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GOVERNMENT OF TAMIL NADU

HIGHER SECONDARY SECOND YEAR

VOCATIONAL EDUCATION

Auditing

PRACTICAL

A publication under Free Textbook Programme of Government of Tamil Nadu

Department of School Education

Untouchability is Inhuman and a Crime

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OVERVIEW OF VOCATIONAL AUDITING PRACTICAL

Auditing Practical

Auditing is an independent examination of books of accounts, vouchers, documents, and statutory records of an organisation to ascertain whether the financial statements represent a true and fair view of the state of affairs of the business concern. The scope of the subject *Auditing Practical* involves examination of the system of accounting, checking the accuracy of transaction, verification of the assets and liabilities and ensuring the truthfulness and correctness of the items in Profit and Loss Account and Balance Sheet with a view to express an opinion thereon.

Auditing Practical is an important paper for Commerce students. This book explains basic concepts about auditing in a simple and easy to understand manner. The subject is explained with a practical approach by means of illustrations. All important concepts have been explained in detail with diagrams and flowcharts. Further, summarized form of advantages and limitations to important concepts has been given to make the students remember and recollect the points easily. At the end of each chapter, *summary* has been given to give a clear understanding to the students. A *Glossary* of the key terms used in the book is given at the end of the book.

Tally. Practice has been introduced in this book to ensure employment opportunities of the students.

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Auditing

PRACTICAL

Chapter 1 INTERNAL CHECK



Learning Objectives

- To understand the meaning, objectives, advantages and disadvantages of Internal Check system.
- To Analyse the Auditor's duties with regard to Internal Check System.
- To Evaluate the Application of internal check system with respect to Cash and Trading transactions.

1.1 Introduction

In business concerns, there are chances of misapporopriation and manipulation of accounts. In order to overcome such irregularities and to prevent or minimise the occurrence of errors and frauds, a checking system is designed to have a check on the irregularities. Such a check which operates continuously as part of the routine system is called as Internal Check. This chapter highlights the principles of good internal check system and explains in detail the procedure of internal check with regard to cash and trading transactions.

1.2 Meaning Of Internal Check

The term Internal Check refers to allocation of duties to the employees in an organisation in such a way that the work of one person is automatically and independently checked by the other person from the beginning to the end. It denotes such an arrangement of duties among the staff that the work performed by one individual is independently checked by another in the routine course, such that errors and frauds are prevented or discovered. Under the system of internal check, care is taken to ensure that no one person handles a transaction completely from beginning to end and the work of every person is in the ordinary course checked by another person.

1.3 Definition

- **L.R. Disksee** defined Internal Check as, "Internal Check is an arrangement of accounting routine that errors and frauds are automatically prevented or discovered by the very operation of book-keeping itself."
- According to **F.R.M Depaula**, "An internal check means practically a continuous internal audit carried on by the staff itself, by means of which the work of each individual is independently checked by the other members of the staff".

1.4 Principles (or) Features of Good Internal Check System

1. **Division of Work:** Division of work refers to dividing the total work among various staffs is such a way that no single person is allowed to perform the work from the beginning to the end. The work should be allocated to the employee based on the capacity of each person.
2. **Authority and Responsibility:** Authority, duties and responsibilities of each person should be clearly defined and there should not be any overlapping or duplication of duties and responsibilities.
3. **Automatic Check:** Work allocated to the staff should be in such a way that the work performed by one person is automatically checked by another person.
4. **Rotation of Employees:** A good system of Internal Check should provide transfer or rotation of employees from performing one work to another at frequent intervals.
5. **Proper Training to Employees:** An effective system of internal check should carefully select the employees to the organization. The employees should be properly trained and clear instructions should be given to them to perform their work in an effective and efficient manner.
6. **Proper system of Documentation:** Internal check system should provide for proper system of filing vouchers, correspondences etc. in a systematic manner.
7. **Periodical Review:** The system of internal check should at frequent intervals (be reviewed) and suitable changes should be introduced.
8. **Usage of Electronic Equipment:** The system of internal check should provide for usage of labour saving electronic devices such as calculating machines, personal computers, time recording clocks, book-keeping machines etc. The proper training should also be given to the employees for using these devices.

1.5 Objectives of Internal Check

The objectives of internal check are as follows:

1. **Early Detection of Errors and Frauds:** The main objective of internal check is to detect and prevent the occurrence of errors and frauds at an early stage. This is possible as the work of each and every person is independently checked.
2. **Minimization of Errors and Frauds:** It is one of the primary objectives of internal check. As the work performed by each individual is checked by another person, there is a check on errors and frauds. Hence, the possibility of errors and frauds are minimised to a greater extent.
3. **Division of Work:** Internal check provides for proper division of work based upon each and every persons skill, ability, specialisation and effectiveness.
4. **Fixation of Responsibility:** The total work is divided into smaller units and assigned to different persons. Each and every person knows what is expected from him/her and he/she will be held



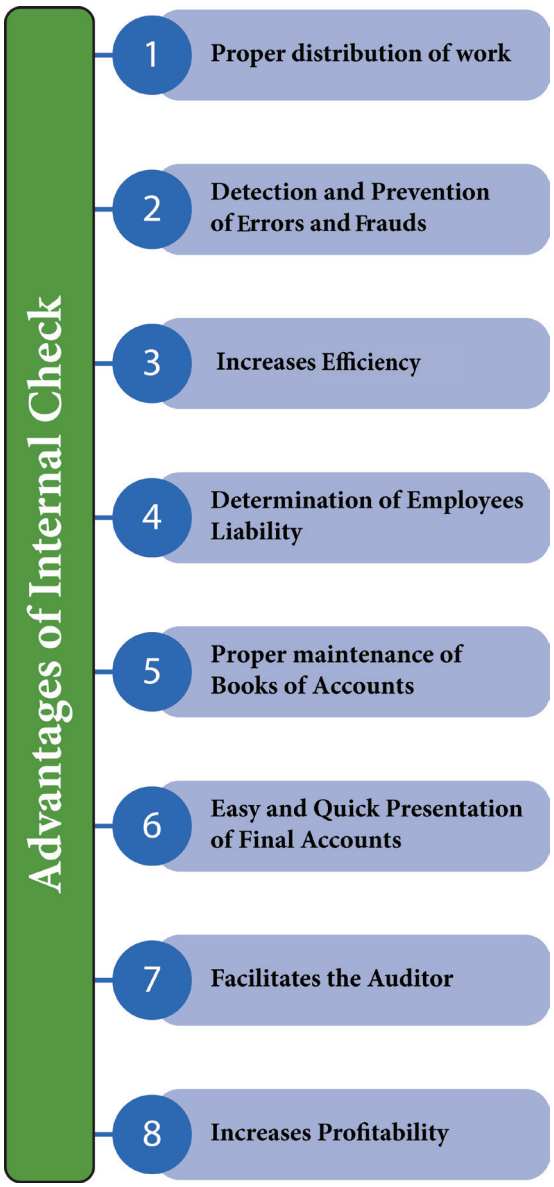
responsible for any error or fraud which takes place in it. Internal check provides clear determination of responsibility.

5. **Reliability of Records:** The system ensures that the books of accounts and other records maintained provides reliable source of information.

1.6 Advantages of Internal Check

The main advantages of Internal Check are given below.

1. **Proper Distribution of Work:** Internal Check helps in proper distribution of work among employees based on their qualification and experience. It enables the employees to perform the work efficiently.
2. **Detection and Prevention of Errors and Frauds:** The main object of internal check is to minimize the occurrence of errors and frauds, as no individual person does the work from the beginning to the end and the work of one person is checked by another person.
3. **Increases Efficiency:** A good system of internal check, increases the efficiency of work of employees as the right work is allocated to the right person taking into account his skill and experience.
4. **Determination of Employees Liability:** Internal check system clearly determines the responsibilities of the employees. Hence, the liability of the employees can be easily fixed due to irregularities or negligence caused by the employee.
5. **Proper Maintenance of Books of Accounts:** Internal check system helps to maintain proper records and ensures accuracy of the entries in the books of accounts.



6. **Easy and Quick Presentation of Final Accounts:** Internal check enables quick presentation of final accounts i.e., Profit and Loss Account and Balance Sheet immediately after closing of the accounting period.
7. **Facilitates the Auditor:** When there is an effective internal check system the statutory auditor can rely on the system. He can avoid detailed checking of transactions. He can select limited sample of transactions. This enables him to finish the audit work within time.
8. **Increases Profitability:** Overall efficiency and economy of operations lead to increased earnings for the owners of the enterprise.

1.7 Disadvantages of Internal Check

The disadvantages of internal check are given below.

1. **Expensive:** The system of internal check is more expensive and time consuming.

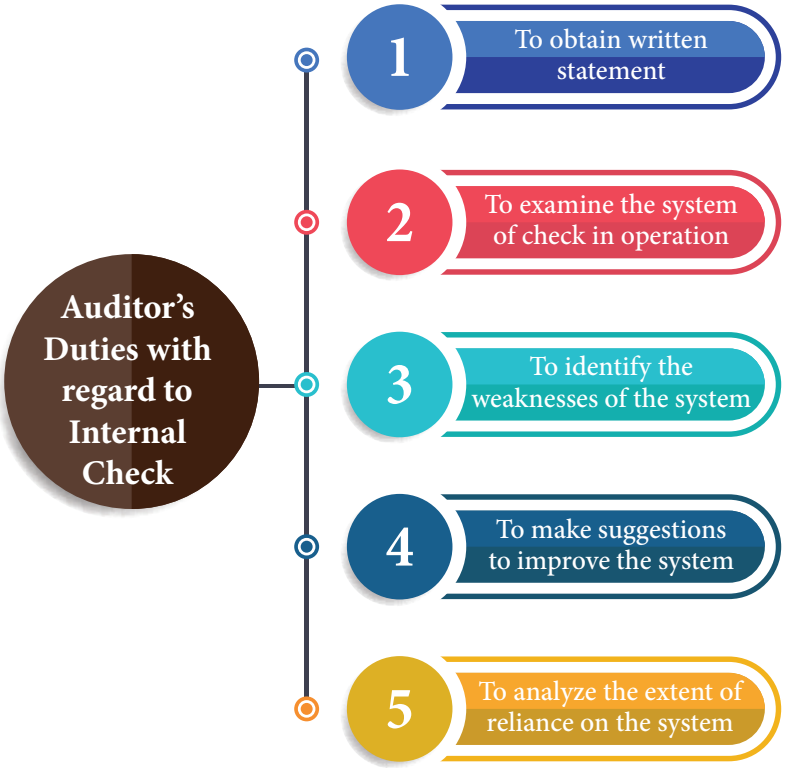


2. **Not Applicable for Small Organization:** This system is not applicable for small organization where there are only few employees. Only large organization having number of departments and complexity of jobs can get benefit of this system.
3. **Monotonous for the Workers:** As same work is done by the employees continuously the job becomes boring and the employees lose their creativity.
4. **Risky for the Auditor:** When the auditor relies on the system of internal check and does not conduct tests he will be charged for negligence.

5. **Disorder in work :** If the system is not fully organized and if there is any failure in the system, it creats disorder and confusion hence, chances of errors and frauds increases.

6. **Chances of collusion:** Though internal check system protects errors and frauds but in reality there may be chances of collusion between two or more employee to indulge in frauds or malpractices.

1.8 Duties of an auditor with Regards to Internal Check System



The system of internal check in an organisation determines the scope of work of a statutory auditor. The duty of an auditor is to verify the effectiveness of the system of internal check in operation. However, the auditor should perform the following work in this regard.

1. **To Obtain Written Statement:** An auditor should obtain a written statement about the working of the internal check system from the business concern.
2. **To Examine the System in Operation:** The auditor should carefully examine the existence and operation of the internal check system.
3. **To Identify the Weaknesses:** The auditor should identify the weakness of the system which will result in occurrance of errors and frauds taking place.
4. **To Suggest for Improvements:** If the system of internal check is ineffective, the auditor should make suggestions to strengthen the system of internal check.
5. **To Analyse the Extent of Reliance:** The auditor should carefully analyse the extent to which he can rely on the effectiveness of Internal Check. If the system of internal check is effective, he can check sample transactions thus devoting his attention on other important audit areas.

1.9 Internal Check - Cash Transactions

Checking of all cash transactions should be given utmost importance because employees tend to involve in fraudulent activities by misappropriating cash and manipulating accounts in an organistion. Hence, the auditor should verify the system of internal check in operation with regard to cash receipts and cash payments, which is explained in detail below –

1.9.1 Internal Check-Cash Receipts

There should be proper system of Internal Check as regarding cash transactions as the employees tend to misappropriate cash in an organisation. Cash receipts may be misappropriated in the following manner:

- Cash receipts may not be entered in the cash book.
- Cash received may be understated by preparing duplicate receipts for amount less than what is actually received.
- Cash sales may be treated as credit sales.

The following system of Internal Check may be adopted as regards cash receipts.

1. All inward remittances should be opened by the cashier in the presence of a responsible officer.
2. On receipt of cash or cheque, it should be immediately entered in cash book or cheque received notebook.
3. All remittances (draft, cheque) must be crossed as 'account payee only'.
4. Cash and cheques received should be deposited immediately.
5. Bank pay-in-slips should be prepared by a separate person, who is not entrusted with the work of depositing cash in the bank.
6. Cash received after the banking hours should be kept in the locker of the business. The locker should be opened by the cashier in the presence of a responsible official.
7. Printed receipts should be issued for all remittances signed by the cashier and responsible official.
8. Unused receipt book should be kept under lock and key under the custody of the responsible official.
9. Cancelled or spoilt receipts should not be detached from the receipt book.
10. Cash balance should be physically verified by a responsible official by surprise check at frequent intervals.

1.9.2 Internal Check-Cash Payments

There should be an effective system of internal check with regard to all payments made by the concern in the form of cash or cheque or bank transfers. Cash payments may be misappropriated in the following ways:

- Payments may be made against fictitious vouchers.
- Payments may be made against inflated vouchers.
- Payments may be made without receipt of goods.
- Revenue expenses maybe treated as capital expenditure.

Hence, a proper system of internal check is necessary. The following system of internal check may be adopted as regards cash payments.

1. The person in charge of making cash payments should not have

any connection with the person responsible for receiving cash.
2. The person responsible for making cash payments should not have access to the books of accounts.
3. All the payments should be paid by way of crossed cheque.
4. After making payment against a particular bill or invoice, the voucher and the supporting bill or invoices should be stamped as 'paid' so that the same voucher is not passed again for payment.
5. Unused and cancelled vouchers and cheque books should be kept under the custody of a responsible person.
6. Person who is responsible for preparing the cheque should be clearly specified. Before passing a bill for payment, it should be ensured that the goods have been received.
7. The bill for which payment is to be made should be sanctioned by the responsible official.
8. Confirmation of balances from the creditors should be made through direct correspondence.
9. Proper sanction should be obtained by directors from higher officials to make payment for transactions of special nature.
10. Bank reconciliation statement should be prepared to reconcile cash and bank balances from time to time.

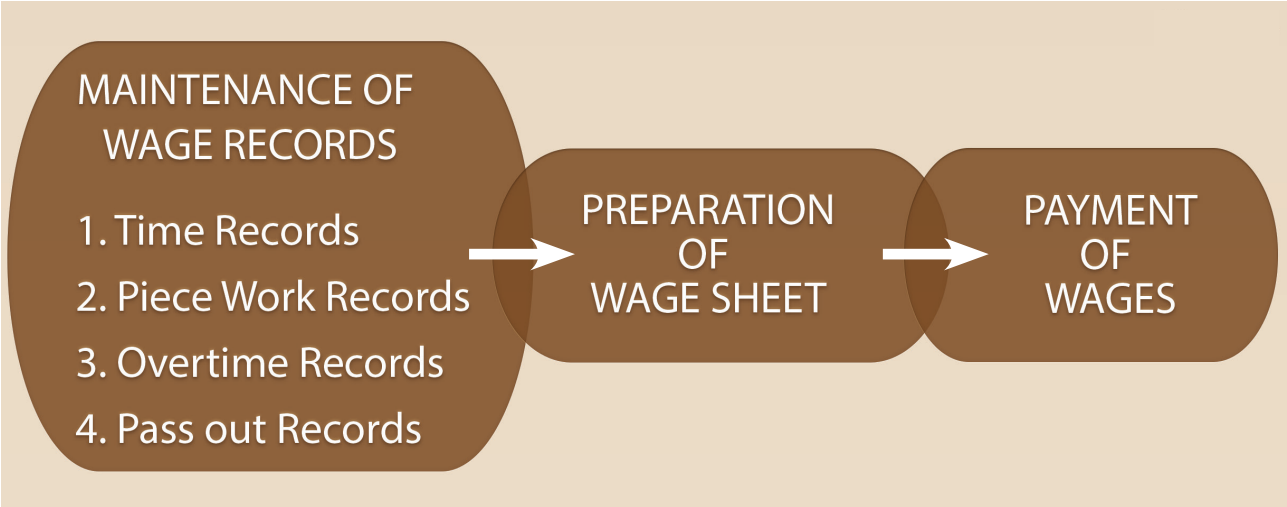
1.10 Internal checks- Wages

Wages are very important item of expenditure. The system of internal check for wages should be devised in a planned and careful manner. There are great possibilities of frauds in a concern employing a large number of workers. A sound system of internal check for payment of wages may avoid errors and frauds which may be revealed from time and piece wages records.

The following system of internal check may be adopted as regards wages.

I. Maintenance of Wages Records

1. **Time Records:** It is a record maintained by the gate keeper who records the entry time and exit time of each worker. Foremen of each department



also maintain records for time spent by an employee. When wages are paid on the basis of time spent by a worker, the record maintained by the gate keeper and record maintained by foremen of each department are summarised for payment of wages.

2. **Piece-work Records:** This record is maintained by the foremen who records the actual work done by each employee. Each person is provided a job card who records the work done by him. Finally, the record maintained by the foremen and job card are used in determining wages.
3. **Overtime Records:** Overtime should be sanctioned in advance by a responsible person. Employees should be issued overtime slips bearing the name and number of worker. Such slips should be issued and initialled by some responsible official. At the end of the week such slips should be sent to the wage office.
4. **Pass-out Records:** The workers should not be allowed to leave the factory without the written permission. For this, a pass-out slip is issued to the worker by same authority. Such slips are handed over to the gate keeper. The wage office should also be given copy of it.

II. Preparation of Wage Sheet:

The wage sheet should not be prepared by one clerk alone. A set of clerks should compare the records maintained at the gate and the wage office and enquire about differences, if any. The following points should be taken into account.

1. **Base:** The wage sheets should be prepared with the help of attendance register, overtime slip and pass-out slip.
2. **Separate Sheets:** Separate wage sheets should be used for time-workers and piece-workers.
3. **Checking:** The wage sheet should be inspected and counter signed as correct by the works manager and foreman.
4. **Signature:** The wage sheet should be counter signed by those employees who has prepared it.
5. **Approval:** Each and every wage sheet should be approved by factory manager or Managing Director.

III. Payment of Wages:

1. The person who is in-charge for payment of wages should not have connection with the preparation of wages sheet.
2. Each worker should be asked to receive his wages personally in the presence of his foreman to identify him.
3. No payment is made to someone on behalf of a worker who is absent.
4. Wage payment should be made by cash department, not by other persons.
5. The amount of wages for each employee should be placed in an envelope bearing the name and number of person.
6. Special arrangements should be made for payment to the absentees.
7. Exact amount of money should be drawn from the bank for payment of wages.
8. Advances to workers should be discouraged and if it becomes unavoidable, they should be given through the petty cashier.
9. If casual workers are also employed in the factory a separate record should be maintained for them.
10. Undisbursed wages should be deposited immediately into the bank.

1.11 Internal Check Trading Transactions

1.11.1 Internal Check-Purchases

The following system of internal check may be adopted as regards purchases.

1. A purchase department should supervise and control the entire purchase transactions of the organisation.
2. The procedure for purchases should start with issuing purchase requisition, making enquiry about the terms and conditions of purchases from different suppliers.
3. Purchase requisition should be in a printed form and serially numbered. They should be given to all the departments in the organisation.
4. On receipt of requisition from various departments, the purchase department should send enquiry letter to the suppliers.
5. The purchase department, after verifying the quotation should place an order with the supplier.
6. All the purchase orders should be signed only by the Purchase Manager or any responsible person on his behalf.
7. Goods should be received by a responsible official and entered in the Goods Received Note and the same should be recorded in the stock register/stores ledger.
8. On receipt of invoice from the supplier, the Purchase department should check the invoice with the goods received note and verify the rate, discount, quality and quantity of goods.
9. Goods received should also be entered in the stores ledger and entries should be made in the Bin Card.
10. The accounts department should verify the purchase invoice with the goods received note and purchase order before making payment.
11. After making payment, the accounts department should affix a rubber stamp on the invoices in order to avoid duplication of payments.
12. At frequent intervals, a responsible person should check the entries in the purchase book with supplier ledger account.

1.11.2 Internal Check-Purchase Returns

1. When goods are returned to the supplier it should be entered in purchase returns book.
2. A credit note should be obtained from the supplier for each return of goods and the note should be attached to the invoice.
3. The purchase department should check such advice note with invoice and enter in purchases returns book.
4. When only part of the goods are returned to the supplier, the goods which are accepted alone should be entered in the stores ledger.

1.11.3 Internal Check-Sales

Sales are the most important source of revenue in a business and hence the possibilities of errors and frauds taking place are greater. Frauds maybe committed in the following ways:

- Sales may be omitted from recording in the sales book.
- Fictitious sales may be accounted.
- Sale of fixed assets may be treated as sale of goods.

In order to overcome the occurrence of such type of frauds, an effective system of internal check as regards credit sales is necessary which may be in the following manner.

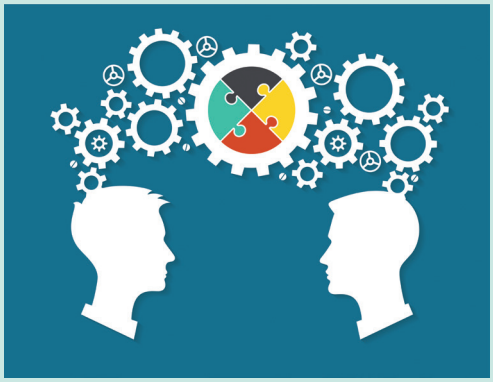
1. On receipt of order from the customers, it should be numbered and the particulars entered in the order received book.
2. The order copy should be handed over to the dispatch department who makes necessary arrangements for delivery of goods.
3. When the goods ordered and ready for delivery the dispatch department should inspect the goods with the order copy and enter the details of goods delivered in the dispatch memo.
4. The invoice should be prepared based on the dispatch memo in three copies, one copy should be sent to the Customer, second copy to the Accounts department and third copy will be retained by the Sales department.
5. A responsible official should check the particulars in the invoices and also confirm that the terms and conditions in the order have been duly followed and finally he should put his initial on the invoice.
6. The gatekeeper should record particulars of the goods leaving the premises in the goods Outward book.
7. The persons who are responsible for preparing the invoices should not be allowed to post the entries in the customer's accounts.
8. At frequent intervals, the balances in the customers' accounts should be verified with the confirmations received from the customers.
9. A responsible official should verify that only sale of goods are accounted in sales day book and sale of assets are not accounted.
10. A responsible official should deal with customers enquiries, overdue accounts and writing off bad debts.

1.11.4 Internal Check-Sales Returns

1. The goods returned by customer should be entered in the sales return book and reason for the return should also be recorded.
2. The gatekeeper should also enter the goods received in the goods inward book.
3. A credit note should be prepared, duly checked and initialled by a responsible official.



STUDENTS ACTIVITY



1. Visit an Industry, discuss with Accounts Manager regarding Internal Check System followed for cash receipts and cash payments.
2. Visit an Industry, with prior permission to verify Internal Check System followed with regard to Purchase and Sale transactions.
3. Set up a model bank in your class room and discuss the procedure for Deposits, Withdrawals and Sanctioning of Loans.

SUMMARY

Internal check refers to allocation of duties to the employees in an organisation in such a way that the work of one person is automatically and independently checked by the other person. The main object of internal check is to detect errors and frauds, to provide for division of work, fixation of responsibility, liability of records. Internal check is based on the principle of division of work, automatic check, rotation of employees, proper training to employees, periodical review and usage of electronic equipments. The drawback of the system are expensive, creates confusion and disorder in work. Internal check is exercised in case of cash transactions i.e., cash receipts and cash payments and trading transactions i.e., purchases and purchase returns, sales and sales returns to detect misappropriations of cash and goods.

KEY TERMS

- **Internal check:** The term Internal Check refers to allocation of duties to the employee in an organisation in such a way that the work of a person is automatically and independently checked by the other person.
- **Division of work:** The total work divided among various staffs based on their skill and expertise.
- **Purchase Returns:** When goods are returned to the Suppliers.
- **Sales Returns:** Goods returned by Customers.
- **Invoice:** Invoice is a statement prepared by the seller of goods. It contains the information relating to name and address of the seller and the buyer, the date of sales, price and quantity of goods sold.
- **Debit Note:** A Debit Note is a commercial document issued by a buyer to a seller. Debit Note is the source document to the Purchase Returns Journal.
- **Credit Note:** A credit Note is a commercial document issued by a seller to a buyer. It is the source document to the Sales Return Journal.

EVALUATION

I. Multiple Choice Questions

1. A system in which the work of one person is automatically checked by another person is called as _____.
   a. Internal Check
   b. Internal Control
   c. Internal Audit
   d. Interim Audit
2. Objects of Internal Check are _____.
   a. to minimise errors and frauds
   b. to prevent errors and frauds
   c. to allocate duties and responsibilities
   d. all of the above
3. A good Internal Check system _____.
   a. to reduce the liability of an auditor
   b. reduces the work of an auditor
   c. reduce the responsibility of an auditor
   d. All of the above
4. The system of Internal Check is based on the principle of _____.
   a. Division of labour
   b. Unity of command
   c. Unity of direction
   d. Authority
5. Internal check is a kind of _____.
   a. Complete audit
   b. Division of work
   c. Partial audit
   d. Final audit
6. _____ is a valuable part of Internal Control
   a. Internal Audit
   b. Internal Check
   c. Test Check
   d. Routine Check
7. While making payment for purchases _____ are to be checked by a clerk.
   a. Account Sales
   b. Invoices
   c. Cash Receipt
   d. None of these
8. When goods are returned to suppliers, a _____ should be obtained from them.
   a. Debit Note
   b. Credit Note
   c. Account Slip
   d. None of these
9. Goods returned by customers will be entered in _____
   a. Goods Inwards Book
   b. Purchases Returns Book
   c. Goods Outward Book
   d. Above all the above books
10. Internal check system is useful to _____ business concerns.
    a. Small scale
    b. Large scale
    c. Medium size
    d. All the above

Answers 1.(a), 2.(d), 3.(d), 4.(a), 5.(b), 6.(b), 7.(b), 8.(b), 9.(a), 10.(b)

II. Very short answer questions

1. What is meant by Internal Check?
2. What is meant by Overtime records?
3. What is Piece Wage Records?

III. Short answer questions

1. Define "Internal Check"?
2. What are the objects of Internal Check?
3. Briefly explain the duties of an auditor with regard to Internal Check system.

IV. Essay type questions

1. What are the advantages and disadvantages of Internal Check?
2. Discuss the features of a good internal Check System.
3. Examine a system of Internal Check as regards to cash receipts?
4. Describe a system of Internal Check as regards to cash payments?
5. Explain a system of Internal Check as regards to Payment of Wages?
6. Explain the system of Internal Check as regards to Purchase?
7. Explain the system of Internal Check as regards to Sales?

