



ISDM (INDEPENDENT SKILL DEVELOPMENT MISSION

PAYROLL MANAGEMENT & FINANCIAL STATEMENTS (WEEKS 9-10)

SALARY STRUCTURE, PF & ESI SETUP

CHAPTER 1: UNDERSTANDING SALARY STRUCTURE

1.1 What is a Salary Structure?

A salary structure refers to the detailed breakdown of an employee's earnings and deductions. It includes different components such as basic salary, allowances, and deductions (PF, ESI, TDS, etc.). Understanding salary structure is essential for accurate payroll management and compliance with government regulations.

1.2 Components of Salary Structure

- A. Earnings (Additions to Salary)
- Basic Salary The fixed component of an employee's salary (40-50% of gross salary).
- **Dearness Allowance (DA)** Given to government employees to offset inflation.
- ✓ House Rent Allowance (HRA) Provided for employees living in rented housing.

- Conveyance Allowance Covers transportation costs.
- Medical Allowance Paid for employee medical expenses.
- Bonus & Incentives Additional pay based on performance.
- * B. Deductions (Salary Reductions)
- **X** Provident Fund (PF) Deducted as employee savings for retirement.
- **Employees' State Insurance (ESI)** For employee medical benefits.
- X Tax Deducted at Source (TDS) Deducted as per tax slabs.
- **X** Professional Tax (PT) State-imposed tax for salaried employees.

1.3 Sample Salary Structure Format

Component	Amount (₹)
Basic Salary	25,000
HRA (40% of Basic)	10,000
Conveyance Allowance	2,000
Medical Allowance	3,000
Gross Salary	40,000
Deductions:	
Provident Fund (PF - 12%)	(3,000)
Employees' State Insurance (ESI - 0.75%)	(300)
Professional Tax (PT)	(200)
Net Salary (Take-home Pay)	36,500

★ Example: An employee with a ₹50,000 gross salary has deductions of ₹5,000 (PF, ESI, TDS, etc.). Their net take-home salary is ₹45,000.

★ Exercise: Create a salary structure for an employee with a gross salary of ₹60,000 and include PF, ESI, and other deductions.

CHAPTER 2: PROVIDENT FUND (PF) SETUP

2.1 What is Provident Fund (PF)?

Provident Fund (PF) is a retirement savings scheme under the Employees' Provident Fund Organization (EPFO). It is mandatory for organizations with 20+ employees and helps employees save for retirement. Both employers and employees contribute 12% of the employee's basic salary to the EPF account.

2.2 PF Contribution Breakdown

Particulars	Employee Contribution (12%)	Employer Contribution (12%)
Employees' Provident Fund (EPF)	12%	3.67%
Employees' Pension Scheme (EPS)	-	8.33%
Total Contribution	12% of Basic	12% of Basic

2.3 Steps to Register for PF in Tally

- Step 1: Enable PF in Tally
 - Go to Gateway of Tally > F11: Features > Payroll Features.

- Set "Maintain Payroll" to Yes.
- Enable "PF Computation" and save.
- Step 2: Create PF Ledger
 - Navigate to Gateway of Tally > Accounts Info > Ledger > Create.
 - Name: Provident Fund Payable
 - Group: Duties & Taxes
 - Type: PF Payable
- Step 3: Assign PF to Employees
 - Go to Payroll Info > Employee Group > Create.
 - Enable PF Contribution and set 12% deduction on basic salary.
- **★ Example:** An employee with a ₹30,000 basic salary contributes ₹3,600 (12%) to PF, while the employer contributes the same amount, split into ₹1,100 (EPF) & ₹2,500 (EPS).
- **Exercise:** Register a dummy company in **Tally** and set up **PF** deduction for employees earning different basic salaries.

CHAPTER 3: EMPLOYEES' STATE INSURANCE (ESI) SETUP

3.1 What is ESI?

Employees' State Insurance (ESI) is a social security scheme under **ESIC (Employees' State Insurance Corporation)**. It provides **medical benefits, maternity benefits, and sickness benefits** to employees.

- Applicable for businesses with 10+ employees (20+ for some states).
- Applicable if salary is below ₹21,000 per month.

