

Instructor Inputs




Session Slides

Slide 1

Accounting with Tally.ERP 9 **NIIT**

Objectives

- ◆ In this session, you will learn to:
 - ◆ Record transactions in service organizations
 - ◆ Classify business organizations
 - ◆ Define a trading organization and describe its activities
 - ◆ Identify the accounting terms associated with trading organizations
 - ◆ Identify the Tally.ERP 9's capability for trading organization




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Slide 2

Accounting with Tally.ERP 9 **NIIT**

Recording Transactions in Service Organizations

- ◆ Tally has a report generation capability, which makes it popular among the accounting software buyers.
- ◆ Vouchers entered in Tally are used to:
 - ◆ Prepare a company's books of account and financial statements.
 - ◆ Generate reports, which can be used to compare companies, periods of the financial year, groups, and ledger.



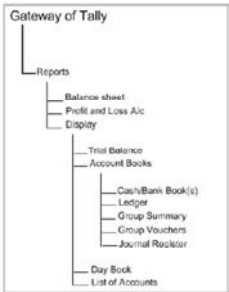
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Accounting with Tally.ERP 9 **NIIT**

Recording Transactions in Service Organizations (Contd.)

◆ The following figure shows the Tally.ERP menu for financial reports.



```
graph TD
    Gateway[Gateway of Tally] --> Reports[Reports]
    Reports --> BalanceSheet[Balance sheet]
    Reports --> ProfitLoss[Profit and Loss A/c]
    Reports --> Display[Display]
    Display --> TrialBalance[Trial Balance]
    Display --> AccountBooks[Account Books]
    AccountBooks --> CashBank[Cash/Bank Book(s)]
    AccountBooks --> Ledger[Ledger]
    AccountBooks --> GroupSummary[Group Summary]
    AccountBooks --> GroupVouchers[Group Vouchers]
    AccountBooks --> JournalRegister[Journal Register]
    Display --> DayBook[Day Book]
    Display --> ListAccounts[List of Accounts]
```

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Accounting with Tally.ERP 9 **NIIT**

Recording Transactions in Service Organizations (Contd.)

◆ Balance sheet:

- ◆ Is a financial statement that indicates the financial health or net worth of a company at any given point.
- ◆ Lists the assets and liabilities of a company.
- ◆ In Tally.ERP 9, displays the information entered in the default primary groups.


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Accounting with Tally.ERP 9 **NIIT**

Recording Transactions in Service Organizations (Contd.)

- ◆ Profit and loss account:
 - ◆ Is a financial statement that describes the operational results of the company or its earning capacity for a given period.
 - ◆ Lists the company's incomes and expenditures.
 - ◆ In Tally.ERP 9:
 - ◆ Displays the information entered in the default primary groups.
 - ◆ Is updated instantly with every transaction/voucher that is entered and saved.
 - ◆ Does not require special processing.




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Accounting with Tally.ERP 9 **NIIT**

Recording Transactions in Service Organizations (Contd.)

- ◆ Account books:
 - ◆ Record individual transactions details which you have entered.
- ◆ Day book:
 - ◆ Is a list of transactions for a particular day.
- ◆ List of accounts:
 - ◆ Displays the existing chart of accounts, listed as groups, in alphabetical order.



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Accounting with Tally.ERP 9 **NIIT**

Classifying Business Organizations

- ◆ Trading is defined as an exchange of goods for a fixed market price or a perceived value.
- ◆ Traders act as channels that provide goods produced by the manufacturers at a convenient place, price, quantity, and time to the consumers.
- ◆ Trading organization:
 - ◆ Is involved in the process of buying and selling.




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Accounting with Tally.ERP 9 **NIIT**

Classifying Business Organizations (Contd.)

- ◆ Nature of a trading organization:
 - ◆ The actual market price is established and is valid for a short period based on the current supply and demand.
 - ◆ The value of the product is determined by the customer's expectation of quality and convenience in relation to the actual amount paid for it.
 - ◆ The trader deals with goods which can be repacked if necessary but does not process them.
 - ◆ A trading organization has to continually keep track of market demand and ensure that inventory planning is done to take advantage of demand whenever it arises.
 - ◆ Different customers may be charged different prices by varying the percentage of discount on the price list.




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Accounting with Tally.ERP 9**NIIT**

Classifying Business Organizations (Contd.)

- ◆ The process of transforming raw materials into finished goods for consumers, or for further processing by others in the channel is called manufacturing.
- ◆ Manufacturing organization:
 - ◆ Can be classified according to the production process they undertake.
 - ◆ Considers the following factors to define its style of functioning:
 - ◆ Produce goods and stock them for sales.
 - ◆ Produce goods against customer order.
 - ◆ Keep sub components at a strategic location to assemble the final product and deliver it to the customer in time.




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Accounting with Tally.ERP 9**NIIT**

Classifying Business Organizations (Contd.)