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Chapter 2 INTERNAL CONTROL

Learning Objectives

- To understand the meaning, definition and objectives of internal control.
- To understand the advantages and disadvantages of internal control.
- To understand the principles of good internal control system.
- To analyse the methods of evaluating internal control system.
- To identify the differences between internal check and internal control.

POINTS TO RECALL

RECAP

In the previous chapter, we have studied meaning and importance of internal check system and application of internal check system with respect to cash and trading transactions.

2.1 Introduction

Internal control is the overall control environment established by management of an enterprise for effective and efficient monitoring and control of its operations. It aims at adherence to management policies, safeguarding of assets of the enterprise, proper accounting and record of the business transactions. Internal check and internal control are vital components of the control system.

The auditor should properly understand and assess the Internal Control System to determine the degree of reliance to be placed on it and accordingly to plan the nature, timing and extent of audit procedures to be performed by him. If the Internal Control is found to be effective, the auditor may resort to selective verification. However, when internal control system is weak auditor has to verify the transactions in detail.

2.2 Meaning

Internal Control refers to the process of control exercised by the management either financial or non-financial to ensure proper accounting of business transaction and reliability of records. Internal Control has a wide coverage which includes checks and controls exercised to ensure efficient and effective functioning of the business organisation. In other words, it is a process implemented by the management to provide the following:

i. Proper accounting and reliability of records,
ii. Effectiveness and efficiency of business operations, and

iii. Compliance with laws and regulations.

The scope of internal control system is vast. It comprises both administrative control as well as accounting control.

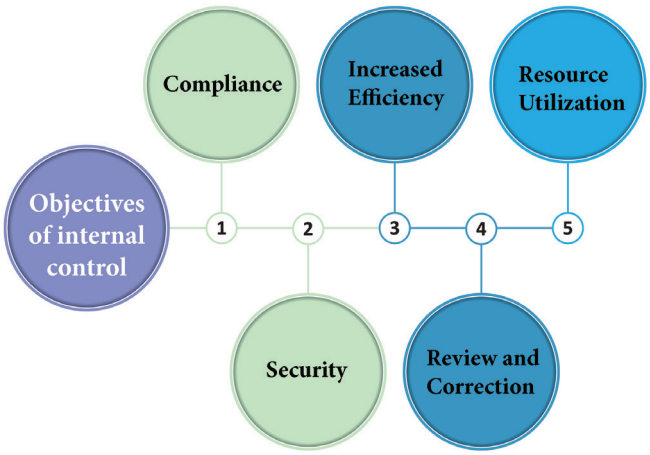
2.3 Definition

- **Auditing Practices (SAP-6) of Institute of Chartered Accountants of India:** "Internal Control System refers to the whole system of controls, financial or otherwise, established by the management in the conduct of a business including internal check, internal audit and other forms of control."

From various definitions, the following points emerge:

- Internal control is a system of control or practice put in place by management.
- Controls are established over financial and non-financial areas of business.
- Controls take the forms like internal audit and internal check.

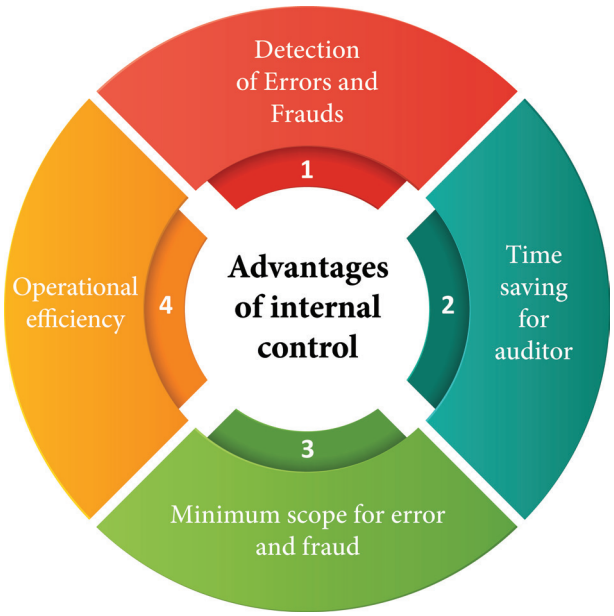
2.4 Objectives of Internal Control



Each organization must have a system of internal control in place for achieving the preset goals. Other than accomplishing the desired goals and objectives of the organization, this system plays a very important role in any organization. The main objectives of internal control are as follows:

1. **Compliance:** To have compliance with law and accounting practices that is generally accepted and followed in the country. The accounting process also needs to be in compliance with these.
2. **Security:** To provide security to customers, employees and property of the organization, physical security systems like security guards, locks and anti-theft devices are used for providing protection.
3. **Increased Efficiency:** To assist human resource and performance management, and to keep proper control over business activities to achieve maximum levels of efficiency.
4. **Review and Correction:** To review the working of the business, locate weak points in operations and to take corrective measures for proper working.
5. **Resource Utilization:** To ensure that all the resources, i.e., men, material, money and machines of the organization are optimally used.

2.5 Advantages of Internal Control



An audit control system can give the following advantages:

1. **Detection of Errors and Frauds:** Internal control systems are structured in such a way that work done by one employee in a process is checked by another without knowledge of the former. In such an environment, any fraud committed is brought to light unless there is collusion among fraudsters.
2. **Time Saving:** Auditor can test check or sample check the transactions to ensure reliability, and accuracy of entries in the books. Hence, he can complete his audit work and prepare financial statements within the prescribed time.
3. **Minimum Scope for Errors and Frauds:** Each employee does only a limited work assigned to him, moreover, consciousness of his work being independently checked by another keeps him to be always alert at work. In such a context, chances for commission of error or fraud are lesser.
4. **Operational Efficiency:**

It facilitates fixation of accountability, error – free work performance, accuracy reliability and authenticity of entries and eradicate inefficiency, fraud, theft, etc. Moreover, this system enables the management to assess the performance of employees. All these collectively contribute to enhance the operational efficiency of organization as a whole.

2.6 Disadvantages of Internal Control

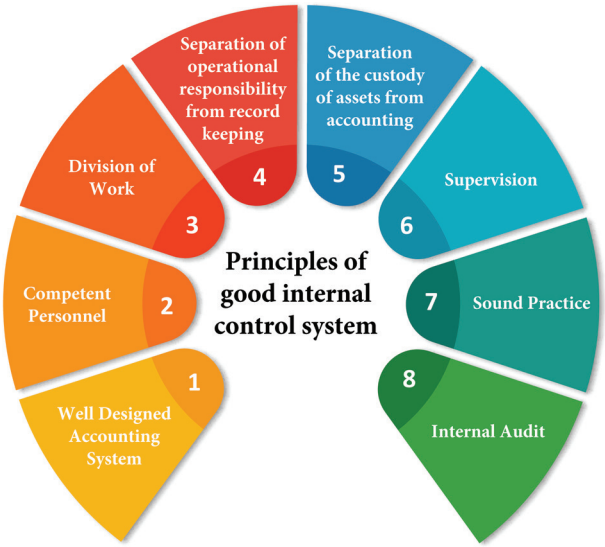


An audit control system can give the following limitations or disadvantages:

1. **Organizational Structure:** Deficiencies in organizational structure make internal control ineffective.
2. **Size of the Organization:** Small organizations have very low levels of internal control, which are almost negligible due to more interference by owners and management.
3. **Costly:** The implementation of internal control procedures and processes involves incurring costs in terms of time, effort and resources.

4. **Human Error:** Internal control fails as there are posibility of human errors.

2.7 Principles of Good Internal Control System



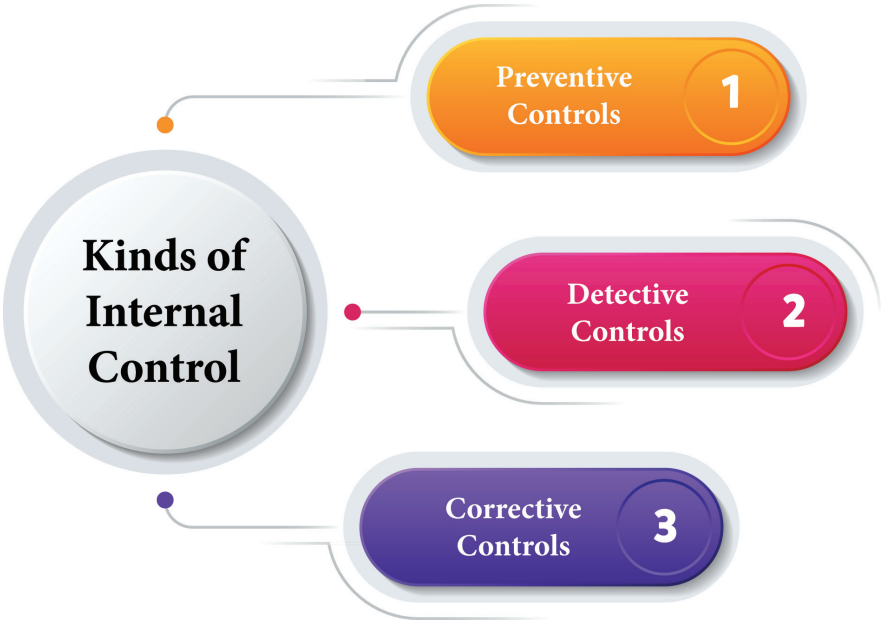
An effective or good system of internal control should have the following principles: -

1. **Well-designed Accounting System:** Internal Control should provide for a well designed accounting system. The financial and accounting activities must be separated. For example, person who is responsible in handling cash (cashier) and the person who accounts cash (accountant) should be done by two different persons.
2. **Competent Personnel:** In any internal control system, personnel are the most important element. When the employees are competent and efficient in their assigned work, the Internal Control System can be worked and operated efficiently and effectively even if some of the other elements of the Internal Control System are absent.
3. **Division of Work:** This refers to the procedure of division of work properly among the employees of the organization. Each and every work of the organization should be divided in different stages and should be allocated to the employees in accordance with their skill and expertise.
4. **Separation of Operational responsibility from Record Keeping:** If each department of an organization is being assigned to prepare its own records and reports, there may be a tendency to manipulate results for showing better performance. In order to ensure reliable records and information, record-keeping function is separated from the operational responsibility of the concerned department.
5. **Separation of the custody of assets from accounting:** To protect against misuse of assets and their misappropriation, it is required that the custody of assets and their accounting should be done by separate persons. When a particular person performs both the functions, there is a chance of utilizing the organisation's assets for his personal interest and adjusting the records to relieve himself from the responsibility of the assets.
6. **Supervision:** Directors should review the company's financial operations and position at regular and frequent intervals. Comparison with results for previous periods indicates discrepancies that call for further examination. Where budgetary control is in use, attention will be drawn to material variances and explanations required. From time to time, special reviews of particular items such as stocks, or the operation of the wages department, should be undertaken.
7. **Sound Practice:** Sound practices of administration require that established procedures, policies and delegation

of responsibility should be open to all employees of the organisation. This helps in avoiding doubts, attempts to shift responsibility for unsatisfactory performance etc.

8. **Internal Audit:** Internal audit is a part of the whole system of Internal Control. It should operate independently of the internal check and in no circumstances; it should divert any one of responsibilities placed on him. It is the examination of accounts of a business concern by its employees specially appointed for the purpose. It is an independent appraisal of activity within an organization for the review of accounting, financial and other business practices.

2.8 Kinds of Internal Control



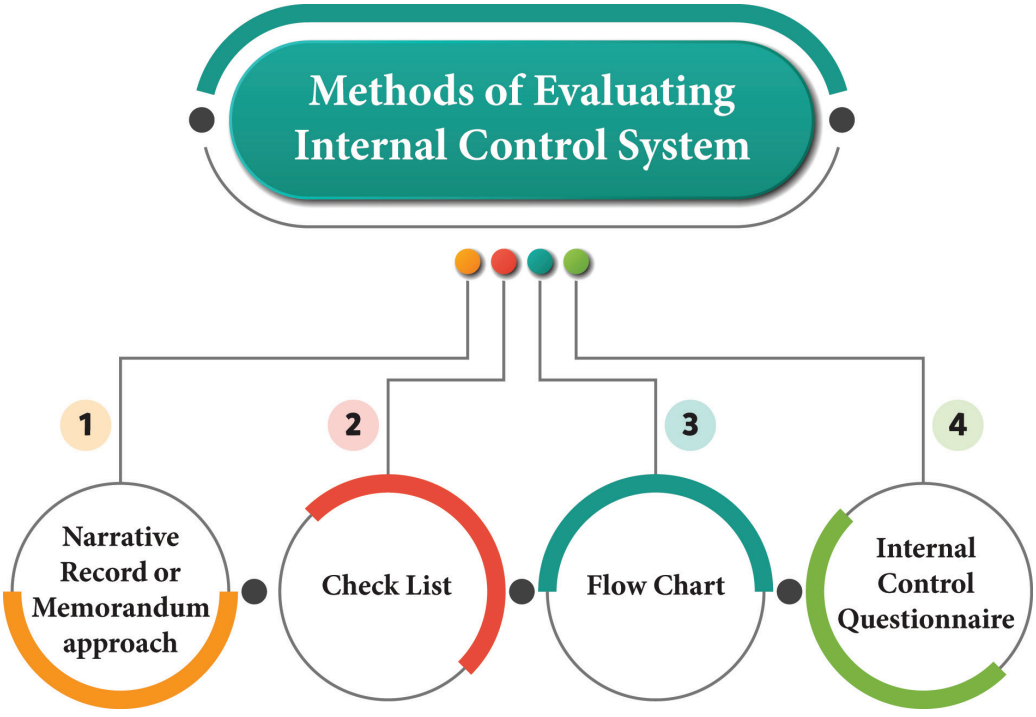
The type of internal control system to be employed in an organization depends upon the requirements and nature of the business. Generally, there are three types of Internal Control in an organisation preventive control, detective control and corrective control. These types of controls are essential for an effective internal control system. From a quality standpoint, preventive controls are essential because they are proactive and emphasize quality. However, detective controls play a critical role by providing evidence that the preventive controls are functioning as intended.

1. **Preventive Controls:** Preventive controls are designed to discourage errors or irregularities from occurring. They are proactive controls that help to ensure departmental objectives are being met. Examples of preventive controls are:
   - **Segregation of Duties:** Duties are segregated among different people to reduce the risk of error or inappropriate action. Normally, responsibilities for authorizing transactions (approval), recording transactions (accounting) and handling the related asset (custody) are divided.

- **Approvals, Authorizations, and Verifications:** Management authorizes employees to perform certain activities and to execute certain transactions within limited parameters. In addition, management specifies those activities or transactions that need supervisory approval before they are performed or executed by employees. A supervisor's approval (manual or electronic) implies that he or she has verified and validated that the activity or transaction conforms to established policies and procedures.
- **Security of Assets (Preventive and Detective):** Access to equipment, inventories, securities, cash and other assets is restricted; assets are periodically counted and compared to amounts shown on control records.

2. **Detective Controls:** They are designed to find errors or irregularities after they have occurred. Examples of detective controls are:
   - **Reviews of Performance:** Management compares information about current performance to budgets, forecasts, prior periods, or other benchmarks to measure the extent to which goals and objectives are being achieved and to identify unexpected results or unusual conditions that require follow-up.
   - **Reconciliations:** An employee relates different sets of data to one another, identifies and investigates differences, and takes corrective action, when necessary.
   - Physical Inventories
   - Audits
3. **Corrective Controls:** Corrective controls target at the correction of errors and irregularities as soon as they are detected.

2.9 Methods of Evaluating Internal Control System



The following are the methods of evaluating Internal Control System:

1. **Narrative Record or Memorandum Approach:** It is a complete and exhaustive descriptive record of the system. It is appropriate in circumstances where a formal control system is lacking, like in case of small businesses. Gaps in the control system are difficult to identify using a narrative record.
2. **Check List:** It is a series of instructions that a member of the audit staff is required to follow. They have to be signed or initialled by the audit assistant as proof for having followed the instructions given. A specific statement is required for every weakness area.
3. **Flow Chart:** It is a pictorial representation of the Internal Control System depicting its various elements such as operations, processes and controls, which help in giving a concise and comprehensive view of the organization's working to the auditor. A complete flow chart would depict the process of raising documents, personnel involved in doing so, the flow of documents through various departments, maintenance of records, flow of goods and consideration, and dealing with results. The internal control evaluation process becomes easier through a flow chart as a broad picture of all the controls involved can be gauged in a glimpse.
4. **Internal Control Questionnaire:** This is the most widely used method for collecting information regarding the Internal Control System and involves asking questions to various people at different levels in the organization. The questionnaire is in a pre-designed format to ensure collection of complete and all relevant information. The questions are designed in a manner that would facilitate obtaining full information through answers "Yes" or "No".

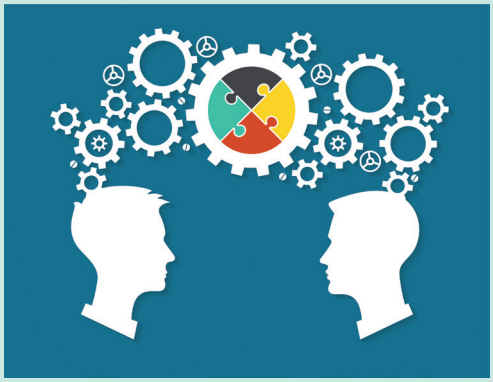
2.10 Auditor's Duty in Evaluating the System of Internal Control

1. **Understand the System:** The auditor should understand the control system by discussing with personnel at various levels in the organisation. He should also refer to organisation charts and manuals for this purpose.
2. **Determining the Reliability:** The management installs and maintains an adequate Internal Control System taking into account the nature and size of the business. It is the duty of an auditor to establish a basis or degree of reliance on the system of control.
3. **Determining the Adequacy:** The auditor should apply various compliance tests in order to determine the adequacy of internal control system.
4. **Review and Evaluation:** Auditor should critically review and evaluate the internal control system to determine the efficiency of its operations. If there is a good system of internal control the work of an auditor becomes easy.

2.11 Differences between Internal Check and Internal Control

S.No	Basis	Internal Check	Internal Control
1.	Meaning	A system of allocation of responsibility, division of work, and methods of recording transactions, whereby the work of an employee is checked continuously by another.	It consists of all the methods and procedures adopted to assist in achieving the objective of efficient conduct of business. It includes Internal Check and Internal Audit.
2.	Scope	It operates in routine to double check every part of a transaction at the time of occurrence and recording of the same.	In Internal Control Systems, work of one person is automatically checked by another.
3.	Objective	Its objective is to ensure that no employee has exclusive control over any transaction or group of transactions and their recording in the books.	Its object is to ensure adherence to management policies, safeguarding of assets, prevention and detection of frauds and errors, accuracy and completeness of accounting records.
4.	Point of Time	Methods of recording transactions are devised where work of an employee is checked continuously by correlating it with the work of others.	In Internal Control System, checking is done simultaneously with the conduct of work. Every transaction is checked as soon as it is entered.
5.	Thrust of System	The thrust of internal check system is to prevent errors.	The thrust of internal control lies in fixing of responsibility and division of work to avoid duplication.
6.	Cost Involved	It is a part of internal control and a method of division of work, therefore does not add to the cost.	The system proves to be costly in case of small businesses because more number of employees are engaged.
7.	Report	The summary of day to day transactions work as report to the senior.	Internal control provides for built in MIS reports.

STUDENTS ACTIVITY



1. Discuss the Internal Control System for cash deposits and withdrawals in a bank.
2. Visit a company and discuss with Stores manager regarding Internal Control System followed for Material Management.
3. MOCK Bank: Set up a model bank in your classroom and discuss the procedure for deposits, withdrawal and sanctioning of loans.
4. If you are residing in a gated community, discuss about the security system followed in your campus.

SUMMARY

- **Internal Control** is the overall control environment established by management of an enterprise for effective and efficient monitoring and control of its operations. It aims at adherence to management policies, safeguarding of assets of the enterprise, proper accounting and record of the business transactions. The type of Internal Control System to be employed in an organization depends upon the requirements and nature of the business. Generally, there are three types of Internal Control in an organization namely; preventive, detective and corrective controls.

KEY TERMS

- **Internal Control** –A system refers to the whole system of controls, financial or otherwise, established by the management in the conduct of a business including Internal Check, Internal Audit and other forms of control.
- **Preventive Controls**– It is designed to discourage errors or irregularities from occurring.
- **Detective Controls**- It is designed to find errors or irregularities after they have occurred.
- **Narrative Record** - It is a complete and exhaustive description of the system. It is appropriate in circumstances where a formal control system is lacking, like in the case of small businesses.

- **Flow Chart** - It is a pictorial representation of the Internal Control System depicting its various elements such as operations, processes and controls, which help in giving a concise and comprehensive view of the organization's working to the auditor.
- **Internal Control Questionnaire:** It is the most widely used method for collecting information regarding the Internal Control System and involves asking questions to various people at different levels in the organization. The questionnaire is in a pre-designed format to ensure collection of complete and all relevant information.
- **SAP-6:** Standing Auditing Practices framed by Chartered Accountants of India.



EVALUATION

RH59E

I. Multiple Choice Questions:

1. Internal Control is
   a. Part of Internal Check
   b. A part of Internal Audit
   c. Whole system of control employed by management
   d. Examination of reliability of transaction

2. Which of the following is used for evaluation of Internal Control?
   a. Internal questionnaire approach
   b. Flow Chart Method
   c. Narrative Approach
   d. All of the above

3. Representation of the entire control system in diagram under evaluation system.
   a Flow Chart Method
   b Narrative Approach
   c Internal Questionnaire Approach
   d All of the above

4. Under which of the following methods, the auditor evaluates control by observation and writes down?
   a. Oral approach
   b. Narrative approach
   c. Flow chart
   d. Questionnaire method

5. Check list contains the instruction to be followed by the _____
   a. Internal Auditor
   b. External Auditor
   c. Audit Assistants
   d. Employee of the Organisation

6. An auditor should study and evaluate Internal Controls to
   a Determine whether assets are safeguarded
   b Suggest improvements in internal control
   c Plan Audit procedures
   d Express and opinion

7. A flow chart, made by the auditor, of an entity's Internal Control System is a graphic representation that depicts the auditor's.
   a Understanding of the system
   b Understanding of fraud risk factors
   c Documentation of assessment of control risk
   d The auditor and his audit assistants

8. Internal Control Questionnaire contains the questions need to be followed by the _____.
   a Employer
   b Employee
   c Auditor
   d Banker

9. The effectiveness of Internal Control System determines the extent of checking done by the _____
   a. Management
   b. Auditor
   c. Accountant
   d. None of the above

10. Proper segregation of duties reduces the opportunities in which a person would both
    a. establish controls and executes them
    b. records cash receipts and cash payments
    c. perpetuate errors and frauds and conceals them
    d. record the transaction in Journal and Ledger.

Answers 1.(c), 2.(d), 3.(a), 4.(c), 5.(c), 6.(c), 7.(b), 8.(b), 9.(b), 10.(c)

II. Very Short Answer Questions

1. What is Internal Control?
2. Define Internal Control
3. What is meant by Narrative approach?
4. What is Flow chart method of evaluation?
5. What is Internal control questionnaire?
6. What is Check list?

III. Short Answer Questions

1. State the objectives of internal control.
2. What are the kinds of internal control?

IV. Essay Type Questions

1. What are the advantages and disadvantages of internal control system?
2. Explain the principles of good Internal Control System.
3. Discuss the methods of evaluating Internal Control System.
4. Differentiate Internal control from Internal check.

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Chapter 3 INTERNAL AUDIT

Learning Objectives

- To understand the meaning, definition, objectives, benefits and drawbacks of internal audit.
- To identify the differences between internal check, internal control and internal audit.

POINTS TO RECALL

RECAP

In the previous lesson, we have studied meaning and importance of internal Control, advantages and disadvantages, Principles of good internal control system, kinds of Internal Control, Methods of evaluating internal control system and Difference between Internal Check and Internal Control.

3.1 Introduction

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Internal auditing is a catalyst for improving an organization's governance, risk management and management controls by providing insight and recommendations based on analysis and assessments of data and business processes with commitment to integrity and accountability.

Internal auditing provides value to governing bodies and senior management as an objective source of independent advice. The auditor's appointed to perform the internal audit activity are called as Internal auditor's.

3.2 Meaning

It is an audit conducted on a continuous basis by the employees of the organization appointed specially for this purpose, to review the operations and to offer suggestions to improve the efficiency. Audit which is conducted internally, i.e., within the organisation on behalf of the management is called as Internal Audit. The person who conducts such an audit is called as Internal Auditor.

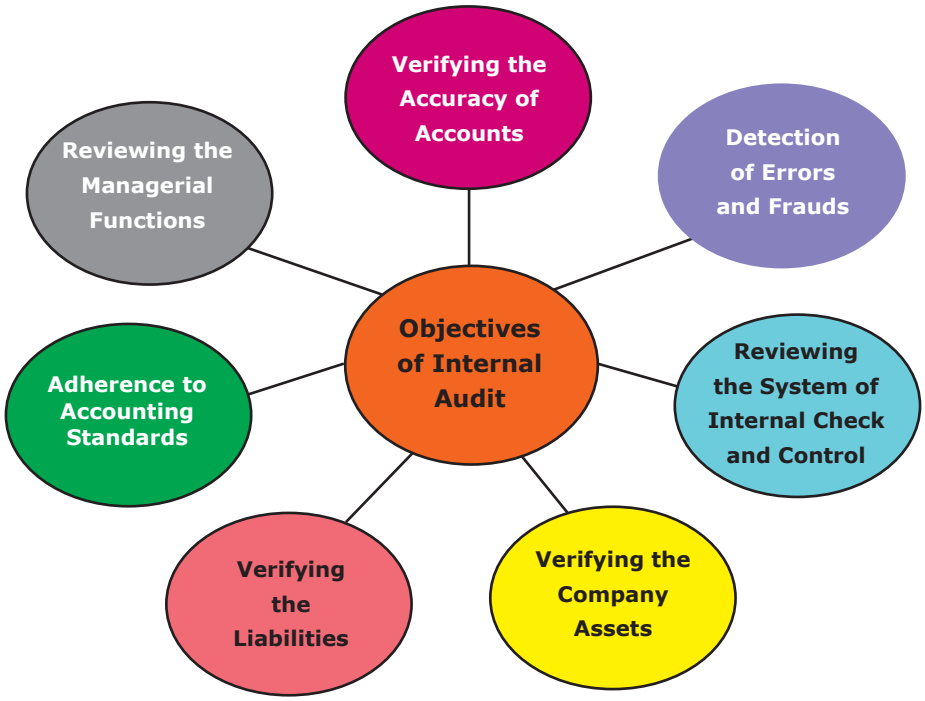
Internal auditor need not be a Chartered Accountant and need not possess the qualifications prescribed by the Companies Act. The appointment, scope of work, remuneration etc. of an internal auditor are determined by the management. The

internal auditor works as a part of the employee and is remunerated in the form of salary by the management. Internal auditor works on a continuous basis verifies the transactions that takes place in a company and after examination submits a report to the management called as Internal Audit Report.

3.3 Definition

- According to **Watter B. Meigs** "Internal auditing consists of a continuous critical review of financial and operating activities by a staff of auditors' function as full-time salaried employees"
- According to **The Institute of Internal Auditor's, USA**, "Internal auditing is an independent appraisal function established within an organization to examine and evaluate its activities as a service to the organization. It is a type of control which functions by measuring and evaluating the effectiveness of other types of control"

3.4 Objectives of Internal Audit



The objectives of Internal Audit or the duties of an Internal auditor are as follows:

1. **Verifying the Accuracy of Accounts:** The primary aim of internal audit is to verify the correctness and accuracy of the financial records and accounts that are being presented to the management.
2. **Detection of Errors and Frauds:** Internal auditor has to adopt suitable techniques and measures to detect errors and frauds, which are likely to be committed in the organization.
3. **Reviewing the system of Internal Check and Control System:** The auditor has to review and comment on the effective function of the internal check and internal control system within the organization. Any deviation in the function of the system should be reported to the

management and the auditor should initiate suitable recommendations.

