

ACCOUNTING & TALLY MASTERY

THEORY TO PRACTICE



A Step-by-Step Guide for
Students and Professionals

TAWSEEF AHMAD

DEFINITION OF THIS BOOK

Accounting is a topic that often sounds complex and confusing at first. Many people think it requires joining an institute or paying thousands of rupees to understand it properly. But the truth is — accounting is not about memorizing rules, it's about understanding how every transaction tells a story about your business.

This **E-Book** is created with that exact purpose — to make accounting simple, logical, and easy to apply. It contains complete knowledge of **Accounting Basics** and practical guidance on **how to do accounting in Tally Prime**. Every topic has been explained in a clear and understandable way, starting from the foundation of accounting and gradually leading you to the practical use of Tally Prime for recording real business transactions.

This book is a small effort by me — a collection of everything I've learned and understood from various professional courses, practical experiences, and self-study. Instead of keeping that knowledge scattered, I decided to **sum it all up into one complete, easy-to-learn book**, so that learners like you can understand accounting without confusion or unnecessary complexity.

If you read this book with focus and practice each concept in Tally Prime as explained, you won't just learn accounting — you'll truly **understand how money moves, how businesses operate, and how to keep financial records the right way**.

Welcome to your journey of learning Accounting and Tally Prime — simplified, practical, and made for everyone who wants to master it without spending thousands.

About the Author

Tawseef Ahmad is a passionate learner and practitioner of accounting, business operations, and technology. With hands-on experience working at **MIR SALES CORPORATION**, he has developed a deep understanding of how accounting functions in real business environments. His practical exposure to daily transactions, financial records, and Tally Prime operations has shaped his approach to learning — simple, logical, and experience-based.

Tawseef believes that education should be accessible and understandable for everyone, not limited by high fees or complex explanations. This belief inspired him to create this **E-Book on Accounting and Tally Prime**, combining theoretical knowledge with real-life examples in a language that any learner can grasp easily.

His work reflects the idea that accounting is not just about numbers — it's about **understanding business activity, building discipline, and maintaining financial clarity**. Through this book, Tawseef aims to help students, beginners, and even professionals strengthen their foundation in accounting and gain the confidence to manage real business accounts independently.

He continues to explore areas of finance, management, and digital tools that make business processes smarter and more efficient — always learning, always simplifying, and always sharing knowledge with others.

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How to start Learning Accounting?

The best way of learning Accounting is to understand how the business works. If you'll understand this concept you can do any type of Accounting. As I made this easy to understand and with Step-by-Step practical entries in Tally Prime. If you will do practice too with understanding the theory, then you are already above the 90% of the people. So let's start learning Accounting.

What is the Difference between Tally ERP9 and Tally Prime?

Tally is one of the most popular accounting software used by businesses for bookkeeping, inventory management, GST compliance, and payroll. Well the Tally Prime is the upgraded version of the Tally ERP9, and it was introduced with easy and understandable user interface, launched with more features, improved performance. So let's understand the difference between them to make a decision which version we should learn.

Difference between Tally ERP9 and Tally Prime

Feature/Aspect	Tally ERP9	Tally Prime
User interface (UI)	The UI is not too intuitive for new users, Navigation Requires more steps.	Modern simplified UI, User can understand the software more easily, and can navigate more easily
Multi-tasking	Multi-tasking is limited; User have to exit one task to start another.	Improved multi-tasking; multi-tasking can be managed more efficiently within the same window
Report access	Standard reports available with minimal customization	Enhanced reports with easy customization. User can analyse data with minimal efforts
Remote access	Accessing the company data remotely is complex than Tally Prime	Better remote access options with support for Tally on the Cloud
Shortcuts	Fewer shortcut keys, and complex to remember than Tally Prime	More shortcut keys, and in a sequence that makes easy to remember the keys

Now as the Tally Prime is an optimized version, the best choice is to learn it, because it will take less time and will make complex things easier to us.

What is Accounting?

Accounting is a process of recording, summarizing, analysing and reporting financial transactions of a business or individual. Before the computers the process of doing accounting was to make the books of every type of transaction in a business, like Purchase register for purchases, Sales register for sales, creditors book etc. But the Computers make this process easier and fast, the process is same but in digital way.

It tells what happened financially, how much and where the money went. Overall its purpose is to provide the accurate reports about what actually happened in a financial year to owner, tax authorities etc.

Key components of Accounting

Accounting is not just recording transactions and writing numbers, it has clear components:

1) **Recording (Bookkeeping)**

- a) Every financial transaction is noted down in software or books, like Sales, Purchases, Payments

2) **Classifying**

- a) Transactions are categorized into groups for classification called ledgers, like we put sales into Sales Account Group.

3) **Summarizing**

- a) Data is presented into reports like Profit & Loss statement and Balance Sheet, that makes it easy to understand the financial position, profit and loss.

4) **Analysing and interpreting**

- a) Understanding that what the numbers mean; If expenses are increasing faster than income, that means business needs to take an action to prevent big loss.

5) **Reporting**

- a) Sharing the financial reports to the stakeholders, to ensure transparency and informed decisions

Overall, accounting is not just keeping records but to keep a clear view over the business, that where the business stands now and to track the progress of overall business.

Now let's understand the basics that we must know.

What is a Financial Year (FY)?

A financial year is a 12-month period starts from 1-April of current year to 31-March of the next year (in India). The financial year is important for a business as well as to the Government. A FY is used for accounting, financial reporting, and Tax Calculations. During this year companies track their income, expenses, profits and losses.

Importance of the Financial Year

A Financial year has key functions in a business and governance:

- **Tax Calculations and Filing:** Governments set a specific financial year for the individuals and businesses to report their earnings and pay taxes.
- **Budgeting and forecasting:** Businesses plan their operations and budgeting for a year, ensuring they know their capital requirements and targets.
- **Financial Reports:** Companies prepare their financial reports like (Income statements, Cash flow, Balance sheet) based on the financial year to evaluate their performance.

What is GST?

GST (Goods and Services Tax) is a single tax was launched on July-1-2017, with replacing multiple taxes like VAT (value added tax), services tax, levied by both Central and State Government, making the Tax system more transparent. The GST applies on buying and selling of goods (Company A bought goods INR 100 and 18% GST applied on it so the value that Company A have to pay is $100 + 18\%$ of 100 that's 118) as well as on Service charges.

How GST works?

Think of it like this, Company A bought Goods from Company B and the GST will be get applied on the purchases of Company A and Company A will pay it to the Company B, so Company B will pay its GST to the Government. Now Company A Sold Goods to the customer or retailer or other Company, and the Company A will include GST on the Goods that it sold to the customer or retailer. This is the cycle that continues from manufacturing of Goods to the Customer.

Types of GST

There are 3 main types of GST:

- **CGST (Central GST):** When the Goods are bought or sold within the self-state, so the tax is divided into two equal parts, half is collected by Central Government and the other is collected by State Government.
- **SGST (State GST):** When the Goods are bought or sold within the self-state, and the half is collected by central Government, the remaining half is collected by State Government that we call SGST.

Example: Company A Purchased Goods of worth 100 INR in J&K and the company is registered in J&K too, so if the Tax applies 18% on the Goods, 9% CGST will get applied and 9% SGST.

- **IGST (Integrated GST):** When the Goods are bought or sold in outer state, here the IGST applies; Whole Tax amount is collected by Central Govt.

Example: Company A Purchased Goods of worth 100 INR in Delhi and the company is registered in J&K, here will apply IGST, so if the Tax applies 18%, then the whole Tax will be get collected by Central Government.

GST Rates

The Government of India have decided different GST rates on various products and services, some common ones are:

- 0% - No Tax (Like basic food items).
- 5% - Essential Goods and Services.
- 12%, 18%, 28% - For Other Goods like Mobile Phones, Cars, etc. (Higher rates generally apply to luxury items)

Fact: Most people don't know that they are paying Tax on most of the items they purchase in their daily life

Types of Businesses

Understanding the type of a business is crucial for an accountant, as gives the overall image of work of the business, what the business does, where from the money comes and where the money goes, so there are 3 main business types:

1. **Traders:** Traders just buy and sell the Goods that are already ready to sell; they don't manufacture products they just buy it from one party to and sell it to another.

Example: A shopkeeper buys Goods of worth INR 100 from a wholesaler and then sell it to the customer in INR 120. The shopkeeper did not make the product, they just trade the Goods and earn their profit.

2. **Service Providers:** A service provider sells the intangible skills, time or expertise. They don't deal with physical Goods for sale. They just provide a service to their customer, whether it's AC repairing, a Lawyer giving an advice, or a barber cutting hair at saloon.

3. **Manufacturers:** A manufacturer takes raw material, and converts them into finished goods using machinery and labour and then sells the Goods.

Example: A bakery buys flour, sugar and eggs and uses bakers and oven (machinery and labour) to make a cake and then sells it.

GST Registration limit for businesses

GST registration is mandatory when a business exceeds its turnover limit in a financial year that is specified by the Government. This limit is not same for every business type; it depends on the nature of the business. However, there are two types of GST registration Regular and Composition. When a

business applies for the GST registration and the application gets approved by the Government, the business gets a unique Goods and Services Identification Number (GSTIN).

Types of GST Registration

1. **Regular Registration:** If the business registers in Regular, the business can claim GST from their customers and claim the credit for the GST they paid on their purchases.
2. **Composition Registration:** This registration is usually done by small businesses where, the business cannot charge the GST from their customers and pay a small fixed percentage from their overall sales as tax (1%, 6%).
 - **Traders:** Generally, when a trading business exceeds its turnover of 40 lacs in a financial year, the business have to apply for GST registration, whether the business chooses Regular or Composition registration (it is totally on the business). However, in Special Category States the turnover limit is 20 lacs but some states have adopted the higher limit.
 - **Service Providers:** In special states when a service provider business exceeds its turnover of 10 lacs in a financial year the business has to apply for GST registration and same it's totally on the business which type of registration it will choose. However, in other states the turnover limit is 20 lacs.
 - **Manufacturers:** For Manufacturers, the turnover limit for special states is 20 lacs. And for other states the limit is 40 lacs.

For Traders and Manufacturers if the turnover limit exceeds 75 lacs (for special category states) and 1.5 crores (for other states), it is mandatory for the business to register in Regular.

For service providers it is compulsory to register in Regular if the turnover limit of 50 lacs exceeds (for both special category states and other states) in a financial year.

For inter-state sellers (Businesses that sell Goods/Services in outer-state), the GST registration is mandatory.

Note: The Accounting we are going to learn now is of Regular Registered Traders

What is GSTIN?

GSTIN (Goods and Services Tax Identification Number) is a unique 15-digit number, that is provided by the Government to the Business that applied for the GST registration, and the application gets approved. The advantages of having a GSTIN are:

1. Business can collect Tax from their customers.
2. Businesses can sell Goods/Services in outer states.
3. Helps in big orders, B2B trade et.

Format of GSTIN:

First 2 digits: State Code (01 for J&K).

- **Next 10 digits:** PAN (Permanent Account Number) of the tax payer.
- **13th digit:** Entity number (The number of registration in the same state for the same PAN).
Example 1 = first registration, 2 = second registration.
- **14th digit:** Usually it's Z
- **15th digit:** It's a system-generated digit, used to ensure the GSTIN is valid, not arbitrary. It can be 0-9 or A-Z.

Input GST and Output GST

- **Input GST:** When a business purchases Goods and the tax that applies on the purchased Goods is called input GST.
- **Output GST:** When a business sells Goods and the tax that applies on the items is called output GST.

Method of filing GST return

Composition firm: As it's usually for small businesses so the GST filing is quarterly (only one filing needed per quarter), and the file is called **CMP-08**.

The invoices of the Composition firm are called "**Bill of Supply**", instead of GST invoice.

Regular firm: The GST filing of Regular firm can be done quarterly or monthly. If the businesses choose quarterly, it has to file **GSTR-1** (sales) and **GSTR-3B** (summary), every quarter. However, if the business chooses monthly, it has to file **GSTR-1** and **GSTR-3B** per month.

The invoices of Regular firm are called "**GST invoice**" or "**Tax invoice**" or "**Invoice**".

What are Ledgers (in Tally Prime)?

Ledgers are the separate sections of all financial activities of a business. Think of it like a folder in your computer. The folder contains files related to it for easy tracking, like in photos folder we put all the photos. Ledgers are the same, when a business does any trade, we store it into its related ledger. Example, we use purchase ledgers to track our purchases, sales ledger to track sales, payment ledger to track the payments we done. So every ledger is a storage of its related trade, transaction or person. Every ledger is created under a group which determines its nature.

Example: We create Sales A/C group to track all sales, and we put into the Sales accounts group, because the software will treat the ledger based on its group, all is pre-defined in the software, so we just have to use proper instructions.

Tally Prime **EDU** K: Company Y: Data Z: Exchange G: Go To O: Import E: Export M: Share P: Print F1: Help

Accounting Voucher Alteration (Secondary) TAWSEEF AHMAD (SECTION 2)

Purchase No. 6 2-Apr-25 Wednesday

Supplier Invoice No. INV. 02 Date 2-Apr-25

Party A/c name: **MILLENIUM GOODS**

Current balance: **PURCHASE GST**

Current balance: **2,00,000.00**

Name of Item	Quantity	Rate per	Amount
INK CARTRIDGE	1 NOS	1,200.00 NOS	1,200.00
CGST			72.00
SGST			72.00
Total			1,344.00

Narration: 1 NOS 1,344.00

Q: Quit A: Accept D: Delete X: Cancel Vch F12: Configure

In this image, I created a ledger of a party, and I bought Goods from this part, as I'm not paying to the party right now, so it is crucial to make the ledger of this party, if I would have purchased by paying cash immediately or paying by bank, then it was not necessary to make the ledger of this party. And There is a Purchase Ledger (Purchase GST) too and it defines the purchase type, as I am buying from my registered state, I named the Ledger as Purchase GST, and as I mentioned before, the ledger belongs to a group we will discuss it in the next chapter.

What are Groups (in Tally Prime)?

Now as we know what are the Ledgers, understanding the groups is crucial to put the ledgers into their proper groups. Groups determine the nature of the Ledger, like we saw two Ledgers before and they have their proper groups. There are mainly 28 Groups in the Tally Prime, and we will discuss about every Group one by one.

Tally Prime **EDU** K: Company Y: Data Z: Exchange G: Go To O: Import E: Export

Ledger Alteration (Secondary) TAWSEEF AHMAD (SECTION 2)

Name: **MILLENIUM GOODS**

(alias):

Under: **Sundry Creditors (Current Liabilities)**

Maintain balances bill-by-bill: **Yes**

Default credit period: **No**

Check for credit days during voucher entry: **No**

Mailing Details

Name: **MILLENIUM GOODS**

Address: **NOWGAM, SRINAGAR**

State: **Jammu & Kashmir**

Country: **India**

Pincode:

Banking Details

Provide bank details: **No**

Tax Registration Details

PAN/IT No.:

Registration type: **Regular**

GSTIN/UIN: **01KJHG678H8K121**

Set/Alter additional GST details: **No**

See, I putted the MILLENIUM GOODS into the **sundry creditors** group because, *all those parties from whom we purchase the Goods and to who we will pay money in return for those Goods are the ones who demand money from us – such parties are called **Sundry Creditors***. This is the thumb rule for sundry creditors group, now all the parties meet this rule are our Sundry Creditors and we know now which Group is for them.

Now we are going to learn Practical Accounting, which includes Starting Our Own Business from 0 up-to exploring every ledger, every Group and every Voucher in the Tally Prime, but first let's understand the Vouchers.

What are Vouchers (in Tally Prime)?

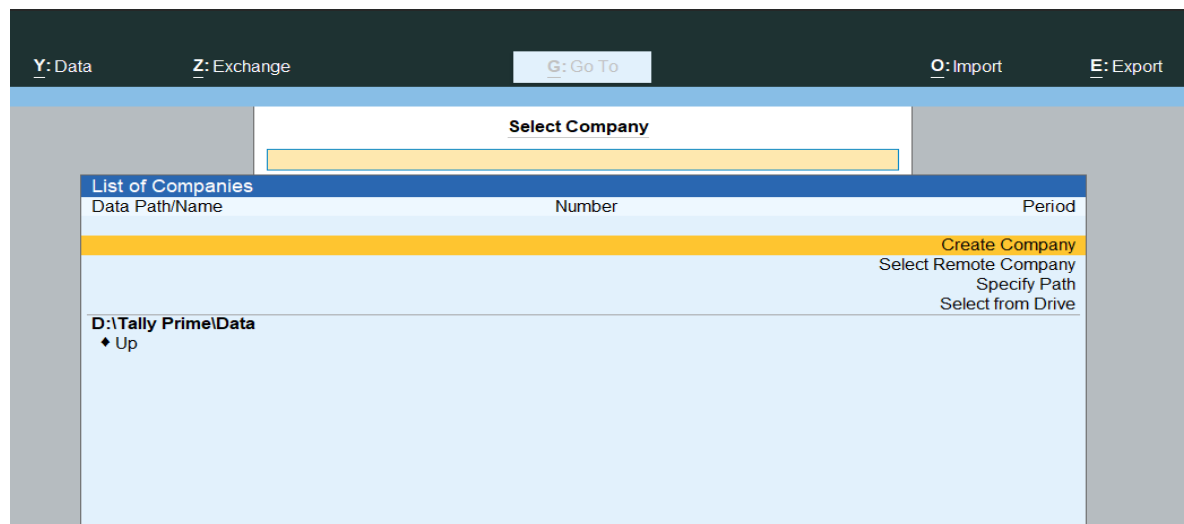
Think it like, a local Store uses some books to record their sales and purchases, he will use sales book for recording sales and purchase book recording the sales. Vouchers are the same, we use vouchers as books to record the transactions of a business, some vouchers are Payment, receipt, Purchase, Sales, Debit Note, Credit Note, Contra etc.

Understanding the entry method in Tally Prime

We purchased Goods from a company so the order of doing entry will be, open your book of purchase (Open vouchers and select the Purchase), now make the ledger of the party whom we purchased, but remember, if we paid so we don't have to make the party's ledger, if we paid in cash, so there is a pre-made cash ledger in Tally Prime, and if we paid from a Bank, just make the bank ledger, then create a Payment Type ledger like if we purchased from outer state and no GST applies on the items, the Ledger will be Purchase Interstate Exempted under the Purchase Accounts Group, then we will make the stock items we purchased and enter the quantity and rate, and then just save the voucher using CTRL + A and the voucher saved. Remember, once we create a Ledger or Stock Item, we don't have to make it again, once created and then just select it, but if the ledger or Item is different, then we have to create, and if it repeats in a trade or transaction, we have to select it not to create it again.

Downloading & creating a company (in Tally Prime)?

First download the Tally Prime from the website <https://tallysolutions.com> and then just set-up it. Open the Tally Prime and choose the Educational Mode for learning, or if you are working in a company and the company owns a licence, then choose according to that. You will see this interface and use arrow keys to select the create company option.



Company Creation

Company Data Path : D:\Tally Prime\Data

Company Name : Tawseef Ahmad

Financial year beginning from

: 1-Apr-25

Mailing Name : Tawseef Ahmad

Books beginning from

: 1-Apr-25

Address : Tral, Pulwama

State : Jammu & Kashmir

Country : India

Pincode : 192123

Telephone :

Mobile : +91 - 9596000000

Fax :

E-mail : twhdrather@gmail.com

Website : https://tawseef-ahmad.verce.app/

Base Currency symbol : ₹

Formal name : INR

Now let's fill the details of the Company one by one:

1. **Company Name:** Fill your Company's name.
2. **Mailing Name:** If the Company have a mailing name then enter, otherwise the Main Name is enough.
3. **Address:** Fill the proper address of the company.
4. **State:** Choose the proper state of the company.
5. **Country:** Choose the Country.
6. **Pin code:** Enter the pin code of the Company's address.
7. **Telephone & Mobile:** Enter the Telephone and Mobile Number properly.
8. **Fax:** Fill the Fax number if the company have, otherwise most of the companies use email etc. for sharing documents.
9. **E-mail:** Enter the proper e-mail address of the company.
10. **Website:** If the company have a website, enter the URL of the website.
11. **Base Currency Symbol & Formal Name:** Just select the country, these details will get automatically filled, if not then fill manually.
12. **Financial year of beginning:** Enter the date from where the financial year of the company started; if the company started in 1-Aug-2025, use that date.
13. **Books beginning from:** Choose proper from where your books started to begin; if company started in 1-Aug-2025 but started business in 1-oct-2025, so use this date.

Now save it by using CTRL + A and our company created successfully.

Now we have to fill the GST details so after saving the company, a pop-up box will appear to fill the additional details of the company, so let's fill our GST details.

Note: All the details are just the dummy for learning purpose.

Company: Tawseef Ahmad

Show more features : Yes
Show all features : Yes

Accounting

Maintain Accounts : Yes
Enable Bill-wise entry : Yes
Enable Cost Centres : No
Enable Interest Calculation : No

Inventory

Maintain Inventory : Yes
Integrate Accounts with Inventory : Yes
Enable multiple Price Levels : No
Enable Batches : No
Maintain Expiry Date for Batches : No
Enable Job Order Processing : No
Enable Cost Tracking : No
Enable Job Costing : No
Use Discount column in invoices : No
Use separate Actual and Billed Quantity columns in invoices : No

Taxation

Enable Goods and Services Tax (GST) : Yes
Set/Alter Company GST Rate and Other Details : No
Enable Tax Deducted at Source (TDS) : No
Enable Tax Collected at Source (TCS) : No
Enable Value Added Tax (VAT) : No
Enable Excise : No
Enable Service Tax : No

Online Access

Enable Browser Access for Reports : Yes
Enable Tally.NET Services for Remote Access & Synchronisation : No

Payroll

Maintain Payroll : No
Enable Payroll Statutory : No

Others

Enable Payment Request to share payment link/QR code : No
Enable multiple addresses : No
Mark modified vouchers : No

Now go to the taxation section using down arrow key and on the Enable Goods and Services tax (GST) press enter. And you'll see a page like this:

GST Details

Registration status : Active

GST Registration Details

State : Jammu & Kashmir
Registration type : Regular
Assessee of Other Territory : No
GSTIN/UIN : 01JKUBS5679S1Z5
Periodicity of GSTR-1 : Quarterly

Connected GST Details

GST Username : Tawseef Ahmad
Mode of Filing : ♦ Not Applicable

e-Invoice Details

e-Invoicing applicable : No

e-Way Bill Details

e-Way Bill applicable : Yes
Applicable from : 1-Apr-25
Applicable for intrastate : Yes

Accept ?

