.
5. Depreciation on Plant and Machinery at 10%.

Prepare Trading, Profit and Loss Account, Profit and Loss Appropriation Account and Balance Sheet in the prescribed form.

Solution:

The solution will be as follows:

Trading and Profit and Loss Account for the year ended 31.12.2009

Particulars	Amount (Rs)	Amount (Rs)	Particulars	Amount (Rs)	Amount (Rs)
To opening stock		51000	By sales	330000	
To Purchases	220000		Less: Returns	3800	
To Less: Returns	—	220000			326200
			By Closing stock		12000
To Wages		12000			
To Gross profit c/d		55200			
		338200			338200
To salaries		18700	By trading A/C		55200
To general expenses		1800	Gross profit b/d		
To travelli8ng expenses		3200	To discount received		2200
To advertisement		1550			
To rent and taxes		4900			
To bank interest		850			
To bad debts		2500			
To depreciation on plant and machinery		9800			
To depreciation on building		4750			
To net profit c/d		9350			
		57400			57400

Profit and loss Appropriation A/C for the year ended 31.12.2009

Particulars	Amount (Rs)	Amount (Rs)	Particulars	Amount (Rs)	Amount (Rs)
To New reserves		**10000**	By balance b/d		**55000**
To dividend proposed		**12000**	By p/L A/c		**9350**
To balance c/d		**42350**			
		64350			**64350**
			By balance b/d		**42350**

Balance sheet for the year ended 31.12.2009

Liabilities	Amount	Amount	Assets	Amount	Amount
Share capital			Fixed assets		
Authorized capital		—	Buildings	95000	
Issued and subscribed capital			Less depreciation	4750	
					90250
Called up and paid up capital (8000 share of Rs.10/- each)	80000		Plant and machinery	98000	
			Less depreciation	9800	
Less calls in arrears					
		80000			88200
Reserves and surplus			Investments		—
Reserve fund	23000		Current assets and loans advances		
Add: New reserve	10000		Closing stock		12000
		33000	Sundry debtors		45000
P/L appropriation A/c (surplus)		42350	Cash		1400
Secured loans		—	Miscellaneous expenses and losses		
Unsecured loans		25000			
Current liabilities and provisions			Preliminary expenses		11000
Current liabilities					
Sundry creditors		55500			
Provisions					
Proposed dividend		12000			
		57400			57400

Q.2 The following balances were extracted from the books of Thomas as on 31st March, 2018

Particulars	₹	Particulars	₹
Purchases	75,000	Capital	60,000
Returns inward	2,000	Creditors	30,000
Opening stock	10,000	Sales	1,20,000
Freight inwards	4,000	Returns outward	1,000
Wages	2,000		
Investments	10,000		
Bank charges	1,000		
Land	30,000		
Machinery	30,000		
Building	25,000		
Cash at bank	18,000		
Cash in hand	4,000		
	2,11,000		2,11,000

Additional information:

I. Closing stock Rs. 9,000

ii. Provide depreciation @ 10% on machinery

iii. Interest accrued on investment Rs. 2,000

Prepare trading account, profit and loss account and balance sheet.

Solution

In the books of Thomas

Dr. Trading and Profit and Loss Account for the year ended 31st March, 2018 Cr.

Particulars	₹	₹	Particulars	₹	₹
To Opening stock		10,000	By Sales	1,20,000	
To Purchases	75,000		Less: Returns inward	2,000	1,18,000
Less: Returns outward	1,000	74,000			
To Freight inwards		4,000	By Closing stock		9,000
To Wages		2,000			
To Gross profit c/d		**37,000**			
		1,27,000			1,27,000
To Depreciation on machinery		3,000	By Gross Profit b/d		37,000
To Bank charges		1,000	By Accrued interest on investment		2,000
To Net profit (transferred to capital a/c)		**35,000**			
		39,000			39,000

Balance Sheet as on 31st March, 2018

Particulars	₹	₹	Particulars	₹	₹
Capital	60,000		Land		30,000
Add: Net profit	35,000	95,000	Building		25,000
Creditors		30,000	Machinery	30,000	
			Less: Depreciation	3,000	27,000
			Investment	10,000	
			Add: Accrued interest	2,000	12,000
			Stock-in-trade		9,000
			Cash at bank		18,000
			Cash in hand		4,000
		1,25,000			1,25,000

Q.3 Given below are the balances extracted from the books of Natarajan as on 31st March, 2016.

Particulars	₹	Particulars	₹
Purchases	10,000	Sales	15,100
Wages	600	Commission received	1,900
Freight inwards	750	Rent received	600
Advertisement	500	Creditors	2,400
Carriage outwards	400	Capital	5,000
Cash	1,200		
Machinery	8,000		
Debtors	2,250		
Bills receivable	300		
Stock on 1st January, 2016	1,000		
	25,000		25,000

Prepare the trading and profit and loss account for the year ended 31st March, 2016 and the balance sheet as on that date after adjusting the following:

I. Commission received in advance Rs. 400

ii. Advertisement paid in advance Rs. 150

iii. Wages outstanding Rs. 200

iv. Closing stock on 31st March 2016, Rs. 2,100

Solution

In the books of Nagarajan

Dr. Trading and Profit and Loss Account for the year ended 31st March, 2016 Cr.

Particulars	₹	₹	Particulars	₹	₹
To Opening stock		1,000	By Sales		15,100
To Purchases		10,000	By Closing stock		2,100
To Wages	600				
Add: Outstanding	200	800			
To Freight inwards		750			
To Gross profit c/d		4,650			
		17,200			17,200
To Advertisement	500		By Gross profit b/d		4,650
Less: Prepaid advertisement	150	350	By Commission received	1,900	
To Carriage outwards		400	Less: Received in advance	400	1,500
To Net profit (transferred to capital a/c)		6,000	By Rent received		600
		6,750			6,750

Balance Sheet as on 31st March, 2016

Particulars	₹	₹	Particulars	₹	₹
Capital	5,000		Machinery		8,000
Add: Net profit	6,000	11,000	Stock in trade		2,100
Creditors		2,400	Debtors		300
Commission received in			Bills receivable		2,250
advance		400	Advertisement prepaid		150
Outstanding wages		200	Cash		1,200
		14,000			14,000

Q.4 Consider the following balances extracted from the books of Jain as on 31st December, 2016.

Prepare the final accounts.

Particulars	₹	Particulars	₹
Capital	20,000	Office Salaries	6,600
Debtors	8,000	Establishment expenses	4,500
Creditors	10,500	Selling expenses	2,300
Purchases	60,000	Furniture	10,000
Sales	80,000	Cash at bank	2,400
Income tax of Jain paid	500	Miscellaneous receipts	600
Opening stock	12,000	Drawings	4,800

Adjustments

I. Salaries outstanding for December, 2016 amounted to Rs. 600

ii. Provide depreciation on furniture @ 10% p.a.

iii. Provide interest on capital for the year @ 5% p.a.

livestock on 31st December, 2016 Rs. 14,000

Solution

In the books of Jain

Dr. Trading and Profit and Loss Account for the year ended 31st December, 2016 Cr.

Particulars	₹	₹	Particulars	₹	₹
To Opening Stock		12,000	By Sales		80,000
To Purchases		60,000	By Closing Stock		14,000
To Gross Profit c/d		**22,000**			
		94,000			94,000
To Office salaries	6,600		By Gross Profit b/d		22,000
Add: Outstanding	600	7,200	By Miscellaneous receipts		600
To Establishment expenses		4,500			
To Selling expenses		2,300			
To Depreciation on furniture (10,000 x 10%)		1,000			
To Interest on capital (20,000 x 5%)		1,000			
To Net profit (transferred to capital A/c)		**6,600**			
		22,600			22,600

Balance Sheet as on 31st December, 2016

Liabilities	₹	₹	Assets	₹	₹
Capital	20,000		Furniture	10,000	
Add: Net profit	6,600		Less: Depreciation	1,000	9,000
Add: Interest on capital	1,000		Stock in trade		14,000
	27,600		Debtors		8,000
Less: Drawings 4,800			Cash at bank		2,400
Income tax 500	5,300	22,300			
Creditors		10,500			
Office salaries outstanding		600			
		33,400			33,400

2.4 UNIT END QUESTIONS

A. Descriptive Questions

Long Answers Questions

1. What are the causes of depreciation?
2. Explain the objectives of depreciation
3. The following are the balances taken from the books of Muhammad Zain Ammar Saddar & Co. on May 31^{st}, 2020. You are required to prepare Trading and Profit and Profit and Loss Account / Income Statement for the year ended May 31^{st}, 2020 and Balance Sheet as on that date.

Muhammad Zain Ammar Safdar & Co.

Trial Balance

31^{st}, May 2020

Particulars	*Amount*	*Particulars*	*Amount*
Salaries	12,000	Bank Loan @ 10%	10,000
Opening stock	60,000	Sundry creditors	71,000
Drawings	22,000	Purchase return	2,600
Rent and rates	4,550	Capital	73,600
Sundry debtors	89,780	Sales	248,000
Furniture	10,000	Reserve for discount	1,000
Machinery	20,000		
Bad debts	20		
Buildings	19,200		
General expenses	1,060		
Purchases	150,000		
Sales returns	5,400		
Wages	7,000		
Travelling expenses	1,600		
Insurance	1,200		
Legal charges	210		
Cash in hand	2,180		
Total	**Rs. 406,200**	**Total**	**Rs. 406,200**

Adjustments:

1. Depreciation furniture and machinery at 10% p.a.
2. Insurance is paid in advance to the extent of Rs. 200.

3. Reserve for discount is no longer required and is to be written back.
4. Closing stock is valued at Rs. 100,000.
5. Interest on bank loan is outstanding.

1. The following Trial Balance of Hashmi & Ibrahim Enterprises as on December 31st, 2019, Prepare Financial Statement in horizontal style.

Particular	Dr	Cr	Particular	Dr	Cr
Hashim's capital		80,000	Bill payable		12,000
Ibrahim's capital		100,000	Provision for bad debts		1,500
Opening stock:			Land and building	90,000	
Raw material	2,500		Plant and machinery	70,000	
Finish goods	6,500		Furniture	1,000	
Purchases	64,500		Sundry debtors	25,400	
Sales		119,000	Sundry creditors		41,000
Sales return	2,000		Hashim's drawing	1,800	
Carriage	16,000		Ibrahim's drawing	1,400	
Manufacturing expenses	12,000		Cash in hand	800	
Salaries	8,000		Cash at bank	49,000	
Insurance	1,500				
Postage	100				
Advertisement	1,000		**Total**	**Rs. 353,500**	**Rs. 353,500**

Hashmi and Ibrahim share profit and loss equally, other information is given below:

- Stock at the December 31st, 2019 was Raw material Rs. 4,000 and Finished goods Rs. 12,000.
- Outstanding expenses: Salaries Rs. 1,500; Carriage Rs. 2,100.
- Insurance paid for 15 months up to March 2020.
- Write-off Bad debts of Rs. 400 and Provision for bad debts @ 5 % of debtors.
- Goods withdrawn by Hashmi for personal use Rs. 2,000.

2. What are the Common Constituents of Final Accounts?

Short Answers Questions

1. Explain Depreciation and its characteristics
2. Write a note on Profit & Loss account
3. Write a note on Balance Sheet
4. What is the effects of provision for bad and Doubtful Debts in final account adjustment?
5. How to solve income received in advance in final account?

B . Multiple Choice Questions

1. Define Depreciation?

a. Resource diminishes over the long run because of utilization
b. An increase in the value of an asset over time.
c. Assets that can quickly be turned into cash
d. Possession of assets over liabilities

2. What is the principal objective of Depreciation?

a. To get a tax rebate.
b. To calculate net profit
c. Show records to Income Tax Department
d. Show last year's profit.

3. Land and Building owned by a firm should be classified as:

a. Current Assets
b. Fictitious Assets
c. Fixed Assets
d. None of these

4. Trading Account reveals:

a. Net Profit
b. Appropriation of Profit
c. Financial Position
d. Gross Profit or Gross Loss

5. Selling and Administrative Expenses are shown in:

a. Profit and Loss Account
b. Trading Account
c. Manufacturing Account
d. Balance Sheet

Answer: 1-a, 2-b, 3-c, 4-d,5-a

2.5 REFERENCES

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Web Resources:

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UNIT – 3 ACCOUNTING USING TALLY

STRUCUTRE

3.0 OBJECTIVES

- Describe types of vouchers
- Explain the process of accounting using tally
- Discuss Accounting vouchers
- Understand voucher entry with more than one debit or credit account

3.1 INTRODUCTION

Tally is powerful accounting software, which is driven by a technology called concurrent multi-lingual accelerated technology engine. It is easy to use software and is designed to simply complex day to day activities associated in an enterprise. Tally provides comprehensive solution around accounting principles, inventory and data integrity. Tally also has feature encompassing global business. Tally software comes with easy to use interface thus making it operationally simple.

Tally accounting software provides a solution around inventory management, stock management, invoicing, purchase order management, discounting, stock valuation methodology, etc.

Tally accounting software also comes with drill down options, which can track every detail of transaction. It helps in maintaining simple classification of accounts, general ledger, accounts receivable and payable, bank reconciliation, etc.

The technology employed by tally makes data reliable and secure. Tally software supports all the major types of file transfer protocols. This helps in connecting files across multiple office locations.

Tally accounting software is capable of undertaking financial analysis and financial management. It provides information around receivables turnover, cash flow statement, activity consolidation and even branch accounting.

Tally accounting software is east to set up and simple to use. A single connection can support multiple users. It can be easily used in conjunction with the Internet making possible to publish global financial reports.

Tally accounting software can seamlessly connect with various Microsoft applications.

Benefits of Tally Accounting Software

Any business owner understands the importance of maintaining proper books of account.

This practice ensures that finance for the company is always in order and are correct at all given points of time. Company should always be aware of its financial positions.

Earlier, most of the businesses were employing manual practice in maintaining books of account. However, with the advent of modern information technology, this task can be performed by accounting software. Tally is one such all-powerful accounting software.

Tally accounting software provides a solution to all the problems real businesses have to encounter. Single software takes care of all tasks required for enterprise management. Accounting task such as records keeping, accounts receivable and payable management and bank reconciliation are made simple through tally.

Financial management is also made simpler under Tally software. The software allows management of finances across multiple locations can handle multiple currency transactions, manage cash flow and interest payment.

Thus, Tally software is flexible, reliable, secure, easy to use and affordable.

MS Excel and Financial Decision-Making Model

Excel 2010 features rich analytical functions such as Pivot Tables, Advanced Graph and Decision Analytics. The current excel have developed functionality and reduces the dependency on VBA codes. Excel has formula groups and nested functions, which are able to undertake major of financial calculations. Conditional formula such as logic, lookup, indirect and match functions help in data analysis and What-If analysis.

Excel provides the basic framework to develop simple and manageable financial models. Though excel framework is unstable for certain type of analysis, but still it functionalities and compatibility make it an ideal tool for finance decision making.

3.2 ACCOUNTING USING TALLY

Intro to Tally can be determined as the system of both business accounting and also the management of inventory. The basic and advanced concepts are provided with the tally intro. It is considered that before working in tally one must know the basics of accounting. Providing accuracy, carrying out business transactions efficiently is not just time-saving but also makes the calculations simple and easy for the management.

What is the Tally?

Any company’s day to day business data is recorded in an ERP accounting software package which is known as the tally. In India, this ERP accounting software is used in every financial accounting system, be it small or large scale enterprises. There are various shortcut keys for duplicate entry in tally. Combination of function keys or voucher keys in tally is tabulated below; this includes credit note shortcut key in tally and shortcut key for optional vouchers in tally

3.3 CREATION OF COMPANY GATEWAY OF TALLY MENU BUTTONS

The first step to get started in Tally.ERP 9 is to create a company. After installation, the application opens to the screen shown below:

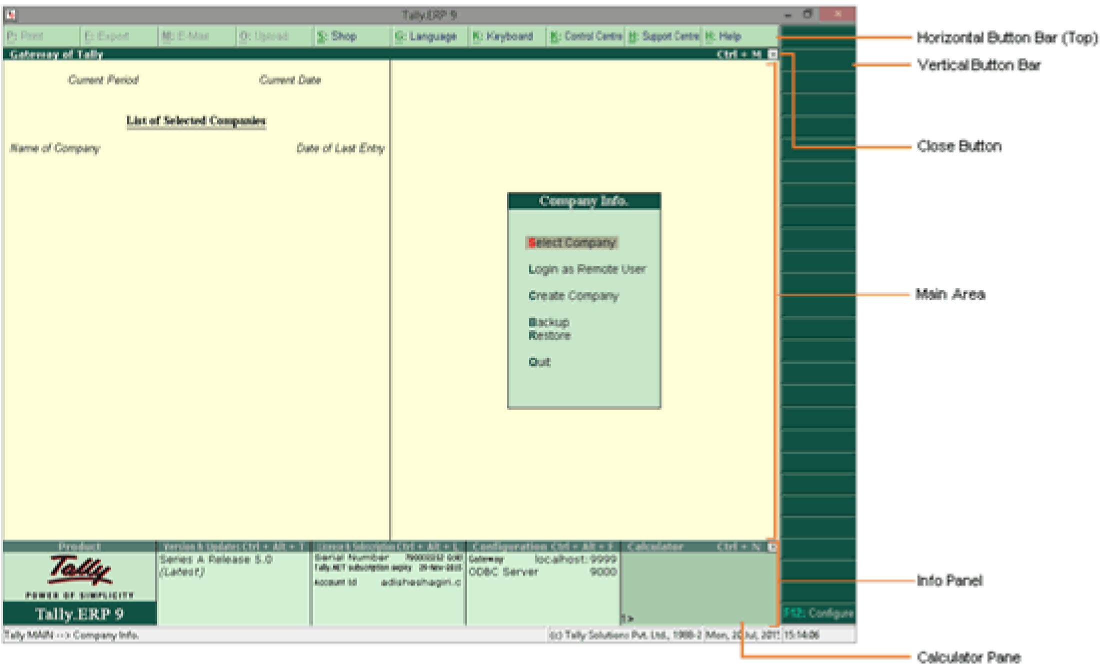


Fig :3.1 Tally.ERP

Component	Functionality
Horizontal Button Bar	Option to print, e-mail, import and upload data is available here. This bar also has options to help you to access the help manual, control centre and support centre.
Vertical Button	All the button options are displayed here. The buttons vary from

Bar	screen to screen.
Main Area (Ctrl+M)	Main area is divided into two parts: Left-hand side: Information on the date and list of companies loaded are displayed here. Right-hand side: The **Gateway of Tally** menu is displayed here.
Info. Panel	The info. panel is divided into five sections: **Product**: Displays the Tally logo. You can click the logo to visit the website. **Versions & Updates**: Displays details about the current and latest releases and the TDL information. Press Ctrl+Alt+T to display the version and updates information. **License & Subscription**: Displays information related to the product license such as Site ID, Account ID, Serial Number and so on. Press Ctrl+Alt+L to display the license and subscription information. **Configuration**: Displays statutory details, configuration details such as proxy configuration, data configuration and so on. Press Ctrl+Alt+F to display the configuration information. **Calculator**: Mathematical calculation can be done here. Press Ctrl+N to activate the calculator panel.
Task Bar	System date and time are displayed here.

This screen is the **Gateway of Tally**. The various components of **Gateway of Tally** are described in the table below:

Button Bar

Top button bar options:

Buttons	Shortcut Key	Functionality
Print	Alt + P	Navigate to Print menu
Export	Alt + E	These buttons are disabled in the **Gateway of Tally** screen.
E-Mail	Alt + M	

Upload	Alt + O	
Language	Alt + G	To change the language
Keyboard	Alt + K	To change the keyboard language
Control Centre	Ctrl + K	Login to **Control Centre**
Support Centre	Ctrl + H	To post queries, if any, relating to the product.

Right-side button bar options:

Buttons	Shortcut Key	Functionality
Select Cmp	F1	To select a company
Shut Cmp	Alt + F1	To shut or close the company
Date	F2	To change the current date
Period	Alt + F2	To change the period
Company	F3	To select a different company which is already loaded. (If a company is loaded, this button is disabled)
Company Info	Alt + F3	To access the **Company Info.** menu
Connect	F4	To connect companies to Tally.NET Server
Disconnect	Alt + F4	To disconnect companies from Tally.NET Server
Features	F11	To access the **Company Features** menu for a company
Configure	F12	To access configuration settings

Hot Keys

Hot keys are capitalized, and appear in red colour on selection. These keys can be used for easy navigation from one screen to another.

3.4 FEATURES AND CONTINUATION

TallyPrime 2.0, the latest version of Tally is specially designed, for business owners empowering them to securely access actionable insights and business reports from anywhere, at any time and from any device. TallyPrime is adding up the value along with simpler and easy to use functions, more speed, power to the process, reliable and efficient work.

In TallyPrime, many features have been made for Chartered Accountants as well so that their return filing work and auditing is completed efficiently. Multi-Tasking gets easier now. The feature allows you to navigate from anywhere to everywhere easily. Also, you can get all the already opened reports without leaving out the one you were working on.

Some of the amazing features of TallyPrime 2.0 are as follows:

Easy company Login

Chartered Accountants often have to juggle between companies to check values, ledgers, etc. Once you have logged in to a company and would like to go to any other company with the same username and password, Tally remembers and recognizes you allowing you to open the company without having to waste time entering the same username password again. This saves your time and improves your efficiency.

Go to Feature

Self-Discover and seamlessly navigate through business reports by searching through Go to feature

The ‘Go to’ search bar allows you to go wherever you want in Tally without searching for it in every drop-down menu on your screen. Navigate through 90% of Tally with ‘Go to’ option. Open Outstanding details using the ‘go to’ option from any voucher screen. Put half-completed entry on hold and continue making other entries using the ‘Go to’ option. Thus you can complete multiple tasks at time in Tally Prime.

This amazing search Bar in Tally Prime allows you to switch through different screens in Tally. Use ALT + G (Go to) to multi-task in Tally

Go to Feature in Tally Prime

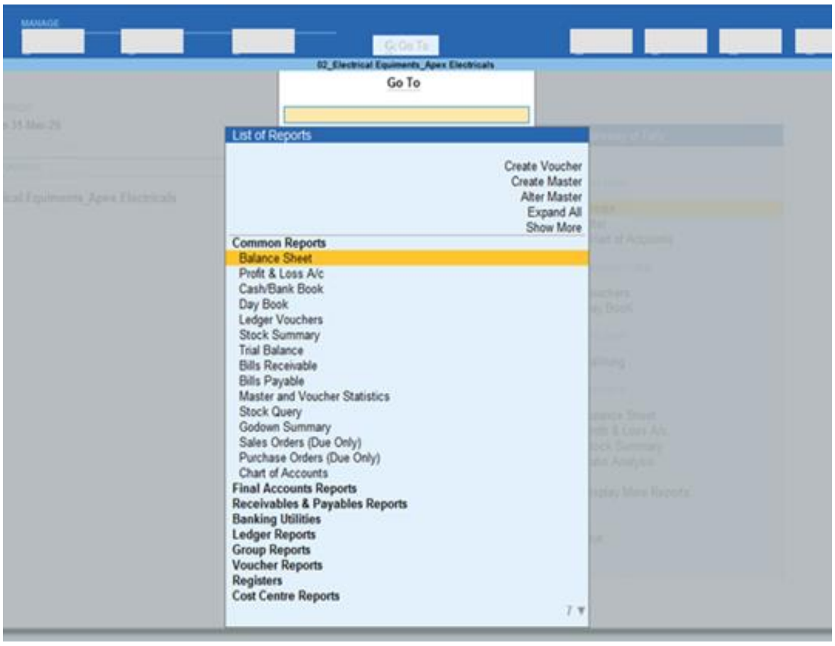


Fig :3.2 Go to Feature

Multi-Tasking gets easier

Move from one report to another easily and access all the opened reports without forgetting what you were doing.

With Go to, you will be able to handle many such situations without the hassle of switching between multiple instances of Tally or the worry of losing your progress. You can record a new voucher, create a master, view, and print reports, and get back to exactly where you left the transaction or reports

Discover the reports with the names you are familiar with

It's quite common to refer the same report with different names. For example, bills payable and accounts payable are inter-changeably used, but it refers to the same thing.

Same goes with go down reports. You may call it has go down summary, other users may refer it as warehouse summary and another user may refer it has location summary. While the names differ, it all essentially refers to the same report.

Tally Prime understands the need and allows you to discover the report even when you search with the different terms. You can search go down summary as warehouse summary, location summary, or day book as daily entries etc. and you will still be able to discover the report that you wanted to view.

Exception report

Experience enhanced capabilities of reports by viewing any Tally report in detail.

In Chart of Accounts – 'Group View' - 'Ledgers', you get some exceptional reports like 'Show used', 'show unused'. It shows you the complete list of used and unused ledgers. You can get an idea of the unused ledgers and delete this junk as it is not being used. Other than these two, there is one more important exception report - ‘Update Party GST’. This report shows the list of ledgers along with their GST details. You can fill up the GST numbers of the parties whose GST number and other details are missing in one go. go. Not just these reports, in every report, you have an option to view exception details that stand out and need your attention.

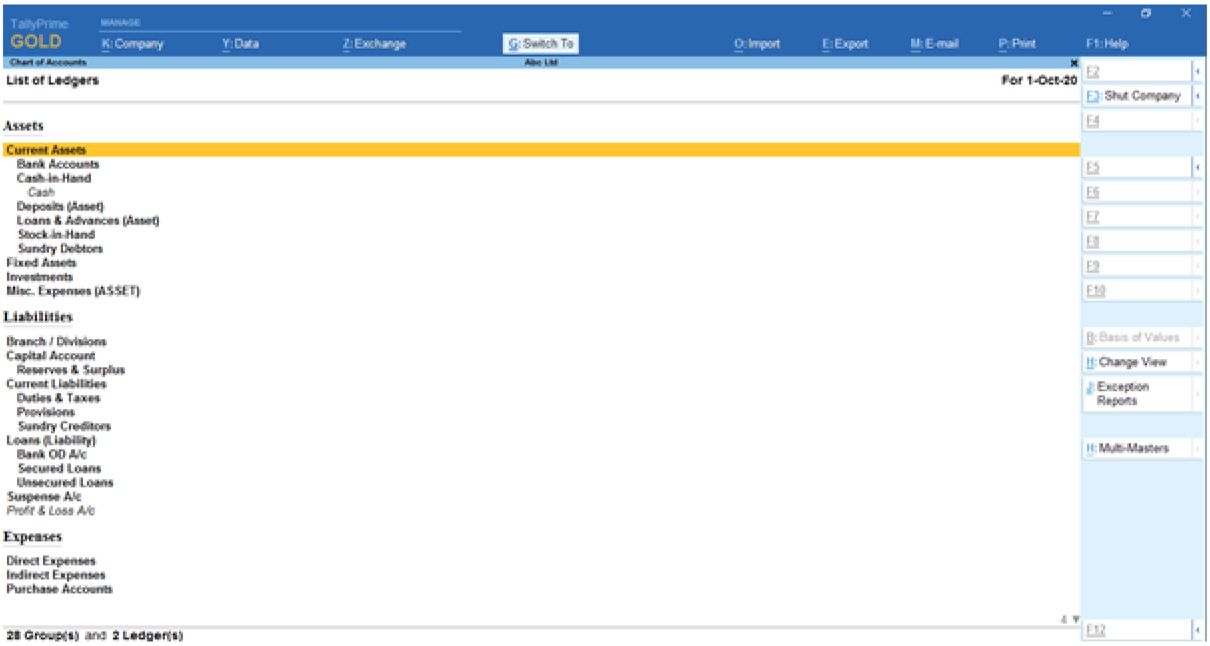
Avoid going through unnecessary fields.

While company creation or any other master/ledger creation, you can enable/disable specific fields that you think are irrelevant to you. You can turn it on anytime you want to. This will save a lot of time for data entry persons and as well as Chartered Accountants. Not just company creation, but in any information filling screen, you will always find an option to turn on/off specific fields. The best part is that even though you have disabled the specific fields, you can use ‘More details’ to mention such occasional details without disturbing the regular flow of recording translations.

Chart of Accounts

Previously, in Tally.ERP9, ledgers were arranged in alphabetical order, but now it has been arranged as per the accounting norms, i.e. Assets, liabilities, Expenses and Income. This gives a better view for a Chartered accountant. A few new options have been added in this screen on the right-hand side panel. The ‘Change View’ option allows you to view all ledgers in one screen.

Chart of Accounts



E-way Bill and E-invoicing in Tally

E-way Bill and E-invoicing is mandatory for most businesses. To improve ease of doing business in India, Tally has an in-built E-invoice and E-way Bill generation capability in its default features. No additional cost is charged for this feature. You can get it by updating your Tally to the latest Tally Prime 2.0.

Tally is an ISO/IEC 27001:2013 certified GSP (GST Siddha Provider). Go to the GST portal and select Tally as your GSP. Register on GST portal for E-way bill. Create an entry and if your amount exceeds 50,000rs, you will be asked if you want to generate E-way bill after saving the GST details, select Yes and enter the user Id and password. (This ID password will be saved for the next 6 hours unless you turn off your computer)

You will see a pop up saying E-way bill generated successfully. Press Enter and you will see a dialog box with three options to configure, preview and print. In this way you can create E-way bills while creating sales entry on the go

Bulk E-way bills in Tally

Click on 'Exchange Menu' on the top of your screen, you may generate E way bill in bulk at the day end or as and when required.

GSTIN / UIN / SAC / HSN verification

How many times have you entered a wrong GSTIN or HSN code? We all have done it at least once. This manual error is bound to happen. Considering this a challenge for all Tally users, Tally now verifies your GSTIN and HSN code on real time basis to ensure these errors do not occur. This feature will help businesses save their ITC as well as their relations with their customers by ensuring accurate invoice filing.

'Save as report' Feature

You can save these report configurations by selecting the 'Save as Report' option on the right panel of the report screen. Click on it and name the report and next time when you open Tally you can search the name of the report and select the time period. Your report with the same configurations will open.

This feature saves a lot of time for accountants as well as business owners. It eliminates dependency for business owners.

Voucher

In Vouchers, you now have a direct option to select double-entry or single entry. This option is available inside vouchers in the 'Change mode'. In the journal, you can make a Statutory adjustment for GSTR 3B transactions. Auto-fill is also available, which helps in filling up the TDS challans from the journal entry itself.

Tally is one of the most widely used ERP Software in Indian Business Environment. Organizations prefer using Tally due to various factors, major amongst them being the EASE of USE (Power of Simplicity – as promoted by Tally). The Core theme of Tally EASE of USE deriving from features like Codeless Masters, Flexible Data Entry, Anytime Data Modification, Merging of Data recorded in multiple Tally Instances Are Advantage for Accountants and Challenge for Auditors. As a solution to this challenge, Tally Prime also added a lot of Features that are specifically relevant and useful for Auditors.

Audit tools and features in Tally Prime help in retrieving the relevant information and present them in the required form to help the Auditor form an opinion. Beyond being a good Internal Audit Tool it also facilitates the following:

Statutory Audit: It facilitates Faster Audit, various Exception Reports, General Ledger review, usage of different Sampling methods, application of Analytical procedures, Fixed Asset Analysis, Finalisation of Books of Accounts, etc. with proper Audit Visibility as well as good Documentation trail.

Tally has also made a provision, wherein you can use a license both in Tally ERP9 version as well as Tally Prime version. This will make transitioning from Tally ERP9 to Tally Prime version easier for you. Tally has been constantly updated with new features like GST compliance, e-invoicing, browser reporting and much more.

These are the key features introduced in Tally Prime 2.0. You can get your Tally updated from your service provider and start using these features to further simplify your work.

3.5 ACCOUNTING GROUP LEDGER, COST CATEGORY, CURRENCY.

Tally Ledgers Groups

Tally Earp 9 ledgers creation under the proper group of accounts is the main part of Tally ERP 9 implementation. In every implementation of Group-wise Tally ledger list is prepared first which affects Trading a/c, Profit and loss a/c and Balance sheet. Here is the list of ledger heads and respected groups of ledger

Primary Group List in Tally

1. Branch/Division	6. Current Assets	11. Indirect Income

2. Capital Accounts	7. Fixed Assets	12. Misc. Expenses
3. Loans	8. Investments	13. Purchase Accounts
4. Suspense Account	9. Sales Accounts	14. Direct Income
5. Current Liabilities	10. Indirect Expenses	15. Direct Expenses

Sub Groups List in Tally

Sundry Creditors	Secured Loans	Bank Accounts
Stock in Hand	Deposits	Cash in Hand
Duties & Taxes	Banks OD Accounts	Loan & Advances (Assets)
Unsecured Loans	Provisions	Reserves & Surplus
Sundry Debtors		

List of Tally Ledgers under Group List

Group Name	**Ledger Name**
Purchase Accounts	All types of Purchase Accounts like
	Purchase Local 12 %
	Purchase Interstate 12%
	Purchase Local 0%
	Purchase Interstate 0%
	Purchase (Composition)
	Purchase Exempt (Unregistered Dealer)
	Purchase Local (Exempt Registered)
	Purchase Taxable (Unregistered Dealer)
	Purchase Nil Rated (Unregistered Dealer)

	Purchase Reverse Charge
	Purchase Import Taxable 12%
	Purchase Import Exempt
	Purchase Import Nil Rated
	Purchase (Own Branch)
	Purchase Return
Sales Account	All types of Sales Accounts like
	Sales Local 12 % (Registered)
	Sales Interstate 12%
	Sales Local Nil Rated
	Sales Interstate Nil Rated
	Salters Export With Bond
	Salters Export Taxable
	Export (0%)
	Sales Local (Exempt Registered)
	Sale To Consumer (Taxable 12%)
	Sale To Consumer (0%)
	Sale To Consumer (Exempt)

	Sales (Own Branch)
	Sale Return
Duties and Taxes	All types of Taxes like
	INPUT CGST SGST IGST CESS
	OUTPUT GST SGST IGST CESS
	Excise Duty Payable etc
	Service Tax Payable
	TDS Payables
	Input Vat Accounts
	Output Vat Accounts
	Cen vat Accounts
	Sale tax
	Income Tax
	VAT Payable
Direct Expenses OR Expenses(Direct)	All expenses which appear in Trading Account (except purchases) like
	Labor
	Power

	Electricity Expense (Factory)
	Loading Unloading Expense
	Warehousing Expenses
	Custom Clearing Charges
	Carriage
	Freight & Cartage
	Import duty
	Wages
	Coal & Fuel
	Coal, Gas & Water of Factory
	Consumed Material
	Export Duty
	Wages on Production
	Delivery Charges(In Purchase Bill
Indirect Expenses OR Expense(Indirect)	All Indirect Expenses like
	Rounded Off
	Salary
	Advertisement Expense

	Maintenance Expense
	Rent Expense
	Director Remuneration Expense
	Bad Debts
	Printing Expense
	Stationary Expense
	Foreign Exchange fluctuation
	Audit Fees
	Professional Charges
	Legal Expenses/Charges
	Depreciation Expenses
	Interest Expense
	Penalty
	Royalty
	Bank charges
	Commission allowed
	Discount allowed
	Donation & charity
	Free sample

	Insurance premium
	Interest on loan
	Legal charge
	Loss by fire
	Postage & courier
	Repair charge
	Taxi fare
	Telephone charge
	Travelling expenses
	Outstanding expenses
	Accrued expenses
	Bad debt
	Loss on theft
	depreciation
	Coffee Expenses
	Coke Expenses
	Manager’s Commission
	UPTT
	Fuel Expenses A/c

	Liability of Expenses
	Preliminary Expenses A/c
	Professional Fees
Indirect Income OR Income(Indirect)	All Indirect Income like
	Discount Received
	Interest on Investment
Already Created in Tally	Only 2 Accounts Already Created like
	Cash
	Profit and Loss Account
Bank Account	All Bank Current Account
	All Bank FD Account
	(Personal Savings Account and FD not recorded)
Deposit Account	All types of deposits like
	Security Deposit
	Electricity Deposit

	Rent Deposit
	All types of Capital Account like
	Share Capital
	Partner Capital Account
	Partner Current Account
Capital A/c	Proprietor Account
	Drawings
	Life insurance
	Equity Capital A/c
	Partners’ Capital A/c
	Prepaid Maintenance Expense
	Prepaid Expense
	Prepaid Rent
Current Assets	Prepaid Insurance Charges
	Interest Receivables
	Bill receivable
	Accrued income

	Mutual Fund
	CGST SGST IGST Credit
Current Liabilities	Bill drawn
	Bill Payable
	CGST SGST IGST Payable
Sundry Creditor	Any Party from Whom Goods Purchased
	Party from Whom any Bill of Expense Received
Loans and Advances (Assets)	Any Party to whom we gave loan
	like Loan Given to Friends Relatives/Related Companies
	Any Party to whom we gave Advance
	like Advance to Supplier
Loans Liabilities	Any Party from whom we take loan.
	We can also put group Secured loan or Unsecured loan
	Debenture A/c
	Loans From Bank

	Loans From Outside Party
	Loans From Arvind(Friend)
Fixed Assets	All Fixed Assets on which Depreciation charged like
	Furniture
	Machine
	Plant and Machinery
	Mobile
	Computers
	Furniture and Fittings
	Car
	Scooter
	Laptops
	Office lighting
	Land & Building
	Good will
	Factory lighting
	Air Conditioner
	Accumulated depreciation

Bank OCC	Cash Credit Limit (CC)
	taken from bank
Bank OD	Overdraft Limit (OD)
	taken from bank
Branch/Divisions	Any Branch whose Separate Accounting Done
	(If branch account maintained by head office only, then this account not required)
	Delhi Branch
	Branch in division
Cash in Hand	Impresst Account
	(Cash kept with Employee)
	Petty Cash
Investments	All types of Investments like
	Investment in Shares
	Investment in Bonds

	Investment in Property/Plot etc.
	Long term investment
	Short Term Investment
	Stock
	Closing Stock
Stock-in-hand	Consignment Stock
	Opening Stock
Misc. Expense (ASSET)	Preliminary Expenses
	NOT yet written off
	Suspense Account
Suspense A/c	Any payment or receipt from party whose name not known
	Suspense
Secured Loan	Loans for whom Security Given
	like loan from bank/ Financial Institution

Unsecured Loan	Loans taken for whom no Security given
	Like Short term loan from directors
	or loan from friends /relatives
Reserve & Surplus	Any type of reserve like
	General Reserve
	Capital Reserve
	Capital Reserve A/c
	Investment Allowance Reserve A/c
	Share Premium A/c
	Reverse and Surplus
Provisions	All Provisions except Provisions for bad debts
	Provision for Tax
	Provision for Expense
	Provision for Sinking Fund
	All types of Payables like Salary Payable, Audit fees Payable,
Sundry Debtors	Any Party to Whom Sales Made

	Provision for Bad Debts
Retained Earring	General Reserve
	Share Premium
	Any other Reserve
Direct Incomes OR Income(Direct)	Any Income from main service like
	Freight Charges Income
	Delivery Charges Income
	Transpiration Charges Income
	Professional Charges Income
	Consultancy Charges Income
	Maintenance Service Income

List of different ledgers and their groups

Ledger Name	**Tally Head**
Sale Return	Sales
Sale	Sales
Purchase Return	Purchase
Purchase	Purchase
Carriage	Direct Expenses
Freight & Cartage	Direct Expenses

Import duty	Direct Expenses
Rent (Dr.)	Direct Expenses
Royalty	Direct Expenses
Wages	Direct Expenses

List of Tally Ledgers for Profit & Loss Account

Ledger name	**Tally Head**
Advertisement	Indirect Expenses
Bank charges	Indirect Expenses
Bill drawn	Indirect Expenses
Carriage	Indirect Expenses
Commission allowed	Indirect Expenses
Discount allowed	Indirect Expenses
Donation & charity	Indirect Expenses
Free sample	Indirect Expenses
Insurance premium	Indirect Expenses
Interest on loan	Indirect Expenses
Legal charge	Indirect Expenses
Loss by fire	Indirect Expenses
Office lighting	Indirect Expenses
Petty cashier	Indirect Expenses

Postage & courier	Indirect Expenses
Printing & stationery	Indirect Expenses
Rent (car)	Indirect Expenses
Repair charge	Indirect Expenses
Salary	Indirect Expenses
Sale tax	Indirect Expenses
Taxi fire	Indirect Expenses
Telephone charge	Indirect Expenses
Trade account	Indirect Expenses
Travelling expenses	Indirect Expenses
Suspense	Suspense
Miscellaneous exp.	Miscellaneous exp.
Depreciation	Indirect Expenses
Commission Received	**Indirect Income**
Bed Debts Recovered	**Indirect Income**
Interest on Drawing	**Indirect Income**
Discount Received	**Indirect Income**
Interest on Investment	**Indirect Income**

Tally Ledgers

List of Tally Ledgers for Balance Sheet

Ledger Name	Tally Head	Ledger Home	Tally Head

Capital	Capital	Furniture	Fixed asset
Drawing	Capital	Goods	Fixed asset
Income Tax	Capital	Land & Building	Fixed asset
Life insurance	Capital	Long term investment	Fixed asset
Reserves & Surplus	Reserves & Surplus	Machinery & plant	Fixed asset
Advance	Current Labilities	Bank	Cash at bank
Bank Overdraft	Current Labilities	Cash	Cash in hand
Bill Payable	Current Labilities	Stock	Stock in Hand
Outstanding expenses	Current Labilities	Debtor name	Sundry Debtors
Salary payable	Current Labilities	Bad debtor	Sundry Debtors
Creditor name	Sundry Creditors	Bill receivable	Current Assets
Loan	Loan Liabilities	Good will	Current Assets
Branch in division	Branch in division	National plant	Current Assets
Accrued expenses	Current Labilities	Prepaid expenses	Current Assets
		Short Term Investment	Current Assets
		Accrued income	Current Assets
		Prepaid rent	Misc. Exp.- asset
		Loss on theft	Stock in Hand

Cost Categories

Cost categories are useful for organizations that require allocation of revenue and non-revenue items to parallel sets of cost centres. Cost categories facilitate third-dimensional reporting of expenditure and revenue. For example, region-wise or geography-wise, Grade-wise, Department-wise, cost categories.

You can use cost categories you can allocate, in parallel, a transaction to more than one set of cost centres. For example, Cost Centres such as Marketing, Finance and Manufacturing can now belong to a category - Departments.

The Salesmen A, B, and C can be Cost Centres under a Category - Executives.

Similarly, you can create a new Cost Category **Projects** under which Cost Centres such as airport construction, road construction and buildings may be created. The classification appears as following:

Cost	**Departments**	**Executives**	**Projects**

Categories			
Cost Centres	Marketing	Salesman A	Airport Construction
	Manufacturing	Salesman B	Road Construction
	Finance	Salesman C	Buildings

You can specify a **Cost Category** to allow allocation of only revenue items or items of both revenue and capital (Non-Revenue) nature.

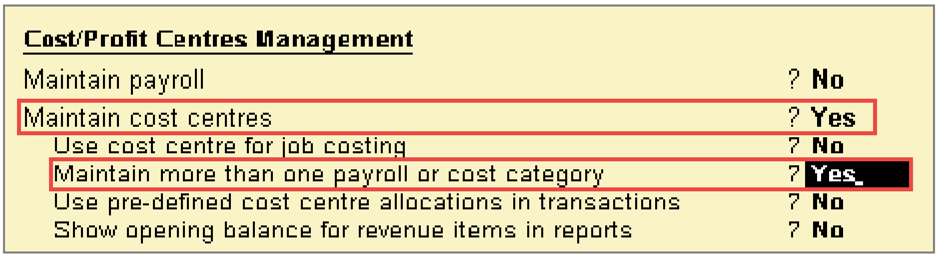
By allocating expenses to parallel Cost Centres under different categories, you are simply assigning the amounts to them; the amount does not increase. Tally.ERP 9 performs an automatic reconciliation on real-time basis, saving you the effort of reconciling Ledgers and Cost Centres.

Enable Cost Category

Cost categories are useful for organizations that require allocation of revenue and non-revenue items to parallel sets of cost centres. Enable cost categories in F11 features to create and use cost categories.