4. **Verifying the Company Assets:** Internal auditor should verify the existence of the assets in the company and should verify that proper measures are taken to protect or maintain the assets. He should also verify that assets are purchased or sold or replaced only with the approval of an authorized person.
5. **Verifying the Liabilities:** The internal auditor has to verify that the liabilities incurred by the organization are legitimate and they are likely to be incurred for the organizational activities.
6. **Adherence to Accounting Standards:** Internal auditor has to ensure that the Accounting Standard practices are followed by the organization are strictly adhered.
7. **Reviewing the Managerial Functions:** Internal auditor has to review the managerial functions of an organization and has to report on them to the management.

3.5 Functions of Internal Audit

1. **Evaluating Accounting and Administrative Control:** Internal auditing ensures effective and efficient system of accounting control, standard costing, budgetary control and all other administrative control.
2. **Protection of Assets:** Internal auditing not only ensures proper accounting and custody of companies assets but also it is concerned with the protection of the assets. It reports to the management about the utilization of the asset and the adequacy of return from the investment.

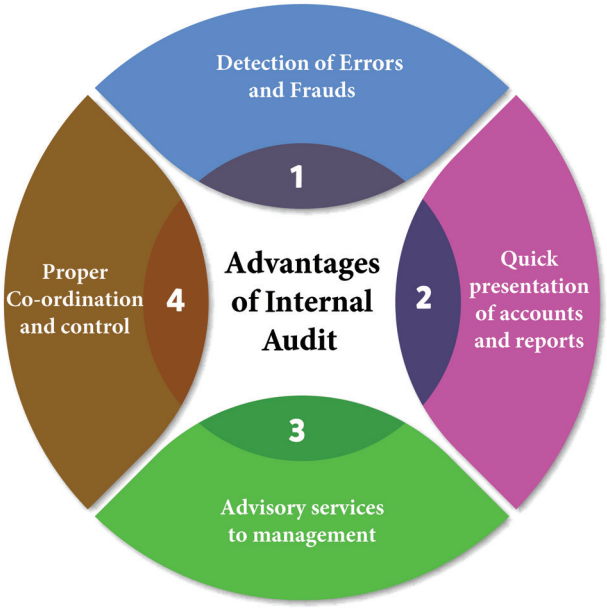


3. **Compliance with Established Policies and Procedures:** Internal auditing is concerned with reporting to the management about the compliance of the predetermined policies, procedures and standards of performance.
4. **Reliability and Validity of Reports:** Internal auditing ascertains the reliability of financial and operating reports prepared throughout the enterprise. It also provides assurance to the management of the validity of the reports and records. Internal auditing brings to light the inadequacies in the check and control system in operation to the management. Further, it provides advisory services to the management for the improvement of the system.

3.6 Advantages of Internal Audit

The advantages of conducting an Internal audit are as follows:

Detection of Errors and Frauds: Internal audit is a continuous and critical examination of books of accounts and records of the organization; hence errors and frauds can be easily detected and prevented.



2. **Quick Presentation of Accounts and Reports:** Transactions and postings in the books of accounts reviewed on a regular basis, which facilitates quick presentation of accounts and reports to the management. It also enables the external auditor to finalize the accounts quickly as the external auditor relies on the report submitted by the internal auditor.
3. **Advisory Services to Management:** Internal auditor who possess in depth knowledge of the business organization provides advisory services to the management like introduction of new product, improving the system of internal check and control to operations, etc.
4. **Proper Co-ordination and Control:** Internal audit coordinates the various operational or functional areas of business. It is the duty of the internal auditor to appraise and evaluate the efficiencies of the various control systems established in the organization. Hence, internal audit enables proper control and coordination in the organization.

3.7 Disadvantages of Internal Audit

1. **High Cost:** The cost of establishing and operating an internal audit in an organization is very expensive.
2. **Unsuitable for Small Organization:** Internal audit due to involvement of high cost is not suitable for small organizations.
3. **Unreliable Opinion:** Internal auditor's are employees of the organization and hence the report given by them may not be true and fair. Often, external auditor has reservations about the opinions expressed by the internal auditor.
4. **Ineffectiveness:** When the records of operations are not checked immediately after they are completed or when there is time lag between two audits, internal audit may become ineffective.
5. **Lack of Expertise:** Internal audit staff lacks the required skill and expertise as they are not professionally qualified chartered accountant.



3.8 Differences Between Internal Check and Internal Audit

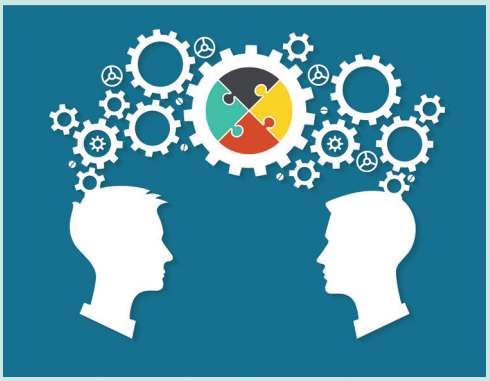
S.No.	Basis	Internal Check	Internal Audit
1.	Meaning	Internal check is an arrangement of work in such a way that another person automatically checks the work of one person.	Internal audit is an independent appraisal of the operations of the company.
2.	Object	The object of internal check is to prevent the occurrence of errors and frauds.	The object of internal audit is to detect errors and frauds.
3.	Scope of work	Internal check is considered as a device for doing the work.	Internal audit is a device for checking the work.
4.	Discovery of Errors and Frauds	In internal check, errors and frauds are discovered during the course of doing the work.	In internal audit, errors and frauds are discovered after the completion of the work.
5.	Commencement of work	Internal check is in operation during the course of transactions.	Internal audit commences only when accounting process is completed.
6.	Performance of work	In internal check, no new staff is appointed to perform the work.	In internal audit the work is performed by a separate group of persons specifically appointed for this purpose.

3.9 Differences Between Internal Control and Internal Audit

S.No.	Basis	Internal Control	Internal Audit
1.	Meaning	Internal control is an arrangement of duties allocated in such a way that the work of one employee is automatically checked by another.	Internal audit is an independent review of operations and records undertaken by the staff specially appointed for this purpose.
2.	Objective	The system of internal control is devised in such a way that errors and frauds are minimized.	In internal audit, errors and frauds already committed are discovered.

S.No.	Basis	Internal Control	Internal Audit
3.	Scope of work	In internal control, the work is allocated to different employees in such a way that the work of one person is independently checked by other.	In internal audit, the work of a clerk is checked by an internal auditor only after the former has completed his work.
4.	Work performance	In internal control, there is no separate staff engaged to carry out the system.	In internal audit, a separate staff is specially engaged for carrying out the work.
5.	Conduct	Internal control is a device for keeping a check on work.	Internal audit checks the work done in the light of policies and procedures as laid down by the management.

STUDENTS ACTIVITY



1. Prepare a flow chart for accounting your family expenditure based on monthly income.
2. Visit a nearby large scale industry and discuss with internal auditor's regarding their appointment and their scope of work.
3. Arrange for a guest lecture with an internal auditor of a company and discuss the control over accounts and reporting to the management.

SUMMARY

- **Internal Audit – Meaning:** Internal audit is an audit which is conducted on a continuous basis by the employees of the organization appointed specially for this purpose to review the operations and records of the organization and to offer suggestions to improve the efficiency.

- **Objects of Internal Audit:** The objects of internal audit are to check the accuracy of accounts, to review the internal control system, to protect the company assets, and to ensure that the company adheres to the accounting standards.
- **Advantages:** Internal audit helps in early detection of errors and frauds, quick presentation of accounts and reports, provides advisory services to management, benefits staff members and provides for proper co-ordination and control.
- **Disadvantages:** The drawbacks of internal audit are it involves high cost, unsuitable for small organization, lack of expertise, conflicts between internal audit staff and other staff.
- **Difference between Internal Check, Internal Control and Internal Audit:** Internal Check, Internal Control and Internal Audit are complementary to each other as both are the two parts of the whole system of internal control. There exists a difference between the two systems.

KEY TERMS

- Internal Audit – It is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

EVALUATION

I. Multiple Choice Questions:

1. The Internal Audit is conducted by _____
   a. Government Auditor
   b. External Auditor
   c. Internal Auditor
   d. Cost Auditor

2. The main objective of Internal Audit is _____
   a. Detection of errors and frauds
   b. Regular recording of business transactions
   c. Preparation of financial statement
   d. Preparation of Audit report

3. Internal Auditor is appointed by _____
   a. Board of directors
   b. The business concern
   c. Shareholders
   d. Government

4. The internal audit is carried at _____
   a. The end of the year
   b. Throughout the year
   c. Regular intervals
   d. After the accounts are closed

5. The objective of internal audit is _____
   a. To verify the accuracy of accounts
   b. To review the internal control system
   c. To detect errors and frauds
   d. All the above

6. Which ensures the effective and efficient system of accounting control
   a. Internal Audit
   b. Internal Control
   c. Internal Check
   d. Computerised Accounting

7. Which audit ensures the reporting to the management about compliance of policies and standards of performance
   a. Internal Audit
   b. Internal Control
   c. Internal Check
   d. Annual Audit

8. Which provides advisory services to the management for its improvement
   a. Internal Check
   b. Internal Audit
   c. Internal Control
   d. Audit Report

9. Internal Audit is not suitable for
   a. Big organizations
   b. Small organisations
   c. Private Companies
   d. Public Companies

10. Internal Audit is not suitable for small organisations because it is
    a. Costly
    b. Cheaper
    c. Done by employee of the concern
    d. None of the above

Answers 1.(c), 2.(a), 3.(b), 4.(b), 5.(d), 6.(a), 7.(a), 8.(b), 9.(b), 10.(a)

II. Very Short Answer Questions

1. What do you mean by Internal audit?
2. Define Internal Audit.
3. Who is an Internal Auditor?
4. How is an Internal auditor appointed?
5. Write a note on Internal Audit Report.

III. Short Answer Questions

1. Briefly explain the scope of Internal Audit.
2. What are the Advantages of Internal Audit?
3. What are the Disadvantages of Internal Audit?
4. Write a short note on Internal Audit.

IV. Essay Type Questions

1. Examine the advantages and disadvantages of internal Audit?
2. Explain the duties of an Internal Auditor.
3. Discuss the objectives of Internal Audit.
4. Differentiate Internal Check with Internal Audit.
5. Distinguish Internal Control with Internal Audit.

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Chapter 4 VERIFICATION AND VALUATION OF FIXED ASSETS

Learning Objectives

- To determine the meaning of verification and valuation of assets.
- To describe the procedure of verification and valuation of various fixed assets.
- To explain the procedure of verification and valuation of investments.

POINTS TO BE RECALL RECAP

The following points are to be recalled before learning Verification and Valuation of Fixed Assets:

- Meaning and Definition of Internal Audit.
- Objectives of Internal Audit.
- Advantages and Disadvantages of Internal Audit.
- Difference between Internal Check and Internal Audit.
- Difference between Internal Control and Internal Audit.

4.1 Verification

4.1.1 Meaning

Verification means the act of assuring the correctness of value of assets and liabilities in the organization. It refers to the examination of proof of title and their existence or confirmation of assets and liabilities on the date of Balance Sheet. It usually indicates verification of assets of any organization, which can be done by examination of values, ownership, existence, possession of any assets and also ensures that the assets are free from any charge. In simple words, verification means, 'proving the truth or confirmation'.

4.1.2 Definition

- **Spicer and Pegler** defines Verification as, "An inquiry into the value, ownership and title, existence and possession and the presence of any charge on the asset".
- **The Institute of Chartered Accountants of India (ICAI)** defines verification as, "It aims at establishing (a) existence, (b) ownership, (c) possession, (d) freedom from encumbrances, (e) proper recording, (f) proper valuation".

4.1.3 Objectives

The objectives of verification are as follows:

1. To show the correct value of assets and liabilities.
2. To know whether the Balance Sheet exhibits a true and fair view of the state of affairs of the business.
3. To find out the ownership, possession and title of the assets appearing in the Balance Sheet.
4. To find out whether assets are in existence.
5. To detect frauds and errors, if any while recording assets in the books of the concern.
6. To find out whether there is an adequate internal control regarding acquisition, utilization and disposal of assets.
7. To verify the arithmetic accuracy of the accounts.
8. To ensure that the assets have been properly recorded.

4.1.4 Auditor's Duty Regarding Verification

The auditor of a business is required to report in concrete terms that the Balance Sheet exhibits a true and fair view of the state of its affairs. In other words, he has to examine and ascertain the correctness of the money value of assets and liabilities appearing in the Balance Sheet and this examination is known as verification of assets and liabilities. Therefore, an auditor has to keep in mind the following points while verifying the assets:

- Ensuring the existence of assets.
- Acquiring the assets for business.
- Legal ownership and possession of the assets.
- Ensuring the proper valuation of assets.
- Ensuring that the assets are free from any charge.

4.2 Valuation

4.2.1 Meaning

Valuation means finding out correct value of the assets on a particular date. It is an act of determining the value of assets and critical examination of these values on the basis of normally accepted accounting standard. Valuation of assets is to be made by the authorized officer and the duty of auditor is to see whether they have been properly valued or not. For ensuring the proper valuation, auditor should obtain the certificates of professionals, approved values and other competent persons. Valuation is the primary duty of company officials. Auditor can rely upon the valuation of concerned officer but it must be clearly stated in the report because an auditor is not a technical person. Without valuation, verification of assets is not possible.

If the valuation of assets is not correct, both the financial statements such as Balance Sheet and Profit and Loss Account cannot be correct. Hence, the auditor must take utmost care while valuing the assets to show true and fair view of the state of affairs of the financial position of the concern.

4.2.2 Definition

➢ **J.R.Batliboi**, "A company's Balance Sheet is not drawn for the purpose of showing what the capital would be worth if the assets were realized and liabilities paid-off, but to show how the capital stands invested".

➢ **Joseph Lancaster**, "The valuation of assets is therefore an attempt to equitable distribution of the original outlay on the period of the assets usefulness".

4.2.3 Objectives of Valuation

1. To assess the correct financial position of the concern.
2. To enquire about the mode of investment of the capital of the concern.
3. To assess the goodwill of the concern.
4. To evaluate the differences in the value of the asset as on the date of purchase and on the date of Balance Sheet.

4.2.4 Methods Of Valuation

Valuation of various assets can be made by using different methods of valuation of fixed assets. Some of the major methods are as follows:

1. **Cost Price Method**

   In this method, valuation of assets is made on the basis of purchase price of the assets. This price refers to the price at which an asset is acquired plus expenses incurred in connection with the acquisition of an asset. It is a very simple method of valuing assets.

2. **Market Value Method**

   Valuation of assets can be made on the basis of market price of such assets. But if same nature of assets is not available in the market, it is very difficult to determine the value of such assets. So, there are two methods related to it. They are:

   i. **Replacement Value Method**

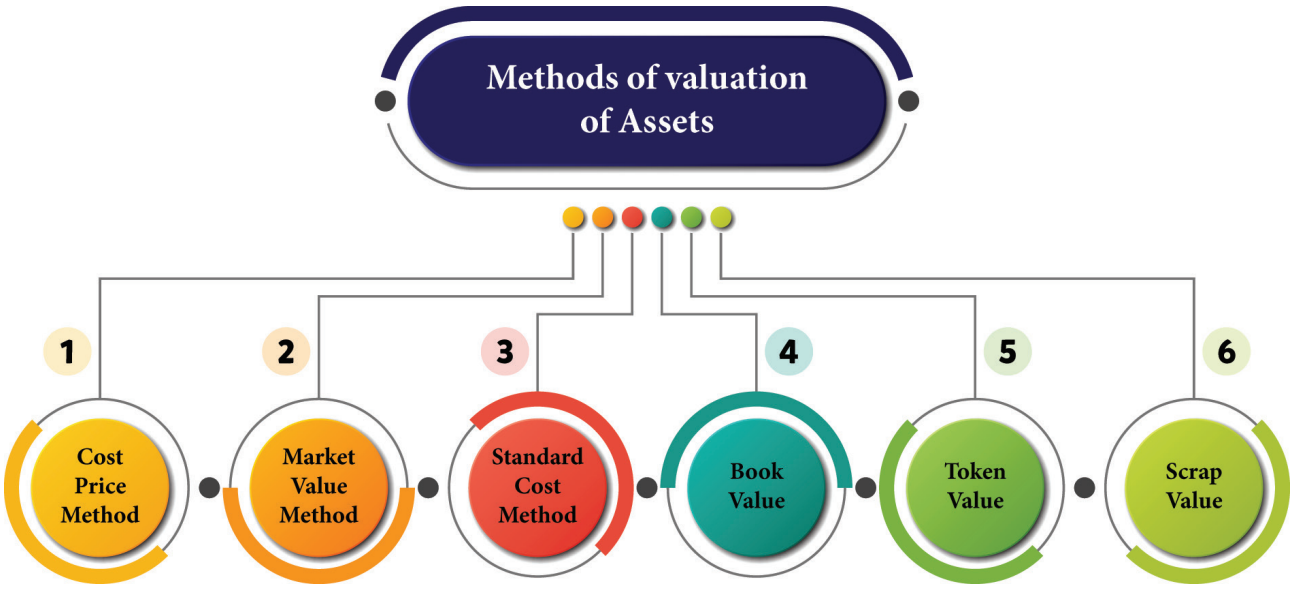
   It represents the value at which a given asset can be replaced. This method of valuation of assets can be done only in the case of replacement of the same asset.

   ii. **Net Realizable Value**

   It refers to the price at which such asset can be sold in the market. But expenditure incurred at the sale of such asset should be deducted.

3. **Standard Cost Method**

   Some of the business organizations fix the standard cost on the basis of their past experience. On the basis of standard cost, they make valuation of assets and present in the Balance Sheet.



4. **Book Value**

   This is the value at which an asset appears in the books of accounts. It is usually the cost less depreciation written off so far.

5. **Historical Value or Conventional Value or Token Value**

   It is equivalent to the cost less a reasonable amount of depreciation written off. No notice is taken of any fluctuation in the price of the assets. Reason for this is that these assets are acquired for use in the business and not for resale.

6. **Scrap Value**

   This method shows the value realized from sale of an asset as scrap. In other words, it refers to the value, which may be obtained from the assets if it is sold as scrap.

4.2.5 Auditor's Duty as Regards Valuation

In a legal case against Kingston Cotton Mills Co: It was held that "although it is no part of an Auditor's' duty to value the assets and liabilities, yet he must exercise reasonable skill and care in scrutinizing the basis of valuation. He should test the accuracy of the values put by the officers of the business. In any case, the auditor cannot guarantee the accuracy of the valuation".

It is not an auditor's duty to determine the values of various assets. It has been judicially held that he is not a valuer or a technical man to estimate the value of an asset. But he is definitely concerned with values set against the assets. He has to certify that the profit and loss account shows true profit or loss for the year and Balance Sheet shows a true and fair view of the state of affairs of the company at the close of the year. Therefore, he should exercise reasonable care and skill, analyse all the figures critically, inquire into the basis of valuation from the technical experts and satisfy himself that the different classes of assets have been valued in accordance with the generally accepted assumptions and accounting principles. If the market value of the assets are available i.e., in the case of share investment, then he should verify the market value with the stock exchange quotations. If there is any change in the mode of the valuation of an asset, he should seek proper explanation for it. If he is satisfied with the method of valuation of the assets, he is free from his liability.

4.2.6 Importance of Verification and Valuation of Assets

Assets and liabilities are very important aspects of every business concern. To

Importance of Verification and Valuation of Assets



show the exact financial position of the concern, one of the main work of an auditor is to verify the assets and liabilities. An auditor should satisfy himself about the actual existence of assets and liabilities appearing in the Balance Sheet is correct. If Balance Sheet incorporates incorrect assets, both Profit and Loss account and Balance Sheet will not present a true and fair view. So, verification and valuation of assets is very important for business and their importance is highlighted below.

1. **Showing the Actual Financial Position**

   Balance Sheet is prepared to show the actual financial position of a business. If proper valuation is not made, such Balance Sheet does not provide true and fair information. So, to provide information about the real financial position, verification and valuation of assets are essential.

2. **Ascertaining the Real Position of Profit or Loss:**

   Depreciation and other expenses on assets will be incorrect if proper valuation of assets is not made. So, to calculate the actual amount of profit or loss, proper valuation of assets and liabilities is necessary.

3. **Increase Goodwill**

   Proper valuation gives fair information about profitability and financial position of a business. So, people can get information which creates positive attitude towards company. The positive attitude of public can increase the goodwill of the concern.

4. **Assures Safe Investment to Shareholders**

   Verification and valuation provide actual information about assets and liabilities to the shareholders which assure safety of their investment.

5. **Easy for Sale**

   At the time of sale of the company, it can be sold at the price which is enlisted in the Balance Sheet, but the assets whose valuation is not made need valuation before selling the company.

6. **Easy to Get Loan**

   Companies disclose the Balance Sheet signed / examined by auditor for public knowledge which increases the trust on the company. Hence, companies can easily obtain loan from financial Institutions.

7. **Easy to Get Compensation**

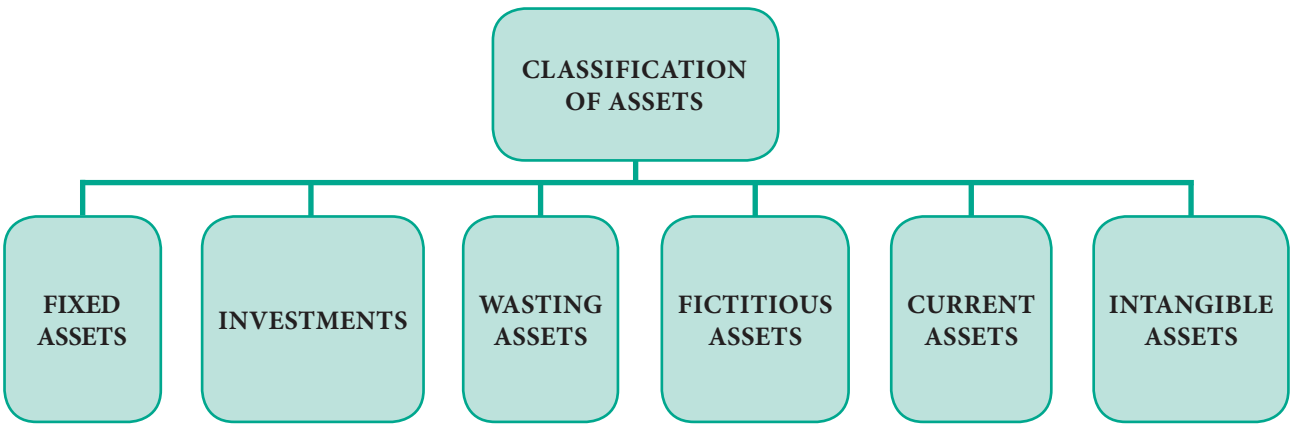
   Whenever the loss occurs due to any incident, insurance company provides compensation on the basis of valuation of assets. So, the company can easily get compensation.

4.2.7 Differences Between Verification and Valuation

Verification and valuation are interlinked and interdependent. It is a combined process by which the position of different assets appearing in the Balance Sheet is examined. However, the following are the differences between the two terms.

S. No.	Basis	Verification	Valuation
1.	Meaning	Verification establishes existence, ownership and acquisition of assets.	Valuation certifies correctness of the value of assets and liabilities.
2.	Evidence	The title deed, receipt for payments constitutes documentary evidence for verification.	The Certificate offered by the owner or directors or experts is the documentary evidence for valuation.
3.	Checking	The auditor is required to verify whether the value ascertained is fair one or not.	Critical examination of the value of assets and comparative analysis of different assets.
4.	View	Verification includes apart from valuation, the examination of ownership right, the existence of the asset in the business and its freeness from any sort of charge.	Testing the exact value of an asset on the basis of its utility.
5.	Work	Verification is a final work.	Valuation is the initial work and it need to be verified subsequently.
6.	Personnel	Verification is the work of auditor.	Valuation is the work of concerned authority or board(company).
7.	Time	Verification is made at the end of the year.	Valuation is made throughout the year.

4.3 Classification of Assets



1. **Fixed Assets**

   Fixed assets are utilized to create incomes.

2. **Investments**

   Investments are expected to fetch income from external agencies.

3. **Wasting assets**

   Wasting assets are of a fixed nature but depleted or consumed gradually.

4. **Fictitious Assets**

   Assets, which have no market value, are known as fictitious assets. They are

shown in the Balance Sheet on the asset side of it under the head "Miscellaneous Expenditure".

5. **Current Assets.**

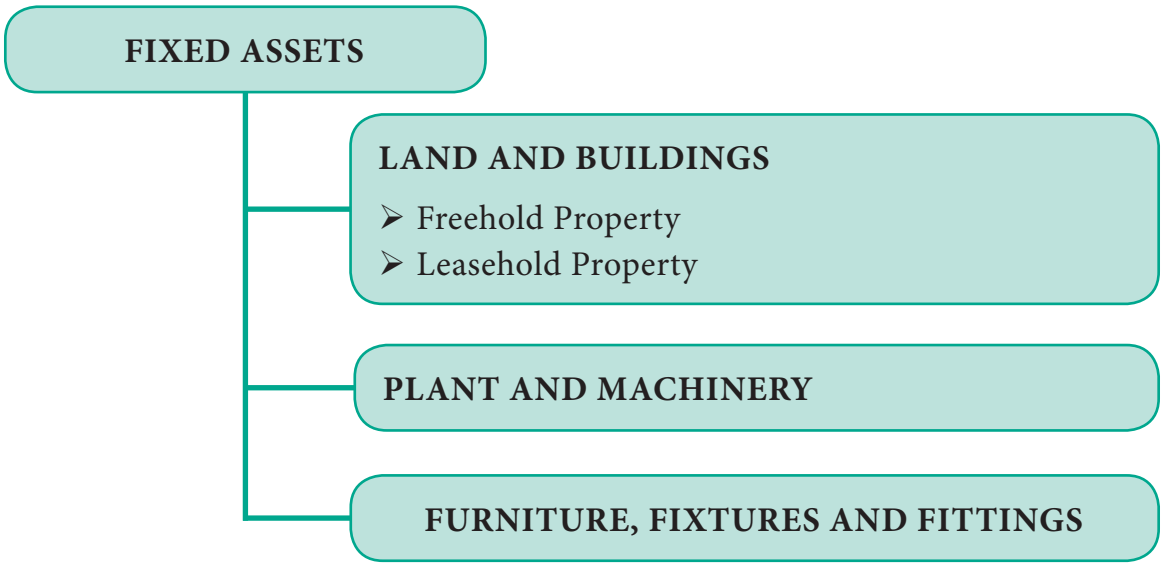
   Current assets are those which are utilized or converted into cash within one year period.

6. **Intangible Assets**

   They are long-term resources of an entity, but have no physical existence. They derive their value from intellectual or legal rights, and from the value they add to the other assets.

