LESSON 1: INTRODUCTION TO FINAL ACCOUNT

CONTENTS

1.0 AIMS AND OBJECTIVES

At the end of the lesson you be able to:

- ➢ Understand basics of Final Accounts
- ➢ Understand the difference between Profit and Loss Account with Trial Balance
- ➢ Understand how to prepare Balance Sheet

1.1 INTRODUCTION

All business transactions are first recorded in Journal or Subsidiary Books. They are transferred to Ledger and balanced it. The main object of keeping the books of accounts is to ascertain the profit or loss of business and to assess the financial position of the business at the end of the year. The object is better served if the businessman first satisfies himself that the accounts written up during the year are correct or al least arithmetically accurate.

When the transactions are recorded under double entry system, there is a credit for every debit, when on a/c is debited; another a/c is credited with equal amount.

If a Statement is prepared with debit balances on one side and credit balances on the other side, the totals of the two sides will be equal. Such a Statement is called Trial Balance.

1.1.1 DEFINITION

Trial Balance can be defined as "a list of all balances standing in the Ledger Accounts and Cash Book of a concern at any given time.

Advantages:

1. It is the shortest method of verifying the arithmetical accuracy of entries made in the Ledger. If the Trial balances agree, it is an indication that the Accounts are correctly written up; but it is not a conclusive proof.

2. It helps to prepare the Trading A/c, Profit & Loss a/c and Balance Sheet.

3. It presents to the businessman consolidated lists of all Ledger Balances.

Preparation:

There are two methods for preparing the Trial Balance

First Method:

In this method, Ledger Accounts are not balanced. They are totaled. The debit side totals and the credit side totals are entered in a separate sheet. The grand total of Debit Column will be equal to the grand total of the Credit Column.

Second Method:

This method is more widely used. In this method, Ledger accounts are balanced. The brought down balances are then brought to a sheet as given bellow.

Suresh Babu's Books
Trial Balance as on _____ 20___

S.No.	Name of Account	L.F.	Debit Balance		Credit Balance	
			Rs.	P.	Rs.	P.

Assets, Sundry Debtors, Losses, Expenses and Drawings and debit balances; Capital, Liabilities, Sundry Creditors, Gains, Incomes and Capital, Revenues are credit balances.

1.2 SUNDRY DEBTORS

When a trader sells on credit basis, The Buyer's Account in the Ledger is debited. For each buyer, there is one Ledger a/c. Some of the buyer accounts may be automatically balanced. But it is quite natural that many of these Customer's Accounts have a debit balances.

When we bring these balances to the Trial Balance, if we are going to write all individual names of customers, then the Trial balance will be too lengthy. Therefore, first a list of Debtors with their individual debit balances are prepared and totaled. Instead of writing the individual names of Debtors, the total is written under the heading "Sundry Debtors" which appears in the Trial Balance.

1.3 SUNDRY CREDITORS

There are a number of parties from whom the Trader buys goods on credit basis. For each one of them, an Account is opened in the Ledger. As in the case of Debtors, a List of Creditors with the balances due to them is prepared. In the Trial Balance, instead of writing the individual names of Creditors,, the total of the balances of the creditors is written under the heading "Sundry Creditors"

If the Trial Balance agrees, it is an indication that the accounts are correctly written up; but it is not a conclusive proof. If the trial balance disagrees, then the difference amount is generally placed in 'Suspense Account'

Format:

Trial Balance of Mr. Akkash
As on 31st December 2007

S.No.	Name of Account	L.F.	Debit Balance Rs.	P.	Credit Balance Rs.	P.

The total amount of debit balances should be equal to the total amount of credit balances. This method is uniformly followed by all.

Illustration:

The balances extracted from the books of Sankar are given below. From the prepare Trial Balance on 31st March 3007

	Rs.		Rs.
Sankar's Capital	30,000	Sundry Creditors	4,000
Sales	30,000	Cash in hand	1,800
Purchases	20,000	Cash in Bank	6,000
Interest (Dr)	400	Bills Receivables	11,000
Sales returns	1,000	Bills Payable	7,000
Purchases Returns	800	Discount earned	800
Sundry Debtors	15,000	Wages	7,000
Commission (Dr)	1,000	Rent	800
Plant and Machinery	8,000	Telephone charges	1,000
Misc. Income	400		

Answers:

Trial Balance of Mr. Sankar
As on 31st March 2007

S.No.	Name of Account	L.F.	Debit Balance Rs.	P.	Credit Balance Rs.	P.
1.	Sankars' capital A.c				30,000	
2.	Sales A/c				30,000	
3.	Purchases A/c		20,000			
4.	Interest A/c		400			
5.	Sales Returns A/c		1,000			
6	Purchaes Returns A/c				800	
7.	Sundry Debtors A/C		15,000			
8.	Sundry Creditors				4000	
9.	Cash in hand		1,800			
10.	Cash at Bank		6,000			
11.	Bills Receivable A.c		11,000			
12.	Bills Payable A/c				7,000	
13.	Commission A/c		1,000			
14.	Discount Earned A/c				800	
15.	Wages A.c		7,000			
16.	Rent A/C		800			
17.	Plant and Machinery A/c		8,000			
18.	Telephone charges A/c		1,000			
19.	Miscellaneous income A/c				400	
	Total		73,000		73,000	

1.4. FINAL ACCOUNTS

So far, we have discussed that how the business transactions are recorded in Journal and ledger and how to detect and rectify the errors and how to prepare Trial Balance.

Is quite natural that the businessman is interested in knowing whether his business is running on Profit or Loss and also the true financial position of his business. The main aim of Bookkeeping is to inform the Proprietor, about the business progress and the financial position at the right time and in the right way. Preparation of Final accounts is highly possible only after the preparation of Trial Balance.

Final Accounts	
Trading & Profit and Loss A/c	**Balance sheet**

1. Trading and Profit and Loss A/c is prepared to find out Profit or Loss.
2. Balance Sheet is prepared to find out financial position a if concern.

Trading and P&L A/c and Balance sheet are prepared at the end of the year or at end of the part. So it is called Final Account.

Revenue account of trading concern is divided into two-part i.e.

1. Trading Account and
2. Profit and Loss Account.

1.5 TRADING ACCOUNT

Trading refers buying and selling of goods. Trading A/c shows the result of buying and selling of goods. This account is prepared to find out the difference between the Selling prices and Cost price. If the selling price exceeds the cost price, it will bring Gross Profit. For example, if the cost price of Rs. 50,000 worth of goods are sold for Rs. 60,000 that will bring in Gross Profit of Rs. 10,000.

If the cost price exceeds the selling price, the result will be Gross Loss. For example, if the cost price Rs. 60,000 worth of goods are sold for Rs. 50,000 that will result in Gross Loss of Rs. 10,000.

Thus the Gross Profit or Gross Loss is indicated in Trading Account.

Items appearing in the Debit side of Trading Account.
1. Opening Stock: Stock on hand at the commencement of the year or period is termed as the Opening Stock.
2. Purchases: It indicates total purchases both cash and credit made during the year.
3. Purchases Returns or Returns out words: Purchases Returns must be subtracted from the total purchases to get the net purchases. Net purchases will be shown in the trading account.
4. Direct Expenses on Purchases: Some of the Direct Expenses are.
    i. Wages: It is also known as Productive wages or Manufacturing wages.
    ii. Carriage or Carriage Inwards:
    iii. Octroi Duty: Duty paid on goods for bringing them within municipal limits.
    iv. Customs duty, dock dues, Clearing charges, Import duty etc.
    v. Fuel, Power, Lighting charges related to production.
    vi. Oil, Grease and Waste.
    vii. Packing charges: Such expenses are incurred with a view to put the goods in the Saleable Condition.

Items appearing on the credit side of Trading Account
1. Sales: Total Sales (Including both cash and credit) made during the year.
2. Sales Returns or Return Inwards: Sales Returns must be subtracted from the Total Sales to get Net sales. Net Sales will be shown.
3. Closing stock: Generally, Closing stock does not appear in the Trial Balance. It appears outside the Trial balance. It represents the value of goods at the end of the trading period.

Specimen Form of a trading A/c

Trading Account fro the year ending _____

Dr.   Cr.

Particulars	Amount Rs P.	Amount Rs. P.	Particulars	Amount Rs P.	Amount Rs. P.
To Opeining Stock		xxx	By Sales	xxx	
			Less: Returns	xxx	xxx
To Purchase	xxx		Inwards		
Less: Returns	xxx	xxx	By Closing Stock		xxx
Outwards		xxx	By Gross Loss (to		xxx
To Wages		xxx	be transferred to		
To Freight			P&L A/c)		
To Carriage					
Inwards		xxx			
To Clearing					
Charges		xxx			
To Packing charges		xxx			
To Dock dues		xxx			
To Power		xxx			
To Gross Proft (to be		xxx			
transferred to P&L					
A/c)					
		xxx			xxx

Illustration 1:

Prepare a Trading Account from the following information of a trader

Total Purchases made during the year 2007 Rs. 20,000

Total Sales made during the year 2007 Rs. 25,000

Solution

Trading Account for the year ending 31st December 2007

Particulars	Amount	Particulars	Amount
To Purchases	20,000	By Sales	25,000
To Gross Profit c/d	5,000		
	25,000		**25,000**

1.5.1. BALANCING OF TRADING ACCOUNT

The difference between the two sides of the Trading Account indicates either Gross Profit or Gross Loss. If the total on the credit side is more, the difference represents Gross Profit. On the other hand, if the total of the debit side is high, the difference represents Gross Loss. The Gross Profit or Gross Loss is transferred to Profit and Loss A/c.

Closing Entries of Trading A/c

Trading A/c is a ledger account. Hence, no direct entries should be made in the trading account. Several items such as Purchases, Sales are first recorded in the journal and then posted

to the ledger. The Same accounts are closed by the transferring them to the trading account. Hence it is called as closing entries.

Advantages of Trading Account

1. The result of Purchases and Sales can be clearly ascertained
2. Gross Profit ratio to Sales could also be easily ascertained. It helps to determine Price.
3. Gross Profit ratio to direct Expenses could also be easily ascertained. And so, unnecessary expenses could be eliminated.
4. Comparison of trading account details with previous years details help to draw better administrative policies.

1.6 PROFIT AND LOSS ACCOUNT

Trading account reveals Gross Profit or Gross Loss. Gross Profit is transferred to credit side of Profit and Loss A/c. Gross Loss is transferred to debit side of the Profit Loss Account. Thus Profit and Loss A/c is commenced. This Profit & Loss A/c reveals Net Profit or Net loss at a given time of accounting year.

Items appearing on Debit side of the Profit & Loss A/c

The Expenses incurred in a business is divided in too parts. i.e. one is Direct expenses are recorded in trading A/c., and another one is Indirect expenses, which are recorded on the debit side of Profit & Loss A/c. Indirect Expenses are grouped under four heads:

1. Selling Expenses: All expenses relating to sales such as Carriage outwards, Travelling Expenses, Advertising etc.,
2. Office Expenses: Expenses incurred on running an office such as Office Salaries, Rent, Tax, Postage, Stationery etc.,
3. Maintenance Expenses: Maintenance expenses of assets. It includes Repairs and Renewals, Depreciation etc.
4. Financial Expenses: Interest Paid on loan, Discount allowed etc., are few examples for Financial Expenses.

Item appearing on Credit side of Profit and Loss A/c.

Gross Profit is appeared on the credit side of P & L. A/c. Also other gains and incomes of the business are shown on the credit side. Typical of such gains are items such as Interest received, Rent received, Discounts earned, Commission earned.

Specimen Form

Profit & Loss Account
For the year ended 31st March 2007

Particulars	Amount	Particulars	Amount
To Trading A/c		By Trading A/c	
(Gross Loss)		(Gross Profit)	
To Salaries		By Commission earned	
To Rent & Taxes		By Rent received	
To Stationeries		By Interest received	
To Postage expenses		By Discounts received	
To Insurance		By Net Loss	
		(Capital A/c)	

Particulars	Amount	Particulars	Amount
To Repairs			
To Trading expenses			
To office expenses			
To Interest			
To Bank charges			
To Establishment expenses			
To Sunder expenses			
To Commission			
To Discount			
To Advertisement			
To Carriage outwards			
To Traveling expenses			
To Distribution expenses			
To Bad debt provision			
To Net Profit (transferred to Capital A/c)			

Illustration

Prepare Profit and Loss Account, from the following balances of Mr. Murugan for the year ending 31.12.2007.

Office rent Rs. 3000	Salaries Rs. 8,000
Printing expenses Rs. 2,200	Stationeries Rs. 2,400
Tax, Insurance Rs. 1,400	Discount allowed Rs. 600
Discount received Rs. 400	Travelling expenses Rs. 2,600
Advertisement Rs. 3,600	

Gross Profit transferred from the Trading A/c Rs. 25,000

Solution

Profit and Loss Account of Mr. Murugan
For the year ending 31st Dec. 2007

Dr.   Cr.

Particulars	Amount	Particulars	Amount
To Salaries	8,000	By Gross Profit (transferred from the trading a/c)	25,000
To Office rent	3,000	By Discount received	400
To Stationeries	2,400		
To Printing expenses	2,200		
To Tax, Insurance	1,400		
To Discount allowed	600		
To Travelling expenses	2,600		
To Advertisement	3,600		
To Net Profit (Capital A/c)	1,600		
	25,400		**25,400**

1.7. BALANCE SHEET

Trading A/c and Profit & Loss A/c reveals G.P. or G.L and N.P or N.L respectively, Besides the Proprietor wants

  i.   To know the total Assets invested in business
 ii.   To know the Position of owner's equity
iii.   To know the liabilities of business.

1.7.1. DEFINITION

The Word 'Balance Sheet' is defined as "a Statement which sets out the Assets and Liabilities of a business firm and which serves to ascertain the financial position of the same on any particular date."