- ◆ Nature of a manufacturing organization:
 - ◆ The production cycle and the market cycles need not match.
 - ◆ Usually, the entire cycle of procurement , production, distribution, and realisation is longer as compared to other types of organizations.
 - ◆ Scientific methods can be used to reduce the production cost, which forms a major part of the total cost of the product.
- ◆ Traders can be classified as:
 - ◆ Wholesalers
 - ◆ Retailers



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Accounting with Tally.ERP 9

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Defining a Trading Organization and Describing its Activities (Contd.)

◆ The following figure shows the accounting in a trading organization.

```
graph TD; Customer --> Demand; Demand --> TO[Trading Organisation]; TO --> IB[Inventory Based on Customer demand]; IB --> AS[Arrival of Stock]; AS --> Sale; Sale --> Customer; TO --> Collections; Collections --> Customer;
```

The flowchart illustrates the accounting cycle in a trading organization. It starts with a 'Customer' box, which leads to a 'Demand' box. From 'Demand', an arrow points to a 'Trading Organisation' box. From 'Trading Organisation', an arrow points down to 'Inventory Based on Customer demand', which then points down to 'Arrival of Stock'. From 'Arrival of Stock', an arrow points left to a 'Sale' box. From 'Sale', an arrow points up back to the 'Customer' box, completing a loop. Additionally, an arrow points from 'Trading Organisation' up to a 'Collections' box, which then points left back to the 'Customer' box.

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Defining a Trading Organization and Describing its Activities (Contd.)

◆ The following table shows the differences between a trading organization and a service organization.

Trading Organization	Service Organization
Sells goods	Sells services
Maintains inventory	Does not have inventory
Cost for trading organization is the cost of goods sold	Cost for service organization is the cost of providing services
Goods are tangible	Services are intangible

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Accounting with Tally.ERP 9**NIIT**

Defining a Trading Organization and Describing its Activities (Contd.)

- ◆ The activities in a trading organization are:
 - ◆ Purchases:
 - ◆ Include buying goods in exchange for a monetary value primarily with the intention of selling them to customers.
 - ◆ Sales:
 - ◆ Involve transfer of goods or services for money.
 - ◆ Are reported in financial statements net of trade account.



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Accounting with Tally.ERP 9**NIIT**

Identifying the Accounting Terms Associated With Trading Organizations (Contd.)

- ◆ Credit:
 - ◆ Is an arrangement whereby a supplier agrees to a deferred payment for goods and services.
- ◆ Credit period:
 - ◆ Is the time frame for which the supplier agrees to provide the customer with credit.
- ◆ Some of the factors that help in deciding the credit period are:
 - ◆ The credibility of the buyer which is based on his own financial stability and the relationship with the seller.
 - ◆ Overall profitability from repeated orders by the buyer.
 - ◆ The product profit margin.
 - ◆ The credit period offered by the competitors.




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Accounting with Tally.ERP 9**NIIT**

Identifying the Accounting Terms Associated With Trading Organizations (Contd.)

- ◆ Trade discount:
 - ◆ Is a discount allowed on the list price of a commodity.
 - ◆ Is offered to allow for customer segmentation.
 - ◆ Represents the position of the buyer.
- ◆ Cash discount:
 - ◆ Is a discount allowed as an inducement or incentive to the customers for prompt payments.
 - ◆ Is not deducted from sales revenue.
 - ◆ Is recognized separately.




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Accounting with Tally.ERP 9**NIIT**

Identifying the Accounting Terms Associated With Trading Organizations (Contd.)

- ◆ Returns:
 - ◆ Are the total value of the merchandise returned by customers for refund or credit.
- ◆ Allowance:
 - ◆ Is a concession granted to customers for unsatisfactory goods or services.
- ◆ Returns/allowances:
 - ◆ Goods may be returned due to any of the following reasons:
 - ◆ Quantity related issues
 - ◆ Quality related issues
 - ◆ Payment items and delivery related issues.




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Accounting with Tally.ERP 9**NIIT**

Identifying the Accounting Terms Associated With Trading Organizations (Contd.)

- ◆ Cost of goods available for sale:
 - ◆ Is the cost of goods that a business could have sold in a period.
 - ◆ Represents the sum of opening stock and purchases in a period.
- ◆ The equation for cost of goods available for sale is:
$$\text{Cost of goods available for sale} = \text{Opening Stock} + \text{Purchases} - \text{Purchase Returns and Allowances}$$




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Accounting with Tally.ERP 9**NIIT**

Identifying the Accounting Terms Associated With Trading Organizations (Contd.)

- ◆ Cost of goods sold:
 - ◆ Represents the direct costs incurred by a business in the process of selling goods.
 - ◆ Consists of all the costs that associated with the goods that were sold during a specified accounting period, including materials, labor, and overhead.
- ◆ The equation for cost of goods sold is:
$$\text{Cost of goods sold} = \text{Opening stock} + \text{Purchases} - \text{Purchases Returns and Allowances} - \text{Closing stock}$$




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Accounting with Tally.ERP 9 **NIIT**

Identifying the Accounting Terms Associated With Trading Organizations (Contd.)