Create another GST Registration for the Company : No

Yes or No

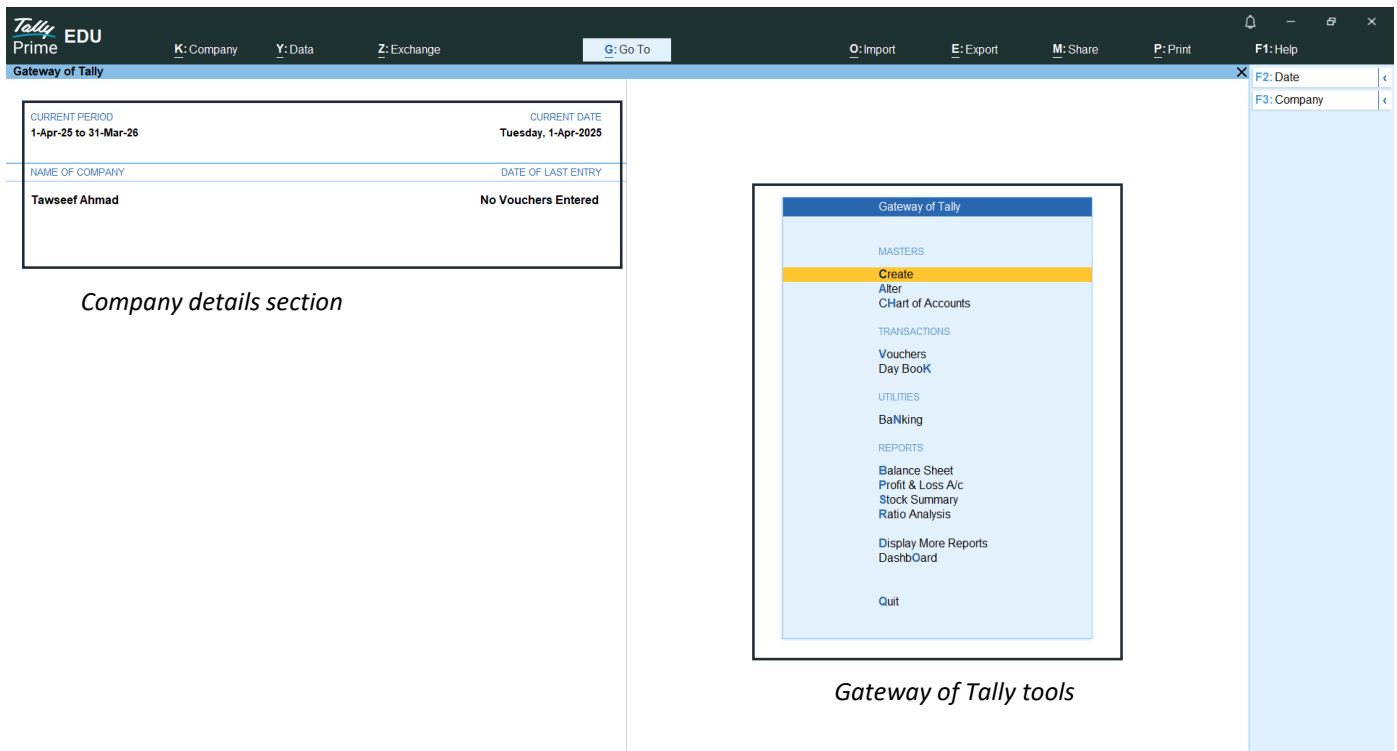
Now fill the Details same as per your GST registration state:

1. **State:** Select your GST registration state.
2. **Registration type:** Choose the type (Regular or Composition).
3. **GSTUIN/UIN:** Enter the GSTIN, use dummy for learning purpose.
4. **Periodicity of GSTR-1:** Choose monthly or quarterly.
5. **GST username:** Enter the name on which the GST got registered.

And now just save it. These are the compulsory details, and you can choose others according to yours. Now we will see the Gateway of the Tally.

Understanding the Gateway of Tally

Understanding the Gateway of Tally is crucial because it's the main page of the Tally software. Understanding the software makes things easier.



At the left side, you can see your current company, its current period (Financial Year), and current date that is in the Tally prime, well it is not the correct date, in Tally we have to enter the date manually using **F2** shortcut key, and the Tally Prime education mode allows us only to the entries on 1st and 2nd day of each month.

At the right centre, there is a section of Gateway of Tally Tools, and these are the tools that are used in the Accounting. It contains 4 groups:

1. Masters:

- Create:** It is used to create ledgers, Items and Groups.
- Alter:** It is used to edit the Ledgers, Items and Groups.
- Chart of Accounts:** It is used to view all Groups, Ledgers, Items at one place and if we made any Ledger, group etc. wrong, we can edit it.

2. Transactions:

- Vouchers:** All the voucher entries are done from here.
- Day Book:** It is used to view the overall transactions of a particular day.

3. Utilities:

- Banking:** It is used to do all banking work inside the Tally, like we can check the transactions that we made by bank accounts, print bank statements etc.

4. Reports:

- a. **Balance sheet:** It shows us the reports of the, Assets (What company owns), Liabilities (What company owes to others), and what is the Capital (The invested money of the owner).
- b. **Profit and loss A/C:** This is the backbone of a business, it contains two sides, on the left side you can see the All expenses & losses (like rent, salary etc.). On the right side you can see all Incomes & Gains (like Sales, interest etc.).
- c. **Stock summary:** It is a report that shows us, how much stock company have in hand, how much sold and how much purchased.
- d. **Ratio Analysis:** It is a report that shows the health of the business and performance, using accounting ratios – that are automatically calculated from your accounts.
- e. **Display more reports:** It is the report centre in Tally Prime. It contains all the extra reports beyond the main cues like (Balance sheet, Profit & Loss A/C etc.) to verify and analyse your business, like Account Books which contains the reports of all ledgers, bank book, sales register, purchase register etc. and you can check them one by one.
- f. **Dashboard:** It shows the quick overview of the overall business using graphs for easy understanding.

How to do Voucher entries (in Tally Prime)?

The method of doing voucher entries is simple to understand, just remember when a business purchases Goods or Sells the business uses invoices to record this and we have to do the entries based on these Invoices. The things that we have to understand and remember in Invoices are:

1. Party's Name and Address.
2. Party's GSTIN if have.
3. Invoice Date & Invoice Number.
4. Item Name and HSN code of the Item.
5. Item Quantity and Rate.
6. Type of GST applies on them and how much percent.
7. Item UQC (Unique Quantity Code like Kgs, Bags).
8. Total Invoice Value.

Below image contains a dummy purchase invoice generated by Tally Prime that contains all of the details that I mentioned above, but it is not necessary that we will get the same invoice format, invoice formats can be different but the main things that we need to see in the invoice are listed above.

INVOICE

[illegible]

GST details

Types of Purchases:

There are 4 types of purchases that we are going to understand one by one:

- **Purchase Exempted:** All those purchases that we do in our self-state and no Tax applies on the items.
 - **Purchase Interstate Exempted:** All those purchases that we do from outer state and no tax applies on the items.
 - **Purchase GST:** All those purchases that we do in our self-state but GST applies on the items.
 - **Purchase IGST:** All those purchases that we do from outer-state and GST applies on them.
- Mixed purchases:** It is not a separate purchase but sometimes when we purchase Goods, the invoice can contain GST items and non-GST items simultaneously.

The method of doing entries of all these purchases is slightly different, so let's start doing the purchases for our company. And if you don't have dummy invoices, you really don't need now, just understand the format of all 4 types of the purchases and then make your own invoices. This will really make you better understand the invoices.

Purchase Exempted Entries

To identify the Purchase Exempted invoices, you need to take a look on the party's address to check is it from our state or outer-state, second thing is to check the GST that applies on the items. If Party is from the self-state and no tax applies on the purchased items, then it is Purchase Exempted Invoice.

Now let's follow the steps to do the Purchase Exempted entry:

Step1: Open Tally Prime & select your company and open it, then select the Vouchers option in the Gateway of Tally and press enter, or press **V** that's the shortcut key of the vouchers.

Step2: Select the Purchase Voucher or press F9, then enter the date of the invoice and Invoice number.

Step3: Then in the Part A/C name field, Choose Cash ledger if you purchased in Cash, or if you didn't pay, press **ALT + C** to create the Ledger of the party.

Step1: Enter the Party's Name

Step2: At the Under field select the sundry creditors Group.

Step3: Enter party's Address and select its registration type and enter GSTIN, and if the party is unregistered, select the unregistered/consumer option, and press **CTRL + A** to save.

Step4: Now at the Purchase Ledger field, press **ALT + C** to make the purchase ledger:

Step1: Enter **PURCHASE EXEMPTED** as the name of the ledger.

Step2: At the Under field select the Purchase Accounts Group.

Step3: Select type of Supply to Goods, and save it.

Step5: Now we have to make the Items, press ALT + C at the Name of Item section, in any case, you are not able to see these things, press CTRL + H to change the mode of the item invoice, now let's create the items:

Step1: Enter the items Name

Step2: At the under field create a Group by using ALT + C and enter 0% Tax items as Group name, and save it.

Now at the Units field, again press **ALT + C** to create the UQC for the item, Enter the Symbol Name like Bag, then at the formal name enter the full name Bags, then at the UQC code just type the same name as you set and it will display a list, then select yours and at the number of decimal places, set 0 to those which cannot have the decimal places like Bags can be 1 bag or 2 Bags, but Kgs Can be 1.5 as like this and now save it.

Now enter the **HSN code** details and GST details and now in our case it is Exempted item so select it and save it.

Step6: Now enter the Quantity and Rate of per item and Tally will automatically calculate the whole price, then just save it using **CTRL + A**.

This is the method of doing the Purchase Exempted Entries.

Purchase Interstate Exempted Entries

The method of doing Purchase Interstate Exempted entries are same as we did the Purchase Exempted where no tax applies on the Goods that we purchased, the only difference is that we purchased the Goods from the outer state instead of our own state and we have to see it in Invoice that the supplier's address is not our state, and *remember that once we created any Group or Ledger and it returns in other entries then we don't have to create it again, just select it*. First we will create the same **Party's A/C Name ledger**, and then we will create a new ledger of Purchase Interstate Exempted, just go the field of the Purchase Type and press **ALT + C** and name the Ledger as Purchase Interstate Exempted, and select the Purchase Accounts Group, and select the type of supply to Goods, create the Items same as we created before.

Purchase GST Entries

The method of doing the **Purchase GST** entries is slightly different, now the Goods we purchase are from our state and tax applies on the Goods we purchased that we have to see in the Invoice, and we have to calculate the **CGST** and **SGST** as we learnt before.

Now first create the Ledger of the party whom we purchased the Goods if we didn't pay the party, then go to Purchase type and press **ALT + C**:

Now create the Ledger named as **Purchase GST** and select the group as Purchase Accounts, then type of supply will be Goods, then create the item but with this method:

First as we did that name the Item and then create its group as it's GST price like (5% GST items) and select or create the UQC code, then select the select the Taxability type as Taxable and then enter the GST rate of the Item as in the below image, then save it.

Tally Prime EDU		K: Company	Y: Data	Z: Exchange	G: Go To
Stock Item Creation (Secondary)		Tawseef Ahmad			
Name	: Sony 42" LCD				
(alias)	:				
Under	: Items 5% Tax	Statutory Details			
Units	: Pcs	GST applicability : ♦ Applicable			
		HSN/SAC & Related Details			
		HSN/SAC Details : Specify Details Here			
		HSN/SAC : 445562			
		Description :			
		GST Rate & Related Details			
		GST Rate Details : Specify Details Here			
		Taxability Type : Taxable			
		GST Rate : 5 %			
		Type of Supply : Goods			
		Rate of Duty (eg 5) : .			

As we created the item and then we have to enter its quantity and then its price, now when we completed our item creation and entered all details, just enter double times and you'll be under this line above the Taxable Amount (The Amount on which tax will apply) as shown in image.

Now we have to create Two ledgers to calculate the CGST and SGST, after going below the Taxable amount line press ALT + C to create the CGST ledger:

- Name the ledger as CGST.
- Put it into the Group of Duties and Taxes (remember all the taxes we pay are under the group of Duties and Taxes so whenever you will find any Tax and you have to make its ledger, put it into the Duties and Taxes Group.
- Now in Type of Duty/Tax select the GST.
- In Tax type field select the CGST.
- In percentage of calculation, set it as it is, on 0% and it will calculate automatically as the item have the GST percentage, now save it.

Now we made the ledger just enter now it will calculate automatically, but if it didn't calculate, you might have made a mistake in selecting the party's address or applying the GST while creating the Item.

Now let's make the SGST ledger: Making the SGST ledger is similar to CGST ledger, just change the Tax type to the **SGST/UTGST**, and it will calculate automatically.

Purchase IGST Entries

Purchase IGST entries are those entries, when a business buys Goods from outer-state and GST applies on them, in invoice we have to see the State of the party is outer and the items we purchased GST applies on them. The method is, first create the party's A/C name ledger or select the Cash ledger, then in Purchase Accounts create a new ledger named as Purchase IGST and select the group as Purchase accounts and type of supply will be Goods and save it.

Next we will create the Items and put them into their groups like **(28% GST items)** or select if we already made, and same as Purchase GST we have to go below the Taxable Amount line, then press **ALT + C** to create the **IGST calculation ledger**.

Name the ledger as IGST and put it into the **Duties and taxes Group** and in **Type of Duty/Tax** select the IGST and save it. Now press the Enter and it will calculate automatically.

Now the **Mixed purchases** as they contain the Taxable items and Exempted items, we don't have to make a separate ledger, just make the items as Exempted if no **GST** applies on them, and enter the Tax percentage in the items if they are Taxable, then just use **CGST** and **SGST** or **IGST** ledgers that we made before, and Tally will automatically calculate the **GST** only on the Taxable items.

Practice:

Do at least 10 entries of every type of purchase in your company.

Basis to do Sales Entries

Purchasing and selling is the backbone of a trading business and we already purchased some Goods, now we as our company have to sell them to make the profit. The sales have also 4 types as purchases have that we are going to discuss below, and we don't have to create items now because we are going to sell our purchased items, so let's discuss the types of sales:

- **Sales Exempted:**
All those sales that we do in self-state and no GST applies on the Goods is called the Sales Exempted.
- **Sales Inter-State Exempted:**
All those sales that we do in outer state and no GST applies on the items is called sales Inter-State Exempted.
- **Sales GST:**
All those sales that we do in self-state and GST applies on the items is called Sales GST.

- **Sales IGST:**

All those sales that we do in outer state and GST applies on the items is called Sales IGST.

Now the most important thing is to identify the type of invoice, and the way to do it is simple.

- First see the buyer's address, if it's self-state and then if no GST applies on the items, then it's Sales Exempted.
- If buyer is from self-state and GST applies on the items, then it's sales GST.
- If buyer is from outer state and no GST applies on the items, then it's sales Inter-State Exempted.
- If buyer is from outer state and GST applies on the items, then it's sales IGST.

Tax Invoice								
Seller Details	Tawseef Ahmad Tral, Pulwama GSTIN/UIN: 01JKUBS5679S1Z5 State Name : Jammu & Kashmir, Code : 01 E-Mail : twhdrather@gmail.com https://tawseef-ahmad.verce.app/			Invoice No.	Dated			
				1	1-Apr-25			
				Delivery Note		Mode/Terms of Payment		
				Reference No. & Date.		Other References		
Buyer Details	Consignee (Ship to) Cash State Name : Jammu & Kashmir, Code : 01			Buyer's Order No.		Dated		
				Dispatch Doc No.		Delivery Note Date		
				Dispatched through		Destination		
				Terms of Delivery				
	Buyer (Bill to) Bilal Ganie Nowgam, Srinagar State Name : Jammu & Kashmir, Code : 01							
	SI No.	Description of Goods	HSN/SAC	Quantity	Rate	per	Amount	
	1	Saffron (1kg Bag)	114563	5 Bag	55,000.00	Bag	2,75,000.00	
GST Details		CSGT				24,750.00		
		SGST				24,750.00		
Total			5 Bag			₹ 3,24,500.00		
Amount Chargeable (in words) E. & O.E								
INR Three Lakh Twenty Four Thousand Five Hundred Only								
HSN/SAC		Taxable Value	CGST Rate	CGST Amount	SGST/UTGST Rate	SGST/UTGST Amount	Total Tax Amount	
114563		2,75,000.00	9%	24,750.00	9%	24,750.00	49,500.00	
Total		2,75,000.00		24,750.00		24,750.00	49,500.00	
Tax Amount (in words) : INR Forty Nine Thousand Five Hundred Only								
Declaration We declare that this invoice shows the actual price of the goods described and that all particulars are true and correct.			for Tawseef Ahmad Authorised Signatory					

This is a Computer Generated Invoice

This is Sales GST invoice, as you can see in this Invoice, the party is from inter-state and GST applies on the item we sold.

Sales Exempted Entries

The method of doing Sales Exempted Entries is, go to **Gateway of Tally** and **select vouchers** and enter, then select the Sales voucher or press **F8**, then:

First fill the date and the Invoice Number, but most times the Invoice numbering is automatic and we have to set it to manual, to do this follow these steps:

- Go to **Gateway of Tally** and select **Alter** in **Masters** and enter.
- Then in **Accounting Masters**, select the **Voucher Type** and hit enter.
- Then select the **Sales** voucher and hit enter.
- Then there will be an option of **Method of Invoice Numbering**, set it to **manual** and save it.

If we sold the items in cash then select the Cash Ledger, but if the party didn't pay the money, so we have to make the party's ledger, so follow these steps:

- press **ALT + C** in the **Party A/C Name** field.
- Enter the party's name.
- Select its Group as **Sundry Debtors** because *all those parties who are going to pay us money in exchange of Goods are called Sundry Debtors*.
- Now enter the **party's Address**, and **GSTIN** if the party have and save it.

Now at the Sales ledger field press ALT + C to create the Sales Exempted Ledger, and follow these steps:

- Enter the Ledger name as **Sales Exempted**.
- Set it under the **Sales Accounts Group** because, *all the sales we do and we create a sales Type ledger the group of the ledger will be Sales Accounts*.
- Select type of Supply to Goods and save it using **CTRL + A**.

Now select the items we sold and we don't have to create these items again just search them and select, and enter their quantity and rate, we can increase the rate to earn the Profit. Then save it.

Sales Inter-State Exempted Entries

The method of doing Sales Inter-State Exempted Entries is same as Sales Exempted, but the only difference is that the Goods we are going to sell or sold in outer-state, so the steps are:

- Go to **Gateway of Tally** and select the **Vouchers** and press Enter.
- Select the **Sales Voucher** by pressing **F8**.
- Enter the **Date** and **Invoice Number**.
- Select the **Cash** or make the **party's ledger** as we made in **Sales Exempted** and set it under the **Sundry Debtors** group.
- Make a new **Sales Inter-State exempted Ledger** and set it under the **Sales Accounts** group.
- Select the **items** and enter their **Quantity** and **Rate** and save it using **CTRL + A**.

Sales GST Entries

The **sales GST** refers to the, when we sell our items in self-state and GST applies on the items, so the method of doing sales GST entries is:

- Go to **Gateway of Tally** and select the **Vouchers** and press Enter.
- Select the **Sales Voucher** by pressing **F8**.
- Enter the **Date** and **Invoice Number**.
- Select the **Cash** or make the **party's ledger** and set it under the **Sundry Debtors** group.
- Make a new **Sales GST ledger** and Set it under the **Sales Accounts** Group.
- Select the **items** and enter their **Quantity** and **Rate**.
- Go below the **Taxable Amount** line and select the **CGST** and **SGST** Ledgers that we made before during the Purchase Entries, and this will calculate the **GST** automatically, and then just save it.

Sales IGST Entries

The sales IGST refers to the, when we sell the items in outer-state and GST applies on the items, so the method of doing sales IGST is:

- Go to **Gateway of Tally** and select the **Vouchers** and press Enter.
- Select the **Sales Voucher** by pressing **F8**.
- Enter the **Date** and **Invoice Number**.
- Select the **Cash** or make the **party's ledger** and set it under the **Sundry Debtors** group.
- Make a new **Sales IGST ledger** and Set it under the **Sales Accounts** Group.
- Select the **items** and enter their **Quantity** and **Rate**.
- Go below the **Taxable Amount** line and select the **IGST ledger** that we made before during the Purchase Entries, and this will calculate the **GST** automatically, and then just save it.

Practice: Sell at least 80% Goods of your companies in a Good profit range.

How to check the Reports of Purchases and Sales?

As we understood the Reports section of Gateway of tally, so now we will use these options to see our reports. Now let's see all of our sales and purchases with simple steps:

Purchase Reports:

- Go to **Gateway of Tally** and select **Display More Reports** or press **D** on your Keyboard.
- Now select the **Account Books** or press **A** on your keyboard.
- Now press **P** on your keyboard or select **Purchase Register**.

Now you can see all the months of your business's financial year and you can see how much amount of Goods you purchased in every month.

By pressing Enter on any month, you can see all the purchase vouchers of that month, and if you'll press Enter on any voucher you can edit it and we can press **CTRL + P** to print the Invoice for reports, and we learnt the shortcut keys of going directly to the Purchase reports from Gateway of Tally; **D + A + P**.

Sales Reports:

- Go to **Gateway of Tally** and select **Display More Reports** or press **D** on your Keyboard.
- Now select the **Account Books** or press **A** on your keyboard.
- Now press **S** on your keyboard or select **Sales Register**.

Now you can see all the months of your business's financial year and you can see how much amount of Goods you sold in every month.

By pressing Enter on any month, you can see all the Sales vouchers of that month, and if you'll press Enter on any voucher you can edit it and we can press **CTRL + P** to print the Invoice for reports, and the shortcut keys of going directly to the sales reports from Gateway of Tally are **D + A + S**.

Cash-flow and Bank Accounts of a Business

Now we can see that how the business worked, we started with 0 money and bought the Goods on liabilities and then sold the Goods and earned profit and now we have the money to pay to our Sundry Creditors, and if we sold items and the seller didn't pay the money at the time of buying, and now he sent the payment, and now our company opens a Bank Account and takes loans from the Banks, and we are going to add cash to the Bank and withdraw from the Bank and sent a Bank payment to our Sundry Creditors and we are going to receive money in our Bank Accounts from our sundry Debtors. Now we are going to understand every step of the business and we will understand the Bank Statements too, so let's continue this Journey.

Understanding Payment, Receipt and Contra Vouchers

Now as we have understood Purchases and Sales, it's time to learn about the most important part of accounting — the **flow of money**.

Every business runs on cash and bank transactions, and this flow of money is recorded using **Payment, Receipt, and Contra Vouchers** in Tally Prime.

These vouchers help us keep track of how much money is coming in, how much is going out, and how much is moving between our accounts.

Let's understand each one in detail.

1. Payment Voucher (F5)

Whenever our business pays money to someone — whether it's to a supplier, employee, landlord, or for any expense — that transaction is recorded in the **Payment Voucher**.

Think of it as your “outflow” book, where every rupee that leaves your company is recorded.

Example Situations:

- Paying ₹10,000 rent to the landlord
- Paying ₹5,000 salary to an employee
- Paying ₹25,000 to a supplier (MILLENIUM GOODS) for goods purchased earlier
- Paying ₹2,000 for electricity bill

How to open and use the Payment Voucher:

1. Go to **Gateway of Tally → Accounting Vouchers**
2. Press **F5** or select **Payment Voucher**
3. Enter the **Date** and **Voucher Number** (automatically generated or manual)
4. In the **Account** field, select the payment mode:
 - **Cash** (if paying in cash)
 - **Bank Account** (if paying through bank transfer or cheque)
5. In the **Particulars** field, select the party or expense ledger to whom or for what you are paying:
 - For example, "MILLENIUM GOODS" (Sundry Creditor)
 - Or "Rent Expenses" (Indirect Expense)
6. Enter the **Amount** and press Enter.
7. Add any **narration** (a short note like "Being rent paid for October").
8. Press **Ctrl + A** to save the entry.

Example 1 – Payment made to a Supplier

We had earlier purchased goods worth ₹25,000 from MILLENIUM GOODS on credit.

Now we are paying the amount by cheque.

Let's record this:

- Date: 10-10-2025
- Voucher Type: Payment
- Bank: HDFC Bank
- Party: MILLENIUM GOODS (Under Sundry Creditors)
- Amount: ₹25,000
- Narration: Being payment made to MILLENIUM GOODS for goods purchased.

Once you save this entry, your balance payable to MILLENIUM GOODS will automatically reduce.

Example 2 – Paying Rent in Cash

- Date: 15-10-2025
- Voucher Type: Payment
- Cash A/c → Credit
- Rent Expenses A/c → Debit

- Amount: ₹10,000
- Narration: Being monthly rent paid in cash for October.

This entry will reduce your **Cash balance** and increase your **Expense** in Profit & Loss A/c.

2. Receipt Voucher (F6)

The **Receipt Voucher** is used when your business **receives money**, whether from a customer, debtor, or any income source.