1. From **Gateway of Tally** > Click **F11: Features** > **Accounting Features.**
2. Enable the option **Maintain Cost Centres?**
3. Enable the option **Maintain more than one payroll or cost category?**

The **Company Operations Alterations** screen appears as shown below:



4. Press **Carla** to save the **Company Operations Alteration** screen.

Cost Categories are now enabled for the company.

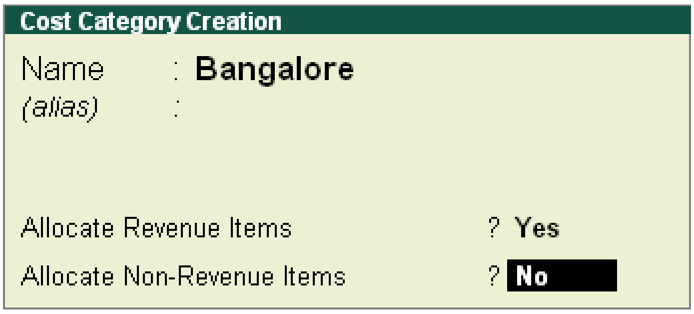
Create a Cost Category

On enabling cost categories, the option Cost Category is available in the Accounts Info. menu. By default, all cost centres are grouped under Primary Cost Category. You can create cost categories and group cost centres under cost centres, as required. Multiple cost categories can be created in one go in multiple mode.

Single Cost Category

1. Go to **Gateway of Tally** > **Accounts Info.** > **Cost Categories** > **Create** (under **Single Cost Category)**.
2. Enter the Name.
3. Set the option Allocate Revenue Items to Yes to allocate all sales, purchase, expenses and income-related transactions to cost centres created under this cost category.
4. Set the option Allocate No-Revenue Items to Yes to allocate transactions related to capital account and other non-revenue accounts to cost centres created under this category.

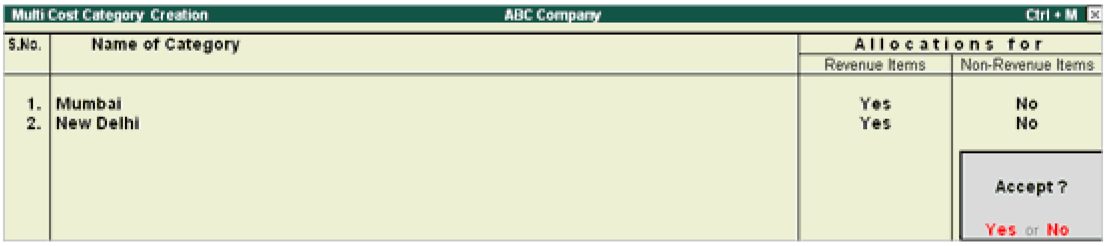
The **Cost Category Creation** screen appears as shown below:



Note: At least one of the options Allocate Revenue Items or Allocate Non-Revenue Items must be enabled.

Create multiple cost categories

1. Go to **Gateway of Tally** > **Accounts Info.** > **Cost Categories** > **Create** (under **Multiple Cost categories)**.
2. Enter the Name of Category.
3. Enable Revenue Items to allocate all sales, purchase, expenses and income-related transactions to cost centres created under this cost category.
4. Enable Non-Revenue Items to allocate transactions related to capital account and other non-revenue accounts to cost centres created under this category.
5. Press Enter.
6. Enter Name of Category and select Allocations for the Category as required. The Multi Cost Category Creation screen appears as shown below:



7. Press **Enter** to save the Cost Categories.

Note: At least one of the options Allocate Revenue Items or Allocate Non-Revenue Items must be enabled for a cost category.

Alter a Cost Category

You can alter an existing cost category in the single mode. Alternatively, multiple cost categories can be altered in the multiple mode, if required. Cost categories can also be deleted in the alteration mode, if there are no cost centres tagged to the cost category.

Alter a single cost category

1. Go to Gateway of Tally > Accounts Info. > Cost Categories > Alter (under Single Cost Category).

Note: You can alter many cost categories in one go by selecting **Alter** under **Multiple Cost Categories** in the **Cost Categories** menu.

2. Select the Cost Category from the List of Categories. The Cost Category Alteration screen appears.

3. Make the changes in the required fields.

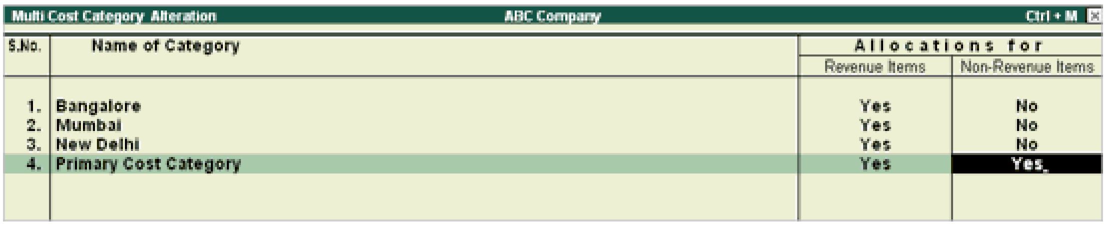
4. Press Carla to accept.

Alter multiple cost categories in one-go

You can alter multiple Cost Categories at a time in this mode.

● Go to Gateway of Tally > Accounts Info. > Cost Categories > Alter (under Multiple Cost Categories).

The **Multi Cost Category Alteration** screen displays. Make the necessary changes and accept to save.



Note: You will not be able to delete a Cost Category in multiple mode.

The following buttons are provided in the multi cost centre mode.

● **F6: Skip names:** It is used for quicker data entry when you need to alter only the Allocation details and not the names of the Cost Categories.

● **F8: Skip Details:** It is used for faster data entry when you do not need to alter the Allocation (Revenue and Non- revenue) details. You need to give only the names and the default allocations of Yes for Revenue and No for Non-revenue display automatically when you are creating Cost Categories. If you are in Alter mode, the allocations that you opted for when creating the Categories are retained.

● **Groups, Ledgers, Cost CT:** It enables you to switch to these areas, without having to quit from the current screen.

● **F11: Features:** It is used to change company features. For more information refer F11: Features in Tally.ERP 9.

Note : **F12: Configuration** changes affect all companies, whereas **F11: Features** changes affect only the current company.

Delete a Cost category

1. Go to Gateway of Tally > Accounts Info. > Cost Categories > Alter (under Single Cost Category).
2. Select the Cost Category from the List of Categories. The Cost Category Alteration screen appears.
3. Click D: Delete.
4. Click Enter to confirm deletion of the cost category.

Note: A cost category tagged to a cost centre can't be deleted.

Multi-Currency Accounting in Tally Prime

In your business, when you need to do transactions in more than one currency, you can create multiple currencies in Tally Prime. You will need to use foreign currencies in your transactions based on the currency in which your customers want the invoice, the geographical location in which the transaction is carried out, or other such reasons. In Tally Prime, you can define the base currency at the time of Company creation. Base currency is the primary currency used in all the transactions, unless you create other currencies and use those in the transactions, based on your business need. Multi-currency in Tally Prime enables you to record vouchers in a foreign currency and view reports in a specific currency as needed.

Moreover, you can define exchange rates for a specific currency with respect to the base currency, and you can also calculate forex gain or loss.

You can also provide opening balance for ledger accounts in any currency created in Tally Prime.

You can change the base currency and alter or delete other currencies created in Tally Prime, as per your requirement.

Transactions in Foreign Currency

Based on the currency in which your customer requires invoices, international trading, or other reasons, you may need to record transactions in a foreign currency in Tally Prime. You can create foreign currency in Tally Prime, using which you can record transactions, define forex rates, and calculate forex gain or loss, as needed.

Create Currency

Like any other master, you can create a currency master in Tally Prime and use it while recording transactions and also view reports.

1. Press **AMTG** (Go To) > **Alter Master** > **Currency** > and press **Enter**.
   Alternatively, **Gateway of Tally** > **Create** > **Currency** > and press **Enter**.
   The **Currency Creation** screen appears.

Note: When only the base currency is available, you will be prompted to create a new currency or alter the existing currency.

Select **Create** or press **C** to create a new currency.

2. Specify the currency details.
   a. **Symbol**: enter the currency symbol.
      This symbol appears in your transactions.
   b. **Formal name**: enter the name of the currency accepted globally.
      For example, enter US Dollars to distinguish different currencies having the same symbol.
      If you have two companies (ABC & XYZ) in Tally Prime, then you can set different currencies for ABC and XYZ companies. ABC uses symbol $ for Australian Dollars and XYZ uses the symbol $ for U.S. Dollars. The formal name distinguishes two different currencies with the same symbol, which helps when you compare the books of accounts for both the companies. The company that is loaded first retains the original symbol for display purposes. The other company's currency symbol will be prefixed with the first letter/first few letters (to make it unique) of the formal name. Here, if ABC is loaded first

then the symbol $ is for Australian Dollars and in XYZ (loaded next) the symbol $ is prefixed with the letter U (first letter of its formal name).

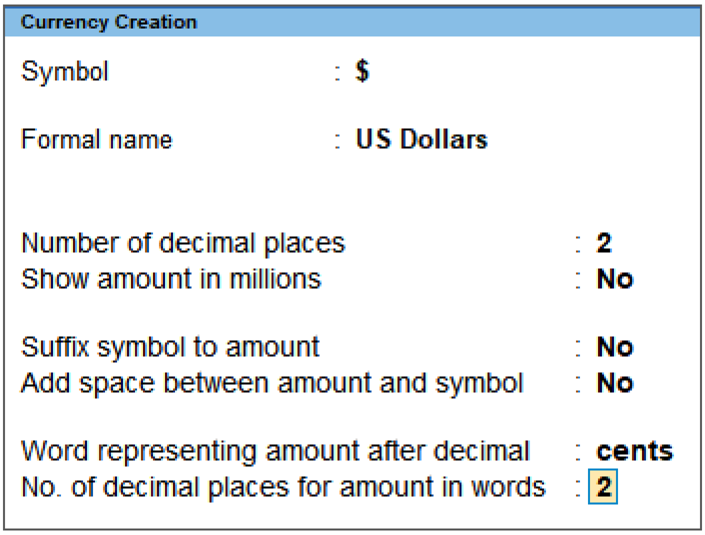
Note: You cannot assign a duplicate Formal name for a currency.

3. **Number of decimal places**: enter the number of decimal places, based on the practice you follow in your business.
4. Set the option **Show amounts in millions**, as needed.
5. **Suffix symbol to amount**: **Yes**.

   This ensures that the symbol appears after the amount.
6. **Add space between amount and symbol**: **Yes**.
7. Specify details for the word representing amount after decimal.
   a. Enter the **Word representing amount after decimal**, for example, Paisa.

   b. Enter the **No. of decimal places for amounts in words**.

   This number should be equal to or lesser than the number specified in **Number of decimal places** field.



8. Press **Carla** to save.

Define forex rate

In Tally Prime, you need to define forex rate for a particular currency based on the rate of exchange on a specific date. You can also define forex rates for multiple dates based on the variation in the rate of exchange. It enables you to calculate forex gain or loss for transactions in which the sales order/purchase order and sales invoice/payment voucher are recorded at different points in time. Tally Prime also gives you flexibility to change the rate of exchange while recording a transaction.

From the Currency Alteration screen, follow the steps given below.

1. **Date**: enter the data at which the rate of exchange is applicable.
2. **Std Rate**: standard rate (optional), which is used to calculate variances from the actual transaction rates.
3. Provide the details of forex rates.
   a. Specify **Standard** rate.
      i. **Date**: enter the standard rate of exchange at which the currency will be exchanged with base currency.
      ii. **Specified rate**: enter the standard rate.
   b. Specify **Selling** rate.
      i. **Date**: enter the date of sales.
      ii. **Selling Rate**: your selling rate.
   c. **Specify Buying** rate.
      i. **Date**: enter the date of purchase.
      ii. **Specified Rate**: your buying rate.

      A sample Currency Alteration screen with the defined rates of exchange appears as shown below.

4. Press **Carla** to save, as always.

Note: For currencies that have been used in transactions, the Last Voucher Rate appears for reference. Moreover, you can specify rates for multiple dates, as needed.

Define forex rates of multiple Currencies (multi-alter)

There may be more than one currencies in Tally Prime for which you want to define forex rates. You can do so using Chart of Accounts.

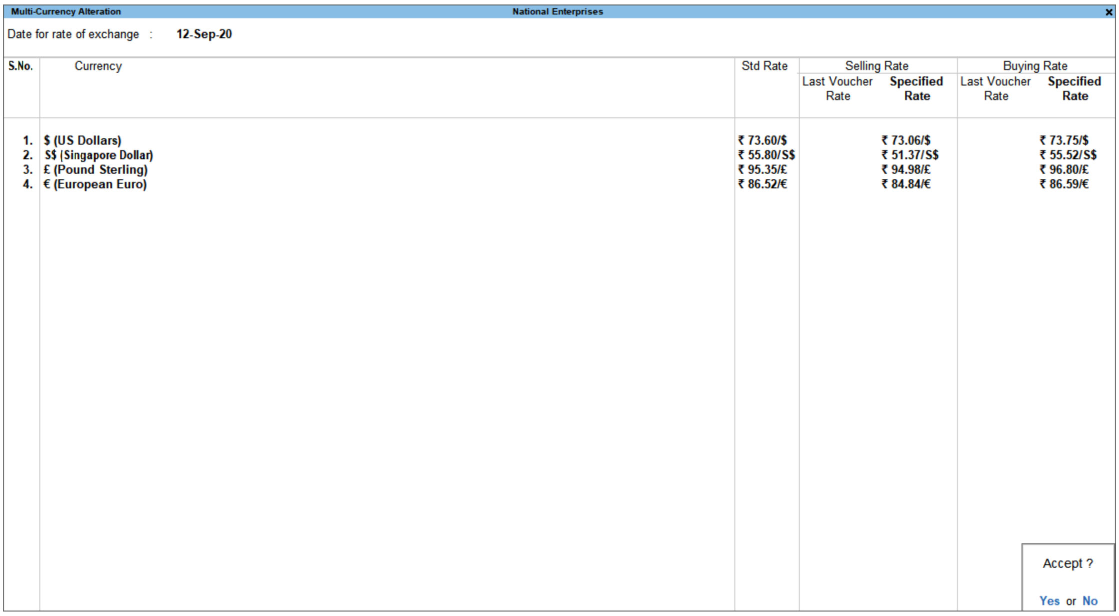
1. Press **AMTG** (Go To) > type or select **Chart of Accounts** and press **Enter** > type or select Currencies and press **Enter**.

   Alternatively, **Gateway of Tally** > **Chart of Accounts** > type or select

Currencies and press **Enter**.

Chart of Accounts with **List of Currencies** appears.

2. Press **Lath** (Multi-Alter) > **Rate of Exchange** and press **Enter**.
3. Provide the details of forex rates.
    a. **Std Rate**: enter the standard rate of exchange.
    b. **Selling Rate**: enter the rate used while selling.
    c. **Buying Rate**: enter the rate used while creating buying.



Record transactions

Once you create the currency in Tally Prime, you can record transaction using the same. In the transaction, you can either retain the rate of exchange, if defined in the master, or can change, as needed.

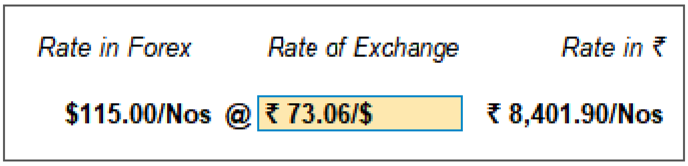
Record sales invoice with multi-currency

You may be selling goods or services to a customer based in a country other than India. And the customer may need an invoice in the currency of that country. In cases wherein the base currency and the currency of the sales transaction are different, you will need to create sales invoice with the foreign currency.

1. Press AMTG (Go To) > **Create Voucher** > press **F8** (Sales).

   Alternatively, **Gateway of Tally** > **Vouchers** > **F8** (Sales).
2. Select the **Party A/c Name**.
3. Select the **Name of Item**, and enter the **Quantity**.
4. Provide the foreign currency details.

a. Enter the **Rate** of the item in the required foreign currency.

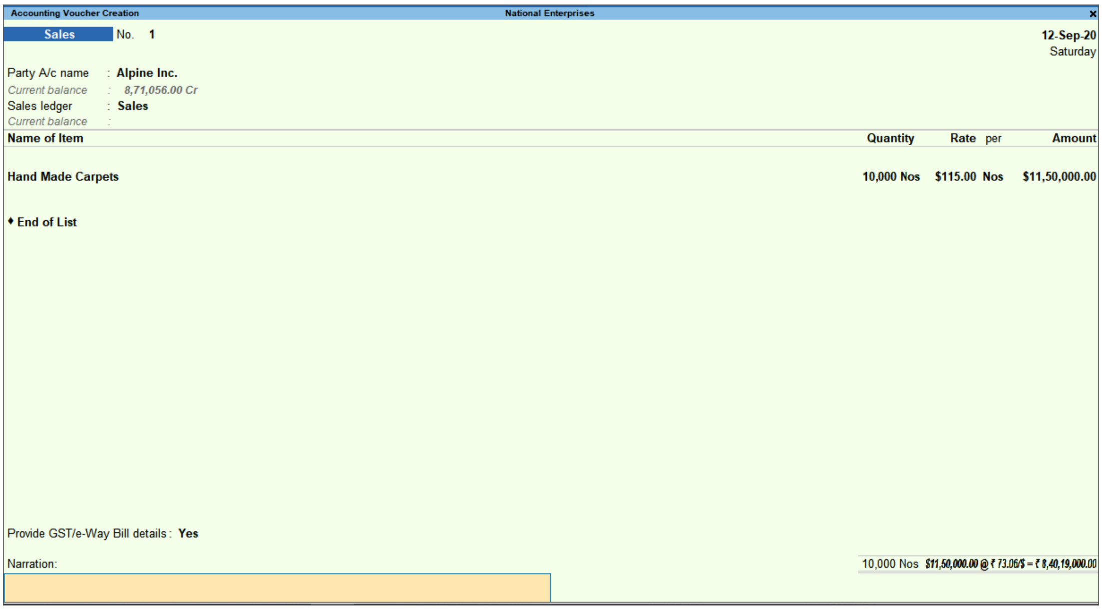


b. Press **Enter** to view the **Rate of Exchange** screen, as shown below.

c. Enter the latest **Rate of Exchange**.

d. Press **Carla** to save.

A sample sales invoice with the foreign currency appears as shown below.



5. Press **Carla** to save, as in other transactions.

Record purchase voucher with multi-currency

You may be purchasing goods or services from a vendor based in a country other than India. And the vendor may be expecting payments to be made in that country's currency. In cases wherein the base currency and the currency of the purchase transaction are different, you will need to create purchase voucher with the foreign currency.

1. Press AMTG (Go To) > **Create Voucher** > press **F9** (Purchase).

   Alternatively, **Gateway of Tally** > **Vouchers** > **F9** (Purchase).

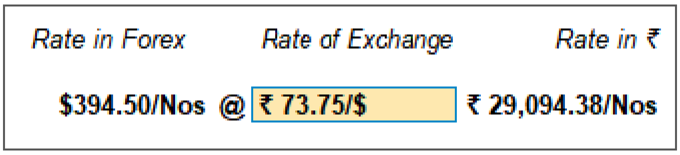
2. Select the **Party A/c Name**.

3. Select the **Name of Item**, and enter the **Quantity**.

4. Provide the foreign currency details.

   a. Enter the **Rate** of the item in the foreign currency.

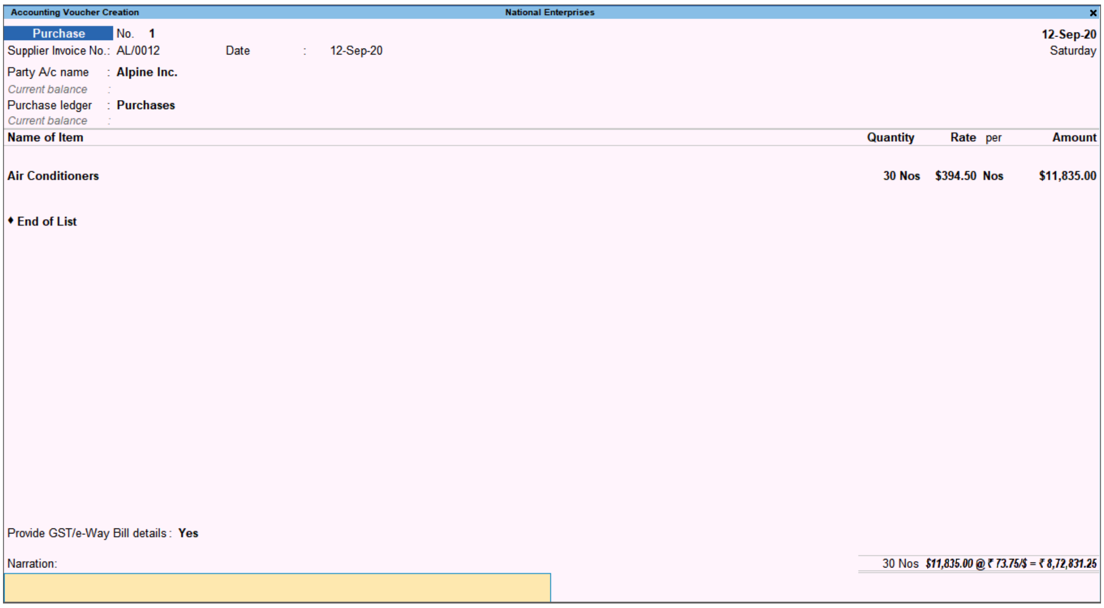
b. Press **Enter** to view the **Rate of Exchange** screen, as shown below.



c. Enter the latest **Rate of Exchange**.

d. Press **Carla** to save.

A sample purchase voucher with the foreign currency appears as shown below.



5. Press **Carla** to save, as in other transactions.

Print invoice with multi-currency

It may be possible that your customer needs a copy of invoice with foreign currency. You may also want to keep a copy of the invoice with foreign currency for your record. In Tally Prime, you can easily print an invoice with the currency used in the transaction.

From the **Accounting Voucher Creation** or **Accounting Voucher Alteration** screen, following the steps given below.

1. Press **Ctrl+P** (Print) and press **Enter** on **Current**.

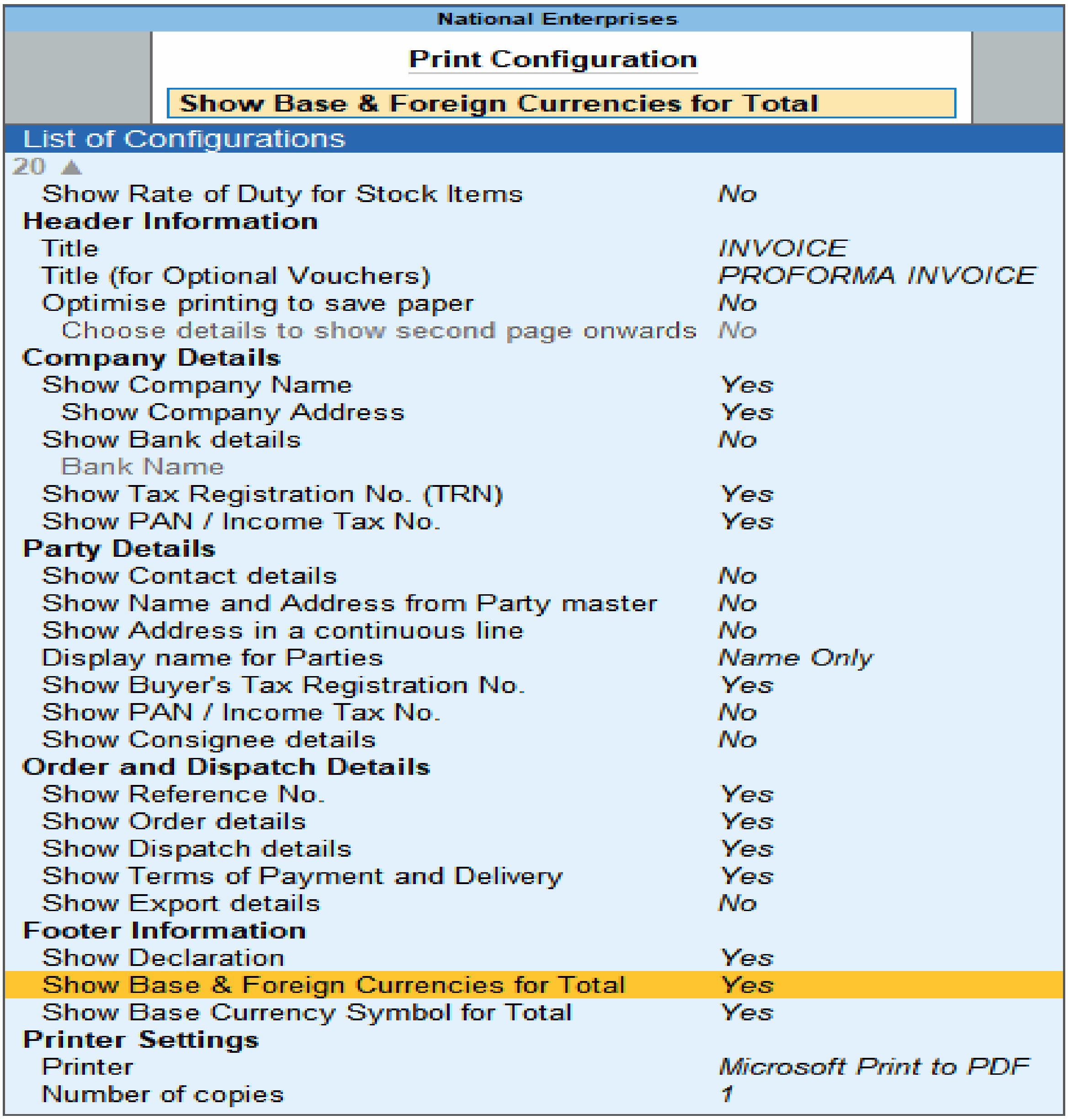
   The **Print** screen appears.

2. Configure the print to include foreign currency.

   a. Press **F12** (Configure) or press **C**.

      List of Configurations appears.

b. press **Enter** on **Show Base & Foreign Currency for Total** to enable it.



c. Press **Ctrl+A** to save the setting.

3. Press **I** (Preview) to check the invoice before printing, if needed.
4. Press **P** (Print) to print.

The print preview of the sales invoice appears as shown below.

INVOICE

National Enterprises SJD Towers HSR Layout Bangalore E-Mail : sales@n[illegible]es.in	Invoice No. **1**	Dated **12-Sep-20**
	Delivery Note **DN9912**	Mode/Terms of Payment
	Reference No. & Date.	Other References
Buyer (Bill to) **Alpine Inc.** Monroeville Alabama	Buyer's Order No.	Dated
	Dispatch Doc No. **DDC0023**	Delivery Note Date **12-Sep-20**
	Dispatched through **Cargo Flight**	Destination **Monroeville**
	Terms of Delivery	

Sl No.	Description of Goods	Quantity	Rate	per	Amount
1	**Hand Made Carpets**	**10,000 Nos**	$115.00	Nos	**$11,50,000.00**
	Total	**10,000 Nos**			**$11,50,000.00**

Total Invoice Amount in ₹ $11,50,000.00 @ ₹ 73.06/$ = ₹ 8,40,19,000.00

Amount Chargeable (in words) E. & O.E

INR Eight Crore Forty Lakh Nineteen Thousand Only

Declaration
We declare that this invoice shows the actual price of the goods described and that all particulars are true and correct.

for National Enterprises

Authorised Signatory

This is a Computer Generated Invoice

The **Total Invoice Amount** appears in both the base currency and the foreign currency.

Forex gain or loss

The rate of exchange keeps fluctuating based on the economic changes across the globe. So, you may have sold a particular set of items or provided service at a certain rate of exchange on a date or time and received payment for the same on a different date or time. In such cases, the rate of exchange may not be necessarily the same at both the points in time. So, your business may experience forex gain or loss due to the fluctuation rate of exchange.

To understanding this, let us take an example.

Consider that your base currency in TallyPrime is INR and the other currency in which the transaction is carried out is USD.

Now, you sold a set of items on 11-May-2022 to a specific customer based in the U.S., and the total amount was $100.

On 11-May-2022, the rate of exchange was INR 70 per USD, which makes the total amount INR 7000.

The customer makes the payment at a different time on 11-May-2022, 12-May-2022, or later, and the rate of exchange changes to INR 71 per USD.

The change in rate of exchange makes the final billing amount INR 7100.

So, you made a forex gain of INR 100 on the transaction.

In Tally Prime, you can see such gains and losses as Unadjusted Forex Gain/Loss in Balance Sheet. As per accounting standard, you will need to record a transaction to account for such forex gains or losses. Tally Prime gives you easy way to record these transactions.

Create a ledger for forex gain or loss

To account for forex, gain or loss, you need to create a ledger under **Indirect Expenses** or **Indirect Income** in Tally Prime.

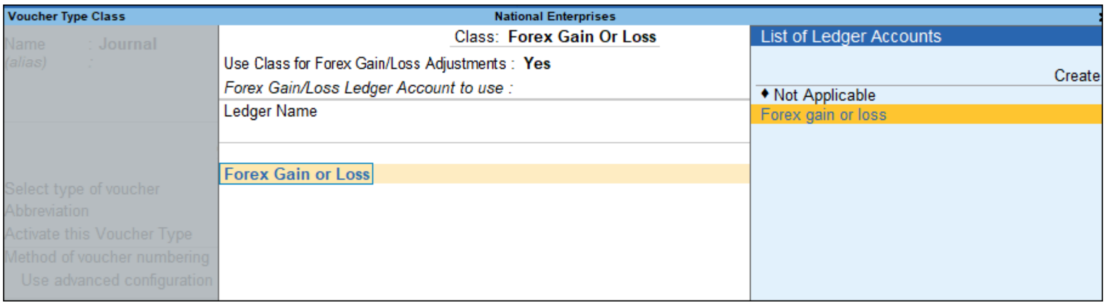
Subsequently, you can use the ledger in the voucher class using which you can account for forex gain or loss.

Create Journal Voucher Class

Once you create a ledger, you can create a Journal Voucher Class in Tally Prime with that pre-defined ledger. Thereafter, you can record your forex gain or loss using the voucher class. You can create multiple Journal Voucher Class for multiple currencies, if needed.

1. Press **AMTG** (Go to) > **Alter Master** > type or select **Voucher Type**> select **Journal** and press **Enter**.
2. Specify a Voucher Class name.
   For example, Forex Gain Or Loss.
3. **Use Class for Forex Gain/Loss Adjustments**: **Yes**.

4. Select Forex gain or loss ledger, as shown below.



5. As always, you can press **Carla** to save.

Record forex gain or loss using Journal Voucher Class

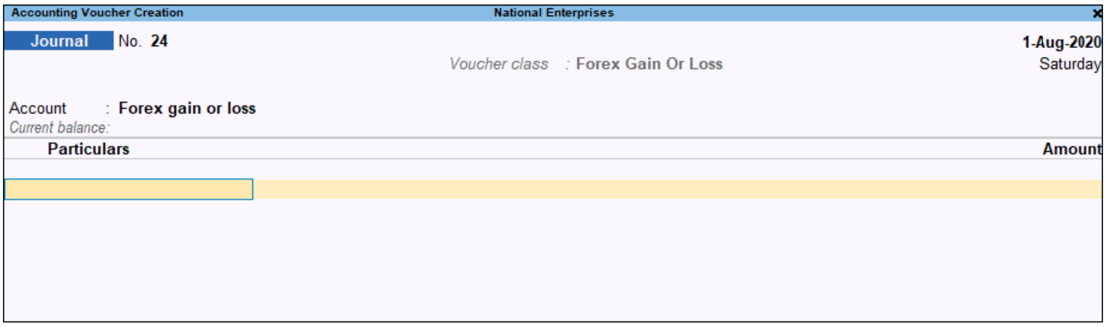
Once you create a Journal Voucher Class in Tally Prime, you can record forex gain or loss.

1. Press **AMTG** (Go To) > type or select **Create Voucher** > press **F7** (Journal).

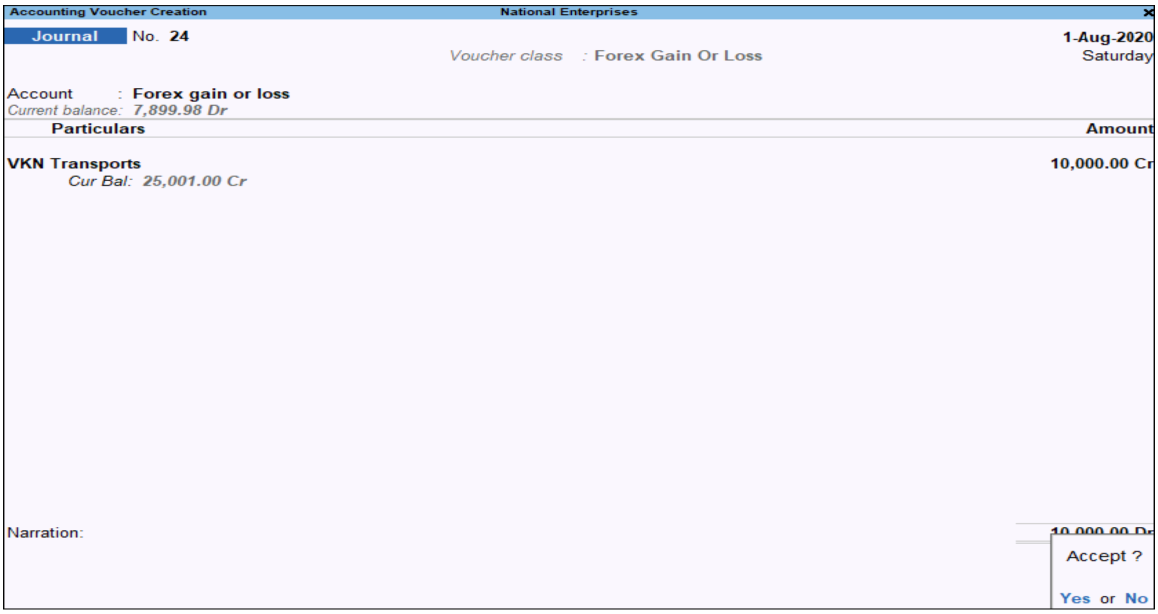
   Alternatively, **Gateway of Tally** > **Vouchers** > press **F7** (Journal).

2. Select the Voucher Class created for forex gain or loss.

   Tally Prime will display all the ledgers created to account for forex gain or loss.



3. Select the required ledger and enter the amount.



4. Press **Carl**a to save.

The adjusted amount will not be displayed in the Balance sheet as it gets transferred to Profit and Loss Account.

If the currency of the ledger and the base currency are same, then the bill-wise details will appear only for those masters while adjusting the Forex Gain or Loss.

View Reports in Foreign Currency

Your business may be based out of a specific country, but it may be a franchise of a multi-national company. In such cases, if you want to share your financial statements with the finance department of your company, then you will need to share it in the currency that the multi-national company uses.

You can view reports in base currency and any other currency created in Tally Prime.

After opening the report, follow the steps given below.

1. Press **Alta** (Alter Column).
2. **Currency**: select the currency in which you want to view the report.

A sample Trial Balance report in the selected currency appears as shown below.

Trial Balance — National Enterprises

Particulars	National Enterprises 1-Apr-21 to 30-Aug-21 (in US Dollar @ ₹ 74.16/$) Closing Balance Debit	Credit
Current Liabilities	4,04,042.57	2,75,530.75
Current Assets	19,13,767.98	22,59,200.45
Sales Accounts		2,60,658.58
Purchase Accounts	1,688.44	
Direct Expenses	134.84	
Indirect Expenses	269.69	
Profit & Loss A/c	4,76,160.49	
Difference in opening balances		674.22
Grand Total	27,96,064.00	27,96,064.00

View reports in multiple currencies

You can view reports in multiple currencies on a single screen, making it all the easier for you to share with different branches based out of different locations.

After opening the report, follow the steps given below.

1. Press **Baltic** (New Column).
2. **Currency**: select a currency.
3. Repeat the above steps for all the currencies in which you want to view the report.

A sample Trial Balance report in the selected currencies appears as shown below.

Trial Balance — National Enterprises

Particulars	National Enterprises 1-Apr-21 to 30-Aug-21 (in Indian Rupee) Closing Balance		National Enterprises 1-Apr-21 to 30-Aug-21 (in US Dollar @ ₹ 74.16/$) Closing Balance		National Enterprises 1-Apr-21 to 30-Aug-21 (in Pounds @ ₹ 95.96/£) Closing Balance	
	Debit	Credit	Debit	Credit	Debit	Credit
Current Liabilities	2,99,63,796.82	2,04,33,360.75	4,04,042.57	2,75,530.75	3,12,252.99	2,12,936.23
Current Assets	14,19,25,033.15	16,75,42,305.38	19,13,767.98	22,59,200.45	14,79,002.01	17,45,959.83
Sales Accounts		1,93,30,440.00		2,60,658.58		2,01,442.68
Purchase Accounts	1,25,214.40		1,688.44		1,304.86	
Direct Expenses	10,000.00		134.84		104.21	
Indirect Expenses	20,000.00		269.69		208.42	
Profit & Loss A/c	3,53,12,061.76		4,76,160.49		3,67,987.30	
Difference in opening balances		50,000.00		674.22		521.05
Grand Total	20,73,56,106.13	20,73,56,106.13	27,96,064.00	27,96,064.00	21,60,859.80	21,60,859.80

Alter or Delete Currencies and Provide Ledger Opening Balance in Any Currency

In Tally Prime, you may want to change the base currency, based on the frequency of use in transactions. You may want to alter or delete currencies created in Tally Prime. Furthermore, you may also want to provide ledger opening balance in a specific currency based on the location of the party for who the ledger is created.

Change Base Currency

Tally Prime chooses the base currency based on the country selected during company creation. For example, if you select the country as India, Tally Prime chooses INR as your base currency. And if you select USA as the country, then Tally Prime chooses $ as the Base Currency. However, you may want to change the same for your company.

For instance, your base currency may be INR, but you may want to change it to USD or any other based on the frequency of usage it the transactions.

For example, you may have customers only in the U.S. who need invoices in USD. So, in such a case, you can change your base currency.

You can change the base currency in Tally Prime at any point in time.

In the **Company Creation** or **Company Alteration** screen, follow the steps given below.

1. **Base Currency symbol**: enter the symbol of the currency.

   For Rupees, it is **?**.

2. **Forman name**: enter the Formal name that is used globally for the currency.

   For Rupees, it is **INR**.

3. Configure how the amount will be displayed with the currency in transactions and reports, if needed.

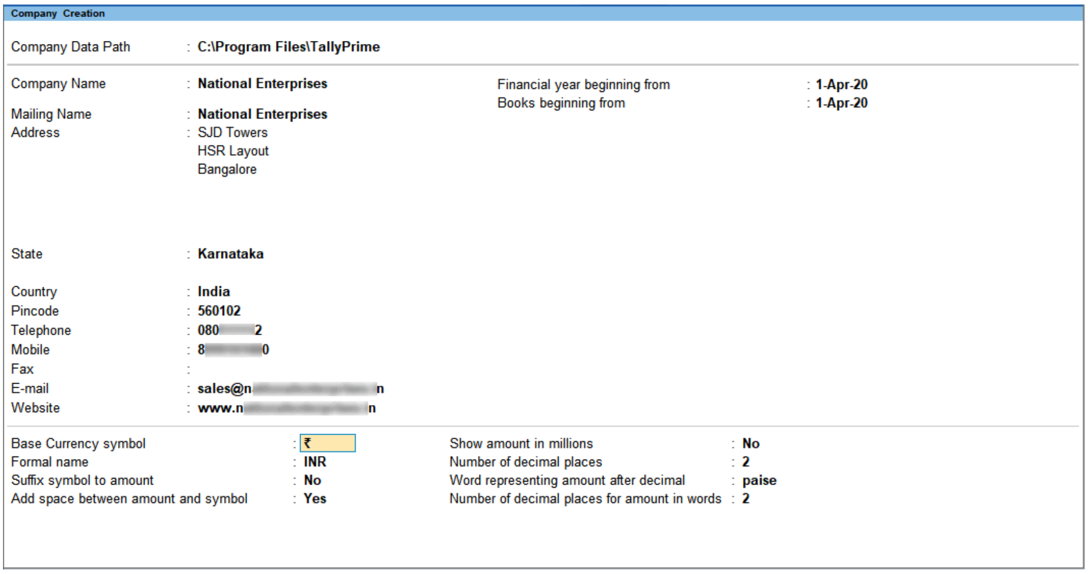
   a. Press **F12** (Configure) > **Provide Additional Base currency details**: **Yes,** and press **Carla** to save.

   b. **Suffix symbol to amount**: **Yes**, if needed.

      This will ensure that the symbol is added after the amount; for example, 200 **?**.

   c. **Add space between amount and symbol**: **Yes** or **No**, as needed.

A sample Company Alteration screen with the currency appears as shown below.



Company Creation

Company Data Path : C:\Program Files\TallyPrime

Company Name	: National Enterprises	Financial year beginning from	: 1-Apr-20
		Books beginning from	: 1-Apr-20
Mailing Name	: National Enterprises		
Address	: SJD Towers HSR Layout Bangalore		
State	: Karnataka		
Country	: India		
Pincode	: 560102		
Telephone	: 080[illegible]2		
Mobile	: 8[illegible]0		
Fax	:		
E-mail	: sales@n[illegible]n		
Website	: www.n[illegible]n		
Base Currency symbol	: ₹	Show amount in millions	: No
Formal name	: INR	Number of decimal places	: 2
Suffix symbol to amount	: No	Word representing amount after decimal	: paise
Add space between amount and symbol	: Yes	Number of decimal places for amount in words	: 2

4. Press **Carla** to save the changes, as always.

Note: Once you change the base currency in Tally Prime, you will need to define the rate of exchange for other currencies with respect to the new base currency.

Provide ledger Opening Balance in a foreign currency

For customers who deal in a currency other than your base currency, you may want to provide the Opening Balance in their currency.

In the ledgers created for such customers, you have a flexibility to provide Opening Balance in a currency used in the transactions with them.

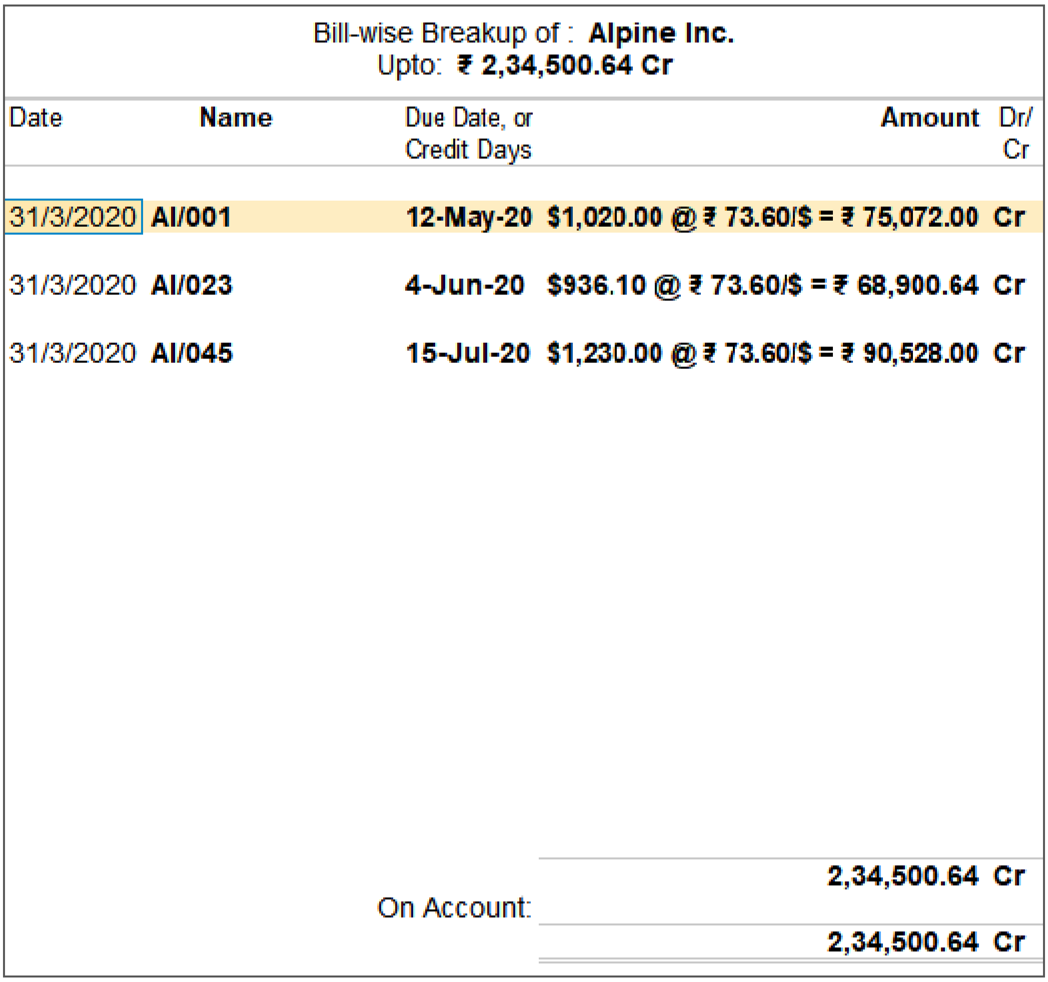
In the **Ledger Creation** or **Ledger Alteration** screen, follow the steps given below.