- ◆ Gross profit:
 - ◆ Is the profit earned out of the core activity of buying and selling.
- ◆ The equation for gross profit is:
$$\text{Gross profit in terms of percentage} = [(\text{Gross Operating Revenue} - \text{Cost of Goods Sold}) * 100] / (\text{Gross Operating Revenue})$$




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Accounting with Tally.ERP 9 **NIIT**

Identifying the Accounting Terms Associated With Trading Organizations (Contd.)

- ◆ Operating expenses:
 - ◆ Are periodic expenses incurred in the course of running a business.
 - ◆ Cover all expenses related to the ongoing operations of a company, including sales, marketing, and administrative expenses.
- ◆ Operating profit (Profit before interest and tax):
 - ◆ Is the net income before income tax expense and interest expense.
 - ◆ Is a popular measure for comparing the earning power of companies.



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Accounting with Tally.ERP 9**NIIT**

Identifying the Accounting Terms Associated With Trading Organizations (Contd.)

◆ The equation for net profit is:

$$\text{Net profit} = \text{Operating Profit} - \text{Interest Expense} - \text{Income Tax Expenses}$$




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Accounting with Tally.ERP 9**NIIT**

Identifying the Tally.ERP 9's Capability for Trading Organization

- ◆ Prepare and print invoices.
- ◆ Balance sheet can be viewed at any given point of time.
- ◆ Profit and Loss account can be prepared for any period.
- ◆ Stock valuations under multiple methods can be viewed and their effect on profit can be estimated.
- ◆ Stock details can be maintained location wise.
- ◆ Pending orders can be tracked.
- ◆ An account of pending invoices can be followed up.



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Accounting with Tally.ERP 9 **NIIT**

Identifying the Tally.ERP 9's Capability for Trading Organization (Contd.)

- ◆ Slow-moving and fast-moving items can be identified and necessary remedial action can be taken.
- ◆ Stocks can be identified batch wise.
- ◆ Expiry dates for inventory items can be ascertained.
- ◆ Using stock groups and category, alternative products can be made available.
- ◆ Interest can be charged on payments pending beyond due date.



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Accounting with Tally.ERP 9 **NIIT**

Identifying the Tally.ERP 9's Capability for Trading Organization (Contd.)

- ◆ Physical stock can be reconciled with stock records.
- ◆ Different price lists can be maintained for different customer segments.
- ◆ Volume based discount and trade discount can be to different customer segments.
- ◆ Credit period and credit limits can be recorded.
- ◆ Credit periods availed from suppliers can be recorded.
- ◆ Free samples and replacement stocks can be accommodated.




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Accounting with Tally.ERP 9**NIIT**

Summary

- ◆ In this session, you learned that:
 - ◆ Tally has a report generation capability, which makes it popular among the accounting software buyers.
 - ◆ Balance sheet is a financial statement that indicates the financial health or net worth of a company at any given point.
 - ◆ Profit and loss account is a financial statement that describes the operational results of the company or its earning capacity for a given period.
 - ◆ Account books record individual transactions details which you have entered.
 - ◆ Day book is a list of transactions for a particular day.
 - ◆ List of accounts displays the existing chart of accounts, listed as groups, in alphabetical order.




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Accounting with Tally.ERP 9**NIIT**

Summary (Contd.)

- ◆ Trading is defined as an exchange of goods for a fixed market price or a perceived value.
- ◆ Traders act as channels that provide goods produced by the manufacturers at a convenient place, price, quantity, and time to the consumers.
- ◆ Trading organization is involved in the process of buying and selling.
- ◆ The process of transforming raw materials into finished goods for consumers, or for further processing by others in the channel is called manufacturing.
- ◆ Manufacturing organization can be classified according to the production process they undertake.




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Accounting with Tally.ERP 9 **NIIT**

Summary (Contd.)

- Credit is an arrangement whereby a supplier agrees to a deferred payment for goods and services.
- Credit period is the time frame for which the supplier agrees to provide the customer with credit.
- Trade discount is a discount allowed on the list price of a commodity.
- Cash discount is a discount allowed as an inducement or incentive to the customers for prompt payments.
- Returns are the total value of the merchandise returned by customers for refund or credit.
- Allowance is a concession granted to customers for unsatisfactory goods or services.




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Accounting with Tally.ERP 9 **NIIT**

Summary (Contd.)

- Cost of goods available for sale is the cost of goods that a business could have sold in a period.
- Cost of goods sold represents the direct costs incurred by a business in the process of selling goods.
- Gross profit is the profit earned out of the core activity of buying and selling.
- Operating expenses are periodic expenses incurred in the course of running a business.
- Operating profit (Profit before interest and tax) is the net income before income tax expense and interest expense.



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