It records the **inflow of money** into your business — either into Cash or Bank.

Example Situations:

- Customer pays for goods or services
- Receiving loan amount
- Interest or commission received
- Refund from supplier or tax department

How to open and use the Receipt Voucher:

1. Go to **Gateway of Tally → Accounting Vouchers**
2. Press **F6** or select **Receipt Voucher**
3. Enter the **Date** and **Voucher Number**
4. In the **Account field**, select **Cash** or **Bank A/c**
5. In the **Particulars field**, select the **Party Name** or **Income Ledger** (like “Sales Debtors” or “Commission Income”)
6. Enter the **Amount**
7. Add a narration for clarity.
8. Save using **Ctrl + A**

Example 1 – Receiving Payment from Customer

We sold goods worth ₹18,000 to “NOBLE TRADERS” earlier, and now they paid through bank transfer.

- Date: 20-10-2025
- Voucher Type: Receipt
- Bank A/c: HDFC Bank
- Party: NOBLE TRADERS (Under Sundry Debtors)
- Amount: ₹18,000
- Narration: Being payment received from NOBLE TRADERS against sales.

This will increase your Bank balance and reduce the amount receivable from NOBLE TRADERS.

Example 2 – Receiving Commission Income in Cash

- Date: 25-10-2025
- Voucher Type: Receipt
- Account: Cash
- Particulars: Commission Income (Under Indirect Income)
- Amount: ₹2,000
- Narration: Being commission income received in cash.

This will increase your **cash balance** and your **income** in the Profit & Loss statement.

3. Contra Voucher (F4)

The **Contra Voucher** is used when money moves **within your own accounts** — for example, between **Cash and Bank** or between **two Banks**.

No outside party is involved.

The word “Contra” means “opposite”, and in this case it refers to internal fund movement.

Example Situations:

- Depositing cash into bank
- Withdrawing cash from bank
- Transferring money from one bank to another

How to open and use the Contra Voucher:

1. Go to **Gateway of Tally → Accounting Vouchers**
2. Press **F4** or select **Contra Voucher**
3. Enter the **Date** and **Voucher Number**
4. In the **Account field**, select the account from which money is going **out**
5. In the **Particulars field**, select the account where money is **going in**
6. Enter the **Amount**
7. Add **Narration**
8. Press **Ctrl + A** to save

Example 1 – Deposit Cash into Bank

We are depositing ₹20,000 cash into our HDFC Bank.

- Date: 28-10-2025
- Voucher Type: Contra
- Account: Cash
- Particulars: HDFC Bank
- Amount: ₹20,000
- Narration: Being cash deposited into HDFC Bank.

This reduces **Cash balance** and increases **Bank balance**.

Example 2 – Withdraw Cash from Bank

We withdrew ₹5,000 from HDFC Bank for office use.

- Date: 29-10-2025
- Voucher Type: Contra
- Account: HDFC Bank
- Particulars: Cash
- Amount: ₹5,000
- Narration: Being cash withdrawn from HDFC Bank for office use.

This increases **Cash balance** and decreases **Bank balance**.

Example 3 – Transfer between Two Bank Accounts

If your business has two bank accounts — say HDFC Bank and SBI Bank — and you transfer ₹10,000 from HDFC to SBI:

- Date: 30-10-2025
- Voucher Type: Contra
- Account: HDFC Bank
- Particulars: SBI Bank
- Amount: ₹10,000
- Narration: Being amount transferred from HDFC to SBI.

This reduces HDFC balance and increases SBI balance.

Shortcut Keys Recap

Voucher Type	Shortcut Key	Purpose
Payment Voucher	F5	Record money going out (expenses, supplier payments)
Receipt Voucher	F6	Record money coming in (sales, income, receipts)
Contra Voucher	F4	Record money moving within business accounts

Practical Tip:

Always verify the bank statements and cash balance after every transaction.

If the amounts mismatch, check whether the payment or receipt entry is missing or wrongly entered.

Using narration properly in every entry will help you easily identify transactions later during audit or reconciliation.

Practice Tasks

1. Record a payment of ₹8,000 for electricity bill in cash.
2. Record a receipt of ₹12,000 from customer "RAY ENTERPRISES" via cheque.
3. Record a Contra entry for depositing ₹15,000 cash into HDFC Bank.
4. Record a Contra entry for withdrawing ₹3,000 from HDFC Bank for office petty cash.

Understanding Bank Statements

Bank statements are one of the most important reports for any business. They show how money moves in and out of your bank accounts and help in tracking every deposit, withdrawal, and transfer. In Tally Prime, understanding and matching your bank statement with your own records ensures that your accounts are accurate and that no transaction is missing or duplicated.

What is a Bank Statement?

A bank statement is a summary provided by your bank showing all the financial transactions that occurred in a particular period, usually a month. It contains all deposits, withdrawals, transfers, bank charges, and interest received. It is an official record that confirms what happened in your bank account.

Example of entries you'll see on a Bank Statement:

- Cheque deposits made by your customers
- Amounts withdrawn by you
- Bank service charges or fees
- Interest credited by the bank
- Online transfers or NEFT/RTGS transactions

The closing balance at the end of the statement tells how much money remains in the account on that date.

Why Bank Statements Matter

1. **Accuracy of Accounts:** They help ensure that your Tally Prime records match the bank's actual record.
2. **Error Detection:** Any difference between the two shows either a missing entry or a mistake, such as an unrecorded cheque.

3. **Fraud Prevention:** Regular review helps identify any unauthorized transaction quickly.
4. **Financial Planning:** By studying the inflow and outflow trends, you can forecast cash needs or investment opportunities.

Bank Reconciliation in Tally Prime

Reconciliation means matching your Tally Prime bank ledger with the bank statement issued by your bank. This helps identify whether all bank transactions entered in Tally actually appear in the bank's books.

Steps to Reconcile Bank in Tally Prime

1. Go to **Gateway of Tally → Display More Reports → Banking → Bank Reconciliation**.
2. Select the bank account you want to reconcile (for example, HDFC Bank).
3. Tally Prime will show all transactions recorded for that bank.
4. Enter the **Bank Date** (the date when the transaction actually appears in your bank statement) for each item.
5. Compare the closing balance shown in Tally with the one on the bank statement.
6. If there is a mismatch, check for:
 - Cheques issued but not yet cleared.
 - Deposits made but not reflected yet.
 - Bank charges or interest not yet entered in Tally.

Once all entries are matched, your reconciliation will be complete, and the closing balances will become equal.

Example of Bank Reconciliation

Your HDFC Bank account in Tally Prime shows a closing balance of ₹80,000 as of 31-October-2025, but your bank statement shows ₹78,500.

On checking, you find:

- A cheque of ₹1,500 issued on 29-October hasn't cleared yet.
That explains the difference, and once the cheque clears next month, both balances will match automatically.

How to Record Bank Charges or Interest?

Sometimes banks deduct small amounts like SMS charges or credit small amounts like interest. If these are not entered in Tally, reconciliation will never match. To record them:

- For **Bank Charges:** use **Payment Voucher (F5)** and select the Bank Account on the credit side and "Bank Charges" (under Indirect Expenses) on the debit side.
- For **Bank Interest:** use **Receipt Voucher (F6)** and select the Bank Account on the debit side and "Bank Interest Income" (under Indirect Income) on the credit side.

Viewing Bank Statements in Tally Prime

Tally Prime provides an option to view your bank ledger just like a statement.

1. Go to **Gateway of Tally → Display More Reports → Account Books → Ledger**.
2. Select your bank ledger (e.g., HDFC Bank).
3. You will see all deposits, withdrawals, and transfers made through that bank.
4. You can print or export this statement for your records using **Ctrl + P**.

Practical Tips

- Always reconcile your bank accounts at the end of every month.
- Record every cheque, transfer, or bank charge immediately.
- Keep scanned or printed copies of monthly bank statements for audit reference.
- If multiple users work in Tally, assign one person to verify bank reconciliation to avoid confusion.

Practice Task

1. Enter three sample bank transactions: a deposit, a withdrawal, and a transfer.
2. Simulate a small mismatch and then reconcile it by adding a missing bank charge entry.
3. Verify that the closing balance in Tally Prime matches the closing balance on your dummy bank statement.

Understanding Debit Notes and Credit Notes

In a business, sometimes mistakes or adjustments happen after a sale or purchase is completed. Maybe goods were returned, prices were changed, or extra charges or discounts were applied later. For such cases, Tally Prime provides **Debit Notes** and **Credit Notes**. These are adjustment vouchers used to correct or update your accounts after a transaction has already been recorded. Let's understand both one by one in a very simple way.

What is a Debit Note?

A **Debit Note** is issued by the buyer to the seller when the buyer wants to reduce the amount payable to the seller. In simple words, when goods are returned or there was an overcharge in the purchase, the buyer issues a Debit Note.

In Tally Prime, the Debit Note is used to record **Purchase Returns** or to reduce the liability towards a supplier.

Common Situations for Debit Notes

- Returning defective or damaged goods to the supplier.

- Goods received are less in quantity than billed.
- Charged amount is higher than the actual price.
- Wrong tax rate applied by supplier.

Example

Suppose your business purchased goods worth ₹10,000 from **MILLENIUM GOODS**, but some of the goods worth ₹2,000 were damaged and returned. You will issue a **Debit Note** of ₹2,000 to that supplier.

This means your payable amount to MILLENIUM GOODS will reduce by ₹2,000, and your purchase account will also reduce by that value.

Creating a Debit Note in Tally Prime

1. Go to **Gateway of Tally → Accounting Vouchers**.
2. Press **Ctrl + F9** or select **Debit Note** from the list of vouchers.
3. Enter the **Date** and **Invoice Number**.
4. In the **Party's A/c Name**, select the supplier's ledger (for example, MILLENIUM GOODS).
5. In the **Particulars** field, select the same **Purchase Ledger** used earlier, like *Purchase GST*.
6. Enter the **Amount** of the goods being returned.
7. If GST applies, select the same GST ledgers (CGST, SGST, or IGST) to adjust the tax automatically.
8. Enter a **Narration** like "Being goods returned to supplier due to damage."
9. Press **Ctrl + A** to save.

Example Entry

- Voucher Type: Debit Note
- Party: MILLENIUM GOODS
- Purchase Ledger: Purchase GST
- Amount: ₹2,000
- CGST: ₹180
- SGST: ₹180
- Narration: Being goods worth ₹2,000 returned due to damage.

This entry automatically reduces both your **Liability** to the supplier and the **Input GST** amount claimed earlier.

What is a Credit Note?

A **Credit Note** is the opposite of a Debit Note. It is issued by the seller to the buyer when the seller needs to reduce the amount receivable from the customer. In simple words, when goods are returned by the customer or when the seller has overcharged, a Credit Note is issued.

In Tally Prime, the Credit Note is used to record **Sales Returns** or to reduce the receivable from a debtor.

Common Situations for Credit Notes

- Customer returns goods after sale.
- Seller gave an excess discount after the invoice.
- Tax or price correction after issuing the invoice.
- Overbilling or wrong quantity billed.

Example

You sold goods worth ₹15,000 to **NOBLE TRADERS**, but later they returned goods worth ₹3,000. You will issue a **Credit Note** of ₹3,000 to the customer.

This means your receivable from NOBLE TRADERS will reduce by ₹3,000, and your sales account will also reduce by that value.

Creating a Credit Note in Tally Prime

1. Go to **Gateway of Tally → Accounting Vouchers**.
2. Press **Ctrl + F8** or select **Credit Note** from the list of vouchers.
3. Enter the **Date** and **Invoice Number**.
4. In the **Party's A/c Name**, select the customer's ledger (for example, NOBLE TRADERS).
5. In the **Particulars** field, select the same **Sales Ledger** used earlier, like *Sales GST*.
6. Enter the **Amount** of the goods being returned.
7. If GST applies, select the same GST ledgers (CGST, SGST, or IGST) used in that sale.
8. Add a **Narration**, for example "Being goods returned by customer due to damage."
9. Save the entry using **Ctrl + A**.

Example Entry

- Voucher Type: Credit Note
- Party: NOBLE TRADERS
- Sales Ledger: Sales GST
- Amount: ₹3,000
- CGST: ₹270

- SGST: ₹270
- Narration: Being goods worth ₹3,000 returned by customer due to damage.

This entry automatically reduces both your **Receivables** from the customer and your **Output GST** liability.

Difference Between Debit Note and Credit Note

Basis	Debit Note	Credit Note
Who issues	Buyer	Seller
Purpose	When goods are returned to supplier or overcharged	When goods are returned by customer or overbilled
Effect on Books	Reduces Payables and Purchases	Reduces Receivables and Sales
Tally Voucher Shortcut	Ctrl + F9	Ctrl + F8
GST Impact	Reduces Input GST	Reduces Output GST

How GST Works in Debit and Credit Notes

When you issue a Debit Note or Credit Note involving GST items, Tally Prime automatically adjusts the GST liability or credit based on the percentage applied in the original invoice. You just need to select the correct GST ledgers (CGST, SGST, or IGST) while making the note. For example, if you return goods with 18% GST, Tally will automatically reverse that 18% portion in both purchase and sales GST reports.

Practical Tips

- Always link the Debit Note or Credit Note to the original invoice for better tracking.
- Mention the reason for issuing the note clearly in the narration (like “price difference”, “damaged goods returned”, etc.).
- Print and share the note with your customer or supplier for proper documentation.
- Regularly check your **Sales Return** and **Purchase Return** reports under **Display More Reports → Account Books**.

Practice Task

1. Create a Debit Note for ₹1,200 for goods returned to MILLENIUM GOODS with 18% GST.

2. Create a Credit Note for ₹1,500 for goods returned by NOBLE TRADERS with 12% GST.
3. Check your updated purchase and sales reports to see how the totals changed after these adjustments.

Understanding the Types of Transactions in a Business

Before we move further into advanced accounting entries, it's important to clearly understand what a **transaction** actually means in business. Every entry you make in Tally Prime is based on a transaction. If you understand their types, you can easily identify which voucher or ledger to use and how that transaction affects the financial position of a company.

A **transaction** simply means any activity in a business that involves money — either directly or indirectly. Whenever there is an exchange of value between two parties, that becomes a transaction. These can include sales, purchases, payments, receipts, expenses, loans, and many more.

1. Cash Transactions

These are transactions where **cash is involved immediately** — either money is received or paid at the same time.

In Tally Prime, these are recorded using **Payment (F5)** or **Receipt (F6)** vouchers.

Examples:

- Paying ₹10,000 rent in cash.
- Receiving ₹5,000 cash from a customer.
- Purchasing small office items by paying cash.

Effect in accounts:

- Cash balance decreases when paid.
- Cash balance increases when received.

Cash transactions are quick, simple, and commonly used in small-scale businesses.

2. Credit Transactions

These are transactions where **money is not exchanged immediately**. Payment is postponed to a later date.

In Tally Prime, when you create ledgers of parties under **Sundry Creditors** or **Sundry Debtors**, you are managing credit transactions.

Examples:

- Buying goods worth ₹50,000 from a supplier but promising to pay after 30 days.
- Selling goods to a customer on 15-day credit.

Effect in accounts:

- For purchase on credit → increases **Liability (Creditors)**.
- For sales on credit → increases **Receivable (Debtors)**.

Credit transactions help businesses grow faster, but they must be managed carefully to maintain good cash flow.

3. Capital Transactions

These are transactions related to the **capital or investment** of the business. They include money introduced by the owner or withdrawn by them.

Capital transactions affect the owner's equity and the overall value of the business.

Examples:

- Owner invests ₹1,00,000 to start the business.
- Owner withdraws ₹5,000 for personal use (called **Drawings**).
- Purchase of machinery or building for long-term use.

Effect in accounts:

- Investment increases **Capital Account** and **Assets**.
- Withdrawals decrease **Capital Account** and **Cash/Bank balance**.

These transactions define the foundation and ownership of a business.

4. Revenue Transactions

Revenue transactions are those which happen **regularly in day-to-day business** operations. They directly affect profit or loss.

In simple terms, these are your **income and expense** activities.

Examples:

- Selling goods or services (Sales).
- Paying salary, rent, or electricity bills (Expenses).
- Buying goods for resale (Purchases).

Effect in accounts:

- Revenue increases **Income Accounts**.
- Expenses reduce **Profit** and are shown on the debit side of the Profit & Loss Account.

These are the most frequent transactions and form the heartbeat of accounting in Tally Prime.

5. Non-Cash or Journal Transactions

Some transactions do not involve any cash or bank movement at all. These are adjustments made for accounting purposes and are recorded using **Journal Vouchers (F7)** in Tally Prime.

Examples:

- Depreciation on machinery.
- Provision for outstanding expenses.
- Adjustment between two ledger accounts.

Effect in accounts:

They don't change your cash flow but impact your Profit & Loss or Balance Sheet by showing correct values of assets and liabilities.

6. Contra Transactions

These are **internal transfers** within the business — movement of money between cash and bank accounts or between two banks.

Recorded using **Contra Voucher (F4)** in Tally Prime.

Examples:

- Depositing ₹25,000 cash into bank.
- Withdrawing ₹10,000 from bank for office use.
- Transferring ₹5,000 from HDFC Bank to SBI Bank.

Effect in accounts:

They change the location of funds but not the total balance of the business.

7. Petty Cash Transactions

These are small daily cash expenses used for minor office needs. Usually managed through a **Petty Cash Book** or a separate **Ledger** in Tally Prime.

Examples:

- Paying ₹200 for courier.
- Buying ₹150 worth of stationery.
- Paying ₹100 for local travel.

Effect in accounts:

They reduce the cash balance slightly but are necessary for running daily operations smoothly.

8. Adjustment Transactions

Adjustment transactions are made at the end of an accounting period to ensure all accounts show accurate values. They are mostly **non-cash** and are done using **Journal Vouchers (F7)**.

Examples:

- Accrued income or outstanding expenses.
- Closing stock adjustment.
- Transfer of profit or loss to the Capital Account.

Effect in accounts:

They finalize the books and prepare them for report generation like the Balance Sheet and Profit & Loss Account.

Practical Understanding

Think of all these transactions as the **foundation** of your accounting. Each type affects a specific part of your business:

- Cash → Immediate liquidity.
- Credit → Future payments or receipts.
- Capital → Owner's money and investment.
- Revenue → Day-to-day income and expenses.
- Adjustment → Accuracy and closing process.

Once you understand the nature of a transaction, you can easily decide **which voucher to use** and **which ledgers to debit or credit** in Tally Prime.

Practice Task

1. Record one cash purchase and one credit sale in your Tally company.
2. Record a capital introduction by owner through bank.
3. Record an expense adjustment using Journal Voucher.
4. Deposit ₹10,000 cash into your bank account using Contra Voucher.

Starting the Business – Overview and Creating the Capital Account in Tally Prime

Now that we have understood the types of transactions that happen in a business, let's begin our **own business practically in Tally Prime** from the very start. This will help us see how all the concepts — ledgers, groups, vouchers, and transactions — connect together in real accounting.

We'll begin with a **brief overview of how a business starts**, what the **Capital Account** means, and how to create it in **Tally Prime**.

Overview – Starting a Business

Every business starts with one simple step — **Investment**.

The owner brings money, assets, or both into the business to begin operations. This money or value that the owner invests is called **Capital**.

In simple words, capital is the **owner's money** used to start and run the business. It can be in the form of:

- Cash (like ₹1,00,000 deposited into the business)
- Assets (like machinery, computers, or furniture given by the owner)
- Or both together

This investment becomes a **liability of the business** because the business owes this amount back to the owner. That's why in accounting, the Capital Account is always shown on the **liability side of the Balance Sheet**.

Example of a New Business Setup

Let's say we are starting a trading business named **TAWSEEF TRADERS**.

On 1st April 2025, the owner (Tawseef Ahmad) invested ₹1,00,000 in cash to start the business.

This is the very first transaction of our business.

Now we will record this in Tally Prime by creating a **Capital Account** and using a **Journal Entry**.

Understanding the Capital Account

A **Capital Account** is the personal account of the owner. It represents the total investment and profit or loss that belongs to the owner.

Whenever the owner adds more money or assets to the business, the **Capital Account increases**.

Whenever the owner withdraws money for personal use (called **Drawings**), the **Capital Account decreases**.

So in short:

- Owner invests money → Capital Account is Credited
- Owner withdraws money → Capital Account is Debited

How to Create the Capital Account in Tally Prime?

1. **Open Tally Prime** and select your company (for example, *TAWSEEF TRADERS*).
2. Go to **Gateway of Tally → Masters → Create → Ledger**.
3. In the Ledger Creation screen, fill the details as follows:
 - **Name:** Capital Account
 - **Under:** Capital Account (it is already available under the Capital Group in Tally)
 - **Opening Balance:** Leave blank for now (we'll enter it through a Journal Voucher)
4. Press **Ctrl + A** to save.

Now we have successfully created the Capital Account ledger for our business.

Recording Capital Investment in Tally Prime

After creating the Capital Account, we will record the owner's investment of ₹1,00,000 in Tally Prime.

1. Go to **Gateway of Tally → Accounting Vouchers**.
2. Press **F7 (Journal Voucher)**.
3. Enter the **Date:** 01-Apr-2025.
4. In the **Particulars field:**
 - **Debit:** Cash A/c → ₹1,00,000
 - **Credit:** Capital Account → ₹1,00,000
5. Add a **Narration:** "Being ₹1,00,000 introduced as capital by the owner."
6. Press **Ctrl + A** to save.

Explanation of this Entry

- The **Cash Account** is **debited** because cash is coming into the business (increasing an asset).
- The **Capital Account** is **credited** because the owner's investment increases the business's liability towards the owner.

This is our very first transaction — it creates the base of the business and starts our accounting system.

Checking the Capital Account

To view or verify the Capital Account:

1. Go to **Gateway of Tally → Display More Reports → Account Books → Ledger**.
2. Select **Capital Account**.
You'll now see the ₹1,00,000 credited entry on 1-Apr-2025.

This confirms that the owner has invested money in the business, and the Cash balance of ₹1,00,000 will now appear in your **Cash Ledger** and **Balance Sheet**.

If the Owner Introduces Capital through Bank

If the investment is made directly in the bank instead of cash, the entry will be slightly different:

- **Debit:** HDFC Bank A/c → ₹1,00,000
- **Credit:** Capital Account → ₹1,00,000
- **Narration:** Being capital introduced through bank.

This entry records that the business started its operations with ₹1,00,000 in its bank account instead of cash.

Practical Tips

- Create the Capital Account only once for the owner. If new partners join, create separate capital accounts for each partner with their name.
- Never record daily business transactions directly in the Capital Account. It should only record owner-related investments or withdrawals.
- If the owner withdraws money for personal use, record it using a **Journal Voucher**, debiting **Drawings Account** and crediting **Cash or Bank Account**.

Practice Task

1. Create a new company in Tally Prime named *YOUR NAME TRADERS*.
2. Create a **Capital Account ledger** under the “Capital Account” group.
3. Record a Journal entry for ₹1,00,000 capital introduced in cash.
4. Record another entry for ₹50,000 capital introduced through bank.
5. Check the **Balance Sheet** and confirm that both Cash/Bank and Capital Accounts are updated correctly.

Understanding the OD Account in Bank and Doing Entries in Tally Prime

Now that we have started our business “TAWSEEF AHMAD COMPANY” and introduced capital, it’s time to understand one of the most useful features offered by banks to businesses — the **OD Account**, also known as **Overdraft Account**. Many businesses use an OD facility to manage temporary cash shortages, so knowing how to record and manage it in Tally Prime is very important.

What is an OD Account?

An OD (Overdraft) account is a special type of bank account that allows a business to withdraw more money than it currently has in its balance, up to a fixed limit approved by the bank. In simple terms, it works like a short-term loan linked to your current account. When your business needs urgent funds and your cash or bank balance is low, the OD account helps by providing instant access to borrowed money.