On the left hand side of this statement, the liabilities and capital are shown. On the right hand side, all the assets are shown. Therefore the two sides of the Balance sheet must always be equal. Capital arrives Assets exceeds the liabilities.

1.7.2 OBJECTIVES OF BALANCE SHEET:

1. It shows accurate financial position of a firm.
2. It is a gist of various transactions at a given period.
3. It clearly indicates, whether the firm has sufficient assents to repay its liabilities.
4. The accuracy of final accounts is verified by this statement
5. It shows the profit or Loss arrived through Profit & Loss A/c.

Specimen

<p align="center">Balance Sheet of _____
As on _____</p>

Liabilities	Amount	Amount	Assets	Amount	Amount
Sundry Creditors		xxx	Cash in hand		xxx
Bills Payable		xxx	Cash at bank		xxx
Bank overdraft		xxx	Bills receivable		xxx
Loans		xxx	Sundry Debtors		xxx
Mortgage		xxx	Closing Stock		xxx
Reserve Fund		xxx	Furniture & Fittings		xxx
Outstanding exp.			Investments		xxx
Capital	xxx		Plant & Machinery		xxx
Add: Net Profit			Loose tools		xxx
(or)			Land & Buildings		xxx
Less : Net Loss	xxx		Business premises		xxx
	xxx		Horses & carts		xxx
Less Drawings	xxx		Prepaid exp.		xxx
	xxx		Patents & Trade marks		xxx
			Good will		xxx
Less: Income tax	xxx	xxx			
		xxx			xxx

The Balance sheet contains two parts i.e.

1. Left hand side i.e. the Liabilities

2. Right hand side i.e. the Assets

1.7.3. ASSETS:

Assets represent everything which a business owns and has money value. Assets are always shown as debit balance in the ledger. Assets are classified as follows.

1. Tangible Assets:

Assets which can be seen and felt by touch are called Tangible Assets. Tangible Assets are classified into two:

    a. Fixed Assets: Assets which are durable in nature and used in business over and again are known as Fixed Assets.
       e.g. land and Building, Machinery, Trucks, etc.

    b. Floating Assets or Current Assets: Current Assets are i. Meant to be converted into cash, ii. Meant for resale, iii. Likely to undergo change e.g. Cash, Balance, stock, Sundry Debtors.

2. Intangible Assets: Assets which cannot be seen and has no fixed shape. E.g., goodwill, Patent.

3. Fictitious assets: Assets which have no real value and will appear on the Assets side of B/S. are known as Fictitious assets:
E.g. Preliminary expenses, Discount or creditors.

1.7.4. LIABILITIES:

All that the business owes to others are called Liabilities. It also includes Proprietor's Capital. They are known as credit balances in ledger.

Classification of Liabilities:

1. Long Term Liabilities: Liabilities will be redeemed after a long period of time 10 to 15 years E.g. Capital, Long Term Loans.

2. Current Liabilities: Liabilities, which are redeemed within a year, are called Current Liabilities or short-term liabilities E.g. Trade creditors, B/P, Bank Loan.

3. Contingent Liabilities: Liabilities, which have the following features, are called contingent liabilities. They are:

    a. Not actual liability at present

    b. Might become a liability in future on condition that the contemplated event occurs.
       E.g. Liability in respect of pending suit.

Equation of Balance Sheet:

    Capital = Assets – Liabilities

    Liabilities = Assets – Capital

    Assets = Liabilities + Capital.

Check your Progress I:

1. _____ account enables the trader to find out Gross Profit or Loss

2. _____ account enables the trader to find out the Net Profit or Loss.

3. Direct Expenses appears on _____ side of _____ account.

4. Indirect Expenses appears on _____ side of _____ account.

5. Wages and Salaries appear on _____ account
6. Salaries and wages appear on _____ account.
7. Trade Expenses will appear on _____ side of P & L A/c.
8. If the Trail Balance contains both Trade Expenses and Office Expenses, The Trade Expenses Posted to _____ account and office Expenses posted to _____ account.
9. _____ shows the Financial Position of a Trader.
10. Assets – Liabilities = _____
11. Assets – Capital = _____
12. Capital + Liabilities = _____

1.8. DIFFERENCE BETWEEN A TRIAL BALANCE AND A BALANCE SHEET

S.No.	Trial Balance	Balance Sheet
1.	It shows the balances of all ledger accounts.	It shows the balances of personal and real accounts only.
2.	It is prepared after the completion of the ledger accounts or arrival of the balances.	It is prepared after the completion of Trading and P&L A/c.
3.	Its object is to check the arithmetical accuracy.	Its object is to reveal the financial position of the business.
4.	Items shown in the Trial balance are not in order.	But in the B/S, the items shown must be in order.
5.	It shows the opening stock	It shows the closing stock.
6.	It has the headings, debit and credit.	It has the heading of Assets and Liabilities.

Illustration

From the following trial balance extracted from the books of Thiru. Venkatachalam as on 31.12.07. Prepare (i) Trading and Profit & Loss A/c and (ii) Balance Sheet

Trial Balance as on 31.12.07

Debit Balances	Rs.	Credit Balances	Rs.
Cash in hand	2,000	Capital	2,00,000
Machinery	60,000	Sales	2,54,800
Stock	50,000	Sundry Creditors	40,000
Bills receivable	1,600	Bank overdraft	22,000
Sundry debtors	50,000	Return outwards	3,000
Wages	70,000	Discount received	1,800
Land	40,000	Bills payable	1,800
Carriage inwards	2,400		
Purchases	1,80,000		
Salaries	24,000		
Rent	4,000		
Postage	1,000		

Return inwards	3,200		
Drawings	10,000		
Furniture	18,000		
Interest	600		
Cash at bank	6,600		
	5,23,400		5,23,400

Stock as on 31.12.07 to Rs. 1, 00,000

Solution:

Trading, Profit & Loss A/c of Thiru Venkatachalam
For the year ending 31.12.07

Dr.   Cr.

Particulars	Amount	Particulars	Amount
To Stock (1.1.07) To Purchases 1,80,000 Less Returns 3,000	50,000 1,77,000	By Sales 2,54,800 Less Returns 3,200	 2,51,600
To Wages	70,000	By Closing Stock	1,00,000
To Carriage inwards	2,400		
To Gross Profit C/d (transferred to P&L A/c)	52,200		
	3,51,600		**3,51,600**
To Salaries	24,000	By Gross Profit b/d (transferred from trading A/c)	52,200
To Rent	4,000		
To Postage	1,000	By Discount received	1,800
To Interest	600		
To Net Profit (Capital A/c)	24,400		
	54,000		**54,000**

Balance Sheet of Thiru. Venkatachalam as at 31.12.07

Liabilities		Amount	Assets	Amount
Sundry Creditors		40,000	Cash in hand	2,000
Bank overdraft		22,000	Cash at bank	6,600
Bills payable		1,800	Machinery	60,000
Capital Add: Net profit Less: Drawings	2,00,000 24,400 ------------ 2,24,400 10,000	 2,14,400	Bills receivable Sundry debtors Land Furniture Closing Stock	1,600 50,000 40,000 18,000 1,00,000
		2,78,200		**2,78,200**

Check your Progress II:

State whether the following are true or false:

1. Balance Sheet is a ledger A/c
2. Land is an intangible asset
3. Patent is a tangible asset
4. Stock is a floating asset.
5. Bills payable is a long term liabilities

1.9. LET US SUM UP

The rapid expansion of business all over the world is a clear consequence of the population increase, growth of technology and multiplication of wants. Expansion of business involves industrialization as well as development of distribution activities.

1.10 LESSON END ACTIVITIES

Discuss the importance of profit and loss A/c and explain the terms Gross Profit and Net Profit.'

1.11 POINTS FOR DISCUSSION

Explain how the following items appear in the final accounts with reasons.

Dock dues, Factory rent, Carriage inwards, Carriage outwards, Customs duty, Sales Tax, Manufacturing wages, Fuel, Freight, Factory Manager's salary, Office manager's salary, traveling expenses, Stationery, Power.

1.12. MODEL ANSWER TO "CHECK YOUR PROGRESS"

I Fill in the blanks

1. Trading
2. Profit & Loss
3. Debit, Trading
4. Debit, Profit & Loss
5. Trading
6. Profit & Loss
7. Debit
8. Trading, P & L A/c
9. Balance Sheet
10. Capital
11. Liabilities
12. Assets

II State whether the following are true or false:

[Ans. 1. False, 2. False, 3. False, 4. True, 5. False]

1.13 REFERENCES

➢ Hingorani N.L and Ramanathan A.R., "Management Accounting", Sultan Chand, New Delhi, 1982
➢ Kuchhal.S.C, "Finaical Management", Chaitanya, Allahabad,1980
➢ Shukla M.C and Grewal T.S., "Advanced Accounts", S.Chand & Company, New Delhi, 1991.

LESSON 2: IMPLEMENTING FINAL ACCOUNTS IN TALLY

CONTENTS:

2.0. AIMS AND OBJECTIVES

When you have completed this lesson, you will be able to:
 ➢ Apply control ledgers, Display Reporting
 ➢ Setup menu for Final Accounts
 ➢ Consolidate various option of configuration and explore reports using them.

2.1. INTRODUCTION

After the creation of necessary masters, you should proceed with the ledger creation. Ledger account heads are the actual account heads to which we identify the transactions i.e., passing of all vouchers using ledgers. Hence, a thorough understanding of account classification is important for working with ledgers.

Tally creates the following two ledgers on its own and the other ledgers should be created by you. (i) Cash under Cash-in-had group, (ii) Profit & Loss Account under Primary Ledger.

When you create a new company where Books beginning from and Financial Year From date are the same, you should create all the ledgers appearing in the Balance Sheet as at the previous date with opening balance. Also create ledgers appearing in Profit & Loss Account but with zero (0) opening balances unless Books Beginning From date is different than Financial Year From.

2.2. CREATION OF LEDGER

Before creation of Ledgers, you must configure the account masters as shown below:

Configure (F12);

Fig. 2.1

Accounts/ Inventory information -> Account Masters -> Allow Advanced Entries in Masters, Addresses, etc., -> Yes

Process of Creation Ledger

Fig. 2.2
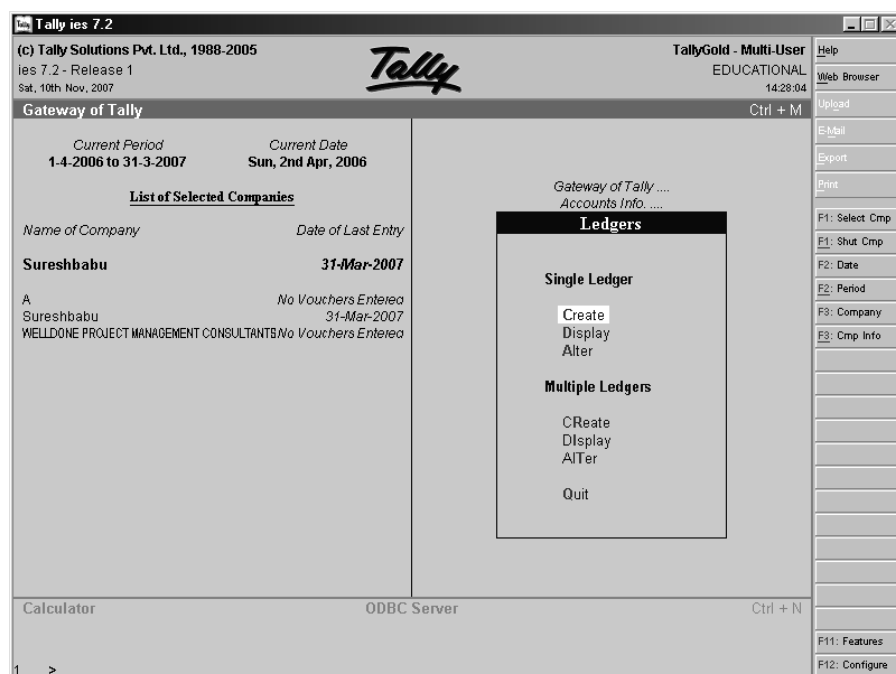
Fig. 2.3

To Create Account Ledgers Individually select Create from Single Ledger under

Accounts Info -> Ledgers -> Create

The result will be as follow:

Fig. 2.4.

1. Name	Here, enter the name of the ledger. Tally will not accept same names.
2. Under	Under this option, you should select the group from the list of groups that will be displayed along with the ledger creation screen.
3. Inventory values are affected	This option should be given 'Yes' for those ledgers which will affect the inventory position of the company. For example, Purchase, Purchase Returns, Sales, Sales Returns, etc.
4. Maintain balances Bill-by-Bill	To get this option give 'yes' to Maintain Bill-wise details in Company Features – F11. This option is useful only for Sundry Debtors and Creditors. It can also be used where some tracking is needed like Project-2ise Expenses or income, installments due, installment – wise outstanding details. Enter due date of the bill or credit days under the option default credit period.
5. Effective date for reconciliation	This is the date from which you can reconcile your bank account with the bank statements.
6. Opening Balance	Enter the opening balance of the respective ledger account as on the date of Books Beginning From option in Company Creation screen.
7. Mailing and Related Details	Tally by default carries the ledger name here. You can also enter any other mailing name as you wish. This name is printed in all external documents. i.e., other than internal reports, books of accounts, etc.

The Address Details, Income tax Number, Sales Tax Number, the person to whom you should contact should be given in the respective menus. This option is available only for parties' accounts (Capital, Sundry Debtors and Creditors).

Further, you can also give the Telephone number, Details regarding Fax and the E-mail address.

We can also add Notes for ledger account. This option is available for all ledgers. This is useful to add remarks or notes about the ledger like the credit worthiness of the party.

Specifying closing stock values

When you are creating stock-in-hand you will be able to specify only the opening stock. Closing stock value can be specified if you choose the 'No' option for 'Integrate Accounts with Inventory' under the Company Features option (F11).

