

1. What Are Financial Reports?

Financial Reports are formal records that present the financial activities, performance, and position of a business over a specific period. They summarize how money flows in and out of a company and reveal whether it is profitable, solvent, and compliant with regulations.

2. Importance of Financial Reports

- Evaluate business performance and growth
 - Track profitability, assets, and liabilities
 - Help in audits, tax returns, and compliance
 - Assist with budgeting and future planning
 - Required for securing loans and attracting investors
 - Make informed decisions based on real data
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3. Types of Financial Reports in Tally

Tally automatically generates a wide range of financial reports based on transactions and ledger entries.

A. Profit and Loss Account (Income Statement)

Purpose: Shows net profit or loss for a specific period.

Structure:

- **Income:** Sales, Services, Commissions, Interest
- **Expenses:** Salaries, Rent, Purchases, Utilities
- **Net Profit/Loss** = Income – Expenses

Tally Path:

Gateway of Tally → Display → Statements of Accounts → Profit & Loss A/c

✓ B. Balance Sheet

Purpose: Shows the financial position of a business (Assets vs. Liabilities + Equity) at a specific point in time.

Structure:

Left Side (Liabilities)	Right Side (Assets)
Capital Account	Cash/Bank
Loans (Long/Short-Term)	Stock in Hand
Sundry Creditors	Fixed Assets (e.g., Land)
Outstanding Expenses	Sundry Debtors
Reserves & Surplus	Investments

Formula:

Assets = Liabilities + Equity

Tally Path:

Gateway of Tally → Balance Sheet

✓ C. Trial Balance

Purpose: Shows debit and credit balances of all ledgers. Helps identify imbalances or errors.

Tally Path:

Gateway of Tally → Display → Trial Balance

Usage:

- Verifies that total debits = total credits
 - Used to prepare final accounts
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✓ D. Cash Flow Statement

Purpose: Summarizes the movement of cash into and out of the business.

Categories:

- Operating Activities (e.g., sales, salaries)
- Investing Activities (e.g., asset purchase/sale)
- Financing Activities (e.g., loans, capital)

Tally Path:

Gateway of Tally → Display → Cash Flow

✓ E. Funds Flow Statement

Purpose: Explains changes in working capital (current assets – current liabilities)

Usage:

Helps in budgeting, managing liquidity, and capital planning.

Tally Path:

Gateway of Tally → Display → Funds Flow

✓ F. Day Book

Purpose: A daily log of all voucher entries.

Features:

- Shows all transactions for a selected date range
- Helps in audit and verification

Tally Path:

Gateway of Tally → Display → Day Book

✓ G. Ledger Reports

Purpose: Shows all transactions under a particular ledger account (e.g., Cash, Sales, Rent).

Tally Path:

Gateway of Tally → Display → Account Books → Ledger

✓ H. Group Summary

Purpose: Summarizes balances for ledger groups (e.g., Sundry Debtors, Direct Expenses).

Tally Path:

Gateway of Tally → Display → Account Books → Group Summary

✓ I. Ratio Analysis

Purpose: Provides important financial ratios to assess business health.

Examples:

- Current Ratio
- Quick Ratio
- Debt-Equity Ratio
- Gross Profit Ratio

Tally Path:

Gateway of Tally → Ratio Analysis

4. Core Financial Elements

A. Assets

Assets are what a business owns.

Types:

1. Current Assets

- Cash
- Bank Balance
- Accounts Receivable (Debtors)
- Inventory/Stock
- Prepaid Expenses

2. Non-Current Assets (Fixed Assets)

- Land
 - Buildings
 - Machinery
 - Vehicles
 - Furniture
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B. Liabilities

Liabilities are what a business owes.

Types:

1. Current Liabilities

- Sundry Creditors
- Outstanding Salaries/Rent
- Taxes Payable

2. Non-Current Liabilities

- Long-term Loans
 - Bonds Payable
 - Lease Obligations
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C. Equity / Capital

This is the owner's claim after deducting liabilities from assets.

Formula:

Equity = Assets – Liabilities

Includes:

- Capital Introduced
- Retained Earnings

- Reserves & Surplus
- Drawings (negative equity)

5. Customizing Reports in Tally

- Press **F2** to change the date range.
- Use **F12** to configure report columns.
- Press **Alt + E** to export reports (PDF, Excel, HTML).
- Use **Alt + P** to print directly.

6. Report Example: Profit & Loss Account

Particulars	Amount (KES)
Sales	150,000
Less: Cost of Goods	(90,000)
Gross Profit	60,000
Expenses (Rent, Salaries)	(25,000)
Net Profit	35,000

7. Common Mistakes in Financial Reports

Mistake	Impact	How to Avoid
Wrong ledger grouping	Skewed report figures	Classify correctly under assets/liabilities
Missing entries	Incomplete financial picture	Double-check entries in Day Book
Mismatched dates	Inaccurate reports	Always check reporting period
Ignoring trial balance	Report imbalance, audit issues	Review trial balance regularly

8. Best Practices

- Regularly reconcile bank statements with ledger
 - Keep ledger balances clean and reviewed monthly
 - Use Tally security and user roles to protect data
 - Backup data before audits or year-end closing
 - Maintain clean separation between capital, revenue, and personal entries
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9. Summary

Tally's financial reports provide real-time insights into business health. From balance sheets to profit analysis, these reports are vital for decision-making, compliance, and long-term success.

Whether you're a business owner, accountant, or student — understanding financial reports is key to mastering accounting in Tally.