1. Place the cursor on the **Opening Balance** field and press **Enter**.

   The **Bill-wise Breakup** screen appears.

2. Provide the bill-wise details, as applicable.

   a. Enter the bill-wise amounts with the foreign exchange rates as shown below.



Bill-wise Breakup of : **Alpine Inc.**
Upto: **₹ 2,34,500.64 Cr**

Date	Name	Due Date, or Credit Days	Amount	Dr/ Cr
31/3/2020	**AI/001**	**12-May-20**	**$1,020.00 @ ₹ 73.60/$ = ₹ 75,072.00**	**Cr**
31/3/2020	**AI/023**	**4-Jun-20**	**$936.10 @ ₹ 73.60/$ = ₹ 68,900.64**	**Cr**
31/3/2020	**AI/045**	**15-Jul-20**	**$1,230.00 @ ₹ 73.60/$ = ₹ 90,528.00**	**Cr**
			2,34,500.64	**Cr**
		On Account:		
			2,34,500.64	**Cr**

   b. Press **Carla** to save the **Bill-wise Breakup** screen.

3. Press **Carla** to save the ledger.

Alter Currency

For a currency created in Tally Prime, you may have provided a **Symbol**, **Formal Name**, or **ISO Currency Code** that is different than that used in the market.

You may also want to change the **Number of decimal places**, as per the system followed in your business.

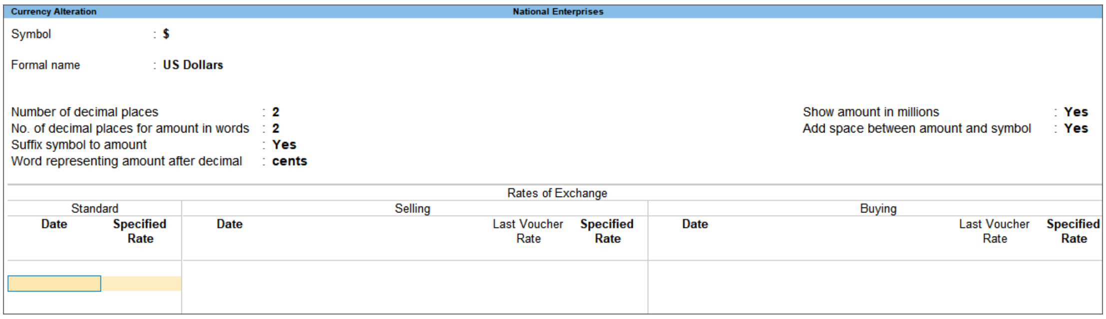
In such cases, you can alter currency in Tally Prime.

In the **Currency Alteration** screen, follow the steps given below.

1. **Date**: the date at which the Specified Rate is applicable.

For example, the base currency is INR and the rate of $1 is INR 76.25 from

1-April-2022, then enter the date 1-Apr-22.



2. **Specified Rate**: the rate of the foreign currency with respect to the base currency.
3. Modify other details, if needed.

If you want to provide forex rate a specific date, then you can do so while altering the currency. Refer to the Define forex rate section to know more.

On any given date, when the rate of exchange is available in both **Last Voucher Rate** and **Specified Rate** fields in the currency master, it will consider the rate available in the **Last Voucher Rate** field only.

In a remote connection, if the **Formal Name** defined in a ledger while passing a transaction is not the same as defined in the company selected, an error message will appear. For example, **must use currency "$" for ledger "Sales".**

Delete Currency

You may want to delete a currency, if you do not use it in any transaction. You can delete the currency in Tally Prime only if the currency is not used in any transaction in Tally Prime.

If you want to delete the currency used in one or more transactions, you can either:

- Change the currency in the respective transactions.
- Split the data in such a way that the data in the current period does not have transactions with the currency.
- Delete the transactions in which the currency is used.

1. In the **Currency Alteration** screen, press **Halted** (Delete).
2. Press **Enter** or **Y** (Yes) to confirm.

3.6 VOUCHER AND ENTRY IN BOOKS OF ACCOUNTS

Any written documentation supporting the entries reported in the account books, indicating the transaction's accounting accuracy, can be referred to as a voucher. For example, a bill, invoice, receipt, salary and wages sheet, pay-in-slip counterfoil, cheque book counterfoil, or trust deed.

A voucher is a redeemable form of transaction bond that is worth a particular monetary value and can only be used on specific grounds or specific goods. Examples of this include vouchers for lodging, transportation, and food.

Accounting Voucher

A voucher is created once we have received the invoice from a supplier. It has to be stamped as "paid" when a cheque or digital payment is made to a supplier and is then archived along with any supporting documents.

A mechanism called a "payment run" is performed in account payable systems to produce payments that correspond to the unpaid vouchers. The voucher can be used in accounts receivable to adjust an account. Also, the voucher can be used to adjust the accounts under general ledger, and it is called as a journal voucher.

Components of Voucher

This is most commonly found in a manual payment scheme, in which it is part of the control mechanism. A voucher usually contains the following information:

- Supplier identification number
- The amount payable
- The date on which payment will be made
- The accounts payable to record the liability
- Any valid early payment discount terms
- The approval signature or stamp

Types of Vouchers

There are different types of vouchers in accounting. They are:

- Debit or Payment voucher
- Credit or Receipt voucher
- Supporting voucher
- Non-Cash or Transfer voucher (Journal voucher)

Benefits

The following are a few benefits of maintaining vouchers:

- Vouchers are useful to retain better control over the payables process.
- Many invoices can be paid at once, thereby reducing the number of cheese.
- It can be pre-numbered and simplifies the payables audit trail.
- Invoice approval is segregated from invoice payment, both for optimizing productivity, making it easier to plan.
- Collection of invoices shall be made by the cashier, who shall report to the treasurer.

3.7 VOUCHER TYPES AND CLASSES

VOUCHER TYPES IN TALLYPRIME

There are 24 pre-defined voucher types in Tally Prime for accounting, inventory, payroll and orders. You can create more voucher types under these pre-defined voucher types as per your business needs.

For example, for cash payments and bank payments, the predefined voucher type is Payment Voucher. You can also have two or more sales voucher types in Tally Prime for different kinds of sales transactions. For example, credit sales, cash sales, and so on.

For a voucher type, you can:

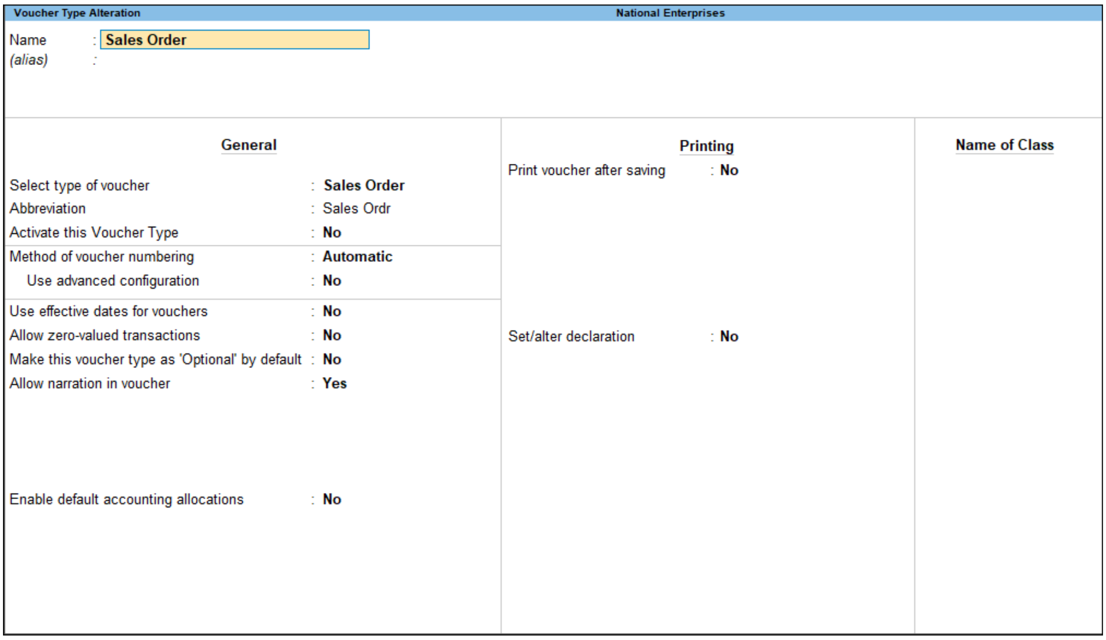
- Activate / Deactivate voucher type as per your business need.
- Use different voucher numbering methods.
- Specify the prefix and suffix details for numbering the vouchers.
- Use the effective dates for the vouchers.
- Mark some vouchers to open as optional vouchers by default.
- Use common narration or narration for each ledger selected in the voucher.
- Enable the option to print immediately after saving the vouchers.

Activate / Deactivate Voucher Types in Tally Prime

In Tally Prime you can activate / deactivate voucher types as per your business need from voucher type creation / alteration screen.

To activate / deactivate voucher type.

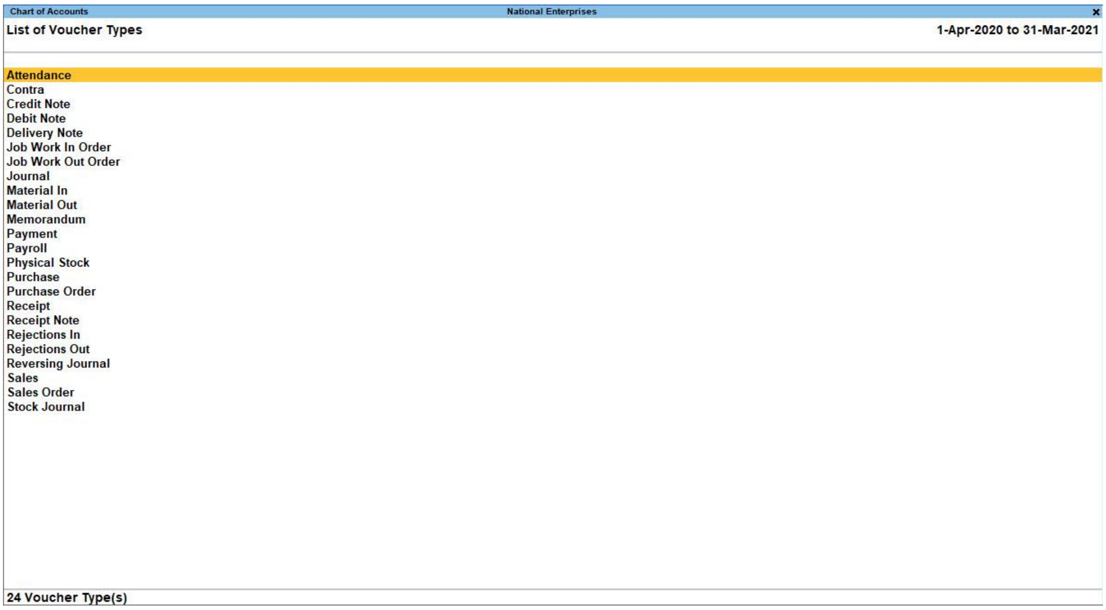
- **Gateway of Tally** > **Alter** > **Voucher Type** > type **Sales Order** > it will open below mentioned screen.



View the Pre-Defined Voucher Types in Tally Prime

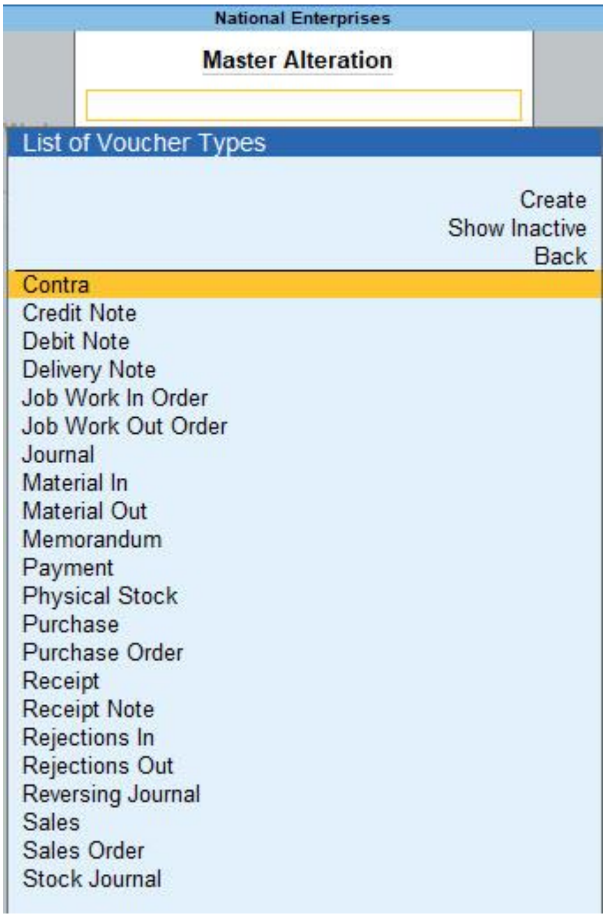
- **Gateway of Tally** > **Chart of Accounts >** type or select **Voucher Type**. Alternatively, press **AMT**G (Go To) > type or select **Chart of Accounts** > **Voucher Type**.

The screen appears as shown below:



- You can also go to **Gateway of Tally** > **Alter** > **Voucher Type**. Alternatively, press **AMT**G (Go To) > type or select **Alter Master** > **Voucher Type**.

The List of Voucher Types appears as shown below:



Define Voucher Numbering

You can select the required Method of voucher numbering from the voucher type creation/alteration screen.

In this section

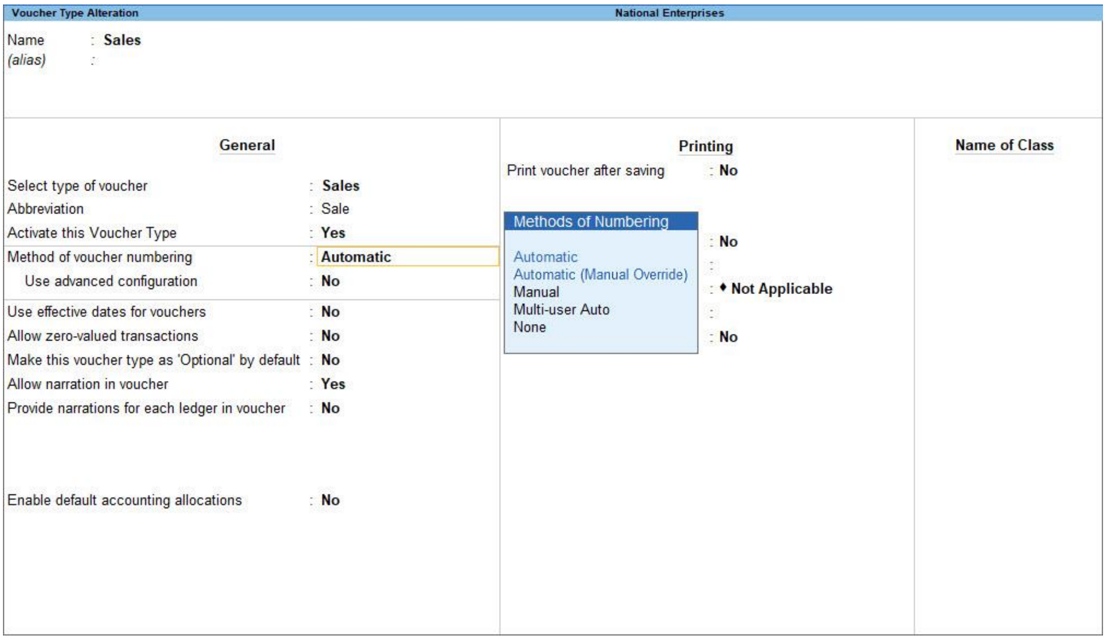
- Methods of voucher numbering
- Multi-user auto voucher numbering
- Restart voucher numbering

Methods of voucher numbering

1. **Gateway of Tally** > **Alter** > **Voucher Type**.

   Alternatively, press **AMT**G (Go To) > type or select **Alter Master** > **Voucher Type**.

   The Methods of Numbering list appears as shown below:



You can use any of the following methods of voucher numbering:

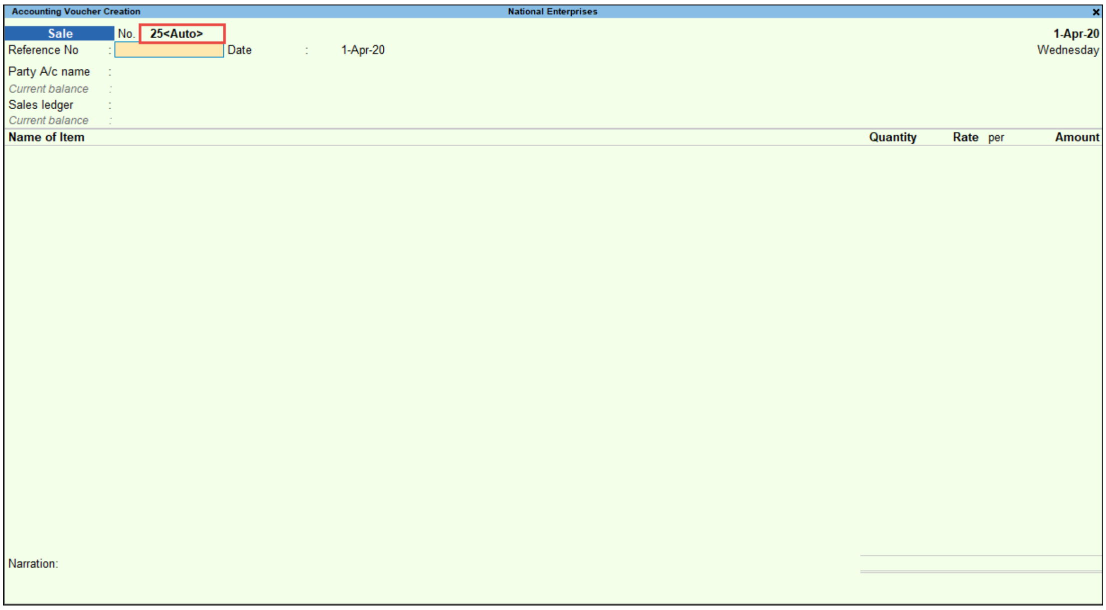
- Automatic: Select this if you want to automate the number for vouchers.
- Enable Use advanced configuration to define the prefix and suffix for the voucher numbers.
- Automatic (Manual Override): Select this if you want to automate the number for vouchers, and manually override the automated number, if required. For example, if the voucher is auto-numbered as 10, you can manually change it to 21. The next voucher number will be 22.
- You can set Prevent duplicates to Yes, to avoid duplicate voucher numbers during entry. You can enable this option only if you have not recorded any transactions using this voucher type.
- Manual: Select this to manually enter the voucher number in each voucher.
- You can set Prevent duplicates to Yes, to avoid duplicate voucher numbers during entry. You can enable this option only if you have not recorded any transactions using this voucher type.
- Multi-User Auto: Select this option to enable the allotment of subsequent voucher number in a multi-user environment.
- None: Select None to disable the voucher numbering.

Multi-user auto voucher numbering

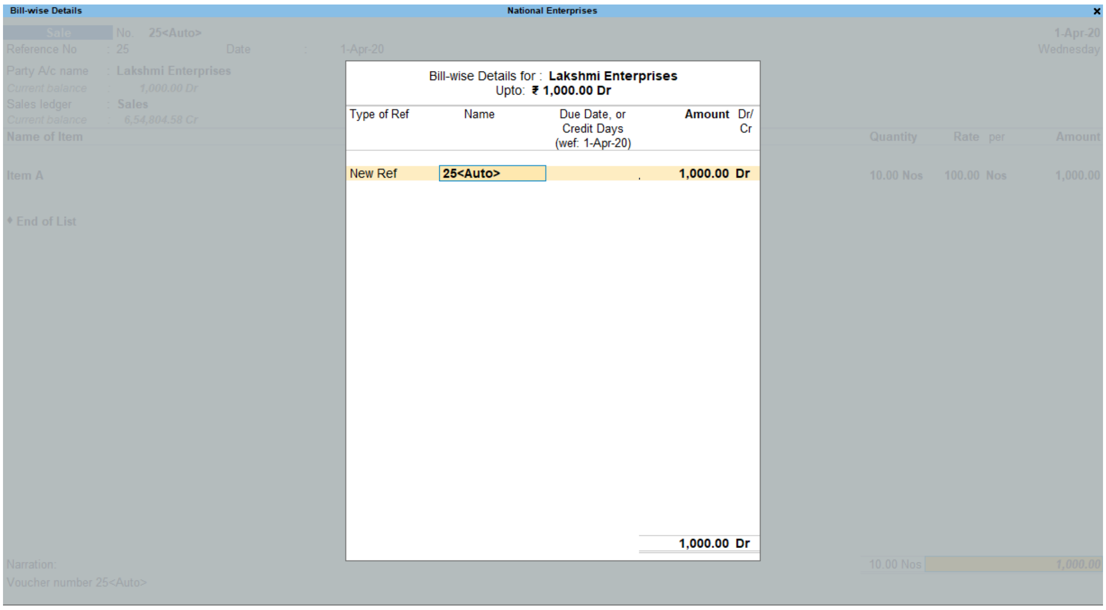
The multi-user auto voucher numbering feature works effectively in a multi-user environment when multiple users are working on the same company data and recording vouchers.

For example, let us consider three users – Mohan, Ram and Sham. All of them are trying to record a sales voucher. The voucher on each of their system is numbered as 25. When Mohan saves the voucher first, his voucher gets saved as 25. But when Ram and Sham attempt to save the voucher, the message "Voucher Number 25 already used! The new number will be xx!" appears.

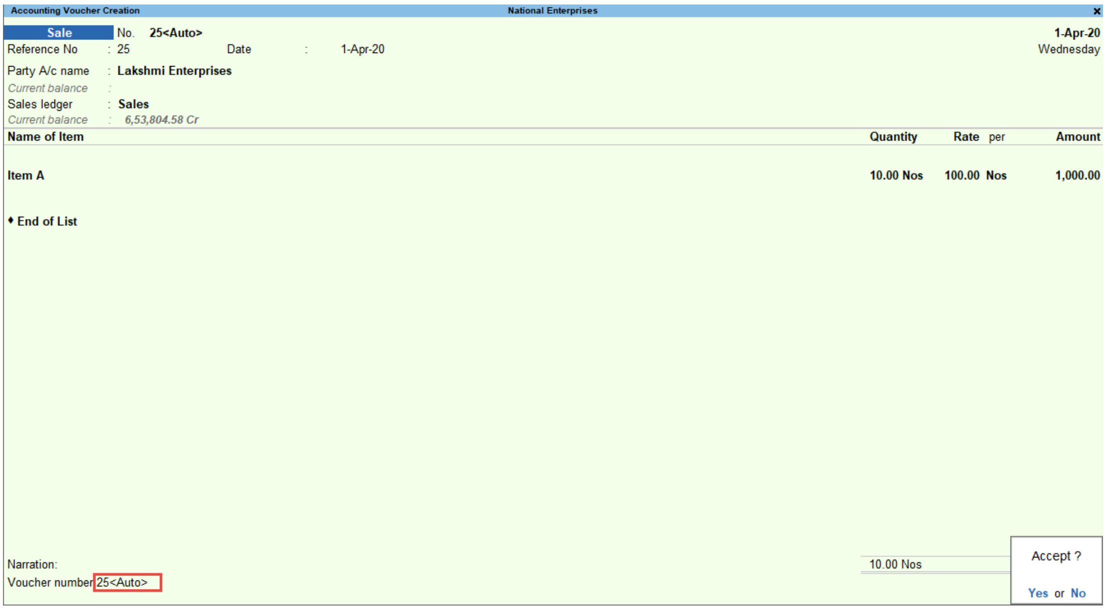
In order to eliminate this error message and avoid the re-acceptance of the voucher, you can use the option of Multi-User Auto Voucher Numbering. On enabling the Multi-user voucher numbering feature, the voucher number appears as 25<Auto> for all the three users.



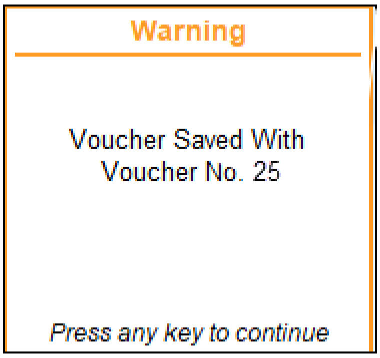
The bill-wise details screen and other relevant details will also be updated as 25<Auto>.



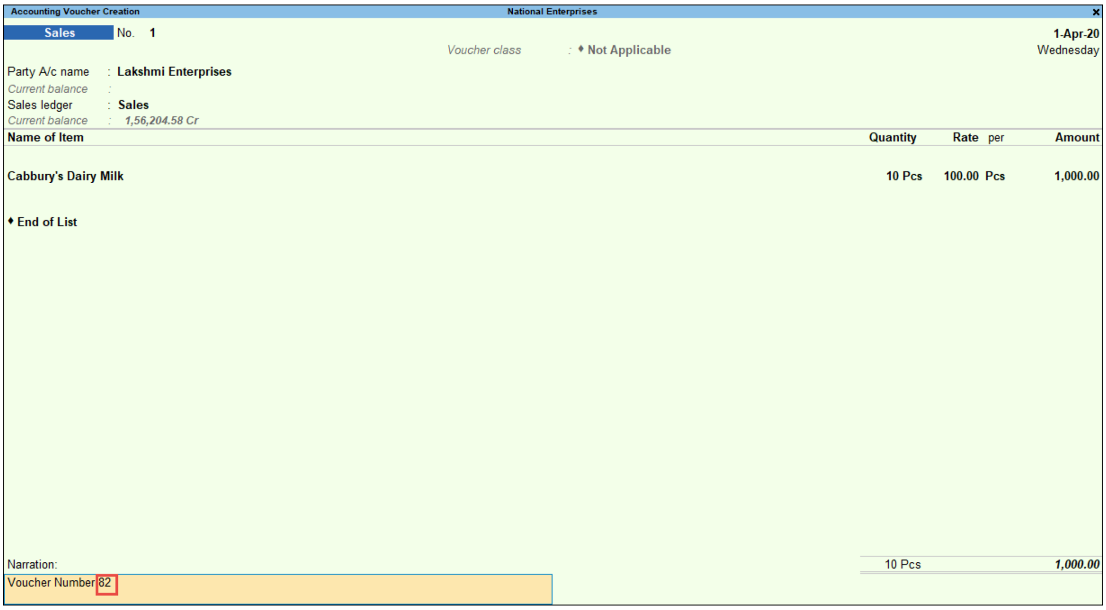
If the user mentions the voucher number in the Narration field, then on saving the voucher entry, the number in the narration field will be automatically altered to match the new voucher number.



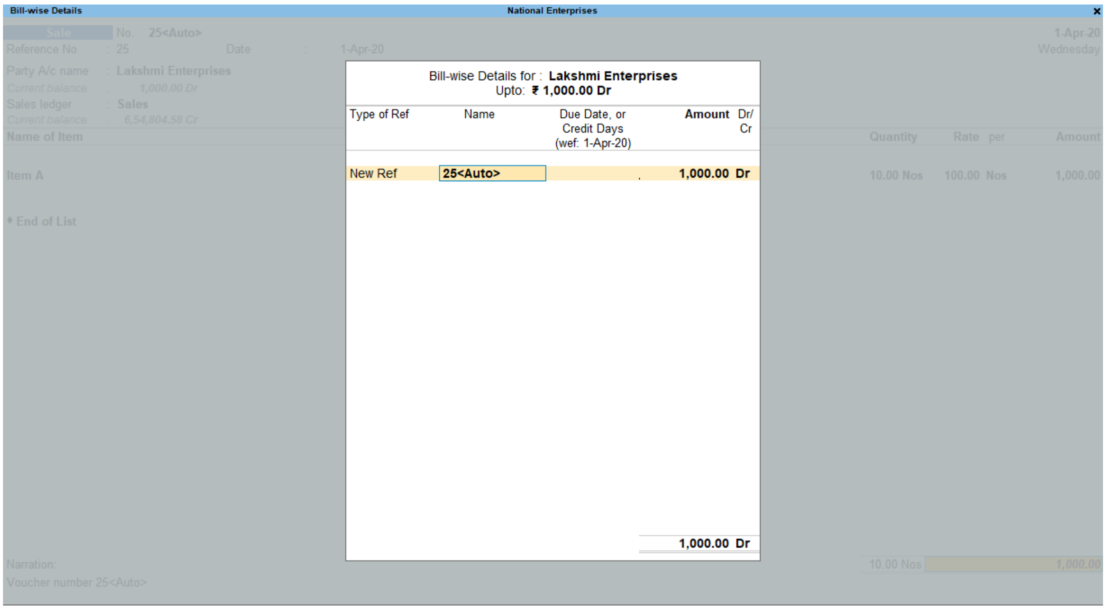
Let us assume that Mohan saves the entry first. The assigned voucher number 25<Auto> will be saved as 25 in the data. A confirmation message indicating this will appear.



The narration field will be updated accordingly:



The bill-wise details with the updated Bill name will appear as shown below:



When Ram and Sham saves the voucher, the voucher number 25 <Auto> will be changed to the next available voucher number.

Note: The Multi-User Voucher Numbering is an extension of the Automatic Numbering method. It hastening the process without errors. However, this is applicable only in voucher creation and does not apply in the case of insert or delete of vouchers.

Restart voucher numbering

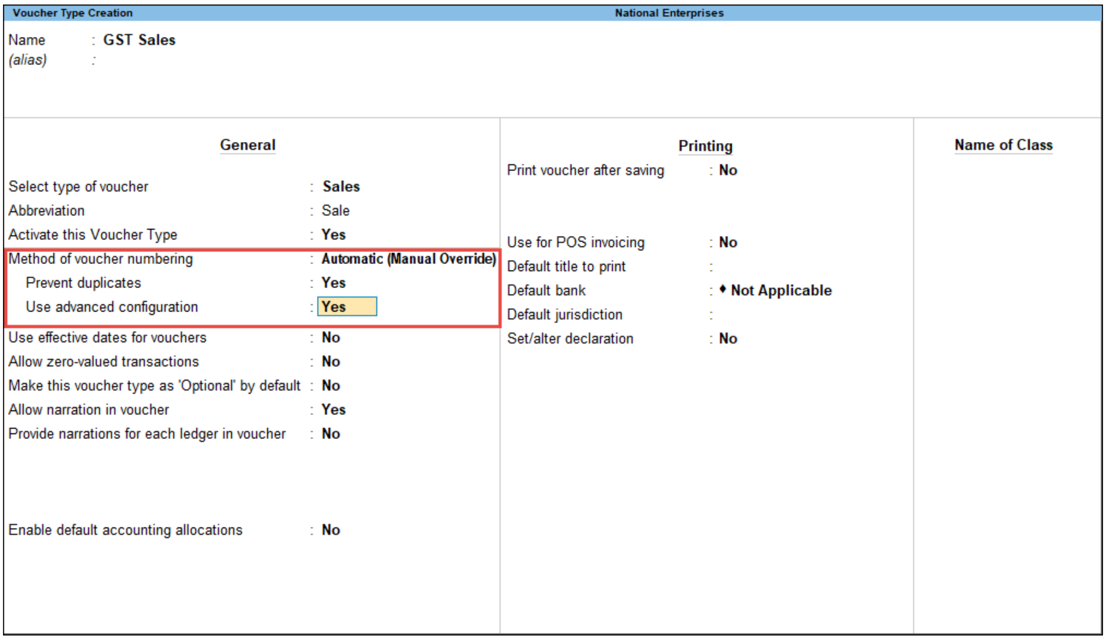
You can restart the numbering of your vouchers by entering the date from which you want to restart the voucher numbers.

1. **Gateway of Tally** > **Create/ Alter** > **Voucher Type**.

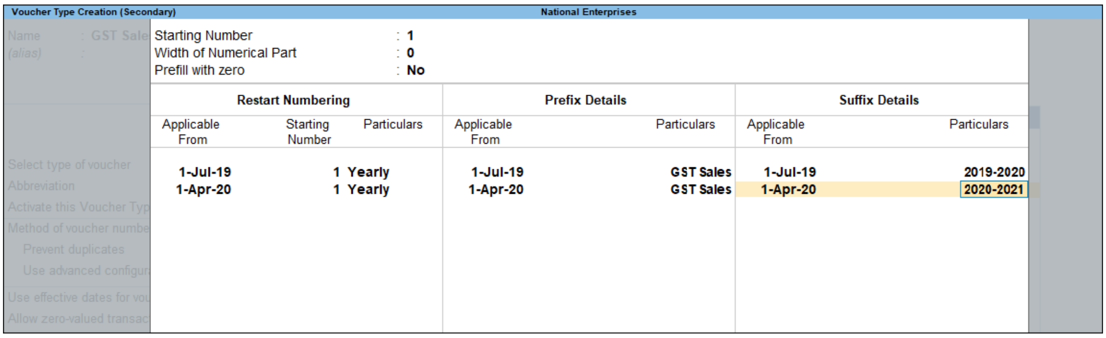
   Alternatively, **AMTG** (Go To) > **Create Master/Alter Master** > **Voucher Type**.

2. If you select the **Method of Voucher Numbering** as **Automatic (Manual Override)**, you can auto-number your vouchers, and also manually override the auto-numbering when required.

3. **Prevent duplicates**: Set this option to **Yes**, to ensure unique voucher numbers.



4. Set the option **Use advanced configuration** to **Yes**, to open the Voucher Type Creation (Secondary) screen.

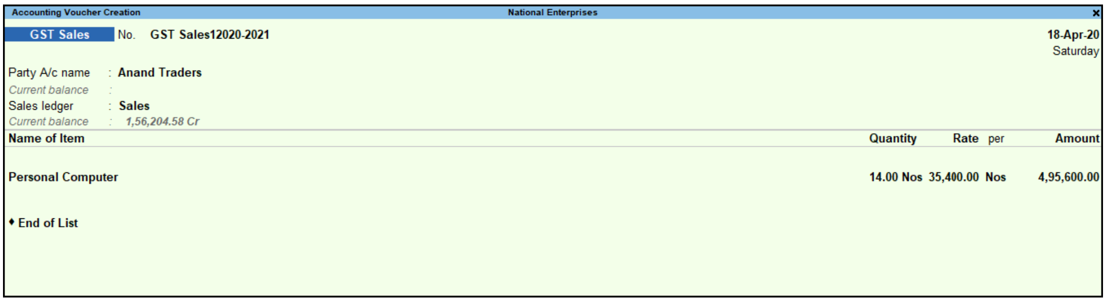


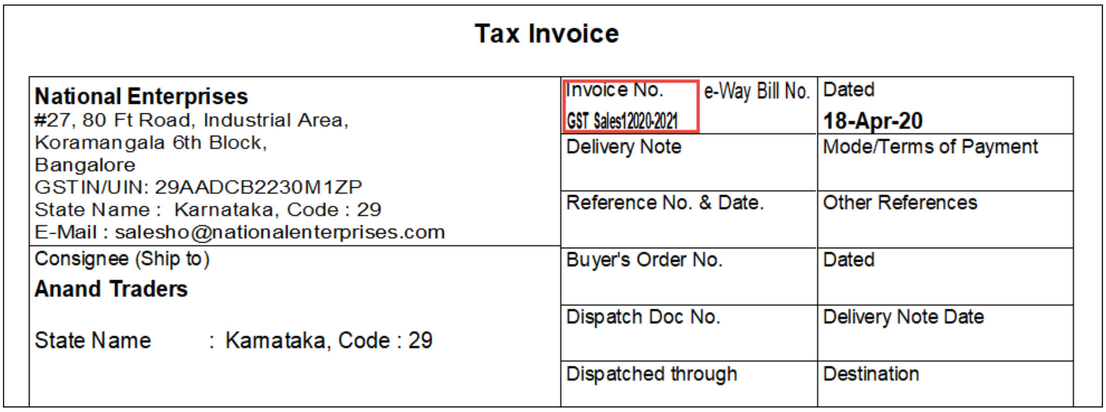
5. **Starting Number**: Enter the Starting Number as 1, if you want a fresh batch of voucher numbers.

6. Enter the **Restart Numbering** as required.

7. Enter the Prefix Details and Suffix Details as required.

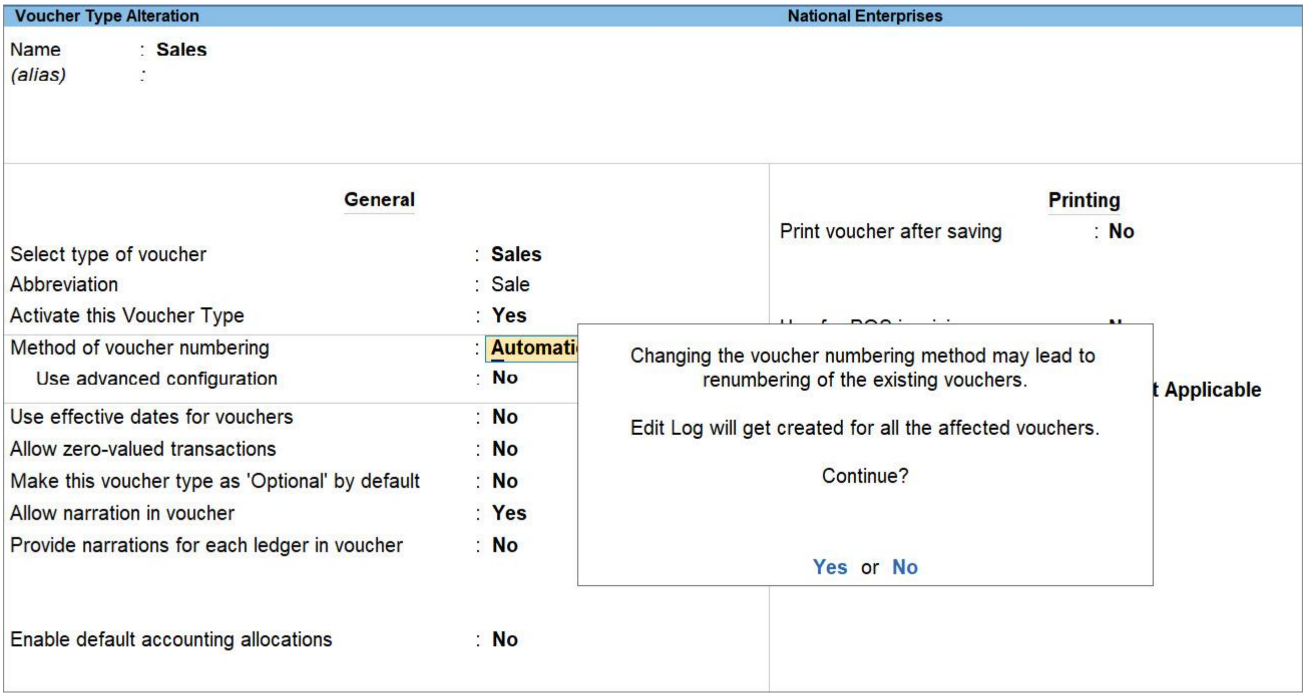
Now you can easily record your transactions with a new series of voucher numbers. The sales voucher appears as shown below:





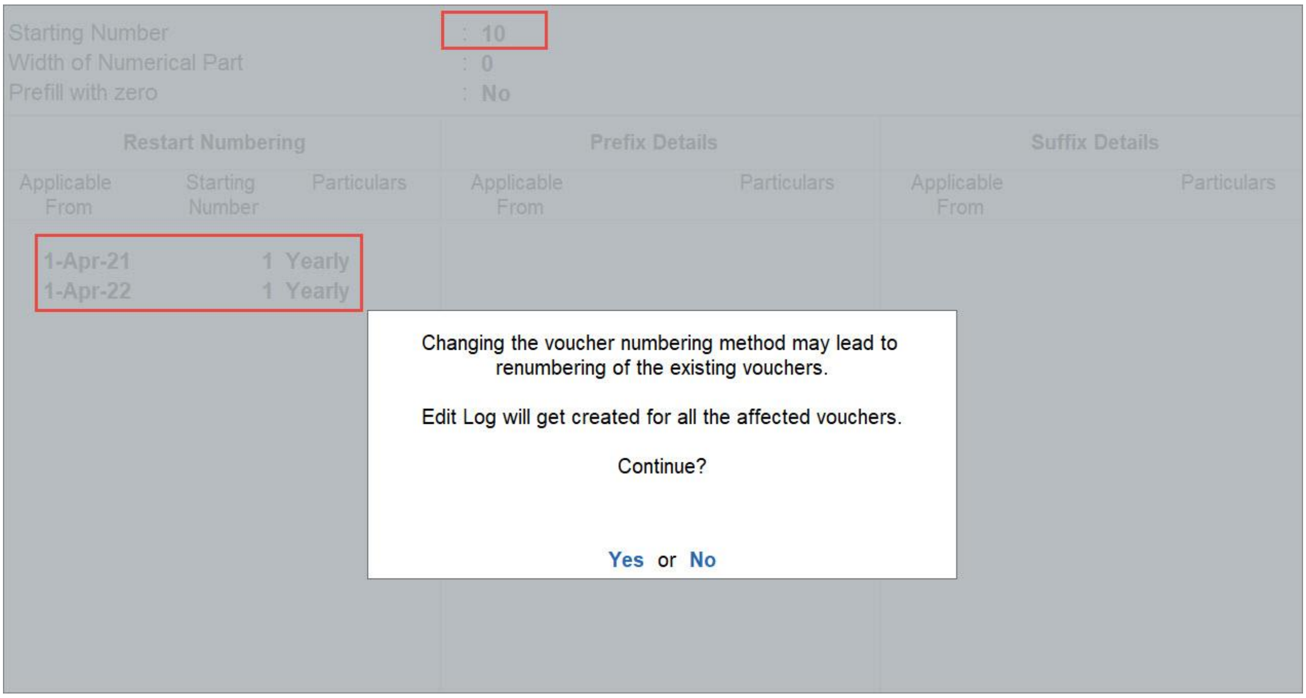
Method of voucher numbering and impact on Edit Log

In Tally Prime Edit Log and Tally Prime Release 2.1 with Edit Log enabled, whenever you change the Method of voucher numbering, Tally Prime displays the screen as shown below.



When the method of voucher number is changed, there is a possibility that some vouchers will get renumbered. So, the VT. No. in those transactions get altered, which leads to the creation of an Edit Log for those vouchers.