4.4 Verification and Valuation of Fixed Assets

Fixed assets are permanent in nature with which the business is carried on and which are held for earning income and not for re-sale in the ordinary course of the business. It is a long-term tangible property that a firm owns and uses in its operations to generate income. Fixed assets are not converted into cash or consumed within a year. They are also called as Capital Assets. Example: Land and Buildings, Plant and Machinery, Furniture etc. These assets are to be valued at cost price less total depreciation in their value by constant use. Additions by way of purchases and deletions by way of sales should be taken into account.The mode of valuation of different types of assets differs depending upon the nature of the business and the purpose for which the assets are held. Verification of Fixed Assets can be explained as follows:



4.4.1 Land and Buildings

Land means a long-term asset that refers to the cost of real property exclusive of the cost of any constructed assets on the property. The value of land has an appreciated value and is not subject to depreciation. A building is a non-current or long-term asset which shows the cost of a building (excluding the cost of the land). Buildings will be depreciated over their useful life of the asset.

- **Classification of Land and Buildings**

Land and Buildings can further be classified as –

A Freehold Property.

B Leasehold Property

(A) Freehold Property

A property which is free from hold (Possession/Rights) is called as Freehold property. This means that the property is free from the hold of anybody besides the owner who enjoys complete ownership.

Auditor's Duty

1. Where Freehold property has been purchased, the auditor should examine the title deeds e.g., Purchase Deed, Certificate of Registration, the Broker's note and Auctioneer's account etc., to verify the correct position.
2. When the property has been mortgaged, the auditor should obtain a certificate from the mortgagee regarding the possession of title deed and outstanding amount of loan.
3. When the property has been acquired in the current year, then the cost may be verified with the help of the bank passbook. He should vouch all the payments made in this connection.
4. He should see that the property account should be shown in the Balance Sheet at cost price including the legal and registration charges less depreciation up-to-date.
5. He should also see that whether a separate account for building and land on which it constructed is maintained. It is necessary because depreciation is provided for building and not for the land.

(B) Leasehold Property

Leasehold is an accounting term for an asset being leased. The asset is typically property such as a building or space in a building.

- The property which is on lease (rent).
- The property (plot/flat/villa/mall/factories) which is leased by the landlord for a certain period of time to the lessee (tenant /leaseholder/renter/occupant/dweller).
- The (tenants) have been given the right to use during that specified time by the landlord.
- The ownership of the property returns to the landlord when the lease comes to an end.

Comparison between Leasehold and Freehold property

Leasehold Property	Freehold Property
Land belongs to the State, leased to owner for a certain number of years	Land belongs to the owner
At the end of the lease period, owners must pay to extend the lease	Ownership is indefinite
Requires State consent (obtained at the land office) to transfer ownership	Does not require State consent to transfer ownership (except in certain specially earmarked properties)

Auditor's Duty

1. The auditor should verify this by inspecting the lease agreement or contract to find out value and duration. He should see that the terms and conditions of lease are properly complied with.
2. In case property has been mortgaged, the auditor should obtain a certificate from the mortgagee regarding the possession of title deed.
3. Where the leasehold property has been sub-let, the counter part of the tenant's agreement should also be examined.
4. The auditor should physically inspect the properties.
5. The auditor should also note that proper provision has been made for depreciation of lease problem and for any possible claims arising there under.

4.4.2 Plant and Machinery

A plant is an asset with a useful life of more than one year that is used in producing revenues in business operations. Plant is recorded at cost and depreciation is reported during their useful life.

Auditor's Duty

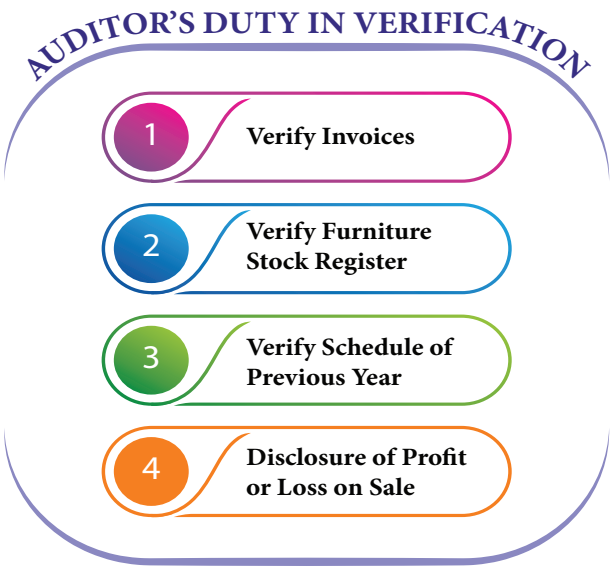
1. When the machines are purchased in the current accounting period, the invoices and the agreement with the vendors should be verified.
2. The auditor should ` examine the plant register in which particulars about the cost, records about sales, provision for depreciation, etc., are available.
3. He should prepare a list of each machine from the plant register and should get the list certified by the works manager as he is not a technical person and therefore he has to depend upon the advice of the Works Manager regarding their valuation, etc.
4. He should see that Plant and Machinery account is shown in the Balance Sheet at cost less depreciation after making proper adjustment for purchases and sales during the year under audit.
5. In case any plant and machinery has been scrapped, destroyed or sold, he should ascertain that the Profit or Loss arising thereon has been correctly determined.

4.4.3 Furniture, Fixtures and Fittings

They are items of movable equipment that are used to furnish an office. Examples are chairs, desks, shelves, book cases, filing and other similar items.

Auditor's Duty

1. **Verify Invoices:** When assets have been acquired during the current accounting period, the auditor should examine the purchase invoice of the dealers.
2. **Verify Furniture Stock Register:** He should verify Furniture Stock Register and ask the management to prepare an inventory to reconcile it with the stock register.
3. **Verify Schedule of Previous Year:** He should compare furniture schedule of previous year with that of current year to ascertain the existence, purchase or sale of asset during the year.
4. **Disclosure of Profit or Loss on Sale:** He should examine that any Profit or Loss on sale of furniture during the year is properly disclosed in books of accounts.



VALUATION OF FIXED ASSETS

1. **Valuation of Land:** Land which does not have depreciated value, is valued at cost price.
2. **Valuation of Other Fixed Assets:** Other fixed assets like Buildings, Plant, Machinery, Office Equipment, Furniture and Fixtures should be valued at Going concern value.
3. **Depreciation:** Auditor should ensure that adequate amount of depreciation has been provided, taking into account the working life and usage of the asset.
4. **Disclosure in Balance Sheet:** He should verify that Furniture, Fittings and Fixtures are disclosed in Balance Sheet at cost less depreciation.

Depreciation

The word depreciation has been derived from a Latin word 'Depretium'. The words 'De' means decline and 'pretium' means 'price'. Thus, the word 'Depretium' stands for decline in the value or price of an asset. The gradual diminution, loss or shrinkage in the utility value of an asset due to wear and tear in use, effluxion of time or obsolescence is called as depreciation

An auditor is not a valuer to determine the value of assets held by the company. He has to depend on the suggestions and advice given by professionals or experts in determining the value and estimated life of the asset. However, the following are the duties of an auditor in this regard.

1. **Verify Depreciation Rates:** The auditor should ensure that depreciation has been provided as per the rates prescribed by the Companies Act.
2. **Disclosure in Financial Statement:** He should ensure that adequate depreciation is charged and properly disclosed in the Profit and Loss Account and Balance Sheet.
3. **Compliance with Accounting Principles:** He should ensure that relevant accounting principles have been followed while providing for depreciation.
4. **Depreciation on Purchase or Sale:** When assets are purchased or sold during the year, auditor should ensure that depreciation is charged on pro-rata basis taking into account the date of purchase or sale and the accounting period.
5. **Certification from Experts:** In case the depreciation charged is more than the rates prescribed, he should examine whether same are based on professional and technical advice.
6. **Consistency:** Where difference rates are used for different assets, the same should be consistently applied over the years.
7. **Change in Method of Depreciation:** In case of a change in the method of accounting for depreciation it is recalculated from the date on which asset came into use and deficiency, if any, should be charged to Profit and Loss Account.
8. **Adequacy of Capital Employed:** Auditor should check whether the capital employed in the assets is being kept intact.

9. **Revaluation of Assets:** In case of revaluation of asset during the year he should ensure that depreciation is charged on revalued amounts.

10. **Procedure of Computation:** He should ensure that the procedure for calculating depreciation complies with the provisions of Companies Act and Income tax Act.

Auditor's duty with regards to Depreciation



4.5 Verification and Valuation of Investments

An investment is a monetary asset purchased with the idea that the asset will provide income in the future or will later be sold at a higher price for a profit. Investments include Government securities, shares, debentures, etc. When the number of investments is very large, the auditor should ask for a schedule of investments held by the client containing various particulars like name of the securities, date of purchase, nominal value, cost price, market price, etc., and examine the same. He should ensure that the investment asset has been shown separately in the Balance Sheet.

The auditor should verify the existence of investments by personal inspection. At the same time, he should also ensure that the investments are registered in the name of the client and they are free from any charge. He should rely on the relevant vouchers and certificates to do so.

If the securities are with the trustees on behalf of the concern, the auditor should examine the trust deed. In case they are under the safe custody of the banker then he should obtain the certificate from the banker and examine the same. If they are with the broker, he should examine the certificate received from the broker.

Having verified the securities, the auditor has to find out that the investments

are properly valued. Generally, investments are valued at cost price or market price whichever is lower. In case there is a temporary fall in the price of the shares, it should be ignored. But where such a fall is permanent, depreciation must be provided. Actually, the basis of valuations of investment will depend upon the purpose for which they are held. For instance, in case of Trust company, the sole purpose of which is to earn interest and dividend, then such investment must be treated as fixed asset. In such cases, even the permanent fall in their value should be ignored.

4.6 Verification and Valuation of Other Fixed Assets

Verification and valuation of other fixed nature assets are classified into two categories such as wasting assets and fictitious assets.

The wasting assets are also known as depleting assets and it has both physical and legal existence. The fictitious asset does not have market value but it has legal existence. The procedure for verification and valuation of both these assets are discussed below.

4.6.1 Wasting Asset

It is also known as depleting assets, wasting assets are of a fixed nature but depleted or consumed gradually. The process of earning income causes depletion or exhaustion in the value of the assets. Mines, Oil wells, Quarries are some of the examples of wasting assets.

There are differences between Fixed assets and Wasting assets.

1. The Fixed assets are replaceable, whereas wasting assets are irreplaceable after its useful life is over.
2. The value of fixed assets decreases due to normal wear and tear, i.e., depreciates with time and use or due to obsolescence while the value of wasting assets declines as a result of gradual exhaustion or reducing stock.

Auditor's Duty

The auditor should confirm in this regard, the value of the wasting assets in the Balance Sheet is reduced by the estimated amount of yearly depletion. In other words, a wasting asset appears in the Balance Sheet as its estimated diminished value.

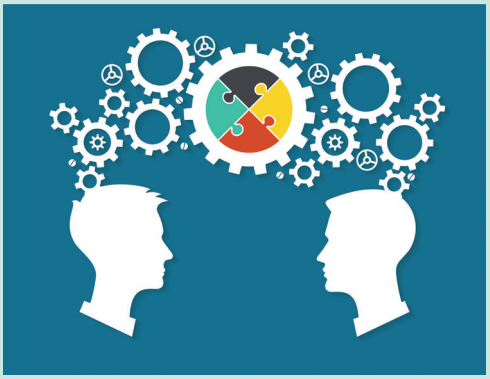
4.6.2 Fictitious Asset

The assets which do not have physical existence are called as Fictitious Asset. Examples of fictitious assets are - Preliminary Expenses incurred at the time of formation of the company, Development Expenses, Debenture Discount, Amount spent on special advertisement campaign, Brokerage, Underwriting Commission and Deferred Revenue Expenditure.

Auditor's Duties

1. Auditor should verify that expenses incurred are properly authorised by a responsible person.
2. He should ensure that fictitious assets are treated as deferred revenue expenditure. Deferred Revenue Expenditure means temporary capitalization of revenue expenditure with the ultimate object of spreading the amount over several future years to which benefit of such expenditure will be available.
3. The auditor should confirm that the asset is disclosed in the Balance Sheet at the amount of expenditure incurred less amount written off.

STUDENTS ACTIVITY



1. Visit the Auditor's office. Discuss and verify a Plant Register maintained in a company.
2. Ascertain various fixed assets of your educational institution and classify them. Prepare a chart.
3. Prepare a chart of Tangible Assets and Intangible assets of an industry and discuss various documents to be verified for valuation.
4. Arrange for a guest lecture of a Bank manager and discuss the operation of Mutual Funds

SUMMARY

The proper verification and accurate valuation of these assets is a paramount importance to show true and fair view of the financial position of the business concern. If there is incorrect valuation of fixed assets, it affects the company's life. The profits by improper valuation of fixed assets would falsify and distort the financial statements and affects the true financial position of the firm, by which the primary objective of auditing is "expression of independent opinion by the auditor on correctness and reliability of financial statements" cannot be achieved. Therefore, the auditor should take maximum care regarding verification and valuation of fixed assets.

KEY TERMS

- **Verification:** Verification is the act of assuming the correctness of value of assets and liabilities, title and their existence on the date of Balance Sheet in the organization.
- **Valuation:** Valuation is the act of determining the value of assets and critical examination of these values based on normally accepted accounting standard.
- **Fixed assets:** A fixed asset is a long-term tangible property that a firm owns and uses in its operations to generate income. Fixed assets are not easily converted into cash within a year.
- **Freehold property:** A freehold is the common ownership of real property, or land and all immovable structures attached to such land.

- **Leasehold property:** It is the method of owning property for fixed term possession of the property will be subject to the payment of an annual ground rent. When the lease expires, ownership of the property reverts to the freeholder.
- **Investments:** It is the process of investing money for profit.

EVALUATION

I. Multiple Choice questions:

1. Verification means _____.
   a. Proof of existence
   b. Exact value of assets
   c. Estimates
   d. Accuracy
2. Valuation means _____.
   a. Accretion of wealth
   b. Correctness of value
   c. Critical examination of the value
   d. All of these
3. Plant and Machinery falls under the category of:
   a. Current Assets
   b. Liquid Assets
   c. Intangible Assets
   d. Fixed Assets
4. Which one of the following is not an example of Fixed assets?
   a. Land & Buildings
   b. Inventory
   c. Plant & Machinery
   d. Furniture & Fixtures
5. Furniture and Fixtures are shown in Company's Balance Sheet under the head:
   a. Current Assets
   b. Fixed Assets
   c. Intangible Assets
   d. Fictitious Assets
6. The price in which a fixed asset can be sold in the market is known as:
   a. Replacement Value
   b. Realizable Value
   c. Scrap Value
   d. Book Value
7. The method of valuation of assets made on the basis of purchase price of the assets is called as:
   a. Cost Price Method
   b. Market Value Method
   c. Book Value Method
   d. Going Concern Value Method
8. Going concern value of assets is also known as:
   a. Historical Value
   b. Conventional Value

c. Token Value
d. All of these

9. Fixed assets should be valued at ____.
   a. Cost price less depreciation
   b. Annuity method
   c. Sinking fund method
   d. Cost Price

10. Freehold property is the _____.
   a. Immovable property
   b. Movable property
   c. Structures
   d. Intangible asset

11. Leasehold property means _____.
   a. Owner of holding
   b. Possession of property
   c. Owning for fixed term
   d. None of these

12. In the Balance Sheet, generally fixed assets must be shown at:
   a. Cost Price
   b. Market Price
   c. Cost or Market Price whichever is less
   d. Written Down Value

13. Verification of assets is generally made at:
   a. the beginning of the year
   b. half year end
   c. throughout the year
   d. the end of the year

Answers 1.(a), 2.(c), 3.(d), 4.(b), 5.(b), 6.(b), 7.(a), 8.(d), 9.(a), 10.(a) 11.(c) 12.(b) 13.(d)

II. Very Short Answer Questions

1. Define the term 'Verification'.
2. What is Valuation?
3. What do you mean by 'Fixed Assets'?
4. What is Freehold Property?
5. What is Leasehold Property?
6. What is the position of Auditor while verifying assets?
7. What is an Investment?
8. What is Fictitious Asset? Give examples.
9. What is Wasting asset? Give examples.
10. What is meant by Deferred Revenue Expenditure?

III. Short Answer Questions

1. Enumerate the various Fixed Assets.
2. State the differences between Freehold Property and Leasehold Property.
3. What is the position of Auditor while valuing assets?
4. Briefly mention the importance of Verification.
5. State the points to be examined by the auditor in verifying 'Plant and Machinery.
6 What is the general procedure for valuing the Land and Buildings?

7. State briefly, how the Furniture and Fixtures of a business are verified and valued for Balance Sheet purpose.
8. What is Verification? How would you verify (a) Fictitious assets; (b) Wasting assets.

IV. Essay type questions

1. What are the differences between Verification and Valuation? Elucidate
2. Explain the important factors considered for Verification and Valuation of Assets.
3. Discuss the various methods of Valuation of Assets.
4. Define Verification of Assets. Explain the objectives of Verification.
5. Examine the role of Auditor on Verification and Valuation of Fixed Assets.
6. Write an essay on the Valuation of Investments for Balance Sheet purpose and examine the Auditor's position in this respect.
7. Explain the auditor's duty with regards to depreciation.

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Chapter 5 VERIFICATION AND VALUATION OF CURRENT AND INTANGIBLE ASSETS

Learning Objectives

- To understand the meaning, definition and classification of Current Assets and Intangible Assets.
- To know the procedure of Verification and Valuation of Individual Current Assets.
- To determine the procedure of Verification and Valuation of Individual Intangible assets.

POINTS TO RECALL

RECAP

The following points are to be recalled before learning Verification and Valuation of Current Assets and Intangible Assets:

- Meaning and Differences between Verification and Valuation.
- Meaning and Various Categories of Fixed assets.
- Procedure of Verification and Valuation of Individual Fixed assets: Land, Buildings, Plant & Machinery, Furniture and Fixtures.
- Procedure of Verification and Valuation of Investments.
- Procedure of Verification and Valuation of Wasting and Fictitious Assets.

5.1 Introduction

This chapter provides an understanding about the various classifications of current assets and intangible assets. It also gives practical knowledge related to procedure of verification and valuation of current assets and intangible assets. This chapter also brings about the importance of generally accepted principles of accounting as determined by law, professiona pronouncements and prevailing practices for valuation and verification of current assets and intangible assets. It is very much helpful to show true and fair view of the financial position of the business enterprises.

5.2 Verification and Valuation of Current Assets

5.2.1 Meaning and Definition of Current Assets

Operating assets that are used in the business and which can be converted into cash during a short duration are called 'Current Assets'.

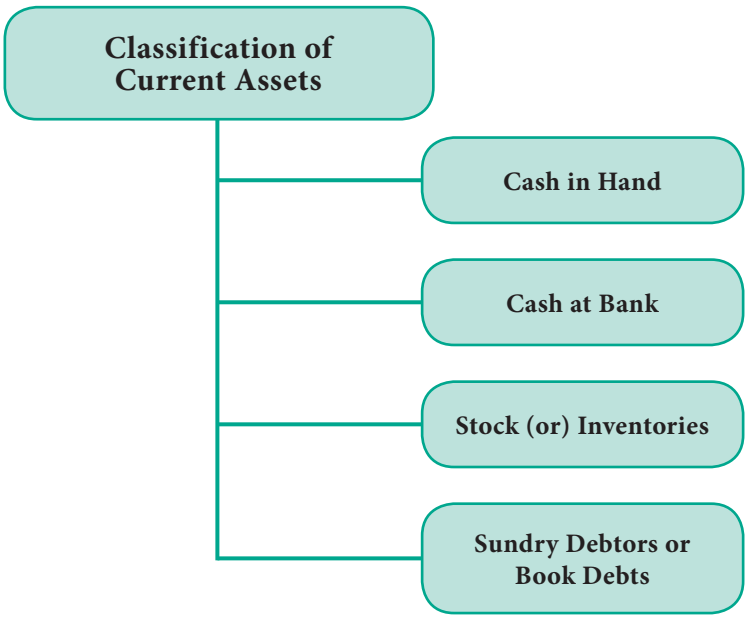
Current assets includes cash in hand, cash at bank, short-term marketable securities, short-term investments, bills receivables, sundry debtors, inventories and prepaid expenses.

Current Asset is defined -

- **Collins Dictionary:** Current assets are assets which a company has and which can be converted into cash within one year.

5.2.2 Classification of Current Assets

They are assets tangible with physical form. Based on their nature, currents assets are classified into following categories as: (1) Cash in hand (2) Cash at Bank (3) Stock or Inventories and (4) Book Debts or Sundry Debtors.



5.2.3 Verification and Valuation of Individual Current Assets

Verification and valuation of current assets state that the Balance Sheet shows true and fair view of the financial position of business enterprise. The auditor must satisfy himself that various current assets disclosed in the Balance sheet have been valued according to the Generally Accepted Principles of Accounting (GAPA).

1. Cash in Hand

The main cash and petty cash in hand are to be physically verified at the closing hours on the last day of the financial year. The auditor has to be very careful while verifying cash-in-hand. Defalcation or embezzlement of cash has become a very common technique of committing fraud. In this regard, the auditor may conduct a surprise verification of cash at any time during the course of audit. Therefore, while verifying cash, the auditor should ensure the following:

1. That the cashier is present at the time of verification.
2. That the temporary advances and payments on suspense accounts are excluded.
3. Cash-in-hand to be counted at one sitting and compare it with the cashbook balance. Simultaneously, a

statement is prepared with details of denominations, number of currency notes and coins. Both the cashier and audit staff must sign this statement. The copy of this statement is handed over to the cashier and the auditor may retain the original statement for future reference purpose. If in case of non-agreement of cash balance, the auditor should demand explanation from respective Cashier or Accountant for non-agreement of physical cash balance and balance as per book.

4. Also, count the petty cash book, stamps in hand and IOU's (I Owe You) slips for temporary advances made to the employees. If any discrepancy, he should get a certificate to that effect from the Accountant.
5. As far as cash-in-transit is concerned, the auditor should verify this with the help of proper documentary evidences and correspondences.
6. Verification of cash at the end of the year to be carried out or by way of surprise check at any time during the year. The latter will enable the auditor to detect the embezzlement if any.
7. The practice of keeping large balance of cash on hand is not a sound practice and should be discouraged from the viewpoint of Internal control.
8. To prevent difficulties of physically counting the cash, auditor should ask the client to deposit the entire cash balance on Balance Sheet date with a bank.
9. As per the guidelines of Institute of Chartered Accountants of India, the auditor should see whether duties are segregated among different persons to authorise cash transactions.
10. He should ensure that bank reconciliation is prepared periodically.

2. Cash at Bank

For the purpose of verification and valuation of cash at bank, the auditor should take the following steps:

1. Compare the balances as shown in the passbook with that shown in the bank column of the cashbook.
2. Bank Reconciliation Statement is very helpful in detecting various types of frauds. Therefore, prepare a Bank Reconciliation Statement as on the last day of the accounting year for ascertaining the current position of the cheques drawn by the company but not yet presented for payment or the cheques deposited by the concern but not yet cleared.
3. The auditor shall also carefully verify the post-dated cheques issued by the organisation before the end of the year and ensure that such cheques are not taken into account for the year under audit.
4. Examine that cheques issued for more than three months are treated as unpaid and the relative entries are reversed.
5. Obtain a Certificate Of Balance in client's account as on the Balance Sheet date from the bankers.
6. When the organisation maintains accounts with more than one bank, the auditor should verify all the bank accounts individually.
7. Auditor should obtain separate certificates from the bank in respect of Fixed Deposit Account, Current Account, Savings Bank Account etc.

8. Scrutinise the fixed deposit receipts in respect of their date of issue, amount, rates of interest, date of maturity etc., and get interest accrued on deposits during the year duly adjusted.
9. If any charge created on the deposits or if the deposits made under any legal requirement, the auditor shall ensure that the fact is disclosed in the Balance Sheet.
10. Sometimes, due to legal restrictions one or more of the bank accounts of the organisation may be blocked. In such a case, the auditor shall ensure that the fact is disclosed in the Balance Sheet.

3. Stock

Stock-in-trade or Inventories is the life-blood of a business. Therefore, value of stock-in-trade has to be properly determined for ascertaining profit or loss for the year and also to disclose a true and fair financial position of the concern. Inventories or Stock-in-trade normally includes the following:

- **Raw-Materials:** Raw materials form a major input into the production. They are required to carry out production activities. For example, steel, copper, rubber, cotton, wool, timber, lime stone, coal etc.
- **Work-in-Progress:** The work in progress is that stage of stocks which are in between raw materials and finished goods. It means the total value of unfinished production at the end of each financial period. It is in the form of materials which have absorbed varying amounts of labour and other overheads to reach the manufacturing stage at the time of counting of stock of Work-in-Progress. Work-in-progress should be shown in Balance Sheet separately and not as stock-in-trade.
- **Semi-Finished Goods:** Goods in a semi-finished condition on the date of Balance Sheet should be valued at cost of raw materials plus a reasonable proportion of factory overheads or production overheads. The auditor should get a certificate from production manager about the portion of overheads related to semi-finished goods. He should also examine the methods of absorption of overheads as a percentage of raw materials, labour and volume of production for fair allocation.
- **Finished Goods:** These are the goods, which are ready for the consumers. The stock of finished goods provides a buffer between the production and the market. If there is purchase of finished goods for resale, their valuation should be at purchase price and a reasonable proportion of direct expenses incurred on them, such as freight, duty, taxes etc., Whatever the method of valuation is adopted, the auditor must confirm that valuation of finished goods should never be at a rate higher than market price of identical goods in the market.
- **Consumable Stores and Spare Parts:** 'Spare' as the name suggests, refers to additional or extra to what is required for ordinary use. That purely means an item kept as standby, in case another item of the same type is lost, broken, or worn out. These are purchased for reducing the idle time of machineries and other auxiliary processes in case

of sudden breakdowns or any other contingencies. The auditor should confirm the adequacy of spare parts according to plant capacity to reduce idle time by repairing the breakdown of machineries immediately, thereby increasing the production efficiency of concern. It is very helpful to reduce the idle time wages and increase the profitability position of the company.

- **Loose Tools:** These are part of current assets and will be typically found on any Balance Sheet that may be produced for the business. There is another definition of what qualifies as current assets and this is expected to be used within the next 12 months. In the context of verification of loose tools, the auditor should obtain a list of loose tools duly authorised by a responsible officer and examine the same. Revaluation of loose tools is the most appropriate method of valuation. The difference between the cost price and the current price should be treated as depreciation or loss to be charged to the Profit and Loss account.

Auditor's Duty in Verification

1. **Evaluation of Accounting and Internal Control System:** The auditor should study and evaluate the accounting system and internal controls relating to inventories. This would facilitate him in determining the nature, timing and extent of substantive procedures to be carried out by him. The auditor should review the following aspects of internal controls over stock–in-trade.
    - **Custody**: There must be provision of adequate controls to guard the stock from loss through pilferage, exposure to weather and other hazards. The storage of various items of inventories should be sound enough to protect them against damage, deterioration, etc.
    - **Records:** There should be adequate records of all stock movements, periodically reconciled with accounts and costing records.
    - **Authorization:** All stock movements should be properly authorized. Authorities for giving purchase orders and receipts of goods should be clearly laid down. Issues from stores should be made only against proper requisition notes approved by authorized managers.
    - **Insurance:** Different items of inventory should be adequately insured against fire, theft, etc. Insurance Premium should be paid in time and insurance policies should be kept in proper custody.
    - **Slow-Moving Stock:** There should be a regular review to identify and take action to get rid of slow-moving, obsolete or defective stock.
2. **Examine Existence of Stock:** Auditor should verify the existence of stock by exercising physical stock verification as on the date of Balance Sheet. While undertaking physical stock taking or verification, the following points should be borne in mind:
    - Ensuring that staffs involved are both knowledgeable about the stock and independent of the day-to-day handling or recording of the stock.
    - Issue of written stock taking instructions regarding counting procedures and clearly defining the responsibilities of all staff involved.

- Computing and checking calculations and additions on stock sheets.
- Continuous or periodic agreement of physical checks with records, and all material differences investigated.