Another way of specifying the closing stock value is

Accounts Info -> Ledgers -> Alter

Fig. 2.5.

Display / Alteration of Individual ledger (**Refer Fig. 2.5**)

Fig. 2.6.

Select 'Alter from Single Ledger' to get list of Ledgers from which you may select the ledger to carry out desired modification and save by pressing <Ctrl> + <A>.

To Delete, select the ledger in Alteration mode, press <Alt> + <D> and respond with Yes to confirm deletion. However, if the ledger is transacted in any voucher, the message would not appear and you cannot delete the ledger.

Accounts Info -> Ledgers -> Display / Alter

Creation / Display / Alteration of Multiple Legers

You can also create many ledger accounts on a particular group at a single time. This option would be useful when you create many accounts under one group like different expenses (Rent, Salary, Interest, Commission et.) under the group Indirect Expenses.

We can also alter many accounts simultaneously using multiple ledgers' alteration menu.

2.3. FINAL STATEMENTS: INTRODUCTION

A financial statement is an organized collection of data according to logical and consistent accounting procedures. Its purpose is to convey an understanding of some financial aspects of a business firm. It may show a position at a moment of time as in the case of a Balance Sheet or may reveal a series of activities over a given period of item, as in the case of a Income Statement.

Generally, a business may have many financial statements. The following are the two basic financial statements – (i) The Income Statement; and (ii) the Balance Sheet.

Income Statement (also known as Profit and Loss Account)

It is considered to be most the useful of all financial statements. It explains what had happened to a business as a result of operations between two balance sheet dates. For the purpose, it matches revenues (incomes) and cost (expenses) incurred in the process of earning revenues and shows the gross profit and the net profit earned or loss suffered during a particular period.

Income statement is a summary of accounts that affects the profit or loss of an enterprise. Many accounts shown in the trial balance relate to expenditure or income, these accounts either increase or decrease the profit. The accounts that increase the profit are shown in the credit side and the accounts that decrease the profit (losses and expenses) are shown in the debit side. The difference between the two sides is either profit or loss. Income statement has two parts, namely

1. Trading Account
2. Profit and Loss Account

2.4. FINAL ACCOUNTS AND TALLY

Final account depicts the summarized position of the activities, performance and state of affairs of the business. Naturally, these reports from the essence of the business. Anyone associated with the company must be quite curious to get these reports.

One of the major advantages of Tally is its report generation. Using Tally's display option, you can get the desired reports easily. It provides excellent navigation facilities through buttons at Button bar to jump from one report to another without leaving the screen. Further, you can configure and format the style of a report in your own way, decide the columns and contents, etc.

Based on the voucher that you enter, Tally automatically prepares the books of accounts and financial statements. Tally provides you the power to drill down step-by-step, from a top level report until the vouchers that contributed the report to verify the integrity, carry out any

modification or to add, insert, duplicate, cancel or delete a voucher and the report is updated on-line. You can also alter a Group or Ledger while viewing the report.

The reports generated by Tally are classified in two major categories, namely

1. Financial Reports
2. Inventory Reports

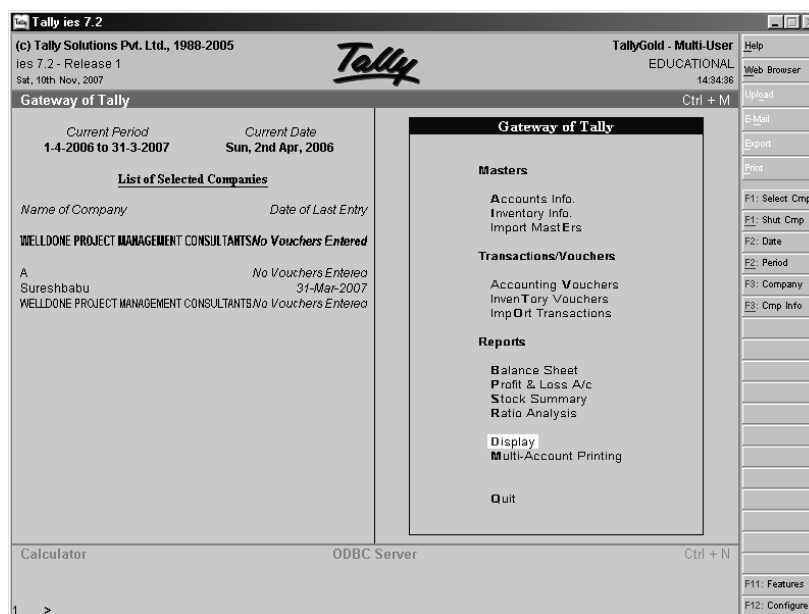The financial reports are further divided into:

a. Statutory Financial Reports (like Sales Register, Purchase Register, Journal Register, Cash Book, Bank Book, Ledgers, Trial Balance, Profit and Loss Account and Balance Sheet).
b. Financial MIS reports (like Day Book, Group Vouchers, Group Summary, and receivables, Payables, Cost Centre Reports, Ratio Analysis, Cash Flow Statement and Funds Flow Statement.

Now, we shall see how some of the reports appear in Tally:

Trial Balance:

In Tally, the Trial Balance is displayed as a list of all primary Groups on the left closing Debits and Credits balances on the right. The Trial Balance is displayed in grouped form with main groups and their closing balances. In other words, the Trial Balance Report provides account balance listing for all the accounts for the company sorted according to groups. In Tally, the matching of the Trial Balance is a foregone conclusion as all voucher entries are in the debit and credit format and must balance at the entry point.

You can drill down a Group for further details of that particular group or Select Detailed to break down the grouped information to another ledger or Select Led-wise to take an alphabetic listing of all ledgers and their closing balances or Select Columns to bring up the closing balances for another date.

Fig. 2.7.

Fig. 2.8.

Fig. 2.9

Button F4: Group

Generally the default Trial Balance will display only primary groups. If you want to view only one group select this button. From this you can drill down to further details of the sub groups or ledgers.
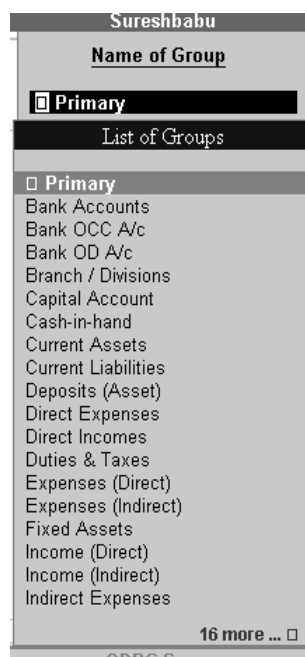
Fig. 2.10

Normally the default Trial Balance is a grouped Trial Balance. However if you wish to view a Trial Balance with only ledgers and their balances, irrespective of which group they fall, you can make use of this option.

F5: LedWise /Grouped

Fig. 2.11

To get group vouchers click this button. This button toggles between vouchers and summary.

F7: Vouchers: To configure a trial balance click this button.

Fig. 2.12

F12: Configure
Show Opening Balance:

You should respond Yes to this option to view the Trial Balance in a columnar from together with opening balances.

Show transactions

By responding Yes to this option you can view the transaction amounts in a separate column.

Net Transactions Only

Tally by default displays debit and credit transaction figures in separate columns. To get Net balances in a single column set this option to Yes.

To get Debit and Credit values in separate columns set his option to No.

The Display screen will show Closing Balances

2.5. PROFIT AND LOSS ACCOUNT

The Profit and Loss Account is a statutory report that shows the operational results for a given period of time. It lists out the Incomes and Expenditures based on the Primary Groups of Tally. The Profit & Loss Account in Tally is updated instantly with every transaction voucher that is entered and saved. No special processing is required to produce a Profit & Loss Account. The following is the syntax to view the Profit & Loss Account:

Gateway of Tally -> Profit and Loss Account -> <alt> <F1> (to view the profit and loss account in detailed format)

Fig. 2.13

Fig. 2.14

Buttons
F12 Configure
This following screen will appear as soon as you press this button

Fig. 2.15

Show Vertical Profit and Loss:

To view the Profit and Loss Account in a Vertical form respond with 'Yes' to this Option. If you respond with 'No' to this option, the Profit and loss Account will be displayed in T Form.

Show Percentage

If you respond with Yes to this Option, you can view the Percentages along with the amounts.

Show Gross Profit

This prompt will appear only if you have responded with No to option Show Vertical Profit & Loss. If Responded with Yes to this option, you will get separate Trading Account showing the Gross Profit or Gross Loss.

2.6. BALANCE SHEET

The Balance sheet at the Gateway of Tally screen provides redy summary figure still the last voucher entered. From here, you ca move on to any direction andy any part of the system, even the lowest level and trace back.

The following is the syntax for viewing the Balance Sheet

Gateway of Tally -> Profit And Loss Account -> <Alt> <f1> (to view the profit and loss account in detailed format)
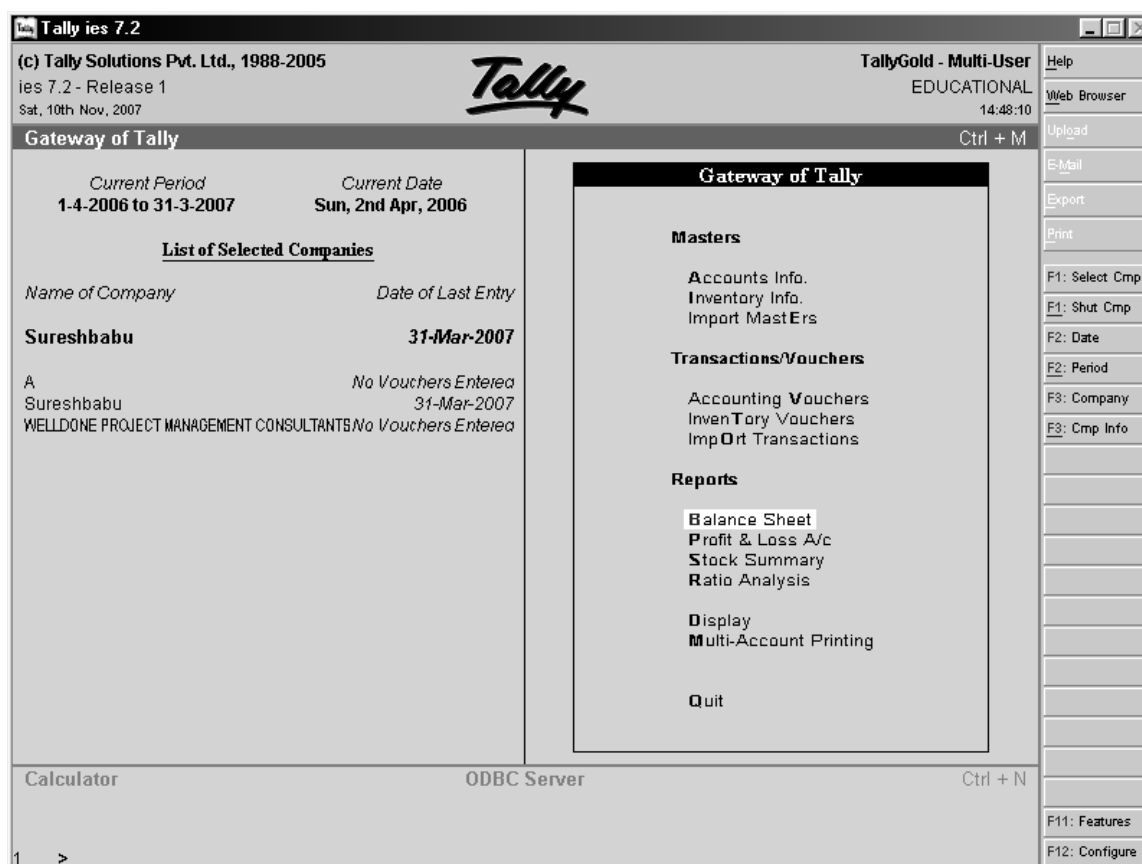
Fig. 2.16

Fig. 2.17

Buttons

F1

While 'Detailed' displays next level group, 'Condensed' displays parent level primary groups.

If you wish to compare this with the Balance Sheet of another Company or view the Report for Different periods, select this button.

New Column

Fig. 2.18

Alter Column

This button allows you to alter the parameters of a column that you have already given.

Del Column

This button activates on creation of a new column for deleting a column.

Auto Column

You can click this button when there is a need for multiple period Column etc.

Fig. 2.19

F8 Other Reports

Not Functional

F9 Inv. Reports

This button facilitates the views of inventory reports quickly without leaving the current screen.

Fig. 2.20

F10 Acc. Reports

Allows to Generate the following Accounting Reports

  a. Bills payable – Displays all outstanding bills
  b. Bills receivable – Displays all outstanding bills
  c. Cash/Bank Book – Displays Cash / Bank group summary, all gborups and ledgers placed under cash in hand. Bank Accounts and Bank OCC Groups.
  d. Cash flow – Displays month-wise cash flow summary. Cost center summary – Displays cost category summary with underlying cost centers.
  e. Day Book _ Displays day Book.
  f. Funds flow – Displays month – wise funds flow summary.
  g. Profit and loss A/c – Displays profit & loss a/c for the relevant period.
  h. Purchase order – Displays purchase order details.
  i. i. Purchase Register – Displays purchase register monthly summary.
  j. Sales order – Displays sales order details.
  k. Sales register – Displays sales register monthly summary
  l. Statistics – Displays all types of vouchers and accounts (masters) with their numbers.

F12 Configure

Fig. 2.21

The button allows you to configure the report

Fig. 2.22

Show Vertical Balance Sheet:

Normally, tally displays Balance Sheet in horizontal form (T-Form) with closing balances of Primary Groups of Assets and Liabilities. If you want vertical format of Balance Sheet with details of Sources and Applications of Funds, you should respond with Yes to this query. In Tally, Balance Sheet can be viewed in columnar form only with vertical format.

