ACCOUNTING & TALLY MASTERY

THEORY TO PRACTICE

A Step-by-Step Guide for Students and Professionals

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DEFINITION OF THIS BOOK

As accounting is the topic that sounds complex and if we will learn it from an institution, it costs us thousands. Well this E-Book contains the knowledge of Accounting Basics and how to do accounting in Tally Prime. This is a little work by me, that what I understood from various courses, I summed up the Knowledge in a single Book.

Table of Contents

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	Fever 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 buyed 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 buyed 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:

- o 0% - No Tax (Like basic food items).
- o 5% - Essential Goods and Services.
- o 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.

In this image, I created a ledger of a party, and I buyed 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.

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.
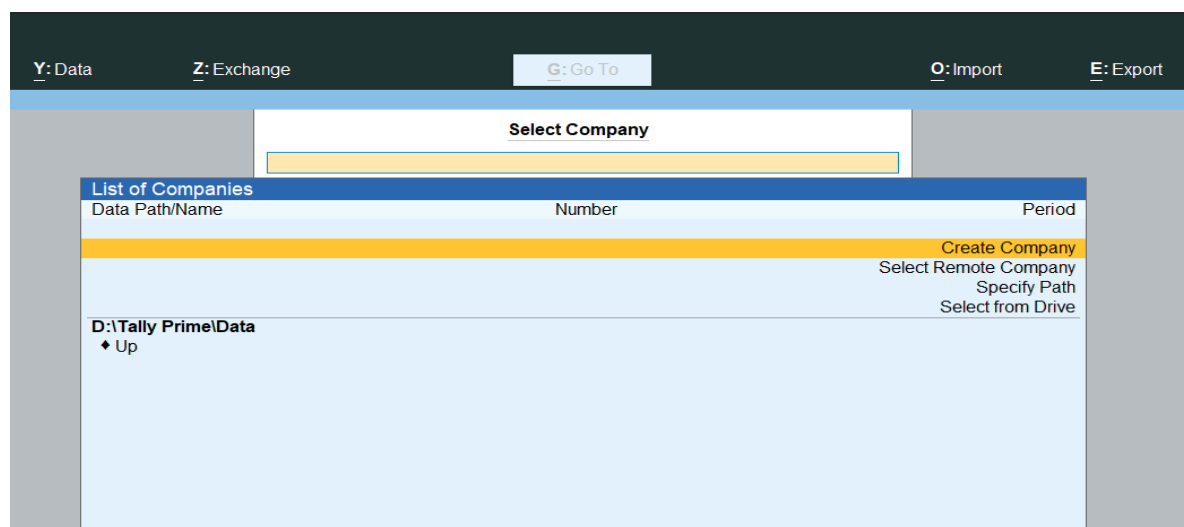
Company Data Path	: **D:\Tally Prime\Data**		
Company Name	: **Tawseef Ahmad**	Financial year beginning from	: **1-Apr-25**
Mailing Name	: **Tawseef Ahmad**	Books beginning from	: **1-Apr-25**
Address	: Tral, Pulwama		

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 created successfully.

(Enable the features as per your business needs.)

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**

Create another GST Registration for the Company	:	**No**

Accept ?

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.

Company details section

Gateway of Tally tools
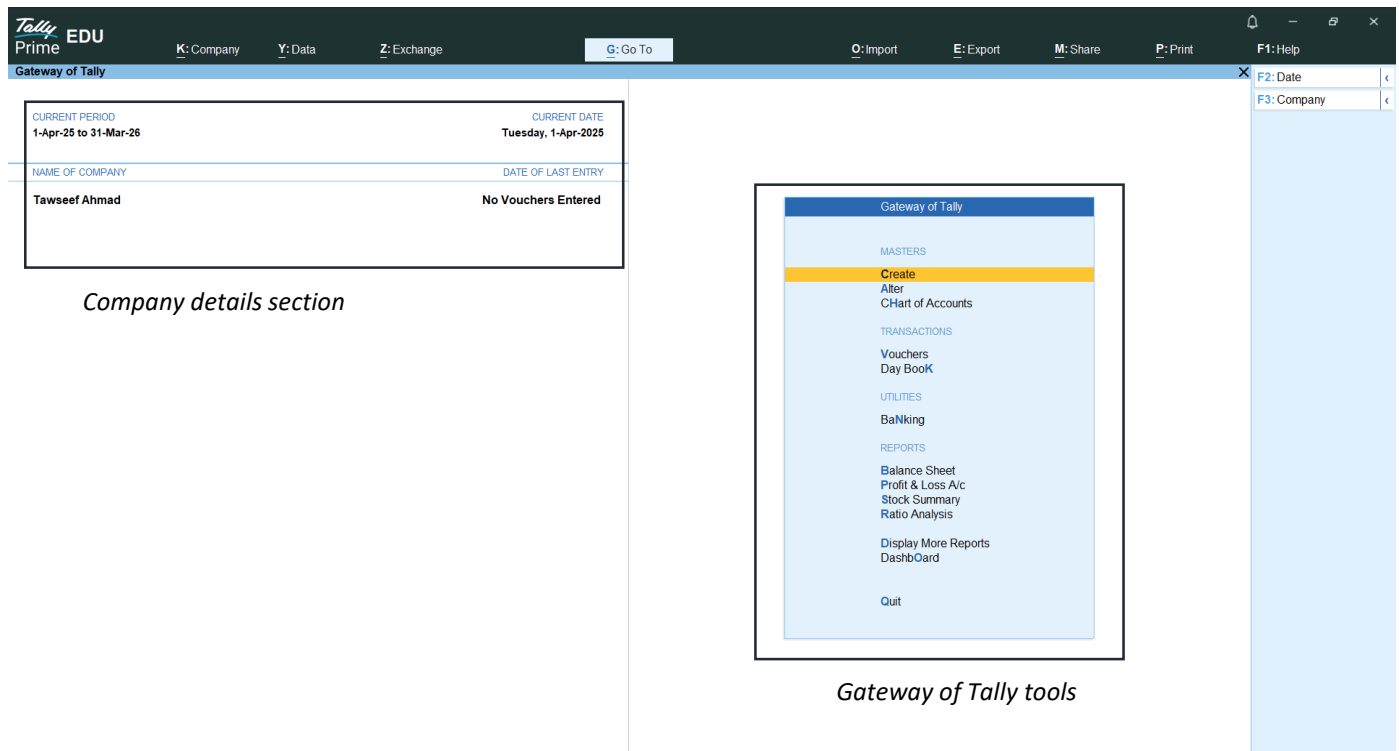
At the left side, you can see your current company, its current period (Financial Year), and current date that is in the Tally prime, well it is not the correct date, in Tally we have to enter the date manually using **F2** shortcut key, and the Tally Prime education mode allows us only to the entries 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:**
   a. **Create**: It is used to create ledgers, Items and Groups.
   b. **Alter:** It is used to edit the Ledgers, Items and Groups.
   c. **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:**
   a. **Vouchers:** All the voucher entries are done from here.
   b. **Day Book:** It is used to view the overall transactions of a particular day.
3. **Utilities:**
   a. **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

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. **1**	Dated **1-Apr-25**
	Supplier Invoice No. & Date. **INV_01 dt. 1-Apr-25**	Other References

Consignee (Ship to)
Tawseef Ahmad
Tral, Pulwama
e-mail : twhdrather@gmail.com
GSTIN/UIN   : 01JKUBS5679S1Z5
State Name   : Jammu & Kashmir, Code : 01

Our Company details as we purchased the Goods.

Supplier (Bill from)
Dawat Kesar
Lal Chowk, Srinagar
GSTIN/UIN   : 01LKIJUU78B81Z1
State Name   : Jammu & Kashmir, Code : 01

The seller company details.

SI No.	Description of Goods	Quantity	Rate	per	Amount
1	**Saffron (1kg Bag)**	10 Bag	50,000.00	Bag	5,00,000.00
	CSGT *SGST*				45,000.00 45,000.00
	Total	10 Bag			₹ 5,90,000.00

GST details

E. & O.E

Amount Chargeable (in words)
INR Five Lakh Ninety Thousand Only

Company's GSTIN/UIN   : **01LKIJUU78B81Z1**

for Dawat Kesar

Authorised Signatory

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.

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. **1**	Dated **1-Apr-25**
	Delivery Note	Mode/Terms of Payment
	Reference No. & Date.	Other References
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 Details

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* *SGST*					24,750.00 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		SGST/UTGST		Total Tax Amount
		Rate	Amount	Rate	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 buyed 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

COMPLETING YOUR TALLY PRIME E-BOOK
Payment Voucher Entries

Payment voucher is used when we pay money from our business. Think of it like this - whenever cash or money goes out from our business, whether we're paying suppliers, rent, salaries, or any expense, we use the payment voucher.

When to use Payment Voucher:

- Paying cash to suppliers (Sundry Creditors)
- Paying through bank
- Paying salaries to employees
- Paying rent, electricity bills
- Any expense where money goes out

Steps to do Payment Entries:

1. Go to **Gateway of Tally** and select **Vouchers** or press **V**.
2. Select **Payment** voucher or press **F5**.
3. Enter the **Date** of payment.
4. In the **Account** field, select from where you're paying:
   o Select **Cash** if paying by cash
   o Select **Bank Account** if paying through bank
5. In the **Particulars** field, select or create the ledger of whom you're paying.
6. Enter the **Amount** and add any narration (description) if needed.
7. Save using **CTRL + A**.

Example: We purchased goods on credit from ABC Traders (Sundry Creditor) worth ₹50,000. Now we're paying them ₹25,000 in cash.

- Press **F5** for Payment voucher
- Select **Cash** account (money going out from cash)
- In Particulars, select **ABC Traders** ledger
- Enter amount: ₹25,000
- Narration: "Partial payment for goods purchased"
- Save it

This entry reduces our cash and also reduces our liability towards ABC Traders.

Receipt Voucher Entries

Receipt voucher is the opposite of payment voucher. Whenever money comes into our business, we use the receipt voucher. It's like recording all the incoming money.

When to use Receipt Voucher:

- Receiving payment from customers (Sundry Debtors)
- Receiving cash sales
- Receiving money through bank
- Any income where money comes in

Steps to do Receipt Entries:

1. Go to **Gateway of Tally** and select **Vouchers** or press **V**.
2. Select **Receipt** voucher or press **F6**.
3. Enter the **Date** of receipt.
4. In the **Account** field, select where money is coming:
   o Select **Cash** if receiving cash
   o Select **Bank Account** if receiving through bank
5. In the **Particulars** field, select or create the ledger from whom you're receiving.
6. Enter the **Amount** and add narration if needed.
7. Save using **CTRL + A**.

Example: XYZ Company bought goods from us on credit for ₹80,000. Now they're paying us ₹40,000 through cash.

- Press **F6** for Receipt voucher
- Select **Cash** account (money coming into cash)
- In Particulars, select **XYZ Company** ledger
- Enter amount: ₹40,000
- Narration: "Partial payment received for goods sold"
- Save it

This entry increases our cash and reduces the amount XYZ Company owes us.

Contra Voucher Entries

Contra voucher is used when money moves between our own accounts. It's called "Contra" because both debit and credit happen in the same type of accounts (both are our money).

When to use Contra Voucher:

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

Important: Contra is ONLY used when money moves between Cash and Bank, or Bank to Bank. Never use it for paying suppliers or receiving from customers.

Steps to do Contra Entries:

Example 1: Depositing Cash into Bank

1. Press **F4** for Contra voucher
2. Enter the **Date**
3. In first account field, select your **Bank Account** (money going into bank)
4. In second account field, select **Cash** (money coming out from cash)
5. Enter the **Amount**
6. Narration: "Cash deposited into bank"
7. Save it

Example 2: Withdrawing Cash from Bank

1. Press **F4** for Contra voucher
2. Enter the **Date**
3. In first account field, select **Cash** (money coming into cash)
4. In second account field, select your **Bank Account** (money going out from bank)
5. Enter the **Amount**
6. Narration: "Cash withdrawn from bank"
7. Save it

Practical Scenario: Your business has ₹2,00,000 in cash. You deposit ₹1,50,000 into your bank account. Use Contra voucher to record this. Your cash will reduce to ₹50,000 and bank balance will increase by ₹1,50,000.

Practice: Do 5 entries each of Payment, Receipt, and Contra vouchers in your company.

Viewing the Sales Reports

Now that we've done several sales entries, let's learn how to view detailed sales reports. Tally Prime provides multiple ways to analyze your sales data.

1. Sales Register (Detailed Report)

As we learned earlier:

- Press **D** (Display More Reports)
- Press **A** (Account Books)
- Press **S** (Sales Register)

This shows month-wise sales summary. Click on any month to see all sales vouchers of that month.

2. Party-wise Sales Report

Want to know how much you sold to a specific customer? Here's how:

1. Go to **Gateway of Tally**
2. Press **D** (Display More Reports)
3. Press **A** (Account Books)
4. Select **Sales Register**
5. Press **ALT + F5** to see party-wise details

Now you can see which customer bought how much from you. This helps in:

- Tracking your best customers
- Following up on payments
- Planning future sales strategies

3. Item-wise Sales Report

Want to know which items are selling the most?

1. Go to **Sales Register** (D + A + S)
2. Click on any month
3. Press **ALT + F5** and select **Item-wise**

This shows which products are your bestsellers and which are slow-moving.

4. GST Sales Reports

For GST filing, you need specific reports:

1. Go to **Gateway of Tally**
2. Press **D** (Display More Reports)
3. Press **T** (Statutory Reports)
4. Press **G** (GST Reports)
5. Select **GSTR-1** to see all your sales with GST details

This report shows:

- GST sales (CGST/SGST)
- IGST sales
- Exempted sales
- Taxable and non-taxable sales separately

5. Quick Sales Summary

To see total sales quickly:

1. Go to **Gateway of Tally**
2. Press **R** (Reports)
3. Select **Profit & Loss A/C**
4. You'll see total sales on the right side

Pro Tip: Press **ALT + F1** while viewing any report to see detailed breakdown and customize the report according to your needs.