3. **Verify Stock Records**: He should ensure that stock records are properly maintained and must verify receipts and issues of materials. He must also verify that Inspection Reports and Stock Sheets are authorised by a responsible person.

Auditor's Duty in Valuation

Stock-in-trade is a Current Asset and the auditor should ensure that stock-in-trade is valued at cost price or market price whichever is lower. The Institute of Chartered Accountants of India Accounting Standards - 2 (AS 2) "Valuation of Inventories" states that, stock of material is valued at cost or market price (Net Realizable Value) whichever is lower on the date of Balance Sheet.

4. Book Debts (or) Sundry Debtors

Auditors duty in Verification

1. **Verify ledger accounts:** The auditor should verify the ledger accounts and whether the discount allowed on debtors.
2. **Compare ledger balances:** He should compare the balance of sales ledger with the debtors ledger,sales book,sales returs and cash book.
3. **Provision for discount on debtors:**If any bill accepted by debtors and discount is made, the auditor must ensure that the necessary provision is made.
4. **Provision for bad and doubtful debts:** The auditor should check that adequate provision for bad and doubtful debts has been made in this balance sheet.
5. **Verify debtors balances:** He should carefully see that the book debts balances do not include goods out on "sale or return basis".
6. **Confirm balance :** The auditor instruct the claim to send confirmation letters to the debtors at the end of the year.the letter confirming the balance from the debtors should be directly recived by the auditor.

Valuation of Book Debts

1. **Valuation :** Debtors should be valued at reliazable value
2. **Provision for bad and doubtful debts:** auditor should satisfy himself that adequate provision has been created for bad debts and for doubtful debts separately.he should also obtain a certificate from responsible person certifying the amount of bad debts and doubtful debts.
3. **Disclosure in balance sheet :** The auditor should ensure that the value of good datas alone is disclosed in the assets side of the balance sheet under the head current assets.the value of good debtors is the amount of total debtors less provision for bad and doubtful debts.
4. **Classification of bad debts :** the auditor should ensure that debtors who cannot be traced or who is adjudged

as insolvent should be treated as bad debts.

5. **Classification of doubtful debts:** Debtors who make irregular payments after reminders and debts after the expiry of credit period,should be categorized as doubtdful debts.

5.3 Verification and Valuation of Intangible Assets

5.3.1 Meaning and Definition of Intangible Assets

Intangible assets are those assets, which do not have their form or physical existence. However, they are part of business and appear in the Balance Sheet, like any other assets, by virtue of their utility to the business. Goodwill, Patent Rights, Copyrights, Trademarks are some of the examples of intangible assets. The cost of intangible fixed assets are amortized over their useful life.

Intangible asset is defined by International Accounting Standards Board as, "an identifiable non-monetary asset without physical substance".

5.3.2 Classifications of Intangible Assets

Intangible assets do not have physical existence but it has legally existed with documentary evidence. It is broadly classified into two categories such as limited life intangibles and unlimited life intangibles. Limited life intangible assets include Goodwill, Patents and Copyrights. On the other hand, Trademarks is classified as unlimited life intangibles.

5.3.3 Verification and Valuation of Intangible Assets

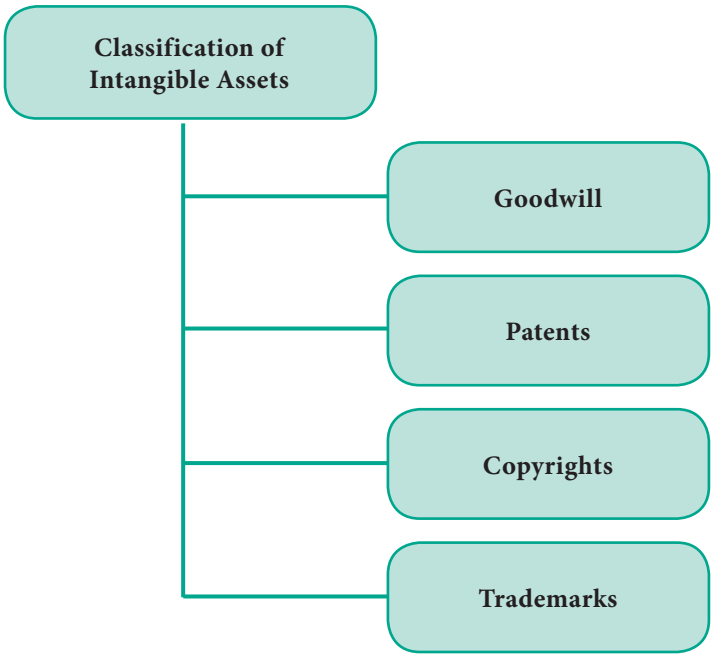
The Procedure of Verification and Valuation of individual Intangible Assets are explained in the following paragraphs.

1. Goodwill

Goodwill is an intangible concealed asset, which represents the earning capacity of the business. As a rule, this does not appear in the Balance Sheet except when it is actually purchased, or in case of a partnership when it is brought into the books of accounts in case of change in the partnership deed. It arises because of several reasons such as special popularity of a particular place, attractiveness of the goods dealt in, the popularity of the firm and reputation of the owners of the business enterprise etc. It also refers to the monetary value of reputation of a business. Since, goodwill is not tangible it does not call for physical verification. The Goodwill is shown in company's Balance Sheet under the head Fixed Assets. Goodwill is used for attracting the customers. It attracts more customers and therefore, increases profits in future. It is an intangible real asset and not a fictitious asset. Goodwill is a valuable asset if the concern is profitable. On the other hand, it is valueless if the concern is in loss. Goodwill is to be verified and valued in the following manner.

AUDITOR'S DUTY IN VERIFICATION

1. Ascertain that the company is justified in creating goodwill in its books of accounts.



2. Where goodwill is generated in own business, the auditors should verify the particulars of expenses debited to Goodwill account.
3. In a partnership firm, the partnership deed should be verified by the auditor. He may also verify the changes made in the goodwill account from time to time based on the provisions made in the partnership deed.

AUDITOR'S DUTY IN VALUATION

1. Auditor should confirm himself that goodwill has not been shown in excess of its cost price.
2. Examine that the sum paid for goodwill does not exceed the difference between the total purchase consideration and the value of net tangible assets acquired.
3. He should see that it is valued as per method stated in partnership deed, purchase or agreement.
4. Goodwill may appear in the Balance Sheet at cost less amounts written off.
5. The amortization period and method of amortization should be reviewed at the end of each financial year.
6. An intangible asset should be eliminated in the books of accounts when no future economic benefits are expected from its use.

2. Patents

According to the Patent Act 1970, "A patent is an official document that guarantees to the inventor an exclusive right for a term of years to make, use or sell his invention".

AUDITOR'S DUTY IN VERIFICATION

In the process of verfication and valuation of Patent right the auditor must bear in his mind the following important points.

1. The auditor should examine the actual certificates issued by the patent office in respect of patents granted.
2. The auditor should ensure that patents are registered in the name of the client.
3. Obtain a list showing the description of each patent, registered number,

date, patented item, renewal date and number of years to run etc., concerning each patent.

4. Where patents have been purchased from an individual, auditor should inspect the agreement for the purchase and note the age of various patents.
5. Auditor should carefully verify that none of the patent rights have lapsed. Care should be taken when the lapsed patent are written off.
6. The original fees paid to purchase the patent right should be capitalised and should be debited to patent account while the subsequent renewal fee should be treated as a revenue expenditure.

AUDITOR'S DUTY IN VALUATION

1. Patents must be valued at cost less depreciation. There may be three causes of depreciation, viz: (a) lapse of time, (b) obsolescence, and (c) the patented article going out of fashion.
2. At time, a patent might become valueless due to obsolescence or failure to create a demand of the patented article. In such cases, the auditor should see that its value is written off before the expiry of the period covered by the patent.

3. Copyrights

Copyright refers to the exclusive right to produce or re-produce or authorise for doing certain acts specified in the Copyright Act, 1957 in respect of some kind of literary, dramatic, musical, computer programme, cinematograph film, sound recording or artistic works. It is the legal right given to an author, which prohibits the publication of the work by other persons. The effects of such copyright is that the author or the publisher gets an exclusive right to publish or reproduce the work for a certain number of years or even it may be for the life time of the author or the publisher as the case may be. The verification of this item will be on the lines similar to those described under patents.

AUDITOR'S DUTY IN VERIFICATION

The auditor should also inspect the original agreement between the author and the publisher. Where there is purchase of Copyright, verification of price paid should be from written agreement.

AUDITOR'S DUTY IN VALUATION

1. Copyright must be revalued at the date of the Balance Sheet.
2. Copyright that has become obsolete should not be valued and shown in the Balance Sheet. Hence, it is clear that copyright is to be valued only based on profit earning capacity.
3. Auditor should ensure that copyrights, which have expired, are written off.
4. In the Balance Sheet, generally copyrights must be shown at cost less amounts written off from time to time.

4. Trademarks

A registered and legalised brand name or brand mark is what is known as Trade Mark. It provides a better protection for goods and services and for the prevention of use of fraudulent marks. A trademark is a distinctive mark attached to goods offered for sale in the market, to distinguish the same from similar goods and to identify them with a particular trader, or with his successor as owner of the particular

business. Trade marks are protected by Intellectual Property Rights (IPR)







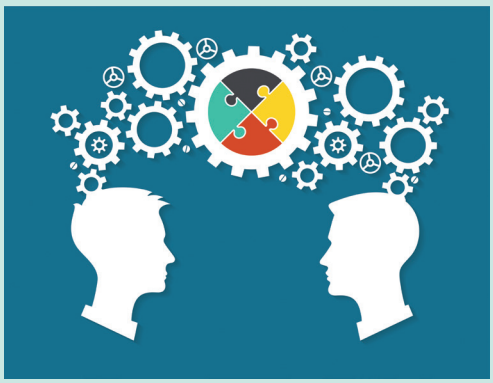
AUDITOR'S DUTY IN VERIFICATION

1. Examine the certificates of registration issued by the Registrar.
2. Examine the last renewal fee receipt to ensure that the trademark has not been allowed to lapse. Verify that renewal fee has been charged to revenue expenditure.

AUDITOR'S DUTY IN VALUATION

1. Trademarks can be acquired like copyrights. The auditor should vouch the expenditure incurred in connection with their acquisition like registration fees, payments made to designer and artist, expenditure on account of salaries and overheads, attributable to the time spent in developing designs of trademark should be capitalised for arriving exact value of trademarks.
2. If the trademark has been acquired by assignment, vouch the amount paid for that with the assignment should be capitalised.
3. To judge the accurate value of trademarks the auditor should carefully note that proper distinction is made between capital and revenue expenditure. The incorrect allocation, which means the items of revenue expenditure are shown as capital expenditure or vice versa would falsify and distort the financial statements.

STUDENTS ACTIVITY



1. Visit an audit office and discuss with the auditor about stock verification.
2. Visit a centralized store of an industrial undertaking and have a discussion with the Auditor and Storekeeper about the stock verification.
3. Visit an Audit office and discuss with the auditor about valuation of Debtors.
4. Arrange a meeting for the students along with an auditor for surprise visit to industrial units for checking of cash balance and cash at bank.
5. Have a group discussion on various aspects of valuation and verification on assets and liabilities.

SUMMARY

The present chapter discussed about verification and valuation of current assets and intangible assets. The proper verification and accurate valuation of these assets is a paramount importance to show true and fair view of the financial position of the business enterprises. If the correct valuation of asset is not done as per generally accepted accounting principles, then it affects the company's life. The reason to overstate or understate the profits and financial position of the business would falsify and distort the financial statements and affects the true financial position of the company. Then the primary objective of auditing "expression of independent opinion by the auditor on correctness and reliability of financial statements" cannot be achieved. Therefore, the auditor should take maximum care regarding verification and valuation of all type of assets.

KEY TERMS

- **Current Assets:** Current assets are those assets which can be easily converted into cash within a shorter period of time, normally not exceeding one year.
- **Verification of Cash:** It refers count the cash in one sitting and compared it with the cashbook balance.
- **Verification of Cash at Bank:** It means comparison of the balances between Pass book and Bank column of the Cash book.
- **Examination of Stock Taking:** Stock taking refers to the physical count of stock-in-trade.
- **Loose Tools:** These are part of current assets and will be typically found on any Balance Sheet that may be produced for the business.
- **Stores and Spare Parts:** It refers to additional or extra items kept ready for ordinary use, in case another item of the same type is lost, broken or worn out.
- **Raw Materials:** Raw materials form a major input into the production. They are required to carry out production. Example: Steel, copper, rubber, cotton, wool, timber, lime stone, coal etc.
- **Work-in-Progress:** The Work-in-Progress is that stage of stock which are in between raw materials and finished goods. It means the total value of unfinished production at the end of each financial period.
- **Finished Goods:** These are the goods which are ready for the consumers. The stock of finished goods provides a buffer between the production and the market.
- **Sundry Debtors:** It implies the amount receivable from customers. It falls under the category of current assets. It is also known as Book Debts. According to Companies Act 2013, the book debts of a company should be shown as three categories such as Good, Doubtful and Bad.

- **Intangible Asset:** An intangible asset is an asset, other than a financial asset without physical form.
- **Goodwill:** It is an intangible asset which represents the earning capacity of the business.
- **Patents:** A patent is an official document that guarantees to the inventor an exclusive right for a term of years to make, use or sell his invention.
- **Copy Right:** It is an exclusive right to produce or re-produce or authorise the doing of certain acts specified in the Copyright Act 1957.
- **Trade Marks:** A trademark is a distinctive mark attached to goods offered for sale in the market, to distinguish the same from similar goods and to identify them with a particular trader.

EVALUATION

OLTQ8

I. Multiple Choice Questions:

1. Which one of the following is not an example of intangible assets?
   a. Patents & Trademarks
   b. Land
   c. Slogan
   d. Copy right
2. Inventory of a manufacturing enterprise includes:
   a. Raw materials
   b. Work-in-Progress
   c. Finished Stock
   d. All of these
3. Book Debts should be verified by
   a. Balance sheet
   b. Amount received from Debtors
   c. Debtors Schedule
   d. Certificate from Manager
4. Costs of intangible fixed assets are _____ over their useful life.
   a. Depreciated
   b. Charged
   c. Amortized
   d. Allocated
5. An example of Intangible asset is
   a. Furniture & Fixtures
   b. Loose Tools
   c. Store and Spare Parts
   d. Patents, Copyrights & Goodwill
6. Goodwill is a _____.
   a. Intangible Asset
   b. Current Asset
   c. Fixed Asset
   d. Fictitious Asset

7. Which one of the following does not call for physical verification?
   a. Plant
   b. Goodwill
   c. Loose Tools
   d. Stamp

8. Goodwill is shown in Company's Balance Sheet under the head _____.
   a. Investments
   b. Fixed Assets
   c. Current Assets
   d. Miscellaneous Expenses

9. The original fees paid to purchase the Patent right should be treated as _____.
   a. Revenue Expenditure
   b. Deferred Revenue Expenditure
   c. Capital Expenditure
   d. None of these

10. The renewal fee of Patent right should be treated as a _____.
    a. Revenue Expenditure
    b. Deferred Revenue Expenditure
    c. Capital Expenditure
    d. None of these

11. Which one of the following is the reason for charging depreciation on Patent rights?
    a. Lapse of time
    b. Obsolescence
    c. Out of fashion
    d. All of these

12. Patents and Copyrights fall under the category of _____.
    a. Current Assets
    b. Liquid Assets
    c. Intangible Assets
    d. Fixed Assets

13. Some kind of literary, dramatic, musical, cinematograph film, sound recording or artistic works etc are coming under which type of intangible asset?
    a. Goodwill
    b. Patent rights
    c. Trade Marks
    d. Copyrights

14. A registered and legalized brand name or brand mark is what is known as _____.
    a. Brand Name
    b. Trade Name
    c. Trade Mark
    d. Brand Mark

15. Stores and Spare Parts are shown in Company's Balance Sheet under the head _____.
    a. Current Assets
    b. Fixed Assets
    c. Intangible Assets
    d. Fictitious Assets

Answers 1.(b), 2.(d), 3.(c), 4.(c), 5.(d), 6.(a), 7.(b) 8.(b) 9.(c) 10.(a) 11.(d) 12.(c) 13.(d) 14.(c) 15.(a)

II. Very Short Answer Questions

1. How would you classify Current assets?
2. What is Current asset? Give example.
3. What is the general procedure for Physical stock taking?
4. What is an Intangible asset? Give example.
5. How should goodwill be valued?
6. How would you verify Copyrights?
7. Write short notes on the following:(i). Verification of Cash-in-hand.(ii). Verification of Book Debts.(iii). Verification of Stock-in-trade.
8. What are Stores and Spare Parts?
9. How would you verify Loose Tools?

III. Short Answer Questions

1. State the auditor's duty as regards to verification of Cash-in-hand and Cash at bank.
2. How an auditor is responsible for verification of Stock-in-trade?
3. What are the steps to be taken to verify sundry debtors of a limited company by the auditor?
4. What is the general procedure of valuing the stock-in-trade?
5. What are the duties of an auditor regarding the valuation of Goodwill?
6. Explain the procedure of sending letters requesting confirmation from debtors.
7. Can an auditor afford to remain totally absent during the physical verification of inventories? Discuss and enumerate the methods of valuation of stock-in-trade.
8. Enumerate the important features of Goodwill.
9. State briefly, how the copyrights of a business are verified and valued for Balance Sheet purpose.

IV. Essay Type Questions

1. Explain the verification of Current assets.
2. How would you verify the balance at bank to eliminate the risk of fraud?
3. Examine the valuation of stock for Balance Sheet purpose and examine the Auditor's position in this respect.
4. Explain the verification of Intangible assets.
5. What is verification? How would you verify (a) Goodwill (b) Patents (c) Copy rights and (d). Trade Marks.
6. What is valuation? How would you value (a) Goodwill (b) Patents (c) Copyrights and (d) Trade Marks
7. What are the special considerations should be kept in mind while verifying and valuing Trade debtors?
8. Examine the special points to which an auditor should direct his attention for the adequacy of provision for bad and doubtful debts in the valuation of Sundry debtors?
9. Discuss fully recognised accounting principles governing valuation of Inventories.
10. Describe the steps to be taken to verify Goodwill by an auditor and his duties regarding these?

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Chapter 6 VERIFICATION OF LIABILITIES

Learning Objectives

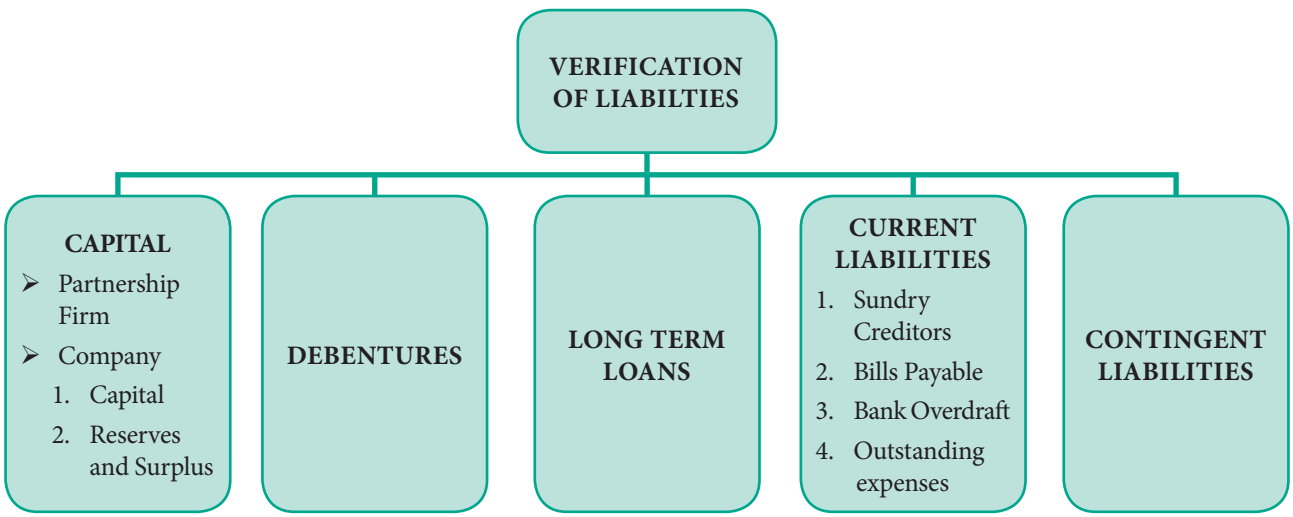
- To understand the various forms of liabilities.
- To define the auditors duty with regard to verification of various liabilities.

POINTS TO RECALL RECAP

From the previous chapter, we have studied the meaning and classification of assets and procedures for verification and valuation of current assets and intangible assets.

6.1 Introduction

Liabilities are legal obligations of the organization to third parties. It is in the form of Capital, Debentures, Long term loans, payment to suppliers against goods and expenses, contingent liabilities etc. Verification of liabilities is as important as verification of assets. If liabilities are not properly verified and valued, the Balance Sheet will not reveal a true and fair view of the state of affairs of a business concern. The main objective of verifying liabilities is to ensure that all the liabilities are properly disclosed, valued, classified and presented in the Balance Sheet. The diagram given below shows the various types and classifications of Liabilities.



6.2 Verification of Capital

The amount invested by the owner in a business concern is called as Capital. The owner may be a sole proprietor or partner or shareholder. It is an internal liability of the business concern and the auditor is required to verify the genuineness and correctness of it in the Balance Sheet.

6.2.1 Verification of Capital in a Partnership Firm

The auditor should take into consideration the following while verifying capital of a partnership firm.

1. **Verify Partnership Deed:**
   The auditor should verify the partnership deed to find out the original capital contributed by each partner and the rate of interest payable on capital.
2. **Verify Capital Accounts:**
   He should verify all the transactions affecting the capital accounts of the partner.
3. **Examine Books of Accounts:**
   He should examine the Cash book, Pass book and withdrawals of the partners.

6.2.2 Verification of Capital in a Company

While verifying the capital of a company, the auditor should verify the share capital and the level of reserves and surplus maintained by the company.

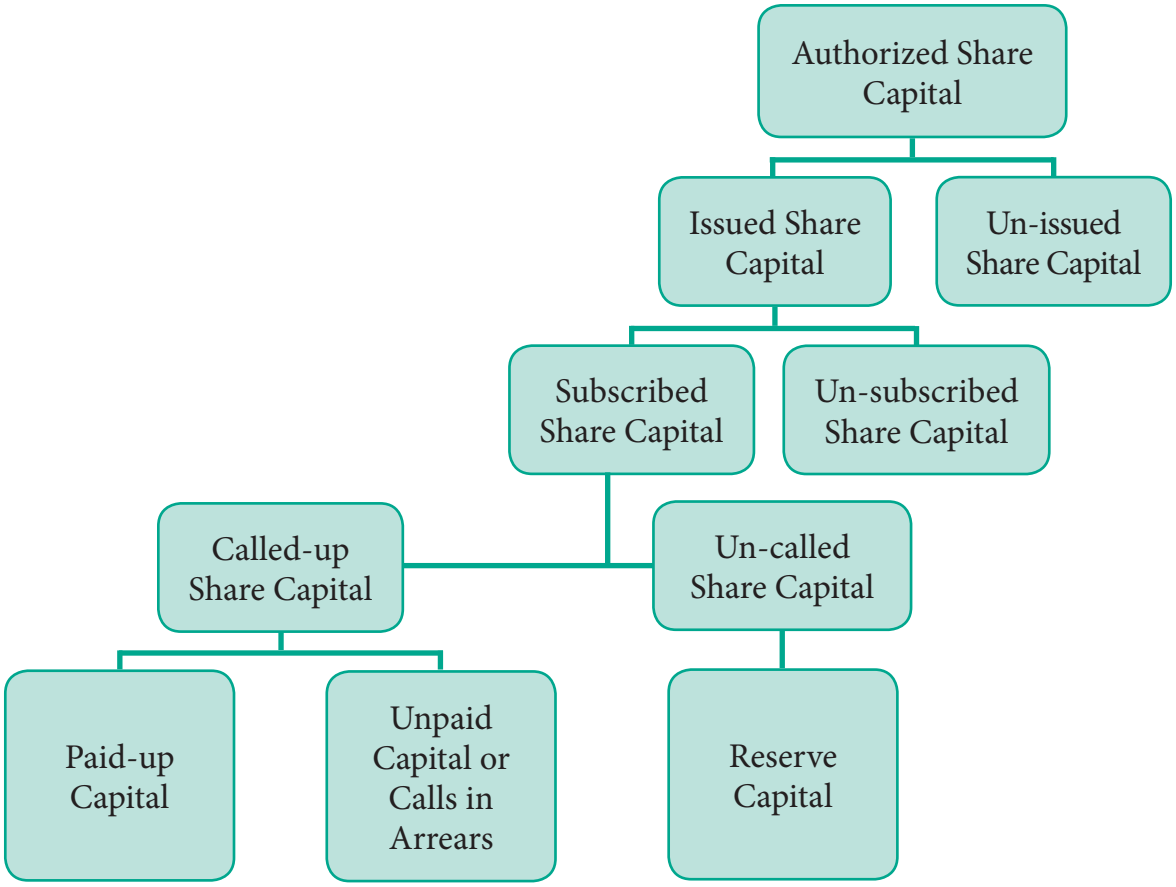
Meaning of Share Capital

Share capital means the capital raised by issue of shares. It is the amount invested by shareholders towards the face value of shares are collectively known as Share Capital.

Sub-Divisions of Share Capital

- **Authorised Capital:** It is the maximum amount of capital which a company is authorised to raise and is stated in the Memorandum of Association. It can also be called as "Registered Capital" or "Nominal Capital".
- **Issued Capital:** This represents a part of the authorized capital, which is issued to the public for subscription.
- **Unissued Capital:** The difference between authorised capital and the issued capital represents Unissued capital.
- **Subscribed Capital:** It refers to that part of the issued capital which has been subscribed by the public.
- **Unsubscribed Capital:** The difference between issued capital and subscribed capital represents Unsubscribed capital.
- **Called-up Capital:** This refers to that part of the subscribed capital which has been called up by the company for payment.
- **Un-called Capital:** The difference between subscribed and called-up capital is called as Un-called capital.
- **Paid-up Capital:** It is that part of called-up capital which has been actually paid-up by shareholders.
- **Unpaid Capital:** The un-paid balance in the called-up capital is known as "Calls in arrears" or "Un-paid capital".
- **Reserve Capital:** A company can reserve part of its un-called capital and will be called only at the time of winding up. This is called as Reverse capital. A special resolution has to be passed for this purpose. It is not disclosed in the company's balance sheet.