Example:

If TAWSEEF AHMAD COMPANY has ₹10,000 in its bank account but the bank has provided an overdraft limit of ₹50,000, you can withdraw up to ₹60,000. The extra ₹50,000 is the overdraft portion, and you will pay interest to the bank for using it.

Nature of the OD Account

In accounting, an OD account is treated as a **liability**, because it represents money borrowed from the bank. Whenever we use funds from the OD account, our liability increases. When we repay the bank, our liability decreases. That’s why in Tally Prime the OD account must be created under the **Loans (Liability)** group.

Creating an OD Account in Tally Prime

1. Go to **Gateway of Tally → Masters → Create → Ledger**.
2. In the Ledger Name field, type the name of your OD account, for example: *HDFC Bank OD Account*.

3. In the **Under** field, select **Loans (Liability)**.
4. In the **Mailing Name**, enter the full bank name if needed.
5. Enter the **Opening Balance** if the OD facility already exists (for example ₹20,000). If it's a new facility, leave it blank for now.
6. Press **Ctrl + A** to save.

Now TAWSEEF AHMAD COMPANY has a proper OD account created in Tally Prime.

Recording Overdraft Withdrawals

When you withdraw money from your OD account for business use, it increases your liability and adds cash to your business. Record this through a **Contra Voucher** because the money is moving within the business — from OD Account to Cash or another Bank.

Example 1:

TAWSEEF AHMAD COMPANY withdraws ₹10,000 from HDFC Bank OD Account and keeps it as cash for business expenses.

Steps:

1. Go to **Accounting Vouchers → F4 (Contra)**.
2. Date: 05-Apr-2025
3. **Credit:** HDFC Bank OD Account ₹10,000
4. **Debit:** Cash Account ₹10,000
5. Narration: Being ₹10,000 withdrawn from OD Account for business use.
6. Press **Ctrl + A** to save.

Now the cash balance increases by ₹10,000, and your OD Account shows a ₹10,000 liability.

Recording Overdraft Repayment

When the business deposits money back into the OD Account to reduce the loan amount, the entry is also made through a **Contra Voucher**, but in the opposite direction.

Example 2:

TAWSEEF AHMAD COMPANY deposits ₹5,000 cash back into the OD Account to reduce the overdraft.

Steps:

1. Go to **Accounting Vouchers → F4 (Contra)**.
2. Date: 15-Apr-2025
3. **Debit:** HDFC Bank OD Account ₹5,000
4. **Credit:** Cash Account ₹5,000
5. Narration: Being ₹5,000 deposited to OD Account as repayment.
6. Save the entry.

Now the OD Account balance decreases by ₹5,000 and the liability reduces.

Recording Interest on OD Account

Banks charge interest on the amount used from the OD Account. This interest must be recorded as an expense in the books.

Example 3:

Bank charged ₹300 interest on OD Account.

Steps:

1. Go to **Accounting Vouchers → F5 (Payment)**.
2. Date: 30-Apr-2025
3. **Credit:** HDFC Bank OD Account ₹300
4. **Debit:** Bank Interest Expense (Under Indirect Expenses) ₹300
5. Narration: Being interest charged on OD Account for April.
6. Save using **Ctrl + A**.

This entry reduces your bank balance and increases your expenses in the Profit & Loss Account.

Viewing the OD Account Report

To check the OD Account balance or verify transactions:

1. Go to **Gateway of Tally → Display More Reports → Account Books → Ledger**.
2. Select **HDFC Bank OD Account**.
3. You will see all withdrawals, deposits, and interest entries listed.
4. The balance shown will be negative if you owe the bank money (for example, – ₹5,000), meaning it's a liability.

Practical Understanding

The OD Account helps the business manage short-term cash flow issues efficiently. However, it must be used wisely since it involves interest costs. In Tally Prime, treating the OD Account as a liability ensures that your Balance Sheet reflects the true financial position — assets on one side and obligations like overdrafts on the other.

Practice Task

1. Create a ledger for *HDFC Bank OD Account* under **Loans (Liability)**.
2. Record a ₹10,000 withdrawal using a Contra Voucher.
3. Record a ₹5,000 repayment.
4. Record a ₹300 interest payment through a Payment Voucher.
5. Check the OD Account ledger and verify the closing balance.

Understanding and Creating the Bank Current Account of Our Company in Tally Prime

Now that TAWSEEF AHMAD COMPANY has understood how the OD account works, it's time to set up the most commonly used account in every business — the **Bank Current Account**. Most businesses today operate mainly through their current bank accounts for receiving customer payments, paying suppliers, and managing day-to-day transactions.

What is a Current Account?

A **Current Account** is a type of bank account designed for businesses that have frequent deposits and withdrawals. Unlike savings accounts, current accounts do not earn interest, but they allow unlimited transactions. A business can have more than one current account, depending on the bank it uses.

In accounting, a current account is treated as an **asset**, because it represents money owned by the business that is available for use at any time.

Why a Current Account Is Important?

1. It keeps business and personal transactions separate.
2. It allows easy payment to suppliers through cheques, NEFT, RTGS, or UPI.
3. It provides proof of business income for taxation and audits.
4. It helps in maintaining accurate cash-flow records in Tally Prime.

Creating the Bank Current Account in Tally Prime

Let's create the current account for OUR COMPANY, which is opened with HDFC Bank and has an opening balance of ₹25,000.

1. Go to **Gateway of Tally → Masters → Create → Ledger**.
2. **Name:** HDFC Bank Current Account
3. **Under:** Bank Accounts (because it is an asset of the company)
4. **Mailing Name:** HDFC Bank Ltd.
5. **Provide bank details:** enable "Provide bank details" and fill in:
 - Account Type: Current
 - Account Number: 123456789
 - IFSC Code: HDFC0000012
 - Bank Name: HDFC Bank
 - Branch: Tral
6. **Opening Balance:** ₹25,000
7. Press **Ctrl + A** to save.

Now TAWSEEF AHMAD COMPANY has its main business bank account ready in Tally Prime.

Recording Deposits in the Current Account

When you deposit cash or receive money directly into your current account, you record it through a **Contra** or **Receipt Voucher** depending on the situation.

Example 1: Deposit Cash into Bank

TAWSEEF AHMAD COMPANY deposits ₹10,000 cash into its current account.

Steps:

1. Go to **Accounting Vouchers → F4 (Contra)**.
2. Date: 05-Apr-2025
3. **Credit:** Cash A/c ₹10,000
4. **Debit:** HDFC Bank Current A/c ₹10,000
5. Narration: Being ₹10,000 deposited into HDFC Bank Current Account.
6. Save using **Ctrl + A**.

This entry reduces cash and increases the bank balance.

Example 2: Customer Payment Received through Bank

NOBLE TRADERS pays ₹15,000 for goods purchased earlier.

Steps:

1. Go to **Accounting Vouchers → F6 (Receipt)**.
2. Date: 07-Apr-2025
3. **Debit:** HDFC Bank Current A/c ₹15,000
4. **Credit:** NOBLE TRADERS (Under Sundry Debtors) ₹15,000
5. Narration: Being ₹15,000 received from NOBLE TRADERS via bank transfer.
6. Save the entry.

Now the customer's balance reduces, and your bank balance increases.

Recording Payments from the Current Account

When you pay any party or expense directly from the bank, you record it through a **Payment Voucher (F5)**.

Example 3: Payment to Supplier via Bank

TAWSEEF AHMAD COMPANY pays ₹20,000 to MILLENIUM GOODS for goods purchased.

Steps:

1. Go to **Accounting Vouchers → F5 (Payment)**.
2. Date: 09-Apr-2025
3. **Credit:** HDFC Bank Current A/c ₹20,000
4. **Debit:** MILLENIUM GOODS (Under Sundry Creditors) ₹20,000

5. Narration: Being payment made to MILLENIUM GOODS through HDFC Bank.
6. Save using **Ctrl + A**.

This reduces the bank balance and clears the liability toward the supplier.

Example 4: Paying Office Rent through Bank

Rent for April ₹8,000 is paid via online transfer.

Steps:

1. Go to **F5 (Payment)**.
2. Date: 10-Apr-2025
3. **Credit:** HDFC Bank Current A/c ₹8,000
4. **Debit:** Rent Expenses A/c (Under Indirect Expenses) ₹8,000
5. Narration: Being office rent paid through bank.
6. Save entry.

Recording Bank Charges or Interest

Banks sometimes deduct service charges or fees from the current account. These must be recorded to keep the balance accurate.

Example 5: Bank Charges Deducted ₹150

Steps:

1. Go to **F5 (Payment)**.
2. Date: 30-Apr-2025
3. **Credit:** HDFC Bank Current A/c ₹150
4. **Debit:** Bank Charges A/c (Under Indirect Expenses) ₹150
5. Narration: Being bank service charges debited by HDFC Bank.
6. Save entry.

Viewing the Bank Current Account Ledger

To check all transactions and closing balance:

1. Go to **Gateway of Tally → Display More Reports → Account Books → Ledger**.
2. Select **HDFC Bank Current A/c**.
You will see every deposit, withdrawal, and charge listed with the current balance at the bottom. You can also print this ledger as your business's internal bank statement using **Ctrl + P**.

Practical Tips

- Always record each bank transaction on the same date it occurs to match with the actual bank statement later during reconciliation.

- Use clear narrations for each entry to easily identify the purpose of payment or receipt.
- Avoid using the Cash A/c for large transactions; always use your bank current account for better tracking and audit clarity.
- If your business uses multiple banks, create a separate ledger for each current account.

Practice Task

1. Create a new ledger for *HDFC Bank Current A/c* with an opening balance of ₹25,000.
2. Record a ₹10,000 cash deposit into the bank.
3. Record a ₹15,000 receipt from NOBLE TRADERS via bank.
4. Record a ₹20,000 payment to MILLENIUM GOODS via bank.
5. Record ₹150 bank charges deducted.
6. Open and review the HDFC Bank Current Account ledger to confirm all entries.

Understanding the Difference Between OD Account and Current Account

Both **OD (Overdraft) Account** and **Current Account** are used by businesses to handle daily financial transactions through banks. But they serve very different purposes. Understanding this difference helps you know how each one affects your business's cash flow and accounting in Tally Prime.

What is a Current Account?

A **Current Account** is the main operating account of a business. It's like a wallet for your company — you keep money here to make payments, receive customer deposits, and manage everyday transactions. You can deposit or withdraw money anytime, but you can only use what you actually have in the account.

Key points:

- Used for daily business operations.
- You can only use the balance available in your account.
- It does not provide interest on deposits.
- It is an **Asset** for the business in accounting.
- Recorded in Tally under the **Bank Accounts** group.

Example:

TAWSEEF AHMAD COMPANY has ₹25,000 in its HDFC Current Account. If you want to pay ₹30,000 to a supplier, you can't — because you only have ₹25,000 available.

What is an OD (Overdraft) Account?

An **OD Account** is like a short-term loan facility linked to your current account. The bank allows you to withdraw more money than your balance, up to a specific limit. This is useful when your company needs temporary funds but doesn't have enough cash in hand or in the bank.

Key points:

- It lets you withdraw beyond your available balance (within a fixed limit).
- The amount used is considered a **loan from the bank**.
- You pay **interest** only on the amount you use.
- It is a **Liability** for the business in accounting.
- Recorded in Tally under the **Loans (Liability)** group.

Example:

TAWSEEF AHMAD COMPANY has ₹0 in its OD Account but an overdraft limit of ₹50,000. You withdraw ₹20,000 to pay a supplier — now your business owes ₹20,000 to the bank.

Simple Comparison Between OD and Current Account

Feature	Current Account	OD (Overdraft) Account
Purpose	Used for day-to-day business transactions	Used to borrow money temporarily when funds are short
Nature in Accounts	Asset (Business owns this money)	Liability (Business owes this money)
Interest	No interest earned	Interest charged on the amount used
Balance Type	Always positive	Usually negative (shows amount owed to bank)
Limit	Limited to available funds	Can withdraw beyond available funds up to OD limit
Use in Tally	Under Bank Accounts group	Under Loans (Liability) group
Example	Paying bills from available ₹25,000	Borrowing ₹20,000 extra to pay bills when funds are low

Easy Way to Remember

- **Current Account → Your money.**
You can use it freely for business payments and receipts.
- **OD Account → Bank's money.**
You use it temporarily and repay it with interest.

How Both Work Together in Business

In real businesses, both accounts are often used side by side. The Current Account handles normal operations like receiving and paying money, while the OD Account helps during low-cash situations. In Tally Prime, both accounts are created separately and their balances show the true financial position — assets (your funds) and liabilities (borrowed funds).

Understanding and Recording Secured Loans in Tally Prime

In every growing business, there comes a time when additional funds are needed for expansion, equipment, or covering working capital. When these funds are taken from banks or financial institutions by keeping something valuable as security, it is called a **Secured Loan**. As TAWSEEF AHMAD COMPANY is now moving forward in operations, it's important to understand how secured loans work and how to record them correctly in Tally Prime.

What is a Secured Loan?

A secured loan is a type of loan that is taken by providing the lender (usually a bank) with a **security or collateral**. This means the business pledges an asset such as property, machinery, or any valuable item. If the business fails to repay the loan, the bank can take that asset to recover its money. Common examples of secured loans are business loans against property, vehicle loans, or machinery loans.

Accounting Nature of Secured Loans

In accounting, secured loans are considered a **liability** because they represent money borrowed from an external party that must be repaid. These loans are long-term if the repayment period exceeds one year and short-term if repayable within a year. In Tally Prime, such loans are placed under the **Secured Loans** group, which is already available in the default chart of accounts.

Creating a Secured Loan Ledger in Tally Prime

Let's say TAWSEEF AHMAD COMPANY takes a secured loan of ₹2,00,000 from HDFC Bank by pledging business equipment.

Steps to create the loan ledger:

1. Go to **Gateway of Tally → Masters → Create → Ledger**.
2. **Name:** HDFC Bank Secured Loan
3. **Under:** Secured Loans
4. **Mailing Name:** HDFC Bank Ltd.
5. **Opening Balance:** Leave blank (if loan is new)
6. Press **Ctrl + A** to save.

The loan ledger is now ready and can be used for recording transactions related to loan receipt, repayment, and interest.

Recording the Loan Received

When the business receives the loan amount from the bank, it increases both the bank balance (asset) and the loan liability. Record this through a **Journal Voucher** or **Bank Receipt**, depending on how the funds are received.

Example:

TAWSEEF AHMAD COMPANY receives ₹2,00,000 as a secured loan directly in its current bank account.

Steps:

1. Go to **Accounting Vouchers → F6 (Receipt)**.
2. Date: 10-Apr-2025
3. **Debit:** HDFC Bank Current A/c ₹2,00,000
4. **Credit:** HDFC Bank Secured Loan ₹2,00,000
5. Narration: Being ₹2,00,000 secured loan received from HDFC Bank.
6. Save using **Ctrl + A**.

Now your bank balance increases, and a liability appears under Secured Loans in your Balance Sheet.

Recording Loan Repayment

When you repay the loan, the liability decreases and your bank balance reduces. Record this through a **Payment Voucher**.

Example:

TAWSEEF AHMAD COMPANY repays ₹20,000 of the secured loan through bank transfer.

Steps:

1. Go to **Accounting Vouchers → F5 (Payment)**.
2. Date: 30-Apr-2025
3. **Credit:** HDFC Bank Current A/c ₹20,000

4. **Debit:** HDFC Bank Secured Loan ₹20,000
5. Narration: Being part payment of secured loan made to HDFC Bank.
6. Save the entry.

After saving, the outstanding loan balance reduces from ₹2,00,000 to ₹1,80,000.

Recording Loan Interest

Banks charge interest on secured loans every month or quarter. The interest portion is an **expense**, not part of the loan principal, so it must be recorded separately.

Example:

Interest charged by HDFC Bank for April is ₹1,200.

Steps:

1. Go to **Accounting Vouchers → F5 (Payment)**.
2. Date: 30-Apr-2025
3. **Credit:** HDFC Bank Current A/c ₹1,200
4. **Debit:** Loan Interest A/c (Under Indirect Expenses) ₹1,200
5. Narration: Being interest on secured loan paid to HDFC Bank for April.
6. Save entry.

This entry records the cost of borrowing in your Profit & Loss Account.

Checking the Loan Balance

To verify the remaining loan balance:

1. Go to **Gateway of Tally → Display More Reports → Account Books → Ledger**.
2. Select **HDFC Bank Secured Loan**.
You will see all loan receipts, repayments, and the closing balance. The remaining balance represents the amount yet to be paid to the bank.

Practical Understanding

Secured loans help businesses grow faster by providing funds while ensuring safety for the lender. In accounting terms:

- Loan received increases liability and bank balance.
- Loan repayment decreases liability and bank balance.
- Interest on loan is an expense that affects profit.

Practice Task

1. Create a ledger for *HDFC Bank Secured Loan* under the Secured Loans group.
2. Record ₹2,00,000 received from the bank into your current account.

3. Record ₹20,000 repayment made to the bank.
4. Record ₹1,200 interest payment on the loan.
5. View the loan ledger and confirm the closing balance of ₹1,80,000.

Understanding and Recording Unsecured Loans in Tally Prime

After understanding secured loans, it's time to learn about another common source of borrowed funds — the **Unsecured Loan**. Many small and medium businesses, including TAWSEEF AHMAD COMPANY, often take loans without giving any security to manage short-term financial needs. These are quicker to obtain but usually come with higher interest rates, so correct accounting is essential.

What is an Unsecured Loan?

An unsecured loan is a loan that a business takes without giving any collateral or security to the lender. The loan is purely based on trust and the creditworthiness of the borrower. If the borrower fails to repay, the lender has no specific asset to claim, unlike in a secured loan. Common examples include personal loans, business loans without security, or loans taken from friends, relatives, or private lenders.

Accounting Nature of Unsecured Loans

In accounting, unsecured loans are treated as a **liability**, just like secured loans, because they are borrowed amounts that the business must repay in the future. However, since no asset is pledged as security, they are recorded under the **Unsecured Loans** group in Tally Prime. If the loan is from an individual or private party, it can also be created under a specific lender's ledger for easy tracking.

Creating an Unsecured Loan Ledger in Tally Prime

Let's assume TAWSEEF AHMAD COMPANY takes an unsecured loan of ₹1,00,000 from a private lender named **RAY FINANCE** to cover business expenses.

Steps to create the loan ledger:

1. Go to **Gateway of Tally → Masters → Create → Ledger**.
2. **Name:** RAY FINANCE Unsecured Loan
3. **Under:** Unsecured Loans
4. **Mailing Name:** RAY FINANCE
5. **Opening Balance:** Leave blank (if loan is new)
6. Press **Ctrl + A** to save.

Now TAWSEEF AHMAD COMPANY is ready to record the loan transaction.

Recording the Loan Received

When the unsecured loan is received, the bank or cash balance increases and a liability is created toward the lender.

Example: TAWSEEF AHMAD COMPANY receives ₹1,00,000 loan through its HDFC Bank Current Account.

Steps:

1. Go to **Accounting Vouchers → F6 (Receipt)**.
2. Date: 12-Apr-2025
3. **Debit:** HDFC Bank Current A/c ₹1,00,000
4. **Credit:** RAY FINANCE Unsecured Loan ₹1,00,000
5. Narration: Being ₹1,00,000 unsecured loan received from RAY FINANCE.
6. Save using **Ctrl + A**.

This entry increases the bank balance and creates a liability under Unsecured Loans.

Recording the Loan Repayment

When TAWSEEF AHMAD COMPANY repays part or full of the loan, the bank balance decreases and the liability reduces.

Example: The company repays ₹25,000 to RAY FINANCE through bank transfer.

Steps:

1. Go to **Accounting Vouchers → F5 (Payment)**.
2. Date: 25-Apr-2025
3. **Credit:** HDFC Bank Current A/c ₹25,000
4. **Debit:** RAY FINANCE Unsecured Loan ₹25,000
5. Narration: Being part repayment of unsecured loan made to RAY FINANCE.
6. Save the entry.

The remaining balance in the RAY FINANCE Unsecured Loan ledger will now be ₹75,000.

Recording Interest on the Unsecured Loan

Interest on unsecured loans is usually higher since there is no security involved. The interest paid is treated as an **expense** and recorded separately in the books.

Example: Interest charged for the month is ₹1,000.

Steps:

1. Go to **Accounting Vouchers → F5 (Payment)**.
2. Date: 30-Apr-2025
3. **Credit:** HDFC Bank Current A/c ₹1,000
4. **Debit:** Loan Interest A/c (Under Indirect Expenses) ₹1,000
5. Narration: Being interest on unsecured loan paid to RAY FINANCE.
6. Save using **Ctrl + A**.

This entry records the interest cost in the Profit & Loss Account.

Checking the Loan Ledger

To verify all transactions:

1. Go to **Gateway of Tally → Display More Reports → Account Books → Ledger**.
2. Select **RAY FINANCE Unsecured Loan**.
You will see the ₹1,00,000 loan received, ₹25,000 repaid, and the closing balance of ₹75,000, representing the outstanding loan amount.

Key Difference Between Secured and Unsecured Loans

- A secured loan has an asset pledged as collateral, while an unsecured loan does not.
- Secured loans usually have lower interest rates; unsecured loans are riskier and costlier.
- In Tally, both are recorded under separate groups — *Secured Loans* and *Unsecured Loans* — for proper classification in the Balance Sheet.

Practice Task

1. Create a ledger named *RAY FINANCE Unsecured Loan* under the Unsecured Loans group.
2. Record ₹1,00,000 received from RAY FINANCE into HDFC Bank.
3. Record ₹25,000 repayment of the loan.
4. Record ₹1,000 interest payment.
5. Open the ledger to verify the closing balance and interest expense.

Understanding Deposits (Assets) and Their Types – Current and Non-Current Assets

As TAWSEEF AHMAD COMPANY continues to grow, it will start dealing with various kinds of assets — not just cash or equipment but also **Deposits**. Deposits are a part of the company's assets because they represent money that the business has given to someone else and expects to receive back in the future. Understanding deposits and their types helps in

recording them correctly in Tally Prime and presenting an accurate picture of your company's financial position.

What are Deposits (Assets)

A deposit is an amount of money that the business gives to another person, company, or organization for a specific reason — such as renting an office, getting a service connection, or securing a contract. Since this money is expected to be returned at some point, it is treated as an **asset** in accounting. In simple words, deposits are “money given temporarily to others.”

Common examples of deposits include:

- **Security deposit for office rent**
- **Electricity or telephone connection deposit**
- **Deposit for tender or contract**
- **Deposit for machinery service or maintenance**

These deposits hold value because they can be recovered in the future, which is why they appear under the asset side of the Balance Sheet.

Types of Deposit Assets

Deposits can be classified into two main types depending on how long they will remain with the other party — **Current Deposits** and **Non-Current Deposits**.

1. Current (Short-Term) Deposits

Current deposits are those that can be recovered or adjusted within **one year**. They are considered part of **Current Assets** because they represent short-term advances or recoverable amounts.

Examples:

- Security deposit with a vendor for supply of goods.
- Short-term advance to an employee or service provider.
- Temporary deposit given for a project or event.

In Tally Prime, these are generally placed under the **Current Assets** group.

2. Non-Current (Long-Term) Deposits

Non-current deposits are deposits that will remain with the other party for more than one year. These are considered **Non-Current Assets**, because they are long-term in nature and not expected to be recovered within the current financial year.

Examples:

- Deposit given to a landlord for a 3-year office rental agreement.
- Deposit with an electricity board or telephone company.
- Deposit with government authorities or licensing departments.

In Tally Prime, these are placed under the **Loans & Advances (Assets)** or **Deposits (Assets)** group, depending on the purpose.