Moreover, if you set **Use advanced configurations** as **Yes** and change the Voucher Type configurations, then Tally Prime displays the message as shown below.



Narration for Each Ledger During Voucher Entry

In Tally Prime, you can add a narration for each ledger entry while creating a voucher. Using this capability, you can provide specific information about one or more ledgers during voucher entry.

1. **AMTG** (Go To) > **Alter Master** > **Voucher Type** > select the voucher type and press **Enter**.

   Alternatively, **Gateway of Tally** > **Alter** > **Voucher Type** > select the voucher type and press **Enter**.

Note: Tally Prime supports this capability for all voucher types. Select the voucher type that you want to use for entering narrations for each ledger.

2. In the **Voucher Type Alteration** screen, set **Provide Narrations for each ledger** in voucher to **Yes**. As always, you can press **Carla** to save.

Let's assume that you have altered the Sales voucher type. For illustration purpose, let's consider creating a sales voucher.

1. Open the **Sales** voucher.

AMTG > **Create Voucher** > press **F8** (Sales).

Alternatively, **Gateway of Tally** >**Voucher** > press **F8** (Sales).

2. Select the required ledgers under **Party A/c Name** and **Sales Account**.
3. Select the required **Stock Items**, until you move to the ledger selection field.
4. Under **Particulars**, select the required ledgers.
    a. If you are in **Accounting Invoice or Item Invoice** mode, select the ledger, press **Carli** (More Details) > **Ledger Narration** > enter the **Narration**.
    b. If you are in **as Voucher** mode, select the required ledger, provide the amount, enter the narration in the **Narration** field appearing below the ledger name.
5. Provide other necessary details, and as always, press Carla to save the voucher.

Note: Ledger narration entered in any mode on the Voucher Creation screen will be only visible in as Voucher mode.

Similarly, if you need to provide narration for each ledger entry in a payment voucher, you can do so in the same way.

1. In the Voucher Type alteration screen for Payments, set **Provide Narrations for each ledger** to **Yes.**
2. In the payment voucher screen, after you have selected the ledger and amount, enter the text for **Narration** for each ledger.
3. Provide other necessary details, and as always, press **Carla** to save the payment voucher.

If you have entered narrations for the ledgers during voucher entry, you can choose to show the narrations in the printed, e-mailed or exported copies of the invoices. This helps you or your parties to refer to important details right in the invoice, for reference.

Create Voucher Types

Based on your business needs, you can create the required voucher types in Tally Prime by grouping them under the pre-defined voucher types.

In this section

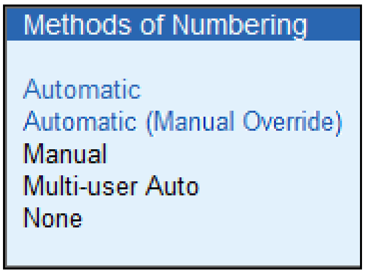
- Sales voucher type
- Manufacturing Journal Voucher Type

Sales voucher type

1. **Gateway of Tally** > **Create** > **Voucher Type**.

    Alternatively, **AMT**G (Go To) > **Create Master** > **Voucher Type**.

2. Enter the Name of the voucher.
3. Select the type of voucher as Sales.
4. Enter the abbreviation in the Abbreviation field, if required.
5. Select the Method of voucher numbering from the Methods of Numbering list,
6. which appears as shown below:



Click here for more information on the Methods of Numbering.

7. Enable Use effective dates for vouchers to enter the effective dates for vouchers. This option is useful when you have recorded a transaction on a particular date, but the voucher comes into effect only on a future date. If the effective date is entered, the overdue/ageing will be considered from the effective date and not from the voucher date.
8. Set the option **Allow zero-valued transactions** to **Yes** if required. enabling this option will allow this voucher type to accept transaction without any value.
9. Set the option Make this voucher type as ‘Optional’ by default to **Yes** if you want the voucher to open as an optional voucher by default.

Note: For Memorandum and Reversing Journal voucher the option Make this voucher type as 'Optional' by default is not available. As these voucher types are optional by default.

Enable Allow narration in voucher to give a common narration for the voucher.

10. Enable Provide narration for each ledger in voucher, if you want to give a separate narration for each ledger selected in the voucher. This will be useful when you want to provide specific details for each ledger.
    For Delivery Note, Receipt Note, Sales Order, Purchase order, Physical Stock, Stock Journal, Rejection In and Rejection Out, the option Provide narrations for each ledger in voucher is not available.
11. Set this option **Enable default accounting allocation** to **Yes**, for all item invoice (except for the items specified), if required.

12. Enable Print voucher after saving to print every voucher immediately after saving it.

Note: Depending on the Type of Voucher selected to create or alter, different printing features appear in this field. For example, if you select Receipt as Type of Voucher, the option Print Formal Receipt after saving will be displayed.

If you want to know how to disable printing after saving the voucher for a specific voucher type, then refer to Disable Print After Saving for Voucher Types.

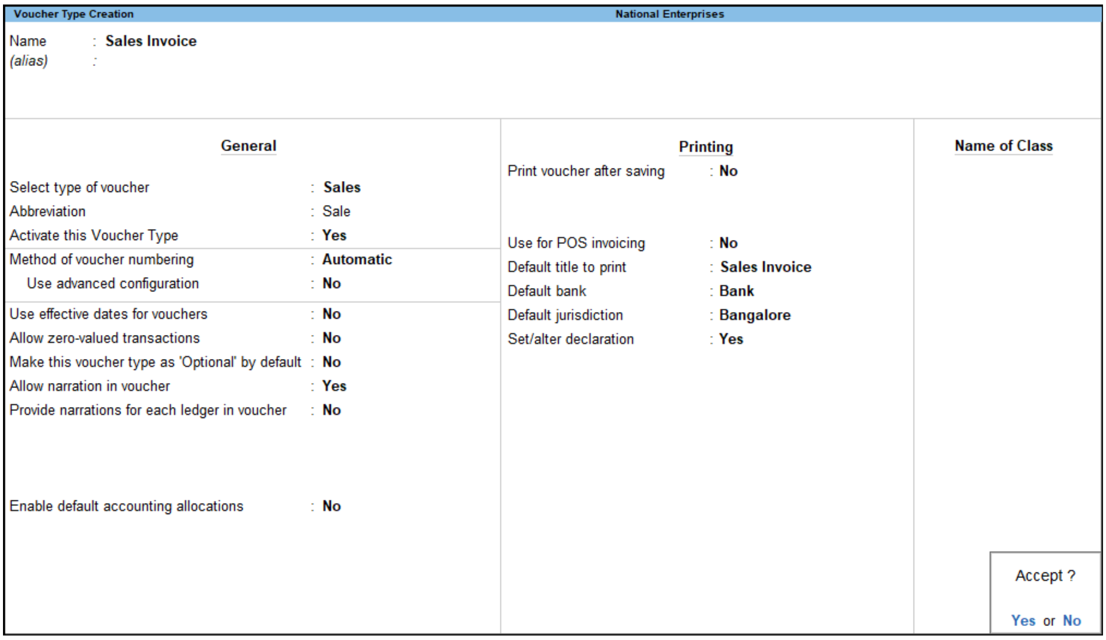
13. Set Use for POS invoicing to Yes to use the sales invoice as POS invoice. If enabled for POS, set the Default title to print on invoice to print the same title for POS invoice.

Note: You cannot enable this option for default **Sales** voucher type, you need to create a new voucher type under **Sales** to enable this option.

14. Set **Default title to print** to **Yes**, to use the sales invoice default title name to print.

Note: Default title to print option will appear only in Sales Voucher Type.

15. Select the bank in Default bank option to print the default bank ledger when the option Print Bank Details is enabled in a Sales voucher.
16. Enter the Default jurisdiction to be printed on the invoice, if required.
17. Set **Set/alter declaration** to **Yes**, if required.
18. Create a voucher class in the Name of Class field, if required.



19. Accept the screen. As always, you can press **Carl**a to save.

Disable Print Voucher After Saving Using Voucher Types

It may be possible that you print all the vouchers at the end of the day, or there is a person who reviews all the Invoices recorded by a data entry operator before printing. In such cases, you can disable the **Print voucher after saving** option in the voucher type.

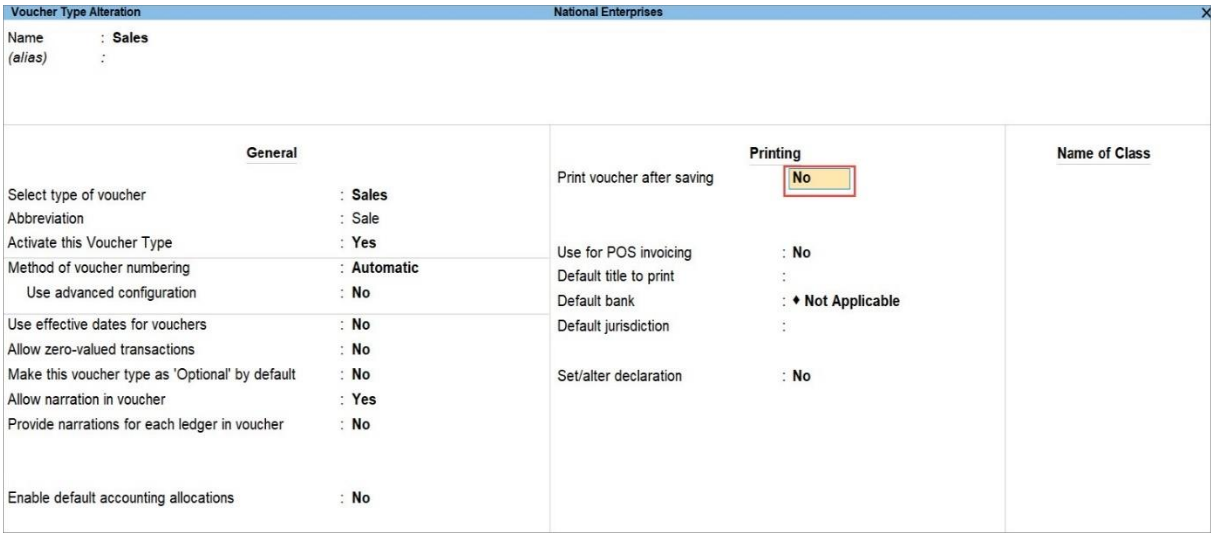
Follow the path to enable or disable the **Print voucher after saving** option for a specific voucher type.

1. Press **AMTG** (Go To) > **Alter Master** > **Voucher Type** > type of select the name of Voucher Type and press **Enter**.

   Alternatively, **Gateway of Tally** > **Alter** > **Voucher Type** > type of select the name of Voucher Type and press **Enter**.

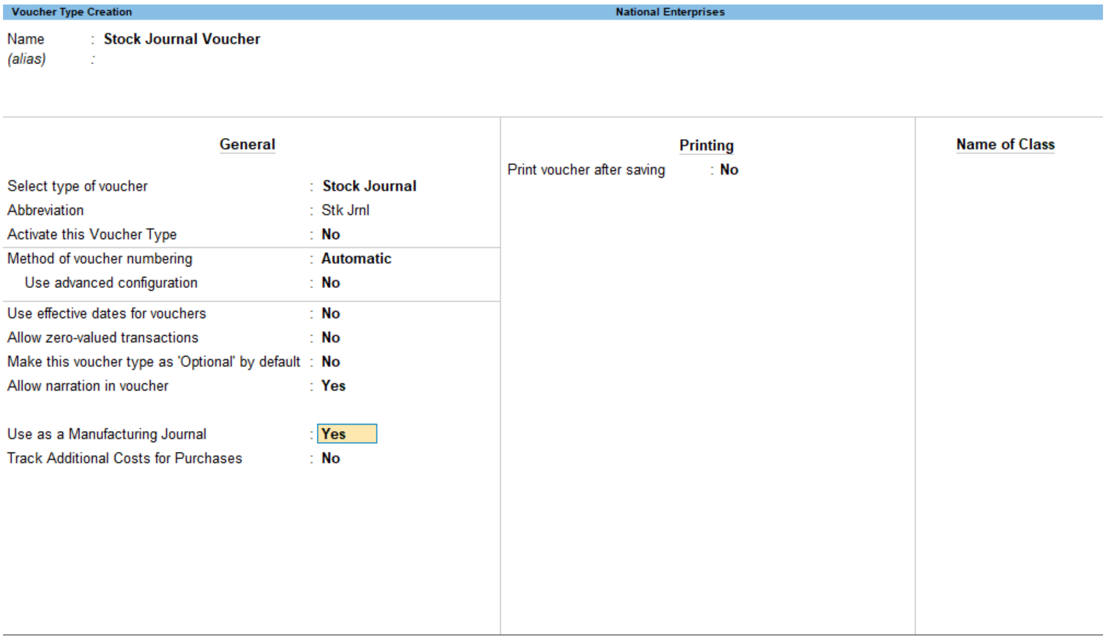
   The **Voucher Type Alteration** screen appears.

2. Set **Print voucher after saving** to **No**.



Manufacturing Journal Voucher Type

Enable the option Use as a Manufacturing Journal while creating a voucher type under Stock Journal as shown below:



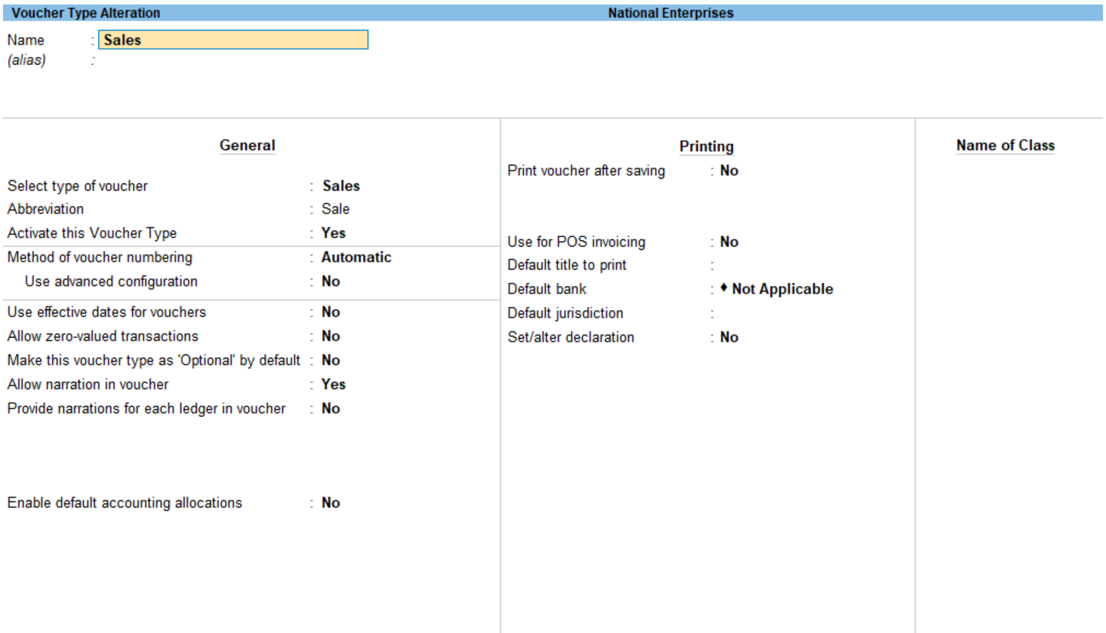
Alter a Pre-defined Voucher Type

Pre-defined voucher types in Tally Prime can be altered to suit your invoicing requirements.

1. **Gateway of Tally** > **Alter** > type or select **Voucher Type** > **Sales**.

   Alternatively, **AMT**G (Go To) > type or select **Alter Master** > **Voucher Type** > **Sales**.

   The **Voucher Type Alteration** screen appears as shown below:



2. Set the options as needed and accept the voucher type. As always, you can press **Carl**a to save.

Delete Voucher Types in Tally Prime

You may want to delete Voucher Types in Tally Prime. Such a need occurs in the following scenarios:

1. You had created a Voucher Type long ago, and you haven't used it.
2. You had created a Voucher Type, which is similar to an already existing Voucher Type.
3. The Voucher Type was created by mistake.
4. You have created a new Company, which is a copy of an existing Company. However, some of the Voucher Types are not required in the new Company.

Although deleting a Voucher Type is very simple in Tally Prime, you can only delete it if the following pre-requisites are met.

1. The Voucher Type is not a default one such as Sales, Purchase, and others provided in Tally Prime.
2. In the Company data, there is no voucher recorded using the Voucher Type.

You may want to delete a Voucher Type, even if you have recorded transactions using it. In such a case, you will need to delete all the transactions recorded using that specific Voucher Type.

Delete transactions recorded using a Voucher Type

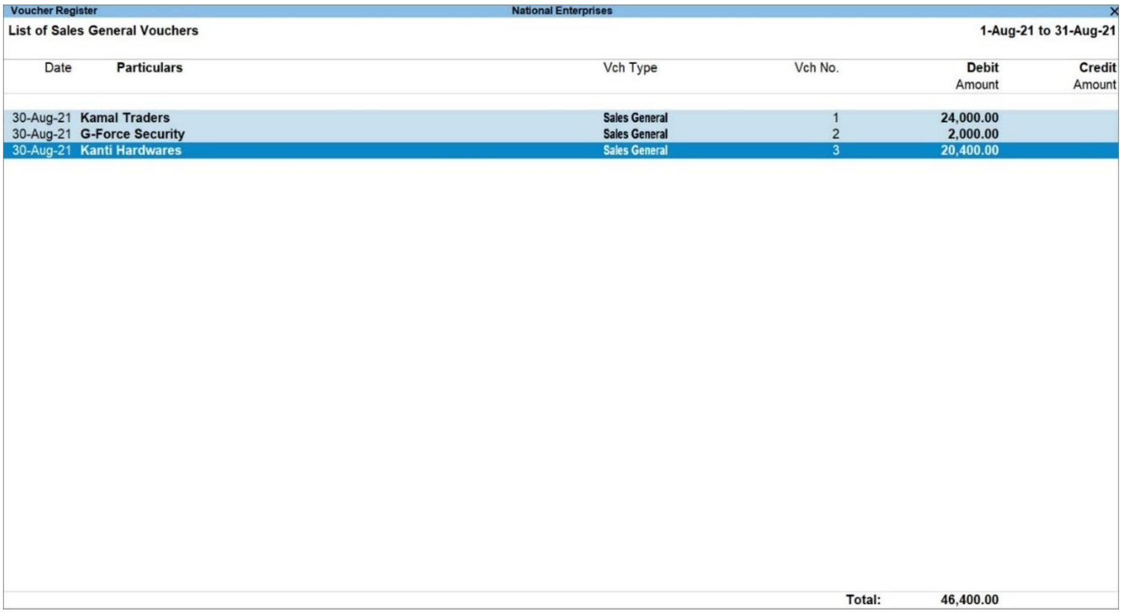
Before deleting transactions, you should take a Company data backup so that you can restore those transactions by restoring the Company data in the future if needed.

You can delete the transactions by drilling down on the **Statistics** report in Tally Prime.

Follow the path given below.

1. Press **AMTG** (Go To) > type or select **Statistics** and press **Enter**.
   Alternatively, **Gateway of Tally** > **Display More Reports** > **Statements of Accounts** > **Statistics** and press **Enter**.
2. Drilldown to the transactions.
   a. Drilldown on the required Voucher Type.
      The **Voucher Monthly Register** screen appears.
   b. Drilldown on the months in which the transactions were recorded.
      The **Voucher Register** screen appears where all the transactions for the month are listed.

c. Select all the transactions using Spacebar and press **Halted**.



Similarly, you can delete vouchers recorded using the Voucher Types in other months.

Delete a Voucher Type

Now that you have ensured that there are no transactions recorded using the Voucher Type, you can go ahead and delete the Voucher Type.

To delete a Voucher Type in Tally Prime, follow the procedure given below.

1. Press **AMTG**(Go To) > **Voucher Type** > type or select the Voucher Type and press **Enter**.
   Alternatively, **Gateway of Tally** > **Alter** > **Voucher Type** > type or select the Voucher Type and press **Enter**.
2. Press **Halted** and then press **Y** to accept.

Voucher Class

Voucher Classes are used to automate accounting allocations in transactions. It is a table for predefining the entries to make invoice entry a simple task. This is useful in sales invoices where the ledger accounts to be credited for each item of sale is defined just once.

During the voucher entry, the accounting credits for items sold are done automatically. Additional accounting entries like tax, freight, and other charges, can be predefined to be carried out untouched during actual invoicing.

Voucher Classes are available for all major voucher types like Contra, Payment, Receipt, Journal, Sales, Credit Note, Purchases, Debit Note, Sales Order, Purchase Order, Delivery Note, Stock Journal and Payroll.

In this section

- Voucher Class for debit notes and credit notes
- Voucher class for payment, receipt and contra vouchers
- Voucher class for purchases
- Voucher class for sales
- Voucher class for POS invoice
- Voucher class for payroll
- Voucher class for stock journal

Voucher Class for debit notes and credit notes

Voucher classes for credit notes are similar to sales invoices except for one important inclusion. You can set the class for interest entries to enable adjustment of interest payable. If the Interest option is selected, the other sales invoice-like options will not be available. A separate class can be created for entries of Sales Returns. Debit Note classes can be set for interest entries only.

Voucher Class for Payments, Receipts and Contra

On using the voucher classes of payment, receipt and contra vouchers, you can record the transaction in single entry mode instead of double-entry mode.

In this section

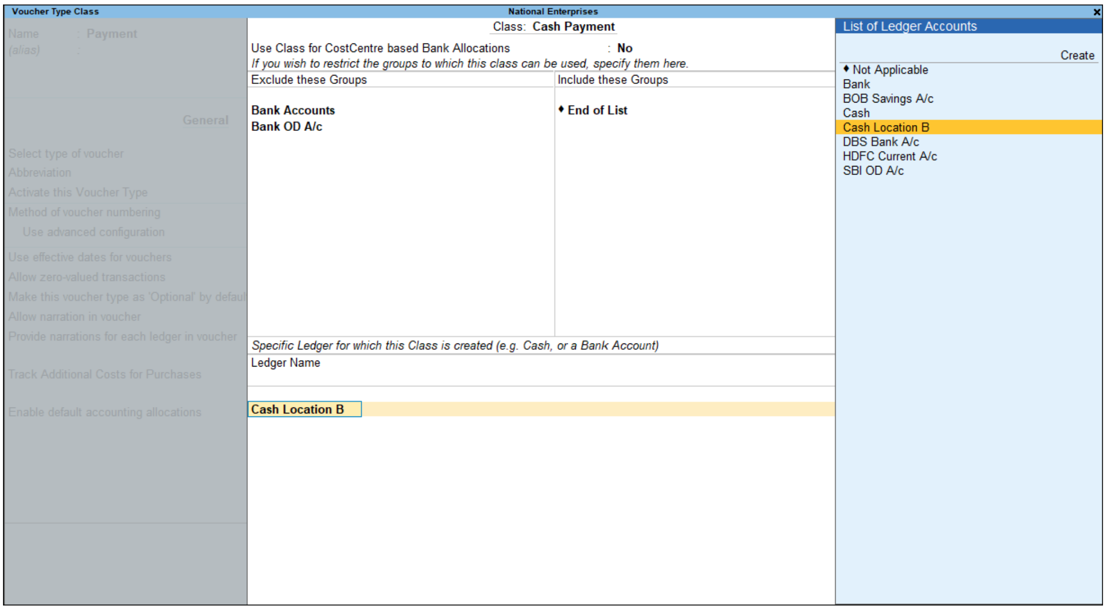
- Create payment voucher class
- Record payments using voucher class

Create payment voucher class

You can either alter the existing **Payment** voucher type or create a new voucher type under **Payment** voucher type based on your requirements.

1. **Gateway of Tally** > **Alter** > type or select **Voucher Type** > **Payment**. Alternatively, **AMT**G (Go To) > type or select **Alter Master** > **Voucher Type**> **Payment**.

2. Place the cursor on the Name of Class field. Enter a name, for example, Cash Payment. You can create more than one class.



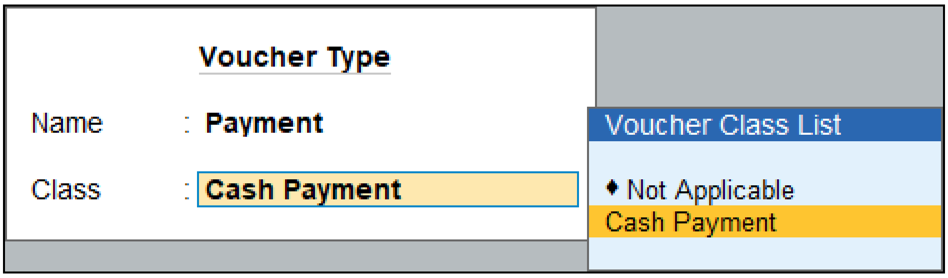
3. Exclude these Groups and Include these Groups: Under these columns, you can select only those groups pertaining to the Class, which makes the entry simpler.
4. Ledger Name: Select the ledger that will be used to pay out the money. This will eliminate the need to select the same during voucher entry. Instead of the ledger, if you select Not Applicable, the voucher will open in single entry mode and it will allow you to select the required ledger.

   Note: The groups selected under Exclude these Groups and Include these Groups will be useful only when you select Not Applicable under Ledger Name.

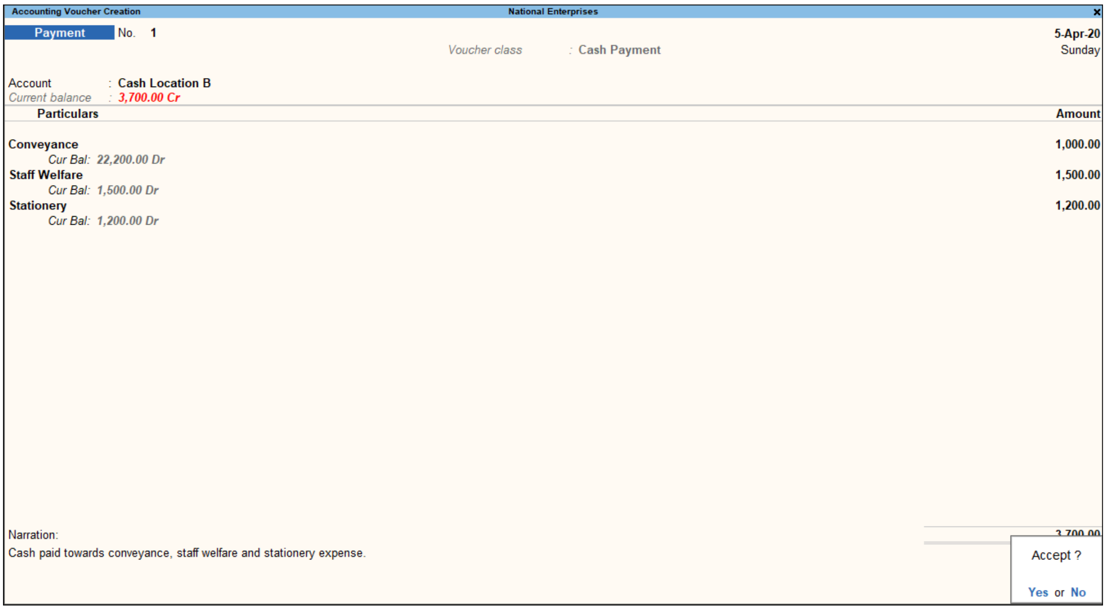
Record Payments using Voucher Class

1. **Gateway of Tally** > **Vouchers** > press **F5** (Payment).

Alternatively, **AMT**G (Go To) > **Create Voucher** > press **F5** (Payment).



2. Record the payment voucher.



In this example, the voucher class is Cash Payment. Once the voucher class is selected, the cash ledger gets automatically selected. You need to select only the ledgers to be debited.

Voucher Class for Purchases

Purchase Voucher Classes are templates where you can automate the selection of ledgers for items and expenses, and also restrict ledgers to be used in vouchers. You can either alter the existing purchase voucher type or create a new voucher type based on your requirements.

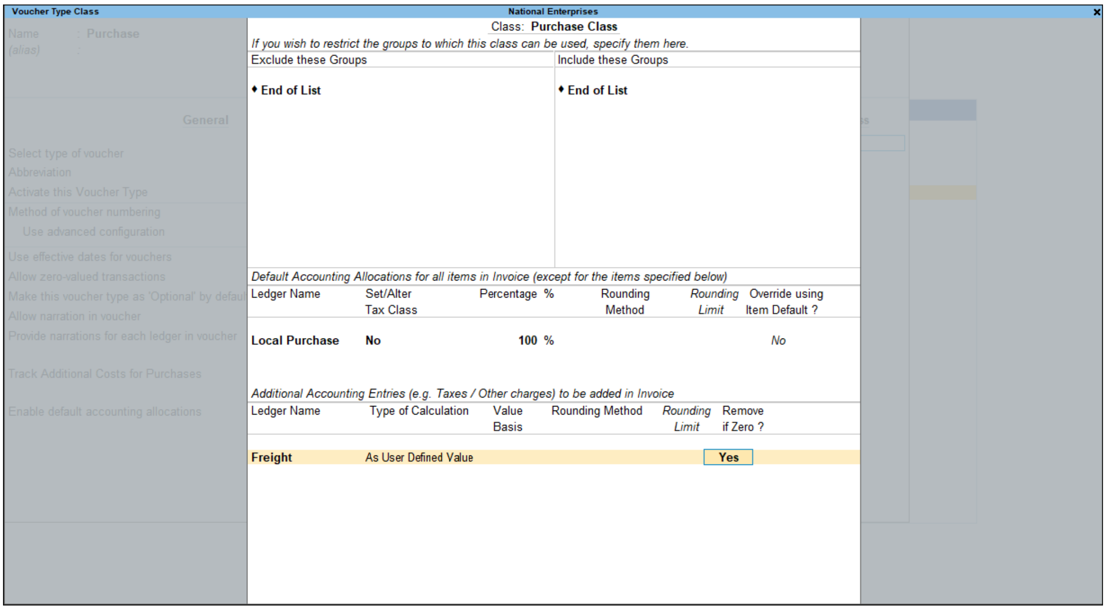
In this section

- Create purchase voucher class
- Record purchases using voucher class

Create purchase Voucher class

1. **Gateway of Tally** > **Alter** > type or select **Voucher Type** > **Purchase**. Alternatively, **AMTG** (Go To) > **Alter Master** > type or select **Voucher Type** > **Purchase**.
2. Place the cursor on the Name of Class field. Enter a name, for example, Purchase Class. You can create more than one class.
3. Under Ledger Name, select the purchase ledger. All the stock items that will be entered in the voucher using this class, except for those specified in the Default Accounting Allocations for section, will be automatically allocated to this purchase ledger.
4. Specify 100% in the Percentage field.

5. Set Override using Item Default to No.
6. Select the additional ledgers, as needed.

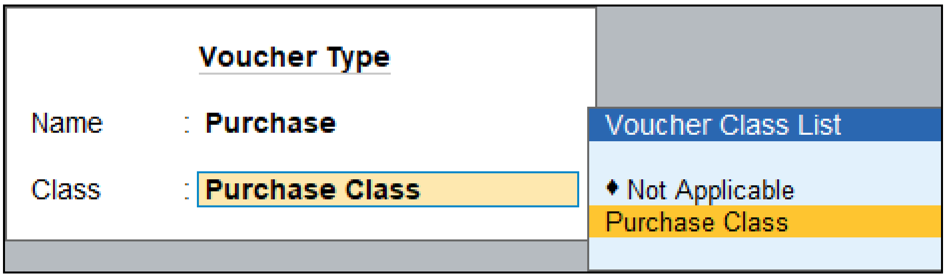


7. Accept the purchase voucher type. As always, you can press **Carl**a to save.

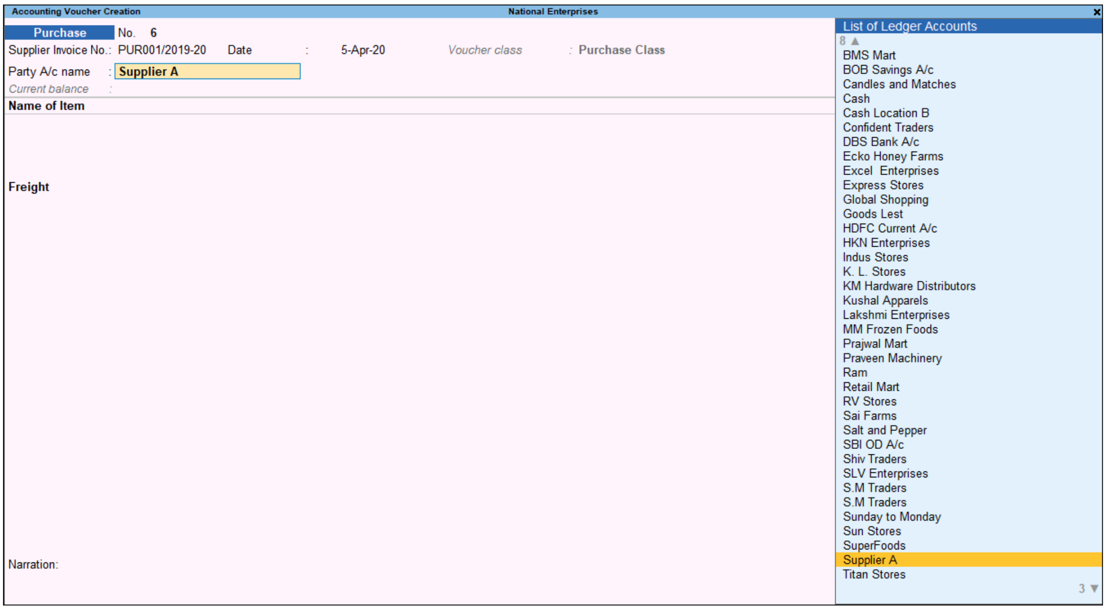
Record purchases using voucher class

- **Gateway of Tally** > **Vouchers** > press **F9** (Purchase).

  Alternatively, press **AMTG** (Go To) > type or select **Create Voucher** > press **F9** (Purchase).
- Select the voucher Class.

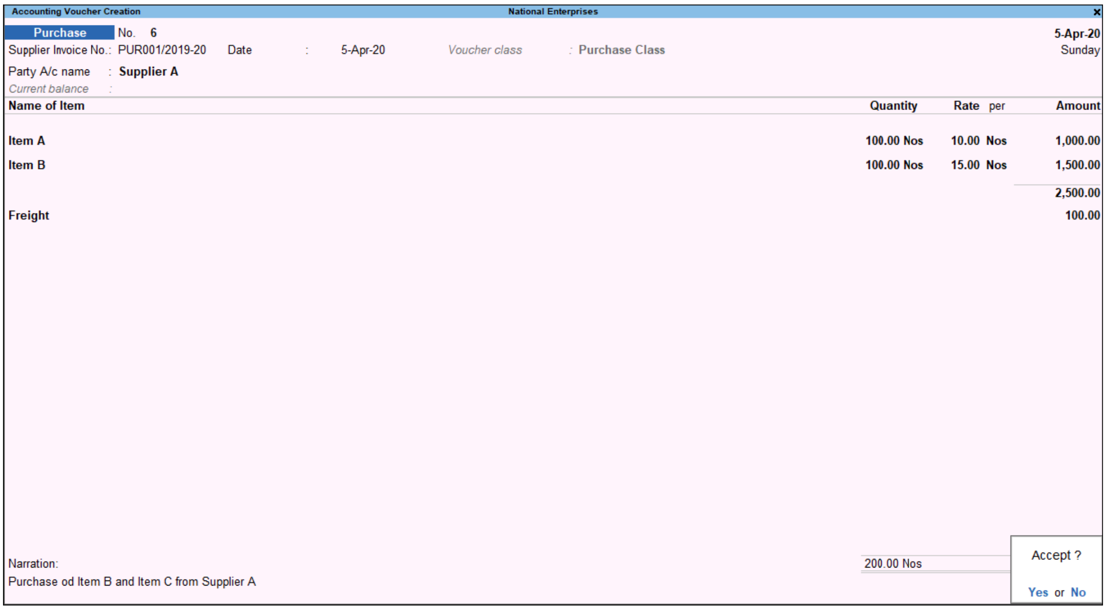


- Select the Supplier Account.



You will observe that the Ledger Accounts grouped under Sundry Debtors are also listed as you have not specified any condition to exclude Sundry Debtors Group. If you have specified Sundry Debtors under Exclude these Groups section, then these ledgers would not have been listed.

The Freight ledger gets automatically displayed and you can enter the value.



Once you select the stock item, specify the Quantity and Rate. The value will be automatically calculated, and the cursor will directly move to the Name of Item field, without displaying the Accounting Details screen.

Voucher Class for Sales

You may want to record sales by automating the appearance of only the required ledgers for faster data entry. You can do it using the Voucher Class feature. During voucher entry, you can select the voucher class, and view the predefined ledgers, including additional ledgers created for tax, freight, and other charges, without having to select them in the invoice.

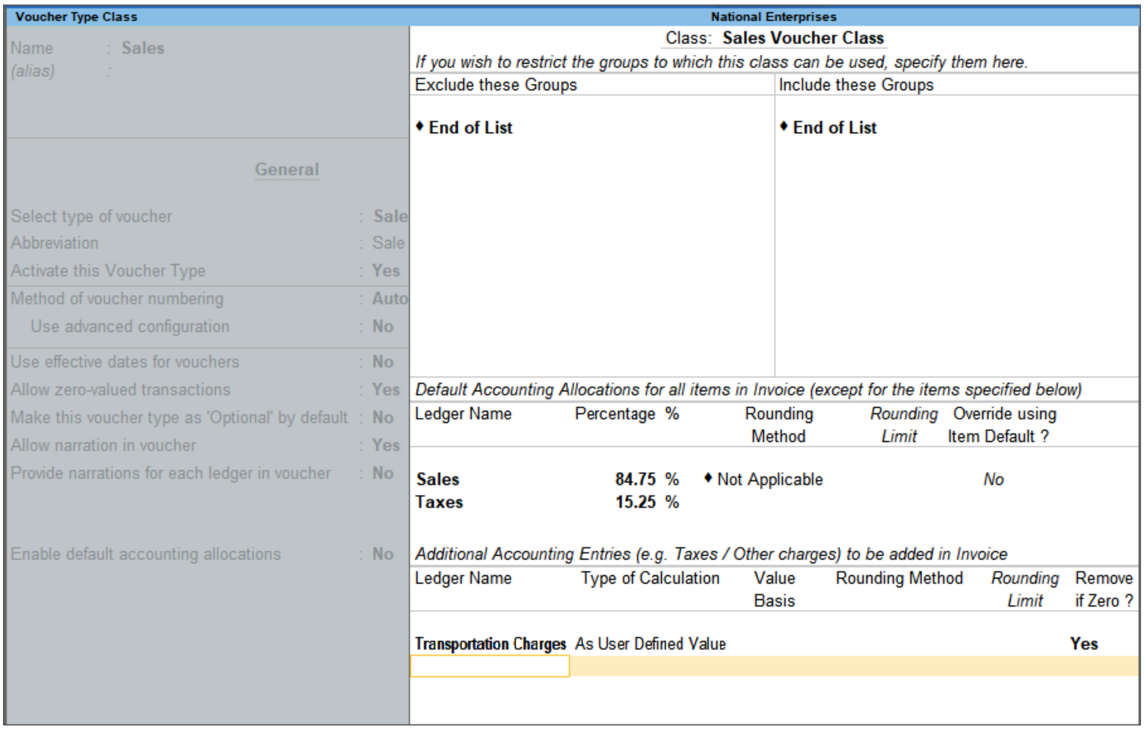
In this section

- Sales inclusive of tax with additional expenses
- Sales exclusive of tax with additional expenses

Sales inclusive of tax with additional expenses

1. Create a voucher class for sales.
    a. **Gateway of Tally** > **Alter** > **Voucher Type** > type or select **Sales** > and press **Enter**.
    Alternatively, press **AMTG** (Go To) > **Alter Master** > **Voucher Type** > type or select **Sales** > and press **Enter**.
    b. Enter a name for the voucher class under **Name of Class**.
    c. Press **Enter** to view the **Voucher Type Class** screen.
    d. Under **Default Accounting Allocations** for all items in Invoice (except for the items specified below), select the sales and tax ledgers. For example, if the tax is 18% and the sale value is inclusive of tax, the sale value will be calculated as (100/118)*100 = 84.75. The tax value will be calculated as (100/18) *18 = 15.25

e. Under **Additional Accounting Entries**, select a ledger created under **Indirect Expenses**.

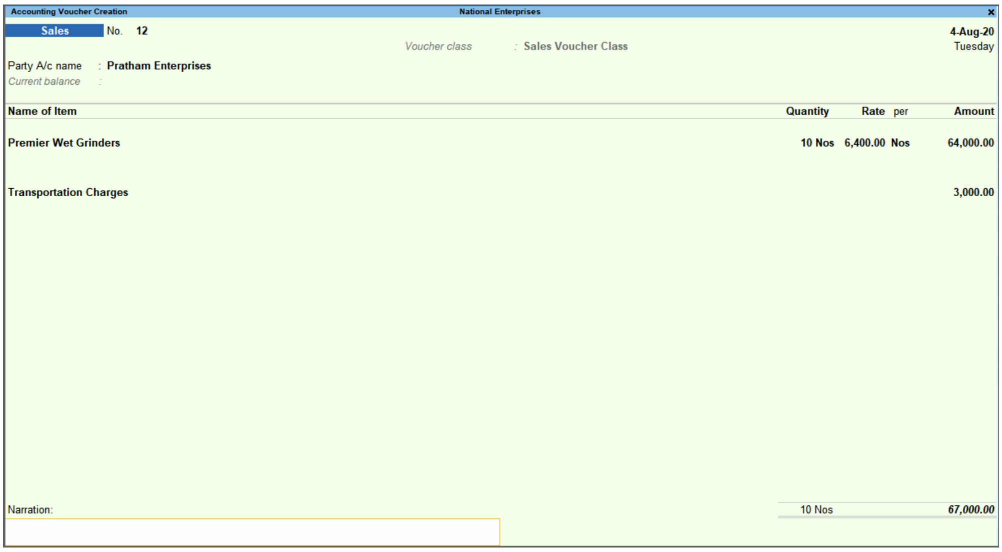


f. Accept the screen and the sales voucher type. As always, you can press **Carla** to save.

2. Use the voucher class in sales invoice.

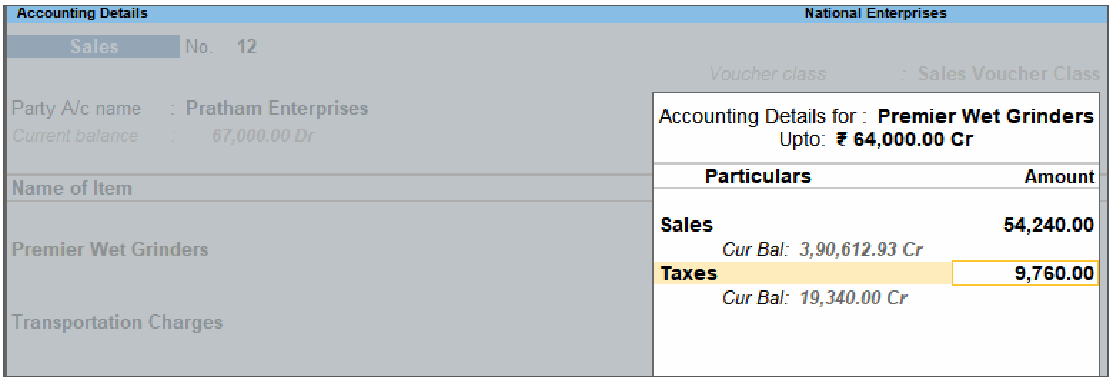
a. Press **AMTG** (Go to) > **Create Voucher** > **F8** (Sales) > select the voucher class.

b. Enter the sales details.