Credit Notes and Debit Notes

In business, sometimes we need to reverse or adjust our sales and purchase transactions. That's where Credit Notes and Debit Notes come in. Let's understand them with real-life scenarios.

What is a Credit Note?

A **Credit Note** is issued when we need to reduce the amount our customer owes us. It's like saying "You don't have to pay this much now."

When to issue Credit Note:

1. **Sales Return:** Customer returns defective or unwanted goods
2. **Overcharging:** We charged more by mistake
3. **Discount:** Giving post-sale discount
4. **Damaged Goods:** Customer received damaged items

Real Example: You sold goods worth ₹50,000 to Ram Traders. Later, they returned goods worth ₹10,000 because of quality issues. You issue a Credit Note for ₹10,000. Now Ram Traders owes you only ₹40,000.

How to Issue Credit Note in Tally Prime:

1. Go to **Gateway of Tally** > **Vouchers** (or press **V**)
2. Select **Credit Note** or press **CTRL + F8**
3. Enter the **Date**
4. In **Party A/C Name**, select the customer's ledger (Sundry Debtor)
5. In **Sales Ledger**, select the appropriate sales ledger (Sales GST, Sales Exempted, etc.)
6. Select the **Items** being returned
7. Enter **Quantity** and **Rate**
8. If GST was charged, select **CGST/SGST** or **IGST** ledgers below
9. Add narration: "Goods returned - Quality issue"
10. Save using **CTRL + A**

Important: Credit Note reduces:

- Your sales amount
- Customer's debt (Sundry Debtor balance)
- Your GST liability (if GST was charged)

What is a Debit Note?

A **Debit Note** is issued when we need to increase the amount our supplier owes us, or reduce what we owe them. It's the opposite of Credit Note.

When to issue Debit Note:

1. **Purchase Return:** We return goods to supplier
2. **Supplier Overcharged:** Supplier charged more than agreed
3. **Damaged Goods Received:** We received defective items
4. **Price Correction:** Correcting undercharged amount

Real Example: You purchased goods worth ₹1,00,000 from Shyam Suppliers. You discover that goods worth ₹20,000 are defective. You return them and issue a Debit Note for ₹20,000. Now you owe Shyam Suppliers only ₹80,000.

How to Issue Debit Note in Tally Prime:

1. Go to **Gateway of Tally** > **Vouchers** (or press **V**)
2. Select **Debit Note** or press **CTRL + F9**
3. Enter the **Date**
4. In **Party A/C Name**, select the supplier's ledger (Sundry Creditor)
5. In **Purchase Ledger**, select appropriate purchase ledger (Purchase GST, Purchase Exempted, etc.)
6. Select the **Items** being returned
7. Enter **Quantity** and **Rate**

8. If GST was charged, select **CGST/SGST** or **IGST** ledgers below
9. Add narration: "Goods returned - Defective quality"
10. Save using **CTRL + A**

Important: Debit Note reduces:

- Your purchase amount
- What you owe to supplier (Sundry Creditor balance)
- Your GST input credit (if GST was charged)

Practical Scenarios

Scenario 1 - Sales Return with GST:

You sold goods to ABC Ltd for ₹59,000 (₹50,000 + 18% GST). They returned goods worth ₹11,800 (₹10,000 + 18% GST).

Credit Note Entry:

- Party: ABC Ltd (Dr.) ₹11,800
- Sales GST (Cr.) ₹10,000
- CGST (Cr.) ₹900
- SGST (Cr.) ₹900

Scenario 2 - Purchase Return with GST:

You purchased goods from XYZ Suppliers for ₹1,18,000 (₹1,00,000 + 18% GST). You returned defective goods worth ₹23,600 (₹20,000 + 18% GST).

Debit Note Entry:

- Party: XYZ Suppliers (Cr.) ₹23,600
- Purchase GST (Dr.) ₹20,000
- CGST (Dr.) ₹1,800
- SGST (Dr.) ₹1,800

Viewing Credit Note and Debit Note Reports

To view Credit Notes:

- Press **D** (Display More Reports)
- Press **A** (Account Books)
- Select **Credit Note Register**

To view Debit Notes:

- Press **D** (Display More Reports)
- Press **A** (Account Books)
- Select **Debit Note Register**

Remember:

- Credit Note = Reducing customer's debt (Sales related)
- Debit Note = Reducing supplier's credit (Purchase related)

Practice: Create 3 Credit Notes and 3 Debit Notes with different scenarios in your company.

Understanding Bank Statements

A bank statement is a record provided by the bank showing all transactions in your bank account during a specific period. Understanding bank statements is crucial because it helps you verify that your Tally records match with the bank's records.

What's in a Bank Statement?

A typical bank statement shows:

1. **Opening Balance:** Money you had at the start of the period
2. **Credits (Money In):** Deposits, transfers received, interest earned
3. **Debits (Money Out):** Withdrawals, cheque payments, bank charges
4. **Closing Balance:** Money you have at the end of the period
5. **Transaction Date:** When each transaction happened
6. **Value Date:** When bank actually processed the transaction
7. **Description:** What the transaction was for
8. **Cheque Number:** If payment was by cheque
9. **Reference Number:** Unique number for each transaction

Sample Bank Statement Format:

```
ABC Bank - Statement of Account
Account Name: Your Company Name
Account Number: 1234567890
Period: 01-Oct-2024 to 31-Oct-2024

Opening Balance: ₹5,00,000

Date        | Description                | Cheque No | Debit    | Credit    |
Balance
-----------|---------------------------|-----------|----------|----------|--
--------
02-Oct-24  | Cash Deposit              | -         | -        | 1,00,000 |
6,00,000
05-Oct-24  | Cheque Payment            | 123456    | 50,000   | -        |
5,50,000
10-Oct-24  | NEFT from Customer        | -         | -        | 75,000   |
6,25,000
15-Oct-24  | Bank Charges              | -         | 500      | -        |
6,24,500
20-Oct-24  | Loan EMI                  | -         | 25,000   | -        |
5,99,500

Closing Balance: ₹5,99,500
```

Bank Reconciliation - Why It's Important

Bank Reconciliation means matching your Tally bank records with the bank statement. Sometimes there are differences because:

1. **Cheques Issued but Not Cleared:** You issued a cheque but the party hasn't deposited it yet
2. **Deposits Not Yet Credited:** You deposited cash but bank hasn't updated it
3. **Bank Charges:** Bank deducted charges but you didn't record it
4. **Interest Earned:** Bank credited interest but you didn't know
5. **Errors:** You or the bank made a mistake

How to Do Bank Reconciliation in Tally Prime:

1. Go to **Gateway of Tally**
2. Press **U** (Utilities) or select **Banking**
3. Select **Bank Reconciliation**
4. Select your **Bank Account**
5. Enter the **Period** (from date to date)
6. Tally will show all bank transactions

Matching Process:

For each transaction in Tally:

- Check if it appears in the bank statement
- If YES, mark it as **Reconciled** (press **R** on that entry)
- If NO, investigate why (maybe cheque not cleared yet)

Recording Bank Charges in Tally

When you see bank charges in statement:

1. Go to **Vouchers** > **Payment** (F5)
2. Select your **Bank Account**
3. In Particulars, create a ledger:
   - Name: **Bank Charges**
   - Under: **Indirect Expenses** group
4. Enter the **Amount**
5. Narration: "Bank charges for October 2024"
6. Save it

Recording Bank Interest in Tally

When bank credits interest:

1. Go to **Vouchers** > **Receipt** (F6)
2. Select your **Bank Account**
3. In Particulars, create a ledger:
   - Name: **Interest Received**
   - Under: **Indirect Incomes** group

4. Enter the **Amount**
5. Narration: "Interest credited by bank"
6. Save it

Unreconciled Items

After reconciliation, you'll see:

- **Items in Tally but not in Bank Statement:** Usually cheques issued but not yet presented
- **Items in Bank Statement but not in Tally:** Bank charges, interest, or transactions you forgot to record

Best Practice:

- Do bank reconciliation monthly
- Record all bank charges and interest immediately
- Keep copies of all bank statements
- Match every single transaction

Practice: Take your bank statement and reconcile it with your Tally entries. Make sure both balances match.

Capital Account - The Owner's Investment

The **Capital Account** represents the owner's investment in the business. It's the money or assets that the owner puts into the business to start or run it. Think of it as the owner's contribution.

What is Capital?

Capital is:

- Money owner invests to start business
- Additional money owner adds later
- Profit that owner leaves in business
- Assets owner brings into business

Real Example: Rahul starts a trading business. He invests ₹10,00,000 from his personal savings. This ₹10,00,000 is his capital in the business.

Nature of Capital Account

- Capital is a **Liability** for the business (business owes this money to the owner)
- Capital account has a **Credit balance** (increases on credit side)
- When business makes profit, capital increases
- When business makes loss or owner withdraws, capital decreases

Creating Capital Account in Tally Prime:

1. Go to **Gateway of Tally**
2. Press **C** (Create) in Masters
3. Select **Ledger** (or press **L**)
4. Enter ledger details:

Example:

- **Name:** Rahul's Capital (or Owner's Capital)
- **Under:** Select **Capital Account** group
- **Opening Balance:** If starting business, enter the opening investment
- Select **Credit** (Capital is always credit)
- Save using **CTRL + A**

Recording Initial Capital Entry

When owner invests money to start business:

Method 1: Cash Investment

1. Press **F6** (Receipt voucher)
2. Select **Cash** account
3. In Particulars, select **Owner's Capital** ledger
4. Enter amount: ₹10,00,000
5. Narration: "Initial capital invested in business"
6. Save it

This means: Cash increased (business received money) and Capital increased (owner's investment recorded).

Method 2: Bank Investment If owner transfers money to business bank account:

1. Press **F6** (Receipt voucher)
2. Select **Bank Account**
3. In Particulars, select **Owner's Capital** ledger
4. Enter amount
5. Narration: "Capital transferred to bank"
6. Save it

Additional Capital

Sometimes, business needs more money and owner invests additional capital:

Example: Business needs ₹5,00,000 for expansion. Owner invests additional amount.

Entry:

1. Press **F6** (Receipt voucher)
2. Select **Cash** or **Bank Account**

3. Select **Owner's Capital** ledger
4. Enter amount: ₹5,00,000
5. Narration: "Additional capital for expansion"
6. Save it

Capital account will now show: ₹10,00,000 + ₹5,00,000 = ₹15,00,000

Drawings (Owner's Withdrawal)

When owner takes money from business for personal use, it's called **Drawings**. This reduces capital.

Creating Drawings Account:

1. Create a new ledger
2. **Name:** Drawings
3. **Under:** Select **Capital Account** group
4. Save it

Recording Drawings: When owner withdraws ₹50,000 for personal use:

1. Press **F5** (Payment voucher)
2. Select **Cash** or **Bank Account**
3. In Particulars, select **Drawings** ledger
4. Enter amount: ₹50,000
5. Narration: "Withdrawn for personal use"
6. Save it

Important: At year-end, Drawings reduces the capital:

- Net Capital = Opening Capital + Additional Capital + Profit - Drawings - Loss

Capital vs Drawings

Capital	Drawings
Owner's investment	Owner's withdrawal
Increases business funds	Decreases business funds
Credit balance	Debit balance
Appears on liability side	Reduces capital at year-end

Viewing Capital Account

To see all capital transactions:

1. Go to **Gateway of Tally**
2. Press **D** (Display More Reports)
3. Press **A** (Account Books)

4. Press **L** (Ledger)
5. Select **Capital Account**

You'll see:

- Opening capital
- All additional investments
- All drawings
- Current capital balance

Practical Scenario:

Starting capital: ₹10,00,000 Additional investment: ₹2,00,000 Profit for year: ₹3,50,000 Drawings: ₹1,00,000

Final Capital = 10,00,000 + 2,00,000 + 3,50,000 - 1,00,000 = ₹14,50,000

Remember: Capital is the owner's stake in the business. Higher capital means owner has invested more in business.

Bank Accounts Group Entries

In Tally Prime, all bank-related ledgers come under the **Bank Accounts** group. But there are different types of bank accounts, and understanding them is important for proper accounting.

Types of Bank Accounts in Tally

1. **Current Account / Savings Account** (Regular Bank Account)
2. **Bank Overdraft (OD) Account**
3. **Cash Credit (CC) Account**

Each has different nature and purpose. Let's understand them one by one.

---

1. Current/Savings Account (Regular Bank Account)

This is your normal bank account where you deposit money and make payments.

