# Official Guide to Financial Accounting using TallyPrime 4.0

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TallyPrime with WhatsApp
**#SimplyProfessional**

*By*
**Tally Education Private Limited**
**Bengaluru**

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# Preface

Tally Education, subsidiary of Tally Solutions (creators and developers of Tally software), has been traversing the journey of an assiduous mission to enhance the employability of learners. We continuously envisage to blend conceptual learning with business applications to develop true professional competence. Tally Solutions Pvt. Ltd. is a pioneer in the business software products arena. Since its inception in 1986, Tally's simple yet powerful products have been revolutionising the way businesses run. Having delivered path breaking technology consistently for more than 30 years, Tally symbolises unmatched innovation and leadership. Today, it caters to millions of users across industries and continues unchallenged as the industry leader in the enterprise resource planning software domain. In this age of intense economic competition and rapid technological developments, it has become customary for employers to place a premium on computer skills and abilities to enhance business productivity. This makes it imperative for job seekers and employees to stay abreast of developments in their areas of expertise and constantly update and upgrade their skills to stay relevant in the workplace. Tally Education is committed to bridging the gap between education and employment in the country. Over the years, the success of Tally software has fuelled the demand for Tally trained professionals across the globe. Catering to this demand has always been a priority for us and this courseware is one more step towards the same. Written as an official guide of the UGC curriculum of Financial Accounting, this book can be adapted to the needs of learners with diverse interests and backgrounds. It shall lead the learner towards varied career goals ranging from entrepreneurship to finance professionals. Fundamentals of Financial Accounting using TallyPrime have been explained with the help of diverse business scenarios which provide the learners a clearer insight on the real-life business situations. Thereby preparing the candidates to experience and understand the real life implementation of the theoretical knowledge. Sections of this book have been kept independent from each other, thus providing additional flexibility to the advanced readers to choose their own way around the book. Enriched with numerous figures, illustrations and practice scenarios, it enables candidates to understand the intricacies of business operations and nuances of financial accounting with ease and prepares them to handle business transactions in the daily work environment more confidently.

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# PART-A

## Chapter 1

# Fundamentals of Accounting

### LEARNING OBJECTIVES

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- Terminologies used in Accounting
- Concepts of Accounting
- Double Entry System of Accounting
- Golden Rules of Accounting
- Recording of Business Transactions
- Preparation of Trial Balance, Trading Account, Profit and Loss Account, and Balance Sheet.
- Types of Subsidiary Books
- Depreciation Methods and Preparation of schedule.
- Introduction and advantages of Computerised accounting.

## 1.1 INTRODUCTION

A Commercial Professional or Industrial activity, driven by an individual or a group of individuals engaging in producing and selling goods and services for profit is known as Business.

An organization that is formed to operate some type of service or commercial activities for profit or for non-profit.

**For Example:** Proprietorship, Partnership, Limited Liability Partnership, Private Limited Company, Public Limited Company, Co-operative societies, NGO etc.

**Types of Business Sector**

- **Producing raw materials:** These are the business sectors which are involved in the production and extraction of the raw materials.
- **Trading:** The business of buying and selling commodities & products.
- **Manufacturing:** The process of converting raw materials, components, or parts into finished goods that meet a customer's expectations
- **Service:** An enterprise of professional or team of experts that deliver work or aid in completing a task for the benefit of its customers. A type of economic activity that is intangible. Examples of a service business are consultancy and profession services rendered by Chartered Accountants, Tax Consultants, Doctors, Engineers, Recreation, Health care, Transportation etc.

It becomes essential for a business owner to keep a record of the business income and expenditure, to find answers to numerous questions, a few of which are:

- What is the total value of business assets?
- Whether the business is earning profits or incurring a loss?
- How much do third parties owe the business?
- How much does the business owe to third parties?
- Should a specific operation be withdrawn?
- Can the business be expanded?

These answers can be occurred by, studying the financial information of the business operations. Therefore, accounting is an integral part of the business.

Accounting is the practice of maintaining precise records of the financial dealings of a business. It involves identifying business transactions, recording them, and summarising the same in such a way that important financial information can be communicated to the stakeholders of the business. Accounting is also called the language of business/finance.