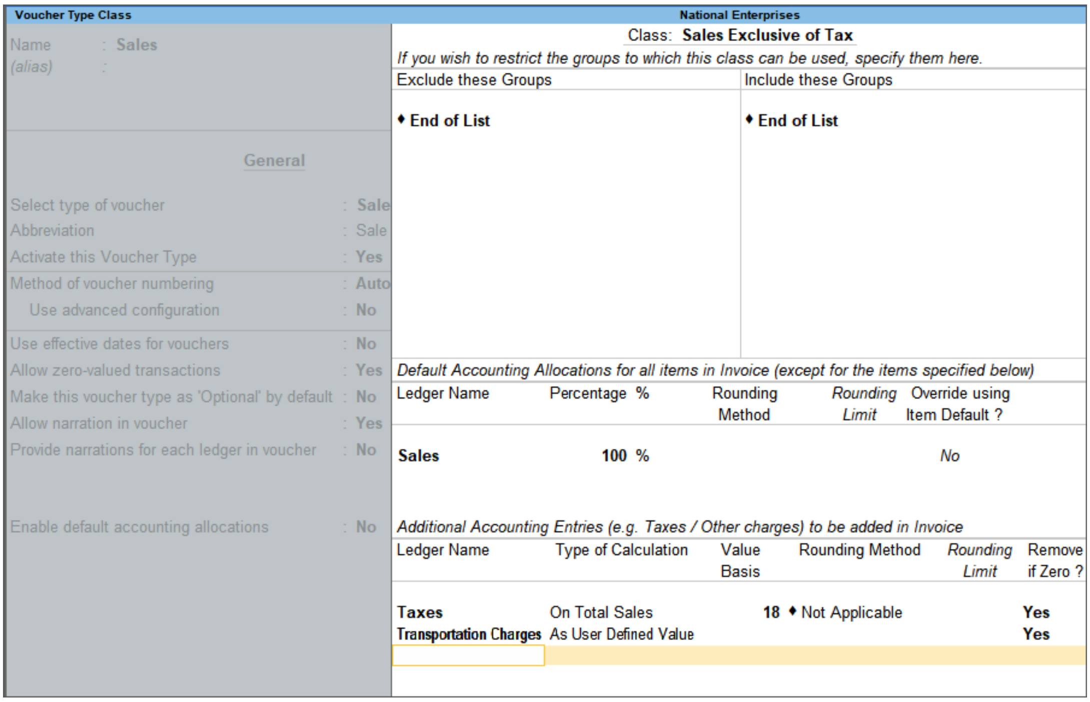
c. Accept the invoice. As always, you can press **Carla** to save.

d. Press **page Up** key to view the invoice in alteration mode. In the **Accounting Details** screen, you can see the break-up of sales and tax amount.



Sales exclusive of tax with additional expenses

1. Create a voucher class for sales.
   a. Press **AMTG** (Go to) > **Alter Master** > **Voucher Type** > type or select **Sales** > and press **Enter**.
   b. Enter a name for the voucher class under **Name of Class**.
   c. Press **Enter** to view the **Voucher Type Class** screen.
   d. Under **Default Accounting Allocations** for all items in Invoice (except for the items specified below), select the sales ledger.
   e. Under **Additional Accounting Entries**, select the tax ledger and expense ledger.

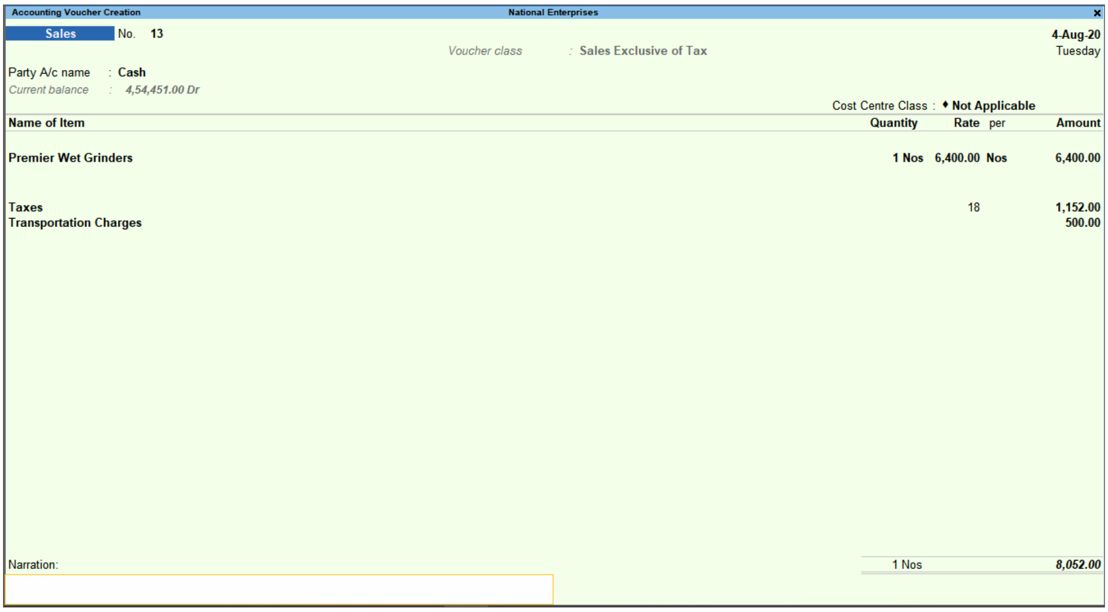


f. Accept the screen and the sales voucher type. As always, you can press **Carla** to save.

2. Use the voucher class in sales invoice.

   a. Press **AMTG** (Go to) > **Create Voucher** > **F8** (Sales) > select the voucher class. The tax ledger and expense ledger will appear automatically.

   b. Enter the sales details.



   c. Accept the invoice. As always, you can press **Carla** to save.

Voucher Class for POS Invoice

In Tally Prime, you can create a voucher class with the required modes of payment, which can be used to quickly record the transactions.

1. Enter a name for POS invoice voucher class.

   a. **Gateway of Tally** > **Create** (create a POS invoice voucher type, if not available) or **Alter** (to open the POS invoice voucher type if you had created it earlier) > **Voucher Type** > and press **Enter**.
   Alternatively, press **AMTG** (Go To) > **Create Master/Alter Master** > **Voucher Type**. Create/select **POS Invoice**.

   b. Enter a name for the voucher class under **Name of Class**.

   c. Press **Enter** to view the **Voucher Type Class** screen.

2. Define the voucher class details.

   a. The options **Gift Vouchers**, **Credit/Debit Card Payment**, **Cheque/DD**, **Cash** will be enabled.

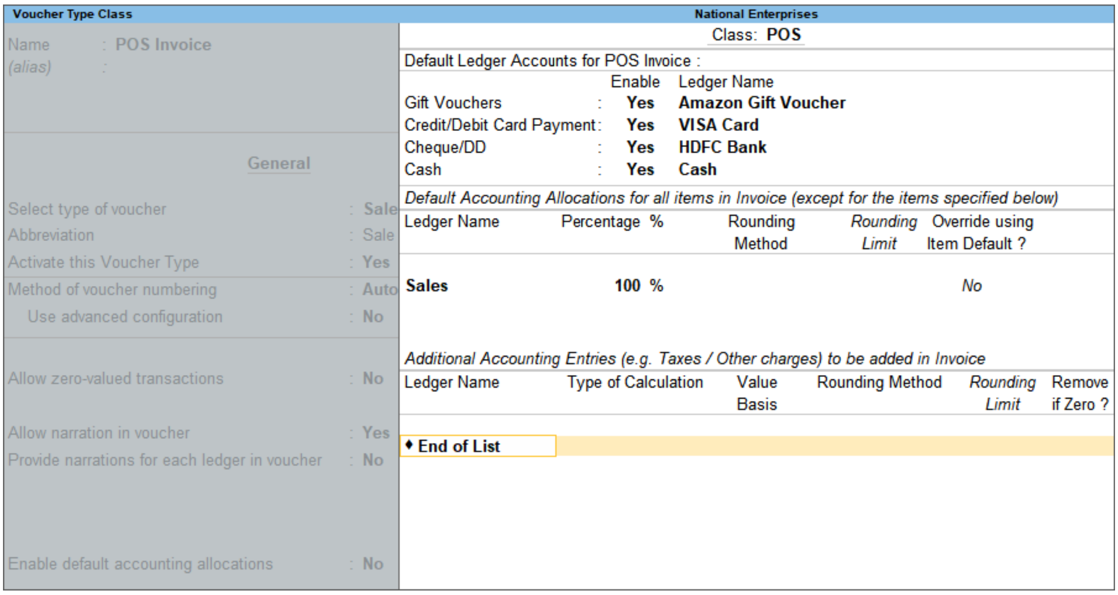
b. Select the ledgers for each.

- **Gift Vouchers** – Select the ledgers grouped under **Sundry Debtors** or **Sundry Creditors**.
- **Credit/Debit Card Payment** – Select the bank ledger grouped under **Bank Account** or **Bank OD/OCC**.
- **Cheque/DD** – Select the bank ledger grouped under **Bank Account** or **Bank OD/OCC**.
- **Cash** – Select the ledger grouped under **Cash-in-Hand**.

c. Select the sales ledger to be prefilled in the invoice, and enter the percentage of allocation.

Note: If you want to use this voucher class to calculate sale value incl usive of tax, you can enter a lesser percentage for sales ledger and allo cate the remaining percentage for tax. For example, if the tax is 14%, you can enter the percentage for sale as 87.72% (which is (100*100)/1 14) and the remaining percentage (12.28% (which is 100*14)/114) for tax ledger.

d. Select any additional accounting ledgers to be pre-defined in the invoice, with the **Type of Calculation**. This is applicable only if you want to enter additional expenses, like transportation charges, which will be added to the item value.



3. Press Enter to return to the **Voucher Type Alteration** screen.

4. Accept the screen. As always, you can press **Carla** to save.

Voucher class for payroll

Payroll Voucher Classes are templates where you can automate the selection of ledgers, and also restrict ledgers to be used in vouchers. You can either alter the existing payroll voucher type or create a new voucher type based on your requirements.

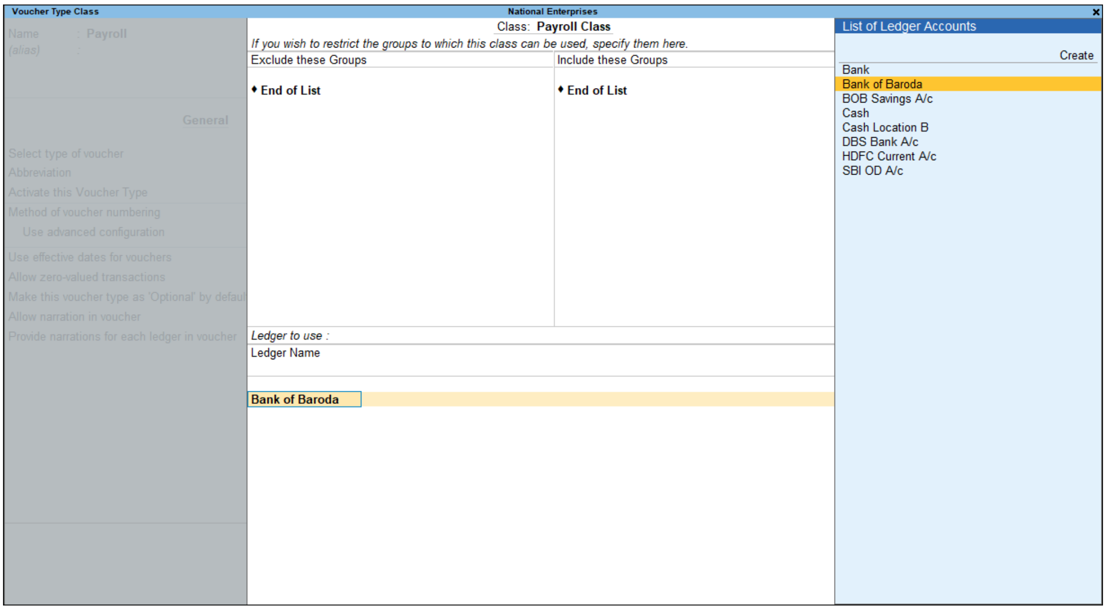
In this section

- Create payroll voucher class
- Record payroll voucher using voucher class

Create Payroll Voucher Class

1. **Gateway of Tally** > **Alter** > **Voucher Type** > **Payroll**.

   Alternatively, press **AMTG** (Go To) > type or select **Alter Master** >**Voucher Type** > **Payroll**.
2. Press **F11** (Features) > **Set Maintain payroll** to **Yes**.
3. Place the cursor on the Name of Class field. Enter a name. You can create more than one class.
4. Select the Ledger Name.



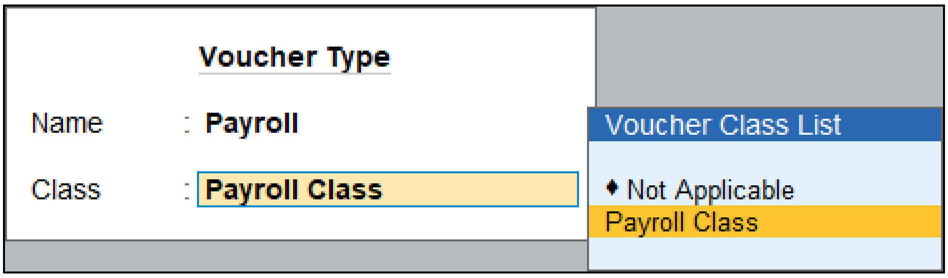
5. Accept the voucher type screen. As always, you can press **Carl**a to save.

Record Payroll Voucher using Voucher Class

1. **Gateway of Tally** > **Vouchers** > press **F10** (Other Vouchers) > type or select **Payroll** or press **Ctrl**+**F4** (Payroll).

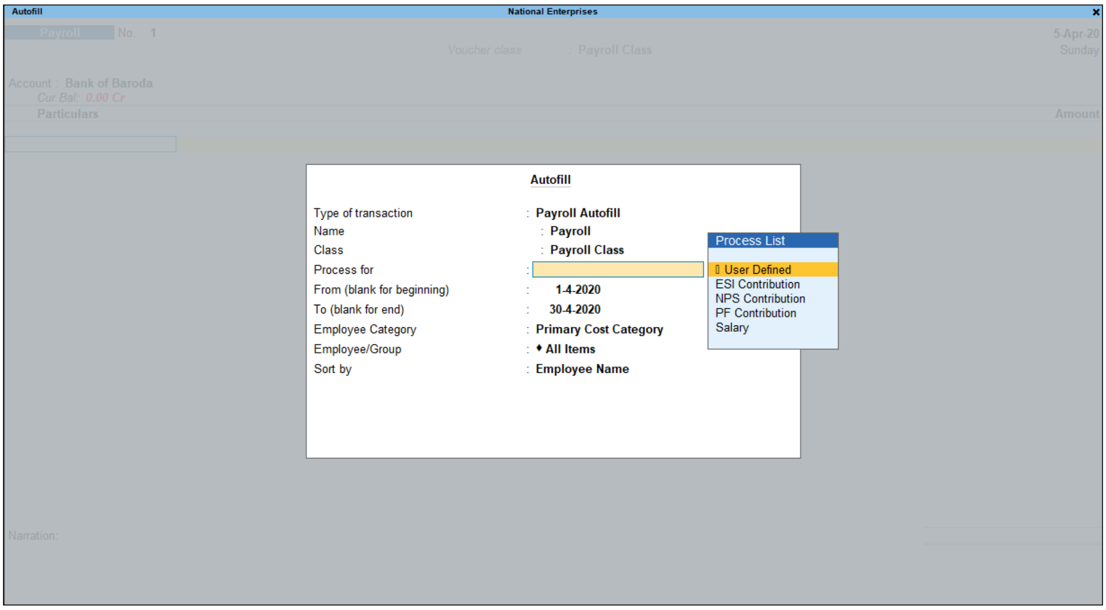
   Alternatively, press **AMTG** (Go To) > **Create Voucher** > press **Ctrl**+**F4** (Payroll).

2. Select the class from the **Voucher Class List** as shown below:



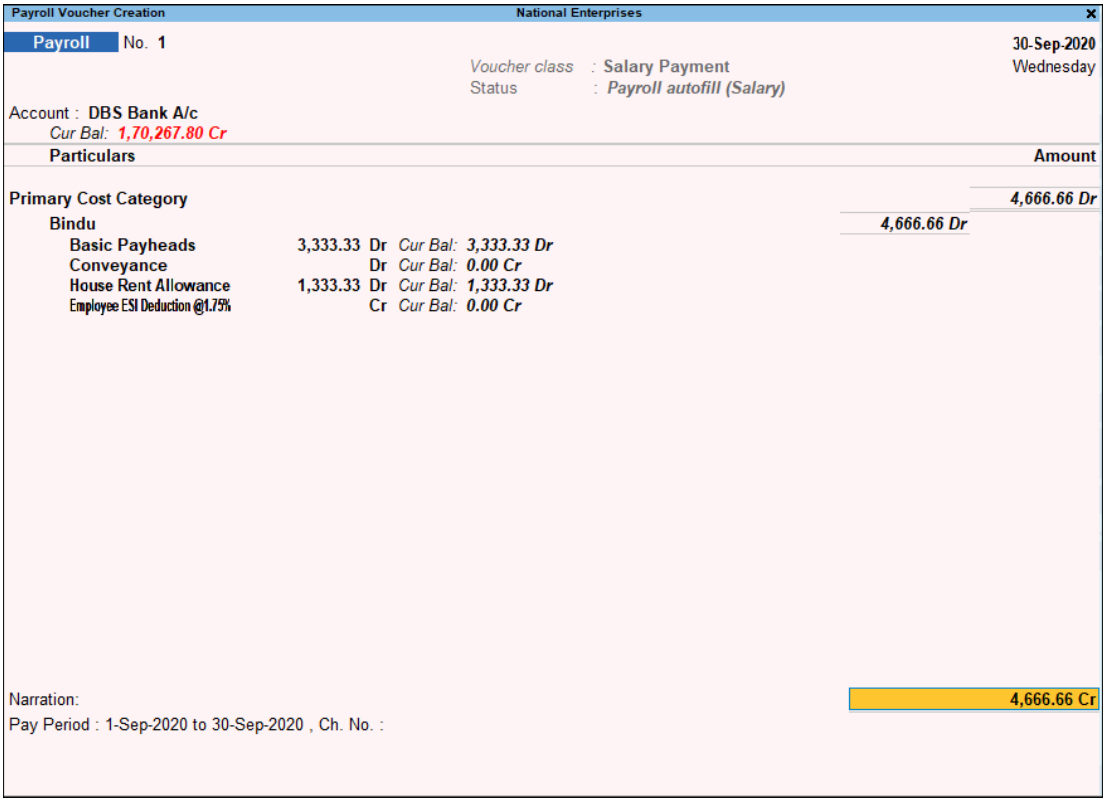
3. Press **Ctrl+F** for the Payroll Auto Fill screen to appears with class.

4. Enter the required details.



5. Enter the Bank Allocation details.

The payroll voucher appears as shown below:



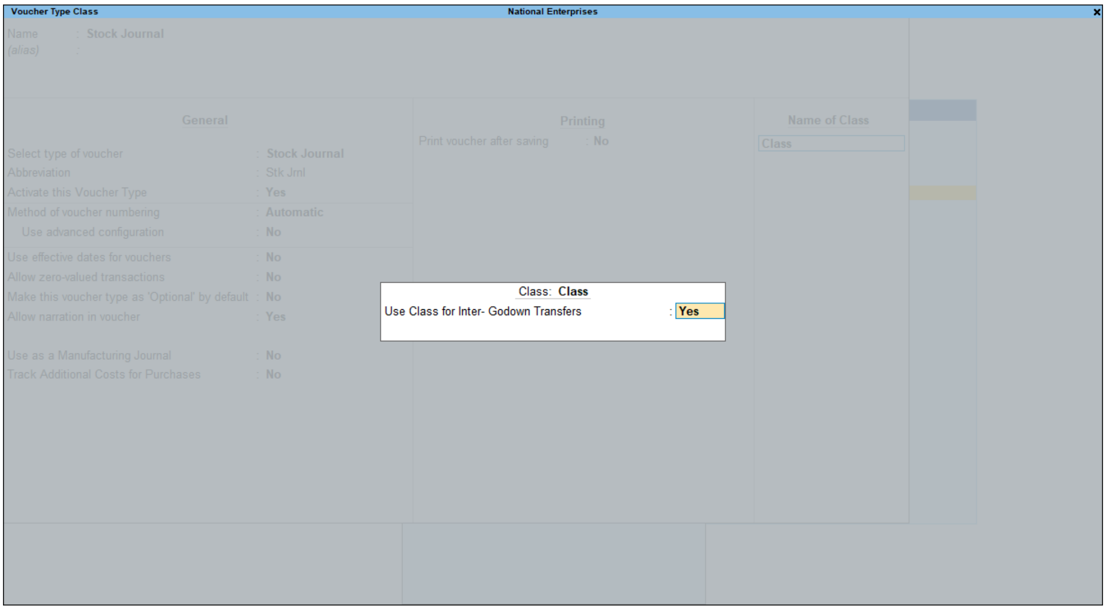
6. Accept the voucher. As always, you can press **Carl**a to save.

Voucher class for stock journal

Stock Journal classes can be used to account for goods transferred from one location (Go down) to another. This is useful for companies having inventory at multiple locations or at least two location/God owns. Once the class is selected, specify the Destination and provide the list of items to be transferred. Through this class all items/batches thus selected will be exactly mirrored to the destination, including Batch Number, Rate and Value. You can either alter the existing Stock Journal or create a new voucher type based on the requirements.

- **Gateway of Tally** > **Alter** > **Voucher Type** > type or select **Stock Journal**. Alternatively, **AMT**G (Go To) > **Alter Master** > **Voucher Type**> type or select **Stock Journal**.
- Place the cursor on the Name of Class field. Enter a name, for example, Transfer. You can create more than one class.
- Set the option **Use Class for Inter -Go down Transfer** to Yes.

- Accept the voucher type. As always, you can press **Carl**a to save.



Voucher Type Security

Voucher type security will help the business owner specify both individual Voucher Type (Contra, Payment, etc.) restriction and activity level (Sales Department, Procurement Department etc) restriction for different users. The types of functions or activities for which the control can be set include being able to create, alter, print, or have full access to any particular type of Voucher. With the voucher type security feature, the administrator can:

- Create a department and role-based segregation of access for different users. For example, allow access based on sales, purchase, accounts and payroll etc. for employees in those areas of work.
- Provide or deny access to the level of activity that can be performed on a Voucher by different users. For example, allow User A and User B to create and alter a payment voucher, and allow User C to only view the same.
- Provide access to an entire group of vouchers like accounting vouchers, or inventory vouchers as a whole.

In this section

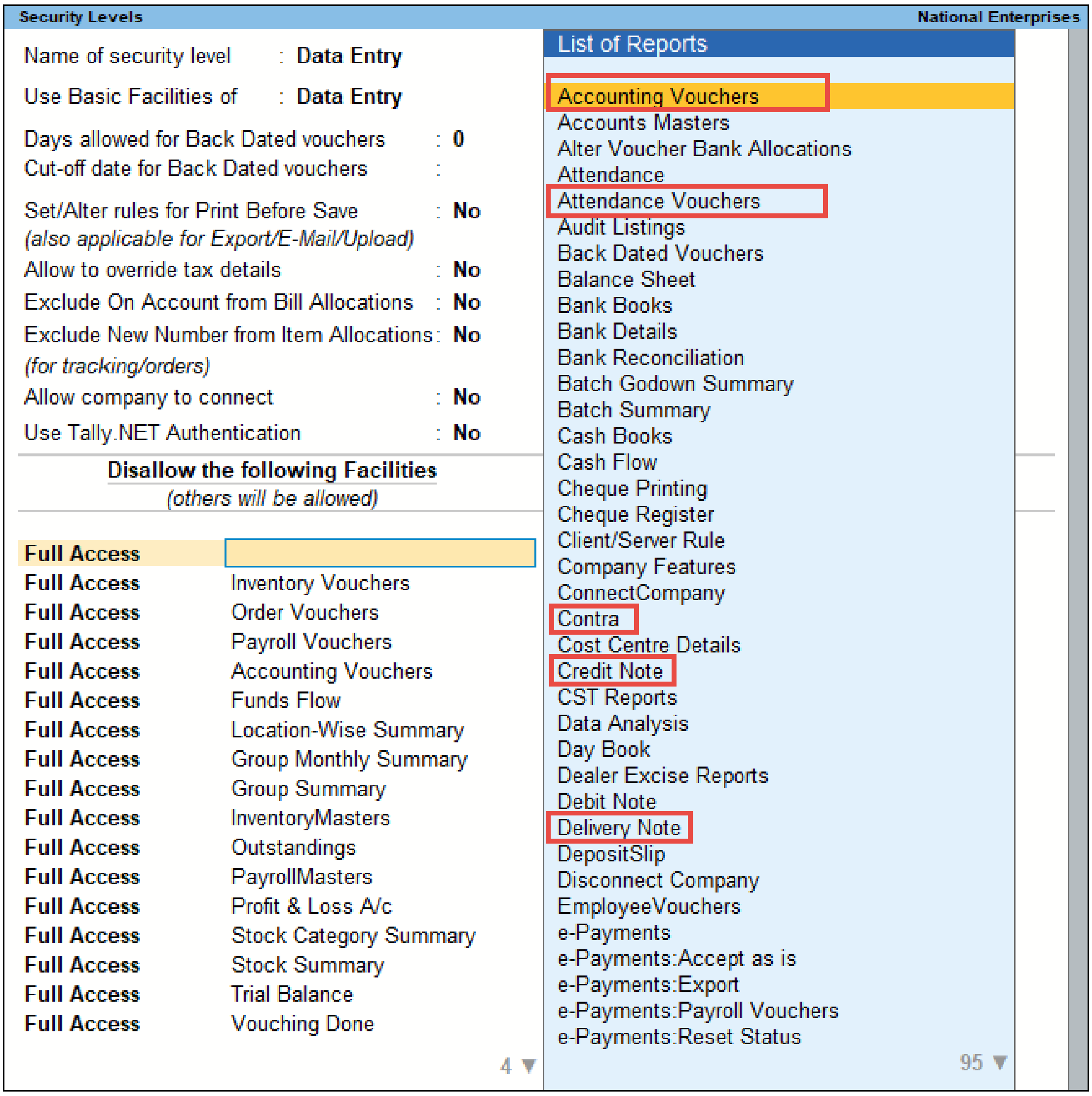
- Set up Voucher Type Security for users
- Security for pre-defined groups of vouchers
- Voucher type security add-ons and voucher type security

Set up Voucher Type Security for users

Consider the example of ABC Company having a user named Arun, who records sales and receipt transactions. You need to provide him with access to create and alter sales and receipt vouchers.

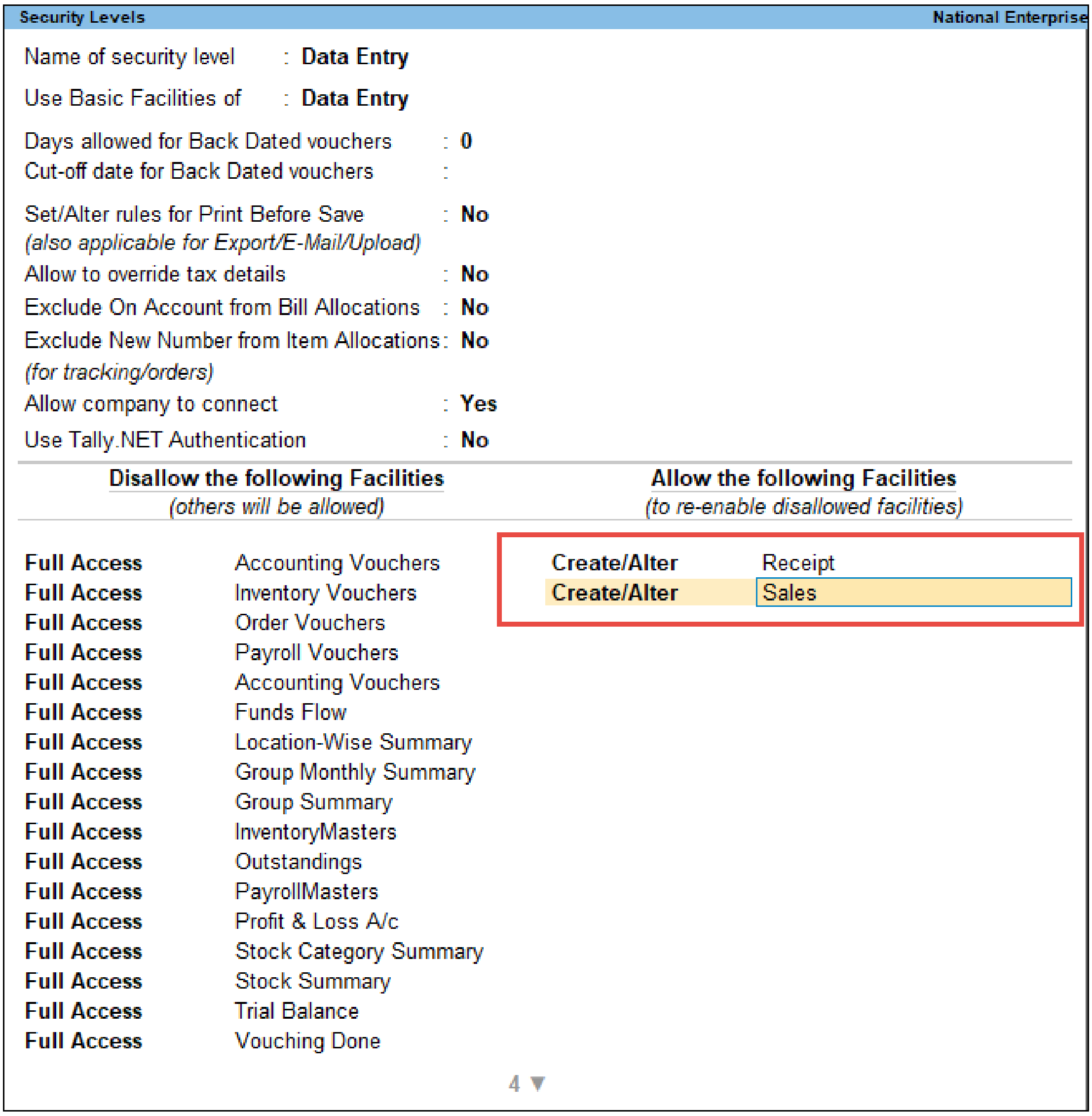
Gateway of Tally > **Alt+K** (Company)> select **User Roles**.

1. In **Security Levels** screen, include the voucher types and group of vouchers (Accounting Vouchers, Inventory Vouchers, Order Vouchers and Payroll Vouchers) from the List of Reports, to set the Voucher Type Security.



Note: The aliases provided for voucher types will not be displayed in the List of Reports while defining the Voucher Type Security.

2. To provide access to **Create/Alter** sales and receipt voucher types, configure the Security Level as shown below:


Security Levels National Enterprise

Name of security level : **Data Entry**
Use Basic Facilities of : **Data Entry**

Days allowed for Back Dated vouchers : **0**
Cut-off date for Back Dated vouchers :

Set/Alter rules for Print Before Save : **No**
(also applicable for Export/E-Mail/Upload)
Allow to override tax details : **No**
Exclude On Account from Bill Allocations : **No**
Exclude New Number from Item Allocations : **No**
(for tracking/orders)
Allow company to connect : **Yes**
Use Tally.NET Authentication : **No**

Disallow the following Facilities
(others will be allowed)

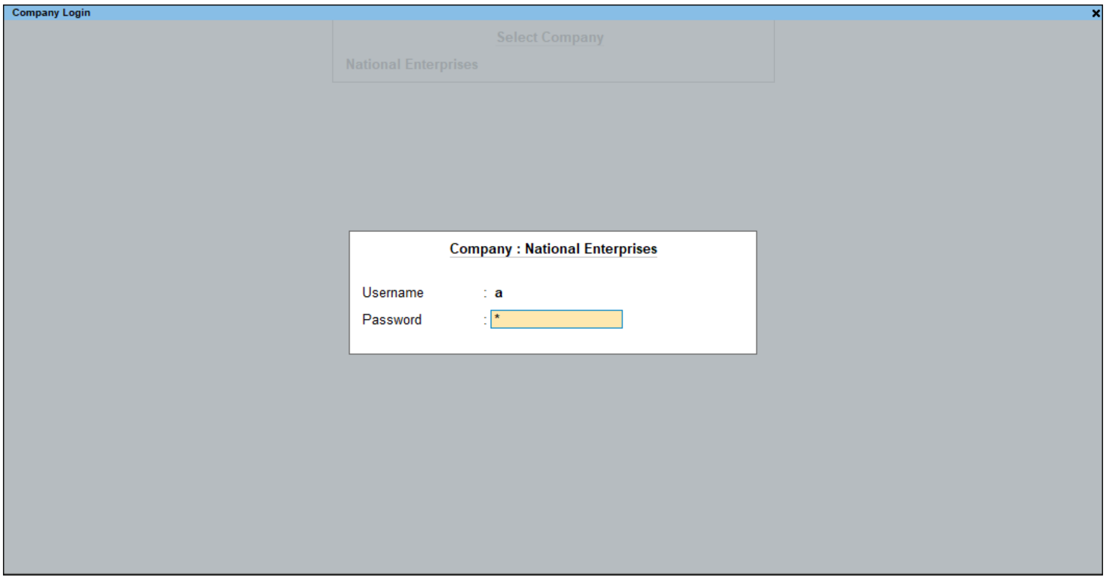
Full Access	Accounting Vouchers
Full Access	Inventory Vouchers
Full Access	Order Vouchers
Full Access	Payroll Vouchers
Full Access	Accounting Vouchers
Full Access	Funds Flow
Full Access	Location-Wise Summary
Full Access	Group Monthly Summary
Full Access	Group Summary
Full Access	InventoryMasters
Full Access	Outstandings
Full Access	PayrollMasters
Full Access	Profit & Loss A/c
Full Access	Stock Category Summary
Full Access	Stock Summary
Full Access	Trial Balance
Full Access	Vouching Done

Allow the following Facilities
(to re-enable disallowed facilities)

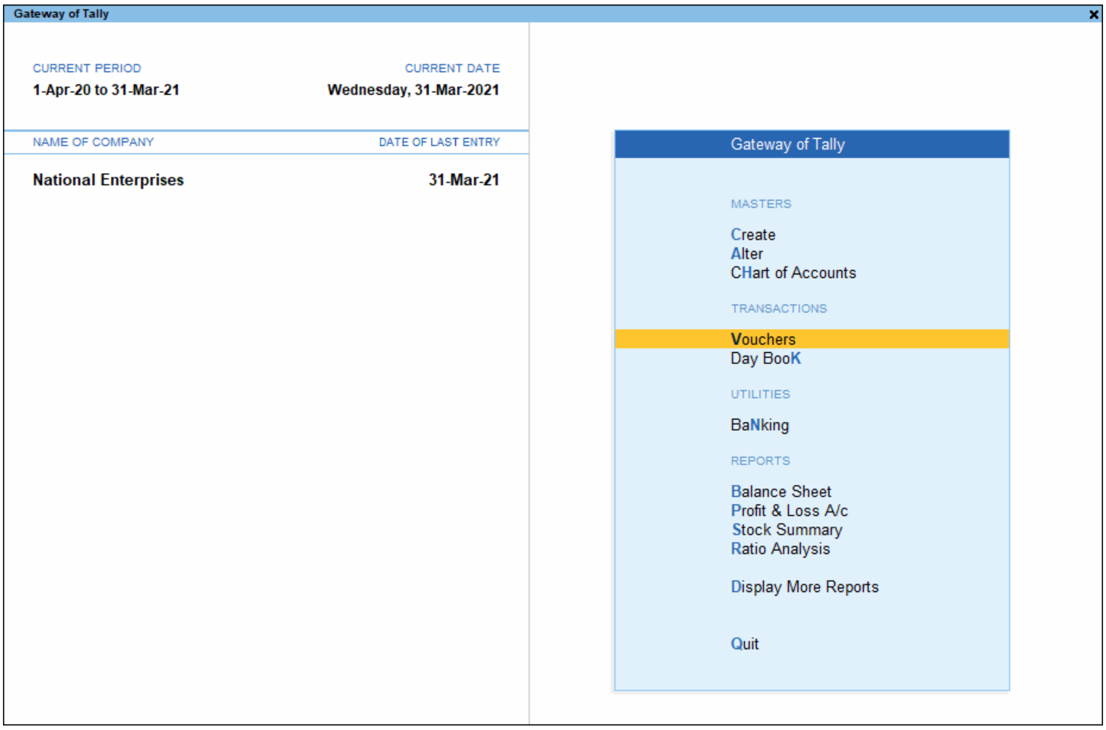
Create/Alter	Receipt
Create/Alter	Sales

4 ▼

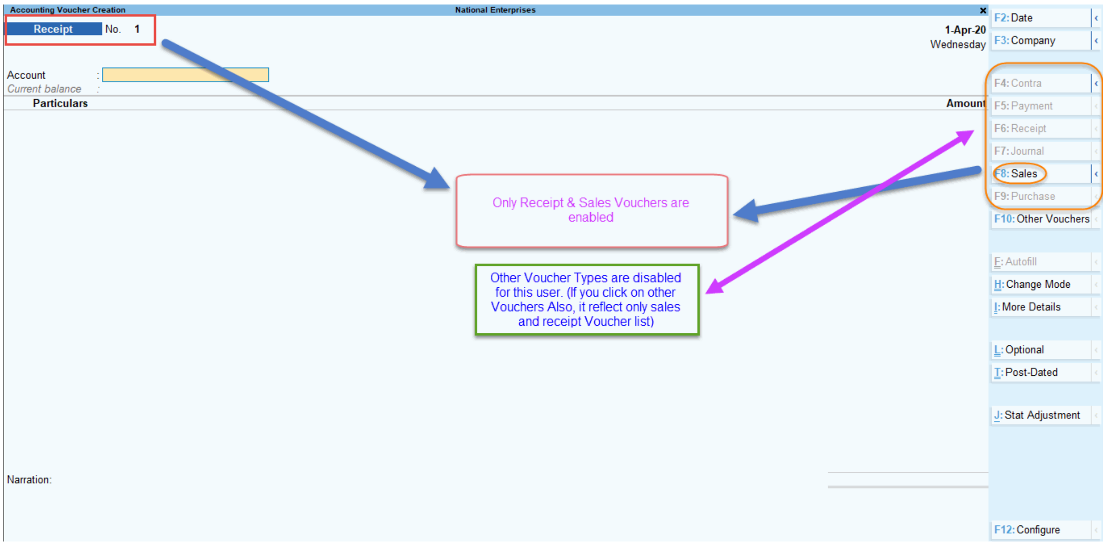
Enter Arun's login details to open the Company.



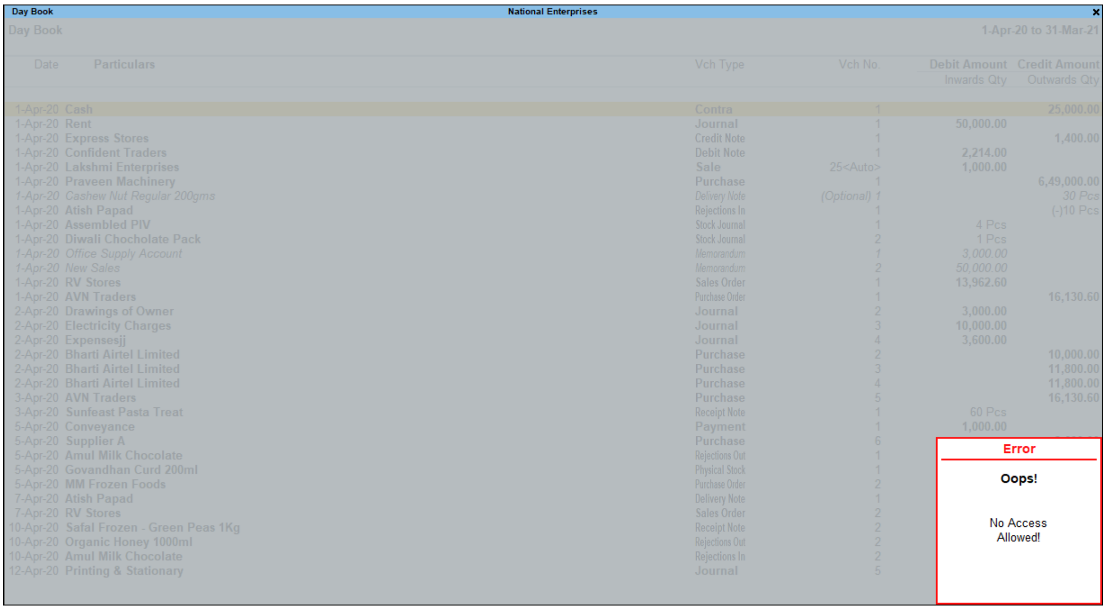
In **Gateway of Tally**, only **Vouchers** option appears as shown below:



On navigating from this option, you can observe that only receipt and sales vouchers will be enabled for recording transactions.



If the user Arun navigates to Day Book, all the vouchers recorded during the period specified will be displayed, but the access to Alter/Print the vouchers will be restricted. If the user selects any voucher other than receipt or sales vouchers will display the error No Access Allowed!.



Security for pre-defined groups of vouchers

You can configure voucher security levels for four pre-defined groups of vouchers.

- Accounting Vouchers: Contra, Payment and Receipt voucher types.
- Inventory Vouchers: Rejections in, Rejections Out, Stock Journal, Delivery Note, Receipt Note, Physical Stock, Material in, and Material Out voucher types.

- Order Vouchers: Sales Order, Purchase Order, Job Work Out Order, and Job Work in Order voucher types.
- Payroll Vouchers: Payroll and Attendance voucher types.

If users are Allowed/Disallowed the access for any of the groups listed above, the voucher types listed under the respective group will also carry the same access configuration. Disallowing access to Voucher Types will not affect the user's access to Create Voucher Types. To restrict a user from Creating Voucher Types, you need to disallow the access to Masters.

As per the example given in the previous section, as Arum has been disallowed the access to Payment Voucher, he cannot record transactions in Payment Vouchers. But he can Create a Voucher Type under Payment Voucher Type. To restrict Aron's access for Creating Voucher Types under payment voucher type, access to Accounting Masters has to be Disallowed.

Voucher type security add-ons and voucher type security

If an Add-on for providing Voucher Type Security is already in use:

- Access configurations defined using Tally Prime and the Add-on will be combined. For example, if Full Access to payment voucher is Disallowed for User A, and in the Add-on Full Access to receipt voucher is Disallowed, User A will not be able to access both payment and receipt vouchers.
- The Voucher Type Security configuration will override the Add-on's configuration. For example, if Full Access to the group Accounting Vouchers is Disallowed for User A, and in the Add-on Full Access to payment voucher is Allowed, User A will not be able to access the payment voucher.

3.8 ACCOUNTS VOUCHERS

An accounting voucher is a record that serves as a supporting document for the entries recorded in the accounting books, and it is stamped as 'paid' once the supplier has received the payment. Payments are recorded in the appropriate ledger accounts. There are different *types of accounting vouchers* that we will go about in the latter part of this article.

So, to begin with, **what is a debit note**?

A debit note is a document/voucher given by one party to another stating that the other party's account has been debited in the sender's books.

Components of an Accounting voucher

Accounting vouchers must be prepared for a company by an accountant. The source documents are the documents associated with a business transaction. Cash memos, bills, bank deposit slips, receipts, challans, and other information is proving the existence of a transaction in an organization are examples of such documents.

The voucher includes:

- Serial number of voucher
- Type and Date of Voucher
- Debit and Credit Column
- Amount in both figures and words
- Column of Specifics (where the brief description of the transaction is recorded)
- Space for signature of accountant
- Signature of the authorized person
- Signature of receivers (for bank payment voucher.

An accountant must follow specific procedures when preparing a voucher, such as

- All supporting documents must be thoroughly verified (date, amount, nature of transactions, signature)
- An authorized person must approve all supporting documents.
- The accountant should determine the type of voucher that will be used to prepare the transaction.
- The accountant must ensure that the voucher's debit and credit sides are balanced.