Creating Bank Account Ledger:

1. Press **ALT + G** (Go To) > **Create** > **Ledger**
2. Enter details:
   - **Name:** ABC Bank Current A/C (or your bank name)
   - **Under: Bank Accounts** (select this group)
   - **Opening Balance:** Enter the balance you have in bank
   - Select **Debit** (Assets are always debit)
3. **Enable Cheque Printing:** Select **Yes** if you print cheques from Tally
4. **Enable Cheque Register:** Select **Yes** to maintain cheque records

5. **Bank Details:**
   - o Account Number: Enter your account number
   - o IFSC Code: Enter bank's IFSC code
   - o SWIFT Code: If applicable
   - o Bank Name: Full bank name
   - o Branch: Branch name
6. Save using **CTRL + A**

Common Bank Account Entries:

a) Depositing Cash into Bank:

- Press **F4** (Contra Voucher)
- First line: Select your **Bank Account** (Dr.)
- Second line: Select **Cash** (Cr.)
- Enter amount
- Narration: "Cash deposited"
- Save

b) Withdrawing Cash from Bank:

- Press **F4** (Contra Voucher)
- First line: Select **Cash** (Dr.)
- Second line: Select your **Bank Account** (Cr.)
- Enter amount
- Narration: "Cash withdrawn"
- Save

c) Receiving Payment by Cheque:

- Press **F6** (Receipt Voucher)
- Select your **Bank Account**
- In Particulars: Select **Customer** ledger (Sundry Debtor)
- Enter amount
- Enter **Cheque Number** and **Cheque Date**
- Narration: "Received by cheque"
- Save

d) Making Payment by Cheque:

- Press **F5** (Payment Voucher)
- Select your **Bank Account**
- In Particulars: Select **Supplier** ledger (Sundry Creditor)
- Enter amount
- Enter **Cheque Number** and **Cheque Date**
- Narration: "Paid by cheque"
- Save

e) NEFT/RTGS/IMPS Transfers:

Receiving Money:

- Press **F6** (Receipt Voucher)
- Select your **Bank Account**
- In Particulars: Select **Customer** ledger
- Enter amount
- Narration: "Received via NEFT - UTR No. XXXXXXXX"
- Save

Sending Money:

- Press **F5** (Payment Voucher)
- Select your **Bank Account**
- In Particulars: Select **Supplier** ledger
- Enter amount
- Narration: "Paid via NEFT - UTR No. XXXXXXXX"
- Save

---

2. Bank Overdraft (OD) Account

A **Bank OD Account** is a facility where bank allows you to withdraw more money than you have in your account. It's a short-term loan facility.

Key Features:

- You can withdraw even when balance is zero
- Interest charged on the amount used
- It's a liability for business (you owe money to bank)
- Credit balance (opposite of regular bank account)

Real Example: Your bank gives you OD limit of ₹5,00,000. You can use this money when needed and pay interest only on used amount.

Creating Bank OD Account Ledger:

1. Press **ALT + G** > **Create** > **Ledger**
2. Enter details:
   - **Name:** ABC Bank OD A/C
   - **Under: Bank OD A/C** (select this group - it's under Loans & Liabilities)
   - **Opening Balance:** If you already used OD, enter the used amount
   - Select **Credit** (Liability)
3. Enter bank details
4. Save

Bank OD Entries:

a) Using OD (Withdrawing Money):

- Press **F6** (Receipt Voucher)
- Select **Cash** or where money is coming
- In Particulars: Select **Bank OD A/C** ledger

- Enter amount
- Narration: "OD facility used"
- Save

This increases your liability (you owe more to bank).

b) Repaying OD:

- Press **F5** (Payment Voucher)
- Select **Cash** or **Bank Account**
- In Particulars: Select **Bank OD A/C** ledger
- Enter amount
- Narration: "OD repayment"
- Save

This decreases your liability (you owe less to bank).

c) Recording OD Interest:

- Press **F5** (Payment Voucher)
- Select **Bank OD A/C** (Interest deducted from OD)
- In Particulars: Create ledger **Interest on OD**
  - Under: **Indirect Expenses** group
- Enter amount
- Narration: "Interest charged on OD"
- Save

Difference Between Regular Bank Account and OD Account

Feature	Regular Bank A/C	Bank OD A/C
Nature	Asset	Liability
Balance Type	Debit	Credit
Group	Bank Accounts	Bank OD A/C (under Loans)
Purpose	Depositing/withdrawing own money	Borrowing from bank
Interest	You earn interest (Income)	You pay interest (Expense)
Opening Balance	Debit (asset)	Credit (liability)
In Balance Sheet	Assets side	Liabilities side

Practical Example - OD Usage:

Day 1: Business needs ₹2,00,000 urgently. Uses Bank OD:

- Receipt voucher: Cash Dr. ₹2,00,000, Bank OD A/C Cr. ₹2,00,000

Day 15: Business repays ₹1,00,000:

- Payment voucher: Bank OD A/C Dr. ₹1,00,000, Cash Cr. ₹1,00,000

Month End: Bank charges ₹2,000 interest on OD:

- Payment voucher: Interest on OD Dr. ₹2,000, Bank OD A/C Cr. ₹2,000

Current OD Liability: ₹2,00,000 - ₹1,00,000 + ₹2,000 = ₹1,02,000

Cash Credit (CC) Account

Cash Credit is similar to OD but with some differences:

- Loan against stock/inventory
- Lower interest rate than OD
- Suitable for working capital needs

Creating CC Account:

1. Create ledger like OD account
2. **Name:** ABC Bank CC A/C
3. **Under: Loans (Liability)** group or create **Bank CC A/C** sub-group
4. Select **Credit** balance
5. Save

Entries for CC are same as OD entries.

Viewing Bank Account Reports

To see bank book:

- Press **D** (Display More Reports)
- Press **A** (Account Books)
- Press **B** (Bank Book)
- Select your bank account

This shows all transactions: deposits, withdrawals, cheque payments, etc.

To see bank reconciliation:

- Press **U** (Utilities) > **Banking** > **Bank Reconciliation**

Practice:

1. Create 2 bank accounts in your company
2. Deposit cash into bank

3. Withdraw cash from bank
4. Make payment to supplier by cheque
5. Receive payment from customer by NEFT
6. Create an OD account and record using OD and repayment
7. View bank book and reconcile

Secured Loans and Their Entries

Secured Loans are loans taken by business where you pledge some asset (like property, machinery, inventory) as security. If you can't repay, the lender can sell that asset to recover money.

What is a Secured Loan?

Secured loans include:

1. **Loan against Property:** You pledge your building/land
2. **Loan against Fixed Deposits:** You pledge your FD
3. **Vehicle Loan:** The vehicle itself is security
4. **Machinery Loan:** The machinery is pledged
5. **Loan against Stock:** Your inventory is security

Why Secured?

- Lower interest rates (because lender has security)
- Higher loan amounts
- Longer repayment period

Real Example: Your business takes ₹50,00,000 loan from HDFC Bank against your factory building. If you don't pay, bank can auction the building.

Creating Secured Loan Ledger:

1. Press **ALT + G** > **Create** > **Ledger**
2. Enter details:
   o **Name:** HDFC Bank Loan (Secured)
   o **Under: Secured Loans** (under Loans & Liabilities group)
   o **Opening Balance:** If already taken loan, enter amount
   o Select **Credit** (It's a liability)
3. Add loan details:
   o Loan amount
   o Interest rate
   o Repayment period
   o Asset pledged
4. Save using **CTRL + A**

Recording Secured Loan Entries:

a) Receiving Loan Amount:

When bank credits ₹50,00,000 loan to your account:

1. Press **F6** (Receipt Voucher)
2. Select your **Bank Account** (where loan is credited)
3. In Particulars: Select **HDFC Bank Loan (Secured)** ledger
4. Enter amount: ₹50,00,000
5. Narration: "Loan received against property"
6. Save

Effect:

- Bank balance increased by ₹50,00,000 (Asset increased)
- Secured loan increased by ₹50,00,000 (Liability increased)

b) Repaying Loan EMI:

Suppose monthly EMI is ₹4,50,000 (includes principal + interest):

1. Press **F5** (Payment Voucher)
2. Select your **Bank Account**
3. In Particulars section, enter two ledgers:
    - **First:** Select **HDFC Bank Loan (Secured)** - Enter principal amount (₹4,00,000)
    - **Second:** Create/Select **Interest on Secured Loan** ledger
        - Under: **Indirect Expenses** group
        - Enter interest amount (₹50,000)
4. Total payment: ₹4,50,000
5. Narration: "Monthly EMI paid - Principal ₹4,00,000 + Interest ₹50,000"
6. Save

Effect:

- Bank balance decreased by ₹4,50,000
- Loan liability reduced by ₹4,00,000
- Interest expense recorded ₹50,000

c) Processing Fees/Charges:

When bank deducts ₹25,000 as processing fee:

1. Press **F5** (Payment Voucher)
2. Select your **Bank Account**
3. In Particulars: Create ledger **Loan Processing Charges**
    - Under: **Indirect Expenses** group
4. Enter amount: ₹25,000
5. Narration: "Loan processing fees"
6. Save

Tracking Secured Loan:

To view loan details:

1. Press **D** > **A** > **L** (Ledger)
2. Select **HDFC Bank Loan (Secured)**

You'll see:

- Opening loan amount
- All EMI payments
- Current outstanding loan
- Total interest paid

Loan Schedule Example:

Month	Opening	EMI	Principal	Interest	Closing
Jan	50,00,000	4,50,000	4,00,000	50,000	46,00,000
Feb	46,00,000	4,50,000	4,05,000	45,000	41,95,000
Mar	41,95,000	4,50,000	4,10,000	40,000	37,85,000

Multiple Secured Loans:

If you have multiple secured loans, create separate ledgers:

- HDFC Bank Loan (Against Property)
- ICICI Vehicle Loan
- SBI Machinery Loan

Each will appear separately in Balance Sheet under Secured Loans.

Unsecured Loans and Their Entries

Unsecured Loans are loans taken without pledging any asset as security. The lender gives money based on your creditworthiness and trust.

What is an Unsecured Loan?

Unsecured loans include:

1. **Personal Loans for Business:** Based on personal credit
2. **Credit Card Loans:** Short-term borrowing
3. **Loans from Friends/Relatives:** Without any security
4. **Business Line of Credit:** Unsecured credit facility
5. **Working Capital Loans:** Sometimes unsecured

Characteristics:

- Higher interest rates (more risk for lender)

- Lower loan amounts
- Shorter repayment period
- Based on credit score and business performance

Real Example: Your business takes ₹10,00,000 unsecured loan from Axis Bank for working capital. No asset pledged, just based on business revenue and credit history.

Creating Unsecured Loan Ledger:

1. Press **ALT + G** > **Create** > **Ledger**
2. Enter details:
   - **Name:** Axis Bank Unsecured Loan
   - **Under: Unsecured Loans** (under Loans & Liabilities group)
   - **Opening Balance:** If already taken, enter amount
   - Select **Credit** (It's a liability)
3. Add loan details:
   - Loan amount
   - Interest rate
   - Repayment terms
4. Save using **CTRL + A**

Recording Unsecured Loan Entries:

a) Receiving Unsecured Loan:

When ₹10,00,000 is credited to your account:

1. Press **F6** (Receipt Voucher)
2. Select your **Bank Account**
3. In Particulars: Select **Axis Bank Unsecured Loan** ledger
4. Enter amount: ₹10,00,000
5. Narration: "Unsecured loan received for working capital"
6. Save

b) Repaying Unsecured Loan:

Monthly EMI of ₹90,000 (Principal ₹80,000 + Interest ₹10,000):

1. Press **F5** (Payment Voucher)
2. Select your **Bank Account**
3. In Particulars section:
   - **Axis Bank Unsecured Loan:** ₹80,000
   - **Interest on Unsecured Loan:** ₹10,000 (Under: Indirect Expenses)
4. Total: ₹90,000
5. Narration: "EMI paid"
6. Save

Loan from Directors/Partners:

When business owners give loan to their own business:

Creating Ledger:

1. **Name:** Loan from Director - Rajesh
2. **Under: Unsecured Loans** group
3. **Credit** balance
4. Save

Entry when director gives ₹5,00,000:

- Receipt Voucher: Bank Dr. ₹5,00,000, Loan from Director Cr. ₹5,00,000

Entry when repaying to director:

- Payment Voucher: Loan from Director Dr. ₹5,00,000, Bank Cr. ₹5,00,000

If interest paid to director:

- Payment Voucher: Interest on Director's Loan Dr. ₹10,000, Bank Cr. ₹10,000

Difference Between Secured and Unsecured Loans:

Feature	Secured Loan	Unsecured Loan
Security	Asset pledged	No security
Interest Rate	Lower (8-12%)	Higher (12-20%)
Loan Amount	Higher	Lower
Risk to Lender	Lower	Higher
Approval Time	Longer	Faster
Group in Tally	Secured Loans	Unsecured Loans
Balance Sheet	Under Secured Loans	Under Unsecured Loans

Viewing All Loans:

To see all loans together:

1. Press **R** (Reports)
2. Select **Balance Sheet**
3. Click on **Loans (Liability)** section

You'll see:

- Secured Loans (with sub-items)
- Unsecured Loans (with sub-items)
- Total loan liability

Best Practice:

- Maintain separate ledger for each loan
- Record every EMI on time
- Track interest separately
- Reconcile with bank statements monthly
- Keep loan agreements documented

Practice:

1. Create one secured loan ledger
2. Create one unsecured loan ledger
3. Record loan receipt
4. Record 3 months EMI payments with interest
5. View Balance Sheet to see both loans

All Types of Assets

Assets are everything that a business owns that has value. In Tally Prime, assets are classified into different groups. Understanding each type helps you record transactions correctly.