Creating Deposit Ledgers in Tally Prime

Let's say TAWSEEF AHMAD COMPANY pays two deposits:

1. ₹10,000 to the Electricity Board (non-current deposit)
2. ₹5,000 to a vendor as a short-term security deposit (current deposit)

Creating the Electricity Deposit (Non-Current)

1. Go to **Gateway of Tally → Masters → Create → Ledger**.
2. **Name:** Electricity Board Deposit
3. **Under:** Deposits (Assets)
4. **Opening Balance:** ₹10,000
5. Narration: Security deposit for electricity connection.
6. Press **Ctrl + A** to save.

Creating the Vendor Deposit (Current)

1. Go to **Gateway of Tally → Masters → Create → Ledger**.
2. **Name:** Vendor Security Deposit
3. **Under:** Current Assets
4. **Opening Balance:** ₹5,000
5. Narration: Short-term deposit given to vendor.
6. Save using **Ctrl + A**.

Now TAWSEEF AHMAD COMPANY has both short-term and long-term deposits properly recorded as assets.

Recording Deposit Transactions in Tally Prime

If the deposit is paid through bank transfer, it must be recorded through a **Payment Voucher**.

Example:

TAWSEEF AHMAD COMPANY pays ₹10,000 to the Electricity Board from its HDFC Bank Current Account.

Steps:

1. Go to **Accounting Vouchers → F5 (Payment)**.

2. Date: 15-Apr-2025
3. **Credit:** HDFC Bank Current A/c ₹10,000
4. **Debit:** Electricity Board Deposit ₹10,000
5. Narration: Being ₹10,000 deposit paid to Electricity Board for connection.
6. Save the entry.

This entry increases the company's assets (deposit) and reduces its bank balance.

When the Deposit is Refunded

If the deposit is received back, record it through a **Receipt Voucher** since the money is coming into the business.

Example:

TAWSEEF AHMAD COMPANY receives ₹5,000 deposit refund from a vendor.

Steps:

1. Go to **Accounting Vouchers → F6 (Receipt)**.
2. Date: 30-Sep-2025
3. **Debit:** HDFC Bank Current A/c ₹5,000
4. **Credit:** Vendor Security Deposit ₹5,000
5. Narration: Being ₹5,000 deposit refunded by vendor.
6. Save entry.

Checking Deposit Balances

To verify the total deposits and their status:

1. Go to **Gateway of Tally → Display More Reports → Account Books → Ledger**.
2. Select the deposit ledger, such as *Electricity Board Deposit* or *Vendor Security Deposit*.
3. You'll see all payments, refunds, and the current balance.

You can also view all deposits together under **Balance Sheet → Assets → Deposits (Assets)** to understand how much money is tied up in long-term and short-term deposits.

Practical Understanding

- Deposits are assets because they represent recoverable money.
- Current deposits are short-term, usually adjusted within a year.
- Non-current deposits remain with the other party for more than a year.
- Always separate the two in Tally Prime for accurate financial reporting.
- Refunds or adjustments of deposits should be recorded immediately to maintain correct balances.

Practice Task

1. Create ledgers for *Electricity Board Deposit* and *Vendor Security Deposit*.
2. Record a ₹10,000 payment to the Electricity Board through bank.
3. Record a ₹5,000 payment to a vendor as security deposit.
4. Record a ₹5,000 deposit refund from the vendor.
5. Check your Balance Sheet and confirm that both deposits appear under assets with the correct classification.

Understanding Loans and Advances (Assets) Group and How to Record Entries in Tally Prime

As TAWSEEF AHMAD COMPANY continues its accounting journey, it's time to understand another important asset group — **Loans and Advances (Assets)**. This category represents the money that your business gives to others temporarily, expecting it to be returned in the future. These are not expenses but **recoverable amounts**, which means they will come back to the business after a certain time.

What Are Loans and Advances (Assets)

When a business gives money to employees, customers, or any other party either as a loan or an advance, it is recorded under this group. It represents the company's right to receive money back, so it's considered an **asset**.

- **Loans** are amounts lent for a specific period, often with or without interest.
- **Advances** are short-term payments made before receiving goods or services.

In both cases, the company expects repayment or adjustment, which makes them part of the **Loans and Advances (Assets)** group in Tally Prime.

Examples of Loans and Advances

- Loan given to an employee or business partner.
- Advance given to a supplier for goods or services.
- Temporary loan to another business.
- Advance for travel, project, or office expenses.

Accounting Nature

Loans and advances are **current assets** if they are expected to be recovered within a year, and **non-current assets** if recoverable after more than a year. They appear under the **Assets** side of the Balance Sheet and reduce once the amount is received or adjusted.

Creating a Loan or Advance Ledger in Tally Prime

Let's say TAWSEEF AHMAD COMPANY gives two amounts:

1. ₹20,000 as a short-term advance to supplier **MILLENIUM GOODS**.
2. ₹50,000 as a loan to employee **FAIZAL AHMAD**.

Creating Supplier Advance Ledger

1. Go to **Gateway of Tally → Masters → Create → Ledger**.
2. **Name:** Advance to MILLENIUM GOODS
3. **Under:** Loans & Advances (Assets)
4. **Opening Balance:** Leave blank (if new)
5. Press **Ctrl + A** to save.

Creating Employee Loan Ledger

1. Go to **Gateway of Tally → Masters → Create → Ledger**.
2. **Name:** Loan to FAIZAL AHMAD
3. **Under:** Loans & Advances (Assets)**
4. **Opening Balance:** Leave blank.
5. Press **Ctrl + A** to save.

Now both ledgers are ready for use in transactions.

Recording a Loan or Advance Given

When TAWSEEF AHMAD COMPANY gives the loan or advance, the bank or cash balance decreases while the asset (loan or advance) increases.

Example 1: Advance to Supplier ₹20,000

1. Go to **Accounting Vouchers → F5 (Payment)**.
2. Date: 12-Apr-2025
3. **Credit:** HDFC Bank Current A/c ₹20,000
4. **Debit:** Advance to MILLENIUM GOODS ₹20,000
5. Narration: Being ₹20,000 advance given to MILLENIUM GOODS for goods supply.
6. Save using **Ctrl + A**.

Example 2: Loan to Employee ₹50,000

1. Go to **Accounting Vouchers → F5 (Payment)**.
2. Date: 15-Apr-2025
3. **Credit:** HDFC Bank Current A/c ₹50,000
4. **Debit:** Loan to FAIZAL AHMAD ₹50,000
5. Narration: Being ₹50,000 loan given to employee FAIZAL AHMAD.
6. Save the entry.

Both entries increase your Loans & Advances (Assets) and decrease your bank balance.

Recording Loan or Advance Received Back

When the employee or supplier returns the money, record it through a **Receipt Voucher**, as cash or bank increases.

Example 3: Supplier Refund ₹10,000

1. Go to **Accounting Vouchers → F6 (Receipt)**.
2. Date: 25-Apr-2025
3. **Debit:** HDFC Bank Current A/c ₹10,000
4. **Credit:** Advance to MILLENIUM GOODS ₹10,000
5. Narration: Being ₹10,000 refund received from MILLENIUM GOODS.
6. Save the entry.

Example 4: Employee Repays Loan ₹20,000

1. Go to **Accounting Vouchers → F6 (Receipt)**.
2. Date: 30-Apr-2025
3. **Debit:** HDFC Bank Current A/c ₹20,000
4. **Credit:** Loan to FAIZAL AHMAD ₹20,000
5. Narration: Being ₹20,000 repayment received from FAIZAL AHMAD.
6. Save the entry.

Recording Interest on Loan (If Charged)

If TAWSEEF AHMAD COMPANY charges interest on the loan given, it should be recorded as income.

Example 5: Interest ₹500 received from FAIZAL AHMAD

1. Go to **F6 (Receipt)**.
2. Date: 30-Apr-2025
3. **Debit:** HDFC Bank Current A/c ₹500
4. **Credit:** Loan Interest Income (Under Indirect Income) ₹500
5. Narration: Being interest on loan received from FAIZAL AHMAD.
6. Save using **Ctrl + A**.

This entry increases your income and updates your bank balance.

Viewing the Loans and Advances (Assets)

To check balances:

1. Go to **Gateway of Tally → Display More Reports → Account Books → Ledger**.

2. Select any loan or advance ledger to see transactions and outstanding amounts.
You can also check the total under **Balance Sheet → Assets → Loans & Advances (Assets)** to view the total recoverable money.

Practical Understanding

- Loans and advances are recoverable assets, not expenses.
- Always record them under the correct group to show accurate assets.
- Keep separate ledgers for each person or party to maintain clarity.
- Record repayments and interest immediately to maintain real-time accuracy.

Practice Task

1. Create *Advance to MILLENIUM GOODS* and *Loan to FAIZAL AHMAD* under Loans & Advances (Assets).
2. Record ₹20,000 advance and ₹50,000 employee loan through bank.
3. Record partial repayments of ₹10,000 and ₹20,000.
4. Record ₹500 interest received on the employee loan.
5. View both ledgers and confirm the closing balances.

Understanding Fixed Assets Group and How to Record Entries in Tally Prime

Now that TAWSEEF AHMAD COMPANY has learned about current and non-current assets, it's time to understand another important part of the Balance Sheet — **Fixed Assets**. These are the long-term resources that your business uses to operate, produce, or provide services. Knowing how to record fixed assets properly in Tally Prime is essential for maintaining accurate books and calculating depreciation later.

What Are Fixed Assets

Fixed assets are tangible or intangible items that your business buys and uses for a long period (usually more than one year) to generate income. These assets are not meant for resale but for running business operations efficiently.

Common examples of fixed assets include:

- Land and Building
- Furniture and Fixtures
- Computers and Office Equipment
- Vehicles
- Machinery
- Tools

- Patents or Software Licenses (intangible assets)

Since these assets provide long-term benefits, they appear under the **Fixed Assets** group on the **Assets** side of the Balance Sheet.

Nature of Fixed Assets

Fixed assets are **non-current assets** because they are not converted into cash within a short time. Instead, their value decreases gradually over time due to use — this decrease is called **Depreciation**. Fixed assets are shown in the books at their original purchase cost, and depreciation is recorded periodically to reflect their actual value.

Creating Fixed Assets Ledgers in Tally Prime

Let's assume TAWSEEF AHMAD COMPANY purchases the following assets:

1. Office Furniture worth ₹15,000 (Cash purchase)
2. Computer worth ₹30,000 (Purchased through bank)
3. Motorbike for office delivery worth ₹60,000 (Purchased on credit)

Now we'll create separate ledgers for each asset.

Creating Furniture Ledger

1. Go to **Gateway of Tally → Masters → Create → Ledger**.
2. **Name:** Office Furniture
3. **Under:** Fixed Assets
4. **Opening Balance:** Leave blank (if newly purchased)
5. Save using **Ctrl + A**.

Creating Computer Ledger

1. Go to **Gateway of Tally → Masters → Create → Ledger**.
2. **Name:** Office Computer
3. **Under:** Fixed Assets
4. **Opening Balance:** Leave blank.
5. Save using **Ctrl + A**.

Creating Vehicle Ledger

1. Go to **Gateway of Tally → Masters → Create → Ledger**.
2. **Name:** Office Motorbike
3. **Under:** Fixed Assets
4. **Opening Balance:** Leave blank.
5. Save using **Ctrl + A**.

Now all the fixed asset ledgers are ready for recording transactions.

Recording Fixed Asset Purchases

Example 1: Furniture Purchased in Cash ₹15,000

1. Go to **Accounting Vouchers → F5 (Payment)**.
2. Date: 12-Apr-2025
3. **Credit:** Cash A/c ₹15,000
4. **Debit:** Office Furniture ₹15,000
5. Narration: Being office furniture purchased for ₹15,000 in cash.
6. Save using **Ctrl + A**.

This entry increases fixed assets and decreases cash balance.

Example 2: Computer Purchased through Bank ₹30,000

1. Go to **Accounting Vouchers → F5 (Payment)**.
2. Date: 15-Apr-2025
3. **Credit:** HDFC Bank Current A/c ₹30,000
4. **Debit:** Office Computer ₹30,000
5. Narration: Being office computer purchased through HDFC Bank.
6. Save using **Ctrl + A**.

This entry increases the asset value and reduces the bank balance.

Example 3: Motorbike Purchased on Credit ₹60,000

1. Go to **Accounting Vouchers → F9 (Purchase)**.
2. Date: 20-Apr-2025
3. **Party Name:** SPEED MOTORS (Under Sundry Creditors)
4. **Purchase Ledger:** Office Motorbike ₹60,000
5. Narration: Being motorbike purchased on credit from SPEED MOTORS for business use.
6. Save using **Ctrl + A**.

This entry records a new fixed asset and creates a payable balance to the supplier.

Recording Depreciation on Fixed Assets

At the end of the financial year, depreciation is recorded to reduce the value of the asset and represent its usage. This is done through a **Journal Voucher (F7)**.

Example: 10% depreciation on Furniture worth ₹15,000.

1. Go to **Accounting Vouchers → F7 (Journal)**.
2. Date: 31-Mar-2026
3. **Debit:** Depreciation A/c (Under Indirect Expenses) ₹1,500

4. **Credit:** Office Furniture ₹1,500
5. Narration: Being 10% depreciation provided on office furniture for the year.
6. Save using **Ctrl + A**.

Depreciation reduces the value of the asset in the Balance Sheet and records it as an expense in the Profit & Loss Account.

Viewing Fixed Assets in Tally Prime

To see the details of all fixed assets:

1. Go to **Gateway of Tally → Display More Reports → Account Books → Ledger**.
2. Select the desired asset ledger, for example, *Office Furniture*.
3. You can also view the total under **Balance Sheet → Assets → Fixed Assets** to see the total investment in long-term assets and the adjusted value after depreciation.

Practical Understanding

- Fixed assets are long-term business resources used for operations, not for sale.
- They are recorded under the **Fixed Assets** group in Tally Prime.
- Depreciation reduces the value of assets every year.
- Always maintain separate ledgers for each type of asset to track cost and depreciation easily.
- Credit purchases of assets must be linked with the supplier's ledger to maintain liability records.

Practice Task

1. Create ledgers for *Office Furniture*, *Office Computer*, and *Office Motorbike* under Fixed Assets.
2. Record purchases using cash, bank, and credit methods.
3. Record depreciation of 10% on each asset at year-end.
4. View the Fixed Assets group under the Balance Sheet and confirm the values.

Understanding the Sundry Creditors and Purchase Accounts Groups in Tally Prime

Now that TAWSEEF AHMAD COMPANY has learned how to record assets, it's time to understand how to record day-to-day business transactions like purchases. When your business buys goods or materials, it often deals with **suppliers**. In Tally Prime, suppliers are recorded under the **Sundry Creditors Group**, and the expenses or goods you buy are recorded under the **Purchase Accounts Group**. Let's understand both in a very simple and practical way.

What are Sundry Creditors

Sundry Creditors are the people or companies from whom TAWSEEF AHMAD COMPANY buys goods or services on credit (that is, payment will be made later). They are your **liabilities**, because you owe them money. Until the payment is made, the amount remains payable to them.

Examples:

- A supplier who sold you raw materials but you will pay after 15 days.
- A service provider who completed work but hasn't yet been paid.

In accounting, Sundry Creditors always appear on the **Liabilities** side of the Balance Sheet.

Creating a Sundry Creditor Ledger

Let's say TAWSEEF AHMAD COMPANY buys goods from **MILLENIUM GOODS** on credit.

Steps to create the ledger:

1. Go to **Gateway of Tally → Masters → Create → Ledger**.
2. **Name:** MILLENIUM GOODS
3. **Under:** Sundry Creditors
4. **Mailing Name:** MILLENIUM GOODS TRADERS
5. **Opening Balance:** Leave blank (if new supplier)
6. Save using **Ctrl + A**.

Now the supplier is ready to be used in transactions.

What is the Purchase Accounts Group?

The **Purchase Accounts Group** is used to record the total value of goods or materials purchased by the business. Purchases are considered **expenses**, because goods are bought for resale or production.

When you make a purchase entry, Tally automatically records it under the **Purchase Accounts** group.

Examples:

- Purchase of goods for resale.
- Purchase of raw materials for production.
- Purchase of stationery or consumables.

Purchases appear on the **Debit side** of the Trading Account.

Creating a Purchase Ledger

You can create separate purchase ledgers for clarity.

Steps:

1. Go to **Gateway of Tally → Masters → Create → Ledger**.
2. **Name:** Purchase Account (or Raw Material Purchase, etc.)
3. **Under:** Purchase Accounts
4. Save using **Ctrl + A**.

Now your company is ready to record purchase transactions.

Recording a Purchase Entry (on Credit)

Let's record a purchase made on credit from MILLENIUM GOODS.

Example:

TAWSEEF AHMAD COMPANY purchases goods worth ₹25,000 on 10-Apr-2025.

Steps:

1. Go to **Accounting Vouchers → F9 (Purchase)**.
2. Date: 10-Apr-2025
3. **Party Name:** MILLENIUM GOODS (Under Sundry Creditors)
4. **Purchase Ledger:** Purchase Account ₹25,000
5. Narration: Being goods purchased on credit from MILLENIUM GOODS.
6. Save using **Ctrl + A**.

This entry increases your purchase expense and creates a payable balance to MILLENIUM GOODS.

Recording a Cash Purchase

If the goods are bought in cash instead of credit, the entry is almost the same.

Example:

Cash purchase of goods worth ₹10,000.

Steps:

1. Go to **F9 (Purchase)**.
2. **Party Name:** Cash
3. **Purchase Ledger:** Purchase Account ₹10,000
4. Narration: Being goods purchased in cash.
5. Save the entry.

This decreases cash and increases purchase expense.

Recording Payment to a Creditor

When you pay the supplier later, use a **Payment Voucher (F5)**.

Example:

Payment of ₹25,000 made to MILLENIUM GOODS through bank.

Steps:

1. Go to **F5 (Payment)**.
2. Date: 20-Apr-2025
3. **Credit:** HDFC Bank Current A/c ₹25,000
4. **Debit:** MILLENIUM GOODS ₹25,000
5. Narration: Being payment made to MILLENIUM GOODS against previous purchases.
6. Save using **Ctrl + A**.

Now the creditor's balance becomes zero.

Viewing Sundry Creditors and Purchases

To check your creditors:

1. Go to **Display More Reports → Statements of Accounts → Outstanding → Payables**.
You'll see all suppliers and the amounts due.

To check purchases:

1. Go to **Display More Reports → Account Books → Ledger**.
2. Select **Purchase Account** to see total purchases made during the period.

Practical Understanding

- **Sundry Creditors** = People you owe money to.
- **Purchase Accounts** = Record of goods or materials you bought.
- Purchase increases expenses, Creditors increase liabilities.
- Paying creditors reduces your liability and cash/bank balance.

Example to Remember

If TAWSEEF AHMAD COMPANY buys goods worth ₹25,000 from MILLENIUM GOODS on credit, your books show:

- Purchases (Expense) → ₹25,000
- Liability (Creditor) → ₹25,000

When you pay them later,

- Liability (Creditor) decreases → ₹25,000
- Cash/Bank decreases → ₹25,000

Practice Task

1. Create a ledger for *MILLENNIUM GOODS* under Sundry Creditors.
2. Create a ledger for *Purchase Account* under Purchase Accounts.
3. Record a credit purchase of ₹25,000.
4. Record a cash purchase of ₹10,000.
5. Record payment to the supplier.
6. View Outstanding Payables and Purchase Ledger to verify results.

Understanding the Duties and Taxes Group and Their Entries in Tally Prime

Now that TAWSEEF AHMAD COMPANY has learned how to record purchases and creditors, it's time to understand another very important part of accounting — **Duties and Taxes**. Every business pays and collects different types of taxes, like GST, VAT, or other government duties. In Tally Prime, all these are managed under the **Duties & Taxes** group. Understanding this group helps your business maintain clear tax records and prepare for returns easily.

What Are Duties and Taxes

Duties and Taxes are the amounts that a business either pays to the government or collects from customers on behalf of the government. These are not the company's income or expense; they are **liabilities** because the company temporarily holds them before paying them to the tax department.

In simple words:

- When TAWSEEF AHMAD COMPANY buys goods, it **pays tax** to the supplier.
- When it sells goods, it **collects tax** from customers.
- At the end of a tax period, the company pays or claims the difference to/from the government.

Examples of Duties and Taxes:

- **GST (Goods and Services Tax)**
- **CGST, SGST, IGST** (different types of GST)
- **TDS (Tax Deducted at Source)**

- **VAT or Excise Duty** (in some regions)

Nature of the Duties and Taxes Group

In Tally Prime, the **Duties & Taxes** group is found under **Current Liabilities** because these taxes are payable to the government after collection. However, if the company pays more tax than collected (like GST Input Credit), it can also appear under **Current Assets** as recoverable.

Creating Duties and Taxes Ledgers in Tally Prime

Let's set up some basic tax ledgers for TAWSEEF AHMAD COMPANY . Suppose your business is registered under GST.

Creating GST Output (Tax Collected on Sales)

1. Go to **Gateway of Tally → Masters → Create → Ledger**.
2. **Name:** Output CGST
3. **Under:** Duties & Taxes
4. **Type of Duty/Tax:** GST
5. **Tax Type:** Central Tax
6. Save using **Ctrl + A**.

Similarly, create another ledger:

- **Name:** Output SGST
- **Under:** Duties & Taxes
- **Type of Duty/Tax:** GST
- **Tax Type:** State Tax

These ledgers record tax collected from customers.

Creating GST Input (Tax Paid on Purchases)

1. Go to **Create → Ledger**.
2. **Name:** Input CGST
3. **Under:** Duties & Taxes
4. **Type of Duty/Tax:** GST
5. **Tax Type:** Central Tax
6. Save.

Then create:

- **Name:** Input SGST
- **Under:** Duties & Taxes
- **Type of Duty/Tax:** GST
- **Tax Type:** State Tax

These ledgers record tax paid to suppliers.

Now TAWSEEF AHMAD COMPANY is ready to record tax entries for both sales and purchases.

Recording Duties and Taxes in Purchase Entry

Let's say TAWSEEF AHMAD COMPANY buys goods worth ₹10,000 from a supplier with 9% CGST and 9% SGST.

Steps:

1. Go to **Accounting Vouchers → F9 (Purchase)**.
2. Date: 10-Apr-2025
3. **Party Name:** MILLENIUM GOODS
4. **Purchase Ledger:** Purchase Account ₹10,000
5. **Input CGST:** ₹900
6. **Input SGST:** ₹900
7. Total: ₹11,800
8. Narration: Being goods purchased with 18% GST from MILLENIUM GOODS.
9. Save using **Ctrl + A**.

This entry records the purchase and the tax paid, which will be claimed later as input credit.

Recording Duties and Taxes in Sales Entry

Now TAWSEEF AHMAD COMPANY sells goods worth ₹15,000 with 9% CGST and 9% SGST.

Steps:

1. Go to **Accounting Vouchers → F8 (Sales)**.
2. Date: 12-Apr-2025
3. **Party Name:** NOBLE TRADERS
4. **Sales Ledger:** Sales Account ₹15,000
5. **Output CGST:** ₹1,350
6. **Output SGST:** ₹1,350
7. Total: ₹17,700
8. Narration: Being goods sold with 18% GST to NOBLE TRADERS.
9. Save using **Ctrl + A**.

This entry records the sales and the tax collected from the customer.

Understanding What Happens in the Books

- Purchases increase your **Input Tax (Asset)** because it's recoverable from the government.
- Sales increase your **Output Tax (Liability)** because it's payable to the government.

- The net GST payable = Output Tax – Input Tax.

Example:

Input CGST ₹900 + Input SGST ₹900 = ₹1,800

Output CGST ₹1,350 + Output SGST ₹1,350 = ₹2,700

Net GST Payable = ₹2,700 – ₹1,800 = ₹900

This ₹900 is payable to the government.