Different types of accounting vouchers

1. **Debit or Payment voucher**: It is the supporting documentation that shows that the monetary transaction has occurred.

- It demonstrates that the company has paid another third party and other parties.

1. **Credit or Receipt voucher**: The document proves the company received cash from a customer, bank, or another third party.

- This voucher can be used for sales cash receipts, share capital injections, bank interest earnings, debtor cash receipts, and cash from other sources.

1. **Non-Cash or Transfer voucher (Journal voucher)**:

These are vouchers for transactions that do not involve cash flow; they are also referred to as journal vouchers.

- Deprecation, credit sale, credit purchase, adjustment, and reversing entries are examples.

Benefits

- To keep control of the payment process.
- Transactions in business are highly accurate.
- Many invoices can be paid at the same time (reducing the number of cheese).
- Invoice approval and payment are separated, making it easier to schedule.
- This makes it simple to determine the transaction's origin.
- During a company audit, serve as a critical source of evidence.
- Reduces the possibility of employees attempting to steal company assets.

Conclusion

Every business has to prepare such vouchers for accounting purposes. These records are critical for any business to keep track of all income and expenses and ensure statutory compliance. Accounting is also required in every organization, even if it is a small one, as it can keep everything organized and provide support for all tax return claims.

3.9 REVERSING JOURNAL

Reversing Journals are special journals that are automatically reversed after a specified date. They exist only till that date and are effective only when they are included in reports. These are used in interim reporting in the course of the financial year where accruals are to be reported. These accruals are usually short term and are cleared in the subsequent period. However, to get a proper perspective, decision makers require the reports with full impact of all aspects and transactions.

1. Go to **Gateway of Tally.**
2. Select **F11** > **F1: Accounting Feature.**
3. Set **Use Reversing Journals & Optional Vouchers?** to **Yes.**
4. **Accept** the screen to save.

You may use reversion journal for accounting for or providing for depreciation. Since, depreciation is usually provided during at the end of the year, using the Reversing journal you may include them for monthly reporting or a specific period to give more accurate status or position.

For example, on 30th June you want to view the Balance Sheet but June month’s rent is not being paid. You may create a Scenario (refer Scenario Management for more information) and pass a Reversing Journal entry to view the reports which will be effective up to the applicable date. When you view the Balance Sheet, Tally.ERP 9 displays the report with the reversing journals included. The voucher affects the report only for that day, 30th June.

Applicable up to

The reversing Journal is available for inclusion in a scenario report till this date. The Reversing Journal can be created as of a particular date and made Applicable up to a different date.

Reversing Journal Register

All vouchers are maintained in a Reversing Journal Register. These are not posted to any books of accounts and cannot be included in regular reports. They can only be seen using a scenario.

Go to **Gateway of Tally** > **Display** > **Exception Reports** > **Reversing Journals.**

3.10 MEMORANDUM VOUCHER

This is a non-accounting voucher and the entries made using memo voucher will not affect your accounts. In other words, Tally.ERP 9 does not post these entries to ledgers, but stores them in a separate Memorandum Register. You can alter and convert a Memo Voucher into a regular voucher when you decide to bring the entry into your books.

Making suspense payments

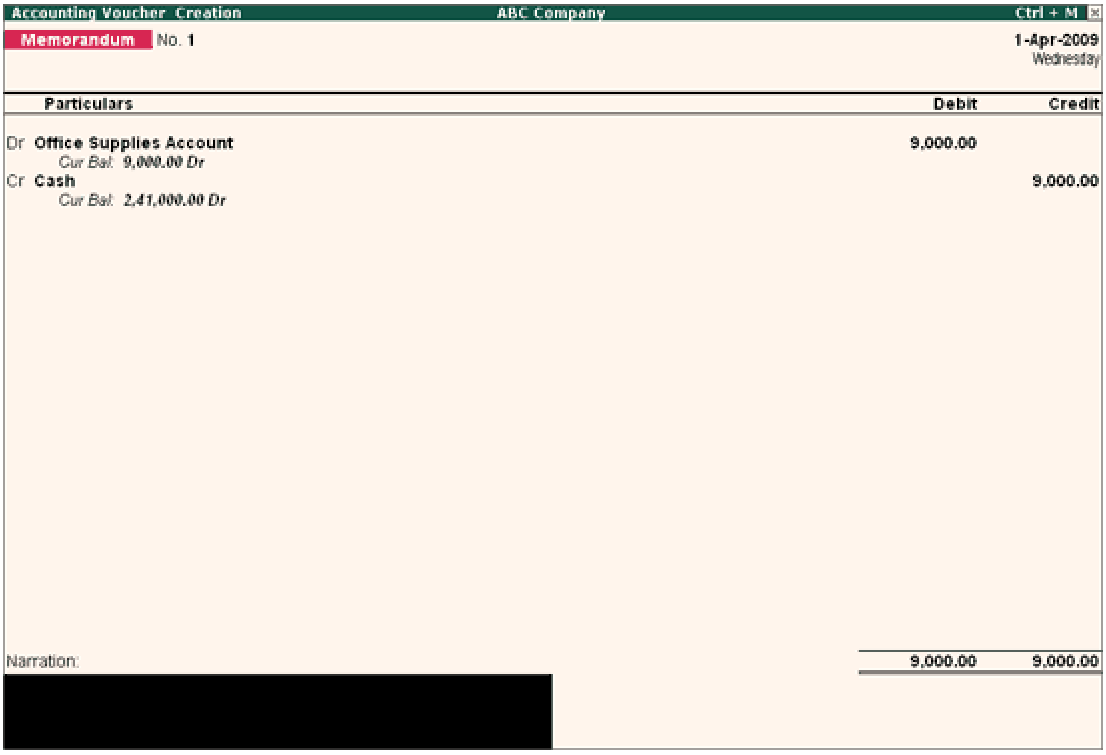
Consider that a company gives its employees cash to buy office supplies, the exact nature and cost of which are unknown. For this transaction you can enter a voucher for the petty cash advance, a voucher to record the actual expenditure details when they are known, and another voucher to record the return of surplus cash.

However, a simpler way of doing it is to enter a Memo voucher when the cash is advanced, and then turn it into a Payment voucher for the actual amount spent, when the details are known.

For example, the Company pays its employee Rs. 1000 as petty cash advance for Office Expenses.

1. Enable the following option from **F11: Accounting Features**
2. Use Reversing Journals & Optional Vouchers.

3. Go to **Gateway of Tally** > **Accounting Vouchers** > Select **Ctrl+F10: Memos** from the Button Bar or click **Ctrl+F10** .
4. **Debit** Office Supplies Account.
5. **Credit** Cash Account.



Vouchers not verified at the time of entry

If there is no clarity with the details of a voucher you are entering, you can enter it as a Memo voucher and amend it later when the details are available.

Items given for approval

Generally completed sales are entered into books. In case items are given on approval, use a Memo voucher to track and convert it into a proper Sales voucher. You can cancel/delete the memo voucher if the sale is not made.

Memorandum Voucher Register

Go to **Gateway of Tally** > **Display** > **Exception Reports** > **Memorandum Vouchers.**

Note: You can also view memorandum vouchers from the Day Book.

You can alter and convert a Memo voucher into a regular voucher when you decide to consider the entry into your books. Use Scenarios to see the effect of Memo entries on reports and statements.

3.11 OPTIONAL VOUCHER

Unlike a Memo voucher, this is not a separate voucher type. You can mark an existing voucher (for example, a payment voucher or a receipt voucher) as Optional. Press **CTRL + L** or click on Optional from the Button Bar. This button toggles between Regular and Optional. By marking a voucher Optional, the voucher does not get posted anywhere but remains in the Optional Voucher Register.

You can make a voucher type Optional to regular, if you need to create a new voucher type or alter an existing voucher type.

Go to **Gateway of Tally > Accounts Info > Voucher Types> select a Voucher Type>** Set **Make Optional as default** to **Yes**.

After enabling this option, any vouchers entered using this particular voucher type will be optional.

Enabling Optional Vouchers

Go to **Gateway of Tally**

1. Select **F11:F1: Accounting Features**
2. Set **Use Rev. Journals & Optional Vouchers?** to **Yes**.
3. **Accept** the screen to save.

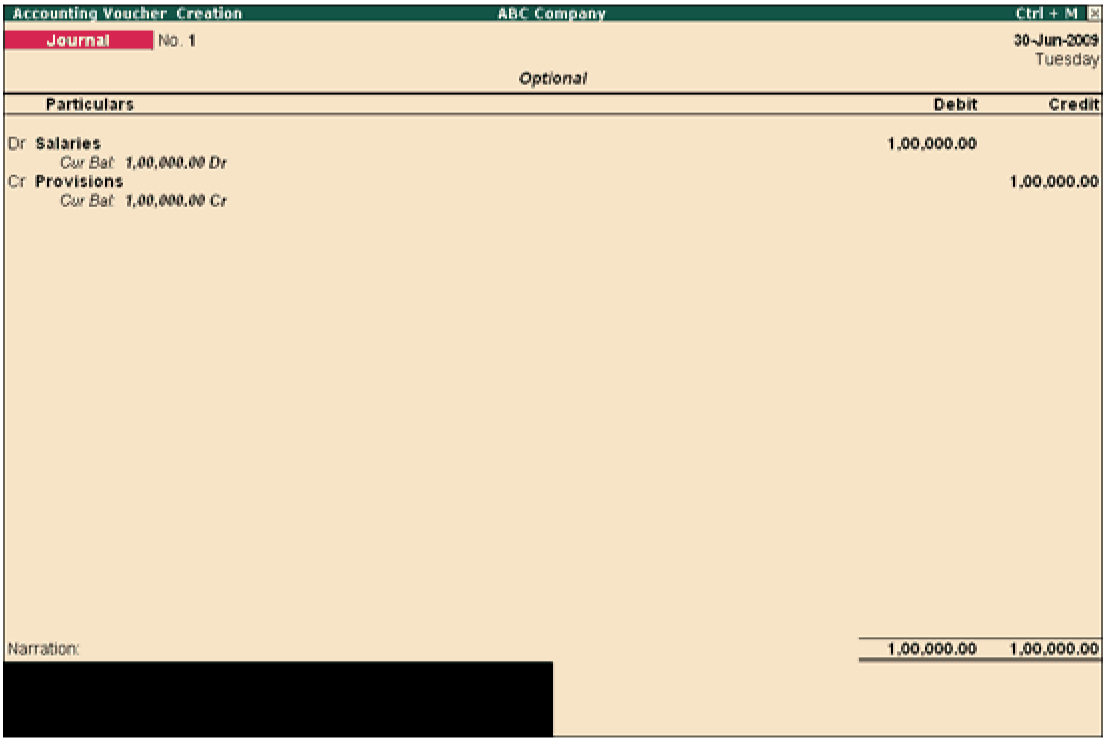
Use of Optional Vouchers

- If you do not want a transaction that is incomplete to affect the accounts, you can mark this as an Optional Voucher. Once the transaction is complete, modify the voucher and post it as a Regular Voucher. For example, Preformat sales invoice. In fact, an optional sales invoice is printed as a Preformat Invoice.
- Optional Vouchers allow you to see the impact of transactions without actually posting them.
- Optional Vouchers can be used to forecast future sales. For example, create a New Voucher Type - Sales Forecast. Record future sales projections using this voucher type.

Consider an example: it is the 30th of June and you would like to view the Balance Sheet as of today, but June salaries are not due for payment until the first week of July. The Balance

Sheet will not be projecting the correct figures. To overcome this, you can enter an Optional Voucher dated 30th June.

1. Debit **Salaries Account**
2. Credit **Provisions (Current Liabilities) Account**



When you view the Balance Sheet, generate a report with the Optional Voucher included. The Optional Voucher should be already defined as a Scenario (Refer the section on Scenario Management for more details). The voucher affects the report temporarily. Once you quit the report, Tally.ERP 9 does not retain the Scenario details. The next time you view the balance sheet, it will not include the effect of the Optional Voucher unless you include it.

Note: Use **Scenarios** to see the effect of Optional voucher entries on reports and statements.

Optional Vouchers Register

You can view all optional vouchers in the Optional Vouchers Register

Go to **Gateway of Tally** > **Display** > **Exception Reports** > **Optional Vouchers**.

Note: You can view Optional Vouchers from the **Day Book** as well.

3.12 POST-DATED VOUCHER

While entering vouchers, you can mark them as **post-dated,** as a result these vouchers are not updated in the ledgers till the date specified in the voucher. This is useful for entering transactions that take place on a regular basis. For example, if you issue post-dated Cheques towards payment of instalments, you can set up the payments in advance, and Tally.ERP 9 will only update them in the ledgers on the due date.

Mark vouchers Post Dated by using **CTRL + T**

- **Post-dated Vouchers Register:** All Post-dated vouchers are maintained in Post-dated Voucher Register.

  Go to **Gateway of Tally** > **Display** > **Exception Reports** > **Post-Dated Vouchers**

- **Difference in the treatment of Post-dated Vouchers and other Unconventional Vouchers:** The major difference between post-dated vouchers and other Unconventional vouchers is that post-dated Vouchers affect regular books of accounts on the date of the voucher. Post-dated vouchers are not available for selection in Scenarios.

3.13 SELECTION OF VOUCHER TYPE FOR TRANSACTIONS

There are numerous types of accounting voucher in Tally ERP 9 which help in executing various important accounting tasks. Here, we have listed the accounting voucher in Tally examples:

- Sales Voucher in Tally

Sales voucher is one of the most used accounting vouchers in Tally. Users can create this voucher in two different formats; as an invoice, or as a voucher. The invoice format enables users to print a copy of invoices for customers. The voucher format can be used to store transactional records electronically and it doesn’t need a paper copy for the customer.

- Purchase Voucher in Tally

Like sales vouchers, purchase voucher belongs to the accounting category and is available in both invoice and voucher formats. Editing and modifying receipt entries in Tally are easy, as its voucher format helps accountants to do so quickly. Moreover, Tally also helps in converting a purchase voucher in the invoice format to the voucher format.

- Payment Voucher in Tally

The payment voucher is another accounting voucher in Tally that helps create and print cheese against the order. Once the payment voucher gets passed, the corresponding cheque can be printed by clicking on 'banking' and then on 'cheque printing'.

- Receipt Voucher in Tally

When accountants make a receipt voucher in Tally, all the invoices which have pending payments pop up as a reminder. As soon as the client makes the payment through any mode, the receipt can be updated with the payment method details. In addition, all the details of this receipt can be sent to the customer. Thus, receipt vouchers make payment monitoring easy.

- Contra Voucher in Tally

Contra vouchers are used to withdraw or deposit money in banks with the help of instruments such as cheese/ATM/DD or e-transfer to another account through NEFT/IMPS. With the help of contra vouchers in Tally, accountants can also generate deposit slips for recordkeeping.
Tally also provides exact currency denominations to monitor and print the deposit slip while also depositing the amount.

- Journal Voucher in Tally

Unlike other vouchers, a journal voucher in Tally can come under the roof of both accounting and inventory vouchers. There are multiple uses of a journal voucher in Tally depending on the type of business it is being used for.
It can be found as an optional voucher in Tally to make sales and purchase by accountants. Professionals can also use it for the adjustment or transferring of stock from one warehouse to the other.

- Credit Note Voucher in Tally

Credit note voucher in Tally has to be enabled manually. It is usually enabled by pressing F11 and they manually configuring its features. Credit note can also be passed by checking the original invoice. When a client is selected, Tally shows the transaction invoice history that have been raised.

- Debit Note Voucher in Tally

Debit note voucher is one of the most-used types of voucher in Tally ERP 9, that is used for managing purchase returns. With the help of this, accountants can generate a debit note for invoicing as well as a voucher. Like credit note voucher in Tally, debit note too can easily be configured by pressing F11 and configuring it manually.

3.14 VOUCHERS FOR INCOME AND EXPENDITURE

Expense vouchers and payment vouchers are documents you can send to a supplier to confirm a debt has been paid.

- An **expense voucher** is created when an expense has been paid.
- A **payment voucher** is created when a bill has been paid.

To create a payment voucher for multiple bill payments:

1. Click **Create (+) > Pay Bills**.
2. Enter the bill information.
3. Click **Save and print.**

To create a payment voucher for a single bill payment:

1. In the navigation bar, click **Transactions > Expenses**.
2. Click **Make a payment** next to the bill you wish to pay.
3. Click **Print**.

To create an expense voucher for an expense:

1. Click Create (+) > Expense.
2. Enter the expense information.
3. Click Print.

3.15 VOUCHERS ENTRY: VOUCHER NUMBER AND DATE SETTINGS

The voucher number of an entry is always the internal number. For most entries, there is a (paper) voucher that is the basis for this number.

An example of this is the sequence number on your bank statement: you record this as the

voucher number when you enter the bank statement.
The invoice number is an external number. You always specify an invoice number on sales invoices the customer uses as the payment reference.

Journal	Type of entry	Voucher	Invoice number	Counter
Opening balance	You use this to enter the opening balances for purchasing, sales and ledgers.			Voucher number counter
	Purchase	The invoice number from the supplier (i.e. the external invoice number).	The invoice number that is issued internally on receipt.	
	Sales	n/a	The issued internal invoice number.	
	Ledger or general entry	A sequence number from the source document or the like	n/a	
Purchase journal	Here you enter the incoming purchase or expense invoices that come from the creditor administration.	The invoice number from the supplier (i.e. the external invoice number). This number is specified in automatic payments.	The invoice number that is issued internally on receipt.	Counter for the (internal) invoice number

Sales journal	You enter the sent sales invoices here.	Not mandatory. You can use this to record a reference to the order number.	The invoice number that is issued during invoicing. This number is displayed for automatic collection.	Invoice number counter

Duplicate voucher numbers in a journal

In the table above, you can see that for a general journal entry (and for cash/bank entries) the 'Voucher number' is the internal number in the administration and that for purchase invoices the internal number is the 'Invoice number' field. Thus there is a difference in the type of journal in which you make entries. You can check the type of journal in the Start Menu (F4): Financial / Ledger / Journal / Journal properties / 'General' tab.

Duplicate voucher numbers can appear in a journal because you can use the same voucher number more than once for, for example for general entries. This occurs because specific journal entries can be made more than once where by the same voucher number applies.

For example, for purchase invoices the internal number is the invoice number in the administration. This does have to be unique and a message is displayed if you try to use the same purchase invoice number more than once. When you enter purchase invoices, you also complete the voucher number (this is the number provided by your supplier on the invoice). This can occur more than once because 2 suppliers can use the same number. When completing a voucher number for a purchase invoice, Profit will display a warning if the number has already been used for another entry in the same administration. Profit only gives this warning for entries in the same year. However, you can continue, because it could be that it is an invoice from another supplier. Profit makes this check on the double entry of a voucher number within one administration. If you have multiple administrations and the voucher number has been entered in another administration, then Profit does not check for this. For more information about voucher numbers/invoice numbers, refer to enter purchase invoices.

In the table above, you can see which counters you can set up. You cannot set up a counter for the **in Koop** journal to determine the last voucher number automatically, but you can set up a counter for your internal invoice number.

You can also set up a counter for the **Memorial** journal to determine the last voucher number automatically. You link this counter to the **Memorial** journal on the **General** tab via **Financial / Enter / Journal**. The counter is linked per administration.

You can also modify the entry layout by setting the **Voucher number** field to **Cannot be changed** (via the Start menu (F4)): General / Management / Entry layout. Open the entry layout you use for the entry, go to the **Line fields** tab, select the **Voucher number** field and set the value to **Cannot be changed**.

What is the difference between an entry date and voucher date?

	Entry date	**Voucher date**
Property	The date/period to which the financial fact (entry) refers to.	The date of the voucher.
Example	A date from the period in which you made an entry that refers to the financial fact.	The date of the voucher. For example, the invoice date.
Application	This field is used on the balance sheet.	This field is used in: security list, reminders and collection. (For calculation, due date etc.)

3.16 VOUCHER ENTRY WITH MORE THAN ONE DEBIT OR CREDIT ACCOUNTS

- Every transaction requires some sort of physical backup, which forms a base for it. The physical backup is nothing but the documentary evidence known as a journal voucher.
- It contains the information with the actual invoice as evidence. The third party gives the actual invoice. A voucher is taken as the base for recording the financial transaction into the books of accounts of the organization.

- **Auditors** generally scrutinize the voucher as a part of their **audit procedures**.
- Journal vouchers (also known as JVs) are used for transactions that do not relate to the material, cash, bank, and other day-to-day business transactions. It means JVs are used for a transaction such as **depreciation**, transfer entries, adjusting entries, provisions, accrual entries, purchase & sale of **fixed assets** on credit, write-off balances no more required, etc.
- These vouchers are easily traceable in any **accounting system**. Since these transactions are out of routine transactions, auditors vouch over these at priority.

3.17 EDITING AND DELETING A VOUCHER

Once a voucher has been created, it can be edited or deleted. To edit or delete a voucher:

1. Go to Vouchers.
2. Choose the voucher you'd like to edit or delete.
3. Click **Edit voucher, Duplicate voucher** or **Delete voucher**.

3.18 PRINTING OF VOUCHER AND CHEQUE.

Organizations choose banks to maintain the current/overdraft/savings accounts based on their business needs and the facilities offered by each bank. Each bank maintains a unique design of cheque for India (as prescribed by the NPCI - National Payment Corporation of India) and for other countries. These formats have to be taken into consideration in the process of cheque printing configuration wherein the dimensions in "mm" are provided. Based on the same, the cheque can be printed.

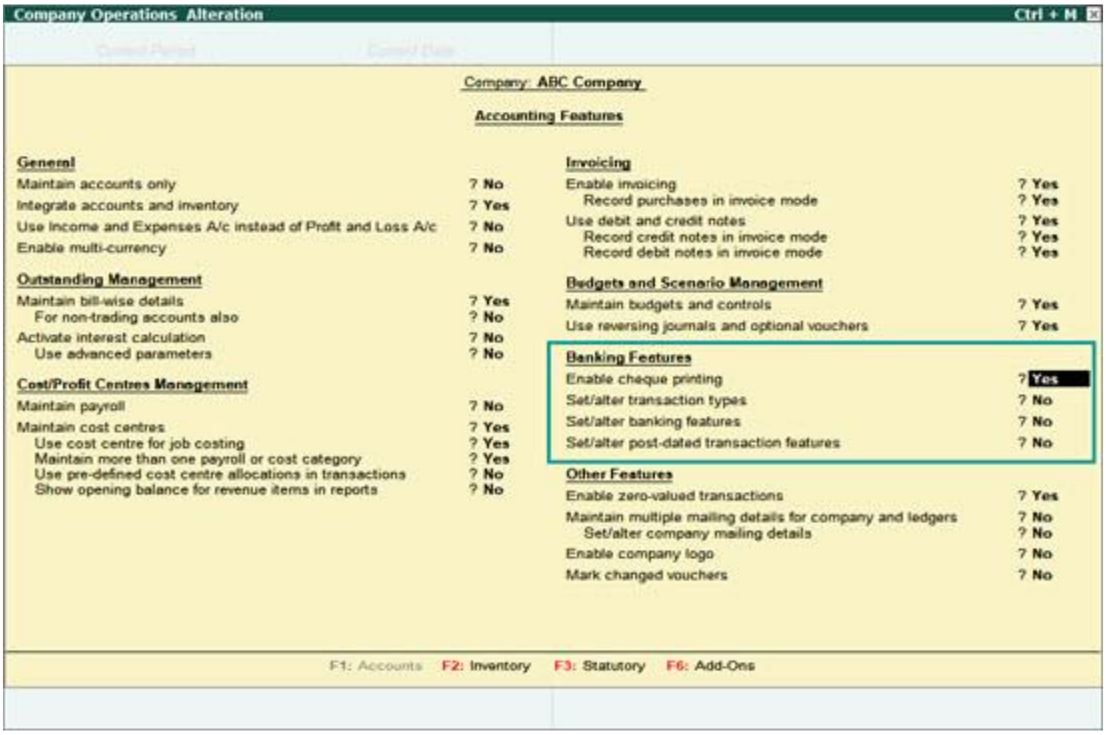
For the benefit of business entities and users, Tally.ERP 9 has provided the convenience of pre-configuring the dimensions for ease in configuring and printing of cheques. The Cheques can be printed at the time of making payments to vendors during voucher entry, that is, directly from the Payment Vouchers or from **cheque printing reports** .

Enable Cheque Printing Feature

You can enable cheque printing from the Company Operations Alterations screen. Cheque printing configurations can be defined in the bank ledger.

1. Go to **Gateway of Tally** > **F11: Features** > **Accounting Features.**
2. Under **Banking Features,** set **Enable Cheque Printing** to **Yes.**

Note: When a new company is created in Tally.ERP 9, the option **Enable Cheque Printing** is set to **Yes,** by default.



When this feature is enabled, the you can enable the **Set cheque print configuration** option that appears under the **Banking Configuration** section of the bank ledger, and specify the required configuration settings.

Provide cheque details in bank ledger

If there are changes in the cheque format (predefined and user defined), you can configure your cheque accordingly by going to the bank ledger.

1. Go to **Gateway of Tally** > **Accounts Info.** > **Ledger** > **Create.**
2. Select **Bank Accounts** or **Bank OD A/C** in the field **Under.**
3. Enter the **Bank A/c Holder's Name,** the **A/c Number, IFS Code.**
4. Select the **Bank Name.**

Note: To display the list of banks, TSS validity and internet connectivity are required. When you are creating a bank ledger for the first time, it is recommended that you are connected to the Internet to be able to view all the bank names while selecting the bank.

5. Enter the **Branch.**
6. Enable the field **Set cheque books** to provide the cheque range.

Note: If you want to alter the cheque range, open the bank ledger in alteration screen, and enable the option **Set/alter Cheque books.**

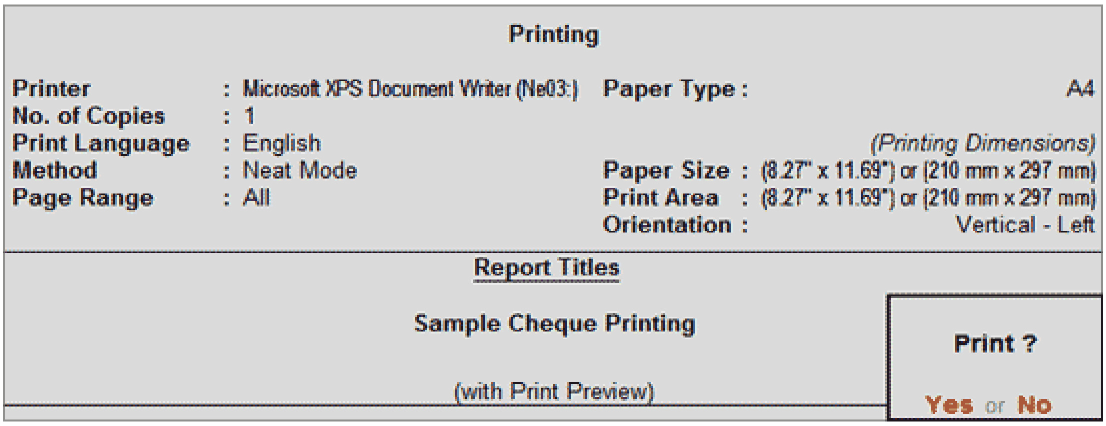
7. In the **Cheque Book Management** screen, enter the cheque number in the fields **from Number** and **to Number.** The **Number of Cheques** appear automatically.

   Alternatively, you can enter the **form Number** and the **Number of Cheques.** The **to Number** will appear automatically.

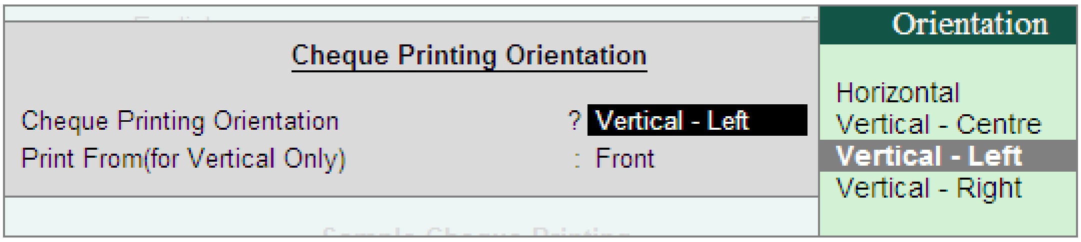
8. Enter the **Cheque Book Name.**
9. Press **Enter.**
10. Enable the option **Set cheque printing configuration.**

Note: If you want to alter the cheque dimensions, open the bank ledger in alteration screen, and enable the option **Set/alter cheque printing configuration.**

11. The **Cheque Dimensions** supported for the bank selected in the **Bank name** field, will be displayed.
12. Select the format and press **Enter** to view/modify the pre-configured dimensions.
13. Click **P: Print** to preview the settings. The **Sample Cheque Printing** screen appears.



14. Press **Alton** to view the **Cheque Printing Orientation** screen.



The **Cheque Printing Orientation** screen displays the following options:

Option	Description
Horizontal	This option prints the cheque horizontally (oriented as landscape).
Vertical - Centre	This option prints the cheque vertically at the centre of the paper.
Vertical -Left	This option prints the cheque vertically on the left hand side of the paper.
Vertical -Right	This option prints the cheque vertically on the right hand side of the paper.

Note: You can print the cheque face up or face down with vertical orientation using the option **Print from (for Vertical Only).**

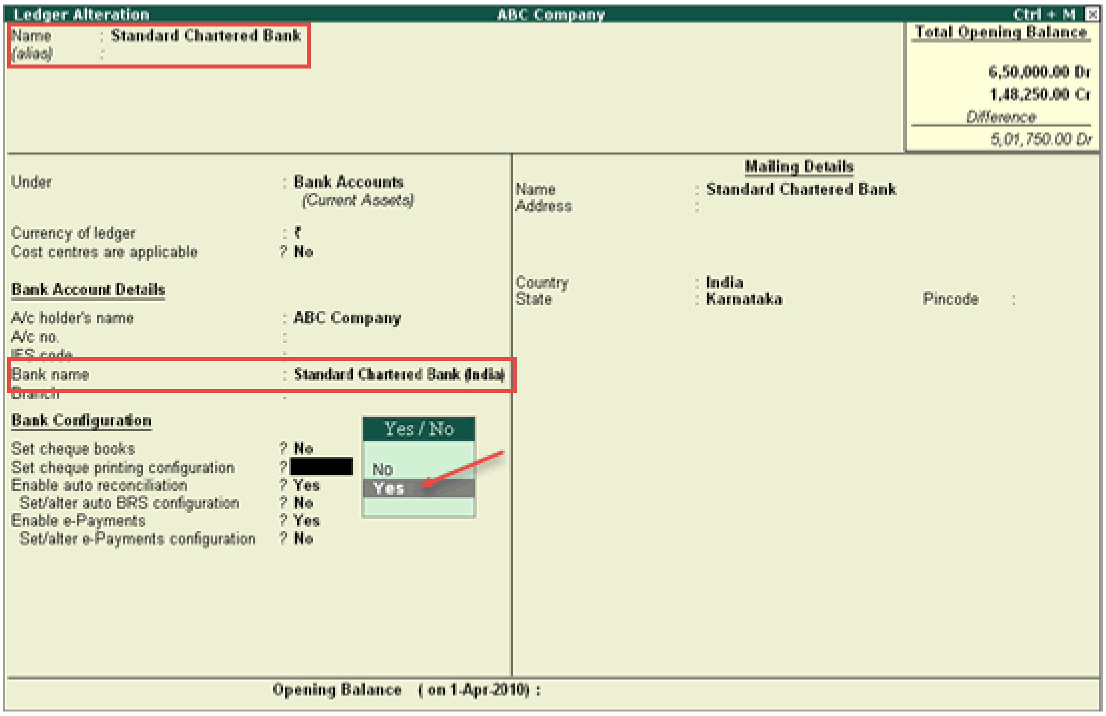
♦ Select **Front** for printers that print face up.

♦ Select **Rear** for printers that print face down.

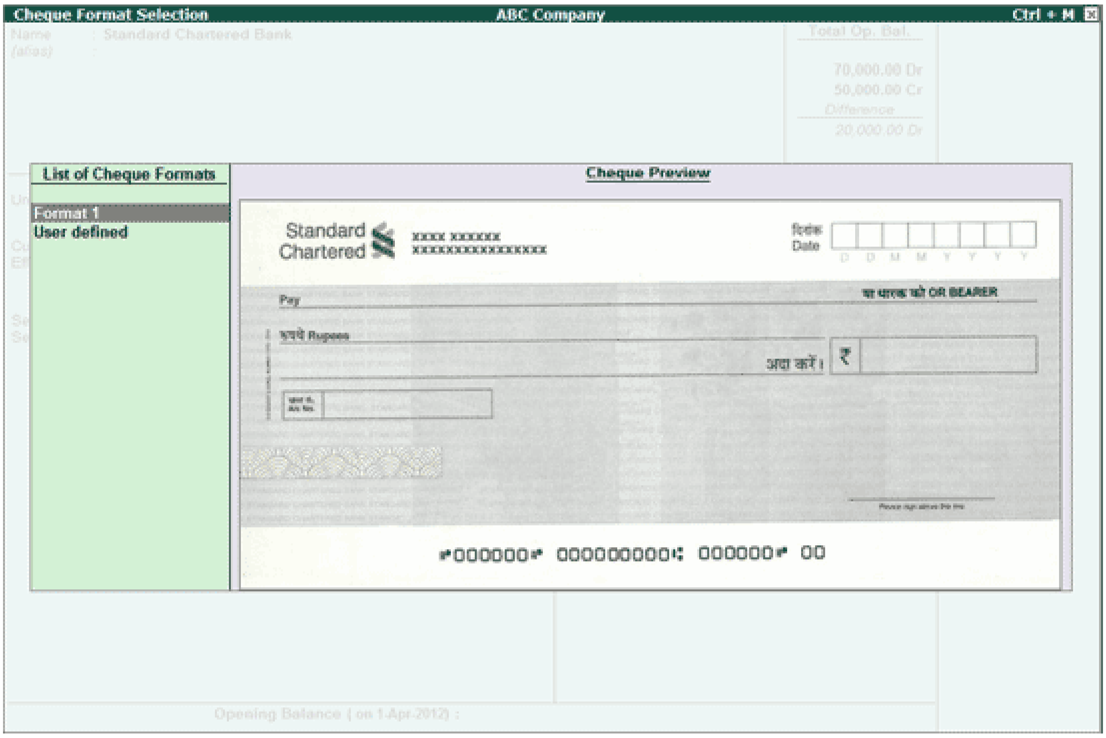
15. Press **Enter** to generate the preview.
16. Press **Esc** to return to the ledger master.
17. Press **Enter** to accept.
18. Press **Enter** to save the ledger.

Alter predefined cheque format

1. Go to **Gateway of Tally** > **Accounts Info.** > **Ledger** > **Alter.**
2. Select the bank ledger. For example, **Standard Chartered Bank.**
3. Select the **Bank Name** as **Standard Chartered Bank (India)** from the **List of Banks.**
4. Enable the option **Set cheque printing configuration.**



The **Cheque Format Selection** screen appears as shown below:



5. Select the required format from the list. The **Cheque Dimensions** screen appears.
6. Enter the cheque dimensions manually or click **C: Copy from** to copy the predefined dimensions.
7. Press **Carla** to accept the **Cheque Dimensions** screen to view the **Sample Cheque Printing** screen.
8. Press **Enter** to generate the preview.

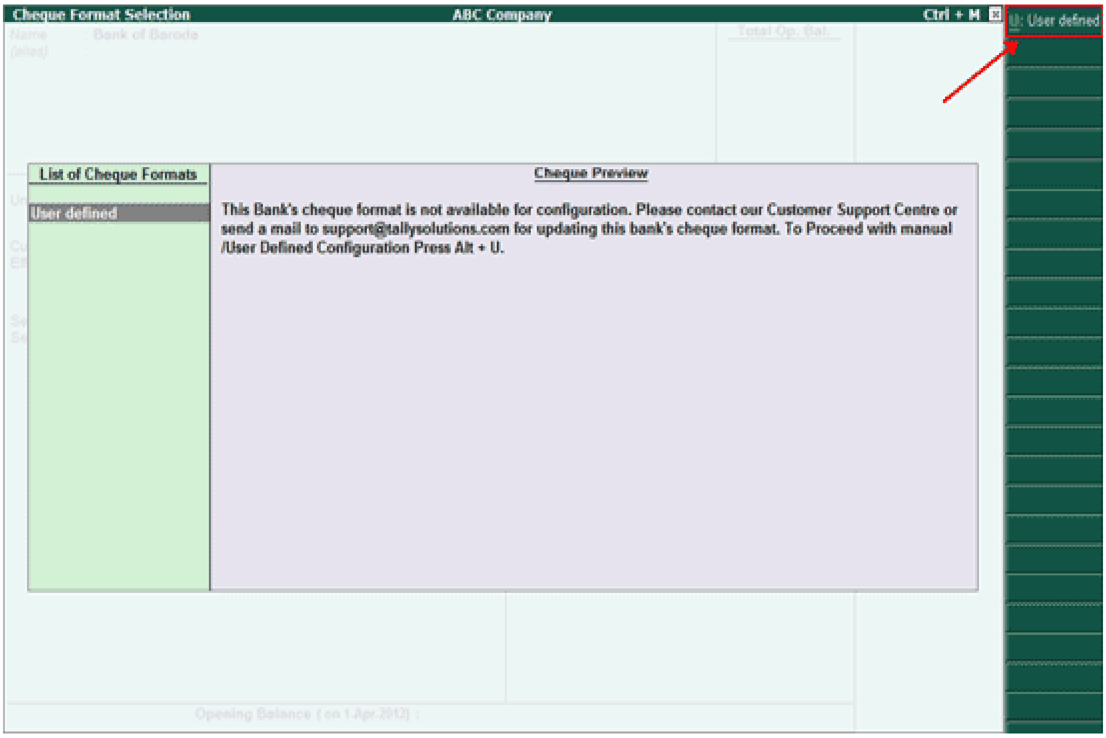
9. Press **Esc** to return to the ledger master.

10. Press **Enter** to accept.

Note: To download new cheque formats introduced for the selected bank, you need internet connection.

Alter user defined cheque format

1. Select **User defined** from the **List of Cheque Formats** in the **Cheque Format Selection** screen.



2. Click **U: User defined** to define the cheque dimensions. The **Cheque Dimensions** screen appears.

Note:

♦ All the dimensions are filled in millimeters.

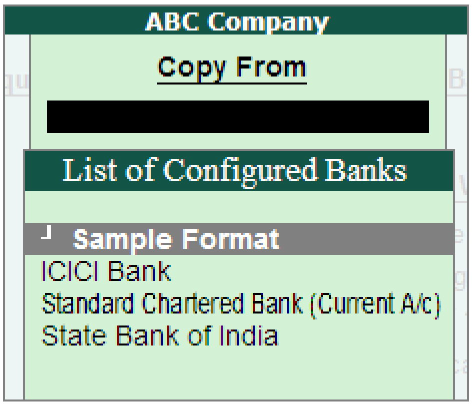
♦ If the **Style of Date** selected is **did-mm-ivy,** the cursor skips the field **Separator used in date.**

♦ If **Style of Date** used is other than **did-mm-ivy,** users can use '-' or '/' as a separator.

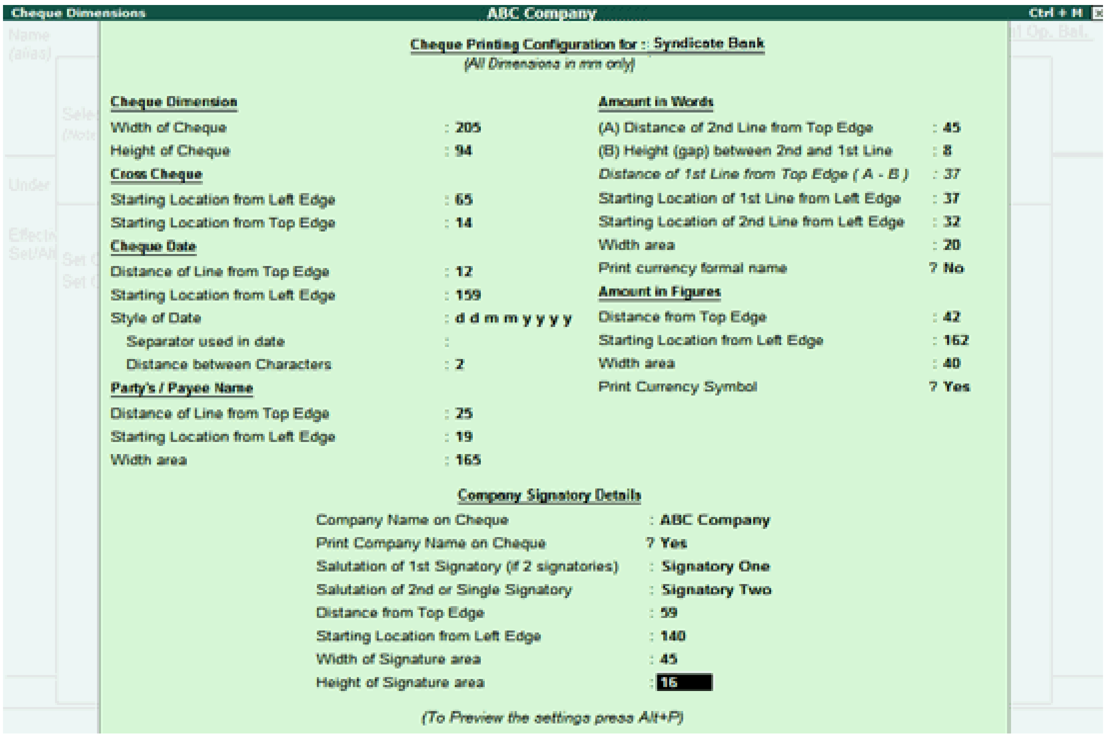
Press **Alt+255** in the **Separator used in date** field to use space as separator.

♦ You can specify two signatories, for example, one could be Managing Director and the other could be Director, etc.

3. If you have defined cheque dimensions for other bank, you can press **Ctrl+C** to **Copy From** the saved configurations .
4. Select the format of the required bank from the **List of Configured Banks.**



The completed **Cheque Dimensions** screen appears as shown below:



Note: In the **Cheque Printing Configuration** screen, no field other than salutations should be blank.

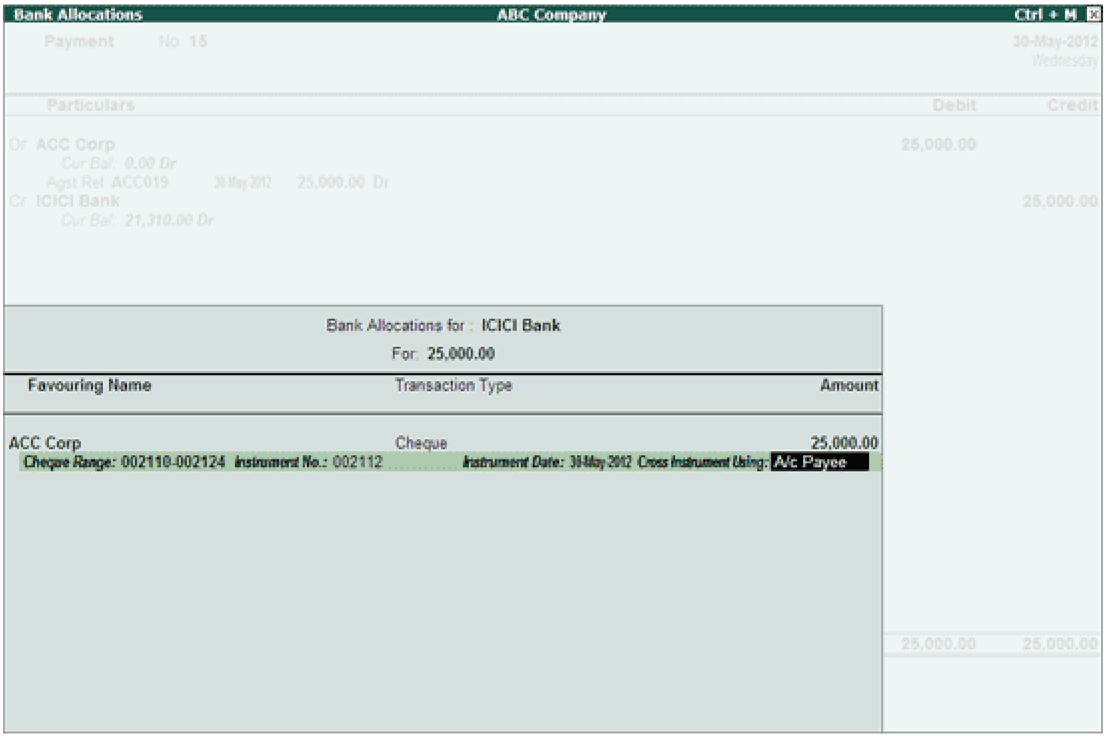
5. Press **Enter** to accept the **Cheque Dimensions** screen.
6. The **Sample Cheque Printing** screen appears. You can preview and print the cheque.