Classification of Assets:

```
ASSETS
│
├── Fixed Assets (Long-term, used in business)
│   ├── Tangible Assets (Can touch)
│   │   ├── Land and Building
│   │   ├── Plant and Machinery
│   │   ├── Furniture and Fixtures
│   │   ├── Vehicles
│   │   ├── Office Equipment
│   │   └── Computers
│   │
│   └── Intangible Assets (Cannot touch)
│       ├── Goodwill
│       ├── Patents
│       ├── Trademarks
│       ├── Software
│       └── Copyrights
│
├── Current Assets (Short-term, converted to cash within a year)
│   ├── Stock in Hand (Inventory)
│   ├── Sundry Debtors (Customers who owe money)
│   ├── Cash in Hand
│   ├── Bank Accounts
│   ├── Loans and Advances (Given to others)
│   └── Short-term Investments
│
└── Investments (Long-term)
    ├── Shares and Securities
    ├── Mutual Funds
    └── Fixed Deposits (Long-term)
```

Let's understand each asset type with practical entries:

---

1. FIXED ASSETS - Tangible Assets

These are physical assets used in business for more than one year.

a) Land and Building

Creating Ledger:

1. Press **ALT + G** > **Create** > **Ledger**
2. **Name:** Factory Building - Mumbai
3. **Under: Fixed Assets** group
4. **Opening Balance:** If already owned, enter purchase value
5. Select **Debit** (Assets are always debit)
6. Save

Entry when purchasing building for ₹1,50,00,000:

1. Press **F7** (Journal Voucher)
2. First line: **Factory Building - Mumbai** Dr. ₹1,50,00,000
3. Second line: **Bank Account** Cr. ₹1,50,00,000
4. Narration: "Building purchased for factory"
5. Save

---

b) Plant and Machinery

Example: Purchased manufacturing machine for ₹25,00,000

Creating Ledger:

1. **Name:** CNC Machine - Model X200
2. **Under: Fixed Assets** > Create sub-group **"Plant and Machinery"**
3. Save

Purchase Entry:

1. Press **F7** (Journal Voucher)
2. **CNC Machine** Dr. ₹25,00,000
3. **Bank Account** Cr. ₹25,00,000
4. Narration: "Machine purchased"
5. Save

If GST paid on machinery:

1. Press **F7**
2. **CNC Machine** Dr. ₹25,00,000
3. **CGST** Dr. ₹2,25,000
4. **SGST** Dr. ₹2,25,000
5. **Bank Account** Cr. ₹29,50,000
6. Save

c) Furniture and Fixtures

Example: Purchased office furniture for ₹5,00,000

Creating Ledger:

1. **Name:** Office Furniture
2. **Under: Fixed Assets**
3. Save

Purchase Entry:

1. Press **F5** (Payment Voucher)
2. Select **Bank/Cash Account**
3. Particulars: **Office Furniture** ₹5,00,000
4. Save

d) Vehicles

Example: Purchased delivery van for ₹15,00,000

Creating Ledger:

1. **Name:** Delivery Van - DL01AB1234
2. **Under: Fixed Assets**
3. Save

Purchase Entry:

1. **Delivery Van** Dr. ₹15,00,000
2. **Bank Account** Cr. ₹15,00,000

Recording Vehicle Expenses:

- **Fuel:** Create ledger under **Indirect Expenses**
- **Insurance:** Create ledger under **Indirect Expenses**
- **Maintenance:** Create ledger under **Indirect Expenses**

e) Office Equipment

Example: Purchased computers, printers, ACs

Creating Ledgers:

1. **Name:** Computers and Laptops
2. **Name:** Office Equipment (Printer, AC, etc.)

3. **Under: Fixed Assets**

Purchase Entry:

1. **Computers** Dr. ₹3,00,000
2. **Bank** Cr. ₹3,00,000

---

2. FIXED ASSETS - Intangible Assets

These are non-physical assets that have value.

a) Goodwill

When you buy an existing business, you pay extra for its reputation and customer base.

Example: Purchased business for ₹50,00,000. Assets worth ₹40,00,000. Extra ₹10,00,000 is goodwill.

Creating Ledger:

1. **Name:** Goodwill
2. **Under: Fixed Assets**
3. Save

Entry:

1. **Various Assets** Dr. ₹40,00,000
2. **Goodwill** Dr. ₹10,00,000
3. **Bank** Cr. ₹50,00,000

---

b) Software and Licenses

Example: Purchased Tally license for ₹54,000

Creating Ledger:

1. **Name:** Computer Software
2. **Under: Fixed Assets**
3. Save

Entry:

1. **Computer Software** Dr. ₹54,000
2. **Bank** Cr. ₹54,000

---

c) Patents and Trademarks

Example: Registered trademark for ₹50,000

Creating Ledger:

1. **Name:** Trademark Registration
2. **Under: Fixed Assets**
3. Save

Entry:

1. **Trademark Registration** Dr. ₹50,000
2. **Bank** Cr. ₹50,000

---

3. CURRENT ASSETS
a) Stock in Hand (Inventory)

Automatically tracked when you buy/sell items. View in:

- **Gateway of Tally > Reports > Stock Summary**

---

b) Sundry Debtors

Customers who owe you money. Already learned in sales section.

---

c) Cash in Hand

Pre-created ledger in Tally. Used in all cash transactions.

---

d) Bank Accounts

Already covered in Bank Accounts section.

---

e) Loans and Advances (Asset)

Money you gave to employees or others.

Example: Gave ₹50,000 advance to employee

Creating Ledger:

1. **Name:** Advance to Employees - Ramesh
2. **Under: Loans & Advances (Asset)** group
3. Save

Entry when giving advance:

1. Press **F5** (Payment Voucher)
2. Select **Cash/Bank**
3. Particulars: **Advance to Ramesh** ₹50,000
4. Save

Entry when recovering:

1. Press **F6** (Receipt Voucher)
2. Select **Cash/Bank**
3. Particulars: **Advance to Ramesh** ₹50,000
4. Save

---

f) Short-term Investments

Example: Purchased mutual funds for ₹5,00,000

Creating Ledger:

1. **Name:** Investment in Mutual Funds
2. **Under: Investments** group (under Current Assets)
3. Save

Entry:

1. **Investment in Mutual Funds** Dr. ₹5,00,000
2. **Bank** Cr. ₹5,00,000

When selling investment at profit:

1. **Bank** Dr. ₹5,50,000
2. **Investment in Mutual Funds** Cr. ₹5,00,000
3. **Profit on Investment** Cr. ₹50,000 (Under: Indirect Income)

---

4. INVESTMENTS (Long-term)
Fixed Deposits (More than 1 year)

Example: Made FD of ₹10,00,000 for 3 years

Creating Ledger:

1. **Name:** Fixed Deposit - HDFC Bank

2. **Under: Investments** group
3. Save

Entry:

1. **FD - HDFC Bank** Dr. ₹10,00,000
2. **Bank Account** Cr. ₹10,00,000

When interest credited:

1. Press **F6** (Receipt)
2. **Bank** Dr. (Interest amount)
3. **Interest on FD** Cr. (Under: Indirect Income)

Depreciation on Fixed Assets

Fixed assets lose value over time. This is called depreciation.

Example: Machine cost ₹10,00,000. Depreciation 10% per year = ₹1,00,000

Creating Ledger:

1. **Name:** Depreciation on Machinery
2. **Under: Indirect Expenses**
3. Save

Year-end depreciation entry:

1. Press **F7** (Journal Voucher)
2. **Depreciation on Machinery** Dr. ₹1,00,000
3. **CNC Machine** Cr. ₹1,00,000
4. Narration: "Annual depreciation charged"
5. Save

Asset value after depreciation: ₹10,00,000 - ₹1,00,000 = ₹9,00,000

Summary of Asset Groups:

Asset Type	Group in Tally	Nature	Examples
Tangible Fixed Assets	Fixed Assets	Debit	Building, Machinery, Vehicles
Intangible Fixed Assets	Fixed Assets	Debit	Goodwill, Software, Patents
Current Assets	Various groups	Debit	Stock, Debtors, Cash, Bank
Investments	Investments	Debit	FD, Mutual Funds, Shares

Practice:

1. Create 5 different fixed asset ledgers
2. Record purchase of one fixed asset
3. Create advance to employee ledger and give advance
4. Record depreciation on one asset
5. View Balance Sheet to see all assets

All Types of Groups and Ledgers

Understanding all groups in Tally Prime is crucial because every ledger must be placed under the correct group. Let's understand the complete structure.

Primary Groups in Tally Prime:

Tally has pre-defined groups organized into two main categories:

1. Balance Sheet Groups (What business owns and owes) 2. Profit & Loss Groups (Income and Expenses)

BALANCE SHEET GROUPS:
A) ASSETS GROUPS:

1. Fixed Assets

- **Nature:** Debit
- **Purpose:** Long-term assets used in business
- **Ledgers Under This:**
    - Land and Building
    - Plant and Machinery
    - Furniture
    - Vehicles
    - Computers
    - Software
    - Goodwill

2. Current Assets

- **Nature:** Debit
- **Purpose:** Assets convertible to cash within a year
- **Sub-groups:**
    - **Bank Accounts:** All bank ledgers
    - **Cash-in-Hand:** Cash ledger
    - **Deposits (Asset):** Security deposits given
    - **Loans & Advances (Asset):** Money lent to others
    - **Stock-in-Hand:** Inventory (auto-created)
    - **Sundry Debtors:** Customers who owe money

3. Investments

- **Nature:** Debit
- **Purpose:** Long-term investments
- **Ledgers:**
    - Fixed Deposits
    - Mutual Funds
    - Shares and Securities

---

4. Capital Account

- **Nature:** Credit
- **Purpose:** Owner's investment
- **Ledgers:**
    - Owner's Capital
    - Partner's Capital
    - Drawings (reduces capital)

5. Loans (Liability)

- **Nature:** Credit
- **Purpose:** Money borrowed
- **Sub-groups:**
    - **Bank OD A/C:** Overdraft accounts
    - **Secured Loans:** Loans against assets
    - **Unsecured Loans:** Loans without security

6. Current Liabilities

- **Nature:** Credit
- **Purpose:** Short-term obligations
- **Sub-groups:**
    - **Duties & Taxes:** GST, TDS, Income Tax
    - **Provisions:** Provision for expenses
    - **Sundry Creditors:** Suppliers you owe money

PROFIT & LOSS GROUPS:

C) EXPENSES GROUPS:

7. Purchase Accounts

- **Nature:** Debit
- **Purpose:** All types of purchases
- **Ledgers:**
    - Purchase Exempted
    - Purchase Interstate Exempted

- o Purchase GST
- o Purchase IGST

8. Direct Expenses

- **Nature:** Debit
- **Purpose:** Expenses directly related to production
- **Ledgers:**
  - o Carriage Inward (Transport on purchases)
  - o Freight Charges
  - o Wages (Production workers)
  - o Factory Power
  - o Packing Charges
  - o Import Duty

9. Indirect Expenses

- **Nature:** Debit
- **Purpose:** General business expenses
- **Ledgers:**
  - o Salary (Office staff)
  - o Rent
  - o Electricity
  - o Telephone
  - o Internet
  - o Printing & Stationery
  - o Repairs & Maintenance
  - o Insurance
  - o Advertisement
  - o Bank Charges
  - o Interest Paid
  - o Depreciation
  - o Legal & Professional Charges
  - o Audit Fees
  - o Travel Expenses
  - o Entertainment
  - o Delivery Charges (After sale)
  - o Bad Debts
  - o Discount Allowed

D) INCOME GROUPS:

10. Sales Accounts

- **Nature:** Credit
- **Purpose:** All types of sales
- **Ledgers:**
  - o Sales Exempted
  - o Sales Interstate Exempted
  - o Sales GST

o   Sales IGST

11. Direct Incomes

- **Nature:** Credit
- **Purpose:** Income directly from business operations
- **Ledgers:**
    o   Job Work Income
    o   Service Income
    o   Export Income
    o   Scrap Sales
    o   Discount Received (On purchases)

12. Indirect Incomes

- **Nature:** Credit
- **Purpose:** Income from other sources
- **Ledgers:**
    o   Interest Received
    o   Commission Received
    o   Rent Received
    o   Dividend Income
    o   Profit on Sale of Assets
    o   Miscellaneous Income

SPECIAL GROUPS:

13. Suspense Account

- **Nature:** Can be Debit or Credit
- **Purpose:** Temporary account for unidentified transactions
- **When to use:**
    o   Difference in trial balance
    o   Unknown bank credits/debits
    o   Temporary parking of amounts

14. Provisions

- **Nature:** Credit (Liability)
- **Purpose:** Setting aside money for future expenses
- **Ledgers:**
    o   Provision for Depreciation
    o   Provision for Tax
    o   Provision for Bad Debts
    o   Provision for Salary

15. Reserves & Surplus

- **Nature:** Credit

- **Purpose:** Retained profits and reserves
- **Ledgers:**
    - General Reserve
    - Profit & Loss A/C (Previous years)
    - Retained Earnings

Creating Custom Sub-Groups:

Sometimes you need to organize ledgers better. You can create sub-groups.

Example: Under Fixed Assets, create sub-groups for better organization:

- Fixed Assets
    - Land & Building
    - Machinery
    - Vehicles
    - Furniture
    - Electronics

How to Create Sub-Group:

1. Press **ALT + G** > **Create** > **Group**
2. **Name:** Machinery
3. **Under:** Select **Fixed Assets**
4. **Nature:** Will inherit from parent (Fixed Assets = Assets)
5. Save

Now when creating machinery ledgers, put them under "Machinery" group.

Complete Group Structure Chart:

```
PRIMARY GROUPS
│
├── ASSETS (Debit Balance)
│   ├── Fixed Assets (Buildings, Machinery, Vehicles)
│   ├── Current Assets
│   │   ├── Bank Accounts
│   │   ├── Cash-in-Hand
│   │   ├── Sundry Debtors
│   │   ├── Stock-in-Hand
│   │   ├── Loans & Advances (Asset)
│   │   └── Deposits (Asset)
│   └── Investments (FD, Mutual Funds, Shares)
│
├── LIABILITIES (Credit Balance)
│   ├── Capital Account (Owner's money)
│   ├── Current Liabilities
│   │   ├── Sundry Creditors
│   │   ├── Duties & Taxes
│   │   └── Provisions
│   ├── Loans (Liability)
│   │   ├── Secured Loans
```

```
        ├─── Unsecured Loans
        │    └─── Bank OD A/C
        └─── Reserves & Surplus

├─── INCOME (Credit Balance)
│    ├─── Sales Accounts (Main business income)
│    ├─── Direct Incomes (Related to business)
│    └─── Indirect Incomes (Other sources)
│
└─── EXPENSES (Debit Balance)
     ├─── Purchase Accounts (Buying goods)
     ├─── Direct Expenses (Production related)
     └─── Indirect Expenses (General expenses)
```

How to View All Groups:

1. Go to **Gateway of Tally**
2. Press **C** (Create) in Masters
3. Press **G** (Group)
4. Press **ALT + A** to see list of all groups

Or:

1. Press **ALT + G** (Go To)
2. Type **"Chart of Accounts"**
3. Press Enter

This shows complete hierarchy of all groups and ledgers.