Fig. 2.23

Show Percentage:

To get percentage for closing balance of Groups Respond with yes to this option. I you respond so to this query, the values for each Group would be displayed as percentage of the total of Assets and Liabilities.

Show Working Capital Figures:

This option is available for both the formats of Balance Sheet i.e. vertical and horizontal. If you respond with yes to this option, you will get working capital figures.

Balance Sheet	Sureshbabu		Ctrl + M
Liabilities	**Sureshbabu** as at 31-Mar-2007	**Assets**	**Sureshbabu** as at 31-Mar-2007
Loans (Liability)		**Capital Account**	**50,000.00**
Current Liabilities	**50,000.00**	**Profit & Loss A/c**	**1,25,000.00**
Current Assets	**1,19,357.00**	*Opening Balance*	
Diff. in Opening Balances	**5,643.00**	*Current Period*	*1,25,000.00*
	1 more ... □		1 more ... □
Total	**1,75,000.00**	**Total**	**1,75,000.00**

Fig. 2.24

Method of Showing Balance Sheet

The normal format of Balance Sheet is Liabilities / Asset, i.e., the Liabilities on the left hand side and Assets on the right hand side. If you want the Liabilities on right hand side and Assets on the left hand side you can configure so in Tally.

2.7. LET US SUM UP

To summarize, Tally as only two inbuilt ledgers, one is Cash and other is Profit and loss A/c. The rest of the Ledgers as per the Company's requirement should be created by the User. Another important point to be noted while creating Ledgers is that appropriate Groups should be selected from the List of Groups. Tally has inbuilt 28 Groups. Only if there is a need additional Group can be created. In manual Accounting there is no concept of Groups, since the user prepares the entry, posts them in the respective Leger, prepares the Trial Balance and then the Final Accounts. But here in Tally, only the entry is passed by the User, posting into Ledgers and preparation of Final Accounts is done automatically and hence selection of appropriate Groups while Ledger creation is a must.

After passing the necessary entries, Reports like Trial Balance, Balance Sheet, Profit and Loss A/c can be viewed. Display – Day Book is the Report where we can view all the entries made throughout the Financial Year. Change the period and view the entries for a specific period. From the Day book we can insert, add and delete Vouchers using Short cut Keys. Alterations can also be done in the Day book. The button bar provides a number of Keys in all the reports which can be used as per the user's requirement. The buttons with the single underline should be used with the combination of ALT and the keys with double underline should be used with the combination of CTRL.

2.8. LESSON END ACTIVITIES

Create the following ledger accounts under appropriate Groups (Create new Groups wherever necessary).

a. Wages paid to factory workers
b. Wages paid to Temporary workers
c. Salary paid to H.O. employees
d. Salary paid to Branch employees
e. Share Capital R. 1,00,000/- credit
f. Electricity Charges
g. Telephone charges
h. Conveyance Expenses.

2.9. POINTS FOR DISCUSSION

Discuss in detail the Groups available in Tally.

Discuss the procedure involved in the Creation, Alteration and Deletion of ledger accounts in Tally.

2.10. REFERENCES

- Tally Self-Learning Guide and Work Book, Volume 1, Tally Solutions Pvt Ltd., 2005
- Final Accounting Tally 7.2, Insys Tally Accounting Professional Part-1, 2006
- Sundramoorthy.V, "Tally Bible"

LESSON 3: INTRODUCTION TO INTEREST CALCULATION

CONTENTS

3.0 AIMS AND OBJECTIVES

3In this lesson you will understand:
➢ The meaning of Interest
➢ Types of Interest
➢ Calculating Interest

3.1 INTRODUCTION

Interest is a legitimate return on money invested and chargeable in the business world on loads and also on delayed payments. Interest can be calculated on the basis of simple interest or compound interest.

Let us first understand the meaning of Simple Interest and Compound Interest.

3.2 SIMPLE INTEREST

This is calculated on the Principal amount at a certain specified rate for a specified period. For example, principal amount is Rs. 10,000 and rate of interest is 10% - we are calculating interest for 3 years.

- The interest amount for 1st year will be Rs. 1000 (Rs. 10,000 * 10% * 1 year)
- The interest amount for 2nd year will be Rs. 1000 (Rs. 10,000 * 10% * 1 year)
- The interest amount fro 3rd year will be Rs. 1000 (Rs. 10,000 * 10% * 1 year)

The interest amount for all 3 years is the same – (Rs. 1000) – Note that – The interest amount in the above cases is calculated ONLY on the Principal amount.

3.3. COMPOUND INTEREST

Calculation of interest amount on Compound basis is in contrast to Simple interest calculation – here the interest amount gets added to the principal amount. The same is explained using the example given above – principal amount is Rs. 10,000 and rate of interest is 10% - we are calculating interest for 3 years.

- The compound interest amount for 1st year will be Rs. 1000 (Rs. 10,000 * 10% * 1 year)
- The compound interest amount for 2nd year will be Rs. 1100 (Rs. 11,000 * 10% *1 year) -> Rs. 11000 = Rs. 10000 (principal amount) + Rs. 1000 (interest of 1st year)
- The compound interest amount for 3rd year will be Rs. 1210 (rs.12,100 * 10% *1 year) -> Rs 12100 = Rs. 10000 (principal amount) + Rs. 1000 (interest of 1st year) + Rs 1100 (interest of 2nd year)

The interest amount for each of the 3 years is different (rs. 1000, Rs. 1100, Rs. 1210) – this is because, the interest amount is added to the Principal amount – to calculate the Compound interest for a specified period.

Interest figures are typically desired in the following situations:
- On outstanding balance amounts
- On outstanding bills/invoices/transactions (Receivables and Payables)

3.4 LET USE SUM UP

When we borrow money from a bank or financial institution, we should pay certain sum for money for the use of money borrowed. The money borrowed is called the principal and the money paid for the use of principal is called interest. In other words, the return on money invested and the amount charged on loans is known as interest. There are two bases of interest calculation – i. Simple Interest, ii. Compound Interest.

3.5 LESSON END ACTIVITIES

List out the different types of Basis of Interest with an Illustration

Write Short notes on:
a. Date of applicability
b. Due Date of Invoice / Reference.
c. Effective date of transactions.

3.6 POINTS FOR DISCUSSION

Discuss in details the booking of Interest and Interest on outstanding balances.

3.7 REFERENCES

➢ Hingorani N.L and Ramanathan A.R., "Management Accounting", Sultan Chand, New Delhi, 1982
➢ Kuchhal.S.C, "Finaical Management", Chaitanya, Allahabad,1980
➢ Shukla M.C and Grewal T.S., "Advanced Accounts", S.Chand & Company, New Delhi, 1991.

LESSON 4: INTEREST CALCULATION IN TALLY

CONTENTS

4.0 AIMS AND OBJECTIVES

In the previous lesson, we have learnt the meaning of Interest and in what situations it is; most likely to be calculated.

Tally give you an exhaustive capability to obtain interest implications on both the

1. Outstanding balance amounts
2. Outstanding bills/invoices/transactions (Receivables and Payables)

In this Lesson you will learn how to get Tally to calculate interest. The basic task is to set up Tally so that interest is calculated automatically based on the set-up. Then all you do is generate the reports.

4.1 INTRODUCTION

Interest calculation on outstanding balances is allowed for any ledger account. We simply specify the interest rate and style of calculation. Nothing is required to be done for interest during voucher entry. We will have to alter existing ledger accounts to permit interest calculations on them. The same operation will apply when creating a new ledger account.

4.3 PROCEDURE TO SET UP INTEREST CALCULATIONS IN TALLY

Ensure that you have selected SB & Company and activate Interest Calculation in F11: Features.

Do NOT activate "Use advance Parameters" (under Interest Calculations) -> accept the changes and return to Gateway of Tally.

Let us now learn the Simple Parameters:–

Note:

Simile Parameters is different from Simple Interest calculation. The latter is commonly used method to calculate; interest and Simple Parameters are the parameters defined in Tally for the purpose of calculating interest.

SIMPLE MODE – ADVANCED PARAMETERS NOT APPLICABLE
Interest calculations on outstanding balances

Interest calculation on outstanding balances is allowed for any ledger account. You simply specify the interest rate and style of calculation. Nothing else is required to be done for interest during voucher entry.

View the existing ledgers in alteration mode to activate interest calculations. For new ledger account, simply activate interest calculation option.

SB & Company
1. Gateway of Tally -> Account Info -> Ledgers -> Alter (Single mode) -> Bank Account
2. Set Activate Interest Calculation? to YES and press [Enter]
3. Now you have to set the Interest Parameters – the basis on which, interest will be calculated for the ledger account.
- Rate – this is the rate at which the interest has to be calculated -> specify a rate of 15%
- Interest Style – this is the basis on which the rate is applied. There are 4 options
    - 30-day month
    - 365-day Year
    - Calendar Month
    - Calendar Year

    Select 365-day Year and accept the screen

You are now ready to view the amount of interest that could be paid or charged by the bank on outstanding balances.

Procedure for reporting Interest Calculated on outstanding balances in Tally

The Interest Calculations Report can be displayed and printed through the Display option in Gateway of Tally

- Display-> Statement of Account -> Interest Calculation -> Ledger -> Bank Account
- Change period from 1-5-07 to 30-06-07

Experiment by changing the period of above report – and notice the difference. Tally automatically calculates the interest amount! (Remember – the interest is calculated with respect to each change in balance figures).

Check your progress:
- Set up interest calculation for Mutual Trust Loan Account at 2% per 30-day month
- View the interest for the period 1-5-07 to 3-06-07. Do you have to pay interest or receive interest? How much?
- Is there any provision made for it?

4.4 BOOK ENTRIES AND ADJUSTMENT OF INTEREST

You have seen the interest is being calculated on SB & Company bank account but these have not been brought into books! They simply give you the interest implications. You must book them now.

How to enter the calculated interest amounts? You must use Debit Notes and Credit Notes with Voucher Classes.

You will use Debit notes for Interest receivable and Credit Notes for Interest payable.

Interest is calculated on Simple or Compound basis and separate classes should be used for them
Procedure to set-up voucher Classes for interest entries in Tally
You will set up classes for Debit Notes now.

1. After the Voucher Type Debit Note (Gateway of Tally -> Accounts Info -> Voucher Types -> Alter -> Debit Note.)
2. Tab down to Name of Class -> You have to simply type the name of the Class.
3. Type Simple Interest.
4. In the Class screen that comes up, set the other options as above. You are taken back to the Debit Note Voucher Type Alteration screen.
5. Type Compound Interest for the second class.
6. In the Class screen set yes to both the questions Use Class for Interest Accounting and Amounts to be treated as Compound Interest.
7. Accept the Voucher Type and return to the Gateway of Tally.

Check your Progress II
- Create two classes, Simple Interest and Compound Interest for Credit Notes.
- Create ledger accounts as follows. Cost Centres, Inventory and Interest calculation will be No.
- Interest Accrued under Group Indirect Income.
- Interest Receivable under Group Current Assets.
- Interest Payable under Group Current Liabilities.

4.5 ENTRIES USING VOUCHER CLASSES

To account for interest accured and owing to SB & Company
- Use Debit Note and select the appropriate class
- Debit Bank Account (or the Debtor). The amount of interest comes up automatically. Accept it.
- Credit Interest Accured account, which is an income account.
- This has the effect of increasing the current account balance and is absolutely right for compound interest calculations. Further interest would be calculated on the increased amount.
- However, that is not right for simple interest as interest on interest is not supposed to accrue. Hence, make another entry, transferring the interest component to Interest Receivable and crediting the Bank Account or Debtor account. The new effect will be
  Dr. Interest receivable Account (asset account)
  Cr. Interest Accrued Account (income account)

To account for interest due and payable by SB & Company

- Use Credit Note and select the appropriate class
- Credit Mutual Loan Account (or the creditor). The amount of interest comes up automatically. Accept it.
- Debit Interest Due account, which is an expense account
- This has the effect of increasing the Loan account balance and is absolutely right for compound interest calculations. Further interest would be calculated on the increased amount.
- However, that is not right for simple interest as interest on interest is not su0pposed to accrue. Hence, make another entry, transferring the interest component to Interest Payable and reducing the balance in the Loan account. The net effect will be

    Cr. Interest Payable Account (liability account)

    Dr. Interest Due Account (expense account)

4.6 VOUCHER ENTRY FOR BOOKING INTEREST ON BALANCES

Compound Interest voucher entry

1. Go to Accounting Vouchers
2. Date 30-06-07
3. Select Ctrl+F9: Debit Note -> Class ->Compound Interest
4. Debit Bank Account Amount (the amount is automatically filled up with the calculated interest) 946.86
5. Credit Interest Accrued 946.86
6. Narration: Interest accrued for the period 1-5-07 to 29-06-07 on balances
7. Accept the voucher.

And nothing needs to be done! The Bank Account has been increased by the amount of interest due and the Income account of Interest Accrued also credited.

4.7 SIMPLE INTEREST VOUCHER ENTRY

You will use the Simple Interest Voucher class and make the first entry as above. However, the above entry has the effect of increasing the Bank Account with the amount due (compound effect). Since simple interest does not calculate interest on interest amounts, you must make a journal entry to reverse the interest.

Interest for the subsequent period will be calculated by Tally on the balance after the adjustment entry.

You have to necessarily go through this rout to take advantage of the auto filling of the interest amount which can appear only when we use the Bank Account in Debit Note in the first place.

The additional entry that is required will be as follows. Do NOT make this entry. It is for information only.

Select F7: Journal -> Class Not Applicable. Use a normal Journal voucher for this entry.

- Debit   Interest Receivable (a current asset account) 946.86.
- Credit Bank Account   946.86

When interest is calculated for the following periods, the 946.86 will not be included as it has been reversed.

Check your Progress III

- Make entries for Interest Due to Mutual Loan account on Compound Interest for the period 1-5-07 to 30-6-07 for Rs. 2,033.33.