Print Cheques from Voucher

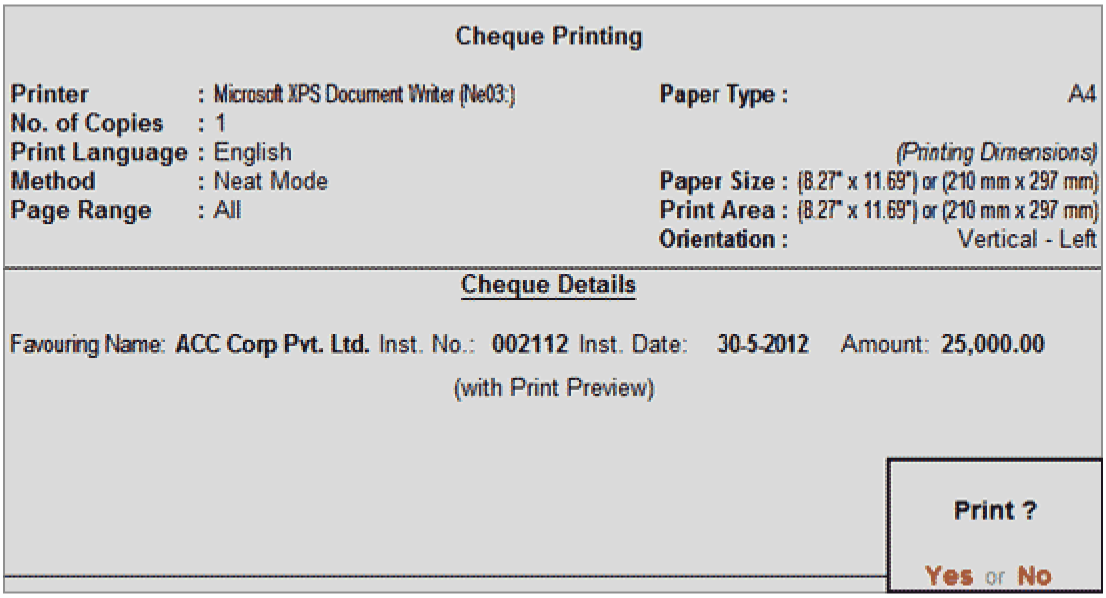
1. Go to **Gateway of Tally** > **Voucher Entry** > **F5: Payment.**
2. Debit the **Party** Ledger.

3. Enter the **Amount** and give the bill reference details, if any.
4. Credit the **Bank** Account for which the cheque printing is enabled.
5. Enter the **Amount.**
6. Press **Enter.** The **Bank Allocations** screen appears.
7. Enter the cheque number in the field **Instrument Number.**
8. Enter the **Instrument Date.** The voucher date is displayed by default.
9. Modify the field **Cross Instrument Using** if required. **A/c Payee** is displayed by default.

The **Bank Allocation** screen appears as shown below:



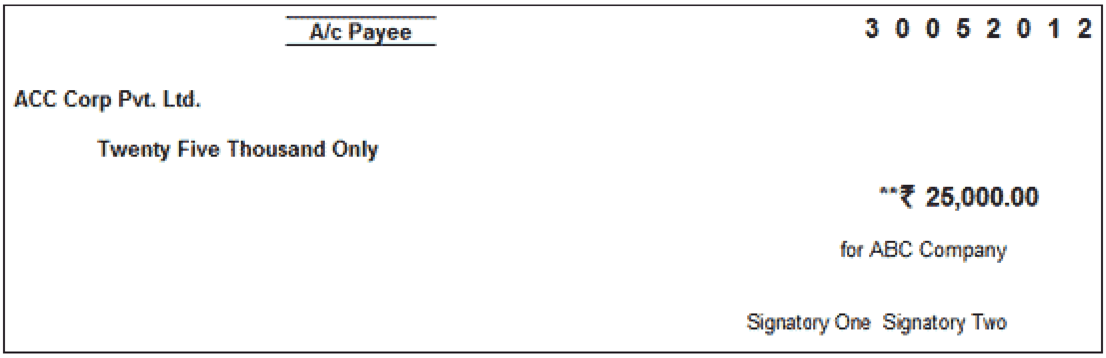
10. Press **Enter.**
11. Enter **Narration.**
12. Press **Enter** to save the payment transaction. The **Cheque Printing** screen appears as shown below:



13. Press **Enter** to print.

Note: Click **S: Select Printer** to select the printer and define the paper size.

The cheque print preview appears as shown:



To print bank details in a payment voucher

1. In the **Voucher Printing** screen, click **F12: Configure** to view the **Payment Print Configuration** screen.
2. Set **Print Bank Transaction Details?** to **Yes.**
3. Press **Carla** to accept.

Click Payment Voucher Printing Configuration for more details to configure printing of a payment voucher.

Print amount in Lakhs/Millions on Cheques

You can print the value in the cheque in both lakh and crore units, by changing the settings for display of amounts.

1. Go to **Gateway of Tally** > **F3: Camp Info** > **Alter.**
2. Select the required company to view the **Company Alteration** screen.
3. Set the option **Show amount in millions?** to **No.**
4. Press **Carla** to accept.

During cheque printing, the amount will now be printed in lakhs and crores.

3.19 ACCOUNTING VOUCHERS

An accounting voucher is a record that acts as a supporting document to the entries recorded in the accounting books. The vouchers are stamped as 'paid' once the payment is received by the supplier. The payments are recorded in the respective ledger accounts. The accounting vouchers are useful for upholding a higher level of control over the payment process. Another advantage of a voucher is that it can be pre-numbered which makes the auditing easier. Read this article to know all about accounting vouchers.

3.20 RECEIPTS VOUCHERS

A receipt voucher is a manually written receipt for services or goods sold. This is typically used in place of a printable receipt. These receipts are typical for taxicabs, construction material, equipment rentals, and labor services. Vouchers are considered an adequate record of expenses for auditing purposes.

Most taxicab and **limousine service** providers use a receipt voucher for customer invoicing. This is important for business travelers who require to receipts for business trip expense reports. The voucher is an acceptable form of receipt for most companies.

Cash receipts typically require a formal receipt voucher as proof of payment. This receipt is necessary because cash is not as auditable as checks or **credit card** payments. When an individual makes a cash payment to a company, he usually receives a hand-written receipt as proof of payment.

A receipt voucher book is a book of blank voucher forms. They are typically available at office supply stores and include carbon copies as **audit** logs for the organization. When construction material is delivered to a work site, it normally includes a voucher as proof of payment and delivery of goods. The driver and purchaser of material sign this voucher.

A typical receipt voucher includes the date, time, amount, type of good sold, and a signature of the person selling the product or service. This information can be hand written or pre-filled into a voucher receipt. It is important to ensure all required information is completed or the receipt will be invalid.

Most accounting software packages include receipt voucher forms. These forms provide a standard voucher for the business to use with manual receipts. The voucher typically includes all the necessary information to make a receipt authentic.

Many concerts and entertainment events accept these vouchers as proof of purchase. These vouchers can be printed on a home computer and used as a receipt for entry into the event. Vouchers have become a standard method of printing receipts that is both convenient and efficient.

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A propane gas delivery company normally provides a receipt voucher for each gas delivery transaction. This voucher includes the date, time, and quantity of gas delivered. It also includes the prices, address, and name of the customer who accepted the gas shipment.

3.21 PAYMENT VOUCHERS

A payment voucher is a way to record payments made to suppliers and maintain a history of payments that your business has made. Companies use vouchers to gather and file supporting documents that are required to approve and track payments of liabilities. Vouchers are used by **accounts payable** (short-term bills owed by companies to suppliers), invoicing and payroll.

A payment voucher is a memorandum of a company's liabilities. It's an important accounting tool that ensures payments are properly authorized and helps you to determine whether goods and services purchased have been actually received.

A payment voucher is especially useful in situations where payments are not due immediately. Suppliers often grant companies credit extensions so that payments can be made in the near future, e.g., 30, 60 or 90 days. When the company receives goods from a supplier along with the invoice, instead of releasing funds immediately for payment, they create a voucher to remind them of the payment due – or as a statement of payments already made.

The voucher includes all supporting documents to show how much money is owed and the payments due to a supplier or vendor for outstanding payments.

Vouchers and other necessary documents are recorded in the voucher register.

3.22 PURCHASE VOUCHER

Purchase Vouchers is used when you have to purchase some goods from any party and you get an invoice against cash or credit purchase from the party. Tally provides the facility to create purchase and credit purchase entries from Purchase voucher. You have to press F9 function key to activate this type of voucher in tally accounting software. You can use this voucher to make all entries which is related to credit and cash purchases in tally software.

3.23 SALES VOUCHERS

For boutique businesses, handwritten sales vouchers remain important point-of-sale records of sales transactions. Larger businesses have largely replaced handwritten vouchers with software that serves similar purposes. In the context of online sales promotions, a sales voucher may represent a record of the sale of some service offered at a discount for a limited time.

Definition of Sales Voucher

A sales voucher is a record of a sales transaction. Historically, the sales voucher was often a carbon copy of the sales invoice given to a customer. When the customer didn't receive a written record, the sales voucher was the original invoice.

Purposes of Sales Vouchers

A sales voucher has several purposes. Because it originates at the point of sale, it provides reliable real-time information to accounting, inventory and management -- to the latter by providing information about when and where sales occur, who the buyers are and how effectively each employee is selling. Where employees are paid on commission, the sales voucher provides information for commission payments. Where a store provides store credit to customers, the sales voucher provides the information to the credit and billing departments. Where disputes arise between the store and its customers regarding a sale, the sales voucher provides documentation that may resolve the dispute.

Features of Sales Vouchers

One of the most important pieces of information on a sales voucher is the voucher number. Ideally, all sales vouchers should be issued numerically. Where there is more than one voucher source -- for example, where there are multiple departments in a retail store -- each voucher should have both a numerical and geographical identifier, providing records of consecutive sales in each department.

Contemporary Equivalents

Credit card information and sales management software have largely replaced handwritten vouchers, providing all the information of a sales voucher and more, in computerized form using data from cash-registers or handheld devices, which distribute the information electronically to various departments. A waitperson, for example, can take down diners' orders on a handheld device programmed with point-of-sale software designed specifically for restaurants. The information is instantly distributed to the kitchen for fulfillment and later becomes the basis of the customer's check. It also provides food inventory and credit-card billing information to management, gives the menu-planning chef direct information about the popularity of menu items and provides tip and sales tax information and data for accounting.

Sales Vouchers of a Different Kind

Sometimes the term "sales voucher" refers to a document entitling a customer to a discount. This kind of voucher has an indirect relationship to historical uses of the term "sales voucher." A clinic, for example, may extend for a brief time an online offer for health screening at a discount. A customer who may have no immediate need for the screening can buy the voucher and present it to the clinic later to verify the sale and receive the discount.

3.24 CONTRA VOUCHERS

A contra voucher is a set/group of two or more vouchers to record transactions within the Establishment specially to record transactions for Cash to Bank or Withdrawal from Bank or at the time of Reconciliation to Account the various Bank Related Charges.

But in Financial Institutions it may require a number of transactions which requires transfer from One account to another account of the same customer, or from the customer account to charge for expense(s)/or to credit with income like interest etc. The Contra vouchers are widely used. In short to record both side of a transaction within the establishment is called a **Contra Voucher...**

3.25 JOURNAL VOUCHERS

A journal voucher is a document on which is stored the essential information about an accounting transaction. This voucher contains a unique identifying number, the transaction date, transaction description, and transaction amount. It also contains the accounts impacted, supporting references to documentary evidence, and authorizing signatures.

A journal voucher is a written authorization to make a transaction entry, and so is a key document that is examined by auditors as part of their audit procedures.

3.26 DEBIT NOTE, CREDIT NOTE

oath debit notes and credit notes are official accounting documents, both used by businesses but for different purposes. Separate from an invoice, these notes let buyers know how much existing business credit they have or conversely, how much they still owe. They're also critical to shipment tracking, payments due or if any credit remains on the account.

What's a debit note?

A debit note, or a debit memo, is a document issued by a seller to a buyer to notify them of current debt obligations. You'll commonly come across these notes in business-to-business transactions — for example, one business may supply another with goods or services before an official invoice is sent. The debit note 'makes note' of the transaction for documentation purposes. Debit notes are also used in business-to-customer transactions, such as when a customer returns goods to a business received on credit. In this case, *the buyer* issues the debit note to the seller.

What's a credit note?

A credit note is a document issued by a seller to a buyer to notify that credit is being applied to their account. You might notice these referred to as credit memos, too. As a seller, you may issue a credit note when there's a need to cancel all or part of an invoice for a variety of reasons, including:

- Changes to an order after an invoice is issued

- Goods returned or services rejected
- Goods were damaged during shipping
- Pricing mistakes on the original invoice

No actual money is exchanged with a credit note; rather, it's used to offset a previous invoice that's already been paid.

3.27 MEMORANDUM VOUCHERS

Memorandum Vouchers is a **non-accounting** voucher and the entries made using the memo voucher will not affect your accounts. In other words, Tally does not post these entries to ledgers but stores them in a separate Memorandum Register.

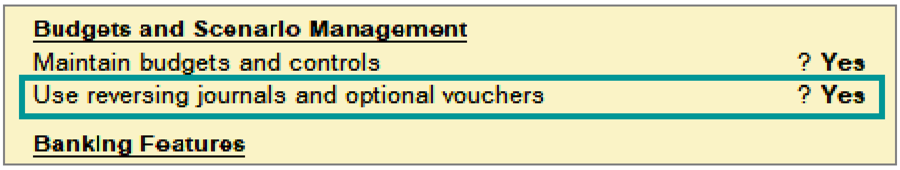
You can use the Memorandum Vouchers for:

- Payments towards suspense accounts - consider a company gives its employee cash for Conveyance expenses, the exact nature and cost of which are unknown. For such transactions, you can enter a voucher for the petty cash advance. A voucher to record the actual expenditure details when they are known, and another voucher to record the return of surplus cash. However, a simpler way of doing it is to enter a Memo voucher when the cash is advanced, and then turn it into a Payment voucher for the actual amount spent, when the actual details are known.
- Vouchers not verified at the time of entry - if you do not understand the details of a voucher you are entering, you can enter it as a Memo voucher and amend it later when the details are available.
- Items given on approval - Generally completed sales are entered into books. In case items are given on approval, use a Memo voucher to track and convert it into a proper Sales voucher. You can delete the memo voucher if the sale is not made.

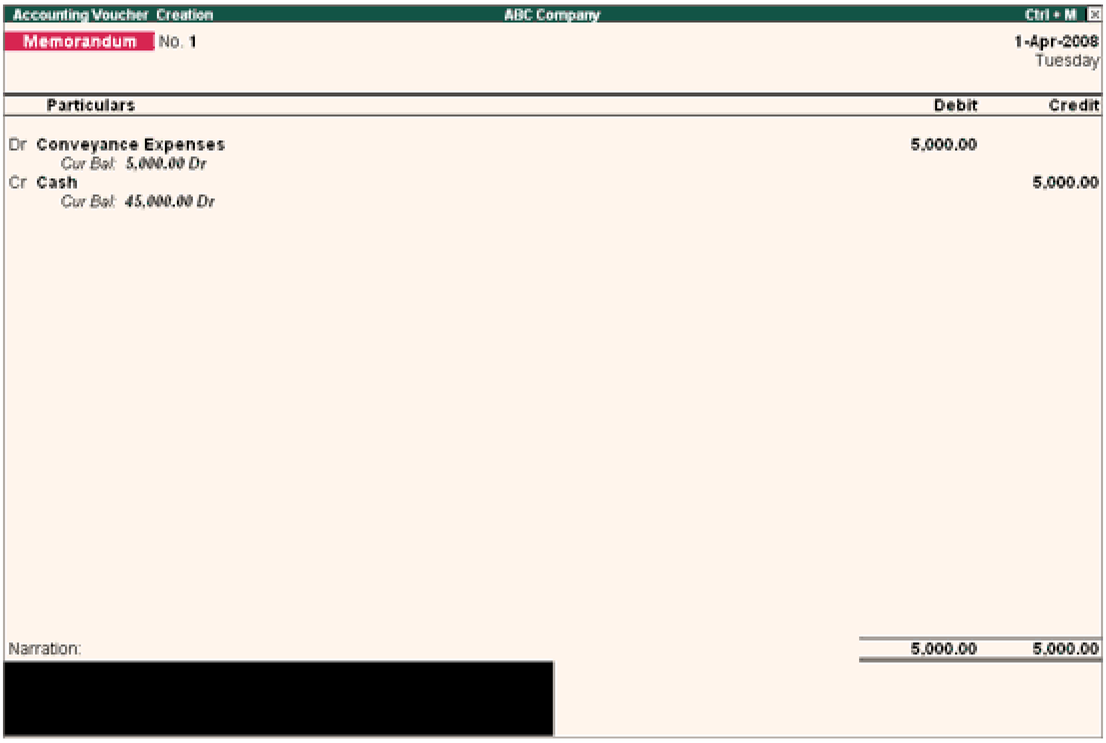
Enable Memorandum Vouchers

Consider the example where the Company pays its employee Rs.5000 as petty cash advance towards Conveyance Expenses. For this, you need to debit the Conveyance Expenses A/c and credit the Cash A/c. You can record this transaction in memorandum voucher.

1. Enable the option **Use reversing journals and optional vouchers** in **F11: Features** (F**1: Accounting Features)**.



2. Go to **Gateway of Tally** > **Accounting Vouchers/Inventory Vouchers** > **Ctrl+F10: Memos.**



Memorandum Voucher Register

● Go to **Gateway of Tally** > **Display** > **Exception Reports** > **Memorandum Vouchers.**

You can also view memorandum vouchers from the Day Book. You can alter and convert a Memo voucher into a regular voucher when you decide to consider the entry into your books.

Note: Use Scenarios to see the effect of Memorandum entries on reports and statements.

3.28 UNIT END QUESTIONS

A. Descriptive Questions

Long Answer Questions

1. What is the main purpose of a statement of inventory in Tally?

2. What types of vouchers can be created in Tally ERP 9? What are the shortcuts for creating these vouchers?
3. Mention the types of vouchers? Also, give the shortcut for creating these vouchers?
4. Why is Advanced Tally an important tool in accounting?
5. Explain what is Tally and where it can be used?

Short Answer Questions

1. What do you mean by Tally?
2. What do you mean by reversing journal entries?
3. Explain Tally and its applications?
4. What are the most prominent features of Tally software?
5. What are the key advantages of Tally Software?

B. Multiple Choice Questions

1. Where do we record purchase return, sales return, depreciation, bad debts etc.in Tally

    a. Journal
    b. Payment
    c. Contra
    d. Receipt

2. Which option is true for viewing Profit & Loss A/C in Gateway of Tally

    a. Gateway of Tally > Display > Profit; Loss A/C
    b. Gateway of Tally > Reports > Profit; Loss A/C
    c. Gateway of Tally > Account Books > Profit; Loss A/C
    d. None of these

3. Which reports are prepared monthly in Tally?

    a. Balance Sheet
    b. Profit; Loss A/C
    c. Trial Balance
    d. Cash Flow of Funds Flow

4. Voucher is prepared for

a. Cash and Credit purchases

b. Cash and Credit sales

c. Cash received and paid

d. All of these

5. A voucher is a _____________.

a. Documents in support of an entry made in the books of accounts

b. invoice received from suppliers

c. Receipt issued to a customer for cash received

d. All of these

Answer : 1-a, 2-b, 3-c, 4-d, 5-a

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UNIT - 4 ERP

STRUCUTRE

4.0 OBJECTIVES

- Explain role of ERP in finance
- Describe accounting and finance processes
- Discuss Benefits of ERP in financial accounting
- Understand Sage Capac ERP

4.1 INTRODUCTION

Enterprise resource planning (ERP) refers to a type of software that organizations use to manage day-to-day business activities such as accounting, procurement, project management, risk management and compliance, and supply chain operations. A complete ERP suite also includes enterprise performance management, software that helps plan, budget, predict, and report on an organization's financial results.

ERP systems tie together a multitude of business processes and enable the flow of data between them. By collecting an organization's shared transactional data from multiple sources, ERP systems eliminate data duplication and provide data integrity with a single source of truth.

Today, ERP systems are critical for managing thousands of businesses of all sizes and in all industries. To these companies, ERP is as indispensable as the electricity that keeps the lights on.

4.2 A FINANCE PERSPECTIVE: ROLE OF ERP IN FINANCE

1. Profit Tracking

A primary function of ERP financial management modules is profit tracking. The profit tracker will help provide a bird's-eye view of the business's overall financial health and financial resource leveraging. Tracking your profits will show you where more profits are coming from and determine the return on investment for any buy.

The tracker uses the incurred costs and receivables to calculate how much your organization profits from your efforts. Some programs will forecast future profit based on historical expense and sales data.

On the other side of the coin, ERP financial management software can also help companies track costs. This capability involves evaluating individual cost centers, looking at procurement from the top and evaluating how the business is spending money.

The desired result of these tools is to make changes that will increase profits for a business. Think of financial management software as providing a road map for business leaders who understand the best moves in their current business environments.

2. Ledger Management

Ledger management is another fundamental function of ERP financial systems. A general ledger provides a thorough record of all financial transactions. It integrates with all of your other ERP modules, such as inventory management or customer relationship management.

Entries are typically made directly into the general ledger (GL), but your system may allow you to make entries anywhere within the application. Either way, you'll be able to view your entries in one central location. You can keep track of a variety of things; for example, assets, liabilities, capital accounts, income and expenses.

Having all of your financial data in one place can make filing tax returns more manageable and help you maintain spending. You can quickly identify any odd transactions or fraud, and some ERP financial systems will automatically notify you of these instances.

The GL provides excellent visibility in your financial department and shows you the bigger picture. It's the starting point for creating financial statements that are integral to evaluating your financial health.

3. Accounts Payable

Accounts payable will manage all of the funds your company owes to your vendors and other creditors. An accounts payable feature integrates your expense data with your purchasing system so you can take control of your cash flows.

Automating accounts payable will save you money and time on labor hours as well as avoid human errors. The system can quickly process large amounts of invoices and other financial transactions between your company and vendors. Some applications offer document capture, also known as imaging features, which converts paper invoices into electronic documents.

In short, an accounts payable system will let the user know how much they owe and when it's due, so you'll never be late on a payment again. Sounds nice, right?

4. Accounts Receivable

Accounts receivable allows your business to manage all of the funds customers owe them. It will track customer payments as well as manage invoices and cash.

Some ERP financial systems offer a portal for your customers where they can make payments or access invoices. You can automate tasks such as sending payment reminders or account statements and generating recurring invoices.

AR automation speeds up the collection process and will boost customer relationships because ease of payment makes your organization more accessible. Effortless transactions produce happy, returning customers.

5. Fixed Asset Management

This solution tracks and manages all of your company's tangible assets, such as manufacturing equipment, computers, company cars and office space. It will take into account depreciation calculations, compliance requirements and tax implications.

Asset management gives your organization better visibility in terms of utilization, costs and maintenance. For example, keeping track of the depreciation of your assets can help you forecast expenditures and create budgets. If you know that your equipment is aging and may need maintenance soon, you can plan accordingly for those payments.

Tracking your assets will prevent you from paying taxes on items you have eliminated or replaced, which is an easy mistake to make while maintaining your records. The tool will also pick up on opportunities for sales tax savings — some jurisdictions give tax breaks, or exemptions, to specific industries.

6. Risk Management

A great deal of business is ultimately about risk, and business leaders want to know that their organization is protected. Risk management tools can predict, analyze and manage crises.

These situations can range anywhere from financial issues to even natural disasters. Other potential calamities to manage with risk management solutions could be related to security, legal liabilities, compliance or reputational risks.

Compliance regulations can be challenging to keep track of because they are ever-changing. In a food and beverage manufacturing setting, the risk management tool could notify you in the event of contamination or any other issues in the process. From a financial point of view, it will be monitoring any money flowing in and out of your business. Your risk management tool can ensure that you have enough cash reserves to cover accounts payable if a customer misses a payment; this manages credit risk.

7. Reporting

Analytics provide real-time access to financial data, which is crucial for maintaining your finances. The visibility helps you make data-driven predictions and decisions concerning your company's finances.

On a basic level, reporting and analytics will show you where you're generating revenue. But the dashboard can do so much more, such as display your sales, expected sales, expenses and many other financial components. Typically, the dashboard is customizable, so you can choose which categories you would like to see. Review real-time data in graph formats so you may quickly understand your organization's financial health.

8. Multi-Currency Management

If you have global clients, the ability to manage multiple currencies is critical. Multi-currency management automates the process of both buying and selling in foreign currencies. Currency conversion capabilities allow you to complete transactions in numerous currencies.

9. Tax Management

Tax management solutions store system taxation settings and provide tax audit and tax reporting functions. Leverage these settings across the system to provide a consistent collection of sales and VAT taxes.

Perhaps your tax management feature will complete the tedious task of determining sales tax jurisdictions of ship-to addresses or use prebuilt tax intelligence to process sales transactions in compliance with proper regulations. The capabilities of this accessory depend on which ERP financial system you purchase and the needs of your company. Either way, employing tax management within your organization is a great way to avoid spending time on mundane tasks.

4.3 ACCOUNTING AND FINANCE PROCESSES

Enterprise resource planning (ERP) software is an optimal way to manage business activities, especially in the finance sector. To meet the companies' requirements, the accounting and finance module in ERP has some specific features to streamline all your business finance activities. They are collecting and storing finance data, asset management, cash management, even creating reports and supporting analysis of financial data.

Moreover, you can integrate the accounting module with various activities like purchasing, ordering, cash flow management to have sufficient financial data and view your financial picture carefully. With the accounting module in ERP, enterprises can have accurate data, avoid regretting mistakes, forecast the financial statement and have effective plans.

What is the Accounting and Finance Module in ERP?

This is the software component of an ERP system assisting businesses to manage the primary accounting and financial issues. It keeps track of basic accounting functions, including the general ledger and balance sheet, as well as managing financial issues such as asset management, accounts payable, accounts receivable, cash management, etc. This module also takes on the role of profitability analysis and revenue management.

ERP can integrate all processes in the whole company into a firm and logical system running on a central database. Departments in your enterprise are allowed to access other ones. The data in the finance module is shared with some core essential business activities, including inventory management, marketing, sales, purchasing, customer relationship management and others.

If they have a financial impact, the finance and accounting module in ERP will be able to collect and record it. As a result, accounting and finance are assured to be accurate, assists you in meeting financial requirements, and allows you to produce numerous financial reports.

The importance of Accounting and Finance Module in ERP

Finances are the lifeblood of your business and you have to manage them tightly. A finance module will benefit your business by having the ability to access real-time financial information to make business-critical decisions that drive profits and growth. You can easily find accounting solutions meeting your basic financial needs; however, a growing business needs more than that.

You might have to track many financial transactions and numbers across your organization, not just in the accounting department. In addition to basic accounts receivable and payable, you need to have knowledge of inventory in the warehouse, product profit margins, project costs, employee expenses, etc. Complex general ledgers are an inevitable difficulty for basic accounting software.

Tracking and analyzing every dollar incoming and outgoing, in a way that fits your unique structure is essential to managing a lucrative business. That's why the ERP accounting information system will do wonders for the accounting and financial activities of your business. Recently, researchers are focusing on developing ERP integrating courses in all areas of business discipline, including accounting.

Benefits of using Accounting and Finance Module in ERP

Richly detailed financial reports

There are many reasons why it's wise to use ERP accounting. First of all, most of these benefits relate to one core issue, which is integration. The accounting system requires data inputs from many different sources, including manufacturing management, logistics, billing, warehouse management, HR, etc. These multiple data sources can be automatically integrated into ERP accounting.

Financial reports like income statements, balance sheets, are offered through standalone accounting packages. ERP offers a wider variety of reports, not just only financial reports. Some examples include cash flow projections based on inventory management and order statuses and accounts receivable aging overlaid with the customer order pipeline. These reports give you more of a comprehensive perspective than just financial data. Therefore, you can manage your business more effectively.

More automation

Automation promotes productivity. When ERP and accounting are linked together, there is no doubt that it will be easier to automate workflows that cross between the two systems. When you use ERP accounting, many accounting and financial tasks can be completely automated. For example, you can refine accounts receivable, manage payables, and manage cash. Automation also allows you to track financial transactions more quickly.

Freedom from duplicate data entry

Having separate systems often means having to re-enter data from one to the other manually. Integrating ERP and accounting eliminates this tedious manual data entry process. ERP also makes data entry quick and especially consistent.

Accuracy

Manual data entry is predisposed to error. These errors might be incorrect client names or transposed digits and, etc. Once these errors cause calculation mistakes, it will take time to unwind. With an ERP accounting course, you can track down someone who made a mistake.

A higher degree of control

Using ERP accounting gives you more control over your business. Without waiting for paper reports from different departments like before or coming to sales points directly to check the cash flow, you can track all the processes with a single synchronized system. You can see the bottom-line impact of events and decisions in real-time.

Key features of Accounting and Finance Module in ERP

General Ledger (GL) – the primary features of **accounting and finance module in ERP**

The GL collects and stores all financial transactions in a business, such as income, costs, capital value and assets. Furthermore, it can be integrated with a variety of activities and procedures like procurement, purchasing, cash flow management. Financial managers will have sufficient financial data to analyze and make reports without waiting for data from other sectors.

Accounts Payable (AP)

The AP module processes a significant amount of invoices and transactions between the company and vendors. You can record current supplier bills while also authorizing and tracking incoming invoices. Besides, this module helps you automate the invoice production and approval process, depending on the type of your bills.

Accounts Receivable (AR)

You can track the cash flow between you and your customers effectively with the AR module. It allows you to automate processes, including creating periodic invoices, financial statements, and payment reminders. Furthermore, the AR module enables you to obtain financial analysis and statement reports.

Asset Management (AM)

With the AM module, it is easier for you to manage fixed assets, including depreciation, compliance requirements, disposal, fixed asset valuations, and taxation. You will have a greater understanding of how it utilizes its fixed assets, as well as the expenses and upkeep connected with them.

Cash Management (CM)

The Cash Management module has the main role in helping you process and analyzing all the cash flow over a set period. You can integrate this module with your selected bank to automatically track your bank reconciliation statement. It also helps you to see your cash flow and determine where you are in terms of meeting your financial objectives.

Risk management

Thanks to the risk management capabilities of the finance and accounting module, a company can forecast, evaluate, and manage the predictable risks in the financial sector. These scenarios might range from financial difficulties to calamities. Other possible disasters that risk management solutions can handle include security, legal liability, compliance, and reputational threats. This module will monitor your cash flow in and out of business automatically and correctly; thus, you can track and check if there are any problems, find out the reasons and deal with these issues.

Reporting

With all data collected and stored, the accounting and finance module in ERP can prepare and generate financial reports for internal use. With these reports, a company can create accurate plans, make data-driven decisions, avoid regretting risks because of wrong data and predict its finances in the future. You can see your revenue picture clearly thanks to business intelligence (BI) and analytics capabilities. Dashboards bring you a graphical representation of actual and expected financial information and data; thus, managers quickly understand the company's financial statement.

4.4 CASH MANAGEMENT

Cash management module provides information relating to cash flow of the organization, by processing and analyzing all cash and bank transactions, arising out of payment of supplier's invoices, receipt from sales invoices, standalone payment and unallocated payment / receipts.

Cash management module also allows analyzing financial transactions for a given period of time and provides information regarding sources of fund and use of fund to ensure liquidity in order to meet payment obligations of the organization.

Cash management is the art of managing a firm's short-term resources to sustain its ongoing activities and to optimize its liquidity. It refers to how a firm intends to identify its short-term cash position, make use of its excess cash, and handle shortfalls in cash required to meet immediate needs.

If the entrepreneur has not considered such issues, it may undermine the company's long-term prospects—and even its short-term stability. The short-term cash position is of much more significance to a small firm than it is to a well- established large firm. Even small mismatches in cash position can threaten the very survival of a new venture.

Entrepreneurs should be thinking about liquidity from day one, but most forget to ponder on it because they have got some other issues on their minds. As long as there is enough money in the bank account, entrepreneurs do not give much thought to cash management. That can leave them vulnerable to all kinds of cash-flow problems.

Goals of Cash Management:

Precisely speaking, the primary goal of cash management in a firm is to trade-off between liquidity and profitability in order to maximize long-term profit. This is possible only when the firm aims at optimizing the use of funds in the working capital pool.

This overall objective can be translated into the following operational goals:

(I) To satisfy day-to-day business requirements;

(ii) To provide for scheduled major payments;

(iii) To face unexpected cash drains;

(iv) To seize potential opportunities for profitable long-term investment;

(v) To meet requirements of bank relationships;

(vi) To build image of creditworthiness;

(vii) To earn on cash balance;

(viii) To build reservoir for net cash inflow till the availability of better use of funds by conscious planning;

(xi) To minimize the operating cost of cash management.

Functions of Cash Management:

So as to achieve the objectives stated above, a finance manager has to ensure that investment in cash is efficiently utilized. For that matter, he has to manage cash collections and disbursements efficaciously, determine the appropriate working cash balances and invest surplus cash.

Efficient cash management function calls for cash planning, evaluation of benefits and costs, evaluation of policies, procedures and practices and synchronization of cash inflows and outflows.

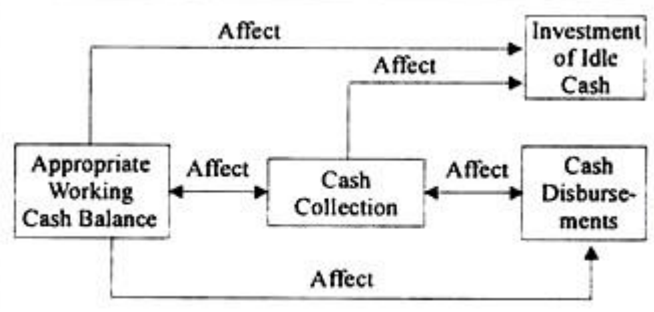

Fig. 36.1. Cash Management Functional Relationship

It is significant to note that cash management functions, as depicted, are intimately interrelated and inter-wined.

Linkage among different cash management functions has led to the adoption of the following methods for efficient cash management:

1. Use of techniques of cash mobilisation to reduce operating requirements of cash;

2. Major efforts to increase the precision and reliability of cash forecasting;

3. Maximum efforts to define and quantify the liquidity reserve needs of the firm;

4. Development of explicit alternate sources of liquidity;

5. Aggressive search for relatively more productive uses for surplus money assets.

The above approaches involve the following actions which a finance manager has to perform:

1. To forecast cash inflows and outflows;

2. To plan cash requirement;

3. To determine the safety level for cash;

4. To monitor safety level of cash;

5. To locate the needed funds;

6. To regulate cash inflows;

7. To regulate cash outflows;

8. To determine criteria for investment of excess cash;

9. To avail banking facilities and maintain good relations with bankers.

Thus, for achieving the goals of cash management, a finance manager has to, first of all, plan cash needs of the firm. This is followed by the management of cash flows, determination of optimum level of cash and finally, investment of surplus cash.

Importance of Cash Management:

Cash management is one of the critical areas of working capital management and assumes greater significance because it is most liquid asset used to satisfy the firm's obligations but it is a sterile asset as it does not yield anything. Therefore, finance manager has to so manage cash that the firm maintains its liquidity position without Jeopardizing the profitability.

Problem of prognosticating cash flows accurately and absence of perfect coincidence between the inflows and outflows of cash add to the significance of cash management. In view of the above, at one time a firm may experience dearth of cash because payments of taxes, dividends, seasonal inventory, etc. build up while at other times, it may have surfeit of cash stemming out of large cash sales and quick collections of receivables.

It is interesting to observe that in real life, management spends his considerable time in managing cash which constitutes relatively a small proportion of a firm's current assets. This is why in recent years a number of new techniques have been evolved to minimize cash holding of the firm.

A typical payment / receipt flow in an organization

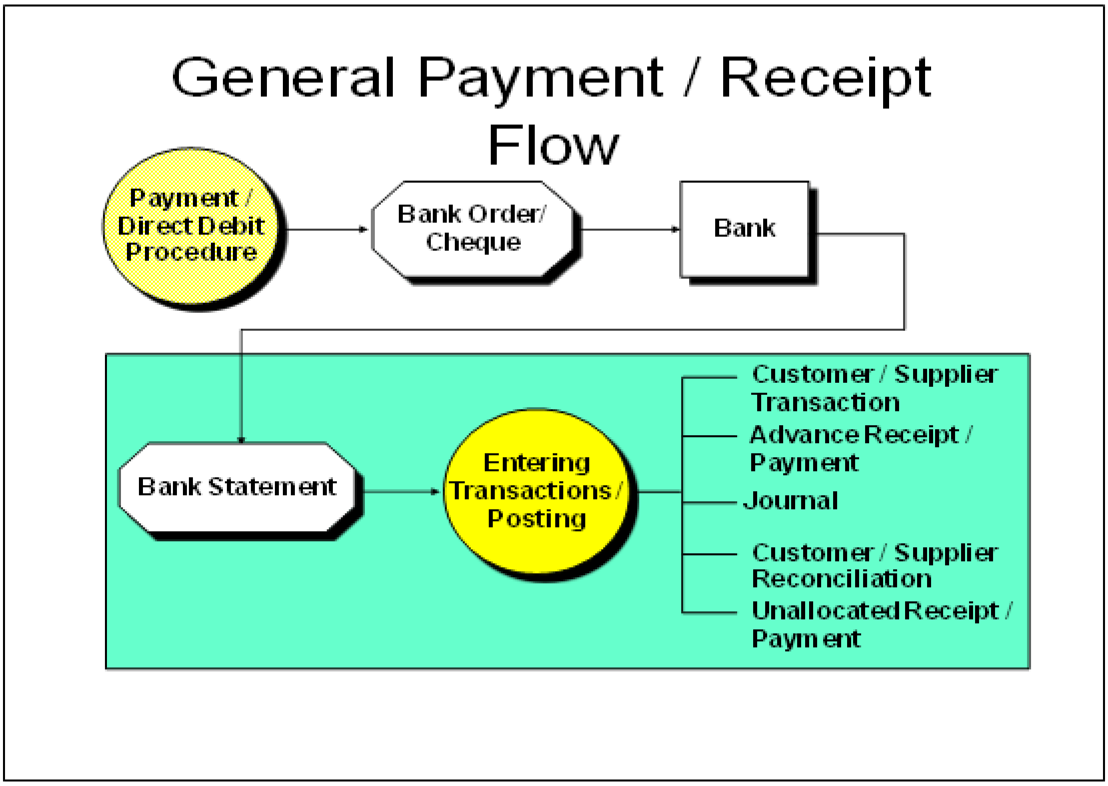

Fig: 4.1 General Payment /Receipt Flow

Integration with other modules

1. Accounts payable where from processed purchase invoices are received.
2. Accounts receivable wherefrom processed sales invoices are received.
3. General Ledger where transactions processed within this module are posted.

Maintaining Master Data: Some of the master data parameters for cash management modules are

1. Maintain payment / receipt method: This will determine how payments / receipts are processed, for which following parameters are needed to be defined:
    a. Whether automatic (where invoices or receipts are selected automatically depending upon payment term) or manual payment / Receipt.
    b. Maximum Amount per Business Partner in a single payment batch.
    c. Bank Account / Bank Address for making/ receiving payments.
    d. Output option-whether paper (cheque) or file (Direct debit).
    e. Composing Options - Where receipt / payment is processed individually (remittance) or combined for a number of invoices.
2. The bank relations: Where details of currency (home currency/ foreign payment), type of bank, whether blocked for payment or receipt, default priority etc. are maintained.
3. Linking to General Ledger - Defining of several chart of accounts related to posting of various stages of transactions processing within cash management to General Ledger, such as anticipated payment, anticipated receipts, cheque issued not realized.
4. Payment authorization - Maximum amount a user can pay to a supplier or if the user is authorized to make advance payment.

Functionality of Cash Management module

1. Supplier Payment - The standard procedure for supplier's payment is given below. However, a variation of this process is followed for payment relating to standing order (where payments are made without an invoice), payment against preform invoices, standalone payment etc
    a. Select and compose invoices for payment
    b. Print payment advice list
    c. Modify payment advice
    d. Reconcile amount as per payment advice and invoice
    e. Assign bank
    f. Print cheque or post bank orders in an electronic file.

g. Post cash transactions to general ledger

A flow chart showing supplier payment procedure is given below:

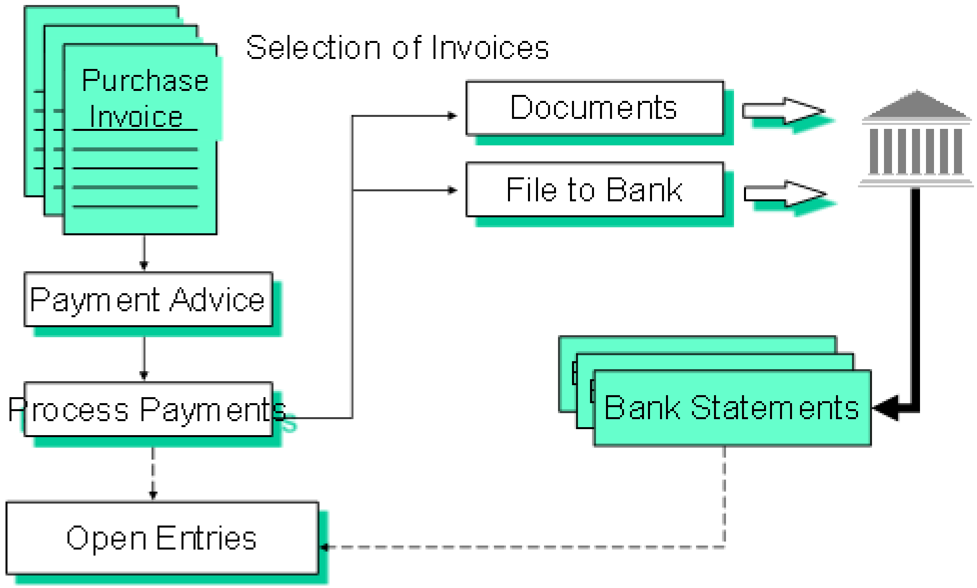

Fig :4.2 Functionality of Cash Management module

2. Receipt of sales invoice amount:
   a. By Cheque:
      i. Cheque received from customer (anticipated receipt)
      ii. Cheque sent to bank (cheque anticipated status).
      iii. Cheque paid by bank (bank relation-reconciliation).
   b. Direct debit: Applicable for customers who have authorized the organization to directly debit their bank accounts.
      i. Select Invoices for Direct Debits
      ii. Direct Debit Advice
      iii. Compose Direct Debits
      iv. Assign Banks to Direct Debits
      v. Audit Direct Debits
      vi. Create Direct Debit Orders
      vii. Print Remittance Letters
      viii. Post Direct Debits into general ledger.