Important Rules for Groups:

Group Type	Nature	Appears In	Balance Type
Capital Account	Credit	Balance Sheet	Liability side
Fixed Assets	Debit	Balance Sheet	Assets side
Current Assets	Debit	Balance Sheet	Assets side
Loans (Liability)	Credit	Balance Sheet	Liability side
Sundry Debtors	Debit	Balance Sheet	Assets side
Sundry Creditors	Credit	Balance Sheet	Liability side
Sales Accounts	Credit	P&L Account	Income side
Purchase Accounts	Debit	P&L Account	Expense side
Direct Expenses	Debit	P&L Account	Expense side

Group Type	Nature	Appears In	Balance Type
Indirect Expenses	Debit	P&L Account	Expense side
Direct Incomes	Credit	P&L Account	Income side
Indirect Incomes	Credit	P&L Account	Income side

Golden Rule:

- Assets & Expenses = Debit balance
- Liabilities & Income = Credit balance
- Capital = Credit balance (it's owner's liability to business)

Direct Expenses and Indirect Expenses

Understanding the difference between direct and indirect expenses is crucial for calculating **Cost of Goods Sold** and **Gross Profit**.

What are Direct Expenses?

Direct Expenses are costs that are directly linked to the production or purchase of goods. Without these expenses, you cannot produce or acquire the goods you sell.

Key Feature: These expenses vary with production. If you produce more, these expenses increase. If you produce less, they decrease.

Examples of Direct Expenses:

1. **Wages** (to production workers, not office staff)
2. **Carriage Inward** (Transport charges on purchases)
3. **Freight & Shipping** (To bring goods to your warehouse)
4. **Power & Fuel** (Used in factory/production)
5. **Packing Material** (For goods being manufactured)
6. **Factory Rent** (If separate from office)
7. **Import Duty** (On imported raw materials)
8. **Loading & Unloading** (On purchased goods)
9. **Octroi** (On bringing goods into city)
10. **Cartage** (Local transport on purchases)

Creating Direct Expense Ledgers:

Example: Carriage Inward (Transport on purchases)

1. Press **ALT + G** > **Create** > **Ledger**
2. **Name:** Carriage Inward
3. **Under: Direct Expenses** group
4. Save

Example: Factory Wages

1. **Name:** Factory Wages
2. **Under: Direct Expenses** group
3. Save

Recording Direct Expense Entries:

Scenario 1: Paid ₹5,000 for transporting purchased goods

1. Press **F5** (Payment Voucher)
2. Select **Cash** or **Bank**
3. Particulars: **Carriage Inward** ₹5,000
4. Narration: "Transport charges for goods"
5. Save

Scenario 2: Paid ₹50,000 as wages to factory workers

1. Press **F5** (Payment Voucher)
2. Select **Cash**
3. Particulars: **Factory Wages** ₹50,000
4. Narration: "Monthly wages to production staff"
5. Save

What are Indirect Expenses?

Indirect Expenses are costs needed to run the business but are not directly tied to production. These are general business expenses that you incur regardless of production volume.

Key Feature: These expenses remain relatively stable even if production changes.

Examples of Indirect Expenses:

1. **Office Salaries** (Accountants, managers, clerks)
2. **Office Rent** (Office building rent)
3. **Electricity** (Office electricity)
4. **Telephone & Internet**
5. **Printing & Stationery**
6. **Advertisement**
7. **Bank Charges**
8. **Interest on Loans**
9. **Insurance** (Office, business insurance)
10. **Repairs & Maintenance** (Office equipment)
11. **Depreciation**
12. **Legal Fees**
13. **Audit Fees**
14. **Traveling Expenses**
15. **Entertainment Expenses**
16. **Postage & Courier**

17. **Bad Debts** (When customer doesn't pay)
18. **Discount Allowed** (Discount given to customers)
19. **Delivery Charges** (After sale delivery)
20. **Professional Charges**

Creating Indirect Expense Ledgers:

Example: Office Rent

1. Press **ALT + G** > **Create** > **Ledger**
2. **Name:** Office Rent
3. **Under: Indirect Expenses** group
4. Save

Example: Electricity

1. **Name:** Electricity Charges
2. **Under: Indirect Expenses** group
3. Save

Recording Indirect Expense Entries:

Scenario 1: Paid ₹25,000 office rent

1. Press **F5** (Payment Voucher)
2. Select **Bank**
3. Particulars: **Office Rent** ₹25,000
4. Narration: "Monthly office rent"
5. Save

Scenario 2: Paid ₹3,500 for electricity bill

1. Press **F5** (Payment Voucher)
2. Select **Bank**
3. Particulars: **Electricity Charges** ₹3,500
4. Narration: "Electricity bill for office"
5. Save

Scenario 3: Paid ₹1,200 for internet

1. Press **F5** (Payment Voucher)
2. Select **Bank**
3. Particulars: **Internet Charges** ₹1,200
4. Narration: "Monthly internet bill"
5. Save

Scenario 4: Bank deducted ₹500 as charges

1. Press **F5** (Payment Voucher)
2. Select **Bank Account**

3. Particulars: **Bank Charges** ₹500
4. Narration: "Monthly bank charges"
5. Save

Key Differences:

Aspect	Direct Expenses	Indirect Expenses
Related to	Production/Purchase	General business operations
Varies with	Production volume	Remains relatively fixed
Examples	Wages, carriage inward, factory power	Rent, salary, advertisement
In P&L	Appears after purchases	Appears after gross profit
Formula	Cost of Goods Sold = Purchases + Direct Expenses	Operating Expenses
Impact	Increases cost of goods	Reduces net profit

How They Appear in Profit & Loss Account:

```
PROFIT & LOSS ACCOUNT

EXPENSES SIDE                          INCOME SIDE
-------------------------------------------------------
Opening Stock          1,00,000   Sales          10,00,000
Purchases              5,00,000
Add: Direct Expenses
  - Carriage Inward       10,000
  - Factory Wages         50,000
  - Power                 15,000
                        --------
Total                  6,75,000

Less: Closing Stock   (1,50,000)
                        --------
COST OF GOODS SOLD     5,25,000

GROSS PROFIT           4,75,000
                        ========

Indirect Expenses:
  - Office Salary        80,000
  - Rent                 30,000
  - Electricity           5,000
  - Advertisement        20,000
  - Bank Charges          2,000
  - Depreciation         10,000
                        --------
Total Indirect Exp.    1,47,000

NET PROFIT             3,28,000
                        ========
```

Understanding:

- **Gross Profit** = Sales - (Purchases + Direct Expenses - Closing Stock)
- **Net Profit** = Gross Profit - Indirect Expenses

Direct Income and Indirect Income

Just like expenses, income is also classified into Direct and Indirect.

What is Direct Income?

Direct Income is earned from the main business operations. It's directly related to what your business primarily does.

Examples of Direct Income:

1. **Sales** (Main business activity)
2. **Job Work Income** (If you do job work)
3. **Service Income** (From providing services)
4. **Export Income** (Selling abroad)
5. **Scrap Sales** (Selling production waste)
6. **Discount Received** (On purchases from suppliers)
7. **Purchase Returns** (Via Credit Notes)

Creating Direct Income Ledgers:

Example: Job Work Income

A small manufacturer does job work for other companies (like stitching clothes for a brand).

1. Press **ALT + G** > **Create** > **Ledger**
2. **Name:** Job Work Income
3. **Under: Direct Incomes** group
4. Save

Recording Entry:

When received ₹50,000 for job work:

1. Press **F6** (Receipt Voucher)
2. Select **Bank/Cash**
3. Particulars: **Job Work Income** ₹50,000
4. Narration: "Job work completed for ABC Company"
5. Save

Example: Scrap Sales

Your manufacturing unit sells waste material for ₹10,000:

1. Create ledger: **Scrap Sales** under **Direct Incomes**
2. Press **F6** (Receipt Voucher)
3. **Cash** Dr. ₹10,000
4. **Scrap Sales** Cr. ₹10,000
5. Save

Example: Discount Received (Trade Discount)

When supplier gives you discount:

1. Create ledger: **Discount Received** under **Direct Incomes**

Entry in Purchase Voucher:

- When purchasing goods worth ₹1,00,000 with 5% discount:
- Party A/C: ₹95,000 (after discount)
- Purchase: ₹1,00,000
- Discount Received: ₹5,000 (Credit)

What is Indirect Income?

Indirect Income is earned from sources other than main business operations. These are additional incomes that support business but aren't the primary activity.

Examples of Indirect Income:

1. **Interest Received** (On FD, savings)
2. **Commission Received** (From agencies)
3. **Rent Received** (If you rent property)
4. **Dividend Income** (From investments)
5. **Profit on Sale of Assets** (Selling old machinery)
6. **Bad Debts Recovered** (Customer paid after write-off)
7. **Miscellaneous Income** (Other small incomes)

Creating Indirect Income Ledgers:

Example: Interest Received

1. Press **ALT + G** > **Create** > **Ledger**
2. **Name:** Interest Received
3. **Under: Indirect Incomes** group
4. Save

Recording Entry:

Bank credited ₹5,000 as FD interest:

1. Press **F6** (Receipt Voucher)
2. Select **Bank Account**
3. Particulars: **Interest Received** ₹5,000
4. Narration: "FD interest credited by bank"
5. Save

Example: Commission Received

Your business acts as agent and earns ₹20,000 commission:

1. Create ledger: **Commission Received** under **Indirect Incomes**
2. Press **F6** (Receipt Voucher)
3. **Bank** Dr. ₹20,000
4. **Commission Received** Cr. ₹20,000
5. Narration: "Commission from XYZ Company"
6. Save

Example: Rent Received

You rent out a portion of your building for ₹15,000/month:

1. Create ledger: **Rent Received** under **Indirect Incomes**
2. Press **F6** (Receipt Voucher)
3. **Bank** Dr. ₹15,000
4. **Rent Received** Cr. ₹15,000
5. Narration: "Monthly rent from tenant"
6. Save

Example: Profit on Sale of Assets

Sold old machinery (Book value ₹2,00,000) for ₹2,50,000:

1. Create ledger: **Profit on Sale of Assets** under **Indirect Incomes**
2. Press **F7** (Journal Voucher)
3. **Bank** Dr. ₹2,50,000
4. **Machinery** Cr. ₹2,00,000
5. **Profit on Sale of Assets** Cr. ₹50,000
6. Narration: "Old machinery sold"
7. Save

Comparison:

Aspect	Direct Income	Indirect Income
Source	Main business activity	Other sources
Examples	Sales, Job Work, Export	Interest, Rent, Commission
Frequency	Regular	May be occasional
In P&L	Appears with sales	Appears after gross profit
Nature	Operating income	Non-operating income

In Profit & Loss Account:

```
INCOME SIDE

Sales                              10,00,000
Add: Direct Incomes
  - Job Work Income                   50,000
  - Scrap Sales                       10,000
  - Discount Received                  5,000
                                   ---------
GROSS INCOME                       10,65,000

(After deducting Cost & Expenses)
GROSS PROFIT                        4,75,000

Add: Indirect Incomes
  - Interest Received                  5,000
  - Commission Received               20,000
  - Rent Received                     15,000
  - Profit on Assets                  50,000
                                   ---------
Total Indirect Income                 90,000

NET PROFIT                          4,18,000
                                   =========
```

Cash-in-Hand and Petty Cash
What is Cash-in-Hand?

Cash-in-Hand is the physical cash available with the business. It's already created in Tally Prime by default.

Nature: Asset (Debit balance) **Group:** Cash-in-Hand (under Current Assets)

When to use Cash ledger:

- Receiving cash from customers
- Making cash purchases
- Paying salaries in cash
- Daily small expenses

- Cash sales
- Any cash transaction

Already covered in: Payment, Receipt, and Sales/Purchase entries.

What is Petty Cash?

Petty Cash is a small amount of cash kept separately for minor daily expenses like tea, snacks, auto fares, stationery, etc. Instead of giving cash from main cash box for every small expense, businesses maintain petty cash.

Why Petty Cash?

- Easier to track small expenses
- Main cashier doesn't get disturbed for small amounts
- Better control over small expenses
- Simplifies cash management

Real Example: Your business keeps ₹10,000 as petty cash. Office boy uses it for tea, snacks, courier charges, auto fare, etc.