Sub-Divisions of Share Capital

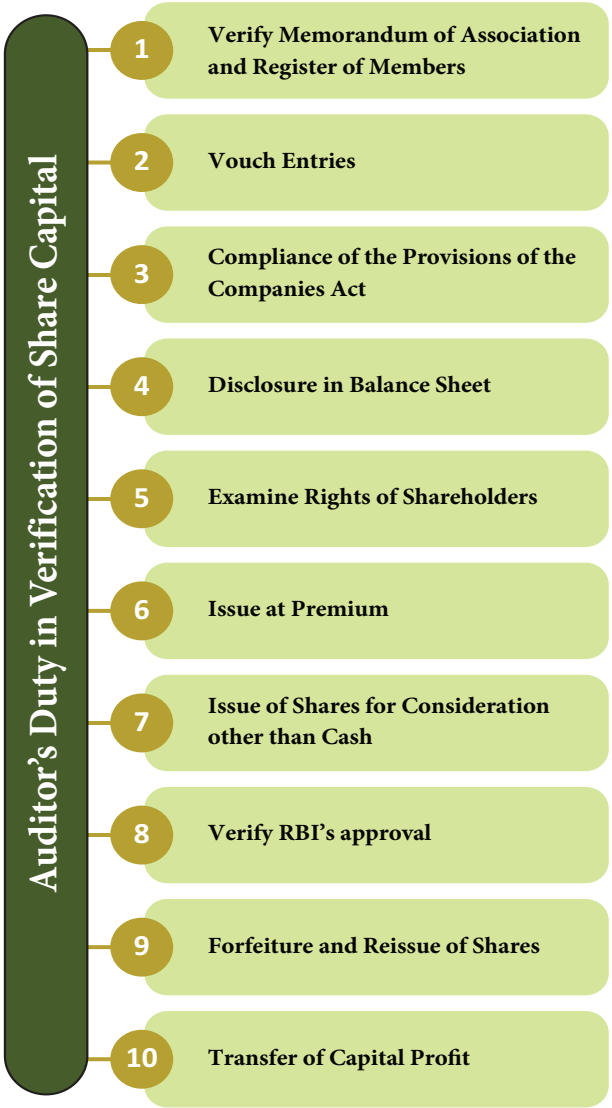


Auditor's Duty in Verification of Share Capital

The auditor's role in verifying the Share Capital is listed below:

1. **Verify Memorandum of Association and Register of Members:** In case of first audit, the auditor should check the Memorandum of Association, list of share holders and Register of Members(ROM) for verification of share capital.
2. **Vouch Entries:** He should examine the pass book, cash book, and Minutes book of directors in order to find out the number of shares issued, different types of shares issued and the amount received on each share.
3. **Compliance with the Provisions of the Companies Act 2013:** In case of subsequent audits, the auditor should ensure that the share capital balance is the same as at the end of last year. If he finds that the capital stands altered by fresh issue of shares, the auditor should ensure that relevant provisions of the Companies Act have been complied with.
4. **Disclosure in Balance Sheet:** He should ensure that 'authorised capital' and each class of issued and subscribed capital has been shown separately in the Balance Sheet.
5. **Examine Rights of Shareholders:** He should examine the rights attached to various shares in the Articles of the company.

6. **Issue at Premium:** Where the shares are issued at premium, he should verify that they are shown separately in the Balance Sheet.
7. **Issue of Shares for Consideration other than Cash:** Where the shares were allotted for consideration other than cash, he should examine the contract constituting with the vendor share and minutes book of the board.
8. **Verify RBI's Approval:** Where shares are allotted to foreign nationals, the auditor should verify RBI's permission in this regard.
9. **Forfeiture and Reissue of Shares:** The auditor should ensure that Articles of Association permit for forfeiture of shares and check the entries regarding forfeiture and reissue of shares.
10. **Transfer of Capital Profit:** He should verify that capital profit if any on reissue of forfeited shares has been transferred to Capital Reserve.



6.2.3 Verification of Reserves and Surplus

Meaning

Reserves and Surplus is that portion of current profits or of accumulated profits which is not distributed as dividend, but is kept separate for the purposes of meeting some known or unknown liabilities or for fulfillment of future needs.

Auditor's Duty

Reserves and surplus are appropriation out of profits. The auditor should verify that the reserves and surplus are shown on the liability side of Balance Sheet with footnotes and verify entries in the Profit and Loss Appropriation Account

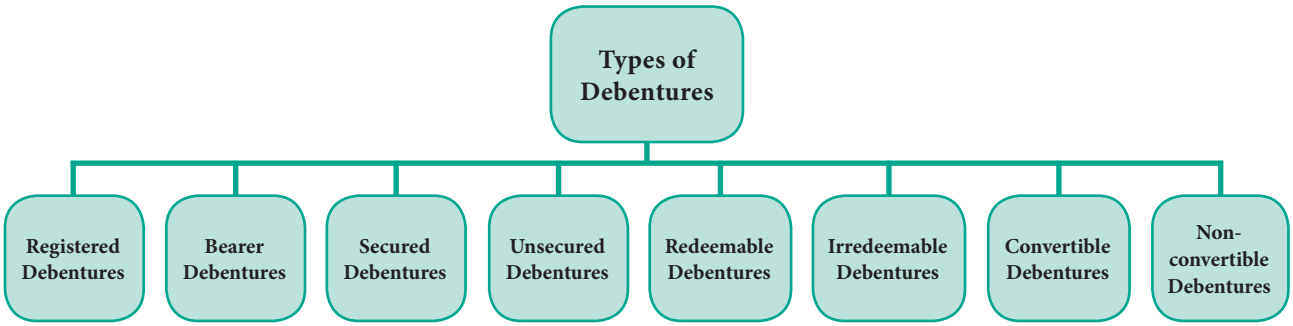
6.3 Verification of Debentures

6.3.1 Debentures - Meaning

Debenture means a document issued by a company to raise finance. It is an acknowledgement of a debt which is given under the common seal of the company.

6.3.2 Types of Debentures

1. **Registered Debentures:** Registered Debentures are those which are transferable only by transfer deed names, address and particulars of the debentures possessed by holders are entered in the



register. Interest is paid to one whose name appears in the register.

2. **Bearer Debentures:** Bearer Debentures are those which are transferable by mere delivery and company does not keep any record of debenture holders name and address. Payment of interest is made on submission of coupons attached to the debentures.
3. **Secured Debentures or Mortgage Debentures:** Mortgage debentures are those debentures that are secured either on a particular asset called fixed charge or on general assets of the company called floating charge. Mortgage debentures are also called collateral debentures. In this case, debentures may also be issued to banks and financial institutions as addition or subsidiary security along with certain principal security. Lending institutions can exercise their right as debenture-holders, if the company does not pay its loan and the principal security falls short.
4. **Un-secured or Naked Debentures:** Naked debentures are those which are not secured, companies of very good standing are able to issue Debentures of this type. They are not very common.
5. **Redeemable Debentures:** Redeemable Debentures are those debentures which are redeemed or the payment of which is made after a specified period. Debentures are redeemable in the following manner:
   (i) At the expiry of a specified period at par or at a premium.
   (ii) Through purchase in the open market any time, at the price prevailing in the market.
   (iii) By annual drawings.
6. **Irredeemable Debentures:** Irredeemable Debentures are those for which the issuing company does not fix any date by when they should be redeemed and the holders of such Debentures cannot demand payment from the company so long as it is a going concern. Usually, such Debentures are repayable after a long period of time or when the company is at the time of winding up.
7. **Convertible Debentures:** Convertible Debentures are those whose holders are given the option to convert the debentures fully or partly into equity shares after a specified period. Those debentures which are fully convertible are called fully Convertible Debentures and those which are partly Convertible are called partly Convertible Debentures.
8. **Non-convertible Debentures:** Non-convertible debentures are those whose holders have no right to convert them into equity shares.

6.3.3 Auditor's Duty in Verification of Debentures

The auditor should note the following points while verifying debentures:

1. **Verify Borrowing Powers:** The auditor should verify the Memorandum and Articles of Association of the company and verify whether the company has got the power to issue debentures and ascertain the borrowing limits of the company.
2. **Verify Terms of Issue:** He should ensure that the terms of the issue have been complied with.
3. **Examine the Debenture Trust Deed:** He should examine the Debentures Trust Deed to know the amount of debentures issued and securities offered and he should obtain a certificate from the debenture holder to confirm the debenture amount.
4. **Redemption of Debentures:** He should make an inquiry regarding Debenture redemption and verify the Articles of Association for the Debenture redemption fund.
5. **Issue at Premium or Discount:** He should examine whether premium or discount on issue of Debentures are properly disclosed in the Balance Sheet.
6. **Compare Register of Charges and Register of Debenture Holders:** He should compare the Register of Charges and Register of Debenture holders and check whether it is recorded correctly and verify that the assets mortgaged or charged are clearly indicated in the Balance Sheet.



6.4 Verification of Long Term Loans

Loans or Borrowings of a concern may be either secured or unsecured or may be for a short or long period.

Auditor's Duty

The auditor while verifying loan in general has the following duties:

1. **Verify Loan Agreement:** The auditor should verify the loan agreement and refer to the correspondences for getting the loan.
2. **Enquire Purpose of Loan:** He should enquire the purpose or purposes for which loan has been raised and also confirm that the loan raised are being utilized for the specific purpose for which it is being obtained.
3. **Examine Borrowing Powers:** He should examine the borrowing powers of the company by referring to the Memorandum and Articles of Association of the company.
4. **Disclosure in Balance Sheet:** He should verify that secured loans are shown separately from unsecured loans and any interest due but not paid is treated as a current liability in the Balance Sheet.
5. **Obtain Confirmation Letter:** He should obtain confirmation letter from the parties who have advanced loans and should verify the balances with the books.

6.5 Verification of Current Liabilities.

Current liabilities are those liabilities which are payable within one year. This includes bank overdraft, sundry creditors, bills payable and outstanding expenses.

6.5.1 Sundry Creditors

MEANING

A person who gives a benefit without receiving money or money's worth immediately but to claim in future is a creditor. The creditors are shown as a current liability in the Balance Sheet.

AUDITOR'S DUTY

1. **Verify Books of Prime Entry:**

   The postings in purchase ledger are to be checked by verifying the books of prime entry. The postings may be checked for part of a year.
2. **Verify Statement of Accounts:**

   The balances shown in credit of suppliers account are to be verified with the statement of accounts obtained from the creditors.
3. **Verify Credit Entries:**

   The credit entries relating to discounts, returns, rebates etc. made in the suppliers account are to be verified with the statement of accounts obtained from them.
4. **Accounting of Purchase Returns:**

   The return outwards book is to be compared with the ledger accounts and confirm that all the returns are supported by the credit notes of the suppliers.
5. **Purchases of Subsequent Year:**

   The purchase invoices relating to the period immediately following the close of the year, are to be verified to ensure that they do not relate to the period under audit.
6. **Obtain Reasons for Outstanding Balance**

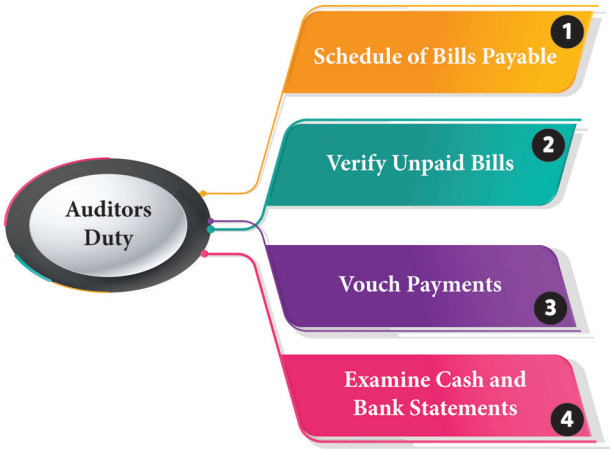
   The balances outstanding for a long period is to be probed and reasons for the same are to be found out.

7. **Comparison of Gross Profit:**
   Percentage of gross profits of the previous years is to be compared with the gross profits of the year under audit. Variation if any, found to be unreasonable or omission of purchase or inclusion of fictitious purchases are to be considered.
8. **Confirmation from Management**
   The auditor shall obtain from the management a certificate that all liabilities that had accrued till the close of the accounting year are carefully accounted for.

6.5.2 Bills Payable

MEANING

Bill refers to bill of exchange. Bills payable means bills acccepted for the credit purchases made. The amounts on bills are payable at its due dates. It is a current liability.



AUDITOR'S DUTY

1. **Schedule of Bills Payable:** The auditor should get a schedule of bills payable and compare with the Bills Payable Book and Bills payable Account.
2. **Verify Unpaid bills:** He should verify unpaid bills and check the subsequent payments with the cash book.
3. **Vouch Payments:** He should vouch the payments made against bills payable.
4. **Examine Cash and Bank Statements:** He should examine cash and bank statements for the bills which are met after the date of Balance Sheet but before the date of audit.

6.5.3 Bank Overdraft

MEANING

It is a line of credit extended by a bank to its account holder to withdraw money in excess of the balance in his account up to a specified limit. It is a current liability as the business concern, being an account holder is liable to repay the amount to the bank.

AUDITOR'S DUTY

1. **Verify Borrowing Powers:** The auditor should examine the Memorandum and Articles of Association to know the borrowing powers of the company.
2. **Verify Details of Contract:** He should study the loan contract, terms and conditions of loan, rate of interest, nature of security, type of pledge etc.



3. **Proper Authorisation by Directors:** He should refer the minutes book of directors to know that bank overdraft is duly authorised.
4. **Confirm Overdraft Balance:** He should confirm the amount of overdraft from the bank at the close of the year.

6.5.4 Outstanding Expenses

MEANING

Expenses which have been incurred but not yet paid during the accounting period for which the final accounts are being prepared are called as Outstanding Expenses.

AUDITOR'S DUTY

1. **Verify list of Outstanding Expenses:** The auditor should ask for a list of outstanding expenses certified by a responsible officer from the client with classification as per the nature of expenses.
2. **Verify Cash Book:** He should ensure that outstanding expenses have been subsequently paid.
3. **Compare Expenses with Previous year:** He should compare the list of outstanding expenses of the current year with that of the previous year to identify deviations, if any.
4. **Verify Provision Created:** He should see whether necessary provision for all outstanding expenses have been made by checking relevant receipts and vouchers.

6.6 Verification of Contingent Liabilities

6.6.1 Meaning

Contingent liabilities are those liabilities, which may or may not arise in the future for payment. The auditor should ensure that all known and unknown liabilities have been accounted in the books of accounts and have been shown in the Balance Sheet.

The following are the examples of Contingent Liabilities:

1. Liabilities on Bills Receivables discounted and not matured.
2. Liability on account of partly paid calls.
3. Liability on arrears of dividend on Cumulative Preference Shares.
4. Liability under a guarantee.
5. Liability for penalties under forward contracts
6. Liability that arises on account of litigation in respect of labour suits, trademarks, copyrights etc.

6.6.2 Auditor's Duty in Verifying Contingent Liabilities

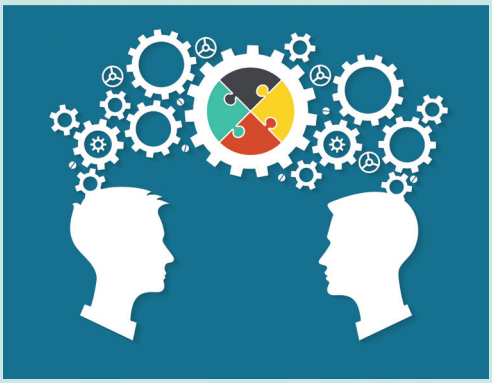
1. **Ensure Creation of Adequate Provision:**

   The auditor should ensure that proper provision has been made for certain liabilities, for example, liability which arise on account of litigation and if he is not satisfied, the fact should be stated in the report.

2. **Disclosure in Balance Sheet:**

   In respect of certain liabilities for which no provision has been made in the books for example, Bills Receivable which has been discounted, arrears of accumulated fixed dividend etc. The auditor should verify that such liabilities are disclosed as foot note in the Balance Sheet.

STUDENTS ACTIVITY



1. Discuss long term liability, short term liability and current liability of an Industry
2. Discuss the financial arrangements made to meet the unforeseen expenses in your institution

SUMMARY

- The Auditor should take into consideration the following while verifying liabilities: (1) whether proper records are maintained, (2) whether liabilities are actually payable and properly disclosed in Balance sheet.
- Auditor should verify Share Capital with reference to the following - Memorandum of Association and Register Of Member, Vouch entries in Cash and Pass book, Examine contracts with promoters and vendors, Properly disclosed in balance sheet and comply with provisions of the Companies Act.
- Auditor should verify Reserves and Surplus with reference to the following - Creation of reserve, Utilisation of reserve, Disclosure in balance sheet, Confirm the rate of premium, Examine Prospectus, Articles of Association and minutes of directors and Transfer of premium to Securities Premium account.
- Verification of debentures: Borrowing powers of the company, Terms of issue, Examine the Debentures Trust Deed, Verify Articles with regard to redemption of debentures and Compare Register Of Charges and Register Of Debenture holders.
- Verification of Creditors: Schedule of creditors Vouch entries and postings, Verify Goods Inward Register, Verify discounts and Verify Hire Purchase Agreement.
- Verification of outstanding expenses: Verify statement of outstanding expenses, Provision for expenses, Compare balance with last year and Subsequent payment of expenses.
- Verification of Contingent Liabilities: Contingent liabilities are a liability which may or may not arise in the future for payment. The auditor has to check that all the known and unknown liabilities are shown in the balance sheet.

KEY TERMS

- **Shares:** Equal parts or units of the share capital.
- **Debentures:** It is a credit bond issued by a company.
- **Share Capital:** Capital raised by the company by issue of shares.
- **Bearer Debenture:** A bearer debenture is an unregistered, unsecured bond and are not recorded in the company's debenture-holders register with full details of every debenture holder.
- **Secured Debenture (or) Mortgage Debenture:** The debenture secured by a charge on the fixed assets of the issued company.
- **Un-secured (or) Naked Debentures:** Debentures that are not supported by a collateral security.
- **Contingent Liability:** A liability which may or may not occur in the future.

EVALUATION

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I. Multiple Choice Questions:

1. The liability which may or may not arise in the future for payment is _____.
   a. Certain liability
   b. Contingent liability
   c. Expenses
   d. Revenues

2. While verifying the capital of a Partnership firm, the important document to be verified is _____.
   a. Memorandum of Association
   b. Partnership Deed
   c. Both
   d. None of the above

3. While verifying the share capital of Joint Stock Companies, the important document to be verified is _____.
   a. Memorandum of Association
   b. Partnership Deed
   c. Both
   d. None of the above

4. _____ denotes the verification made by the auditor to know whether the liabilities are properly valued.
   a. Valuation
   b. Assessment
   c. Computation
   d. None of the above

5. Creditors and Bank over draft are _____
   a. Current Assets
   b. Fixed Assets
   c. Current Liabilities
   d. Fixed Liabilities

6. In _____ side of the balance sheet, outstanding wages, salaries, rent, tax and interest etc. have to be shown.
   a. Assets
   b. Liabilities
   c. Both
   d. None of the above

7. The difference between the Subscribed capital and Called-up capital is called _____
   a. Calls-in Arrears
   b. Calls-in Advance
   c. Paid-up Capital
   d. Reserve Capital

8. _____ is created out of capital profits of the company.
   a. Capital Reserve
   b. Reserve Capital
   c. Subscribed Capital
   d. Calls-in Advance

9. _____ is an acknowledgement of a debt received by the company.
   a. Shares
   b. Debentures
   c. Bonds
   d. Fixed Deposits

10. _____ are those debentures for which repayment is made after a specified period.
    a. Redeemable Debentures
    b. Irredeemable Debentures
    c. Convertible Debentures
    d. Secured Debentures

Answers: 1. (b), 2. (b), 3(a) 4(a), 5.(c), 6.(b), 7.(a), 8.(a), 9.(b), 10.(a)

II. Very short answer questions:

1. What do you mean by Verification of Liabilities?
2. What is Calls-in Advance?
3. What is a Debenture?
4. What is Calls-in Arrears?
5. What is Bank Overdraft?

III. Short answer questions:

1. What do you mean by Share Capital?
2. What is Contingent Liability?
3. What do you understand by Authorised Capital?
4. What is Reserve Capital?
5. What are the kinds of Debentures?

IV. Essay type questions:

1. Describe the sub divisions of Share Capital
2. Explain the auditor's duty with regard to Share Capital
3. Examine the auditor's duty in respect of Capital Reserve
4. Discuss the auditor's duty in relation to Contingent Liability?
5. As an Auditor, how will you verify loans taken by a business concern?

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Chapter 7 RESERVES AND PROVISIONS

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Learning Objectives

- To understand the meaning, definition, classification and auditors duties with regard to reserves and provisions.
- To identify the differences between reserves and provisions.

POINTS TO RECALL RECAP

In the previous Chapter, we have studied verification of various liabilities, sub divisions of share capital, types of debentures and auditors duty.

7.1 Reserves

7.1.1 Meaning

Reserve is a part of the profits which are set aside for any known or unknown contingency, liability or diminution in the value of an asset etc. It is that portion of the current profits or of accumulated profits which is not distributed as dividend, but is kept separate for the purpose of meeting some known or unknown liabilities which might arise in the future.

7.1.2 Definition

- **The Companies Act, 2013** defines Reserve as, "shall not include any amount written off or retained by way of providing for depreciation, renewals or diminution in value of assets or retained by way of providing for any known liability".
- **The American Institute of Accountant** defines a reserve as, "the use of the term be limited to indicate that an undivided portion of the assets is being held or retained for general or specific purpose."

7.1.3 Classification of Reserves



1. GENERAL RESERVE

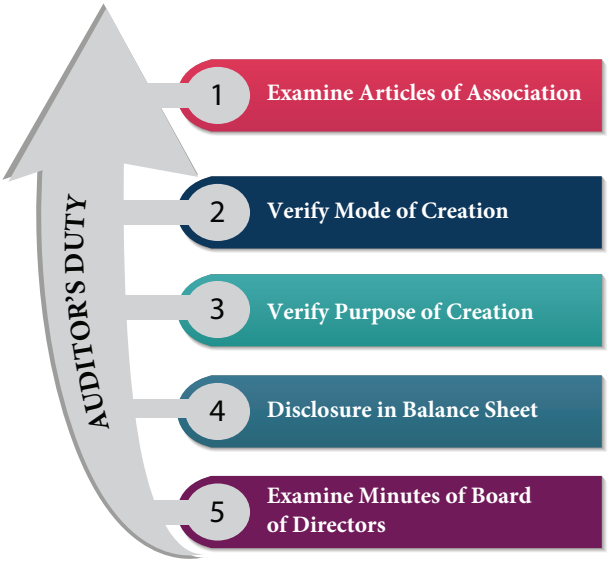
A reserve which is created out of the profits or surplus of a business for meeting any unknown liability is called as 'General Reserve' or 'Free Reserve' or 'Revenue Reserve.' It is an appropriation of profit. According to the Companies Act, 2013, creation of general reserve is not compulsory, it is to be created only when the company has sufficient profit. However, if the Articles of Association of the company state that a specific amount is to be set aside out of profit before distribution of dividend, then the amount should be transferred to General Reserve account.

Objects of creating General Reserve

It is created with an object to

- Provide additional working capital,
- Strengthen the liquid resources of the business,
- Meet any unknown contingency or liability,
- Equalize dividend in the years in which profits are inadequate and
- Expand business etc.

AUDITOR'S DUTY



1. **Examine Articles of Association:** The auditor should examine the Articles of Association to see whether provision regarding creation of general reserve has been complied with.
2. **Verify Mode of Creation:** It is the duty of the auditor to ensure that reserve is created only out of profits of the company.
3. **Verify Purpose of Creation:** Auditor should ensure that general reserve is created for the best interest of the company.
4. **Disclosure in Balance Sheet:** He should examine that reserve amount is properly shown in the Balance Sheet. When reserve amount is invested in securities, he should verify that investments are shown on the assets side of the Balance Sheet.
5. **Examine Minutes of Board of Directors:** Auditor should examine Minutes of the Board of Directors meeting to verify directors approval for utilizing the reserve amount.

2. SPECIFIC RESERVE

A reserve which is created for the purpose of providing for losses and contingencies which are known or expected to occur at a future date is called as a Specific Reserve. In simple words, it is a reserve created out of profit or loss of a company for a specific purpose. For example, Dividend Equalization Reserve, Investment Fluctuation Reserve, Reserve for redemption of Debentures, Plant Replacement Reserve etc.

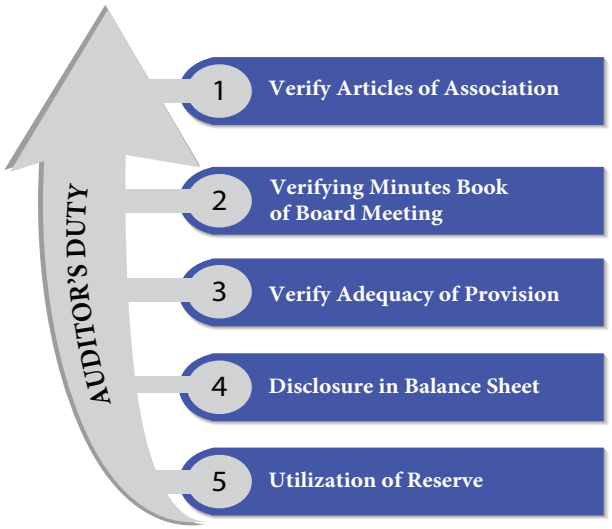
Specific Reserve is not represented by any asset and therefore it is not available for distribution amongst the shareholders. The reserve must be created irrespective of profit or loss involved in the business.

Objects of creating Specific Reserve

The reserve is created with a definite object to:

- Meet a known loss, such as depreciation, heavy repairs and renewals etc.
- Meet an expected contingency such as, doubtful debts, discount on debtors, liability for a disputed claim, contingency under the Workmen's Compensation Act, etc.
- Meet an outstanding liability for expenses already incurred such as, Salaries and Wages, Commission, Income tax and other outstanding expenses.

AUDITOR'S DUTY



1. **Verify Articles of Association:** It is the duty of the auditor to verify the Articles of Association to check whether the amount appropriated from profit to specific reserve is duly complied.
2. **Verifying Minute Book of Board meeting:** The auditor should ensure that profits are appropriated according to the board of directors decision by verifying the Minutes book of the Board meeting.
3. **Verify Adequacy of Provision:** Auditor should ensure that adequate provision has been created. In case, the amount created is not adequate, he should insist the management to increase the provision. Otherwise, he should disclose the same in the audit report.
4. **Disclosure in Balance Sheet:** The auditor should see whether provisions are properly shown on the liabilities side of the Balance Sheet.
5. **Utilization of Reserve:** Lastly, the auditor has to ensure that reserve is utilized for the special purpose for which they are created.

3. CAPITAL RESERVE

A reserve which is created out of capital profits of a company is called as a Capital Reserve. It is defined in Part III of Schedule VI of the Companies Act as, "any reserve which cannot legally be distributed amongst the shareholders". Capital profit refers to the following:

- Profits on sale of fixed assets
- Profits on revaluation of fixed assets and liabilities
- Profits earned prior to incorporation of a company
- Profits made in purchasing a business
- Profits on redemption of debentures at discount
- Premium received on issue of shares or debentures
- Profits earned from forfeited shares and re-issue of forfeited shares
- Exceptional profits not earned during regular course of business.

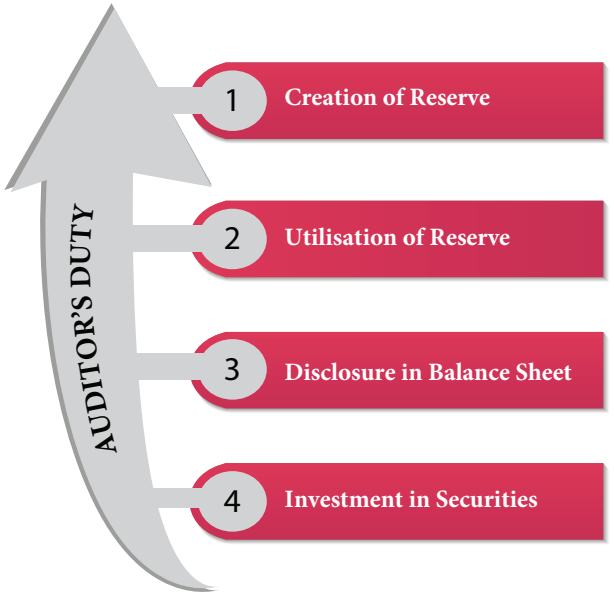
Capital profits should not be utilized in distributing dividend to the shareholders but should be kept aside to strengthen the financial position of the company and to meet capital or abnormal revenue losses.