3. Cash flow Forecast: This functionality provides an insight of the projected liquidity position of the organization at a certain point in the future. While forecasting cash flow the system uses available data regarding I) purchase orders and purchase

invoices, ii) sales quotation, sales order and sales invoices iii) standing orders and iv) financial budgets.

4.5 CAPITAL BUDGETING

Meaning:

Capital Budgeting or investment decisions play a vital role in the future profitability of a concern. The process of decisions to invest a sum of money when the expected results will flow after the lapse of a period of more than one year is called Capital Budgeting.

It also includes the process of decision regarding disinvestment, i.e., a decision to sell off an undertaking or a part of it. Normally, however, especially in these days, it is the former type of decision which predominates. It is a most important decision to make since afterwards, after money has been irrevocably committed, it may not be possible to do much in improving results.

If, for example, it is found that a factory has been put up to produce something for which there is not enough demand, nothing that can be done to avoid heavy losses. It is for this reason that the decision to invest has to be taken with very great care.

There are various methods by which a proposed investment is evaluated. Before the methods are discussed, it would be proper to note that all method involve great deal of careful estimates being made for the future — the likely demand for the goods or services to be produced over a number of years, the likely selling price, the likely costs of materials, wage rate and, therefore, the likely profit.

It is a difficult exercise and involves great deal of analysis and weighing the evidence regarding the future course of economic events, effecting the economy as a whole or the industry. Unless such estimates are prepared, it would be risky to make an investment decision.

'Capital' in represents long-term, fixed assets, or the capital investment, such as a building or machinery. "Budget" is the plan that details anticipated revenue and expenses during a particular time period, often the duration of the project.

The term "capital budgeting" is the process of determining which long-term capital investments should be chosen by the firm during a particular time period.

Capital Budgeting versus Budgeting for Financial Assets

The financial process for determining the value of capital investment projects, such as buying a building or a piece of equipment and determining the value of stocks and bonds is exactly the same. They are all assets in which a firm invests.

However, there are two important differences:

- Businesses create capital projects, but financial assets pre-exist in the financial markets.
- The second difference is that investors in stocks and bonds have no influence over the cash flows of the companies they invest in, but a company does have influence over their capital projects through good financial management.

Independent and Mutually Exclusive Capital Investment Projects

Capital investment projects are some of the most important financial investments made by a business owner because they involve large amounts of money. Making a poor capital investment decision can have a disastrous effect on a business.

Capital investment projects can be divided up into two types:

- Independent capital investment projects are those projects that do not affect the cash flows of other projects.
- Mutually exclusive capital investment projects are those projects that are the same or so similar to other capital investment projects that they do impact the cash flows of another projects.

How is an independent or mutually exclusive project selected?

The most important thing that a business owner absolutely must do is compare the rate of return that the project will earn to the weighted average cost of capital or what the company pays to obtain financing. The decision rule is the if the rate of return is greater than the weighted average cost of capital, then accept and invest in the project. If the rate of return of the project is less than the weighted average cost of capital, then reject and do not invest in the project. This rate of return is actually an opportunity cost.

Factors to Consider when Making a Capital Investment Decision

Comparing the rate of return of a project to the weighted average cost of capital of the firm is not as simple as it sounds. There is a relatively complex financial analysis process the business owner has to go through in order to get there. Consider professional accounting assistance.

The business owner has to estimate the cash flows that will be generated by the project. Often, the cash flows are the single hardest variable to estimate when trying to determine the rate of return on the project. Both the quantity and timing of the cash flows have to be considered.

If you are writing a business plan, for example, you need to estimate about five years of cash flows. Usually, cash flows are estimated for the economic life of the project and, of course, should be as accurate as possible.

Techniques used in Capital Budgeting (with Advantages and Limitations)

1. Payback period:

The payback (or pay out) period is one of the most popular and widely recognized traditional methods of evaluating investment proposals, it is defined as the number of years required to recover the original cash outlay invested in a project, if the project generates constant annual cash inflows, the payback period can be computed dividing cash outlay by the annual cash inflow.

Payback period = Cash outlay (investment) / Annual cash inflow = C / A

Advantages:

1. A company can have more favourable short-run effects on earnings per share by setting up a shorter payback period.

2. The riskiness of the project can be tackled by having a shorter payback period as it may ensure guarantee against loss.

3. As the emphasis in pay back is on the early recovery of investment, it gives an insight to the liquidity of the project.

Limitations:

1. It fails to take account of the cash inflows earned after the payback period.

2. It is not an appropriate method of measuring the profitability of an investment project, as it does not consider the entire cash inflows yielded by the project.

3. It fails to consider the pattern of cash inflows, i.e., magnitude and timing of cash inflows.

4. Administrative difficulties may be faced in determining the maximum acceptable payback period.

2. Accounting Rate of Return method:

The Accounting rate of return (ARR) method uses accounting information, as revealed by financial statements, to measure the profit abilities of the investment proposals. The accounting rate of return is found out by dividing the average income after taxes by the average investment.

ARR= Average income/Average Investment

Advantages:

1. It is very simple to understand and use.

2. It can be readily calculated using the accounting data.

3. It uses the entire stream of incomes in calculating the accounting rate.

Limitations:

1. It uses accounting, profits, not cash flows in appraising the projects.

2. It ignores the time value of money; profits occurring in different periods are valued equally.

3. It does not consider the lengths of projects lives.

4. It does not allow for the fact that the profit can be reinvested.

3. Net present value method:

The net present value (NPV) method is a process of calculating the present value of cash flows (inflows and outflows) of an investment proposal, using the cost of capital as the appropriate discounting rate, and finding out the net profit value, by subtracting the present value of cash outflows from the present value of cash inflows.

The equation for the net present value, assuming that all cash outflows are made in the initial year (tag), will be:

$$NPV = \left[\frac{A_1}{(1+k)^1} + \frac{A_2}{(1+k)^2} + \frac{A_3}{(1+k)^3} + \dots\dots\dots + \frac{A_n}{(1+k)^n}\right] - C$$

$$= \sum \frac{A_1}{(1+k)^t} - C$$

$$= t = 1$$

Where A1, A2…. represent cash inflows, K is the firm's cost of capital, C is the cost of the investment proposal and n is the expected life of the proposal. It should be noted that the cost of capital, K, is assumed to be known, otherwise the net present, value cannot be known.

Advantages:

1. It recognizes the time value of money

2. It considers all cash flows over the entire life of the project in its calculations.

3. It is consistent with the objective of maximizing the welfare of the owners.

Limitations:

1. It is difficult to use

2. It presupposes that the discount rate which is usually the firm's cost of capital is known. But in practice, to understand cost of capital is quite a difficult concept.

3. It may not give satisfactory answer when the projects being compared involve different

amounts of investment.

4. Internal Rate of Return Method:

The internal rate of return (IRR) equates the present value cash inflows with the present value of cash outflows of an investment. It is called internal rate because it depends solely on the outlay and proceeds associated with the project and not any rate determined outside the investment, it can be determined by solving the following equation:

$$C = \frac{A_1}{(1+r)^1} + \frac{A_2}{(1+r)^2} + \frac{A_3}{(1+r)^3} + \ldots\ldots + \frac{A_n}{(1+r)^n}$$

$$C = \sum_{t=1}^{n} \frac{A_t}{(1+r)^t} \neq C$$

$$0 = \sum_{t=1}^{n} \frac{A_t}{(1+r)^t} - C$$

Advantages:

1. Like the NPV method, it considers the time value of money.
2. It considers cash flows over the entire life of the project.
3. It satisfies the users in terms of the rate of return on capital.
4. Unlike the NPV method, the calculation of the cost of capital is not a precondition.
5. It is compatible with the firm’s maximising owners’ welfare.

Limitations:

1. It involves complicated computation problems.
2. It may not give unique answer in all situations. It may yield negative rate or multiple rates under certain circumstances.
3. It implies that the intermediate cash inflows generated by the project are reinvested at the internal rate unlike at the firm’s cost of capital under NPV method. The latter assumption seems to be more appropriate.

5. Profitability index:

It is the ratio of the present value of future cash benefits, at the required rate of return to the initial cash outflow of the investment. It may be gross or net, net being simply gross minus one. The formula to calculate profitability index (PI) or benefit cost (BC) ratio is as follows.

PI = PV cash inflows/Initial cash outlay A,

$$= \frac{\sum_{t=1} \frac{A_t}{(1+k)^t}}{C}$$

1. It gives due consideration to the time value of money.

2. It requires more computation than the traditional method but less than the IRR method.

3. It can also be used to choose between mutually exclusive projects by calculating the incremental benefit cost ratio.

Practice Sums

Q.1 The Delta company is planning to purchase a machine known as machine X. Machine X would cost $25,000 and would have a useful life of 10 years with zero salvage value. The expected annual cash inflow of the machine is $10,000.

Required: Compute payback period of machine X and conclude whether or not the machine would be purchased if the maximum desired payback period of Delta company is 3 years.

Solution:

Since the annual cash inflow is even in this project, we can simply divide the initial investment by the annual cash inflow to compute the payback period. It is shown below:

Payback period = $25,000/$10,000

= 2.5 years

According to payback period analysis, the purchase of machine X is desirable because it's payback period is 2.5 years which is shorter than the maximum payback period of the company.

Q.2 Due to increased demand, the management of Rani Beverage Company is considering to purchase a new equipment to increase the production and revenues. The useful life of the equipment is 10 years and the company's maximum desired payback period is 4 years. The inflow and outflow of cash associated with the new equipment is given below:

Initial cost of equipment: $37,500

Annual cash inflows:

Sales: $75,000

Annual cash Outflows:

Cost of ingredients: $45,000

Salaries expenses: $13,500

Maintenance expenses: $1,500

Non-cash expenses:

Depreciation expense: $5,000

Required: Should Rani Beverage Company purchase the new equipment? Use payback method for your answer.

Solution:

Step 1: In order to compute the payback period of the equipment, we need to work out the net annual cash inflow by deducting the total of cash outflow from the total of cash inflow associated with the equipment.

Computation of net annual cash inflow:

$75,000 – ($45,000 + $13,500 + $1,500)

= $15,000

Step 2: Now, the amount of investment required to purchase the equipment would be divided by the amount of net annual cash inflow (computed in step 1) to find the payback period of the equipment.

= $37,500/$15,000

=2.5 years

Depreciation is a non-cash expense and therefore has been ignored while calculating the payback period of the project.

According to payback method, the equipment should be purchased because the payback period of the equipment is 2.5 years which is shorter than the maximum desired payback period of 4 years.

Q.3 The Fine Clothing Factory wants to replace an old machine with a new one. The old machine can be sold to a small factory for $10,000. The new machine would increase annual revenue by $150,000 and annual operating expenses by $60,000. The new machine would cost $360,000. The estimated useful life of the machine is 12 years with zero salvage value.

Required:

1. Compute accounting rate of return (ARR) of the machine using above information.
2. Should Fine Clothing Factory purchase the machine if management wants an accounting rate of return of 15% on all capital investments?

Solution:

(1): Computation of accounting rate of return:

= $60,000* / $350,000**

= 17.14%

*Incremental net operating income:

Incremental revenues – Incremental expenses including depreciation

$150,000 – ($60,000 cash operating expenses + $30,000 depreciation)

$150,000 – $90,000

$60,000

** The amount of initial investment has been reduced by the net realizable value of the old machine ($360,000 – $10,000).

(2). Conclusion:

According to accounting rate of return method, the Fine Clothing Factory should purchase the machine because its estimated accounting rate of return is 17.14% which is greater than the management's desired rate of return of 15%.

Q.4 **An investor made an investment of $500 in property and gets back $570 the next year. If the rate of return is 10%. Calculate the net present value.**

Solution:

Given:

Amount invested = $500

Money received after a year = $570

Rate of return = 10% = 0.1

Using net present value formula,

Present value, PV = cash value at time period (1+rate of return) time period cash value at time period (1+rate of return) time period

PV = $570(1+0.1)1$570(1+0.1)1

PV = $570/1.1

PV = $518.18

Net Present Value = $518.18 − $500.00 = $18.18

Therefore, for 10% rate of return, investment has NPV = $18.18.

Q.5 Consider the following example to better understand the application of the internal rate of returns (IRR).

The DEF Group wants to diversify its business and plan to take up a new project that requires an initial investment of $400000. They will pay it off in 4 years. It will generate $40000 in the first year, $80000 in the second year, $1600000 in the third year, and $259600 in the fourth year. Find out the feasibility of this investment project if the discount rate is 8%.

Given:

- n = 4
- t = 0,1,2,3,4
- CF0= – $400000
- CF1= $40000
- CF2= $80000
- CF3= $160000
- CF4= $259600
- Discount Rate = 8%

Solution:

If the project's internal rate of return is 8%, then the NPV is:

$$\mathbf{NPV} = \sum_{t=1}^{n}\left[\frac{\mathbf{CF_n}}{(\mathbf{1+IRR})^{t}}\right] + \mathbf{CF_0} = \frac{\mathbf{CF_1}}{(\mathbf{1+IRR})^{1}} + \frac{\mathbf{CF_2}}{(\mathbf{1+IRR})^{2}} + \cdots \frac{\mathbf{CF_n}}{(\mathbf{1+IRR})^{t}} + \mathbf{CF_0}$$

$$\text{NPV} = \frac{40000}{(1+0.08)^1} + \frac{80000}{(1+0.08)^2} + \frac{160000}{(1+0.08)^3} + \frac{259600}{(1+0.08)^4} + (-400000)$$

$$\text{NPV} = 37037.04 + 68{,}587.11 + 1{,}27{,}013.16 + 1{,}90{,}813.75 - 400000$$

NPV = $23,451.06

Let us assume that the internal rate of return is 10% and that the NPV = 0.

$$\text{NPV} = \frac{40000}{(1+0.1)^1} + \frac{80000}{(1+0.1)^2} + \frac{160000}{(1+0.1)^3} + \frac{259600}{(1+0.1)^4} + (-400000)$$

$$\text{NPV} = 36363.64 + 66115.70 + 120210.37 + 1{,}77{,}310.29 - 400000$$

NPV = 0

Thus, if the IRR is 10%, the project will be at a break-even point. This project generates a positive NPV, and the discount rate is lower than the IRR. In other words, the IRR is more than the project's required rate of return; therefore, it is a profitable investment.

It is important to note that the value of CF0 is always negative as it is the cash outflow.

Q.6 our company has $100 million available for investment in the following potential investment opportunities:

Project	**NPV**	**Initial Investment**
A	$5 million	$15 million
B	$15 million	$50 million
C	$10 million	$10 million
D	$20 million	$60 million
E	$12 million	$35 million

Rank the projects based on profitability and identify the projects that should be accepted keeping in view the company's capital budget constraints.

Solution

Let's first find profitability indices of each project:

Project	**Profitability Index**	
A	1 + 5/15	= 1.33
B	1 + 15/50	= 1.30

C	1 + 10/10	= 2.00
D	1 + 20/60	= 1.33
E	1 + 12/35	= 1.34

The ranking based on profitability index is: Project C, Project E, Project A and D and Project B. Now, we need to maximize total net present value that can be achieved using $100 million investment by applying the concept of capital rationing capital rationing.

4.6 FEATURES OF ERP FINANCIAL MODULE

Following are the main features of an ERP finance module:

- **Profit tracking.** The profit tracker provides a business with a picture of its overall financial health and an overview of how it is using its financial resources. With profit tracking -- sometimes called profitability analysis -- an organization has visibility into where most of its profits come from. Some profit trackers will also forecast an organization's return on investment (ROI) from all channels based on historical sales transactions and expense data.
- **General ledger.** The GL is a comprehensive record of all of a company's financial transactions. It tracks such things as income and expenses, capital accounts, assets and liabilities.
- **Accounts payable (**AP**).** An organization uses the AP function to manage the money it owes vendors and other creditors. By automating AP, an enterprise can save money and time, as well as minimize human error. The AP feature of the ERP finance module can quickly process a large number of invoices and other financial transactions between an organization and its vendors. AP also integrates an organization's payables data with its purchasing system, which may be part of core finance or in a separate purchasing or procurement module, enabling better control of cash flows.
- **Accounts receivable (**AR**).** The AR function is where a company manages the money that customers owe. It tracks payments and manages cash and invoices. An organization can use this function to automate such tasks as generating recurring invoices, financial statements and payment reminders. By automating the AR process, a company can accelerate collections and make it easier for customers to pay, thereby improving cash flow and customer satisfaction.

- **Fixed asset management.** Companies use this feature to track and manage tangible assets, such as computers, factory equipment and vehicles. Fixed asset management lets an organization take into consideration depreciation calculations, compliance requirements and tax implications. By using this feature, it can get better visibility into how it uses its fixed assets, along with the associated costs and maintenance.
- **Purchasing.** Most core ERP financial modules have some features a company needs for basic purchasing of supplies and services, including generating the required paperwork, such as requisitions and purchase orders. Integration to AP usually provides the necessary handling of invoices, while invoice matching ensures that vendor invoices match the information in AP before payment is processed. Organizations that need more sophisticated purchasing capabilities, especially for buying the raw materials and components needed for manufacturing, usually have a more sophisticated procurement software module from the ERP vendor or a third-party provider.
- **Risk management.** The finance module's enterprise risk management features enable an organization to predict, analyze and manage risks to its operations and financial stability. For example, getting a handle on credit risk can ensure that a company has enough cash reserves on hand to cover AP if a customer misses a payment. Risk management features can also help companies deal with issues related to security, legal liabilities, compliance and reputational risks.
- **Reporting.** Basic reporting features provide access to financial data, often in real time, and help a company to prepare financial reports typically for internal use, though some products can produce reports and audit trails needed for regulatory requirements. The reporting features' visibility into ERP financial data helps an organization make data-driven decisions and predictions about its finances. Business intelligence (BI) and analytics features give a company a clearer view of its revenue picture. Dashboards can display actual and expected sales, expenses and other financial information. Presenting the data in a graphical format helps managers quickly understand the organization's financial health.
- **Tax management.** This feature, available in some finance modules, stores the ERP system's tax settings and provides tax reporting and audit functions. It enables an organization to collect tax information from all of its financial documents into a single repository. It also generates the reports a company needs to file its taxes.

4.7 BENEFITS OF ERP FINANCIAL MODULE

Let us examine in detail what the benefits of ERP are:

1. Manage Your Comprehensive Accounting and Financial Needs

It is imperative for every business to efficiently and actively manage cashflow, and with an ERP accounting system module, this becomes super easy.

Not only does it offer access to critical business information, but it also enables you to set a budget and assign financial resources for different purposes like raw material procurement, marketing campaigns, employee salaries, transport, and various other operational expenses.

Having a unified system to manage multiple processes or departments reduces the time and cost spent on purchasing separate tools for each. In a nutshell, you can:

- Use ERP for capital requirements estimation and cash management
- Draw up budgets accurately
- Allocate costs for different activities
- Manage payments made to vendors, employees, and so on

2. Eliminate Duplicate Data Entry

Most organizations today deploy an ERP solution to streamline and manage business ops; when you integrate that with the accounting module, it saves you the headache of comparing and verifying the information between disparate systems.

It also removes duplicate entries, thereby considerably enhancing data consistency.

3. Transparency Financial Information

With ERP in accounting, you can access financial information whenever you need it.

The ERP system functions to deliver precise, dependable information in a timely manner so that the organization's resources are used optimally, and the business processes are properly organized and managed.

It provides an all-round view into financial data and this visibility

4. A Higher Degree of Control

One of the biggest **benefits of ERP in accounting** is that it empowers you and affords you more control over your business.

You gain real-time visibility into how events and decisions impact your bottom line.
This way, you can learn and improve your decision-making, to reduce expenditure, improve profitability and drive growth.

5. Workflow Automation

Improving your core business ops becomes a breeze with a system that can automate your processes.

An *ERP* for accounting management includes time-saving features like inbuilt workflows; they automate your accounting and streamline the process of data entry.

It also improves the management of cash, resolves problems with cashflow, and simplifies complex accounts payable and accounts receivables activities.

You can easily gather, track, and analyze financial information from different departments with the ERP software's Finance and Accounting module.

It can also generate financial statements like balance sheets, profit and loss statements, and so on.

All of this automation makes it absolutely easy to collate data across the entire organization and use the information to manage your business better.

6. Reduced Human Errors

Manual data entry is always prone to errors; financial and accounting data is no different.

Often, fatigue and monotony can set in during manual capture, causing the individual to lose focus and press wrong keys, leading to erroneous entries, while such errors are quite commonly made, incorrect or incomplete accounting data can negatively impact the quality of financial reports, leading to even more problems – and sometimes, it could lead to complications in tax computation.

The ERP solution identifies and rectifies the errors in data entry, minimizing the risk of generating erroneous invoices, paying incorrect amounts, or any other accounting issues that may normally arise due to mistakes in the data entry stage.

7. Excellent Tracking Capabilities

A critical **benefit of ERP in accounting** is that it can be utilized as a comprehensive financial management system, by enhancing activities related to finance and accounting like credit management, tracking of revenue, payment schedules of customers, and a whole lot more.

As activities like payments, revenue, and billing have high tracking capabilities, they can be easily managed if you have an ERP solution deployed in your organization; you can even use the software to keep track of profits your business makes, budgets, cost analysis, invoices, and so on.

8. Detailed Insights from Financial Data in Real-Time

ERP in accounting and financial management offers detailed, comprehensive visibility into the financial condition of the entire business, across departments.

The system makes sure that you can view the fiscal health of your organization efficiently and with clarity, helping you to control expenses, measure revenues, and handle other activities of the accounting process.

It ensures that you stay informed of every financial transaction immediately as it happens.

9. Robust Reporting Capabilities

The accounting departments of the organization end up spending a great deal of time preparing financial reports for the various stakeholders like banks, tax authorities, shareholders, and so on.

With an ERP system, however, all this manual work can be avoided, as it comes with robust reporting features.

Its inbuilt filters can be customized and apply as per the specific requirements of various agencies, to churn out accurate and detailed financial reports.

10. Financial Data Security

Being of a very confidential nature, financial information demands a high degree of security protocols for data protection.

A reliable ERP system is one that affords multiple level security with stringent protocols in place to databases that store information and offers only role-based access to users who will have to use multiple authentications to get in.

Such an ERP software will be able to prevent security breaches and protect sensitive financial information.

4.8 SAGE ACCPAC ERP – A FINANCIAL ERP TOOL

Slash the time and cost of complex accounting and financial management software processes and redirect those resources toward growing your business. Sage ERP Capac Accounting and Financial Management software integrates your sales and service functions for streamlined, end-to-end financial management. Powerful, flexible tools improve financial reporting and compliance and provide better business intelligence for a greater Rainmaker confident financial decisions based on solid, comprehensive data.

- Make confident business decisions based on accurate, comprehensive financial information
- Easily manage global accounting operations and configure for country-specific localization.
- Improve leverage of receivables and build working capital.
- Accelerate financial processes including quotes to cash, collections and closes.
- Proactively manage risks and compliance; improve visibility, transparency and accountability.

Sage ERP Capac Accounting and Financial Management software includes:

- Customizable and scalable General Ledger to handle your most demanding budgeting and processing needs and grows with your business
- Global multicurrency capabilities to handle unlimited currencies and rate types and real-time revaluation
- Robust Accounts Payable and Accounts Receivable features to provide rapid entry and payment of invoices, flexible cash disbursement and fully integrated bank reconciliation
- Global multicurrency capabilities include unlimited currencies and rate types and real-time revaluation
- Powerful inter-company and consolidations capabilities to make managing multiple locations and subsidiaries a breeze
- Fully customizable Checks & Forms Printing to facilitate easier, faster and more secure document printing
- Simplify sales and use tax rate calculations with Sage Sales Tax - a cloud-based, connected service that helps you remain compliant with complex sales tax regulations.

4.9 BENEFITS OF ERP IN FINANCIAL ACCOUNTING

1. Improves Workflow

The first key benefit of ERP software is improved workflow. By improving how you manage tasks, do calculations (particularly asset tracking), and other business functions, ERP systems for accounting can help streamline your internal processes. In particular, they can enable teams within companies to work together more effectively.

This is very useful for small businesses and large enterprises when integrating accounting functions into new systems or moving from one system to another (such as between ERP systems).

Smaller businesses, **for example**, might need workflow improvements to streamline collaboration between the team. Here, a single Tally accounting system can be useful. Larger enterprises can also benefit from improved workflow, not just for routine tasks but for special projects or projects with unique requirements.

2. Enforces Best Practices

New and existing ERP software customers are rapidly discovering the benefits of increased efficiency and productivity through integrated financial management and accounting system. The "best practices" approach in Tally software implementation has many advantages over traditional accounting systems, including:

- Rapid, cost-effective implementation
- Greater user satisfaction
- Improved operational efficiency
- Increased profitability

Tally.ERP 9 (Tally Prime) software is the platform that offers all these benefits and more. Plus, Tally can be customized to suit individual business needs.

3. Facilitates Better Financial Management

The software solution Tally is the top ERP accounting software in the global market, which provides a complete solution to address all financial management needs. This program is easy to use and navigate. The software includes a user interface that offers multiple views about the company. It also has an integrated list of reports, charts, and dashboards with powerful filters for you to make decisions quickly. These features provide different perspectives about your company's financial performance and allow you to identify trends on specific metrics.

The Tally accounting system is an ideal accounting & financial management system for managing companies' assets, liabilities, income, and expenses. In Tally accounting systems, the entity processes transactions through a centralised record-keeping system. The central ledger represents the company's credit and debit accounts, the assets and liabilities of a company. This central ledger often called the "Tally book", is used to record transactions internally and externally.

4. Improves Business Performance

As more and more companies adopt Enterprise Resource Planning (ERP) software, the market for this type of system is beginning to gain momentum. ERP system is a business management software that integrates all functional areas of an organisation into a singular system. This is a complicated process that involves a change in culture, data sharing, and more. The key to success is getting the software to its end-users. ERP software helps businesses by automating many of their routine business tasks to focus on higher value-added activities.

ERP for accounting also helps with forecasting and planning by connecting the different departments in an organisation. ERP systems are responsible for the internal processing of data and help bring it together in a way that helps each department make better decisions.

Businesses can use ERP systems to provide insights into how an organization's decisions affect its customers and employees, providing information often referred to as '360-degree feedback'.

This enables an organisation to manage business operations smoothly, integrating all the functional business areas, business processes, and key performance indicators for operations, finance, logistics, human resources, customer relationship management, and more. ERP systems are thriving in business today and are used by many companies, from start-ups to global giants.

5. Lowers Costs

Accounting and finance departments have a vital role in the ongoing development of a company. These departments are responsible for recording, reporting, and analyzing financial information, ensuring that the company's financial & accounting policies are followed, and the company complies with relevant regulations.

- The finance department is responsible for ensuring the company's financial assets and liabilities are appropriately monitored, accurately recorded and correctly managed.
- They are also responsible for ensuring that all accounting, tax, and reporting rules are followed in accordance with the set guidelines.
- They may also be in charge of monitoring the company's internal controls. This can be an incredibly complex and time-consuming task, particularly for smaller businesses where there may not be a dedicated finance manager.

Thankfully, specific ERP accounting solutions such as Tally.ERP software (Auditor's Edition) exists that can help these departments work more efficiently and help reduce costs for organizations.

Internal Audit is verifying and inspecting the company's compliance with laws, policies, procedures, and standards. Internal auditors may be employed by the company or an external auditor hired by a third party to review an independent audit on behalf of their client. All ERP systems are designed to ensure compliance with internal control guidelines and help to prevent fraud.

4.10 UNIT END QUESTIONS

A. Descriptive Questions

Long Answer Questions

1. What is the setup process for employees in Tally ERP 9 for their payroll?
2. What is trial balance, and what is the process to check the trial balance in Tally ERP 9?
3. How can you create multiple ledgers in Tally ERP 9?
4. What are the main functional enhancements in Tally ERP 9 software?
5. Mention the types of vouchers? Also, give the shortcut for creating these vouchers?

Short Answer Questions

1. Mention the types of vouchers? Also, give the shortcut for creating these vouchers?
2. Do you know any features available in Tally ERP9 for Accounting?
3. What are available statutory features in Tally ERP?
4. How can you view the profit and loss statement in Tally ERP 9 software?
5. Define group in Tally ERP9?

B. Multiple Choice Questions

1. The Asset Accounting component is used for managing and supervising ___ with ERP System.

   a. fixed assets
   b. current assets
   c. tangible assets
   d. intangible assets

2.Which of the following is a main characteristic of Integrated ERP System?

   a. Separate data maintenance by each department
   b. Centralised Database
   c. No direct inter department communication
   d. None of these

3. What are the primary business benefits of an ERP system?

   a. Market demand, resource and capacity constraints, and real-time scheduling
   b. Sales forecasts, sales strategies, and marketing campaigns

c. Forecasting, planning, purchasing, material management, warehousing, inventory, and distribution
d. None of these

4. Which of the following describes an ERP system?

a. ERP systems provide a foundation for collaboration between departments
b. ERP systems enable people in different business areas to communicate
c. ERP systems have been widely adopted in large organisations to store critical knowledge used to make the decisions that drive the organisation's performance
d. All of these

5. As processes become more automated and efficient,

a. It is best to treat ERP as an investment but not as a cost-cutting measure.
b. It is best to treat ERP as a disinvestment as well as a cost-cutting measure
c. It is not best to treat ERP as an investment as well as a cost-cutting measure.
d. It is best to treat ERP as an investment as well as a cost-cutting measure.

Answer: 1-a, 2-b, 3-c, 4-d, 5-a

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UNIT -5 ACCOUNTING DATABASE MANAGEMENT

STRUCTURE

5.0 OBJECTIVES

- Explain Accounting database management
- Describe Use of MS Excel
- Discuss QuickBooks India software
- Explain Vapor

5.1 INTRODUCTION

One of the major factors for realizing the need of Computerized Accounting System is the overwhelming quantity of data in our organizations. The conventionally used paper filing system, text documents, and even spread-sheets may not suffice for the growing needs of tracking this voluminous and critical information. A simple solution to this situation is available in the form of a Database Management System (DBMS) (e.g. 'Access', 'Oracle', 'SQL Server', etc.) that provides a variety of software tools for organizing, processing and querying data in a flexible manner. As we now proceed to look into practical applications of computers in generating, storing, processing, and retrieving of accounting information, we will make an assumption that you are fairly conversant with the accounting framework and operating procedure – i.e. you have the required domain knowledge. We also assume that you have adequate exposure to handling of computers and the concepts of database. However, we do not wish to make knowledge of the database management a pre-requisite for understanding of this chapter, and hence, we will restrict ourselves to the simpler and easy to comprehend 'MS Access' program for developing some practical accounting applications. In doing so, we will focus on the three major components of Access, namely, 'tables', 'queries' and 'forms'. Having done that, we will examine the methods of generating reports.

5.2 ACCOUNTING DATABASE MANAGEMENT

A primary aim of the database system is to provide a convenient and efficient way to store and retrieve data stored in a database.

A database is a computer generated software program which can be used to access the data stored in database in an organized manner.

The term database is a structured collection of data stored which can be stored in digital form. Before the actual data is stored in the database, we should clearly specify the schema of the database and different techniques used to manipulate the data stored in a database.

Database shouldn't only care about the insertion and modification of the data in the database. At times, it should also focus on how to protect the data stored in the database from unauthorized access.

DBMS must provide efficient techniques in order to protect the data from accidental system crashes.

If the data has to be shared among number of users, there are highly chances that the data might not remain consistent because too many users might try to access it at same time and may try to change the value.

The DBMS must ensure that the chances of getting anomalous results when the data is used by more than one set of user. DBMS systems can be used extensively in the following fields

1. Transportation: DBMS system can be used for reservation or cancellation of tickets and can be also used to check for the schedules of incoming and outgoing flights.
2. Education: DBMS system can be used by different universities to allow students take admission online, checking the status of vacant seats, enrolment system can be done computerized etc.
3. Banking: DBMS system have completely changed the face of the banking sector.

Few decades ago, the banking system was purely the paper based system have now transformed in keeping less of paper work.

4. Sales: DBMS system allows the data to be stored in electronic format by making use of relational databases which allows the data to be stored in highly organized manner. This database allows the information such as information about the customers, products, sales, purchases etc to be stored in database.

5. Manufacturing: DBMS system allows the user to store information about the production of good, the inventory details, the total number of orders, supply chain information in database so that it allows the decision makers to make critical decisions in timely manner.

6. Human Resource: DBMS has made the life of HR team much better by allowing the team to compute tax deductions, employee wages, retrieving the details of the employees in faster manner as compared to traditional paper based approach which was time consuming. Thus the growth of DBMS system has not only benefitted only to the customers or employees in an organization but it has touched all the aspects of our lives.

5.3 USE OF MS EXCEL AND OTHER SOFTWARE PACKAGES SUCH AS QUICKBOOKS INDIA

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.

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.

Uses of MS Excel

1 – Get Quick Totals

Getting total or **subtotal** is common, so Excel provides a quick sum of numbers with its AutoSum option. For example, look at the below data in Excel.

2 – Data Analysis & Interpretation

The spreadsheet contains data, so telling the story behind the data is what the decision-makers need to make vital decisions in the business world. So, when the data is available with Excel, we can use MS Excel features like **pivot table** and formulas to analyze the data and interpret the numbers quickly and efficiently.

3 – Plenty of Formulas to Work with Data

MS Excel comes with plenty of built-in functions to work with data. There are 450+ **functions in excel,**, so these functions are categorized as “Financial,” “Logical,” “Text,” “Date & Time,” “Lookup & Reference,” “Math & Trig,” “Statistical,” “Engineering,” “Cube,” “Information,” and “Web.”

4 – Data Organizing & Restructuring

You cannot get the data ready to use, so we can organize the data using Excel tools. We can reorganize the data according to the users’ needs.

5 – Data Filtering

Using the option of “**Filter” in Excel**, we can filter the particular data from the number of rows of data. For example, we can apply a single-column filter and the filter to multiple columns to **match multiple criteria** to filter the data.

6 – Goal Seek Analysis

When the target is set, and at a certain project stage, we may need to review that target achievement. So, using Excel, we can track all those things and identify what needs to be done in the remaining steps to achieve the desired goals.

7 – Flexible and User-Friendly

When you compare MS Excel with other spreadsheets, you will find MS Excel as relatively friendly and flexible enough to fit the needs of the users.

First, however, one needs the proper training to start things in Excel.

8 – Online Access

Not all the time, we get the done offline, so some of the data needs to be fetched from online websites. We can import data from “MS Access File,” “Text File,” “From Web,” “From SQL Servers,” “From XML Data Import,” etc. So, getting the data to Excel is not a constraint.

9 – Building Dashboards

When the story behind the data is read to tell, end users may want to see those summary results in a single page view. So using MS Excel, we can build dashboards that can tell the stories in a single page view. So, not only can we build a dashboard, but it also makes the dashboard interactive.

10 – Interactive Charts and Graphs

When the **Excel formulas** are applied, we can make them dynamic so that when the data range gets an addition or deletion, our formula shows the updated results instantly.

11 – Dynamic Formulas

When the **excel formulas** are applied, we can make them dynamic so that when the data range gets an addition or deletion, our formula shows the updated results instantly.

12 – Automation Through Excel

At last, when you move to the advanced level of MS Excel, you may get bored with daily work in Excel. In that case, we can automate the reports in Excel by **using the VBA coding** language.

QuickBooks

QuickBooks Online Accounting Software from Intuit is a cloud-based accounting software offered in a SAAS model. The QuickBooks Online edition has configured for India, with provisioning for Indian currency, Indian tax regulations and automatic synchronization of QuickBooks accounting information with the Company’s bank transaction information. QuickBooks is a product of Intuit, the makers of QuickBooks and Quicken – both with the extensive usage of accounting software’s in the US by small and medium-sized businesses.

Technology

QuickBooks is offered as in a SAAS model through the clouds. Therefore, there is no software to install and the accounting information of the Company can be accessed from any computer with an internet browser. Since the accounting information is stored online, multiple users from multiple locations can work on the same accounting information while staying in sync. Further QuickBooks App is available for iOS and Android – allowing access to QuickBooks from tablets and mobile phone.

Features

QuickBooks Online has released in India only about a year ago, targeting SME businesses. Therefore, QuickBooks Online currently offers only limited features and functionalities. Yet, the features and functionalities currently provided by QuickBooks are sufficient to comfortably manage the accounting information of a small or medium-sized business in the service sector. QuickBooks Online does offer certain functionalities that are unique such as automatic bank transaction information synchronization, scheduled invoices, etc., which could come in handy for certain business owners.

Usability

QuickBooks is extremely user-friendly and intuitive. Anyone can operate QuickBooks easily without any prior accounting knowledge or training on QuickBooks. QuickBooks is suitable for small businesses with no dedicated accounting professionals on a roll. QuickBooks Online is useful for SME businesses wherein the Entrepreneur would like to have easily accessible and understandable – accounting information or reports or data.

Support Network

QuickBooks offers support for QuickBooks Online through **QuickBooks Gold Partners** and **QuickBooks ProAdvisors in India**. QuickBooks is a new entrant in the Indian market and is working to establish a network of Accountants across India to help Entrepreneurs with their QuickBooks requirements.

Cost

Purchase One year QuickBooks online edition through IndiaFilings.com for Rs.3000 inclusive of all costs.

The Verdict

QuickBooks and Tally are both very good accounting software here to stay in the Indian market for a very long time. Tally is an established player in the Indian market, whereas QuickBooks is a newcomer to the Indian market looking to establish a dominant position. QuickBooks Online, in its current format, is highly suitable for small and medium businesses in the service sector without any accounting professional on a roll. QuickBooks is also a great choice for businesses wherein the Entrepreneur would like to manage accounting information and have easy access to accounting information while on the move.

5.4 ZOHO BOOKS

Zoo Books is ideal for small businesses looking for easy-to-use accounting software with strong mobile apps and plenty of features. Add in competitive pricing and quality customer service, and Zoo Books is a clear contender against the biggest competitors in the accounting software space.

Soho Books is best for:

- Businesses that want to manage their finances on the go with strong mobile apps
- Businesses that want accounting software that doesn't cost a fortune
- Businesses that need intuitive software that's easy to set up and use
- Businesses that require international invoicing
- Businesses that want software that comes with excellent customer support

The Key Differences Between Zoo Books Vs QuickBooks Online

While Zoo Books and QuickBooks Online have many similarities, there are quite a few differences that can help you determine which software is the best option for your business. Let's break down these key differences.

1. **Integrations:** If you want to integrate your accounting software with other software and apps, you won't be disappointed by QuickBooks, which has more than 650 integrations. Zoo Books has just over 30 — significantly lower than what's offered by QBO.
2. **Pricing:** Previously, Zoo Books was the clear winner in terms of pricing. However, a new pricing structure has made Zoo Books' top-tier plan significantly more expensive than QuickBooks' highest-tier plan. However, Zoo Books does offer a free plan — something not offered by QBO — although it is limited in features and is best suited for very small businesses.
3. **Customer Support:** Users who value excellent customer support will find more satisfaction in the support options and resources offered by Zoo Books. Low wait times, fast responses, and knowledgeable agents give Zoo Books the edge. A lack of email support, longer wait times, and support reps that are hit-or-miss when answering your questions are potential downfalls you may face when using QuickBooks Online.
4. **Lending:** If you want a one-stop shop for your accounting and lending, consider giving QBO a shot. The built-in QuickBooks Capital simplifies getting additional

working capital for your business. Zoo Books does not offer a comparable product.

5. **Mobile Apps:** Zoo Books and QuickBooks Online both have solid mobile apps, especially compared to other accounting software. However, Zoo Books has a slight edge, as its mobile apps are available for Android and Apple products, Windows tablets and devices, and the Kindle Fire. QBO is available only for Apple and Android products. QBO's mobile apps have also received a few customer complaints surrounding bugs and crashes.

5.5 MARGERP 9+

MARG ERP 9+ is an on premise ERP solution used by small, midsize and enterprise businesses. It offers different modules customized to the needs of retailers, distributors and manufacturers in a variety of industries. The solution offers android apps for customers, storeowners and suppliers. Modules offered by MARG ERP9+ include order management, purchase management, production planning and costing and inventory management. It also offers distribution module for multiple industries, including pharmacy.

The retail POS module includes inventory management, reporting, integrations with e-commerce platforms, touch POS, barcode scanners and integrations with logistics platforms. It also offers sales force automation with reporting on things such as activity, attendance, daily sales etc. Other features include a financial account with IT-ST auditors' reports, multi-location inventory management, operator wise powers and foundations, challan and counter sales and currency symbols. Pricing to license the platform varies with features and number of users. Support is offered via phone.

5.6 VYAPAR, MYBOOKS

What is Vapor?

Vapor is the only Business Accounting, Invoicing & Inventory management software made for small Business, that lets you manage, invoices/receipts, estimates, payments, inventory, online store and clients. An ideal solution fulfilling all your Business Accounting needs.

Using Vapor, you can:

1.GST compliant Invoicing;

2. Apply TCS in transactions

3.Online Payment Gateway Integration

3. All GSTR reports (GSTR-1, GSTR-2, GSTR-3B, GSTR4);

4. Stock/Inventory management;

5. Invoice customization;

6. Invoice print support for a regular printer and thermal printer;

7. Expense management with GST;

8. Bank management;

9. Receivable and payable maintenance;

10. Bar-code Generation & billing support;

11. Bill wise payment;

12. Stock tracking based on the serial number, exp. date, mfg. date, batch number, etc.;

13. Order and estimate management;

14. Business overview with multiple reports;

15. Balance sheet;

16. Loan account;

17. My Online Store;

18. E-way bill generation;

19. Multiple Device Synchronization in real time;

20. Sale, purchase, cash flow, day-book, custom reports;

21. Profit and loss, item wise profit and loss, Bill wise and Party Wise Profit & Loss;

22. Bank statement;

23. Stock related reports: stock summary, stock detail, item wise sale purchase, etc.

24. Party to Party Transfer

What is my Books?

my Books is a cloud-based accounting solution designed primarily to serve small and midsize businesses. It is suitable for solo accountants, small business owners, small IT and financial companies, entrepreneurs and freelancers. my Books provides accounting tools for managing invoices, expenses, bills and other financial transactions. my Books offers an analytics dashboard that helps users to set and monitor accounting indicators. It offers a bank reconciliation feature that allows businesses to connect bank accounts and view transactions and cash summaries in real time. Users can also process multi-currency transactions, and provides configurable templates for invoices, bills and expense reports. my Books provides enterprise-grade data security for bookkeeping and financial documents. The solution is available on a monthly subscription basis. Pricing is based on the number of users and the number of transactions in a month.

5.7 UNIT END QUESTIONS

A. Descriptive Questions

Long Answer Questions

1. What do you understand by DBMS? Give names of two commonly available DBMS software's?
2. What are the advantages of Access over Excel?
3. What do you understand by terms 'key field', 'primary key' and 'secondary key' in a database?
4. Differentiate between 'Desktop database' and 'Server database'. List the criteria that may help you in selecting appropriate database?
5. What factors to keep in mind while choosing accounting software?

Short Answer Questions

1. Explain the uses of MS Excel in accounting
2. Write a note on importance on QuickBooks India software
3. Explain the advantages of using Boobooks
4. Write a note on Vapor software for accounting?
5. What factors to keep in mind while choosing accounting software?

B . Multiple Choice Questions

1. Which ZOHO app is Used for Recurring Invoice

   a. Subscription
   b. Invoice
   c. Books
   d. CRM

2. What is Alternative for Google Docs

   a. ZOHO Workdrive
   b. ZOHO Writer

c. ZOHO Sheet
d. None of these

3. MS Excel is a _______

a. Workbook software
b. Presentation software
c. Spreadsheet
d. Database Management Software

4. MS-EXCEL can be used to automate

a. Financial statements, Business forecasting
b. Transaction registers, inventory control
c. Accounts receivable, accounts payable
d. All of these

5. Which among these is not an example of system utility software?

a. Microsoft-office package
b. Anti-virus utility to scan a computer for viruses
c. Disk compression utility to compress contents of a disk for increasing the capacity of a disk
d. Disk compression utility to compress contents of a disk for increasing the capacity of a disk

Answer: 1-a, 2-b, 3-c , 4-d, 5-a

5.8 REFERENCES

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