The Common Stakeholders of typical business concern

- **Owners:** The stakeholders are the owners of an organization.
- **Employees:** These people are employed for wages or salary.
- **Investors (existing and potential):** These investors can be owners or outside vendors who typically have a right to know the accurate and timely information such as regular financial statements.
- **Suppliers:** These are the people or businesses who sell goods to your business and rely on you for revenue from the sale of those goods.
- **Customers:** These are the people who buy business products.
- **Communities**: These are stakeholders which are considered as business function by another set of stakeholders( Suppliers, customer employees).
- **Government authorities:** These are the authorities which collect taxes from the company and its employees.

### 1.1.1 Meaning of Accounting

Accounting is a process of identifying, systematic recording, summarizing, analyzing, and interpretation of financial reports of a business.

**Phases of the Accounting Cycle**

The following chart will depict the different phases/process of the accounting cycle as shown in Chart 1.1.

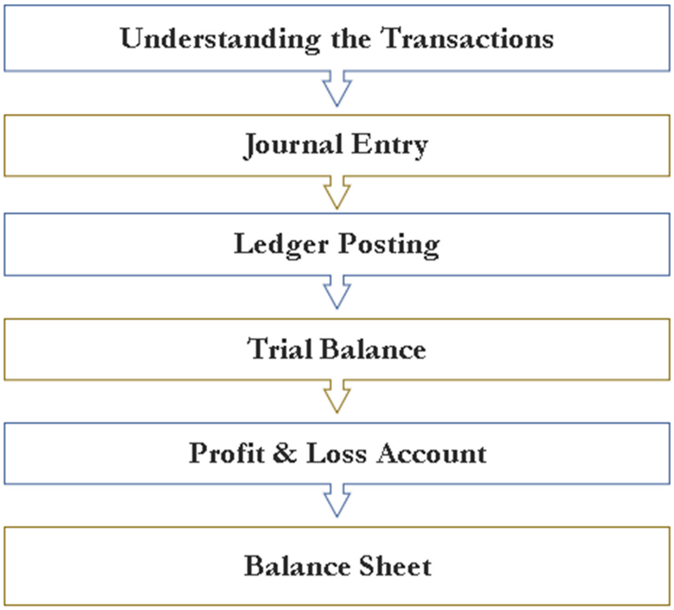


***Chart 1.1*** *Accounting Cycle*

**Explanation of the Chart**

1. **Understanding the transaction:** The details of transaction like date, debit and credit amount etc.
2. **Journal Entry:** In this process, we will record the business transaction by debiting and crediting the different account.
3. **Ledger Posting:** In this process, we will transfer the transactions which were recorded in the journal to its corresponding ledger accounts**.**
4. **Trial Balance:** In this process, we will determine the list of all the general ledger accounts into debit and credit account column totals that are equally contained in the ledger of a business. The purpose of producing a Trial Balance is to ensure the entries in the company's book keeping system are mathematically correct.
5. **Profit & Loss Account:** In this process, we will determine the net profit/loss of a business that occurs during the accounting period.
6. **Balance Sheet:** In this process, we will determine the summary of the financial balances of a business or an organization.

In the case of manual accounting, all six activities are carried out manually by accountants. But in case of accounting software, out of these above given six activities, only two activities are performed manually. i.e.

- Understanding the Transactions
- Voucher Entry

Remaining four activities, i.e. Ledger Posting, Trial Balance, Profit & Loss Account & Balance Sheet are performed by the accounting software automatically.

## 1.2 TERMINOLOGIES USED IN ACCOUNTING

Basic accounting terms are most important for Accounting beginners or an individual. The commonly used accounting terms in the business are :

1. **Capital**

   The amount of money or money's worth introduced into the business by owner is called capital.

2. **Transaction**

   A Transaction is a business activity that involves the transfer of money or money's worth between two accounts. A transaction can be of two types :

   - **Cash transaction:** A cash transaction is one where the money is immediately received or paid in the form of cash.
   - **Credit transaction:** A credit transaction is one where the money is paid later, but the benefits are enjoyed immediately.

3. **Assets**

   Any item of economic value owned by an individual or corporation especially, which could be converted into cash.

4. **Liability**

   The Liabilities are whatever the entity owes to outsiders. So, it includes loans, the amount payable to creditors, etc.

5. **Drawings**

   Money or money worth, which is withdrawn by an individual (business owner) or corporation from a business for his personal use.