You can calculate interest on each invoice for the period it is outstanding wholly or partly.

Transaction by transaction o bill-by-bill interest calculation is permitted for 'Partly' accounts like accounts falling under the groups Sundry Debtors and Sundry creditors. Obviously bill-wise details should be active for the company and the party.

4.8 INTEREST CALCULATION TRANSACTION BY TRANSACTION

From the Gateway of Tally -> Accounts Info - > Ledgers

1. Alter a customer account, First Independent Computers
2. Set Yes to Activate Interest Calculation
3. The Interest Parameters now have three lines to answer
4. Calculate Interest Transaction – by - transaction – Set it to Yes
5. Over-ride Parameters for each transaction – Set it to No. If set to No, you are not allowed to change interest parameters in voucher / invoice entry. If set to Yes, you can change the interest parameters during entry.
6. Give Rae 1% per 30-Day Month.
7. Accept the change and return to Gateway of Tally.

4.9 REPORT ON INTEREST ON OUTSTANDING TRANSACTIONS

From the Gateway of Tally -> Display -> Statements of Accounts -> Interest Calculations - > Ledger -> First Independent Computers.

The report is similar to the Bill-wise Outstanding Statement. The last column gives the interest amount on the transaction. View the calculations in detailed mode.

4.10 LET US SUM UP

Many organizations need to computer Interest receivable or payable. Normally interest is computed for ledgers under Sundry Debtors, Sundry Creditors, Loans, and Bank OD etc. The computation base can be split into two, one Interest computation on Ledger transactions and another Bill-by-Bill Interest computation. Tally provides 2 methods for Interest Calculation one is the Simple Mode where the rate of Interest is constant and another is Advanced Mode where different rates of Interest for different periods can be given. Bill-by-Bill interest computation is possible for ledger where we maintain bill-wise details.

4.11 LESSON END ACTIVITIES

- ➢ After the supplier account of Amudha Graphics to activate Interest Calculations. Set calculation for bill-by-bill and Override Parameters to YES. Set the rate of interest o 1% per 30-day month.
- ➢ Display Interest Calculations for Amudha upto 31-12-06. Do you get anything there?

- ➢ Alter the Purchase Voucher dated 11 Dec 2006 for 2200 from Amudha Graphics. Simply accept all information by pressing Enter at each field. Also accept the interest fields.
- ➢ Now display interest calculations again for Amudha Graphics upto 31-12-06. Do you get anything this time?
- ➢ Adjust the interest amount by entering a Credit Note for Compound Interest on 31-12-06. Do you notice the difference in the method of adjustment?

4.12 POINTS FOR DISCUSSION

Fro the following data find the Interest Receivable and Payable and pass necessary entries by activating interest class for Debit Notes and Credit Notes.

Date	Party	Nature	Rate	Amount	Cr Period
1//4/07	Akkash & Co	Purchase	10%	45,000	45 days
1/4/07	Rithanya Agencies	Purchases	15%	65,000	45 days
1/4/07	Anniyappa Publications	Purchases	10%	48,000	45 days
1/4/07	Welldone Consultants	Sales	20%	75,000	30 days
1/4/07	Thirumurugan Textiles	Sales	15%	64,000	30 days
1/4/07	Amudha Graphics	Sales	10%	58,000	30 days
5/5/07	Welldone Consultants	Receipt		75,000	
8/5/07	Thirumurugan Textiles	Receipt		64,000	
12/05/07	Amudha Graphics	Receipt		58,000	
18/5/07	Akkash & Co	Payment		45,000	
22/5/07	Rithanya Agencies	Payment		65,000	
25/5/07	Anniyappa Publications	Payment		48,000	

4.13 REFERENCES

- ➢ Tally Self-Learning Guide and Work Book, Volume 1, Tally Solutions Pvt Ltd., 2005
- ➢ Final Accounting Tally 7.2, Insys Tally Accounting Professional Part-1, 2006
- ➢ Sundramoorthy.V, "Tally Bible"

LESSON 5: INTRODUCTION RECEIVABLES AND PAYABLE MANAGEMENT

CONTENTS:

5.0. AIMS AND OBJECTIVES

At the end of the lesson you be able to:

- ➢ Understand Accounts receivables
- ➢ Understand the importance of Receivables in Financial Management
- ➢ Understand Accounts Payable

5.1. INTRODUCTION

Accounts receivable (also popularly terms as receivables) constitute a significant portion of the total current assets of the business next after inventories. They are a direct consequence of "trade credit" which has become an essential marketing tool in modern business.

5.2. MANAGEMENT OF ACCOUNTS RECEIVABLES

When a firm sells goods for cash, payments are received immediately and, therefore, no receivables are created. However, when a firm sells goods or services on credit, the payments are postponed to a future dates and receivables are created. Usually, the credit sales are made on open account which means that no formal acknowledgement of debit obligations is taken from the buyers. The only documents evidencing the same are a purchase order, shipping invoices or even a billing statement. The policy of open account sales facilitates business transactions and reduces to a great extent the paper work required in connection with credit sales.

5.3. MEANING OF RECEIVABLES

Receivables are asset accounts represents amounts owed to the firm as a result of sale of goods/ services in the ordinary course of business.

They, therefore, represent the claims of a firm against its customers and are carried to the "assets side" of the balance sheet under titles such as accounts receivable, trade receivables, customer receivables or book debts. They are, as stated earlier, the result of extension of credit facility to the customers. The objective of such a facility is to allow the customers a reasonable period of time in which they can pay for the goods purchased by them.

5.4. MEANING OF RECEIVABLES MANAGEMENT

Receivables are a direct result of credit sales. Credit sale is resorted to by a firm to push up its sales which ultimately result in pushing up the profits earned by the firm. At the same time, selling goods on credit results in blocking of funds in accounts receivable.

Additional funds are, therefore, required for the operational needs of the business which involve extra coasts in terms of interest. Moreover, increase in receivables also increases chances of bad debts. Thus, creation of accounts receivable is beneficial as well as dangerous. The finance manager has to follow a policy which uses cash funds as economically as possible in extending receivables without adversely affecting the chances of increasing sales and making more profits. Management of accounts receivable may, therefore, be defined as the process of making decisions relating to the investment of funds in this asset which will result in maximizing the overall return on the investment of the firm.

Thus, "the objective of receivables management is to promote sales and profits until that point is reached where the return on investment in further funding of receivables is less than the cost of funds raised to finance that additional credit (i.e. cost of capital)"

5.5. PURPOSE OF RECEIVABLES

Purpose of receivables is directly connected with the objectives of making credit sales. The objectives of credit sales are as follows:

Achieving growth in sales: If a firm sells goods on credit, it will generally be in a position to sell more goods than if it insisted on immediate cash payment. This is because many customers are either not prepared or not in a position to pay cash when they purchase the goods. The firm can sell goods to such customers. Incase it resorts to credit sales.

Increasing profits: Increase in sales results in higher profits for the firm not only because of increase in the volume of sales but also because of the firm charging a higher margin of profit on credit sales as compared to cash sales.

Meeting competition: A firm may have to resort to granting of credit facilities to its customers because of similar facilities being granted by the competing firms to avoid the loss of sales from customers who would buy elsewhere if they did not receive the expected credit.

The overall objective of committing funds to accounts receivable is to generate a large flow of operating revenue and hence profit than what would be achieved in the absence of no such commitment.

5.6. MANAGEMENT OF ACCOUNTS PAYABLE

Management of accounts payable is as much important as management of account receivable. Of course, there is a basic difference between the approaches to be adopted by the Finance Manager in the two cases. Whereas the underlying objective in case of accounts receivable is to maximize the acceleration of the collection process, the objective in case of accounts payable is to slow down the payments process as much as possible. But it should be noted that the delay in payment of accounts payable may result in saving of some interest costs but it can prove very costly to the firm in the form of loss of credit in the market. The Finance Manager has, therefore, to ensure that the payments to the creditors are made at the stipulated timed periods after obtaining the best credit terms possible.

5.7. LET US SUM UP

In this lesson we discussed about the Receivable and Payable Management and its importance in Financial Management of a firm.

5.8. LESSON END ACTIVITIES

What factors determine the size of the investment a company makes in Accounts Receivable? Which of these factors are under the control of the Finance Manager?

5.9. POINTS FOR DISCUSSION

The average age of receivable is an important yard stick of testing the efficiency of receivables management of a firm. Discuss.

Show the important role which receivables play in the total financial picture and how you would control them?

5.10. REFERENCES

➢ Hingorani N.L and Ramanathan A.R., "Management Accounting", Sultan Chand, New Delhi, 1982.
➢ Kuchhal.S.C, "Finaical Management", Chaitanya, Allahabad,1980
➢ Maheswari S.N., "Financial Management – Principles and Practice", Sultan Chand & Sons", New Delhi, 2005.
➢ Shukla M.C and Grewal T.S., "Advanced Accounts", S.Chand & Company, New Delhi, 1991.

LESSON 6: ACCOUNTS RECEIVABLES AND PAYABLES IN TALLY

CONTENTS:

6.0. AIMS AND OBJECTIVES

Bill-wise Details (Accounts Receivables and Accounts Payables)

In this lesson you have learned how to maintain details of bills specify credit periods and obtain receivable and payable reports.

Businesses usually wish to maintain details of their creditors and debtors at the invoice level and, in Tally, this is called Bill-wise accounting. It is also called as Accounts Receivables and Accounts Payables, for Sundry Debtors and Sundry Creditors respectively.

When you have completed this lesson, you will be able to:
- Set up Tally to use Bill-wise Details.
- Enter bill references for customer and supplier accounts
- Give Credit periods
- Allocate payments to outstanding purchase invoices
- Display important outstanding statements.

6.1. INTRODUCTION - ACTIVATE BILL-WISED

The Bill-wise facility is turned on via the F11: Features button and setting Maintain bill wise details? To yes.

1. At the Gateway of Tally, press F11: Company features.
2. Type Yes for Bill-wise Details in Accounting Features.
3. Retain No for (Non-Trading Accounts)
4. Accept the settings and Tally displays the Gateway of Tally.

All the previously created customer and supplier accounts under the Groups Sundry Debtors and Sundry Creditors will automatically have Bill-wise details set to Yes.

Let us view the ledger master of our Sundry Debtor

Activating the bill-wise feature in F11: Features, the ledger masters under Sundry Debtors and sundry Creditors automatically display an additional option called "Maintain balanced bill-by-bill". Setting this option to YES we get an additional option "Default Credit Period"

When you enter details of sales and purchases with Bill-wise turned on, Tally invites you to identify the invoice with an appropriate reference number. The reference can then be used to allocate payments to the correct invoice to maintain an accurate account of outstanding.

"Maintain balances bill-by-bill" is set to YES in the master -> if we want to maintain details of our debtors and creditors at the invoice level.

AND

"Default Credit Period" -> Credit period is the number of days allowed to the sundry debtor to pay back or assigned to our sundry creditor to remind us of our payables. Specifying the period here is automatically reflected in the transaction -> it can be altered if required.

You will understand this better at the time of entry

Let us make a purchase entry for a new stock item Anniyappa and then a sales entry to sell the same. We will purchase from a new supplier, Anniyappa and sell to a new customer First Independent Computers.

Entering Bill-wise details for a Purchase Voucher – New Reference

1. Create the new supplier account – Anniyappa (Under Sundry Creditors with Bill by Bill set to Yes -> Default Credit period – leave it blank)
2. Create a new stock item anniyappa, Stock Group Software, Stock Category – Not Applicable, Unit of measure nos, Std Cost 200 Price 300. Accept default for other parameters.
3. From Gateway of Tally -> select Accounting Voucher -> F9: Purchase. Select As Voucher.
4. Create the following entry.
   Date 11/12/07. Received invoice and goods – Invoice number PCG. Enter this in the Reference Field below Purchase voucher number. Bought 10 nos Anniyappa from Anniyappa Ltd at 220-on-site. No other expenses or charges. You already know how to enter up till this stage.
5. When you Credit the Anniyappa Ltd, you must give the Bill-wise details. Select New Ref. The contents of Reference PCG – is copied and not the voucher number. Credit period – Give 15. This is 15 days from the effective date of the invoice.

Accept the amount as the total amount due. At the Narration, type in your name. The Purchase Voucher will be displayed.

Accept the voucher and then use the 'Page Up" key and view the purchase voucher in alteration mode and click on the button F12: Configure.

We will now learn the significance of three more configuration options. Make sure that your configuration screen looks like this -> after activating these three options. Namely,

1. Show Inventory Details
2. Show Bill-wise Details
   a. Expand into multiple lines.

Accept the above configuration options and view the previous entry in alteration mode.

The purchase voucher will be displayed in alter mode:

Do you notice the new reference details you gave while making the entry? -> this is because we activated " Show Bill-wise Details" in F12: Configure while we were on the voucher alteration screen of the purchase voucher.

Activating the option "Expand into multiple lines" ->Tally display the 'due date' based on the credit days given. The date of entry is 11/12/2007 and 15 days credit period – so the due date is 26the December 2007. If you want all the bill-wise information given – set this option to YES.

By setting the option "Show Inventory Details" – Tally shows the name of the stock item, quantity, rate and value details.

These are convenience features!

These are provided so that you can see on screen what you are entering and if required you can also print the details if you configure as per your requirements in the printing configuration.

Let us now check you bill-wise details for sale invoice entry!