3.2 ESI Contribution Breakdown

Particulars	Employee Contribution	Employer Contribution	
Employees' State	o.75% of Gross	3.25% of Gross	
Insurance (ESI)	Salary	Salary	

3.3 Steps to Register for ESI in Tally

- Step 1: Enable ESI in Tally
 - Go to Gateway of Tally > F11: Features > Payroll Features.
 - Enable "Maintain Payroll & ESI".
- Step 2: Create ESI Ledger
 - Navigate to Gateway of Tally > Accounts Info > Ledger > Create.
 - Name: Employees' State Insurance Payable
 - Group: Duties & Taxes
 - Type: ESI Payable
- Step 3: Assign ESI to Employees
 - Go to Payroll Info > Employee Group > Create.
 - Enable ESI Contribution and set 0.75% deduction on gross salary.

- ★ Example: An employee with a gross salary of ₹18,000 contributes ₹135 (0.75%), while the employer contributes ₹585 (3.25%), totaling ₹720 per month towards ESI.
- ★ Exercise: Set up ESI deduction in Tally for three employees earning below ₹21,000.

CHAPTER 4: GENERATING SALARY, PF & ESI REPORTS IN TALLY

- 4.1 Steps to Generate Payroll Reports
 - Step 1: Open Payroll Report
 - Navigate to Gateway of Tally > Display More Reports > Payroll Reports.
- Step 2: View Employee Salary Statement
 - Select Payroll Statement to view salary details of employees.
- Step 3: Generate PF Reports
 - Go to Payroll Reports > Provident Fund Report.
 - Verify PF contributions and employer match.
- Step 4: Generate ESI Reports
 - Go to Payroll Reports > ESI Report.
 - Verify **ESI deductions** from employee salary.
- **Example:** A company wants to process **PF and ESI deductions** for 50 employees. They generate a **Payroll Summary in Tally** to ensure accurate deductions.

Exercise: Generate a **Payroll Report, PF Report, and ESI Report** in Tally for an organization with 5 employees.

Conclusion

Understanding Salary Structure, PF, and ESI ensures businesses maintain accurate payroll records and comply with labor laws. Setting up Payroll, PF & ESI in Tally automates the process and reduces errors.

† Final Exercise:

- 1. Design a **Salary Structure** for an employee earning ₹50,000 per month with **PF, ESI, and allowances**.
- 2. Set up **PF & ESI in Tally** and generate payroll reports.
- 3. Explore how Payroll Processing works in Tally Prime.

PROFIT & LOSS ACCOUNT, BALANCE SHEET & RATIO ANALYSIS

CHAPTER 1: UNDERSTANDING FINANCIAL STATEMENTS

1.1 Importance of Financial Statements

Financial statements are **formal records of a company's financial performance**, prepared to assess profitability, financial position, and liquidity. The three most important financial reports are:

- Profit & Loss Account Measures a business's profitability over a specific period.
- 2. **Balance Sheet** Shows a company's financial position at a given time.
- 3. **Ratio Analysis** Evaluates financial health using key financial ratios.

Why Are Financial Statements Important?

- Helps investors and stakeholders assess business performance.
- Assists in decision-making for expansion and investments.
- Ensures compliance with tax laws and regulatory authorities.
- **Example:** A company that reports a **profit of ₹10 lakhs in its Profit & Loss Account** and has **total assets of ₹50 lakhs in its Balance Sheet** indicates good financial health.
- **Exercise:** List five industries where financial statements play a crucial role and explain why.

CHAPTER 2: PROFIT & LOSS ACCOUNT

2.1 What is a Profit & Loss (P&L) Account?

A Profit & Loss Account (Income Statement) records all revenues and expenses over a specific period, showing net profit or net loss. It is divided into:

- ▼ Trading Account Records Sales, Purchases, and Direct Expenses (e.g., Raw Material Costs).
- Profit & Loss Account Includes Indirect Expenses & Incomes (e.g., Rent, Salaries, Interest).

2.2 Format of Profit & Loss Account

Particulars	Amount (₹)	Particulars	Amount (₹)
Sales Revenue	10,00,000	Cost of Goods Sold (COGS)	5,00,000
Gross Profit	5,00,000	Operating Expenses	2,00,000
Operating Profit	3,00,000	Depreciation & Interest	50,000
Net Profit Before Tax	2,50,000	Income Tax (30%)	75,000
Net Profit After Tax	1,75,000		

★ Example: A company makes ₹10,00,000 in sales and has ₹7,50,000 in total expenses. The remaining ₹2,50,000 is its net profit.