Recording GST Payment to the Government

When you pay the GST to the government, record it using a **Payment Voucher (F5)**.

Example: Paying ₹900 GST.

1. Go to **F5 (Payment)**.
2. Date: 30-Apr-2025
3. **Credit:** HDFC Bank Current A/c ₹900
4. **Debit:** GST Payable (You can use Output CGST + Output SGST combined) ₹900
5. Narration: Being GST payment made to government.
6. Save entry.

This clears your GST liability.

Viewing Duties and Taxes Report

To see all your tax transactions:

1. Go to **Display More Reports → Account Books → Ledger**.
2. Select any tax ledger like *Output CGST* or *Input SGST*.
3. You can also view total tax liability under **Balance Sheet → Current Liabilities → Duties & Taxes**.

Practical Understanding

- **Duties & Taxes Group** records all tax-related transactions.
- Input tax = Paid on purchases → shown under Assets.
- Output tax = Collected on sales → shown under Liabilities.
- The balance between the two decides how much you owe or can claim.
- Always record taxes using separate ledgers for clarity during audits or filing returns.

Practice Task

1. Create Input CGST, Input SGST, Output CGST, and Output SGST ledgers under Duties & Taxes.
2. Record a purchase entry with 18% GST on ₹10,000.
3. Record a sales entry with 18% GST on ₹15,000.

4. Calculate the net GST payable and record its payment.
5. View the Duties & Taxes group under the Balance Sheet.

Understanding the Sundry Debtors Group and Sales Accounts Group in Tally Prime

Now that TAWSEEF AHMAD COMPANY has learned about purchases and creditors (the buying side), it's time to understand the **selling side of business** — how to record sales and track customer payments. In Tally Prime, these are managed through two key groups: **Sundry Debtors** and **Sales Accounts**. Understanding both clearly is essential for maintaining accurate records of who owes you money and how much revenue your business has earned.

What Are Sundry Debtors

Sundry Debtors are the people or companies who buy goods or services from TAWSEEF AHMAD COMPANY on credit. In simple words, they are your **customers who still have to pay you**. The amount they owe is an **asset** for your business because you will receive this money in the future.

Examples:

- Customers who purchased goods on credit.
- Clients who received services but haven't paid yet.

Sundry Debtors appear on the **Assets** side of the Balance Sheet under the **Current Assets** category.

Creating a Sundry Debtor Ledger in Tally Prime

Let's create a ledger for a customer named **NOBLE TRADERS** who buys goods from TAWSEEF AHMAD COMPANY .

Steps:

1. Go to **Gateway of Tally → Masters → Create → Ledger**.
2. **Name:** NOBLE TRADERS
3. **Under:** Sundry Debtors
4. **Mailing Name:** NOBLE TRADERS SUPPLIERS
5. **Opening Balance:** Leave blank (if new)
6. Save using **Ctrl + A**.

Now your customer account is ready for credit sales.

What Is the Sales Accounts Group?

The **Sales Accounts Group** is used to record the total value of goods or services sold by your business. Every time TAWSEEF AHMAD COMPANY sells something, the amount is recorded under **Sales Accounts**, which represents the company's main **income**.

Examples:

- Sales of goods or finished products.
- Sales of services.
- Export or wholesale sales.

In accounting, sales are shown on the **Credit side** of the Trading Account and directly increase the company's revenue.

Creating a Sales Ledger in Tally Prime

1. Go to **Gateway of Tally → Masters → Create → Ledger**.
2. **Name:** Sales Account
3. **Under:** Sales Accounts
4. **Inventory Values Are Affected:** Yes (if you're maintaining stock)
5. Save using **Ctrl + A**.

Now your company can record all sales entries easily.

Recording a Credit Sales Entry

Let's say TAWSEEF AHMAD COMPANY sells goods worth ₹20,000 on 15-Apr-2025 to NOBLE TRADERS on credit.

Steps:

1. Go to **Accounting Vouchers → F8 (Sales)**.
2. Date: 15-Apr-2025
3. **Party Name:** NOBLE TRADERS (Under Sundry Debtors)
4. **Sales Ledger:** Sales Account ₹20,000
5. Narration: Being goods sold on credit to NOBLE TRADERS.
6. Save using **Ctrl + A**.

This entry records your income and creates a receivable balance from the customer.

Recording a Cash Sale

If the sale is made in cash instead of on credit, the process is almost the same.

Example: Cash sale of goods worth ₹10,000.

1. Go to **F8 (Sales)**.
2. **Party Name:** Cash
3. **Sales Ledger:** Sales Account ₹10,000
4. Narration: Being goods sold in cash.
5. Save the entry.

This entry increases your cash balance and records income at the same time.

Recording Receipt from a Debtor

When your customer pays the outstanding amount, you record it using a **Receipt Voucher (F6)**.

Example: NOBLE TRADERS pays ₹20,000 through bank transfer.

1. Go to **F6 (Receipt)**.
2. Date: 25-Apr-2025
3. **Debit:** HDFC Bank Current A/c ₹20,000
4. **Credit:** NOBLE TRADERS ₹20,000
5. Narration: Being payment received from NOBLE TRADERS against previous sales.
6. Save using **Ctrl + A**.

This clears the customer's outstanding balance.

Viewing Sundry Debtors and Sales Reports

To check which customers owe you money:

1. Go to **Display More Reports → Statements of Accounts → Outstanding → Receivables**.
Here you can see all customers and their unpaid balances.

To check total sales:

1. Go to **Display More Reports → Account Books → Ledger**.
2. Select **Sales Account**.
You'll see all sales recorded during the period.

Practical Understanding

- **Sundry Debtors** represent your customers who owe money.
- **Sales Accounts** record your total revenue.
- Sales increase your income, and Debtors increase your assets.
- When customers pay, Debtors reduce, and Cash/Bank increases.

Example to Remember

If TAWSEEF AHMAD COMPANY sells goods worth ₹20,000 on credit to NOBLE TRADERS:

- Sales Account (Income) → Credited ₹20,000
- NOBLE TRADERS (Debtor) → Debited ₹20,000

When payment is received later:

- NOBLE TRADERS → Credited ₹20,000
- Bank Account → Debited ₹20,000

This shows how every sale and payment is linked in accounting.

Practice Task

1. Create *NOBLE TRADERS* under Sundry Debtors.
2. Create *Sales Account* under Sales Accounts.
3. Record a credit sale of ₹20,000 to NOBLE TRADERS.
4. Record a cash sale of ₹10,000.
5. Record payment from NOBLE TRADERS for ₹20,000.
6. Check Outstanding Receivables and Sales Account ledger.

Understanding the Investment Group and Its Entries in Tally Prime

As TAWSEEF AHMAD COMPANY continues to grow, it may decide to use some of its profits or spare funds to **invest** in other opportunities — such as shares, bonds, mutual funds, or deposits. These investments are valuable assets for the company and must be recorded properly in Tally Prime. The **Investment Group** helps businesses track where their money is invested and how much return they earn.

What Are Investments

Investments are amounts of money that a business puts into other ventures, companies, or schemes with the goal of earning profit in the future. These are not regular business expenses — they are **assets**, because they represent ownership or value that can bring returns later.

Examples of business investments include:

- Purchasing **shares** of another company.
- Putting money in **mutual funds**.

- Buying **government bonds**.
- Making **fixed deposits** (FDs) in a bank.
- Purchasing **land or property** for investment purposes.

Nature of the Investment Group

In accounting, investments are treated as **assets** because they hold future value. In Tally Prime, they are grouped under the **Investments** group, which appears on the **Assets** side of the Balance Sheet.

Investments can be classified into two types:

1. **Current Investments** – Short-term investments that can be sold or converted into cash within one year (like mutual funds or short-term bonds).
2. **Non-Current Investments** – Long-term investments that are held for more than one year (like shares, fixed deposits, or land).

Creating an Investment Ledger in Tally Prime

Let's say TAWSEEF AHMAD COMPANY invests ₹50,000 in **HDFC Mutual Fund** and ₹1,00,000 in a **Fixed Deposit** for one year.

Creating HDFC Mutual Fund Ledger

1. Go to **Gateway of Tally → Masters → Create → Ledger**.
2. **Name:** HDFC Mutual Fund Investment
3. **Under:** Investments
4. **Opening Balance:** Leave blank (if new investment)
5. Press **Ctrl + A** to save.

Creating Fixed Deposit Ledger

1. Go to **Gateway of Tally → Masters → Create → Ledger**.
2. **Name:** HDFC Bank Fixed Deposit
3. **Under:** Investments
4. **Opening Balance:** Leave blank.
5. Press **Ctrl + A** to save.

Now TAWSEEF AHMAD COMPANY has both investment ledgers ready.

Recording Investment Entries

Example 1: Investment in Mutual Fund (Through Bank)

TAWSEEF AHMAD COMPANY invests ₹50,000 in HDFC Mutual Fund through its current account.

Steps:

1. Go to **Accounting Vouchers → F5 (Payment)**.
2. Date: 20-Apr-2025
3. **Credit:** HDFC Bank Current A/c ₹50,000
4. **Debit:** HDFC Mutual Fund Investment ₹50,000
5. Narration: Being ₹50,000 invested in HDFC Mutual Fund.
6. Save using **Ctrl + A**.

This entry reduces your bank balance and increases your investments (asset).

Example 2: Fixed Deposit Created ₹1,00,000

TAWSEEF AHMAD COMPANY creates an FD in HDFC Bank for one year.

Steps:

1. Go to **F5 (Payment)**.
2. Date: 22-Apr-2025
3. **Credit:** HDFC Bank Current A/c ₹1,00,000
4. **Debit:** HDFC Bank Fixed Deposit ₹1,00,000
5. Narration: Being ₹1,00,000 fixed deposit created in HDFC Bank for one year.
6. Save entry.

Recording Interest on Investment

If the company earns interest on the investment, it should be recorded as **income** using a **Receipt Voucher (F6)**.

Example: ₹2,000 interest received on Fixed Deposit.

1. Go to **F6 (Receipt)**.
2. Date: 30-Apr-2025
3. **Debit:** HDFC Bank Current A/c ₹2,000
4. **Credit:** Interest on Investment (Under Indirect Income) ₹2,000
5. Narration: Being ₹2,000 interest received on HDFC Fixed Deposit.
6. Save using **Ctrl + A**.

This entry records the income earned and increases the bank balance.

Recording Sale or Withdrawal of Investment

When the business withdraws or sells an investment, it reduces the investment value and increases cash or bank.

Example: TAWSEEF AHMAD COMPANY withdraws ₹50,000 from its Mutual Fund.

1. Go to **F6 (Receipt)**.
2. Date: 10-May-2025

3. **Debit:** HDFC Bank Current A/c ₹50,000
4. **Credit:** HDFC Mutual Fund Investment ₹50,000
5. Narration: Being ₹50,000 withdrawn from HDFC Mutual Fund.
6. Save entry.

This entry decreases your investment and increases your bank balance.

Viewing Investment Balances

To check all investments:

1. Go to **Gateway of Tally → Display More Reports → Account Books → Ledger**.
2. Select the desired ledger (e.g., *HDFC Mutual Fund Investment*).
You can also view total investments under **Balance Sheet → Assets → Investments**, which shows your current value of all investments.

Practical Understanding

- Investments are long-term or short-term assets made to earn profit.
- Payments for investments reduce cash/bank and increase asset value.
- Returns like interest or dividends increase income.
- Withdrawals or redemptions reduce the investment asset.
- Keep separate ledgers for each type of investment to track performance easily.

Example to Remember

If TAWSEEF AHMAD COMPANY invests ₹50,000 in Mutual Funds and earns ₹2,000 interest:

- Investment (Asset) increases by ₹50,000.
- Income (Profit) increases by ₹2,000.

When investment is withdrawn:

- Investment (Asset) decreases by ₹50,000.
- Bank balance increases by ₹50,000.

Practice Task

1. Create ledgers for *HDFC Mutual Fund Investment* and *HDFC Bank Fixed Deposit* under Investments.
2. Record ₹50,000 investment in Mutual Fund and ₹1,00,000 FD through bank.
3. Record ₹2,000 interest received.
4. Record withdrawal of ₹50,000 from Mutual Fund.
5. View the *Investments Group* under the Balance Sheet.

Understanding Direct and Indirect Expenses in Tally Prime

Every business, including TAWSEEF AHMAD COMPANY , spends money to run its operations — for buying goods, producing items, managing staff, and selling products. These expenses are divided into **Direct Expenses** and **Indirect Expenses**. Knowing the difference between them helps you classify transactions correctly in Tally Prime and understand how they affect your Profit & Loss Account.

What Are Direct Expenses

Direct Expenses are the expenses that are directly related to producing or purchasing goods that will be sold. These expenses are necessary to bring the goods to a saleable condition or to make them ready for use in production.

In simple words:

Direct Expenses = Money spent directly on the goods you sell or produce.

These are shown on the **Debit side of the Trading Account** in Tally Prime.

Examples of Direct Expenses:

- Freight or Carriage Inward (transport cost for purchased goods)
- Wages paid to factory workers
- Power and Fuel used in production
- Manufacturing Expenses
- Import Duty or Customs Charges
- Packing Charges for goods before sale

These expenses are part of the **cost of goods sold (COGS)** and directly affect the gross profit.

What Are Indirect Expenses

Indirect Expenses are the costs that help in running the business but are **not directly connected** to producing goods. These are general business expenses necessary for administration, selling, and distribution.

In simple words:

Indirect Expenses = Money spent to manage and operate the business, not to produce goods.

They are shown on the **Debit side of the Profit & Loss Account** in Tally Prime.

Examples of Indirect Expenses:

- Office Rent
- Telephone or Internet Bills
- Advertising and Marketing Expenses
- Salaries of Office Staff
- Travelling Expenses
- Repairs and Maintenance
- Depreciation
- Printing and Stationery

These expenses affect **net profit**, not gross profit.

Key Difference Between Direct and Indirect Expenses

Basis	Direct Expenses	Indirect Expenses
Meaning	Expenses directly related to production or purchase of goods	Expenses related to running or managing the business
When Incurred	Before the goods are sold or ready for use	After the goods are produced or purchased
Effect on Profit	Affects Gross Profit	Affects Net Profit
Shown In	Trading Account (Debit Side)	Profit & Loss Account (Debit Side)
Examples	Wages, Freight Inward, Manufacturing Expenses	Rent, Salaries, Telephone Bills, Advertising

How to Create Direct and Indirect Expense Ledgers in Tally Prime

Example 1: Freight Inward (Direct Expense)

1. Go to **Gateway of Tally → Masters → Create → Ledger**.
2. **Name:** Freight Inward
3. **Under:** Direct Expenses
4. Save using **Ctrl + A**.

Example 2: Office Rent (Indirect Expense)

1. Go to **Gateway of Tally → Masters → Create → Ledger**.
2. **Name:** Office Rent
3. **Under:** Indirect Expenses
4. Save using **Ctrl + A**.

Now TAWSEEF AHMAD COMPANY can record both types of expenses easily.

Recording Direct Expense Entries

Example 1: Freight Paid in Cash ₹2,000

1. Go to **Accounting Vouchers → F5 (Payment)**.
2. Date: 10-Apr-2025
3. **Credit:** Cash A/c ₹2,000
4. **Debit:** Freight Inward ₹2,000
5. Narration: Being freight paid in cash for bringing goods to the warehouse.
6. Save using **Ctrl + A**.

This entry increases your cost of goods and reduces cash.

Example 2: Wages Paid to Workers ₹5,000

1. Go to **F5 (Payment)**.
2. Date: 12-Apr-2025
3. **Credit:** Cash A/c ₹5,000
4. **Debit:** Wages A/c (Under Direct Expenses) ₹5,000
5. Narration: Being wages paid to factory workers.
6. Save entry.

These are part of your production cost and will appear in the Trading Account.

Recording Indirect Expense Entries

Example 3: Office Rent Paid by Bank ₹8,000

1. Go to **F5 (Payment)**.
2. Date: 15-Apr-2025
3. **Credit:** HDFC Bank Current A/c ₹8,000
4. **Debit:** Office Rent ₹8,000
5. Narration: Being office rent paid through bank transfer.
6. Save entry.

Example 4: Telephone Bill Paid in Cash ₹1,200

1. Go to **F5 (Payment)**.
2. Date: 20-Apr-2025
3. **Credit:** Cash A/c ₹1,200
4. **Debit:** Telephone Expenses (Under Indirect Expenses) ₹1,200
5. Narration: Being telephone bill paid for April.
6. Save entry.

These entries are business-running costs and appear in the Profit & Loss Account.

Viewing Expense Reports in Tally Prime

1. Go to **Display More Reports → Account Books → Ledger**.
2. Select the desired ledger (e.g., Freight Inward or Office Rent).
You'll see all expenses recorded for that ledger.

To view total business expenses:

1. Go to **Profit & Loss Account**.
2. Tally will automatically group Direct Expenses under the **Trading Account** section and Indirect Expenses under the **Profit & Loss Account** section.

Practical Understanding

- Direct Expenses help make or purchase goods; without them, there would be no product.
- Indirect Expenses help run the business but do not directly produce goods.
- Correct classification is crucial — it ensures your **gross profit** and **net profit** calculations are accurate.
- Always create separate ledgers for each type of expense to make financial statements clear and audit-ready.

Example to Remember

If TAWSEEF AHMAD COMPANY buys goods and pays ₹2,000 freight and ₹8,000 rent:

- Freight (Direct Expense) → increases cost of goods sold.
- Rent (Indirect Expense) → reduces net profit.

Practice Task

1. Create ledgers for *Freight Inward*, *Wages*, *Office Rent*, and *Telephone Expenses*.
2. Record two direct expense entries and two indirect expense entries.
3. Open **Profit & Loss Account** and observe how Tally separates them automatically.

Understanding Direct and Indirect Incomes in Tally Prime

After learning about **Direct and Indirect Expenses**, the next important concept for TAWSEEF AHMAD COMPANY is understanding **Direct and Indirect Incomes**. These represent all the ways your business earns money — some come from your main business operations, while others come from additional or secondary activities. Knowing the difference helps in proper

income classification in Tally Prime and ensures your Profit & Loss statement shows the real performance of your business.

What Is Direct Income

Direct Income is the income that comes directly from your main business activities — the work your company was created to do. In simple words:

Direct Income = Money earned from your core business operations.

If TAWSEEF AHMAD COMPANY sells goods or provides services, the money received from those sales is a **Direct Income**.

These are shown on the **Credit side of the Trading Account** in Tally Prime because they directly contribute to the **Gross Profit** of the business.

Examples of Direct Incomes:

- Sales Revenue (main source of income)
- Service Charges (if your business provides services)
- Commission on Sales (if directly related to your business activity)
- Export Income
- Job Work Charges or Manufacturing Income

What Is Indirect Income

Indirect Income is the income earned **from activities other than the main business operations**. These are secondary or additional sources of income that support the business but are not the core purpose of it.

In simple words:

Indirect Income = Extra income not related to production or main business activity.

Indirect Incomes are shown on the **Credit side of the Profit & Loss Account** and directly increase **Net Profit**.

Examples of Indirect Incomes:

- Interest Received
- Rent Received
- Discount Received
- Commission Received (not related to main sales)
- Profit on Sale of Assets
- Dividend Income

Key Difference Between Direct and Indirect Incomes

Basis	Direct Income	Indirect Income
Meaning	Income earned from main business activities	Income earned from other or secondary activities
Shown In	Trading Account (Credit Side)	Profit & Loss Account (Credit Side)
Affects	Gross Profit	Net Profit
Examples	Sales, Job Charges, Service Income	Interest Received, Rent Received, Discount Received
Relation to Business	Core business earnings	Non-core or additional income

How to Create Direct and Indirect Income Ledgers in Tally Prime

Example 1: Sales Income (Direct Income)

1. Go to **Gateway of Tally → Masters → Create → Ledger**.
2. **Name:** Sales Account
3. **Under:** Direct Incomes
4. **Inventory Values Are Affected:** Yes (if stock is maintained)
5. Save using **Ctrl + A**.

Example 2: Interest Received (Indirect Income)

1. Go to **Gateway of Tally → Masters → Create → Ledger**.
2. **Name:** Interest Received
3. **Under:** Indirect Incomes
4. Save using **Ctrl + A**.

Now TAWSEEF AHMAD COMPANY is ready to record both types of income entries.

Recording Direct Income Entries

Example 1: Sales Made on Cash ₹25,000

1. Go to **Accounting Vouchers → F8 (Sales)**.
2. Date: 10-Apr-2025
3. **Party Name:** Cash
4. **Sales Ledger:** Sales Account ₹25,000
5. Narration: Being goods sold in cash.
6. Save using **Ctrl + A**.

This entry increases your business revenue and cash balance.

Example 2: Job Work Charges Received ₹5,000

1. Go to **F6 (Receipt)**.
2. Date: 12-Apr-2025
3. **Debit:** HDFC Bank Current A/c ₹5,000
4. **Credit:** Job Work Income (Under Direct Incomes) ₹5,000
5. Narration: Being job work charges received from client.
6. Save entry.

Both entries increase your direct business income.

Recording Indirect Income Entries

Example 3: Interest Received ₹1,500

1. Go to **F6 (Receipt)**.
2. Date: 15-Apr-2025
3. **Debit:** HDFC Bank Current A/c ₹1,500
4. **Credit:** Interest Received ₹1,500
5. Narration: Being interest received from bank deposit.
6. Save using **Ctrl + A**.

Example 4: Rent Received ₹3,000

1. Go to **F6 (Receipt)**.
2. Date: 20-Apr-2025
3. **Debit:** HDFC Bank Current A/c ₹3,000
4. **Credit:** Rent Received (Under Indirect Incomes) ₹3,000
5. Narration: Being rent received for office property.
6. Save entry.

These entries record your extra earnings which are not part of your regular sales.

Viewing Direct and Indirect Incomes in Tally Prime

1. Go to **Display More Reports → Account Books → Ledger**.
2. Select *Sales Account* or *Interest Received* to view detailed income records.

To see total income:

1. Go to **Profit & Loss Account**.
2. Tally will automatically show Direct Incomes under the **Trading Account** section and Indirect Incomes under the **Profit & Loss** section.

Practical Understanding

- **Direct Income** = Main business earnings → affects gross profit.
- **Indirect Income** = Additional income → affects net profit.
- Both types of income increase total profitability but are shown separately for clarity.

- Always classify them correctly to ensure your Profit & Loss report reflects true business performance.

Example to Remember

If TAWSEEF AHMAD COMPANY earns ₹25,000 from sales and ₹1,500 as interest:

- Sales (Direct Income) → added to Gross Profit.
- Interest (Indirect Income) → added to Net Profit.

Both combine to show the company's total profit for the period.

Practice Task

1. Create ledgers for *Sales Account*, *Job Work Income*, *Interest Received*, and *Rent Received*.
2. Record two direct income entries (Sales & Job Work).
3. Record two indirect income entries (Interest & Rent).
4. Open **Profit & Loss Account** and check how Tally classifies them separately.

Understanding the Cash-in-Hand Group and Petty Cash in Tally Prime

Every business, including TAWSEEF AHMAD COMPANY, keeps some amount of **cash** for day-to-day expenses — like buying stationery, paying courier charges, or covering small office costs. In Tally Prime, such transactions are managed under the **Cash-in-Hand Group**, which includes the **Main Cash Account** and **Petty Cash Account**. Understanding this group helps you track all cash transactions easily and maintain accurate financial records.

What Is the Cash-in-Hand Group?

The **Cash-in-Hand Group** represents all the cash available in the business at any given time. It includes physical cash stored in the office, cash counters, or safes. This group is a part of the **Current Assets** section of the Balance Sheet.

In simple words:

Cash-in-Hand = Actual money available with the business right now.