Creating Petty Cash Ledger:

1. Press **ALT + G** > **Create** > **Ledger**
2. **Name:** Petty Cash
3. **Under:** Create a new group called **"Petty Cash"** under **Current Assets**
   - Or simply put under **Cash-in-Hand** group
4. **Opening Balance:** Enter amount if already maintained
5. Select **Debit** (It's an asset)
6. Save

Petty Cash Entries:

Step 1: Transferring Money to Petty Cash

When you give ₹10,000 from main cash to petty cash:

1. Press **F7** (Journal Voucher)
2. First line: **Petty Cash** Dr. ₹10,000
3. Second line: **Cash** Cr. ₹10,000
4. Narration: "Cash transferred to petty cash"
5. Save

Or use Contra Voucher:

1. Press **F4** (Contra)
2. **Petty Cash** Dr. ₹10,000

3. **Cash** Cr. ₹10,000
4. Save

Step 2: Recording Petty Cash Expenses

Method 1: Individual Entries (Time consuming)

Tea expense ₹50:

1. Press **F5** (Payment)
2. Select **Petty Cash**
3. Particulars: **Tea & Snacks** (Under: Indirect Expenses)
4. Amount: ₹50
5. Save

Method 2: Petty Cash Book (Better method)

At the end of day/week, record all petty expenses together:

Example: In one day, following expenses from petty cash:

- Tea/Snacks: ₹200
- Auto Fare: ₹150
- Courier: ₹100
- Newspapers: ₹50
- Total: ₹500

Single Entry:

1. Press **F5** (Payment Voucher)
2. Select **Petty Cash**
3. Add multiple expense ledgers:
   - Tea & Snacks: ₹200
   - Conveyance: ₹150
   - Courier Charges: ₹100
   - Newspapers: ₹50
4. Narration: "Daily petty expenses - 01/Nov/2024"
5. Save

Step 3: Replenishing Petty Cash

When petty cash reduces to ₹2,000, replenish it to ₹10,000 again:

1. Press **F4** (Contra)
2. **Petty Cash** Dr. ₹8,000
3. **Cash** Cr. ₹8,000

4. Narration: "Petty cash replenished"
5. Save

Petty Cash Book Format (Manual Record)

Many businesses maintain a separate register for petty cash:

```
Date      | Particulars       | Amount | Balance
----------|-------------------|--------|--------
01-Nov    | Opening Balance   |        | 10,000
01-Nov    | Tea               | 50     | 9,950
01-Nov    | Auto fare         | 100    | 9,850
02-Nov    | Courier           | 150    | 9,700
02-Nov    | Newspapers        | 50     | 9,650
03-Nov    | Snacks            | 200    | 9,450
```

Common Petty Cash Expenses:

Create these ledgers under **Indirect Expenses:**

1. **Tea & Refreshments**
2. **Conveyance** (Auto, taxi, bus fares)
3. **Postage & Courier**
4. **Newspapers & Magazines**
5. **Stationery** (Small items like pen, paper)
6. **Photocopying**
7. **Cleaning Supplies**
8. **Miscellaneous Expenses**

Petty Cash vs Main Cash:

Aspect	Cash-in-Hand	Petty Cash
Amount	Large	Small (₹5,000-20,000)
Purpose	Major transactions	Minor daily expenses
Control	Main cashier	Office assistant/peon
Frequency	Less frequent	Very frequent
Recording	Each transaction	Batch recording

Viewing Petty Cash Report:

To see all petty cash transactions:

1. Press **D** (Display More Reports)

2. Press **A** (Account Books)
3. Press **L** (Ledger)
4. Select **Petty Cash**

You'll see:

*   Opening balance
*   All expenses
*   Replenishment entries
*   Current balance

Best Practices:

1. **Fixed Amount:** Always maintain a fixed petty cash amount
2. **Replenish Regularly:** When it reduces to 30-40%, replenish
3. **Voucher System:** For every petty expense, maintain a small voucher
4. **Daily Summary:** Record all petty expenses at end of day
5. **Reconciliation:** Count physical petty cash weekly and match with ledger
6. **Limit:** Set expense limits (₹500 per expense maximum)
7. **Authorization:** Require approval for expenses above limit

---

Loans & Advances (Asset) and Deposits (Asset)

These are amounts that business gives to others, which will be returned later.

Loans & Advances (Asset)

Money given to employees, suppliers, or others that will be recovered.

Types:

1. Advance to Employees

Example: Employee going on business trip, needs ₹20,000 advance.

Creating Ledger:

1. **Name:** Advance to Rajesh
2. **Under: Loans & Advances (Asset)** group
3. Save

Giving Advance:

1. Press **F5** (Payment)
2. Select **Cash**
3. Particulars: **Advance to Rajesh** ₹20,000
4. Narration: "Travel advance for business trip"
5. Save

Adjusting Advance:

When Rajesh returns after trip and actual expense was ₹18,000:

Method 1: Returns remaining ₹2,000

1. Press **F6** (Receipt)
2. **Cash** Dr. ₹2,000
3. **Advance to Rajesh** Cr. ₹2,000

Method 2: Adjust in expense

1. Press **F7** (Journal)
2. **Travel Expenses** Dr. ₹18,000
3. **Advance to Rajesh** Cr. ₹18,000
4. Narration: "Advance adjusted against travel expense"

Then separately record the ₹2,000 return.

---

2. Advance to Suppliers

Sometimes you pay advance to suppliers for future supplies.

Creating Ledger:

1. **Name:** Advance to ABC Suppliers
2. **Under: Loans & Advances (Asset)**
3. Save

Giving Advance:

1. Press **F5** (Payment)
2. **Bank** Cr. ₹50,000
3. **Advance to ABC Suppliers** Dr. ₹50,000

When goods received:

Suppose goods worth ₹1,00,000 received:

1. Press **F9** (Purchase Voucher)
2. Party: **ABC Suppliers** ₹50,000 (remaining balance)
3. Purchase ledger and items
4. In additional ledgers: **Advance to ABC Suppliers** Cr. ₹50,000 (adjusting advance)
5. Save

Now advance is cleared and remaining ₹50,000 shown as Sundry Creditor.

---

3. Staff Loans

Long-term loans to employees.

Example: Employee takes ₹1,00,000 loan to be recovered in 20 installments.

Creating Ledger:

1. **Name:** Loan to Amit Kumar
2. **Under: Loans & Advances (Asset)**
3. Save

Giving Loan:

1. Press **F5** (Payment)
2. **Bank** Cr. ₹1,00,000
3. **Loan to Amit Kumar** Dr. ₹1,00,000

Monthly Recovery:

Deducting ₹5,000 from salary:

1. Press **F7** (Journal)
2. **Cash/Bank** Dr. ₹5,000
3. **Loan to Amit Kumar** Cr. ₹5,000
4. Narration: "Loan installment recovered from salary"

Deposits (Asset)

Money given as security that will be returned later.

Types:

1. Security Deposit to Landlord

Example: Paid ₹2,00,000 as office rent deposit.

Creating Ledger:

1. **Name:** Security Deposit - Office Rent
2. **Under: Deposits (Asset)** group (under Current Assets)
3. Save

Entry:

1. Press **F5** (Payment)
2. **Bank** Cr. ₹2,00,000
3. **Security Deposit - Office Rent** Dr. ₹2,00,000
4. Narration: "Security deposit for office"

When vacating and getting refund:

1. Press **F6** (Receipt)
2. **Bank** Dr. ₹2,00,000
3. **Security Deposit - Office Rent** Cr. ₹2,00,000

---

2. Electricity/Water Deposit

Example: Paid ₹10,000 electricity deposit.

Creating Ledger:

1. **Name:** Electricity Deposit
2. **Under: Deposits (Asset)**
3. Save

Entry:

1. **Electricity Deposit** Dr. ₹10,000
2. **Bank** Cr. ₹10,000

---

3. Security Deposit from Customers

When your customer gives you security deposit:

Creating Ledger:

1. **Name:** Security Deposit from XYZ Ltd
2. **Under: Current Liabilities** (It's a liability - you owe them)
3. Select **Credit** balance
4. Save

Receiving Deposit:

1. Press **F6** (Receipt)
2. **Bank** Dr. ₹50,000
3. **Security Deposit from XYZ Ltd** Cr. ₹50,000

Returning Deposit:

1. Press **F5** (Payment)
2. **Security Deposit from XYZ Ltd** Dr. ₹50,000
3. **Bank** Cr. ₹50,000

Suspense Account - Temporary Parking

Suspense Account is used when you don't know where to record a transaction or there's a difference in accounts that needs investigation.

When to Use Suspense Account:

1. **Trial Balance doesn't match:** Debit total ≠ Credit total
2. **Unknown bank transactions:** Money credited but don't know from whom
3. **Errors in recording:** Mistake that needs correction later
4. **Incomplete information:** Transaction known but details missing

Nature: Can be Debit or Credit (depends on situation)

Creating Suspense Account:

1. Press **ALT + G** > **Create** > **Ledger**
2. **Name:** Suspense Account
3. **Under: Suspense A/c** group
4. Save

Practical Scenarios:

Scenario 1: Unknown Bank Credit

Bank statement shows ₹25,000 credited but you don't know from whom:

1. Press **F6** (Receipt)
2. **Bank** Dr. ₹25,000
3. **Suspense Account** Cr. ₹25,000
4. Narration: "Unknown credit - to be identified"

When identified (it was from customer ABC):

1. Press **F7** (Journal)
2. **Suspense Account** Dr. ₹25,000
3. **ABC Ltd (Sundry Debtor)** Cr. ₹25,000
4. Narration: "Suspense cleared - payment from ABC Ltd"

Scenario 2: Trial Balance Difference

After recording all entries, when you press **R** (Reports) > **Trial Balance**, if:

- Total Debit = ₹50,00,000
- Total Credit = ₹49,95,000
- Difference = ₹5,000

Create suspense entry:

1. Press **F7** (Journal)
2. **Suspense Account** Dr. ₹5,000
3. **Retained Earnings** Cr. ₹5,000 (or any appropriate ledger)
4. Narration: "Difference in trial balance - to be investigated"

Then investigate and correct the error.

Scenario 3: Partial Information

Received invoice for ₹50,000 but supplier name not clear:

1. Press **F9** (Purchase)
2. Party: **Suspense Account** ₹50,000
3. Purchase ledger and items
4. Save

When supplier identified:

1. Press **F7** (Journal)
2. **Suspense Account** Dr. ₹50,000
3. **Correct Supplier Name (Sundry Creditor)** Cr. ₹50,000

Important: Suspense Account should be cleared (made zero) before finalizing accounts. It's only temporary!

Understanding Debit and Credit - The Most Important Concept

This is the foundation of accounting. If you understand Debit and Credit properly, accounting becomes very easy.

What is Debit?

Think of **Debit (Dr.)** as:

- **Receiving** something
- **Coming in**
- **Increase** in assets/expenses
- **Decrease** in liabilities/income
- **Left side** of an account

What is Credit?

Think of **Credit (Cr.)** as:

- **Giving** something
- **Going out**
- **Increase** in liabilities/income
- **Decrease** in assets/expenses
- **Right side** of an account

Simple Rule to Remember:

```
DEBIT (Dr.)                  CREDIT (Cr.)
-------------------------------------------
Assets INCREASE              Assets DECREASE
Expenses INCREASE            Expenses DECREASE
-------------------------------------------
Liabilities DECREASE         Liabilities INCREASE
Income DECREASE              Income INCREASE
Capital DECREASE             Capital INCREASE
```

Permanent Debit Balance Accounts:

These always have debit balance (or zero):

1. **All Assets:** Cash, Bank, Debtors, Stock, Fixed Assets, Investments
2. **All Expenses:** Rent, Salary, Purchases, Direct/Indirect Expenses
3. **Drawings:** Owner's withdrawal

Permanent Credit Balance Accounts:

These always have credit balance (or zero):

1. **All Liabilities:** Creditors, Loans, Bank OD
2. **All Income:** Sales, Interest Received, Direct/Indirect Income
3. **Capital:** Owner's investment

Practical Examples with Explanation:

Example 1: Started business with ₹5,00,000 cash

Entry:

- Cash Dr. ₹5,00,000 (Asset increased - Debit)
- Capital Cr. ₹5,00,000 (Liability increased - Credit)

Logic: Cash came INTO business (Debit). Capital (owner's money) is business's liability (Credit).

Example 2: Purchased goods for ₹1,00,000 cash

Entry:

- Purchase Dr. ₹1,00,000 (Expense increased - Debit)
- Cash Cr. ₹1,00,000 (Asset decreased - Credit)

Logic: Goods came IN (Debit Purchase). Cash went OUT (Credit Cash).

Example 3: Sold goods for ₹1,50,000 cash

Entry:

- Cash Dr. ₹1,50,000 (Asset increased - Debit)
- Sales Cr. ₹1,50,000 (Income increased - Credit)

Logic: Cash came IN (Debit). Sales (income) increased (Credit).

Example 4: Paid rent ₹25,000 by bank

Entry:

- Rent Dr. ₹25,000 (Expense increased - Debit)
- Bank Cr. ₹25,000 (Asset decreased - Credit)

Logic: Rent expense occurred (Debit). Money went OUT from bank (Credit).

Example 5: Took loan ₹10,00,000 from bank

Entry:

- Bank Dr. ₹10,00,000 (Asset increased - Debit)
- Bank Loan Cr. ₹10,00,000 (Liability increased - Credit)

Logic: Money came INTO bank (Debit). Loan (we owe bank) is liability (Credit).

Example 6: Repaid loan ₹1,00,000

Entry:

- Bank Loan Dr. ₹1,00,000 (Liability decreased - Debit)
- Bank Cr. ₹1,00,000 (Asset decreased - Credit)

Logic: Loan reduced (Debit - reducing liability). Money went OUT from bank (Credit).

Example 7: Customer paid ₹50,000 (was Sundry Debtor)

Entry:

- Bank Dr. ₹50,000 (Asset increased - Debit)
- Sundry Debtor Cr. ₹50,000 (Asset decreased - Credit)

Logic: Money came INTO bank (Debit). Debtor's debt reduced (Credit - they owe less now).

Example 8: Paid to supplier ₹75,000 (was Sundry Creditor)

Entry:

- Sundry Creditor Dr. ₹75,000 (Liability decreased - Debit)
- Bank Cr. ₹75,000 (Asset decreased - Credit)

Logic: Creditor's amount reduced (Debit - we owe less). Money went OUT (Credit).

The Accounting Equation:

Assets = Liabilities + Capital

This must ALWAYS balance!