★ Exercise: Create a **Profit & Loss Statement** for a small retail store with revenues of ₹8,00,000 and expenses of ₹6,50,000.

CHAPTER 3: BALANCE SHEET

3.1 What is a Balance Sheet?

A **Balance Sheet** provides a snapshot of a company's **financial position** at a specific time. It follows the **Accounting Equation**:

★ Assets = Liabilities + Equity

The **Balance Sheet** is divided into:

- Assets What the company owns (Cash, Inventory, Property).
- Liabilities What the company owes (Loans, Payables).
- **Equity** Shareholders' investment in the company.

3.2 Format of a Balance Sheet

Assets	Amount (₹)	Liabilities & Equity	Amount (₹)
Fixed Assets (Land, Machinery)	20,00,000	Share Capital	10,00,000
Current Assets (Cash, Inventory)	5,00,000	Reserves & Surplus	3,00,000
Debtors (Receivables)	3,00,000	Loans (Liabilities)	10,00,000
Total Assets	28,00,000	Total Liabilities & Equity	28,00,000

★ Example: A company with ₹20 lakhs in assets and ₹10 lakhs in liabilities will have ₹10 lakhs as equity (Shareholder Investment).

★ Exercise: Prepare a Balance Sheet for a manufacturing firm with total assets of ₹50,00,000 and liabilities worth ₹30,00,000.

CHAPTER 4: RATIO ANALYSIS

4.1 What is Ratio Analysis?

Ratio Analysis is used to evaluate a company's financial health using key financial ratios. These ratios help businesses measure profitability, efficiency, and liquidity.

- 4.2 Key Financial Ratios & Their Calculation
- 📌 A. Profitability Ratios
- 1. Gross Profit Ratio
- → Formula: (Gross Profit ÷ Sales) × 100
- → Measures how much profit is made after deducting cost of goods sold (COGS).
- **★ Example:** If Gross Profit = ₹4,00,000 and Sales = ₹10,00,000, then Gross Profit Ratio = $(4,00,000 \div 10,00,000) \times 100 = 40\%$.
- 2. Net Profit Ratio
- → Formula: (Net Profit ÷ Sales) × 100
- → Indicates overall profitability after all expenses.
- **★ Example:** If Net Profit = ₹2,00,000 and Sales = ₹10,00,000, then Net Profit Ratio = (2,00,000 ÷ 10,00,000) × 100 = **20%**.
- **★ Exercise:** Calculate Gross Profit Ratio and Net Profit Ratio for a business with ₹5,00,000 sales and ₹1,00,000 net profit.

B. Liquidity Ratios

3. Current Ratio

- → Formula: Current Assets ÷ Current Liabilities
- → Indicates whether a company can pay short-term liabilities.
- **★** Example: If Current Assets = ₹5,00,000 and Current Liabilities
- = ₹2,50,000, then Current Ratio = 2:1 (Good liquidity position).

4. Quick Ratio

- → Formula: (Current Assets Inventory) ÷ Current Liabilities
- → Measures liquidity excluding stock (since stock takes time to sell).
- **★ Example:** If **Inventory = ₹1,00,000**, then Quick Ratio = (5,00,000 1,00,000) ÷ 2,50,000 = **1.6:1**.
- ★ Exercise: A company has ₹3,00,000 in current assets and ₹1,50,000 in liabilities. Calculate its Current Ratio.
- C. Efficiency Ratios

5. Inventory Turnover Ratio

- → Formula: Cost of Goods Sold ÷ Average Inventory
- → Shows how efficiently stock is sold.
- **★** Example: If COGS = ₹8,00,000 and Average Inventory = ₹2,00,000, then Inventory Turnover = 4 times.
- **★** Exercise: A company has ₹6,00,000 in COGS and an Average Inventory of ₹1,50,000. Calculate Inventory Turnover Ratio.

Conclusion

Profit & Loss Account, Balance Sheet, and Ratio Analysis are essential financial tools that help businesses analyze profitability,

financial health, and performance efficiency. Proper understanding of these financial reports aids in better decision-making, investment analysis, and tax compliance.