6. **Bad debts**

   When a debtor becomes insolvent the trader will not be able to realize in part or full amount due from the customer. Part or full amount will remain unrealized. The unrealized amount is called bad debts. Bad debts are irrecoverable receivable.

7. **Purchases**

   A purchase is the number of goods bought by a business for further use or for reselling. Goods purchased with immediate payment of cash are called cash purchases. Goods purchased on credit are called credit purchases.

8. **Purchase returns**

   Goods that have been purchased but are returned to the seller before consumption due to reasons like poor quality and damage are called purchase returns.

9. **Sales**

   Sales refer to the number of goods sold by businesses. Sales made against immediate payment of cash are called cash sales. Sales on credit are called credit sales.

10. **Sales returns**

    The goods that are sold but returned by the buyer before consumption due to poor quality and damage, are called sales returns.

11. **Debtor**

    A Debtor is a person who receives benefits from the business immediately but is obligated to pay for the same in future.

12. **Creditor**

    A person who provides benefit without receiving immediate payment for the same, and who will claim the payment in future, is called a creditor.

13. **Stock**

    Unsold goods, raw material, etc., that lie with the business are collectively known as stock.

14. **Revenue**

    The earnings of a business through its business activities and operations is called revenue.

## 1.3 CONCEPTS OF ACCOUNTING

Accounting Concepts are those basic assumptions and conditions on which accounting is based.

1. **Business Entity Concept**

   The business concept is also known as the separate entity concept. It is assumed that business has a separate and distinct entity from its owner who owns it. Thus, the transactions related to business needs to be recorded in the books of Accounts.

   **The types of Business Entities are**:

   - **Sole Proprietorship:** A sole proprietorship, is also known as the sole trader or simply a proprietorship, is a type of business entity that is owned and run by an individual.
   - **Partnership:** A business organization in which two or more individuals manage and operate the business. Both owners are equally and personally liable for the debts from the business.
   - **Private Limited Company:** It is a type of privately held small/medium business entity, in which owner liability is limited to their shares, the firm is limited to having 200 or fewer shareholders, and shares are prohibited from being publicly traded.
   - **Public Limited Company:** The standard legal designation of a company which has offered shares to the general public and has limited liability. A Public limited company's stock can be acquired by anyone and holders are only limited to potentially lose the amount paid for the share
   - **Corporation:** It is a type of legal entity which is separate and distinct from its owners.
   - **Limited Liability Partnership (LLP):** A hybrid legal entity that has both the characteristics of a corporation and a partnership. An LLP provides its owners with corporate-like protection against personal liability. It is, however, usually treated as a non-corporate business organization for tax purposes.

2. **Going Concern Concept**

   The going concern concept is also known as continuity concept. In this concept, the assumption is made that every business is carried on continuing for an indefinite period. It will not be dissolved in near future.

3. **Money Measurement Concept (Monetary Expression)**

   It implies in accounting entries to record is made of only those transactions or events, which can be measured and expressed in terms of money.

4. **Cost Concept**

   The cost concept is also called a Historical cost concept. According to this concept the assets which are acquired by a concern are recorded in the books of accounts at cost price. The cost of acquisition is related to the past; hence it is known as the historical cost concept.

5. **Dual Aspect Concept**

   This concept states that every financial transaction has two aspects: one where the business receives a benefit, and the other where it provides a benefit. Therefore, every transaction should be recorded in such a way that its effect is reflected in two places in a business' books of accounts. This concept forms the basis for the Double Entry System of Accounting.

6. **Accounting Period Concept**

   The Accounting period concept can also be called a Periodicity concept. Life of the business is indefinite, thus indefinite period is divided into periodic intervals each interval is known as the accounting period. At the end of each accounting period, financial statements i.e, Balance sheet and Profit and Loss account are prepared to know the financial position of the business.

7. **Revenue Realisation Concept**

   According to this concept, revenue is considered as the income earned on the date when it is received. As per this concept, unearned or unrealised revenue is not considered. This concept is vital for determining income pertaining to an accounting period. It reduces the possibilities of inflating incomes and profits.

8. **Accrual Concept**

   This concept requires that income or expenditure are recorded when they become receivable or payable rather than when they are collected or paid i.e., transactions are recorded based on income earned or expense incurred irrespective of actual receipt or payment.