Entering Bill-wise details for an invoice – New Reference

1. Create new customer First Independent Computers (under Sundry Debtors with Bill by Bill set to Yes and set "Default Credit Period" as 7)
2. From the Gateway of Tally -> Select Accounting Vouchers -> F8: Sales and select As Invoice. Click on F12: configure:
3. Select a party ledger account – for example, First Independent Computers – Tally immediately displays a screen showing details of dispatch details, address details, etc., -> this is because we have set "Accept Supplementary Details" to YES in F12: Configure. Carry out this simple experiment – set it to YES and see what happens. Then set it to NO and observe what happens.
4. Create the following entry -> Date 12/12/-7. Sold 5 pcs Anniyappa to First Independent Computers at Rs. 250 from On-Site. No other expenses or charges. Allocate to Software Sales Account.
5. After accepting the total amount, you are required to fill the bill-wise details. Select New Ref. In the sales invoice, the voucher number is copied as reference. Note the difference in behaviour from purchase entry. (In purchase entry the information given in the reference field is displayed in the bill-wise name field. In sales entry the voucher number is displayed in the bill-wise name field) In both cases, you can give any reference you want -> you can keep the invoice number or overwrite it. In this example, overwrite it with First Game.
6. For Credit period -> notice that 7 days appears automatically (this is 7 days from the effective date of the invoice) -> 7 days credit period appears automatically as we have specified the same in the ledger master. Accept the amount as the total amount due. The bill-wise screen will be displayed.

Accept the bill-wise allocation, and type in your name in the Narration field.

Accept the voucher.

Illustration

Use of Bill-wise facilities

Let us now create one purchase and one sales voucher with the following data:

1. On 13/12/07 bought and received goods from Anniyappa 5 nos Anniyappa at 200. Their invoice number 1234. Credit period 30 days. (Notice that the reference 1234 appears automatically as in the reference name in the bill-wise allocation).
2. On 14/12/07 sold to First Independent Computers 4 nos Anniyappa at 245. Credit period 45 days, enter New reference as Second Game.

Note:

At the time of invoice entry, Tally will not allow you to alter the credit period. For this return to Gateway of Tally - > Accounting Vouchers -> F8: Sales (in invoice mode) -> click on F12: Configure and activate the option" Allow modification of ALL fields during entry" and then make the entry. If you wish Tally to restrict certain fields, you can configure. Whereas if you want the flexibility to alter all information, Tally can be configured to do that as well.

3. SB & Company now has an additional Sundry Creditor – Anniyappa Ltd – which has two purchase invoices awaiting payment. It also has an additional Sundry Debtor – First Independent Computers – with two sales invoices for which payment ahs not been received. First you will see what the data looks like and then you will enter a payment and receipt.

4. From the Gateway of Tally main menus -> select Display -> Statements of Accounts -> Outstanding -> Ledger ->Anniyappa Ltd from List of Ledgers to show the outstanding purchase invoices. Select F1: Detailed to show the detail: (Verify with the image given in the next page)

5. Select F4: Ledger and change to First Independent Computers to show the outstanding sales invoices.

6. Select F1: Detailed to show the detail and then return to the Gateway of Tally main menu

The outstanding report allows you to toggle between legers -> using the F4: Ledger button. If you wish, you can view the Age-wise outstanding- either by bill date or by due date. This is explained in the section – Displays Outstanding Statements.

You can cross-verify in the following manner: Gateway of Tally -> Display -> Account Books -> Ledger -> select as required (Anniyapp Ltd) and you will view the Ledger details of Anniyappa Ltd. Change the data period as required and you will notice that there's a button "Bill-wise"-> click on the same to view the outstanding report.

Making a Bill-wise payment – against Reference

On 20/12/07, you pay Anniyappa Ltd the full amount of their invoice number ANP.

1. Gateway of Tally->Accounting Vouchers -> F5; Payment and Bank Payment
2. Do you notice that the payment voucher type appears in single entry mode? This is because we have set "Use Single Entry mode for payment/receipt/contra" to YES

3. Click on the button F12: Configure and activate the option – "Show Table of Bills for selection" and accept the screen. This is to configure Tally to display a table listing out the pending bills references.
4. Press the space bar at 'Account' and select Bank Account. -> Please note that we are creating "Bank Account"
5. Under particulars – select Anniyappa Ltd and enter 2200 as the amount.

Note:

When the original invoice details were entered. Tally asked for the invoice reference, which it placed in list of reference for this creditor. By selecting the Agst Ref. Option (against reference) Tally will new display the outstanding you saw earlier.

6. Select Agst Ref and press enter – Tally displays a list of pending bills (this is because of the option we have activated in point 3).
7. Select the first entry in the list – ANP – and keep pressing Enter until the next Particulars field is highlighted.
8. In the Narration box – type Ch no. 1234

Bill wise Payment:

Accept the entry and return to the Gateway of tally.

1. To prove the payment has been recorded against the correct invoice, select Display, Statement of Accounts, Outstanding, Ledger and Anniyappa Ltd and you will see there is now only one entry.
2. Does Tally retain the history of settled invoices? Press F12: Configure and tab down to Range of Bills to Show and select All bills
3. Select Detailed
4. Return to the Gateway of Tally main menu.

Check your Progress:

Delete the above entry -> on the payment voucher screen -> access F12: Configure and activate the option "Pre-allocate Bills for payment". Make the above entry and notice the difference (the list of pending bills is displayed first before entering the amount). After experimenting, accept the entry and set the option "Pre-allocate Bills for payment" to NO.

6.2. PROCESSING A BILL-WISE RECEIPT

First Independent Computers pay the full amount of their first invoice 21/12/07

1. Gateway of Tally -> Accounting Vouchers -> F6: Receipt -> F12: configure and set the option Use Single Entry mode for Pymt/Rcpt/Contra" to No" -> accept the configuration screen.
2. On the voucher creation screen – at the credit field -> Enter First Independent Computers and the amount of 1250.
3. In the Bill-wise details screen – select Agst Ref. If you are adjusting the receipt against a particular invoice for which a reference was given earlier. In this example, select the first entry in the list.
4. Keep pressing Enter until the next Particulars field is highlighted. Enter bank Account, confirm the amount, Accept and return to the Gateway of Tally main menu.

5. To prove the receipt has been recorded against the correct invoice select Display, Statements of accounts, Outstanding, Ledger and First Independent Computers and you will see there is now only one entry.
6. Tally retains the history of settled invoice. Press F12: Configure and tab down to Range of Bills to Show and select All Bills -> Select Detailed.
7. Experiment with the different options and then return to the Gateway of Tally main menu.

6.3. DISPLAY OUTSTANDING STATEMENTS

1. Select Display, Statements of Accounts and then Outstanding.
2. Select Ledger. Select Anniyappa Ltd.
3. The invoice due to them is displayed with due dates and overdue days if any.
4. Change period of display from 1-4-07 to 15 12-07
5. Click on F6: Age-wise and Select By Bill-date
6. In the credit period sub-screen, put in 0 to 7, 7 to 15, 15 to 45, 45 to 0
7. Note the age of the invoices segregated by period.

   Press Alt+F1 and view the Age-wise Analysis for Anniyappa Ltd in Detailed mode -> click

on F12: Configure and set the option 'Show Qty Info in Detailed Format' to YES.

   The Age-wise Analysis for Anniyappa Ltd will be displayed

Check you Progress:
* Change the display period from 1-4-07 to 19-12-07. Observe the change.
* Display Outstanding -> Receivables
* See the Age-wise Analysis for receivables.
* Do likewise for payables ad then for a Ledger.
* Return to Gateway of Tally.

6.4. ADVANCE

   You have already noticed this option in the bill-wise sub-screen at the time of entering voucher

   Advance is for payments or receipts that are made in advance against which you will adjust the purchase or sales bill later. Typically, when a bill is raised where advance exists, part of the bill will be adjusted against the advance (using Agst Ref) and the rest carried as New Ref.

   Now, return the Gateway of Tally and shu8t Anniyappa Ltd and Select My Company. Please create this example in My Company and NOT Anniyappa Ltd.

   Create a ledger "New Supplier" and make a bank payment (State Bank of India Account) on 1-12-07 of Rs. 15000 against a purchase order PO/001/2006-07 raised on a supplier. In the bill wise details select Advance as type of reference and in the name of the reference, give the PO reference.

   Then make a purchase voucher entry on 1/12/2007 for Rs. 35000/- and at the bill-wise details screen – select against reference because we have to adjust against the advance of Rs. 15000/- -> accept the purchase entry.

At this point, it is understood that you know how to create the payment and purchase entries.

Now view the ledger outstanding of New Supplier (Display -> Statement of Accounts -> Outstanding -> Ledger -> "New Supplier"

The "advance" tag appears next to the entry – this is for easy identification.

6.5. PRINT OUTSTANDING STATEMENTS

Note that you can print statements of account by simple pressing the Print button during Display. You can also print reminder letters for customers when displaying their individual outstanding ledger.

For multiple statements and reminder letters the Multi-Account Printing option I the main menu Gateway of Tally has several options.

6.6. LET US SUM UP

By default, Tally would maintain ledger wise balance and display net debit or credit balance for a ledger. If we receive or grant credit on purchases or sales, mere ledger balance may not reflect the true state of affairs – as a ledger may show an amount due which may not be overdue on that date. By maintaining Bill wise details, we can get bill wise outstanding, compute bill wise overdue interest.

6.7. LESSON END ACTIVITIES

What is Age analysis of open bills

6.8. POINTS FOR DISCUSSION

Discuss on Bill wise interest on delayed payment

6.9. REFERENCES

- Tally Self-Learning Guide and Work Book, Volume 1, Tally Solutions Pvt Ltd., 2005
- Final Accounting Tally 7.2, Insys Tally Accounting Professional Part-1, 2006
- Sundramoorthy.V, "Tally Bible"

LESSON 7: COST CENTRES AND COST CATEGORIES IN TALLY

CONTENTS

7.0. AIMS AND OBJECTIVES

1. Create Cost Centres and Cost Categories
2. Allocate incomes and expenses to cost centers
3. Parallel Allocation to cost centers belonging to different Cost Categories
4. Generate Cost Centre related Reports

7.1. INTRODUCTION TO COST CENTRES

By far the most versatile tool for management information, Tally's cost centers allow dimensional analysis of financial information. Cost Centre is the smallest organizational sub-unit for which separate cost collection is attempted. It can be a location, person or item of equipment. A cost center is primarily of to two types, i.e. (a) Personal Cost Centre and (b) Impersonal Cost Centre, which consists of a location or item of equipment.

7.2. COST CATEGORIES

Cost Categories have been introduced for organizations requiring allocation of resources to parallel Cost Centres. Such organizations are normally project-oriented. Proper use of cost Centre reduces the Cost Categories as the Cost Centre itself would give the same benefits. By using the Cost Categories, you can allocate to more than one Cost Centre. i.e, for allocation of expenses department-wise, you can use Cost Categories and Cost Centres.

7.3. COST CENTRES

A 'Cost Centre' can be said to be any unit of any organization which transactions (generally revenue) can be allotted. When only costs or expenses are allotted to these units, they are

referred to as Cost Centres. Tally gives you the cost center break-up of each transaction as well as details of transactions for each Cost Centre. When you also allocate income to the units, they become Profit Centres. You can now obtain a profit and Loss account of each Cost / Profit Centre.

Cost Centre Class option facilitates predetermined allocation of Ledger accounts to Cost Centres. Hence, the User need not allocate the Expenses manually. In cost Centre Class, the Percentage of allocation should be specified for each Cost Centre. Based on the Percentage, the expenses are divided automatically. Cost Centre classes affect all voucher types. In voucher entry, the allocation screen would not appear but allocation would be made automatically.

For a Company where you activated the Cost Centre option, you can selectively specify in Ledger Account whether the transaction is to be allotted to Cost Centres or not. You can even allocate transactions of capital nature. By prudent application of the concept you can also determine the profit or loss for each such entry.

For example, the following Primary Cost Centres can be created and maintained by you.

7.4. MANUFACTURING, PURCHASING AND ADMINISTRATION

Under the Cost Centre Manufacturing, you may wish to create the production centers of different products. This would be so, if you need to keep track of the cost incurred in the manufacture of the different products.

7.4.1. PRIMARY COST CENTRE – MANUFACTURING

Under Manufacturing:

- ➢ Department A – Product A
- ➢ Department A – Product B
- ➢ Department C – Product C

The first Cost Centre should always be Primary and subsequent cost centers may be primary or secondary. (i.e., they can be placed under other cost centers).

In Tally, the transactions are allocated only to Cost Centres and not to Cost Category.

How to Activate Cost Centre and Cost Category Option?

To activate the Cost Centre and Cost Category option, you should use the following procedure.

F11- Company Features to be activated

    Maintain Cost Centre   : Yes

    More than one Category   : Yes (If necessary)

F12 – Configuration: Voucher Entry -> Show Cost Centre

    Details   : Yes

F11 – Company Features

F12 – Configuration

Fig. 7.1.

7.4.2. COST CATEGORY

Cost Category Creation and Alteration (Single mode)

In Tally, you can create any number of cost categories as per your requirements. Now, we shall see the procedure for creation of cost categories in single mode. As soon as you activate the necessary Company Features (<F11>) and Configuration (<F12>), go to Gateway of Tally. Select Accounts Information. If you explode accounts information, you will see the option of Cost Categories (refer Fig.). If you probe further into cost categories, you will reach 'Cost Categories Menu' where you can select either Single Mode or Multiple Mode options. Now select Single Mode Creation. Refer Figs.. Here, you can create the required Cost Category. For example, we shall consider three cost categories, 1. Civil Works 2. Mechanical Works; and 3. Electrical Works.

In short, you can create cost categories in the following way:

Gateway of Tally -> Account Info. -> Cost Categories -> Single -> Create (or) Alter

By following the same procedure you can alter a cost category.