★ Final Exercise:

- 1. Prepare a **Profit & Loss Account** for a company with **revenues of** ₹15,00,000 and expenses of ₹10,00,000.
- 2. Create a **Balance Sheet** for a firm with **assets worth ₹30,00,000** and **liabilities of ₹15,00,000**.
- 3. Calculate **Gross Profit Ratio, Current Ratio, and Inventory Turnover Ratio** for a business.



ASSIGNMENT: GENERATE PAYSLIPS & FINANCIAL REPORTS



SOLUTION GUIDE: GENERATING PAYSLIPS & FINANCIAL REPORTS IN TALLY

This guide provides a **step-by-step** approach to generating **Payslips** & Financial Reports using Tally Prime.



PART 1: GENERATING PAYSLIPS IN TALLY PRIME

Step 1: Enable Payroll in Tally

To generate payslips, payroll processing must be enabled.

- Go to Gateway of Tally > F11 (Features) > Payroll Features.
- Set "Maintain Payroll" to Yes.
- Enable "More Payroll Features" if required.
- Press Ctrl + A to save settings.

Step 2: Create Employee Master

Each employee must be registered in Tally for salary processing.

- Navigate to Gateway of Tally > Payroll Info > Employees > Create.
- Enter employee details:
 - Employee Name
 - Designation
 - Date of Joining
 - Salary Details (Basic, HRA, Allowances, Deductions)
- Save the employee profile.

Step 3: Define Salary Structure

- Go to Payroll Info > Pay Heads > Create.
- Set up different salary components:
 - **☑** Earnings (Basic, HRA, Allowances, Bonuses, Overtime, Incentives).
 - Deductions (PF, ESI, Professional Tax, TDS, Loan Deductions).
- Assign the salary structure to employees.

Step 4: Process Payroll & Generate Payslip

- Go to Payroll Vouchers > F2 (Payroll Entry).
- Select the payroll period (e.g., 01-Apr-2025 to 30-Apr-2025).
- Select employees & their pay components.
- Save the payroll voucher.
- To generate payslips:
 - Navigate to Gateway of Tally > Display > Payroll Reports > Payslips.
 - Select Employee Name & Payslip Period.
 - Click Print Payslip or Export to PDF/Excel.
- ★ Example: An employee with a Basic Salary of ₹30,000, HRA ₹12,000, Deductions ₹4,000, will have a net salary of ₹38,000. The payslip reflects these components clearly.
- **★** Exercise: Create an employee salary slip in Tally for a person earning ₹50,000 gross salary, with PF @12% and ESI @0.75% deductions.



PART 2: GENERATING FINANCIAL REPORTS IN TALLY

Step 1: Access Financial Reports in Tally

- Navigate to **Gateway of Tally > Display More Reports**.
- Select the **financial report** you want to generate.

Step 2: Generate Profit & Loss Account

- Go to Gateway of Tally > Display > Financial Statements > Profit & Loss Account.
- View **Revenue**, **Expenses**, and **Net Profit/Loss** for a selected period.
- Click **Alt + P** to print or **Alt + E** to export.

Step 3: Generate Balance Sheet

- Go to Gateway of Tally > Display > Balance Sheet.
- View Assets, Liabilities & Shareholder's Equity.
- Click Configure (F12) to customize the report.
- Print or Export as needed.

Step 4: Generate Ratio Analysis Report

- Go to Gateway of Tally > Display > Ratio Analysis.
- Analyze financial ratios such as Current Ratio, Quick Ratio, **Gross Profit & Net Profit Margins.**
- **Example:** A company's **Profit & Loss Account** shows **Total** Revenue = ₹10,00,000 and Total Expenses = ₹8,00,000. The Net

Profit = ₹2,00,000. The **Balance Sheet** reflects assets, liabilities, and owner's equity.

Exercise: Generate a **Balance Sheet & P&L Statement** in Tally for a company with:

Revenue: ₹12,00,000

Expenses: ₹9,50,000

Assets: ₹25,00,000

Liabilities: ₹10,00,000



By following these **step-by-step** guides, businesses can efficiently:

- Process payroll & generate payslips for employees.
- Generate financial reports like Profit & Loss, Balance Sheet & Ratio Analysis.
- Ensure accurate payroll & financial compliance.
- ★ Final Exercise:
- 1. Generate **payslips for 3 employees** with different salary structures.
- 2. Create a Profit & Loss Account for a company in Tally.
- 3. Analyze the Balance Sheet & financial ratios for a given period.