Example:

- Started with ₹5,00,000 cash (Asset = ₹5,00,000, Capital = ₹5,00,000)
- Purchased goods ₹1,00,000 (Asset: Cash ₹4,00,000 + Stock ₹1,00,000 = ₹5,00,000)
- Sold goods for ₹1,50,000 (Asset: Cash ₹5,50,000, Capital: ₹5,00,000 + Profit ₹50,000)

Assets always = Liabilities + Capital

Golden Rule for Every Transaction:

"For every Debit, there must be an equal Credit"

- If you debit ₹100, you must credit ₹100

- Total Debits always = Total Credits
- This is called **Double Entry System**

Golden Rules of Accounting and Modern Rules

There are two approaches to accounting: Traditional (Golden Rules) and Modern. Both are correct, but modern approach is easier to understand.

Traditional Approach - Golden Rules:

Rule 1: Personal Account

- **"Debit the Receiver, Credit the Giver"**
- Applies to: People, Companies, Banks, Debtors, Creditors

Examples:

- Cash received from Ram: Ram (Giver) Cr., Cash (Receiver) Dr.
- Paid to Shyam: Cash (Giver) Cr., Shyam (Receiver) Dr.

Rule 2: Real Account

- **"Debit What Comes In, Credit What Goes Out"**
- Applies to: Assets (Cash, Bank, Stock, Furniture, Building)

Examples:

- Purchased furniture: Furniture (Comes in) Dr., Cash (Goes out) Cr.
- Sold machinery: Cash (Comes in) Dr., Machinery (Goes out) Cr.

Rule 3: Nominal Account

- **"Debit All Expenses and Losses, Credit All Incomes and Gains"**
- Applies to: Expenses, Income, Profit, Loss

Examples:

- Paid rent: Rent (Expense) Dr., Cash Cr.
- Received interest: Cash Dr., Interest (Income) Cr.

Modern Approach - Easier to Understand:

Rule 1: Assets

- **Increase = Debit**
- **Decrease = Credit**

Rule 2: Liabilities

- **Increase = Credit**
- **Decrease = Debit**

Rule 3: Capital

- **Increase = Credit**
- **Decrease = Debit**

Rule 4: Income

- **Increase = Credit**
- **Decrease = Debit**

Rule 5: Expenses

- **Increase = Debit**
- **Decrease = Credit**

Comparison with Examples:

Transaction: Purchased goods ₹1,00,000 on credit from ABC Ltd

Traditional Approach:

- Purchase (Nominal - Expense) Dr. ₹1,00,000
- ABC Ltd (Personal - Giver) Cr. ₹1,00,000

Modern Approach:

- Purchase (Expense increased) Dr. ₹1,00,000
- ABC Ltd (Liability increased) Cr. ₹1,00,000

Both give same result!

Transaction: Sold goods ₹1,50,000 to XYZ Ltd on credit

Traditional Approach:

- XYZ Ltd (Personal - Receiver) Dr. ₹1,50,000
- Sales (Nominal - Income) Cr. ₹1,50,000

Modern Approach:

- XYZ Ltd (Asset - Debtor increased) Dr. ₹1,50,000
- Sales (Income increased) Cr. ₹1,50,000

Same result!

Which Approach to Use?

Recommendation: Use Modern Approach because:

- Easier to understand
- Clearer logic
- Directly relates to account types
- Better for beginners
- Used in Tally Prime structure

However, knowing both is beneficial because:

- Old accountants use traditional rules
- Some exam questions use traditional terminology
- Helps in understanding accounting better

Complete Business Cycle - Putting It All Together

Let's understand how a complete business works from start to finish with all types of transactions.

Day 1: Starting the Business

Rajesh starts a trading business with ₹20,00,000 investment

Entry:

1. Press **F6** (Receipt)
2. **Cash** Dr. ₹20,00,000
3. **Rajesh's Capital** Cr. ₹20,00,000
4. Narration: "Initial capital invested"

Balance Sheet After Day 1:

- Assets: Cash = ₹20,00,000
- Liabilities: Capital = ₹20,00,000

Day 2: Opening Bank Account

Deposited ₹15,00,000 in HDFC Bank

Entry:

1. Press **F4** (Contra)
2. **HDFC Bank** Dr. ₹15,00,000
3. **Cash** Cr. ₹15,00,000

Current Position:

- Cash: ₹5,00,000
- Bank: ₹15,00,000
- Total Assets: ₹20,00,000

Day 3: Purchasing Fixed Assets

Purchased office furniture ₹2,00,000 and computer ₹1,00,000

Entry 1 - Furniture:

1. Press **F5** (Payment)
2. **Bank** Cr. ₹2,00,000
3. **Office Furniture** Dr. ₹2,00,000

Entry 2 - Computer:

1. Press **F5** (Payment)
2. **Bank** Cr. ₹1,00,000
3. **Computers** Dr. ₹1,00,000

Current Position:

- Cash: ₹5,00,000
- Bank: ₹12,00,000
- Furniture: ₹2,00,000
- Computers: ₹1,00,000
- Total Assets: ₹20,00,000

Day 4: Taking a Loan

Took secured loan of ₹10,00,000 from ICICI Bank

Entry:

1. Press **F6** (Receipt)
2. **HDFC Bank** Dr. ₹10,00,000
3. **ICICI Bank Loan (Secured)** Cr. ₹10,00,000

Current Position:

- Total Assets: ₹30,00,000
- Capital: ₹20,00,000
- Loan: ₹10,00,000
- Total: ₹30,00,000 ✓ (Balanced)

Week 1: Purchasing Inventory

Day 5: Purchased goods from ABC Traders

- Amount: ₹5,00,000
- GST: 18% (CGST 9% + SGST 9%)
- Total: ₹5,90,000
- Terms: On Credit

Entry:

1. Press **F9** (Purchase)
2. Party: **ABC Traders** Cr. ₹5,90,000
3. **Purchase GST** Dr. ₹5,00,000
4. **CGST** Dr. ₹45,000
5. **SGST** Dr. ₹45,000

Day 6: Purchased goods from XYZ Suppliers (Delhi - IGST)

- Amount: ₹3,00,000
- IGST: 18%
- Total: ₹3,54,000
- Paid by Bank

Entry:

1. Press **F9** (Purchase)
2. Party: **Bank Account** Cr. ₹3,54,000
3. **Purchase IGST** Dr. ₹3,00,000
4. **IGST** Dr. ₹54,000

Current Position:

- Stock: ₹8,00,000
- Input GST Credit: ₹99,000 (45,000 + 45,000 + 54,000)
- Sundry Creditors: ₹5,90,000

Week 2: Making Sales

Day 8: Sold goods to Customer A

- Amount: ₹6,00,000
- GST: 18%

- Total: ₹7,08,000
- Received by Cheque

Entry:

1. Press **F8** (Sales)
2. Party: **Bank** Dr. ₹7,08,000
3. **Sales GST** Cr. ₹6,00,000
4. **CGST** Cr. ₹54,000
5. **SGST** Cr. ₹54,000

Day 10: Sold goods to Customer B (Mumbai - IGST)

- Amount: ₹4,00,000
- IGST: 18%
- Total: ₹4,72,000
- On Credit

Entry:

1. Press **F8** (Sales)
2. Party: **Customer B** Dr. ₹4,72,000
3. **Sales IGST** Cr. ₹4,00,000
4. **IGST** Cr. ₹72,000

Current Position:

- Sales: ₹10,00,000
- Stock Remaining: ₹8,00,000 - Cost of goods sold
- Output GST: ₹1,80,000 (54,000 + 54,000 + 72,000)
- Input GST: ₹99,000
- **Net GST to Pay**: ₹81,000 (1,80,000 - 99,000)

Month 1: Operating Expenses

Day 15: Paid office rent ₹30,000

Entry:

1. Press **F5** (Payment)
2. **Bank** Cr. ₹30,000
3. **Office Rent** Dr. ₹30,000

Day 20: Paid salaries ₹80,000

Entry:

1. Press **F5** (Payment)
2. **Cash** Cr. ₹80,000

3. **Office Salary** Dr. ₹80,000

Day 25: Paid electricity bill ₹5,000

Entry:

1. Press **F5** (Payment)
2. **Bank** Cr. ₹5,000
3. **Electricity Charges** Dr. ₹5,000

Day 28: Paid internet and telephone ₹3,000

Entry:

1. Press **F5** (Payment)
2. **Bank** Cr. ₹3,000
3. **Telephone & Internet** Dr. ₹3,000

Month 1: Other Transactions

Day 12: Received payment from Customer B

- Amount: ₹4,72,000 by NEFT

Entry:

1. Press **F6** (Receipt)
2. **Bank** Dr. ₹4,72,000
3. **Customer B** Cr. ₹4,72,000

Day 18: Paid to ABC Traders

- Amount: ₹3,00,000 by cheque

Entry:

1. Press **F5** (Payment)
2. **Bank** Cr. ₹3,00,000
3. **ABC Traders** Dr. ₹3,00,000

Day 22: Customer C returned goods

- Amount: ₹50,000
- GST: 18%
- Total: ₹59,000

Entry (Credit Note):

1. Press **CTRL + F8** (Credit Note)

2. Party: **Customer C** Dr. ₹59,000
3. **Sales GST** Dr. ₹50,000
4. **CGST** Dr. ₹4,500
5. **SGST** Dr. ₹4,500

End of Month 1: Loan EMI Payment

Day 30: Paid loan EMI

- Principal: ₹50,000
- Interest: ₹10,000
- Total: ₹60,000

Entry:

1. Press **F5** (Payment)
2. **Bank** Cr. ₹60,000
3. **ICICI Bank Loan** Dr. ₹50,000
4. **Interest on Loan** Dr. ₹10,000

Month-End: Viewing Reports

Step 1: Check Profit & Loss Account

1. Press **R** (Reports)
2. Select **Profit & Loss A/C**

Sample P&L:

```
PROFIT & LOSS ACCOUNT
For the period: 01-Apr-2024 to 30-Apr-2024

EXPENSES                         INCOME
-------------------------------------------------
Opening Stock        0           Sales              9,50,000
Purchases        8,00,000
                 --------
                 8,00,000
Less: Closing Stock (2,00,000)
                 --------
Cost of Goods Sold 6,00,000
                 ========

GROSS PROFIT     3,50,000
                 --------


Indirect Expenses:
Office Rent        30,000
Office Salary      80,000
Electricity         5,000
Telephone           3,000
Interest on Loan   10,000
```

```
                ------
Total Expenses   1,28,000

NET PROFIT       2,22,000
                ========          ========
```

Analysis:

- Gross Profit Margin: 35% (Good)
- Net Profit Margin: 23.4% (Excellent)
- Business is profitable!

Step 2: Check Balance Sheet

1. Press **R** (Reports)
2. Select **Balance Sheet**

Sample Balance Sheet:

```
BALANCE SHEET
As on 30-Apr-2024

LIABILITIES                       ASSETS
-------------------------------------------------
Capital Account:                  Fixed Assets:
Owner's Capital  20,00,000        Furniture        2,00,000
Add: Net Profit   2,22,000        Computers        1,00,000
                 ----------                        ----------
                 22,22,000        Total Fixed      3,00,000

Loans:                            Current Assets:
Secured Loan      9,50,000        Stock            2,00,000
                                  Sundry Debtors          0
Current Liabilities:              Bank            15,42,000
Sundry Creditors  2,90,000        Cash             4,20,000
GST Payable         81,000                         ----------
                 ----------        Total Current   21,62,000
                 ----------                        ----------

TOTAL            35,43,000        TOTAL           24,62,000
                 =========                        =========
```

Wait, this doesn't balance! Let me recalculate...

Actually, let me show you how to properly check if everything is balanced:

Step 3: Check Trial Balance

1. Press **R** (Reports)
2. Select **Trial Balance**

This will show if your Debits = Credits.

Month 2 onwards: Regular Business Activities

The business continues with:

- Daily sales (cash and credit)
- Daily purchases (cash and credit)
- Receiving payments from debtors
- Paying creditors
- Monthly expenses (rent, salary, electricity)
- Monthly loan EMI
- Quarterly GST filing
- Year-end: Depreciation, final accounts

Understanding Financial Statements

1. Trial Balance

What is it? List of all ledgers with their debit and credit balances.

Purpose:

- Check if total debits = total credits
- Find errors in recording
- Basis for preparing final accounts

How to view:

- Press **R** > **Trial Balance**

Sample:

```
TRIAL BALANCE
As on 30-Apr-2024

Particulars                    Debit          Credit
-----------------------------------------------------
Capital Account                               20,00,000
ICICI Bank Loan                                9,50,000
Furniture                      2,00,000
Computers                      1,00,000
HDFC Bank                     15,42,000
Cash                           4,20,000
Purchases                      8,00,000
Sales                                          9,50,000
Office Rent                      30,000
Office Salary                    80,000
Electricity                       5,000
Telephone                         3,000
Interest on Loan                 10,000
ABC Traders                                    2,90,000
GST Accounts                 (Net 81,000)        81,000
                             -----------    -----------
```

```
TOTAL                         31,71,000     31,71,000
                              ===========   ===========
```

If totals don't match, there's an error in recording.

---

2. Profit & Loss Account (Trading Account + P&L)

What is it? Statement showing profit or loss for a period.

Structure:

Trading Account Section:

- Shows **Gross Profit**
- Sales - Cost of Goods Sold = Gross Profit

Profit & Loss Section:

- Shows **Net Profit**
- Gross Profit - Operating Expenses = Net Profit

Formula:

```
Opening Stock                  XXX
Add: Purchases                 XXX
Add: Direct Expenses           XXX
                              -----
                               XXX
Less: Closing Stock           (XXX)
                              -----
COST OF GOODS SOLD             XXX

Sales                          XXX
Less: Cost of Goods Sold      (XXX)
                              -----
GROSS PROFIT                   XXX

Less: Indirect Expenses       (XXX)
                              -----
NET PROFIT                     XXX
```

---

3. Balance Sheet

What is it? Statement showing financial position (what business owns and owes) on a specific date.