This includes:

- Main cash kept by the accountant or owner.
- Petty cash given to staff for small daily expenses.

Difference Between Main Cash and Petty Cash

Basis	Main Cash	Petty Cash
Purpose	Used for large cash transactions (like paying wages or suppliers)	Used for small daily expenses
Managed By	Owner or accountant	Petty cashier or junior staff
Amount Held	Usually large (₹10,000 or more)	Small and limited (₹500–₹2,000 or as required)
Examples of Use	Paying advance to supplier, purchasing furniture	Paying courier, tea, cleaning, small stationery

Both are recorded under the **Cash-in-Hand Group**, but managed as separate ledgers for better control.

Creating Cash-in-Hand and Petty Cash Ledgers in Tally Prime

Creating Main Cash Ledger

1. Go to **Gateway of Tally → Masters → Create → Ledger**.
2. **Name:** Cash Account
3. **Under:** Cash-in-Hand
4. **Opening Balance:** ₹10,000 (or actual cash on hand when starting books)
5. Save using **Ctrl + A**.

Creating Petty Cash Ledger

1. Go to **Create → Ledger**.
2. **Name:** Petty Cash Account
3. **Under:** Cash-in-Hand
4. **Opening Balance:** Leave blank or set small balance (e.g., ₹500).
5. Save using **Ctrl + A**.

Now TAWSEEF AHMAD COMPANY has both cash accounts ready for recording daily transactions.

Transferring Money to Petty Cash

Usually, a small amount is transferred from the main Cash Account to Petty Cash to handle small office payments.

Example: ₹1,000 given to the petty cashier from the main Cash Account.

1. Go to **Accounting Vouchers → F4 (Contra)**.
2. Date: 05-Apr-2025
3. **Credit:** Cash Account ₹1,000

4. **Debit:** Petty Cash Account ₹1,000
5. Narration: Being ₹1,000 transferred from main cash to petty cash for daily expenses.
6. Save using **Ctrl + A**.

This reduces your main cash and increases your petty cash balance.

Recording Daily Petty Cash Expenses

The petty cashier records small expenses like postage, tea, or stationery using **Payment Vouchers (F5)**.

Example 1: Stationery Purchased for ₹150

1. Go to **F5 (Payment)**.
2. Date: 06-Apr-2025
3. **Credit:** Petty Cash Account ₹150
4. **Debit:** Stationery Expenses (Under Indirect Expenses) ₹150
5. Narration: Being stationery purchased for office use.
6. Save entry.

Example 2: Courier Charges Paid ₹100

1. Go to **F5 (Payment)**.
2. Date: 07-Apr-2025
3. **Credit:** Petty Cash Account ₹100
4. **Debit:** Courier Charges (Under Indirect Expenses) ₹100
5. Narration: Being courier charges paid in cash.
6. Save entry.

These entries reduce your petty cash balance and record small expenses properly.

Recording Cash Receipts in Tally

If cash is received (like from a customer or refund), record it using a **Receipt Voucher (F6)**.

Example: ₹500 received from NOBLE TRADERS

1. Go to **F6 (Receipt)**.
2. Date: 10-Apr-2025
3. **Debit:** Cash Account ₹500
4. **Credit:** NOBLE TRADERS ₹500
5. Narration: Being ₹500 received in cash from NOBLE TRADERS.
6. Save using **Ctrl + A**.

Now your main Cash Account increases by ₹500.

Viewing Cash Balances in Tally Prime

To view available cash:

1. Go to **Gateway of Tally → Display More Reports → Account Books → Cash/Bank Books → Cash Book**.
2. Select **Cash Account** or **Petty Cash Account**.
You'll see all transactions and the closing balance at the bottom.

To view total cash in the business:

1. Go to **Balance Sheet → Assets → Cash-in-Hand**.
This shows combined balances of both main cash and petty cash.

Practical Understanding

- The **Cash-in-Hand Group** helps you track real cash physically held by the company.
- The **Main Cash Account** is for big transactions, while **Petty Cash** handles daily small expenses.
- Use **Contra Vouchers** to transfer money between them.
- Use **Payment Vouchers** for expenses and **Receipt Vouchers** for cash received.
- Always check cash balances daily to avoid shortages or missing entries.

Example to Remember

If TAWSEEF AHMAD COMPANY gives ₹1,000 to petty cash and spends ₹150 on stationery:

- Main Cash decreases ₹1,000.
- Petty Cash increases ₹1,000 and then decreases ₹150.
- Remaining petty cash = ₹850.

Practice Task

1. Create ledgers for *Cash Account* and *Petty Cash Account* under Cash-in-Hand.
2. Record ₹1,000 transfer from main cash to petty cash.
3. Record ₹150 stationery and ₹100 courier expenses from petty cash.
4. Record ₹500 cash received from NOBLE TRADERS.
5. View your Cash Book and confirm updated balances.

Understanding the Loans (Liability) Group and Its Entries in Tally Prime

As TAWSEEF AHMAD COMPANY grows, it might need to borrow money to expand operations, purchase new equipment, or manage working capital. These borrowed funds are known as **loans**, and they create a **liability** because they must be repaid in the future. In Tally Prime, such borrowings are recorded under the **Loans (Liability) Group**, which helps you keep track of how much your business owes and to whom.

Understanding this group is very important for maintaining accurate financial statements and managing debt efficiently.

What Is the Loans (Liability) Group?

The **Loans (Liability) Group** represents all the long-term and short-term borrowings taken by your business from banks, financial institutions, or other parties. These are amounts that the business has to repay over time, usually with interest.

In simple words:

Loans (Liability) = Money borrowed by the company that must be repaid in the future.

This group appears on the **Liabilities side of the Balance Sheet**, showing the company's financial obligations.

Types of Loans in Tally Prime

In Tally, the **Loans (Liability)** group is divided into two main sub-groups:

1. **Secured Loans** – Loans taken against some security or asset.
 - Example: Bank loan against property, vehicle loan, machinery loan.
2. **Unsecured Loans** – Loans taken without any security.
 - Example: Personal loan from a friend, short-term loan from a private financier.

Both types fall under the Loans (Liability) group in the Balance Sheet.

Examples of Loans (Liability)

- Bank Term Loan
- Vehicle Loan
- Machinery Loan
- Business Loan
- Partner's Loan
- Personal Loan (Unsecured)

- Loan from Financial Institution

These represent money borrowed for business needs and are to be repaid over time, often with monthly interest.

Creating Loan Ledgers in Tally Prime

Let's create two sample loan ledgers for TAWSEEF AHMAD COMPANY : one secured and one unsecured.

Example 1: HDFC Bank Term Loan (Secured)

1. Go to **Gateway of Tally → Masters → Create → Ledger**.
2. **Name:** HDFC Bank Term Loan
3. **Under:** Secured Loans
4. **Opening Balance:** Leave blank or enter current outstanding balance.
5. Save using **Ctrl + A**.

Example 2: Loan from RAVI KUMAR (Unsecured)

1. Go to **Create → Ledger**.
2. **Name:** Loan from RAVI KUMAR
3. **Under:** Unsecured Loans
4. **Opening Balance:** Leave blank or add amount if already taken.
5. Save using **Ctrl + A**.

Now TAWSEEF AHMAD COMPANY is ready to record both secured and unsecured loan entries.

Recording Loan Received Entries

Example 1: ₹1,00,000 Loan Received from HDFC Bank

1. Go to **Accounting Vouchers → F6 (Receipt)**.
2. Date: 10-Apr-2025
3. **Debit:** HDFC Bank Current A/c ₹1,00,000
4. **Credit:** HDFC Bank Term Loan ₹1,00,000
5. Narration: Being ₹1,00,000 loan received from HDFC Bank.
6. Save using **Ctrl + A**.

This entry increases your bank balance and records the loan liability.

Example 2: ₹50,000 Loan Received from RAVI KUMAR (Unsecured)

1. Go to **F6 (Receipt)**.
2. Date: 12-Apr-2025
3. **Debit:** Cash Account ₹50,000
4. **Credit:** Loan from RAVI KUMAR ₹50,000

5. Narration: Being ₹50,000 unsecured loan received from RAVI KUMAR.
6. Save entry.

This adds cash to your business and creates a payable loan liability.

Recording Loan Repayment Entries

When TAWSEEF AHMAD COMPANY repays part of the loan, it must record the payment correctly.

Example 3: ₹10,000 Loan Repayment to HDFC Bank

1. Go to **F5 (Payment)**.
2. Date: 30-Apr-2025
3. **Credit:** HDFC Bank Current A/c ₹10,000
4. **Debit:** HDFC Bank Term Loan ₹10,000
5. Narration: Being ₹10,000 loan instalment paid to HDFC Bank.
6. Save using **Ctrl + A**.

This reduces your bank balance and loan liability.

Recording Interest on Loan

Interest on a loan is an **expense** for the business. It should be recorded separately under **Indirect Expenses**.

Example 4: Interest of ₹2,000 Paid on HDFC Bank Loan

1. Go to **F5 (Payment)**.
2. Date: 30-Apr-2025
3. **Credit:** HDFC Bank Current A/c ₹2,000
4. **Debit:** Interest on Loan (Under Indirect Expenses) ₹2,000
5. Narration: Being interest paid on HDFC Bank Term Loan.
6. Save entry.

This shows how much interest the company paid for using borrowed funds.

Viewing Loan Balances and Liabilities

To check all outstanding loans:

1. Go to **Display More Reports → Account Books → Ledger**.
2. Select the loan ledger (e.g., *HDFC Bank Term Loan*).
You'll see all receipts, repayments, and the closing balance.

To view all liabilities together:

1. Go to **Balance Sheet → Liabilities → Loans (Liability)**.
Here you'll see total secured and unsecured loan amounts your company owes.

Practical Understanding

- Loans (Liability) represent borrowed funds that need to be repaid.
- **Secured Loans** are backed by assets, while **Unsecured Loans** are not.
- Receiving a loan increases your bank or cash balance and your liability.
- Repaying a loan reduces your liability and bank balance.
- Interest on loans is always recorded as an **expense**.

Example to Remember

If TAWSEEF AHMAD COMPANY borrows ₹1,00,000 from HDFC Bank and repays ₹10,000 with ₹2,000 interest:

- ₹1,00,000 → added to Bank and Loan Liability.
- ₹10,000 → reduces both Bank and Loan Liability.
- ₹2,000 → recorded as an Indirect Expense (Interest).

Practice Task

1. Create *HDFC Bank Term Loan* under Secured Loans.
2. Create *Loan from RAVI KUMAR* under Unsecured Loans.
3. Record ₹1,00,000 loan received from HDFC Bank.
4. Record ₹50,000 loan received from RAVI KUMAR.
5. Record ₹10,000 repayment to HDFC Bank and ₹2,000 interest payment.
6. Open the **Balance Sheet** and check the Loans (Liability) section.

Understanding the Current Liabilities Group and Its Entries in Tally Prime

Every business has short-term obligations that need to be settled within a year, such as payments to suppliers, outstanding expenses, or taxes payable. These short-term obligations are known as **Current Liabilities**. TAWSEEF AHMAD COMPANY must record these properly in Tally Prime to know exactly how much the business owes at any given time and to maintain accurate Balance Sheet records.

What Are Current Liabilities

Current Liabilities are the debts or obligations that a business has to pay within one accounting year. These include short-term borrowings, unpaid bills, taxes, salaries, or other dues that arise during normal business operations. In simple words:

Current Liabilities = Amounts your business owes and must pay within a short period.

Current Liabilities are shown on the **Liabilities side of the Balance Sheet** because they represent what the company owes to others.

Examples of Current Liabilities

- Sundry Creditors (Suppliers)
- Outstanding Expenses (like salaries or rent payable)
- Duties and Taxes Payable (like GST, TDS)
- Advance Received from Customers
- Short-Term Loans
- Bills Payable

All these are obligations your company will clear soon, usually within a few weeks or months.

Importance of Current Liabilities

Managing Current Liabilities correctly helps TAWSEEF AHMAD COMPANY to:

- Understand short-term financial obligations.
- Avoid cash shortages when payments are due.
- Maintain good relationships with suppliers.
- Present an accurate Balance Sheet position.

Creating Ledgers Under Current Liabilities in Tally Prime

Example 1: Outstanding Rent Payable

1. Go to **Gateway of Tally → Masters → Create → Ledger**.
2. **Name:** Outstanding Rent
3. **Under:** Current Liabilities
4. **Opening Balance:** Leave blank or enter unpaid amount.
5. Save using **Ctrl + A**.

Example 2: GST Payable

1. Go to **Create → Ledger**.
2. **Name:** GST Payable
3. **Under:** Current Liabilities
4. **Opening Balance:** Leave blank (it will update automatically through entries).
5. Save using **Ctrl + A**.

Now TAWSEEF AHMAD COMPANY can record all current obligations easily.

Recording Current Liability Entries

Example 1: Outstanding Rent ₹8,000

If the rent for April is not paid yet, record it as outstanding.

1. Go to **Accounting Vouchers → F7 (Journal)**.
2. Date: 30-Apr-2025
3. **Debit:** Rent Expense (Under Indirect Expenses) ₹8,000
4. **Credit:** Outstanding Rent (Under Current Liabilities) ₹8,000
5. Narration: Being rent for April not yet paid and recorded as outstanding.
6. Save using **Ctrl + A**.

This entry records your unpaid rent as a liability in the books.

Example 2: Payment of Outstanding Rent ₹8,000

When the rent is paid next month:

1. Go to **F5 (Payment)**.
2. Date: 05-May-2025
3. **Credit:** Cash or HDFC Bank Current A/c ₹8,000
4. **Debit:** Outstanding Rent ₹8,000
5. Narration: Being payment made for previous month's outstanding rent.
6. Save entry.

This clears your liability from the books.

Example 3: GST Payable ₹1,200 Recorded

When GST is collected from customers, it becomes payable to the government.

1. Go to **F7 (Journal)**.
2. Date: 30-Apr-2025
3. **Debit:** Output GST ₹1,200
4. **Credit:** GST Payable ₹1,200
5. Narration: Being GST liability recorded for the month.
6. Save entry.

Later, when paid:

1. Go to **F5 (Payment)**.
2. **Credit:** HDFC Bank Current A/c ₹1,200
3. **Debit:** GST Payable ₹1,200
4. Narration: Being GST liability paid to government.
5. Save entry.

Viewing Current Liabilities in Tally Prime

To check all Current Liabilities:

1. Go to **Gateway of Tally → Display More Reports → Account Books → Ledger**.
2. Select *Outstanding Rent* or *GST Payable* ledger to view transactions.
To see total liabilities:
3. Go to **Balance Sheet → Liabilities → Current Liabilities**.
This section shows all short-term dues like creditors, taxes, and expenses payable.

Practical Understanding

- Current Liabilities represent short-term obligations that must be cleared soon.
- Outstanding expenses, taxes payable, and advance payments are all part of this group.
- As soon as payment is made, the liability decreases.
- Maintaining this group correctly ensures your Balance Sheet always shows the correct short-term financial position.

Example to Remember

If TAWSEEF AHMAD COMPANY has ₹8,000 unpaid rent and ₹1,200 GST payable:

- Total Current Liabilities = ₹9,200
When the company pays both, the liabilities reduce to zero.

Practice Task

1. Create *Outstanding Rent* and *GST Payable* ledgers under Current Liabilities.
2. Record ₹8,000 outstanding rent through a journal entry.
3. Record its payment next month.
4. Record ₹1,200 GST payable and later its payment.
5. Open the **Balance Sheet** and check how these items appear under Current Liabilities.

Understanding the Current Assets Group and Its Entries in Tally Prime

Every business holds certain assets that are expected to be converted into cash or used up within a year — these are known as **Current Assets**. TAWSEEF AHMAD COMPANY uses the **Current Assets Group** in Tally Prime to record and manage such items. These assets represent the short-term financial strength of the business and help in running daily operations smoothly.

What Are Current Assets

Current Assets are assets that can be easily converted into cash or are expected to be used within one financial year. These include cash, bank balances, inventory, bills receivable, and short-term loans or advances. In simple terms:

Current Assets = Assets that can be turned into cash or used within a short period (usually one year).

Current Assets are shown on the **Assets side of the Balance Sheet**.

Examples of Current Assets

- Cash in Hand
- Bank Balances
- Bills Receivable
- Stock or Inventory
- Advance Paid to Suppliers
- Prepaid Expenses
- Short-term Loans and Advances
- Deposits Recoverable within One Year

These items represent the value of resources available to TAWSEEF AHMAD COMPANY for day-to-day operations.

Importance of Current Assets

Maintaining proper records of current assets helps to:

- Understand liquidity (how easily assets can be converted to cash).
- Track payments made in advance or pending receipts.
- Control working capital and short-term financial health.
- Manage business flow effectively.

Creating Ledgers Under Current Assets in Tally Prime

Example 1: Advance Paid to Supplier

1. Go to **Gateway of Tally → Masters → Create → Ledger**.
2. **Name:** Advance to MILLENIUM SUPPLIERS
3. **Under:** Current Assets
4. **Opening Balance:** Leave blank unless some amount is already given.
5. Save using **Ctrl + A**.

Example 2: Prepaid Rent

1. Go to **Create → Ledger**.
2. **Name:** Prepaid Rent

3. **Under:** Current Assets
4. **Opening Balance:** Leave blank or add if already paid.
5. Save using **Ctrl + A**.

Now TAWSEEF AHMAD COMPANY can record all advance payments and prepaid items properly under Current Assets.

Recording Current Asset Entries

Example 1: Advance Paid to Supplier ₹5,000

If TAWSEEF AHMAD COMPANY pays an advance for future purchases, record it using a **Payment Voucher (F5)**.

1. Go to **Accounting Vouchers → F5 (Payment)**.
2. Date: 10-Apr-2025
3. **Credit:** HDFC Bank Current A/c ₹5,000
4. **Debit:** Advance to MILLENIUM SUPPLIERS ₹5,000
5. Narration: Being ₹5,000 paid in advance to MILLENIUM SUPPLIERS for future supplies.
6. Save using **Ctrl + A**.
This entry records the advance as an asset, showing that the company has a recoverable amount.

Example 2: Prepaid Rent ₹3,000

If TAWSEEF AHMAD COMPANY pays rent in advance for next month:

1. Go to **F5 (Payment)**.
2. Date: 25-Apr-2025
3. **Credit:** HDFC Bank Current A/c ₹3,000
4. **Debit:** Prepaid Rent ₹3,000
5. Narration: Being office rent paid in advance for next month.
6. Save using **Ctrl + A**.
This entry records prepaid rent as an asset until the rent period is completed.

Example 3: Bills Receivable ₹10,000

When a customer promises to pay through a bill or promissory note, record it using a **Journal Voucher (F7)**.

1. Go to **F7 (Journal)**.
2. Date: 30-Apr-2025
3. **Debit:** Bills Receivable ₹10,000
4. **Credit:** NOBLE TRADERS ₹10,000
5. Narration: Being bill receivable accepted by NOBLE TRADERS for outstanding amount.
6. Save entry.
This entry shows that the company now has a claim to receive ₹10,000 in the future.

Recording Receipt Against Advance or Bill

When the supplier delivers goods or the customer pays back, the advance or bill is cleared.

Example 4: Supplier Adjusts Advance Against Purchase ₹5,000

1. Go to **F7 (Journal)**.
2. Date: 15-May-2025
3. **Debit:** Purchase Account ₹5,000
4. **Credit:** Advance to MILLENIUM SUPPLIERS ₹5,000
5. Narration: Being advance adjusted against purchase from MILLENIUM SUPPLIERS.
6. Save using **Ctrl + A**.

Example 5: Payment Received for Bills Receivable ₹10,000

1. Go to **F6 (Receipt)**.
2. Date: 20-May-2025
3. **Debit:** HDFC Bank Current A/c ₹10,000
4. **Credit:** Bills Receivable ₹10,000
5. Narration: Being payment received for bill receivable from NOBLE TRADERS.
6. Save using **Ctrl + A**.

Viewing Current Assets in Tally Prime

To view balances of current assets:

1. Go to **Gateway of Tally → Display More Reports → Account Books → Ledger**.
2. Select *Advance to MILLENIUM SUPPLIERS, Prepaid Rent, or Bills Receivable*.
You can also view total assets from **Balance Sheet → Assets → Current Assets**, where Tally displays the total of all short-term assets your business owns.

Practical Understanding

- Current Assets represent short-term resources owned by the business.
- Payments made in advance or prepaid expenses are recorded as assets because they provide future benefits.
- Bills receivable or advances to customers are recoverable values, increasing your short-term liquidity.
- When these are settled (paid, received, or used), the asset value decreases automatically.

Example to Remember

If TAWSEEF AHMAD COMPANY pays ₹5,000 as supplier advance and ₹3,000 prepaid rent:

- Both are added to Current Assets = ₹8,000
When supplier adjusts advance and rent month completes, the assets reduce to ₹0.

Practice Task

1. Create *Advance to MILLENIUM SUPPLIERS* and *Prepaid Rent* under Current Assets.
2. Record ₹5,000 advance payment and ₹3,000 prepaid rent.
3. Record adjustment of advance and rent usage later.
4. Create *Bills Receivable* ledger and record ₹10,000 bill received and its later payment.
5. Open the **Balance Sheet** and check how Current Assets appear and change.

Understanding the Suspense Account and Its Entries in Tally Prime

In real-life business, sometimes you face situations where an amount cannot be identified immediately — maybe you received money but don't know who sent it, or a payment is made but you are not sure which expense it belongs to. Instead of leaving your accounts incomplete, Tally Prime allows you to temporarily record such amounts in a **Suspense Account** until they are properly identified. TAWSEEF AHMAD COMPANY must know how to use this account carefully, as it helps keep books balanced when details are unclear.

What Is a Suspense Account?

A **Suspense Account** is a temporary account used to record transactions that cannot be classified at the time of entry due to incomplete or uncertain information. Once the correct details are available, the amount is transferred from the Suspense Account to the proper ledger.

In simple terms:

Suspense Account = A temporary holding account for unidentified or uncertain transactions.

It can appear either on the **Assets** or **Liabilities** side of the Balance Sheet depending on whether the balance is debit or credit.

When Suspense Account Is Used

The Suspense Account is used in the following cases:

- When you receive money but don't know who paid it.
- When you pay an amount but are not sure which expense or party it relates to.
- When there is a difference in the Trial Balance due to an error.
- When opening balances are incomplete while creating new company books.

Tally Prime automatically uses a Suspense Account if there is a difference between debits and credits during opening balance setup.

Examples of Suspense Account Use

1. Unknown deposit in bank.
2. Payment made by mistake to an unrecorded party.
3. Temporary entry to complete bookkeeping until information is received.

Creating a Suspense Account Ledger in Tally Prime

By default, Tally Prime already has a **Suspense Account** created under **Current Assets**. But you can also create or edit it manually if needed.

1. Go to **Gateway of Tally → Masters → Create → Ledger**.
2. **Name:** Suspense Account
3. **Under:** Current Assets
4. **Opening Balance:** Leave blank.
5. Save using **Ctrl + A**.

Now TAWSEEF AHMAD COMPANY can record any uncertain transaction temporarily here.

Recording Suspense Account Entries

Example 1: Unknown Deposit ₹5,000 in Bank

Suppose TAWSEEF AHMAD COMPANY receives ₹5,000 in its HDFC Bank account but doesn't know who sent it. You can record it temporarily in the Suspense Account.

1. Go to **Accounting Vouchers → F6 (Receipt)**.
2. Date: 10-Apr-2025
3. **Debit:** HDFC Bank Current A/c ₹5,000
4. **Credit:** Suspense Account ₹5,000
5. Narration: Being ₹5,000 deposited in bank; payer details yet to be identified.
6. Save using **Ctrl + A**.

This entry keeps your bank balance correct while holding the unknown amount in Suspense until identified.