Objects of creating Capital Reserve

Capital Reserves are utilised for the following purposes:

1. To issue bonus shares to the shareholders subject to the Articles of Association of the company.
2. To write off intangible assets of the company like goodwill, preliminary expenses etc.
3. To provide for premium payable on the redemption of debentures or redeemable preference shares.
4. To write off discount allowed, commission paid or expenses incurred on the issue of shares and debentures of the company.

AUDITOR'S DUTY



1. **Creation of Reserve:** The auditor should ensure that the reserve is created only out of the capital profits of the company.
2. **Utilisation of Reserve:** He should verify that the reserve is utilized according to the provisions of the Companies Act and the Articles of Association of the company.
3. **Disclosure in Balance Sheet:** Auditor should examine whether capital reserve has been shown separately from the revenue reserve in the Balance Sheet. Any addition or deduction from the previous year balance sheet should be clearly shown.
4. **Investment in Securities:** The auditor should check whether capital reserve is invested in easily realizable securities or may be invested in the business itself.

4. SECRET RESERVE

It is a reserve, the existence of which is not apparent on the face of the Balance Sheet. It is also called as "Hidden Reserve" or "Internal Reserve" or "Inner Reserve". The reserve represents the surplus of assets over liabilities and capital. Secret Reserves are usually created by Banking companies, Insurance companies and Electricity supply companies. When secret reserve exists, the financial position of the company is better than what it would appear from the balance sheet. However, the existence of such a reserve is found only by a close and intelligent scrutiny of the account of the company.

Objects of creating Secret Reserve

Secret Reserve is created for the following purposes:

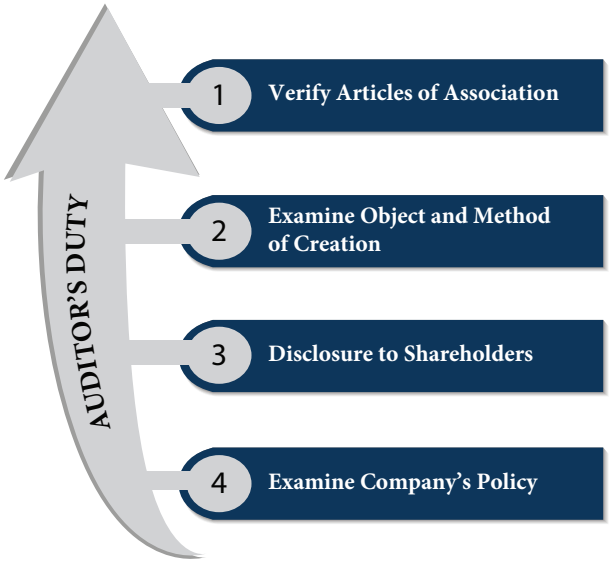
1. To meet any extraordinary loss without disclosing the fact to the shareholders or outsiders.
2. To increase the working capital and to strengthen the financial position of the company.
3. To withhold information of the progress of the company from trade competitors.
4. To equalize the payment of dividend during the period of loss.
5. To meet unexpected financial losses in future.

Methods of Creating Secret Reserve

- Undervaluing the assets below cost or market value.
- Not recording the appreciated value of an asset.
- Providing excess reserve for bad and doubtful debts or discount on debtors.
- Providing excess depreciation on fixed assets.
- Writing down goodwill to a nominal value
- Omitting some of the assets in the Balance Sheet.
- Undervaluing the assets by charging Capital expenditure to Revenue account.
- Overvaluing the liabilities.
- Inclusion of fictitious liabilities
- Showing contingent liabilities as real liabilities.
- Grouping dissimilar items on the liabilities side of the Balance Sheet.

AUDITOR'S DUTIES

1. **Verify Articles of Association:** The auditor should study the Articles of Association of the company to ascertain the legal implications of creating the reserve.
2. **Examine Object and Method of Creation:** Auditor should examine carefully the object and method of creating a secret reserve. If he is fully satisfied, he should disclose the facts in his report.
3. **Disclosure to Shareholders:** It is the duty of the auditor to disclose the fact to the shareholders that secret reserve has been created. If he fails to do so, he will certify a false statement which will not exhibit a true and fair view of the state of affairs of the company.
4. **Examine Company's Policy:** When secret reserve is created by undervaluing the assets or overvaluing the liabilities, the auditor should make a detailed enquiry with the directors and examine the company's policy.

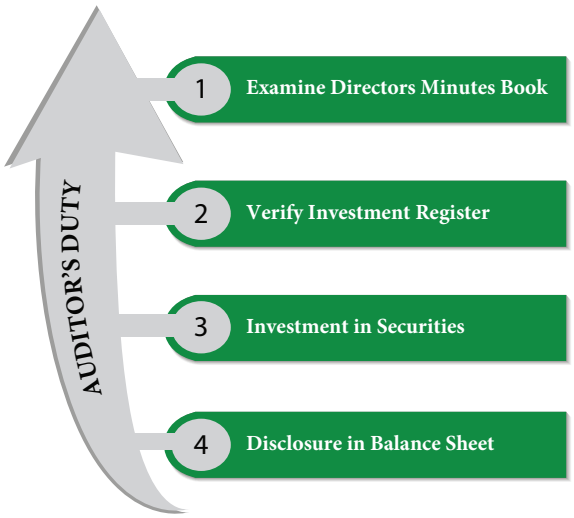


5. RESERVE FUND

It is a reserve created out of the surplus of the company and is invested in outside securities. It is similar to general reserve, which is created out of surplus but is retained in the business. In other words, reserve fund is appropriation of profit which is invested in safe securities and are easily realizable.

AUDITOR'S DUTY

1. **Examine Directors meeting Minutes Book:** Auditor should examine the Minutes of Board of Directors meeting to verify that all investments are made with the consent of the Board.
2. **Verify Investment Register:** The auditor should physically verify the securities with the Investment Register.
3. **Investment in Securities:** The auditor should ensure that the reserve fund is invested in easily realizable securities.
4. **Disclosure in Balance Sheet:** He should verify that the reserve fund is shown distinctly on the liabilities side of the Balance Sheet.



6. SINKING FUND

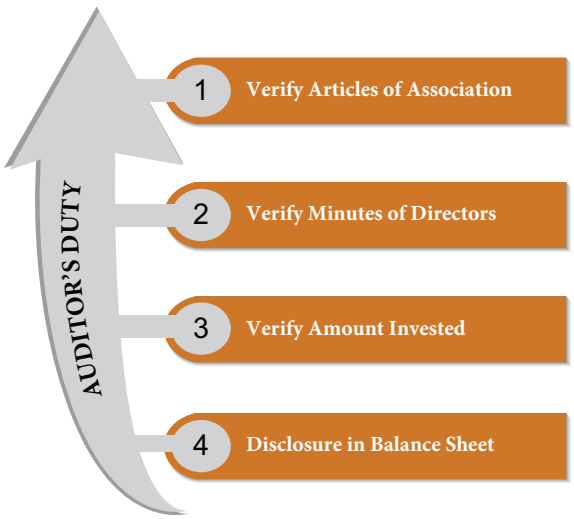
The fund which is created to have a certain sum of money accumulated for a future date by setting aside a certain sum of money every year is called as Sinking Fund. It is defined as, "a form of specific reserve set aside for redemption of a long debt or replacement of a wasting or a depreciable asset".

Objects of Creating Sinking Fund

The objects of creating Sinking Fund are as follows:

- To reduce a liability for example, redemption of debentures or repayment of a loan.
- To replace a wasting asset.
- To replace a depreciating asset.
- To renew a lease.

AUDITOR'S DUTY



1. **Verify Articles of Association:** Auditor should verify Articles of Association and examine the creation and utilisation of the fund.
2. **Examine Minutes of Directors:** He should examine the Minutes of the Board of Directors to ensure the correctness of the amount transferred to Sinking Fund.
3. **Verify amount Invested:** He should ensure that the amount set aside is invested in guilt-edged securities known as Sinking Fund Investment which earns a reasonable rate of return.
4. **Disclosure in Balance Sheet:** The auditor should verify that sinking fund and Sinking Fund Investment are separately and properly disclosed in the Balance Sheet.

7.2 Provisions

7.2.1 Meaning

Provision is an amount which is set aside as a charge against earnings to meet a loss which may arise on the sale or realization of certain asset or diminution in the value of an asset or to meet heavy depreciation, repairs and renewals or to meet a known liability. Provisions are created for a specific known liability or contingency and they can be used to meet only the specific liability for which they are created.

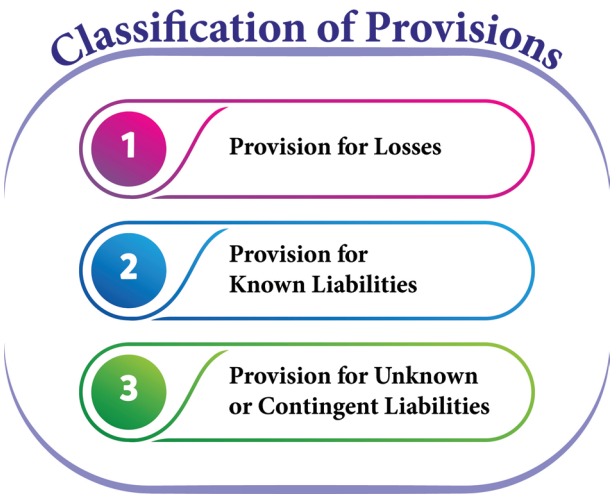
Examples of Provisions: (1) Provision for Depreciation (2) Provision for Taxation (3) Provision for Doubtful Debts (4) Provision for Discount on Debtors (5) Provision for Repairs and Renewals.

7.2.2 Definition

- **The Companies Act, 2013** defines the term Provision as, "any amount written off or retained by way of providing for depreciation, renewal or diminution in the value of assets or to retain by way of providing for any known liability of which the amount cannot be determined with substantial accuracy".

7.2.3 Classification of Provisions

Provisions can be broadly classified as follows:

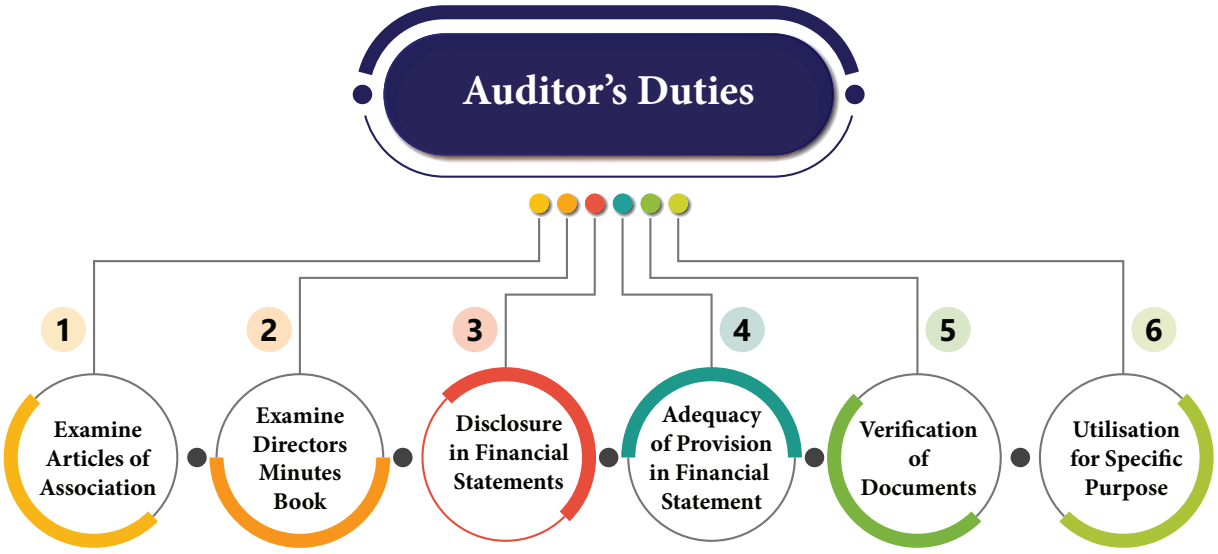


1. **Provision for Losses:** An amount which is set aside out of the earnings of the company to meet losses, for example, (1) Loss on account of depreciation on fixed assets (2) Loss on account of repairs and renewals etc.
2. **Provision for Known Liabilities:** Provision which is created for known liabilities or expenses which arise in future, for example, (1) Provision for Income Tax, (2) Provision for Dividend, (3) Provision for Discount on Debtors and Creditors, (4) Provision for Outstanding expenses such as outstanding salaries and wages, payment on retirement such as pension, provident fund, gratuity etc.
3. **Provision for Unknown or Contingent Liabilities**

   Provision created for unknown or contingent liabilities, for example, (1) Provision for bad and doubtful debts, (2) Provision against disputed claims, (3) Provision against guarantee, (4) Provision against compensation, (5) Provision against payment of arrears of dividend.

7.2.4 Auditor's Duties

1. **Examine Articles of Association:** The auditor should examine the provisions of the Articles of Association to confirm the appropriations created for a specific purpose.
2. **Examine Directors Meeting Minute Books:** Auditor should examine the Minute Book of the Board of Directors to verify the provisions to be made.
3. **Disclosure in Financial Statements:** He should ensure that all provisions are properly disclosed in the Profit and Loss Account and Balance Sheet.
4. **Adequacy of Provision in Financial Statement:** He should ensure that adequate provision has been shown in the financial statement. If in case, the provision created is not adequate, the auditor should mention the fact in the report.
5. **Verification of Documents:** The auditor should examine all the documents and ensure that the amount to be created as provision is adequate and sufficient to meet the loss or liability.
6. **Utilisation for Specific Purpose:** He has to ensure that the provisions created are utilized for the specific purpose for which they are created.



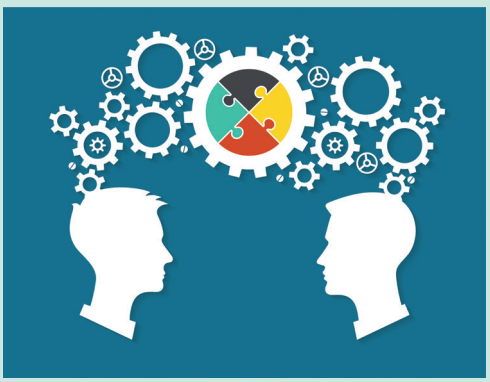
7.3 Differences Between Reserves and Provisions

Generally the term 'Reserves' and 'Provisions' are used together, giving an impression that both are one and the same thing. However, it is desirable to understand the differences between the two terms.

S.No.	Basis	Reserves	Provision
1.	Meaning	Reserve is that portion of current or accumulated profits which is kept aside for meeting some known or unknown liabilities. It is an appropriation of profit.	Provision is a charge against the profit to meet known or unknown liabilities or losses.
2.	Creation	A Reserve is created by debiting Profit and Loss Appropriation Account.	A Provision is debited to Profit and Loss Account.
3.	Nature	A reserve is created for unknown liabilities.	A provision is made for a known liabilities.
4.	Purpose	The main object of creation of reserve is a matter of financial policy of a business concern. It is created without taking into account the actual amount required except in the case of redemption of debentures.	Provision is created as a legal necessity.

S.No.	Basis	Reserves	Provision
5	Disclosure	It is shown on the liabilities side of the Balance Sheet.	It is shown on the assets side of the Balance Sheet by way of deduction from the concerned asset. For example Reserve for bad and doubtful debts is deducted from the balance of Sundry Debtors
6	Charge Against Profit	Reserves depend upon the profit position of the company, when a company suffers a loss no reserve is created.	Provisions do not depend upon the profit position of the company, hence they are created even when company suffers a loss.
7	Payment to Shareholders	Reserves represent undistributed profit, hence it can be distributed amongst shareholders as dividend.	Provisions are not distributed to shareholders as dividend.
8	Auditors Duty	An auditor need not interfere on creation of reserve except when Articles of Association specifically provide for creation of a reserve.	The auditor should carefully examine whether adequate provision has been created to meet the loss or liability

STUDENTS ACTIVITY



1. Visit a Industry and discuss with its owner's about the reserves they made.
2. Estimate total income of your parents. Discuss about creating reserves for unforeseen expenses of your family.
3. Discuss with your parents for making provision for meeting expected losses.
4. How would you create reserve funds from your students consumer club for meeting any emergency for your students.

SUMMARY

Reserve is that portion of current or accumulated profits which is kept aside for meeting some known or unknown liabilities or contingencies which might arise in future. It is classified as, (1) General Reserve, (2) Specific Reserve, (3) Capital Reserve, (5) Secret Reserve, (6) Reserve Fund, and (7) Sinking Fund.

Provision is a charge against profit created for a specific known or unknown liability or contingencies. It is classified as, (1) Provision for losses, (2) Provision for known liabilities, and (3) Provision for unknown liabilities. It is the duty of an auditor to carefully examine whether adequate provision has been created to meet the loss or liability.

KEY TERMS

- **Reserve** – It is an amount which has been set aside for future use or for emergency.
- **General Reserve** – It is a reserve creatd to provide additional working capital created from profit.
- **Sinking Fund** – It is a form of specific reserve set aside for the redemption of a long term debt.
- **Capital Reserve** – It is created out of profits of a capital nature.
- **Secret Reserve** – Any reserve which is not apparent on the face of the balance sheet.
- **Provision** – It is an amount set aside as a charge against earnings created for a specific known liability.

EVALUATION

16FTO

I. Multiple Choice Questions:

1. Reserve means _____
   a) Use for future emergency
   b) Meet contingency
   c) Meet Liability
   d) All the above

2. _____ is to provide additional working capital.
   a) General Reserve
   b) Specific Reserve
   c) Sinking Fund
   d) Secret Reserve

3. The reserve which is a charge against reserve for the purpose of providing losses and contingencies which may result in losses and which are known or expected is known as _____
   a) Specific Reserve
   b) General Reserve
   c) Provision
   d) Sinking Fund

4. _____ fund is a form of specific reserve set aside for the redemption of a long term debt or the replacement of a Wasting or a depreciating asset.
   a) General
   b) Special
   c) Redemption
   d) Sinking

5. _____ cannot be utilized for payment of dividend as a reserve can be, because it has been created for a specific purpose.
   a) Development Fund
   b) Special Fund
   c) General Fund
   d) Sinking Fund

6. _____ is created out of profits of a capital nature.
   a) Capital Reserve
   b) General Reserve
   c) Specific Reserve
   d) None of the above

7. Any reserve which is not apparent on the face of the balance sheet is known as _____
   a) Secret Reserve
   b) General Reserve
   c) Specific Reserve
   d) Sinking Reserve

8. Secret reserve is created for the purpose of _____
   a) To avoid competition
   b) To regulate dividend
   c) To meet unforeseen emergencies
   d) All the above

9. It is created as a charge on profits for some specific purposes in order to meet specific losses and certain but un-estimated liabilities _____
   a) General Reserve
   b) Specific Reserve
   c) Capital Reserve
   d) Reserve Fund

10. In which side of the balance sheet, the Reserve fund and Sinking fund are to be shown?
    a) Assets
    b) Liabilities
    c) Both
    d) None of these

Answers: 1.(d), 2.(a), 3.(a), 4.(b), 5.(a), 6.(a), 7.(a), 8.(d), 9.(b), 10.(b)

II. Very Short Answer Question:

1. What is Reserve?
2. Define the term "Reserve".
3. What are the types of Reserves?
4. What is Capital Reserve?
5. What is Secret Reserve?
6. Write a note on Sinking Fund.
7. What is meant by Provision?
8. Define 'Provision'.

III. Short Answer Questions:

1. What is general reserve? How is it created?
2. How can Capital Reserve be created?
3. How Secret Reserve is created?
4. Explain the duties of an auditor with Capital Reserve.
5. What are the duties of an auditor with regard to Sinking Fund?
6. What are the duties of an auditor relating to Secret Reserves?
7. Briefly explain various types of provisions.

IV. Essay Type Questions:

1. Discuss the classifications of Reserves.
2. What are the dangers of creating Secret Reserve?
3. Examine the auditor's duty with regard to provisions
4. Discuss the auditor's duty with regard to reserves.
5. Differentiate Reserves and Provisions.

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Chapter 8 QUALIFICATIONS, RIGHTS AND DUTIES OF AUDITOR

(As per Provisions of the Companies Act, 2013)

Learning Objectives

- To have a brief view of the provisions of the Companies Act, 2013 regarding the functions of an Auditor.
- To understand the Qualifications and Disqualifications of an Auditor
- To analyse the procedure for Appointment and Removal of Auditors
- To discuss the Rights, Duties and Liabilities of an Auditor

POINTS TO RECALL

RECAP

From the previous Chapter, the students understood the meaning, definition, classification and auditor's duties with regard to reserves and provisions and able to identify the differences between Reserves and Provisions.

8.1 Introduction

The fundamental aspects of auditing are objectives, techniques and principles of auditing, preparation for an audit, internal audit and internal check, vouching, verification and valuation of assets and liabilities etc., These aspects are applicable to the audit of all types of business entities. However audit of business concerns other than corporate entity is not mandatory. But in the case of a joint stock company, the audit is a statutory requirement under the

The Institute of Chartered Accountants of India
(Setup by an Act of Parliament)







Companies Act, 2013. Therefore, provisions regarding appointment of a company auditor, his qualifications, disqualifications, powers, duties etc., are also governed by the Act.

As per the Companies Act, 2013, it is compulsory for every company whether public or private Limited, to get its accounts audited by a qualified auditor. Therefore, it is essential that the auditor of a company should be familiar with the provisions of the Companies Act relating to his appointment, duties and rights.

8.2 Qualifications of a Company Auditor [Sec.141 (1) & (2)]

Section 141 (1) & (2) of the Companies Act, 2013 prescribed the following eligibility and qualifications of auditor which are as follows:

1. A person, who is a Chartered Accountant and holds a certificate of practice, shall be qualified to be appointed as an auditor of a company.
2. The partners who are chartered accountants of a firm alone shall be authorized to act and sign on behalf of the firm.

8.3 Disqualifications of a Company Auditor [Sec.141 (3)]

The following persons shall not be eligible for appointment as an auditor of a company.

1. A body corporate, except Limited Liability Partnership (LLP).
2. An officer or employee of the company
3. A person who is a partner or an officier or employee of the company.
4. A person who is a relative or his partner of a company or holding or subsidiary company or associate company is disqualified in the following circumstances:
   a. When he is holding any security, or
   b. When he is indebted in excess of Rs.5,00,000, or
   c. When he is given a guarantee or provided any security in connection with indebtedness in excess of Rs.1,00,000.
5. A person or a firm has business relationship of such nature with a company or holding or subsidiary company or associate company.
6. A person whose relative is a director or is in employment of the company as director or Key Managerial Personnel.
7. A person holding more than 20 companies audit (20 companies audit shall exclude one person company, small company, dormant company, private company with paid up capital less than Rs.100 Crore).
8. A person who has been convicted by a court of an offence involving fraud and a period of 10 years has not elapsed from the date of such conviction.
9. Any person who is engaged in consulting and specialized services.

8.4 Appointment of Auditor [Sec. 139]



8.4.1 Appointment of Auditor in Government Company

The Companies Act, 2013 defines a Government Company [Section 2 (45)], "as a company in which not less than 51% of the paid up share capital is held by the Central or State Government or Governments or partly by the Central government and partly by one or more State governments."



1. Appointment of First Auditor [Section 139 (7)]

- The first auditor of a Government company shall be appointed by the Comptroller and Auditor General of India within 60 days from the date of registration of the company.
- In case, the Comptroller and Auditor General of India does not appoint such auditor within 60 days, the Board of Directors of the company shall appoint first auditor within next 30 days.

- In case of failure of the Board to appoint the first auditor, it shall inform members of the company who shall appoint first auditor within 60 days at an Extraordinary General Meeting.
- First Auditor shall hold office till the conclusion of the first Annual General Meeting.

AGM – Annual General Meeting
BOD – Board of Directors
C&AG – Comptroller and Auditor General of India
DOR – Date of Registration
EGM – Extraordinary General Meeting

2. Appointment of Subsequent Auditor [Section 139 (5)]

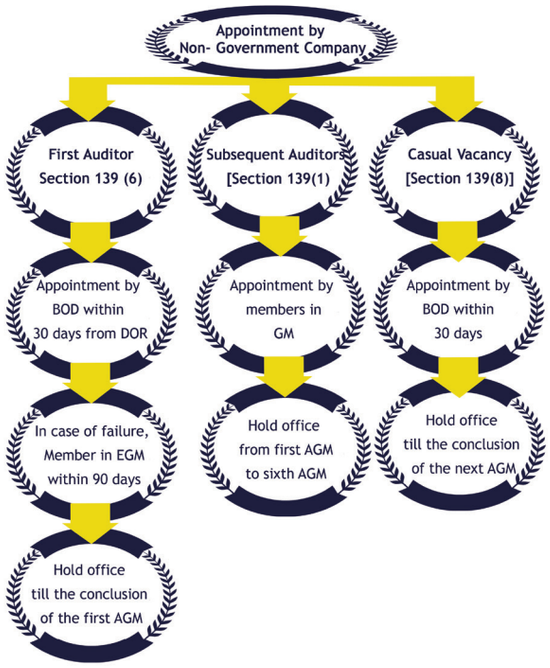
The Comptroller and Auditor General of India shall appoint subsequent auditor of Government companies within 180 days from the commencement of the financial year and who shall hold office till the conclusion of the Annual General Meeting.

3. Appointment in case of Casual Vacancy [Section 139 (8)]

Appointment of auditor due to casual vacancy in Government Company is filled by the Comptroller and Auditor General of India within 30 days. If he fails to do so, the Board of Directors shall fill within next 30 days.

8.4.2 Appointment of Auditor in Non-Government Company

From the above chart only important sections are breifly explained below:



1. Appointment of First Auditor [Section 139 (6)]

The first auditor of a company other than a Government company, shall be appointed by the Board of Directors within 30 days from the Date of Registration of the company.

In case of failure of the Board to appoint the auditor, it shall inform the members of the company. The members shall appoint the auditor within 90 days at an Extraordinary General Meeting.

Appointed First Auditor shall hold office till the conclusion of the first Annual General Meeting.

2. Appointment of Subsequent Auditor [Section 139 (1)]

Every company shall appoint an individual or a firm as auditor of the company at the first Annual General Meeting.

The appointed auditor shall hold the office till the conclusion of sixth Annual General Meeting and thereafter till the conclusion of every sixth meeting.

The Company shall place the matter relating to such appointment of ratification by member at every Annual General Meeting.

Before such appointment is made, the written consent of the auditor to such appointment and also a certificate from the auditor that he is eligible for appointment shall be obtained from the auditor.

The company shall inform the appointed auditor and also file a notice of such appointment with the Registrar within 15 days of the meeting in which the auditor is appointed.

3. Appointment in case of Casual Vacancy [Section 139 (8)]

Causal vacancy arise due to death or insanity or insolvency of an auditor. If an auditor is disqualified after his appointment, he shall vacate his office as auditor. Such vacation shall be deemed to be a casual vacancy in the office of the auditor.

Appointment of auditor in case of casual vacancy shall be done by the Board of Directors within a period of 30 days.

If vacancy is due to resignation of an auditor, such appointment shall also be approved by the company at a General Meeting convened within 3 months of the recommendation of the Board.

The auditor shall hold office till the conclusion of the next Annual General Meeting.

8.5 Removal and Resignation of Auditor

8.5.1 Removal of Auditor [Sec.140 (1)]

i. An auditor can be removed before the expiry of the term by obtaining the prior approval of the Central Government by filling an application.

ii. The Company shall hold the general meeting within 60 days of the receipt of approval of the Central Government for passing the Special Resolution.

iii. The auditor concerned shall be given a reasonable opportunity of being heard.