The creation and alteration of cost categories I illustrated below:
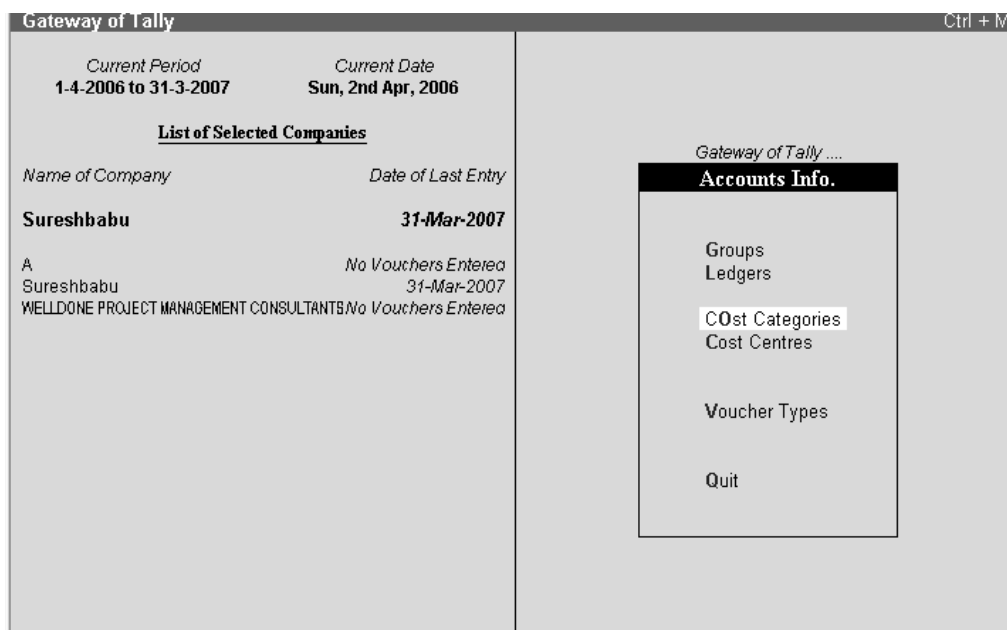
Fig. 7.2.
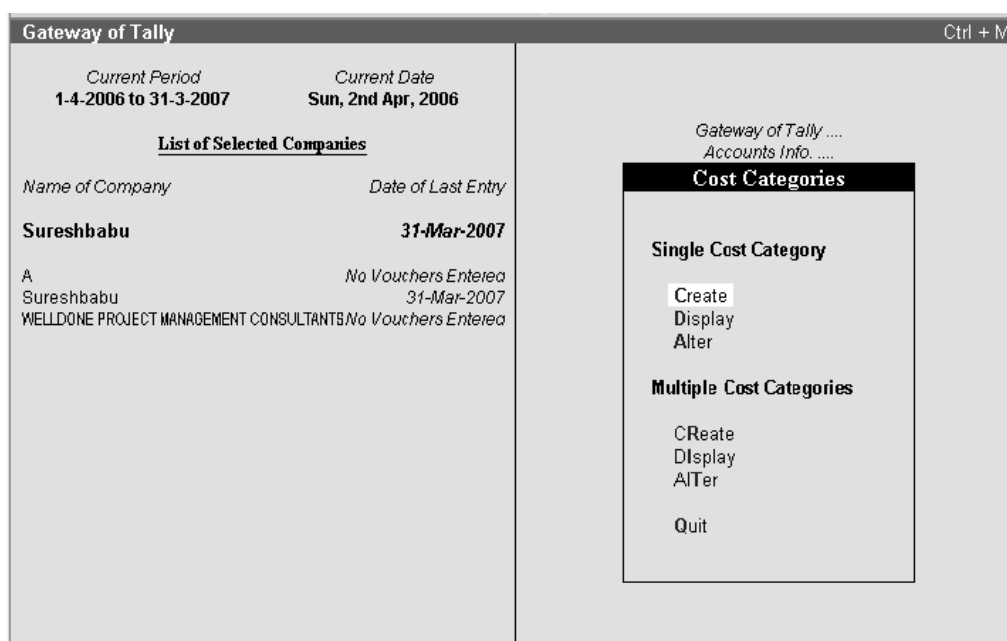
Fig. 7.3

Fig. 7.4.

Fig. 7.5

Fig. 7.6

ALLOCATE REVENUE ITEMS

Respond with 'Yes' to allocate expenses and incomes of revenue nature (like Salary, Interest earned, Purchase, Sales, etc.)

ALLOCATE NON-REVENUE ITEMS

If you respond with 'Yes' to this option, you can allocate the expenses and incomes of capital nature also (like Plant, Machinery, etc)

Cost Category Creation and Alteration (Multiple mode)

Gateway of Tally -> Accounts Info.-> Cost Categories -> Multiple -> Create (or) Alter.

Fig. 7.7

Multi Cost Category Creation	Sureshbabu		Ctrl + M
S.No.	Name of Category	Allocations for	
		Revenue Items	Non-Revenue Items
1.			

Fig. 7.8

For eg.

Multi Cost Category Creation	Sureshbabu		Ctrl + M
S.No.	Name of Category	Allocations for	
		Revenue Items	Non-Revenue Items
1.	Mechanical	Yes	Yes
2.	Electrical Works	Yes	yes

Fig. 7.9

Multi Cost Category Alteration	Sureshbabu		Ctrl + M
S.No.	Name of Category	Allocations for	
		Revenue Items	Non-Revenue Items
1.	Civil Works	Yes	Yes
2.	Electrical Works	Yes	Yes
3.	Mechanical	Yes	Yes
4.	Primary Cost Category	Yes	No

Fig. 7.10

To view Cost Category details (after recording the transactions)

You can view the result of the transactions entered, category-wise, at the end of the period using the following simple steps.

Gateway of Tally -> Display -> Statement of Accounts -> Cost Centre -> Category Summary

Cost Category Summary	Sureshbabu		Ctrl + M
Particulars	Sureshbabu 1-Apr-2006 to 31-Mar-2007		
	Transactions		Closing Balance
	Debit	Credit	

Fig. 7.11

However, you cannot view the category-wise details in a columnar form like that of the cost centers. i.e., you can view the details of category only on one to one basis.

COST CENTRE

As explained earlier, a cost center can be said to be any unit of an organization to which transactions (generally revenue) can be allocated. When only costs or expenses are allocated to these units, they are referred to as cost centers. When you also allocate income to the units, they become Profit Centres. You can now obtain Profit and Loss account of each Cost / Profit Centre.

In Tally, you have the option of allocating both the Capital and Revenue expenses and incomes to different cost Centres according to your choice. For this, you should activate the Cost Centre option in Ledger Account at the time of creation. By prudent application of the concept, you can also determine the profit or loss for each such Cost Centres.

Now we shall discuss in detail the creation and alteration of Cost Centres.

7.5. COST CENTRE CREATION AND ALTERATION

Similar to Cost Category creation, we can also create the Cost Centres. All the steps are similar to creation of cost categories. In short, Cost Centre can be crated using the following simple path.

Gateway of Tally -> Accounts Info.-> Cost Centre -> Create (or) Alter

Fig. 7.12

7.5.1. COST CENTRE CREATION

Fig. 7.13

7.5.2.Cost Centre Alteration

Fig. 7.14

7.5.3. DELETION OF COST CENTRE

In the alteration mode, press <Alt> + <D> for deletion of a Cost Centre. This will seek a confirmation 'Yes / No' Press <Enter> for deleting and Press <Esc> for cancellation of deletion.

To view Cost Centre details (after entering the transactions).

The details for different cost centres can be viewed individually and in a columnar form. To view them in a single mode, use the following steps.

Gateway of Tally -> Display -> Statement of Accounts -> Cost -> Centre -> Cost centre breakup

Fig. 7.15

For Viewing Cost Centre Details in Columnar Form (after entering the transactions)

We can view the data entered for all the cost centres in a columnar form for easy verification.

For this purpose, the following steps should be followed

Gateway of Tally -> Display -> Statement of Accounts -> Cost Centre -> Cost Centre Breakup -> Alt +N -> Select Cost Centres

7.6. LET US SUM UP

To brief, Cost Categories and Cost Centres are created to allocate Expenses Department Wise. Single creation means only one Category or Cost Centre can be created. For Multiple creations select Multiple Cost Category or Cost Centres. While Category creation the options Allocate Revenue Items or Allocate Non-Revenue Items is present. Surely one option should be selected. After creation, while Entry of Vouchers the Expenses are allocated to different Departments manually by the user. To allocate Expenses automatically Cost Centre Class is to be adopted.

7.7. LESSON-END ACTIVITY

Welldone & Co commenced three contracts on 1.1.2007, Airports, Railways, and Brides. Allocate the following expenses to the particular contracts.

Cost Centre	Contract 1	Contract 2	Contract 3
Date of Commencement	1.1.2007	1.6.2007	1.11.2007
Contract Price	400000 Rs.	270000 Rs.	300000 Rs.
Materials Purchased	72,000	58,000	20,000
Wages Paid	1,10,000	1,12,000	14,000
General Expenses Paid	4,000	2,800	1,000
Plant and Purchased & Installed	20,000	16,000	12,000
Outstanding Wages	4,000	4,000	2,000
Cash Received for the Contract	1,50,000	1,20,000	52,000
Stock in Hand at the end	4,000	4,000	2,000
Work Certified	2,00,000	1,60,000	36,000
Work un-certified	25,000	12,000	4,000

Provide Depreciation @ 10% on Plant. Prepare B/S as on 31.12.2007

7.8. POINTS FOR DISCUSSION

How will you view the Cost Centre details in columnar form?

Discuss the procedure involved in Creation and Alteration of Cost Category.

7.9. SUGGESTED READING / REFERENCES/ SOURCES

➢ Tally Self-Learning Guide and Work Book, Volume 1, Tally Solutions Pvt Ltd., 2005

➢ Final Accounting Tally 7.2, Insys Tally Accounting Professional Part-1, 2006

➢ Sundramoorthy.V, "Tally Bible"

LESSON 8: INTRODUCITON TO BUDGETING AND BUDGETAR CONTROL

CONTENTS

8.0. AIM AND OBJECTIVE

Everyone is familiar with the idea of a budget as, in private life, few people embark on a project involving expenditure without some idea of what that project will cost, even if this is never committed to paper" –w. w. bigg

At the end of the lesson you be able to:

- ➢ Understand what is Budgeting
- ➢ Understand the need for Budgeting
- ➢ Understand use of Budgetary control

8.1. INTRODUCTION

The economic structure and development of a state depend upon its budget, which reflects the formulation of policies, coordination of economic activities and the control of operation required to achieve the targets assigned to a period of time. The same is true business also. A system of budget is necessary to plan and control the activities pertaining to production and sales.

Present day business units are facing stiff competition and uncertainty and are exposed to risk. Progressive complexity of business problems had led to the development of different management techniques to be useful to the management for successfully managing business units. Budgeting is one of the techniques widely used for planning and control. Budgeting is one of the techniques widely used for planning and control. Budgetary control has become an essential technique for cost control and profit maximization. Costs are reduced and controlled through reduction of wastage, creating a relationship between costs and income and combining carious factors of production in a profitable way. This is possible only when management undertakes effective planning, coordination and control of activities. Budgetary control is useful to the management to prepare detailed plan and exercise effective coordination and control.

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8.2. MEANING AND DEFINITION

Budget: A budget is the monetary and / or quantitative expression of business plan and policies to be pursued in the future period of time. Budgeting is preparing budgets and other procedures for planning, coordination and control of business enterprise.

    I.   C. M. A Defined as "A financial and /or quantitative statement, prepared prior to a defined period of time, of the policy to be pursued during that period for the purpose of attaining a given objective."

As per the above definition, the essential features of a budget are:

(a)   A budget is a financial statement but it can be a statement of quantities also with or without monetary data:

(b)   Budget is prepared for a particular period and it is prepared in advance.

(c)   Budget is a detailed plan of the policy to be pursued during the period for which the budget is prepared.

(d)   The function of the budget is to attain a specific objective.

    In the world of J. G. BLOCKER " The budget is a predetermined statement of combination of the various factor of production, which the management deems to be the most profitable for the ensuing period".

8.3. LET US SUM UP

The above lesson describe the main objective and various definition of Budget and it uses in Financial Management in an organization

8.4. LESSON-END ACTIVITY

List out various Applications of Budget

8.5. POINTS FOR DISCUSSION

Discuss about the importance of Budgetary Control in an Organization

8.6. REFERENCES

➢ Hingorani N.L and Ramanathan A.R., "Management Accounting", Sultan Chand, New Delhi, 1982.

➢ Kuchhal.S.C, "Finaical Management", Chaitanya, Allahabad,1980

➢ Maheswari S.N., "Financial Management – Principles and Practice", Sultan Chand & Sons", New Delhi, 2005.

➢ Shukla M.C and Grewal T.S., "Advanced Accounts", S.Chand & Company, New Delhi, 1991.

LESSON 9: BUDGET AND CONTROL IN TALLY

CONTENTS:

9.0. AIM AND OBJECTIVE

When you have completed this lesson, you will be able to:

- Set up Tally to use Budget Control.
- Create and Alter Budget Controls
- Create Budget Variance Report

9.1. INTRODUCTION

The objectives and goals vary from one organization another. Every organization set its own targets and appraises its achievements against the target set. Such an appraisal of performance is possible with the help of budgets. The main purpose of budgeting is to control the expenditure and to increase the revenue.

9.2. MEANING

A Budget is a detailed plan of operations for some specific future period. It is an estimate prepared in advance of the period to which it applier.

9.3. ESSENTIALS OF BUDGET

i.   It is prepared in advance and is based on future plan of actions
ii.   It refers to a future period and is based on objectives to be attained.
iii.   It is a statement expressed in monetary and / or physical units. Prepared for the implementation of policy formulated by the management.

Tally provides the flexible budgeting system for different purpose like Sales, Expenses, Purchases, e.g. Budgets can be prepared for specific purposes. In Tally, you can also create multiple budgets.

There is a hierarchical budget set up i.e., they are primary budgets and secondary budgets. Generally, the first item should be primary and then you can place the other budgets either under primary or under any budget created by you.

We can set Budget for Groups, Ledgers and Cost Centres, for specific Cost Centre under a group.