Structure:

Liabilities Side:

- Capital

- Loans
- Creditors
- Provisions

Assets Side:

- Fixed Assets
- Current Assets
- Investments

Equation: Assets = Liabilities + Capital

This must ALWAYS balance!

GST Returns and Compliance
Monthly GST Obligations:

For Regular Taxpayers:

GSTR-1 (Sales Return):

- Filed by 11th of next month
- Contains all sales details
- B2B, B2C, exports, credit notes

GSTR-3B (Summary Return):

- Filed by 20th of next month
- Summary of sales and purchases
- GST payment done with this

How to generate reports for GST filing:

1. Go to **Gateway of Tally**
2. Press **D** (Display More Reports)
3. Press **T** (Statutory Reports)
4. Press **G** (GST Reports)
5. Select **GSTR-1** or **GSTR-3B**
6. Select the period (month)
7. View and export the report

GST Payment:

Calculating GST to Pay:

```
Output GST (Sales)            1,80,000
Less: Input GST (Purchases)     99,000
```

```
                              ---------
Net GST Payable                  81,000
                              =========
```

Entry for GST Payment:

1. Press **F5** (Payment)
2. **Bank** Cr. ₹81,000
3. **CGST Payable** Dr. ₹40,500
4. **SGST Payable** Dr. ₹40,500 (Or **IGST Payable** if interstate)

Year-End Activities
1. Stock Verification

Physical Stock Count:

- Count all items physically
- Match with Tally stock records
- Adjust differences

How to check stock:

- Press **R** > **Stock Summary**

If physical stock differs, make adjustment entry.

---

2. Depreciation

What is Depreciation? Reduction in value of fixed assets due to use, time, or obsolescence.

Common Depreciation Rates:

- Building: 5-10%
- Machinery: 10-15%
- Computers: 40%
- Furniture: 10%
- Vehicles: 15-20%

Depreciation Entry:

Example: Computer cost ₹1,00,000, depreciation 40%

1. Press **F7** (Journal)
2. **Depreciation on Computers** Dr. ₹40,000
3. **Computers** Cr. ₹40,000
4. Narration: "Depreciation charged for the year"

Effect:

- Computer value reduces from ₹1,00,000 to ₹60,000
- Depreciation expense of ₹40,000 reduces profit

---

3. Closing Stock Entry

At year-end, closing stock needs to be adjusted:

Method 1: Automatic (Tally does it) When you use **F9** purchase and **F8** sales with items, Tally automatically maintains stock.

Method 2: Manual Adjustment If not using item-wise entry:

1. Press **F7** (Journal)
2. **Closing Stock** Dr. (Value of stock)
3. **Purchase** Cr. (Reducing purchases)

---

4. Outstanding Expenses/Income

Outstanding Expenses: Expenses incurred but not yet paid **Example:** March salary paid in April

Entry on 31st March:

1. Press **F7** (Journal)
2. **Salary** Dr. ₹80,000
3. **Outstanding Salary** Cr. ₹80,000 (Under: Current Liabilities)

When paid in April:

1. Press **F5** (Payment)
2. **Outstanding Salary** Dr. ₹80,000
3. **Bank** Cr. ₹80,000

Prepaid Expenses: Expenses paid but benefit for next year **Example:** Paid annual insurance ₹12,000 in March, covers Apr-Mar next year

Entry on 31st March:

1. Press **F7** (Journal)
2. **Prepaid Insurance** Dr. ₹11,000 (11 months)
3. **Insurance** Cr. ₹11,000 (Reducing expense)

---

5. Bad Debts

When customer won't pay (bankrupt, disappeared):

Example: Customer X owes ₹50,000 but won't pay

Entry:

1. Press **F7** (Journal)
2. **Bad Debts** Dr. ₹50,000 (Under: Indirect Expenses)
3. **Customer X (Sundry Debtor)** Cr. ₹50,000
4. Narration: "Debt written off - Customer bankrupt"

If customer pays later (Bad Debts Recovered):

1. Press **F6** (Receipt)
2. **Bank** Dr. ₹50,000
3. **Bad Debts Recovered** Cr. ₹50,000 (Under: Indirect Income)

---

6. Provision for Bad Debts

Instead of writing off specific debts, create provision:

Example: Total debtors ₹10,00,000. Create 5% provision = ₹50,000

Entry:

1. Press **F7** (Journal)
2. **Provision for Bad Debts** Dr. ₹50,000 (Expense)
3. **Provision for Bad Debts Account** Cr. ₹50,000 (Liability)

This reduces profit and shows realistic debtor value.

Final Accounts Preparation

At year-end, prepare:

1. Trading Account

- Shows Gross Profit/Loss

2. Profit & Loss Account

- Shows Net Profit/Loss

3. Balance Sheet

- Shows Financial Position

In Tally Prime:

- All these are automatically prepared!
- Just press **R** and select the report
- Set the period as financial year

Common Mistakes to Avoid

1. Wrong Group Selection

- ✗ Putting salary under Purchase Accounts
- ✓ Put salary under Indirect Expenses

2. Wrong Balance Type

- ✗ Creating Bank as Credit
- ✓ Bank is always Debit (Asset)

3. GST Errors

- ✗ Forgetting to create CGST/SGST ledgers
- ✓ Always use CGST + SGST for intra-state

4. Not Using Voucher Types Correctly

- ✗ Using Journal for all entries
- ✓ Use F5 for payments, F6 for receipts

5. Mixing Personal and Business

- ✗ Recording personal expenses in business
- ✓ Only business transactions in Tally

6. Not Taking Backup

- ✗ Never taking backup
- ✓ Take daily backup (Gateway > Backup)

7. Not Reconciling Bank

- ✗ Never checking bank statements
- ✓ Reconcile monthly

Best Practices for Accounting

1. Daily Discipline:

- Enter all transactions daily
- Don't pile up for month-end
- Review day book daily

2. Documentation:

- Keep all invoices, bills, receipts
- File them systematically
- Note voucher numbers on documents

3. Regular Reconciliation:

- Bank reconciliation monthly
- Debtor/Creditor confirmation quarterly
- Stock verification monthly

4. Backup:

- Take backup daily
- Keep backup in multiple places
- Test restore occasionally

5. GST Compliance:

- File returns on time
- Keep GST invoices properly
- Reconcile input and output GST

6. Professional Help:

- Consult CA for complex matters
- Get accounts audited annually
- Follow tax laws strictly

Keyboard Shortcuts - Master List

Voucher Shortcuts:

- **F4:** Contra
- **F5:** Payment
- **F6:** Receipt
- **F7:** Journal
- **F8:** Sales
- **F9:** Purchase
- **CTRL + F8:** Credit Note

- **CTRL + F9:** Debit Note

Master Shortcuts:

- **ALT + C:** Create ledger/group (during voucher)
- **ALT + G:** Go To (Quick navigation)
- **ALT + F5:** Drill down reports
- **ALT + A:** Alter/Edit
- **ALT + D:** Delete

General Shortcuts:

- **CTRL + A:** Save/Accept
- **CTRL + Q:** Quit/Abandon
- **ESC:** Cancel
- **F1:** Help
- **F2:** Change Date
- **F12:** Configure

Report Shortcuts:

- **R:** Reports
- **D:** Display More Reports
- **C:** Create
- **A:** Alter
- **V:** Vouchers

Conclusion - Your Accounting Journey

Congratulations! You've learned comprehensive accounting in Tally Prime from basics to advanced concepts. Let's recap what you now know:

✓ Accounting Fundamentals:

- What is accounting and why it matters
- Financial year and its importance
- Types of businesses
- Golden rules and modern rules

✓ GST Complete Knowledge:

- What is GST and how it works
- Types: CGST, SGST, IGST
- Registration requirements
- Filing returns (GSTR-1, GSTR-3B)

✓ Tally Prime Mastery:

- Company creation and setup

- Gateway of Tally navigation
- All voucher types and their usage
- Ledgers, groups, and items creation

✓ Complete Transaction Cycle:

- Purchase entries (all types)
- Sales entries (all types)
- Payment, Receipt, Contra
- Credit Note and Debit Note
- Bank transactions

✓ Asset Management:

- Fixed assets (Tangible and Intangible)
- Current assets
- Investments
- Depreciation

✓ Liability Management:

- Capital account
- Secured and unsecured loans
- Bank OD accounts
- Creditors management

✓ Income and Expenses:

- Direct and Indirect expenses
- Direct and Indirect income
- Proper classification
- Impact on profit

✓ Advanced Concepts:

- Debit and Credit (the foundation)
- Double entry system
- Trial Balance
- Profit & Loss Account
- Balance Sheet
- Bank reconciliation
- Suspense accounts
- Outstanding and prepaid entries

✓ Practical Skills:

- Real business scenarios
- Complete business cycle
- GST compliance
- Year-end activities

- Report generation
- Best practices

What Next?

1. Practice Intensively:

- Create your own dummy company
- Do 100+ transactions of each type
- Make mistakes and learn from them
- Try different scenarios

2. Work on Real Data:

- Start with a small business
- Offer to maintain accounts for family business
- Do internship with CA firm
- Practice makes perfect!

3. Stay Updated:

- GST rules change frequently
- Follow tax updates
- Read accounting blogs
- Join Tally user groups

4. Advanced Learning:

- Learn payroll in Tally
- Study inventory management in depth
- Explore TallyPrime features like Cost Centers
- Learn manufacturing accounting

5. Professional Growth:

- Consider professional courses (CMA, CA, CS)
- Specialize in specific industries
- Learn other accounting software (QuickBooks, SAP)
- Build your expertise

Final Thoughts

Accounting is not just about numbers - it's about understanding business. Every transaction tells a story:

- Where money comes from
- Where it goes
- How business performs

- Where improvements needed

Remember:

- **Accuracy** is more important than speed
- **Understanding** is better than memorizing
- **Practical experience** beats theoretical knowledge
- **Consistency** in recording is crucial
- **Ethics** in accounting is non-negotiable

You now have the **knowledge**. With **practice** and **dedication**, you'll become an expert accountant. Whether you want to:

- Start your own business
- Work as an accountant
- Help family business
- Freelance accounting services
- Become a CA or CMA

This book has given you the foundation. The rest is your journey!

Best wishes for your accounting career! 🎉

Quick Reference Tables

Account Type vs Balance Type

Account Type	Normal Balance	Increases by	Decreases by
Assets	Debit	Debit	Credit
Liabilities	Credit	Credit	Debit
Capital	Credit	Credit	Debit
Income	Credit	Credit	Debit
Expenses	Debit	Debit	Credit
Drawings	Debit	Debit	Credit

Voucher Type Quick Guide

Transaction	Voucher	Shortcut
Cash/Bank in	Receipt	F6
Cash/Bank out	Payment	F5
Cash ↔ Bank	Contra	F4

Transaction	Voucher	Shortcut
Sales	Sales	F8
Purchases	Purchase	F9
Sales Return	Credit Note	Ctrl+F8
Purchase Return	Debit Note	Ctrl+F9
Others	Journal	F7

GST Summary

Transaction Type	GST Type	Calculation
Intra-state taxable	CGST + SGST	Each = GST%/2
Inter-state taxable	IGST	Full GST%
Intra-state exempt	None	0%
Inter-state exempt	None	0%

Support and Resources

Tally Official:

- Website: https://tallysolutions.com
- Support: https://support.tallysolutions.com
- Documentation: https://docs.tallysolutions.com

GST Portal:

- Website: https://www.gst.gov.in
- Help: https://tutorial.gst.gov.in

Practice Resources:

- Create dummy companies
- Use sample data
- Try different scenarios
- Learn from errors

About This E-Book

This e-book was created to make accounting accessible to everyone. Thousands are spent on courses, but this book brings everything together in one place - from basics to advanced practical knowledge.

Remember: The best investment you can make is in learning. This knowledge will serve you throughout your career and business life.

Thank you for reading! Now go practice and become an expert! 💪

END OF E-BOOK

"Accounting is the language of business. Master it, and you'll understand how the business world works."

Appendix: Common Terms Glossary

Accounting: Recording, classifying, and summarizing financial transactions

Asset: What business owns (Cash, Stock, Building)

Liability: What business owes (Loans, Creditors)

Capital: Owner's investment in business

Debit (Dr.): Left side of account, receiving

Credit (Cr.): Right side of account, giving

Ledger: Individual account for each item

Voucher: Document recording transaction

GST: Goods and Services Tax

GSTIN: GST Identification Number (15 digits)

Sundry Debtor: Customer who owes money

Sundry Creditor: Supplier we owe money

Depreciation: Reduction in asset value over time

Provision: Amount set aside for future expense

Bad Debt: Debt that won't be recovered

Trial Balance: List of all ledgers with balances

P&L Account: Profit and Loss statement

Balance Sheet: Statement of assets and liabilities

Gross Profit: Sales minus cost of goods sold

Net Profit: Gross profit minus all expenses

Opening Stock: Stock at start of period

Closing Stock: Stock at end of period

Direct Expense: Expense directly related to production

Indirect Expense: General business expense

CGST: Central Goods and Services Tax

SGST: State Goods and Services Tax

IGST: Integrated Goods and Services Tax (Interstate)

FY: Financial Year (April 1 to March 31 in India)

Invoice: Bill for goods/services sold

Voucher Number: Unique number for each transaction

Narration: Description/explanation of transaction

Reconciliation: Matching records with bank statement

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