Example 2: Unknown Cash Payment ₹2,000

If you pay ₹2,000 but don't know yet which expense it belongs to:

1. Go to **F5 (Payment)**.
2. Date: 15-Apr-2025
3. **Credit:** Cash Account ₹2,000
4. **Debit:** Suspense Account ₹2,000
5. Narration: Being ₹2,000 cash paid; expense details pending confirmation.
6. Save using **Ctrl + A**.

This prevents imbalance in your books while the transaction is temporarily stored in Suspense.

Clearing or Adjusting the Suspense Account

Once the correct information becomes available, you must transfer the Suspense amount to the proper ledger using a **Journal Voucher (F7)**.

Example 3: Identifying Unknown Deposit as Customer Payment from NOBLE TRADERS ₹5,000

1. Go to **F7 (Journal)**.
2. Date: 20-Apr-2025
3. **Debit:** Suspense Account ₹5,000
4. **Credit:** NOBLE TRADERS ₹5,000
5. Narration: Being earlier bank deposit identified as payment from NOBLE TRADERS.
6. Save using **Ctrl + A**.

This clears the Suspense Account and assigns the transaction to its correct ledger.

Example 4: Identifying Unknown Cash Payment as Office Supplies Expense ₹2,000

1. Go to **F7 (Journal)**.
2. Date: 20-Apr-2025
3. **Debit:** Office Supplies (Under Indirect Expenses) ₹2,000
4. **Credit:** Suspense Account ₹2,000
5. Narration: Being ₹2,000 cash paid earlier now confirmed as Office Supplies Expense.
6. Save using **Ctrl + A**.

Now the Suspense Account balance returns to zero.

Viewing Suspense Account in Tally Prime

To view all temporary entries:

1. Go to **Gateway of Tally → Display More Reports → Account Books → Ledger**.
2. Select *Suspense Account*.
You can check the transactions awaiting clarification or already cleared.

You can also check the balance under **Balance Sheet → Assets → Current Assets**, where it will appear if there's any pending amount.

Practical Understanding

- The Suspense Account is only a **temporary holding tool**, not a permanent ledger.
- Always clear it once the correct details are known.
- It helps maintain accurate and balanced accounts during uncertain transactions.

- Use it only when necessary, as keeping amounts too long in Suspense can cause confusion.

Example to Remember

If TAWSEEF AHMAD COMPANY receives ₹5,000 in bank without knowing the source, record it under Suspense. Once identified as NOBLE TRADERS' payment, transfer it from Suspense to NOBLE TRADERS.

Practice Task

1. Create or confirm *Suspense Account* under Current Assets.
2. Record ₹5,000 unknown deposit in bank.
3. Record ₹2,000 cash payment of unknown purpose.
4. Later, adjust both with Journal entries once identified.
5. View Suspense Account ledger before and after adjustments to see how it clears.

Understanding All Accounting Groups and Their Nature in Tally Prime

Till now, TAWSEEF AHMAD COMPANY has learned about different accounting groups such as Capital, Loans, Current Assets, Current Liabilities, Duties & Taxes, Sales, Purchases, Expenses, Incomes, and many more. Each group in Tally Prime represents a specific type of account that helps in organizing and classifying transactions properly. Understanding all these groups together gives a complete view of how accounting in Tally is structured and how every entry affects the Balance Sheet or Profit & Loss Account.

What Are Accounting Groups in Tally Prime?

In Tally Prime, **Groups** are categories under which ledgers are created. They define the nature and purpose of the ledger. Every ledger in Tally must belong to a group — for example, *Cash Account* belongs to the **Cash-in-Hand** group, while *Office Rent* belongs to **Indirect Expenses**.

Tally Prime has two major categories of groups:

1. **Balance Sheet Groups** – These include assets, liabilities, and capital accounts. They show the financial position of the business.
2. **Profit & Loss Groups** – These include income and expense accounts. They show the performance or profitability of the business.

Nature of Accounts in Tally

Every group in Tally falls under one of the three **natures of accounts**:

- **Assets** (what the business owns)
- **Liabilities** (what the business owes)
- **Revenue/Expenses** (income and expenditure affecting profit)

Understanding this classification is essential for recording entries correctly and interpreting financial reports accurately.

Table of All Groups and Their Nature

Main Group	Sub-Group / Example	Nature	Purpose / Description
Capital Account	Capital Introduced, Drawings	Liability	Owner's investment or withdrawal from the business
Reserves & Surplus	General Reserve, Profit & Loss A/c	Liability	Retained profits or reserves accumulated by business
Loans (Liability)	Secured Loans, Unsecured Loans	Liability	Long-term borrowings from banks or others
Current Liabilities	Outstanding Expenses, GST Payable, Creditors	Liability	Short-term dues payable within a year
Sundry Creditors	Supplier Accounts	Liability	People or companies from whom goods/services are purchased on credit
Duties & Taxes	GST, TDS, VAT	Liability	Taxes collected or payable to government
Provisions	Provision for Tax, Provision for Bad Debts	Liability	Estimated expenses or obligations created in advance
Suspense Account	Temporary Holding Account	Asset/Liability	Used temporarily when details of transaction are unclear
Current Assets	Cash, Bank, Prepaid Rent, Advances	Asset	Assets that can be converted to cash within one year
Cash-in-Hand	Cash Account, Petty Cash	Asset	Physical cash available in business
Bank Accounts	HDFC Bank, SBI Bank	Asset	Money deposited in banks for business use

Main Group	Sub-Group / Example	Nature	Purpose / Description
Loans & Advances (Asset)	Loans to Employees, Advance to Suppliers	Asset	Short-term recoverable money given by business
Deposits (Asset)	Security Deposit, Fixed Deposit	Asset	Amounts kept as security or investments to be received back
Fixed Assets	Machinery, Furniture, Building	Asset	Long-term assets used for business operations
Investments	Shares, Mutual Funds, Bonds	Asset	Long-term or short-term investments made by business
Stock-in-Hand	Raw Material, Finished Goods	Asset	Goods available for sale or production use
Sales Accounts	Sales, Export Sales	Income	Income earned from selling goods or services
Sundry Debtors	Customer Accounts	Asset	Customers who owe money to the business (credit sales)
Direct Incomes	Service Charges, Job Work Income	Income	Income earned directly from business operations
Indirect Incomes	Rent Received, Interest Received	Income	Income earned from other or secondary activities
Purchase Accounts	Purchases, Import Purchases	Expense	Cost of goods bought for resale or production
Direct Expenses	Freight Inward, Wages	Expense	Expenses directly related to production or purchase of goods
Indirect Expenses	Rent, Electricity, Telephone	Expense	Expenses for running or managing the business
Misc. Expenses (Asset)	Preliminary Expenses	Asset	Expenses treated as assets, to be written off over time
Branch/Division	Delhi Branch, Kashmir Branch	Asset/Liability	Used to record transactions for different branches or units

Key Takeaways

- **Asset Groups** include everything the business owns or controls — cash, bank, stock, advances, or property.
- **Liability Groups** include everything the business owes — loans, creditors, and taxes.
- **Income Groups** include all earnings, both direct (core business) and indirect (extra income).

- **Expense Groups** include all costs, both direct (production-related) and indirect (administrative or selling).
- The **Suspense Account** acts as a temporary bridge when information is incomplete.

Practical Understanding

When TAWSEEF AHMAD COMPANY creates a ledger in Tally, selecting the correct group ensures that the entry affects the right part of the Balance Sheet or Profit & Loss Account. For example:

- If you select **Indirect Expense**, the amount affects your Profit & Loss statement.
- If you select **Current Liability**, it increases your obligations.
- If you select **Fixed Asset**, it increases your total asset value.

Example to Remember

If TAWSEEF AHMAD COMPANY purchases machinery worth ₹1,00,000 on loan from a bank:

- Machinery → Fixed Asset (Asset side increases)
 - Bank Loan → Loan Liability (Liability side increases)
- The Balance Sheet remains balanced, showing both sides of the transaction accurately.

Practice Task

1. Review all groups and create one sample ledger under each group.
2. Record one entry for every type (asset, liability, income, expense).
3. View the **Trial Balance** and check how all groups align perfectly.
4. Open **Balance Sheet** and **Profit & Loss Account** to see which groups appear where.

Understanding Debit and Credit, Debtors and Creditors, and the Golden & Modern Rules of Accounting

Now that TAWSEEF AHMAD COMPANY has understood all accounting groups and their nature, it's time to learn the most important foundation of accounting — **Debit and Credit**, **Debtors and Creditors**, and the **Golden and Modern Rules of Accounting**. These concepts form the backbone of every entry made in Tally Prime or any accounting system. Once you understand these, you will never get confused while passing any accounting entry.

Understanding Debit and Credit

In accounting, **every transaction has two sides** — one side gives value and the other side receives value.

To keep books balanced, we record both sides of a transaction using the principles of **Debit (Dr)** and **Credit (Cr)**.

In simple words:

- **Debit (Dr)** means the receiver or the increase of an asset or expense.
- **Credit (Cr)** means the giver or the increase of a liability, capital, or income.

Every entry must have equal Debit and Credit amounts. This is called the **Double Entry System of Accounting** — the core rule behind all bookkeeping and Tally entries.

Examples

1. When TAWSEEF AHMAD COMPANY purchases goods for cash ₹10,000
 - **Purchase Account (Expense) → Debit ₹10,000**
 - **Cash Account (Asset decreases) → Credit ₹10,000**
2. When TAWSEEF AHMAD COMPANY receives ₹5,000 from a customer
 - **Cash Account (Asset increases) → Debit ₹5,000**
 - **Customer (Debtor) → Credit ₹5,000**

The total debit and credit amounts are always the same, ensuring balance in books.

Understanding Debtors and Creditors

In business, some transactions happen on credit — not all are cash-based. To manage such dealings, we use **Debtors** and **Creditors**.

Who Are Debtors?

Debtors are the people or companies who owe money to TAWSEEF AHMAD COMPANY because they bought goods or services on credit.

Debtors = Customers who will pay money to the business later.

Example: NOBLE TRADERS purchased goods worth ₹15,000 on credit.

- NOBLE TRADERS → **Debtor** of TAWSEEF AHMAD COMPANY .

Who Are Creditors?

Creditors are the people or companies to whom TAWSEEF AHMAD COMPANY owes money because it purchased goods or services on credit.

Creditors = Suppliers to whom the business will pay money later.

Example: TAWSEEF AHMAD COMPANY bought goods worth ₹10,000 on credit from MILLENIUM SUPPLIERS.

- MILLENIUM SUPPLIERS → **Creditor** of TAWSEEF AHMAD COMPANY .

Key Difference Between Debtors and Creditors

Basis	Debtors	Creditors
Meaning	People who owe money to the business	People to whom business owes money
Type	Asset (because money will be received)	Liability (because money will be paid)
Group in Tally	Sundry Debtors	Sundry Creditors
Example	Customers who purchased goods on credit	Suppliers who sold goods on credit

Golden Rules of Accounting

The **Golden Rules of Accounting** are traditional rules used to record transactions according to the nature of the account. All accounts are classified into **three main types** — Personal, Real, and Nominal. Each has its own debit and credit rule.

Type of Account	Meaning	Golden Rule	Examples
Personal Account	Accounts related to individuals, firms, or companies	Debit the Receiver, Credit the Giver	NOBLE TRADERS, MILLENIUM SUPPLIERS, Capital Account
Real Account	Accounts related to tangible and intangible assets	Debit what comes in, Credit what goes out	Cash, Bank, Machinery, Building
Nominal Account	Accounts related to expenses, losses, incomes, and gains	Debit all Expenses & Losses, Credit all Incomes & Gains	Rent, Salary, Sales, Commission

Example Using Golden Rules

1. Cash received from NOBLE TRADERS ₹5,000
 - **Cash (Real Account – Comes in)** → Debit ₹5,000
 - **NOBLE TRADERS (Personal Account – Giver)** → Credit ₹5,000
2. Rent paid ₹2,000
 - **Rent (Nominal Account – Expense)** → Debit ₹2,000
 - **Cash (Real Account – Goes out)** → Credit ₹2,000

By following these rules, every transaction automatically stays balanced in the books.

Modern Rules of Accounting

In modern accounting, all accounts are divided into **five categories** based on their nature, making it easier to understand debit and credit logic.

Account Type	Increase (Debit/Credit)	Decrease (Debit/Credit)	Examples
Assets	Debit increases	Credit decreases	Cash, Bank, Furniture, Debtors
Liabilities	Credit increases	Debit decreases	Loans, Creditors, Outstanding Expenses
Capital / Owner's Equity	Credit increases	Debit decreases	Capital Account, Drawings
Incomes / Revenue	Credit increases	Debit decreases	Sales, Rent Received, Commission
Expenses / Losses	Debit increases	Credit decreases	Rent, Salary, Telephone Bills

Example Using Modern Rules

- TAWSEEF AHMAD COMPANY purchases goods for ₹10,000 in cash
 - Purchase (Expense)** → Debit (increases)
 - Cash (Asset)** → Credit (decreases)
- TAWSEEF AHMAD COMPANY receives ₹20,000 loan from HDFC Bank
 - Bank (Asset)** → Debit (increases)
 - Loan Liability** → Credit (increases)
- TAWSEEF AHMAD COMPANY pays office rent ₹3,000
 - Rent (Expense)** → Debit (increases)
 - Cash (Asset)** → Credit (decreases)
- TAWSEEF AHMAD COMPANY receives ₹5,000 interest income
 - Bank (Asset)** → Debit (increases)
 - Interest Income (Revenue)** → Credit (increases)

These modern rules are simpler to apply and are the foundation of accounting software like Tally Prime.

Relationship Between Debit & Credit and the Financial Statements

- Debit entries** generally increase assets and expenses.
- Credit entries** generally increase liabilities, income, and capital.
- The **Trial Balance** always shows total debits equal to total credits.

- The **Balance Sheet** and **Profit & Loss Account** are both prepared using these debit and credit principles.

Example Summary

Transaction	Debit Account	Credit Account	Explanation
Bought goods for cash ₹10,000	Purchases	Cash	Expense increases, cash decreases
Sold goods for cash ₹15,000	Cash	Sales	Cash increases, income increases
Paid rent ₹2,000	Rent Expense	Cash	Expense increases, cash decreases
Received ₹5,000 from Debtor	Cash	Debtor	Asset increases, receivable decreases
Took loan ₹20,000 from Bank	Bank	Loan	Asset increases, liability increases

Practical Understanding

- Every transaction affects **two accounts** — one gets debited and the other credited.
- Debtors are assets (money receivable), Creditors are liabilities (money payable).
- The **Golden Rules** explain “how” to debit or credit based on account type.
- The **Modern Rules** explain debit and credit based on financial categories (assets, liabilities, income, expenses).
- When both are applied correctly, your books will always stay balanced and error-free.

Understanding the Journal Voucher in Tally Prime

As TAWSEEF AHMAD COMPANY is growing and handling more transactions, there will be times when the usual vouchers like Payment, Receipt, Sales, or Purchase are not enough to record a particular transaction. This is where the **Journal Voucher** becomes very useful. It helps record **non-cash, adjustment, and correction entries** that do not involve direct cash or bank movement.

What is a Journal Voucher?

A Journal Voucher (also called a Journal Entry) is used to record **all accounting adjustments or transactions** that do not belong to any other voucher type. It is an important tool for accountants to make the books accurate and balanced at the end of every accounting period.

In simple terms:

A Journal Voucher is used when you need to make corrections, adjustments, or record expenses and incomes that are not yet paid or received in cash.

The Journal Voucher follows the rule of **Double Entry System**, where every transaction affects two or more accounts — one side is **Debit (Dr)** and the other side is **Credit (Cr)**, and the total of both sides must always be equal.

Why Journal Vouchers Are Used

TAWSEEF AHMAD COMPANY may need to use a Journal Voucher in many situations, such as:

- When expenses have been incurred but not yet paid (like outstanding salaries or rent).
- When income has been earned but not yet received (like accrued interest).
- When an expense is paid in advance (like prepaid insurance).
- When recording depreciation on fixed assets at the end of the year.
- When creating provisions or reserves (like provision for doubtful debts).
- When rectifying errors made in earlier entries.
- When transferring balances from one account to another (for example, transferring profit to capital).

These are all cases where neither cash nor bank is directly involved, and therefore cannot be recorded through payment or receipt vouchers.

How to Create a Journal Voucher in Tally Prime?

To create a Journal Voucher in Tally Prime, follow these steps:

1. Go to **Gateway of Tally → Accounting Vouchers → F7 (Journal)**.
2. Select the date on which you want to record the transaction.
3. Choose the account to be **Debited** and enter the amount.
4. Choose the account to be **Credited** and enter the same amount.
5. Write a clear **narration** explaining the purpose of the entry.
6. Press **Ctrl + A** to save the voucher.

Always remember that the debit and credit amounts must be equal in a Journal Voucher.

Examples of Journal Voucher Entries

Let's take some practical examples to understand how TAWSEEF AHMAD COMPANY can use Journal Vouchers.

1. Depreciation on Furniture

Suppose your company has office furniture worth ₹15,000 and you want to record yearly depreciation of 10%.

- **Debit:** Depreciation A/c ₹1,500
 - **Credit:** Furniture A/c ₹1,500
- Narration:** Being 10% depreciation provided on furniture for the year.

This entry records depreciation as an expense and reduces the value of furniture in books.

2. Outstanding Rent

Suppose your office rent of ₹8,000 for March is not yet paid.

- **Debit:** Rent Expense A/c ₹8,000
 - **Credit:** Outstanding Rent A/c ₹8,000
- Narration:** Being rent for March recorded as outstanding.

This entry ensures the expense is recorded in the correct period even though it has not been paid yet.

3. Prepaid Insurance

If TAWSEEF AHMAD COMPANY has paid ₹12,000 for one year's insurance in advance on 1st January, but only three months belong to the current financial year, then nine months (₹9,000) will be treated as prepaid.

- **Debit:** Prepaid Insurance A/c ₹9,000
 - **Credit:** Insurance Expense A/c ₹9,000
- Narration:** Being nine months' insurance adjusted as prepaid.

This entry transfers the unexpired portion of insurance to an asset account, ensuring correct expense recognition.

4. Provision for Doubtful Debts

If you want to keep 5% of your debtors as provision for doubtful debts and your total debtors are ₹1,00,000:

- **Debit:** Provision for Doubtful Debts A/c ₹5,000
 - **Credit:** Sundry Debtors A/c ₹5,000
- Narration:** Being 5% provision made for doubtful debts.

This entry reduces receivable value and recognises potential bad debts as an expense.

5. Rectification of Error

If you had mistakenly debited Stationery instead of Rent in a previous entry of ₹2,000, you can correct it as follows:

- **Debit:** Rent Expense A/c ₹2,000
 - **Credit:** Stationery A/c ₹2,000
- Narration:** Being correction of rent expense wrongly posted to stationery earlier.

This corrects the earlier mistake without affecting cash or bank.

Clearing Temporary Entries

Sometimes, Journal Vouchers are also used to clear temporary accounts like **Suspense Account** once you identify the actual ledger it belongs to. For example, if ₹5,000 was earlier recorded in Suspense Account but now identified as received from NOBLE TRADERS, you will pass this entry:

- **Debit:** Suspense Account ₹5,000
 - **Credit:** NOBLE TRADERS ₹5,000
- Narration:** Being suspense entry cleared and identified as payment from NOBLE TRADERS.

Understanding Debit and Credit in Journal Voucher

Every Journal Voucher follows the basic accounting rule:

- **Debit** what comes in, or what increases in assets or expenses.
- **Credit** what goes out, or what increases in liabilities, capital, or income.

In Tally Prime, this is automatically managed by the double-entry system — you just need to ensure that each debit has a matching credit.

Things to Remember When Using Journal Vouchers

- Always add a clear narration explaining the reason for the entry.
- Do not use Journal Vouchers for cash or bank transactions — those belong in Payment, Receipt, or Contra.
- Make sure debit equals credit before saving.
- Use Journal Vouchers for non-cash adjustments only.
- Avoid using Journal Vouchers to record GST entries — use proper tax vouchers instead.
- Review Journal Vouchers at month-end or year-end to ensure all temporary or adjusting entries are cleared.

Practical Understanding

Journal Vouchers ensure that TAWSEEF AHMAD COMPANY's books reflect the true financial position by including all adjustments — even those that don't involve money movement. They bring accuracy and completeness to accounting records.

For example, if rent remains unpaid at year-end, the Journal Voucher ensures the expense appears in the correct period, even before the payment is made. Similarly, if the company's machinery loses value over time, the depreciation entry ensures this decrease is shown in the accounts.

Practice Task

1. Pass the following entries using Journal Voucher in Tally Prime:
 - Depreciation ₹1,500 on Furniture worth ₹15,000.
 - Outstanding Rent ₹8,000 for March.
 - Prepaid Insurance ₹9,000 for nine months.
 - Provision for Doubtful Debts ₹5,000 on total debtors of ₹1,00,000.
 - Clear Suspense entry ₹5,000 identified as payment from NOBLE TRADERS.
2. Open **Display More Reports → Account Books → Ledger** and view each account's effect.
3. Then check your **Balance Sheet** and **Profit & Loss Account** to see how these Journal Vouchers change the financial position.

Conclusion – Completing Your Journey with Tally Prime

Congratulations! You have now successfully completed this practical and concept-based journey of understanding **Accounting with Tally Prime** under TAWSEEF AHMAD COMPANY . Through every chapter, you have moved step by step — from the very basics of accounting principles to applying them practically inside Tally Prime, just as real accountants and business owners do in daily life.

At the beginning of this book, you learned the foundation of business — how transactions happen, how capital is introduced, and how different accounts are created and managed. Gradually, you discovered how every financial movement in a business can be classified into groups like **Assets, Liabilities, Incomes, and Expenses**, and how these groups form the heart of every accounting system.

You then explored each major part of accounting in detail — from **Bank Accounts, Current and OD Accounts**, to **Loans and Deposits**, from **Sundry Debtors and Creditors**, to **Sales and Purchase Accounts**, and from **Direct & Indirect Expenses and Incomes** to **Suspense and Provisions**.

By the time you reached the last few chapters, you understood the deeper principles behind all of accounting — **Debit and Credit, Golden Rules, Modern Rules**, and the **Journal Voucher**, which ties everything together and ensures your books remain accurate and complete.

Every example, every explanation, and every entry made throughout this book had one clear purpose — to make you understand **why** each entry is passed, not just **how** to pass it. Because accounting is not only about recording figures; it is about understanding the meaning behind every transaction and how it affects the financial health of a business.

Now, as you reach the end of this learning path, you are no longer just a learner of Tally Prime — you are someone who understands how real accounting works. You know how to:

- Record transactions correctly using the right vouchers.
- Identify the nature of each account and its impact on financial statements.
- Pass adjusting, rectifying, and closing entries using Journal Vouchers.
- Read and interpret reports like the **Trial Balance, Balance Sheet, and Profit & Loss Account** with clarity and confidence.

This knowledge is enough to manage the accounting system of a small or medium-sized business, or even to start your own accounting practice.

But remember, accounting is a continuous process of learning. The more you practice, the more you will master it. You can now move forward to explore advanced areas such as **GST accounting, payroll management, cost centres, budgeting, and financial analysis** — all of which are easily managed inside Tally Prime once you understand the fundamentals you've learned here.

Always keep in mind — the best accountants are not those who just enter data, but those who **understand the story behind every number**. You are now ready to see that story clearly.

So take a moment to look back at how far you've come, and then take your next confident step ahead — because this conclusion is not an end, it's a beginning to your real-world accounting journey.

TAWSEEF AHMAD COMPANY thanks you for learning with dedication and patience. May this knowledge guide you in building accuracy, confidence, and professionalism in your accounting career.

For any queries or anything, Contact the Author on:

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