In Tally, Budgets are of two types and you should select the type of budget that best suits you. The two types of budgets are i. On Nett Transactions, (ii) On Closing Balances.

 (i) On Nett Transactions: This type of budget is used for nominal accounts since they should be monitored on nett transaction basis and not on the balance basis. For example, the total amount spent on advertisement, etc.
 (ii) ON Closing Balances: The real and Personal accounts should be monitored on balances basis as at the end of the period. For this purpose, you can use this type of budget. Examples are Debtors, Creditors, etc.

Groups budgets do not get apportioned whereas ledger budgets can be apportioned for each month. In the case of closing balances budget, each month will have the same budget value except that the actual opening balance is also taken into account. However, in the case of nett transactions, budgets specified for a period get equally apportioned over the period. When using nett transactions, the closing balances actually get adjusted, even if you have not selected his type.

FEATURES TO BE ACTIVATED

To get Budgets in accounts Info menu, you should respond with 'Yes' to the query. Maintain Budgets and Controls at F11: Company Features.

ie.
F11: Company Features
Maintain Budgets & Controls: Yes

Fig. 9.1.

9.4. BUDGET CREATION AND ALTERATION

Accounts Info-> Budgets -> Create (or) Alter

To create a budget, choose Create option, which will bring budget Creation screen as shown in Following fig.

Fig. 9.2

Fig. 9.3.

Fig. 9.4

Name

Here, enter the name of the budget for easy identification in future.

Under

In this field, select the parent budget. At the top is the primary budget and under each primary budget you can create any number of sub-budgets. For primary budget, select Primary from the pop-up menu.

The budgets that you create will appear in the list of budgets.

PERIOD OF BUDGET

You can enter the From and to Dates in this field.

Set / Alter Budgets

The budget can be set for groups of ledger accounts or for individual ledger accounts or for cost Centres or for all of them taken together.

If you want to set budget for groups of ledger accounts types 'Yes' in the groups field, which will bring a sub-screen to enter the group of your choice

To set budget for ledgers respond with 'Yes' at the budget column which will bring a sub-screen to enter the ledger details as shown in fig.

From this list, select the ledger account for which you want to set Budget.

COST CENTRE

For each group you can earmark the cost Centre. If you select End of List, then the budget is not for any particular cost Centre but for the company as a whole.

9.5. ALTERATION AND DELETION OF A BUDGET

First select a budget you wish to alter or delete from the list of budgets on selection of a budget you can alter the necessary fields of you choice or press <Alt> + <D> for deleting the budget.

9.6.BUDGET VARIANCE REPORTS

In Trial Balance and Group summaries screen, Budget Variance key appears, in order to get Budget Variance Report consisting of Budgets, Actual with Percentage and also the Variance from Budget with Percentage.

You can also view Budget and Variance through New column by selecting the Budget at type of Value to show prompt, from the list of Budgets. The budget figure would be shown in new column.

To View Budget

Gateway of Tally -> Display -> Trial Balance -> Alt + B -> Select the required Budget

Or

Gateway of Tally -> Display -> Accounts Book -> Group Summary -> Select the Group ->
<Alt> + <B>

Illustration

We shall create a budget for Indirect Expenses based on the following data for a period of 6 months ending 30-09-2007.

The following are the budgeted figures.

Salaries	1,50,000
Rent	96,000
General Expenses	2,40,000
Administration Expenses	1,50,000
Insurance	75,000
Postage	36,000
Traveling Exp.	54,000
Rate & Taxes	60,000
Total	8,61,000

The following are the expenses incurred during the six months ending September 30, 2007

Particulars	April	May	June	July	August	September
Salaries	24,000	28,000	25,000	27,000	23,000	29,000
Rent	16,000	18,000	14,000	17,000	13,000	14,000
General Expenses	42,000	45,000	40,000	35,000	40,000	42,000
Administration Expenses	27,000	30,000	30,000	28,000	24,000	20,000
Insurance	13,000	12,500	11,000	15,000	17,000	12,500
Postage	5,000	7,000	4,000	6,000	7,000	8,000
Travelling	9,000	10,000	8,000	7,000	11,000	8,000
Rates & Taxes	10,000	10,000	10,000	10,000	10,000	10,000

FOR CREATION OF BUDGET

Step 1: By exploring the Accounts Info menu in the Gateway of Tally, you can create a budget

Step 2: In the Group Budget Creation menu, give the Total of the group that is selected by you.

Now give the Budgeted values for the individual Ledger Accounts that will come under the group.

Step 3: Pass the entries for the payment of expenses for each and every month using the Payment Voucher.

After passing the entries you can view the budget either in Trial Balance or in Group Summary under Account Books in Display Menu.

In Trial Balance Display screen, select the Budget of your choice.

In the following picture you can see three columns, which show the Budget. The Actual and the variance will be shown.

ALTERNATIVE METHOD

Step 4: Alternatively, you can view the budget using the group summary menu.

9.7. LET US SUM UP

This lesson gave a step-by-step approach to create, alter budget control in tally, we also discussed about the Budget variance report creation.

9.8. LESSON END ACTIVITY

Problem 1

Prepare a Budget for Indirect Expenses for a period of 6 months ending 20-09-2007. The following are the budgeted figures

Salaries	1,50,000
Rent	96,000
General Expenses	2,40,000
Administration Expenses	1,50,000
Insurance	75,000
Postage	36,000

Traveling Exp.	54,000
Rate & Taxes	60,000
Total	8,61,000

The following are the expenses incurred during the six months ending September 30, 2007

Particulars	April	May	June	July	August	September
Salaries	24,000	28,000	25,000	27,000	23,000	29,000
Rent	16,000	18,000	14,000	17,000	13,000	14,000
General Expenses	42,000	45,000	40,000	35,000	40,000	42,000
Administration Expenses	27,000	30,000	30,000	28,000	24,000	20,000
Insurance	13,000	12,500	11,000	15,000	17,000	12,500
Postage	5,000	7,000	4,000	6,000	7,000	8,000
Travelling	9,000	10,000	8,000	7,000	11,000	8,000
Rates & Taxes	10,000	10,000	10,000	10,000	10,000	10,000

Problem 2

Prepare a Budget of Direct Expenses for a period of 3 months ending 30-06-07

The following are the budgeted figures

Wages	7,500
Fuel & Oil	6,000
Power	12,000
Dock Dues	9,000
Freight Charges	15,000

Further, the following information is given relating to expenses incurred:

	April	May	June
Wages	2,000	2,500	3,000
Fuel & Oil	4,000	2,000	6,000
Power	3,500	4,000	4,500
Dock Dues	4,000	3,000	2,500
Freight Charges	4,750	5,000	6,750

9.9. POINTS TO DISCUSSION

Discuss the procedure involved in the creation of Budget.

Discuss the different types of Budget available in Tally? Explain in brief.

9.10 REFERENCES

- ➢ Tally Self-Learning Guide and Work Book, Volume 1, Tally Solutions Pvt Ltd., 2005
- ➢ Final Accounting Tally 7.2, Insys Tally Accounting Professional Part-1, 2006
- ➢ Sundramoorthy.V, "Tally Bible"

LESSON 10: PRINTING IN TALLY

CONTENTS

10.0 AIM AND OBJECTIVES

When you have completed this lesson, you will be able to:

- Set up Tally for Various Print controls.
- Configure Printer
- Configure Printer for various Reports

10.1. INTRODUCTION

We have discuss various reports so far. All the reports that can be viewed on screen can also be printed. While viewing a report in display mode. We can print it by clicking print button, thus we can print the individual report we are viewing while multi account printing menu lets us to select one or all items from a list, convenient when we wish to print multiple items at a time.

A report can be printed:

> By clicking print button while viewing the Report or by pressing Alt+P.

> From multi Account printing menu.

10.2. PRINT CONFIGURATION SCREEN

When we select to print a report we get print configuration screen that displays default settings and permits to alter print settings. The following picture shows print configuration screen that we may get on pressing Alt+P at balance sheet.

We have split the screen into 3 parts. In every report, the top part displays common printing information consisting of selected printer, paper , paper type, No of copies, printing method, printing range , paper size and print area etc.

The middle part displays report title and related information. The bottom part of the screen displays the report specific configuration settings.

Tally provides potions to alter settings. Buttons on the button bar allow to set/specify parameters related to common printing information and report title related options.

10.3. COMMON PRINTING INFORMATION

We will find following buttons on the button bar that allows alteration of configuration settings.

Page nos

The default setting is for printing ALL the pages of the selected report with page numbering beginning from 1 . however, if we wish to print selected pages or wish to begin numbering from any other number than 1 click page nos button or press Alt+G.

We get a dialog box to specify our parameters where we can enter starting page number and also the page range.

Pre-printed

The default setting is for printing on plain paper. However , if we have got any of our output designed through TDL(tally definition language) to print on pre-printed stationery, click pre-printed button or press Alt+R when we wish to print such report. The method prompt would now display the selected option like neat format on pre-printed format. This button toggles between plain paper and pre-printed.

Quick format

This button toggles between neat format and quick format. The default selection is neat format, that is why the button on the button bat is quick format, to choose printing of the report in quick format , click quick format button or press Alt+f.

Copies

By default indirect express copy of the report would be printed. To print multiple copies , click copies button or press Alt+C which would display a dialogue box to specify number of copies at the prompt.

Select printer

To select another printer, output method or paper orientation, click printer button or press Alt+S . If we select neat format, on pressing printer button we get a screen as shown below.

List of printers pop-up would display all printers installed at the system to select the printer with which we wish to print the report . Upon selection of the printer properties would appear to select paper size, orientation, paper source etc. printer properties vary from printer to printer.

Report title

The middle part displays report title and related information. Click titling button or press Alt+laying to specify /alter title and sub-title for the report or to print / suppress company name , address, date and page rage for the report.

10.4. MULTI-ACCOUNTING PRINTING

This menu is meant for printing multiple reports. For example , if we like to print all ledgers, or all ledgers of a group, we can print more conveniently from multi account printing

rather than from display . on selecting , we get a menu which consists of numerous sub-options. The exploded menu is show below:

Multi account printing

Account books
Cash book
Bank book
Multi column cash book
Ledger
All accounts
One accounts
Group of accounts
Sales register
Purchase register
Journal register
Outstanding statements
Receivables
Payables
Ledger
All account
One account
Group of accounts
Group
Inventory books
Stock item
All items
One item
Group of items
Category of items
Stock transfer
Physical stock register
Day book
Multi voucher printing

Account books

This menu provides options for printing of accounts books like cash book, bank book, ledger, sales , purchase, journal registers, debit and credit note registers.

Cash book

On selection , print configuration screen appears asking print? Yes or No. By responding no, we can configure following options.

Prompt	options/remarks
From	Enter the start date for report . leave bland for beginning.
To	Enter the end date for report. Leave bland to print till end.
Style of report	Select from 2 options: confirmation of a/cs , normal . for cash book select normal.

Format	Condensed or detailed
Show bill wise details also	Respond yes if we to print bill wise details
Show cost centre detail also	Respond yes if we wish to print cost centre details
Show inventory detail also	Respond yes if we wish to print narration , else no.
Method of maintaining balance	Select from daily , monthly, weekly, yearly.
Start fresh page for each account	If we want each account to start on new fresh page.

Bank book

We can configure from, to, style of report , format, narration and method of maintaining balance.

Ledger

- ➤ On selection a menu appears with 3 options
- ➤ If we want to print all ledger account, select all accounts.
- ➤ If we want to print just one ledger, choose one account that brings list of ledgers to select from.
- ➤ If we want to print all ledgers under any account group , choose group of accounts to get list of groups for selection.

All accounts

We can configure options such as from, to, style of report, format, narrations, method of maintaining balance and stare fresh page for each account.

One account & group of accounts

On selection, list of ledger accounts appear in case of one account and list of groups appear in case of group of accounts. The options are similar to all accounts. In case of one account the last option start fresh page for each a/c does not appear.

Sales register

Prompt	Options/remarks
From	Enter the start date for report. Leave bland for beginning.
To	Enter the end date for report. Leave blank to print till end.
Show columnar register	If we want columnar register, respond yes which brings the screen to define columns.
Format	Condensed detailed?
	If detailed is selected , we get following additional prompts:
	➢ Show bill wise details also?
	➢ Show cost centre detail also?
	➢ Show inventory detail also?
Show narration also?	Respond yes if we wish to print narration, else no.
Show entered/altered by?	If we want the name of user who entered / altered the voucher ,respond yes.

Purchase register

The options are similar to sales register.

Journal register

If we have activated debit and credit note a menu would appear consisting of the following options.

➢ Journal Register
➢ Debit note register
➢ Credit note Register

On selection of any register, print configuration screen would appear where options are similar to sales register.

Outstanding statements

We get all reports relating to outstanding under this option. Receivables gets us report for all bills receivables while payables gives all bills payables. We can print ledger or group wise outstanding by selecting respective option from menu.

Inventory books

All reports related to stock items, stock transfer and physical stock are available in this menu.

Day Book

Prints list of all types of vouchers or selectively vouchers relating to accounts or inventory. We can configure the necessary options.

Multi voucher printing

This option is selected to print vouchers. We can configure name of voucher type, from and to options.

10.5 LET US SUM UP

To summarize, printing of any report can be made in tally. Period can be changed to print a report for the special period. When printing is done, tally automatically prints the company name, address, period and other details. Printing can be done then and there from any report using ALT+P.

10.6 LESSON END ACTIVITIES

List down the various Steps for Configuring Printer for Multi Voucher Printing

10.7 POINTS FOR DISCUSSION

Discuss the various Formats of Printing and their applications with at least on example

10.8 REFERENCES

➤ Tally Self-Learning Guide and Work Book, Volume 1, Tally Solutions Pvt Ltd., 2005

➤ Final Accounting Tally 7.2, Insys Tally Accounting Professional Part-1, 2006

➤ Sundramoorthy.V, "Tally Bible".