8.5.2 Resignation of Auditor [Sec.140 (2) & (3)]

1. The auditor who has resigned from the Company shall file a statement in the prescribed form stating the reasons for his resignation to the Comptroller and Auditor General of India in case of a Government Company and to the Registrar of Companies in case of Non-Government Companies.
2. While filing the statement, reasons for resignation and other facts as may be relevant with regard to his resignation shall also be indicated.
3. In case of non-compliance, he shall be punishable with fine ranging from ₹.50,000 to ₹.5,00,000.

8.6 Powers (or) Rights of an Auditor [Sec.143]

The Companies Act 2013 has conferred certain rights on auditor's so as to enable them to discharge their duties smoothly.

1 **Right to Access Books and Vouchers:**

Every auditor of a company has a right to access books of accounts and vouchers of the company at all times. Vouchers include all documents, correspondence, agreements, etc. Books include financial, accounting, statutory and statistical books of the company. The term all times means only during the normal business hours.



2. **Right to Obtain Information and Explanation:**
An auditor has the right to seek information and explanation from the directors and officers of the company. That will enable him to perform his duties successfully. Every officer of the company must furnish the necessary information to the auditor. If the officer refuses to do so, the auditor may report to the members of the company.

3. **Right to Sign Audit Report [Sec.145]:**
The auditor has the right to sign the auditor's report. The auditor can also sign or authenticate any document which the law requires to furnish.

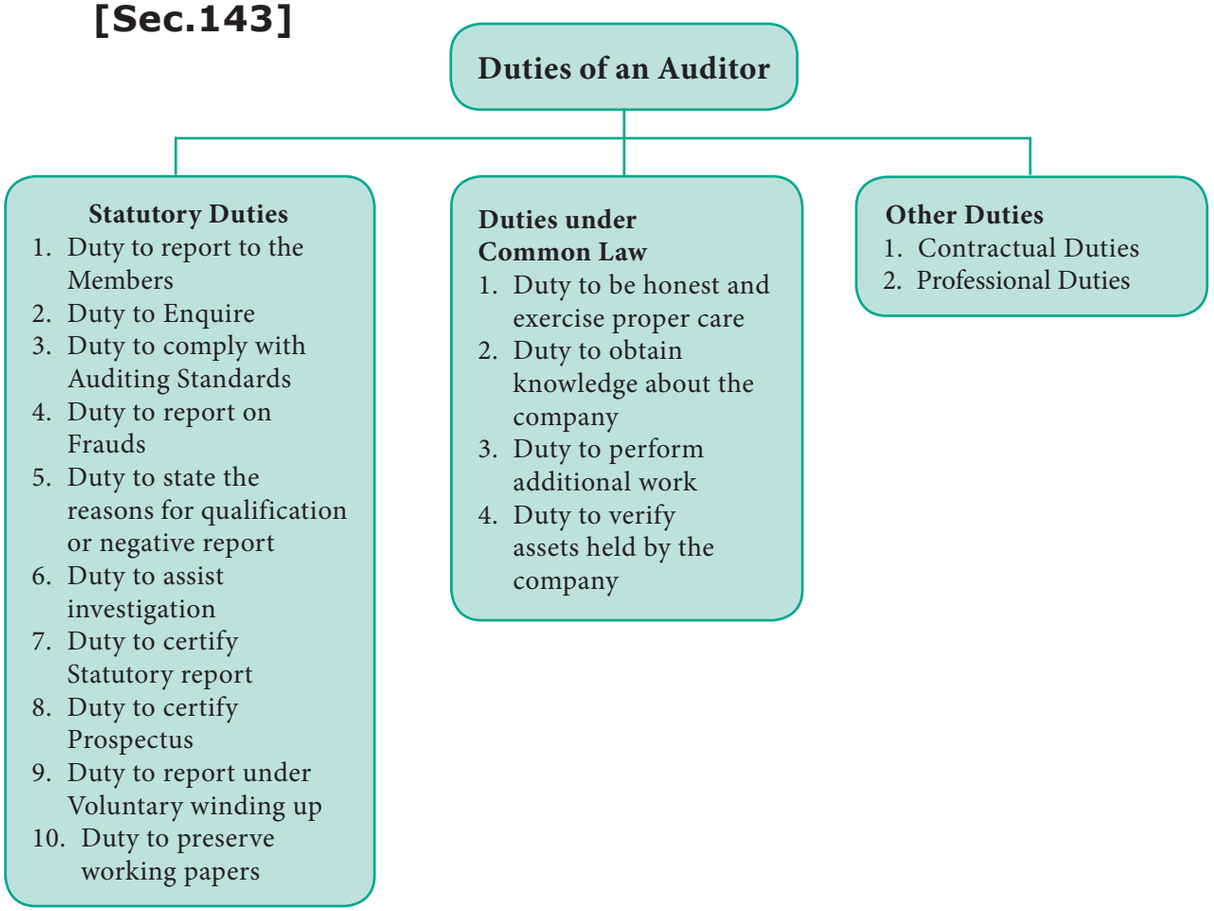
4. **Right to receive Notices and attend General Meeting [Sec.146]:**
The company must send all notices and communications to the auditor relating to any general meeting. The auditor may attend the meeting either through himself or through his representative, who shall be an auditor. The auditor in general meeting must be given reasonable opportunity to speak on any part of the business, which concerns him as the auditor.

5. **Right to visit Branches:**
The auditor has the right to access all books and vouchers kept at the head office or at any branches of the company. In case, the accounts of branches are audited by a person other than the company's auditor, he shall be entitled to visit the branch office. The company auditor can get copies of accounts certified by the branch auditor.

6. **Right to get Remuneration:**
The remuneration of the auditor of a company shall be fixed in its general meeting for auditing the books of accounts of the company. The auditor can claim remuneration from the appointing authority. At the time of winding up of the company, he can claim remuneration as creditor of the company.

7. **Right to Report to Members:**
The auditor has the right and duty to report to the members of the company regarding the accounts examined by him. He is also required to give his opinion about whether the financial statements give a true and fair picture of the state of affairs of the company.
8. **Right to seek Legal and Technical Advice:**
The auditor has the right to seek expert advice in respect of legal or technical matters at the expense of the company.
9. **Right to give Suggestions to the Board:**
The auditor has the right to suggest some modifications in the books of accounts to the Board. The Board should comply with the suggestions made by the company auditor. If not, the auditor should report the same to the members. But the auditor cannot make changes in the books of accounts of his own.
10. **Right to Correct Wrong Statements:**
The auditor has the right to correct wrong statements made by the directors relating to the accounts. But it should be remembered that any statement by him to this effect will not relieve himself for any omission or incompleteness in his report.
11. **Right to be Indemnified:**
The auditor has the right to be indemnified out of the assets of the company against any liability incurred by him in defending himself against the civil or criminal proceedings by the company if it is proved that the auditor has acted honestly.

8.7 Duties of an Auditor [Sec.143]



8.7.1 Statutory Duties

1. **Duty to report to the Members [Sec.143 (3)]:**
   The auditor shall make a report to the members of the company on accounts and financial statements examined by him.
   The report shall state:
   a. Whether he has sought and obtained all necessary information and explanations.
   b. Whether proper books of accounts have been kept.
   c. Whether company's Balance Sheet and Profit and Loss account are in agreement with books of accounts and returns.
2. **Duty to Enquire [Sec.143 (1)]:**
   It is the duty to inquire into the following matters:
   - Whether Loans and Advances made by the company based on security have been properly secured and whether the terms on which they have been made are prejudicial to the interests of the company or its members.
   - Whether transactions of the company, which are represented merely by book entries, are prejudicial to the interests of the company.
   - Whether loans and advances made by the company have been shown as deposits.
   - Whether personal expenses have been charged to revenue account.
   - Whether it is stated in the books and documents of the company that shares have been allotted for cash, whether cash has actually been received in respect of such allotment, and if no cash has actually been so received, whether the position as stated in the account books and the balance sheet is correct, regular and not misleading.
3. **Duty to comply with Auditing Standards [Sec.143 (9)]:**
   - Every auditor shall comply with the auditing standards.
   - The Central Government shall notify standards in consultation with National Financial Reporting Authority, (NFRA).
   - The government shall also notify that auditor's report shall include a statement on such matters as notified.
4. **Duty to report on Frauds [Sec. 143 (12)]:**
   When an auditor suspects an offence involving fraud is being committed by officers or employees of the company, he shall immediately report the matter to the Central Government in such manner as may be prescribed.
5. **Duty to state the reasons for qualified or negative report [Sec.143 (4)]:**
   In case of negative or qualified report, the reasons must be stated in the report.
6. **Duty to assist investigation:**
   It is the important duty of the auditor to assist the investigator to investigate the affairs of the company. Further, it is the duty of the auditor,
   - To provide and preserve the necessary documents which are in his custody to the investigator, and

- To assist the investigator by providing all assistance in connection with the investigation.

7. **Duty to certify Statutory Report:**
   The auditor has to certify statutory report as correct to the extent of –
   - Shares allotted by the company,
   - Cash received in respect of such shares, and
   - An abstract of receipts and payments of the company.
8. **Duty to certify Prospectus:**
   It is the duty of auditor to certify a report showing statement of profits or losses and assets and liabilities of the company and its subsidiaries. The report shall also include rates of dividend paid by the company for each of five financial years preceding the issue of prospectus.
9. **Duty to report under Voluntary winding up:**
   When the company proposes for voluntary winding up, directors of the company have to make a declaration of solvency. The auditor has to certify a report upon the solvency based on the Profit and Loss Account and Balance Sheet.
10. **Duty to preserve Working Papers:**
    It is the duty of an auditor to preserve and produce all books and papers relating to the company which are in his custody and to assist the inspector appointed by the government for investigation.

8.7.2 Duties under Common Law

1. **Duty to be honest and exercise proper care:**
   The auditor should be straightforward, honest and tactful and must not be influenced by others in discharge of his duties. He should be careful and cautious in performing his duties.
2. **Duty to obtain knowledge about the company:**
   He should obtain detailed knowledge about the activities and affairs of the company.
3. **Duty to perform additional work:**
   The auditor besides performing the statutory duties is bound to perform additional work by passing a resolution in the general meeting or making a provision in the Articles of Association of the company.
4. **Duty to verify assets held by the company:**
   It is the duty of the auditor to verify assets of the company.

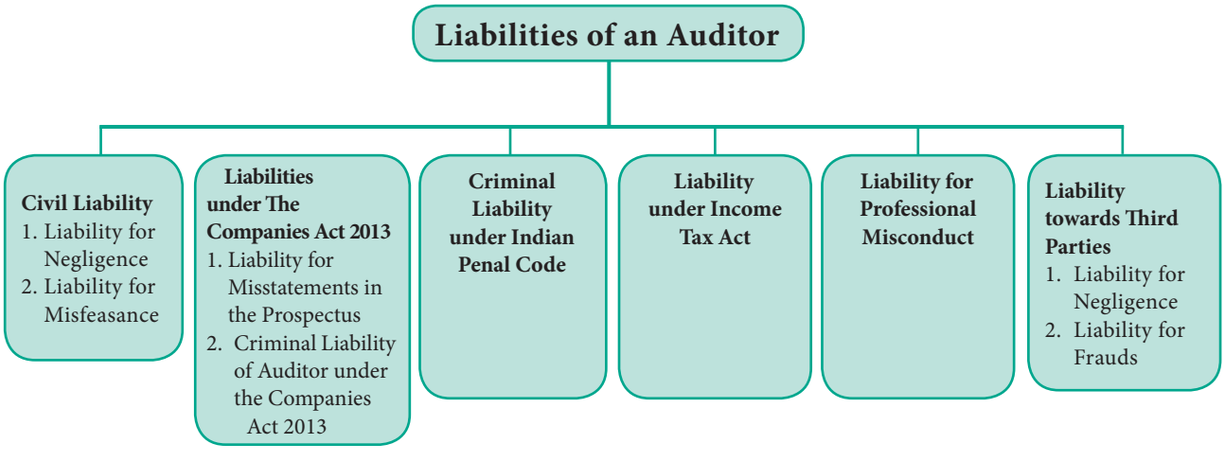
8.7.3 Other Duties

1. **Contractual Duties:**
   The auditor's duty will depend upon the terms and conditions of his appointment between him and the party who appointed him.
2. **Professional Duties:**
   The auditor has to observe the ethics given by the Institute of Chartered Accountants of India. He should correspond with the previous auditor before accepting the assignment.

8.8 Liabilities of an Auditor:

A Chartered Accountant is associated with the valuable profession. His primary duty is to present a report on the accounts and statements submitted by him to members of the company. He is responsible not only to the members of the company but also to the third parties of the company, i.e., creditors, bankers etc.

Normally the liability of auditor based on the work done by him as professional accountant and carry out his work with due care, caution and diligence. The nature of liabilities of an auditor is discussed below:



8.8.1 Civil Liability:

1. Liability for Negligence:

Negligence means breach of duty. An auditor is an agent of the shareholders. He has to perform his professional duties. He should take reasonable care and skill in the performance of his duties. If he fails to do so, liability for negligence arises. An auditor will be held liable if the client has suffered loss due to his negligence. It should be noted that an auditor will not be liable to compensate the loss or damage if his negligence is not proved.

2. Liability for Misfeasance:

Misfeasance means breach of trust. If an auditor does something wrongfully in the performance of his duties resulting in a financial loss to the company, he is guilty of misfeasance. In such a case, the company can recover damages from the auditor or from any officer for breach of trust or misfeasance of the company. Misfeasance proceedings can be initiated against the auditor for any untrue statement in the prospectus or in the event of winding up of the company.

8.8.2 Liabilities under the Companies Act 2013

The following are the liabilities of an auditor under the provisions of the Companies Act, 2013.

[I] **Liability for Misstatements in the Prospectus [Sec.35]:**

An auditor shall be held liable to compensate every person who subscribes for any shares or debentures of a company on the faith of the prospectus containing an untrue statement made by him as an expert. The auditor shall be liable to compensate him for any loss or damages sustained by him by reason of any untrue statement included therein. The auditor may escape from liability if he proves that:

- The prospectus is issued without his knowledge or consent.
- He withdrew his consent, in writing before delivery of the prospectus for registration.
- He should have withdrawn his consent after issue of prospectus but before allotment of shares and reasonable public notice has given by him regarding this.

II. **Criminal Liability of Auditor under Companies Act:**

1. **Untrue statement in Prospectus [Sec.34]**

The auditor is liable when he authorizes a false or untrue prospectus. When a prospectus includes any untrue statement, every person who authorizes the issue of prospectus shall be

imprisoned for a period of six months to ten years or with a fine, which may be three times the amount involved in the fraud or with both.



2. **Non compliance by Auditor [Sec. 143 and 145]:**
   If the auditor does not comply regarding making his report or signing or authorization of any document and makes willful negligence on his part he shall be punishable with imprisonment upto one year or with fine not less than ₹. 25,000 extendable to ₹. 5,00,000.
3. **Failure to assist Investigation [Sec.217 (6)]:**
   When Central Government appoints an Inspector to investigate the affairs of the company, it is the duty of the auditor to produce all books, documents and to provide assistance to the inspectors. If the auditor fails to do so, he shall be punishable with imprisonment upto one year and with fine up to ₹.1,00,000.
4. **Failure to assist prosecution of guilty officers [Sec.224]:**
   An auditor is required to assist prosecution when Central Government takes any action against the report submitted by the Inspector. If he fails to do so, he is found guilty and is punishable.
5. **Failure to return property, books or papers [Sec.299]:**
   When a company is wound up the auditor is supposed to be present and subject himself to a private examination by the court and is also liable to return to the court any property, books or papers relating to the company. If the auditor does not comply, he may be imprisoned.
6. **Penalty for falsification of books [Sec.336]:**
   An auditor when destroys, mutilates, alters or falsifies or secrets any books of account or document belonging to the company, he shall be punishable with imprisonment and also be liable to fine.
7. **Prosecution of Auditor [Sec.342]:**
   In the course of winding up, of a company by the Tribunal, if it appears to the Tribunal that an auditor of the company has been guilty of an offence, it shall be the duty of the auditor to give all assistance in connection with the prosecution. If he fails to give assistance he shall be liable to fine not less than ₹ 25,000 extendable upto ₹1,00,000.
8. **Penalty for deliberate act of commission or omission [Sec.448]:**
   If an auditor deliberately makes a statement in any report, certificate, balance sheet, prospectus, etc which is false or which contains omission of material facts, he shall be punishable

with imprisonment for a period of six months to ten years and fine not less than amount involved in fraud extendable to three times of such amount.

8.8.3 Criminal Liability under the Indian Penal Code

If any person issues or signs any certificate relating to any fact which such certificate is false, he is punishable as if he gave false evidence. According to Sec.197 of the Indian Penal Code, the auditor is similarly liable for falsification of any books, materials, papers that belong to the company.

8.8.4 Liability under the Income Tax Act [Sec.278]

- For tax evasion exceeds ₹1,00,000, rigorous imprisonment of six months to seven years will be imposed.
- A person who induces another person to make and deliver to the Income Tax authorities a false account, statement or declaration relating to any income chargeable to tax which he knows to be false, he shall be liable to fine and imprisonment of three months to three years. An auditor may also be charged in case of wrong certification of account.
- A Chartered Accountant can represent his clients before the Income Tax Authorities. However, if he is guilty of misconduct he can be disqualified from practicing.
- An auditor can face imprisonment upto two years for furnishing false information.

8.8.5 Liability for Professional Misconduct

The Chartered Accountant Act, 1949 mentions number of acts and omissions that comprise professional misconduct in relation to audit practice. The council of ICAI may remove the auditor's name for five years or more, if he is found guilty of professional misconduct.

ICAI – The Institute of Chartered Accountants of India.

8.8.6 Liability towards Third Parties

There are number of persons who rely upon the financial statements audited by the auditor and enter into transactions with the company without further enquiry viz. creditors, bankers, tax authorities, prospective shareholders, etc.

1. **Liability for Negligence:**

   It has been held in the court that auditor is not liable to third parties, as there is no contract between auditor and third parties. He owes no duty towards them.

2. **Liability for Frauds:**

   The third parties can hold the auditor liable, if there is fraud on the part of auditor even if there is no contractual relationship between auditor and third parties. In certain cases, negligence of auditor may amount to fraud for which he may be held liable to third parties. But it must be proved that auditor did not act honestly and he knew about it.

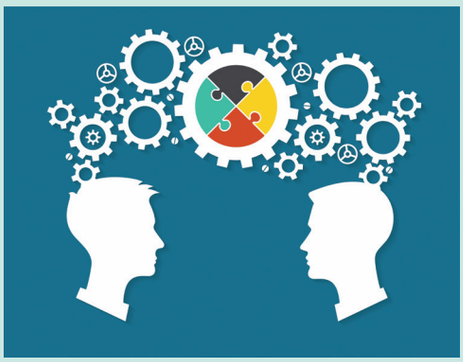
8.9 Professional Ethics of an Auditor:

1. **Integrity**:An auditor should be sincere and honest in discharging his duties and should not indulge in any unfair means.
2. **Diligence**: Auditor should perform his duties with utmost care and diligence. He should also continuously update his professional skill and knowledge.
3. **Responsibility**: Auditor should be bold and responsible in discharging his duties and should not certify a statement which he does not believe it to be true.

4. **Confidentiality**: Auditor should maintain confidentiality of the information provided by his clients while performing his duties.

5. **Adherence**: He should follow the rules and regulations laid down by the Institute of Chartered Accountants of India and follow the Standard Auditing Procedures and Practices.

STUDENTS ACTIVITY



1. Conduct a model Annual general meeting with proper agenda for appointing the auditor of a company and fixing his remuneration by passing an ordinary resolution by the shareholders.
2. Visit an auditor's office and discuss with the auditor regarding his professional services.
3. Discuss with an auditor regarding the scope of his work and liabilities of an auditor.

SUMMARY

- In case of a joint stock company, the audit is a statutory requirement under the Companies Act, 2013. A person will be qualified to be appointed as an auditor of a company, only if he is a Chartered Accountant. The following persons shall not be eligible for appointment as an auditor of a company (i) A body corporate, (ii) An officer or employee of the company, (iii) Any partner, (iv) A person indebted in excess of Rs.5,00,000, (v) A person whose relative is a director or key managerial personnel (vi) A person holding more than 20 companies audit.
- An auditor shall be appointed as first auditor or subsequent auditor or in casual vacancy in case of Government Company and Non-Government Company in different ways.
- An auditor can be removed from the company before the expiry of the term only by obtaining the prior approval of the Central Government. The auditor who has resigned

from the company shall file a statement with the company and the Registrar, in case of Non-Government Company. In case of Government Company with the Comptroller and Auditor General of India (C & AG).

- A company auditor has the right to access books and vouchers, right to obtain information and explanation, right to sign audit report, right to receive notices and attend general meeting, right to visit branches, right to get remuneration, right to report to members, right to seek legal and technical advice, right to give suggestions to the board, right to correct wrong statements and right to be indemnified.
- Duties of a Company Auditor may broadly classified into Statutory Duties, Duties under Common Law and Other Duties like Contractual Duties and Professional Duties.
- The nature of Liabilities of an Auditor are: (1) Civil Liability, (2) Liabilities under the Companies Act, 2013 (3) Criminal Liability under the Indian Penal Code, (4) Liability under the Income Tax Act, (5) Liability for Professional Misconduct and (6) Liability towards Third Parties.

KEY TERMS

- **Government Company:** A 'Government Company' is a company in which not less than 51% of the paid up share capital is held by the Central or State Government or Governments or partly by the Central government and partly by one or more State governments.
- **Casual Vacancy:** Causal vacancy arises due to death, insanity, insolvency or any other disqualification of the auditor.
- **Negligence:** Negligence means breach of duty. An auditor should take reasonable care and skill in the performance of his duties. If he fails to do so, liability for negligence arises.
- **Misfeasance:** Misfeasance means breach of trust. If an auditor does something wrongfully in the performance of his duties resulting in a financial loss to the company, he is guilty of misfeasance.

Important Sections in the Companies Act, 2013:

Section 139 – Appointment of Auditors

Section 140 – Removal and Resignation of Auditor

Section 141 – Eligibility, Qualifications and Disqualifications of Auditors

Section 142 – Remuneration of Auditor

Section 143 – Powers and Duties of Auditor

Section 144 – Auditor not to render certain services

Section 145 – Auditor to sign Audit reports

Section 146 – Auditor to attend General meeting

Section 147 – Punishment for contravention

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EVALUATION

I. Multiple Choice Questions:

1. Section 139 of the Companies Act, 2013 deals with
   a. Appointment of Auditors
   b. Eligibility and qualifications of Auditors
   c. Removal of Auditor
   d. Remuneration of Auditor

2. The subsequent auditors of a company are appointed by the
   a. Board of Directors
   b. Shareholders
   c. Central Government
   d. Company Promoters

3. A company auditor on being an individual cannot be an auditor of more than the following number of companies at one time
   a. 2 b. 5
   c. 10 d. 20

4. Which of the following can be appointed as company Auditor?
   a. Any officer or employee of the company
   b. Body corporate
   c. Firm of which all the partners are chartered accountants
   d. HUF

5. Statutory duties of a Company Auditor are determined by the:
   a. Memorandum of Association
   b. Articles of Association
   c. The Companies Act, 2013
   d. Agreement between Company and the Auditor

6. Match list I (Items) with list II (Section of the Companies Act, 2013) and select the correct answer using the codes given below the lists:

List I	List II
A. Appointment of auditors by the CAG	1. Section 139(5)
B. Qualifications and disqualifications of Auditors	2. Section 141
C. Powers and duties of Auditors	3. Section 142
D. Remuneration of Auditors	4. Section 143

Answer Codes:

	A.	B.	C.	D.
a.	1.	2.	3.	4.
b.	4.	3.	2.	1.
c.	1.	2.	4.	3.
d.	2.	3.	1.	4.

7. A Company audit can be done by _____
   a. Chartered Accountant
   b. Cost Accountant
   c. Company Secretary
   d. Auditor

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8. An auditor is a professional that accumulates and evaluates evidence to report whether the company complies with the _____
   a. Accounting policies
   b. Accounting standards
   c. Government policies
   d. Established set of procedures or standards

9. An auditor may function as _____
   a. An employee
   b. Independent professional
   c. An employee or an independent professional
   d. An external professional

10. The first auditor so appointed shall hold office till the conclusion of _____
   a First accounting year
   b Next accounting year
   c First Annual General Meeting
   d First statutory meeting

11. In case the Board of Directors fails to appoint the first auditors within one month of its incorporation the _____ may appoint the first auditors.
   a. Chairman of the company
   b. Managing directors
   c. Company in general meeting
   d. Central Government

12. Casual vacancy of auditor in case of company other than Government Company may be filled by the _____
   a. Board of directors
   b. Shareholders
   c. Central Government
   d. Comptroller & Auditor General

13. Where the vacancy is caused by resignation of auditor of a company, such vacancy shall only be filled by the _____
   a. Comptroller & Auditor General
   b. Central Government
   c. Company in general meeting
   d. Board of directors

14. Examples of casual vacancy are vacancy arising due to _____
   a. Resignation of the auditor
   b. Death of the audit
   c. Disqualification of the auditor
   d. All of the above

15. The auditor of a Government Company is appointed by the _____
   a. Comptroller and Auditor General of India
   b. The shareholder in a general meeting
   c. The shareholder at an extra-ordinary general meeting
   d. The Board of directors

16. Section 141 contains provision as regards
   a. First appointment of auditors
   b. Subsequent appointment of auditors
   c. Qualifications and disqualifications of auditors
   d. All of the above

17. Who of the following can be appointed auditors of a limited company?
    a. A chartered accountant
    b. A cost accountant
    c. A company secretary
    d. All of the above
18. The auditors have the right to attend
    a. Board meeting
    b. Annual general meeting
    c. Extraordinary general meeting
    d. Any general meeting
19. The auditor shall have the right to receive _____ for auditing the accounts of the company.
    a. Remuneration
    b. Commission
    c. Reward
    d. Award
20. A company auditor has the following rights
    a. Right to receive notice of general meeting
    b. Right of access to the books of account
    c. Right to seek from the officers of the company any information related to auditing
    d. All of the above

[Answers: 1.(a), 2.(b), 3.(d), 4.(c), 5.(c), 6.(c), 7.(a), 8.(d), 9.(c), 10.(c), 11.(c), 12.(a), 13.(c), 14.(d), 15.(a), 16.(c), 17.(a), 18.(d), 19.(a), 20.(d)]

II. Very short answer questions

1. Who can be appointed as an auditor of a company?
2. What is meant by casual vacancy?
3. What is the procedure for removal of an auditor?
4. What is meant by misfeasance?
5. Who cannot become auditor of a company?
6. Who appoints the first auditor of a Company?
7. What is statutory duty?
8. What do you mean by negligence?
9. State any three liabilities of a company auditor.
10. Define 'Government company'.

III. Short answer questions.

1. What are the qualifications of an auditor?
2. What are the disqualifications of an auditor of a company?
3. What are the circumstances in which an auditor can be removed?
4. State the duties of an auditor of a Limited Company.
5. Explain the civil liability of an Auditor.
6. What are the criminal liabilities of an Auditor?
7. Explain Liability for Misfeasance.

8. What is the liability of an auditor for Negligence and Misfeasance?
9. Discuss the liability of an auditor to Third Parties.
10. What do you understand by professional ethics

IV. Essay type questions.

1. Examine the qualifications and disqualifications of the auditor of a company.
2. Describe the provisions of the Companies Act, 2013 regarding appointment of auditor in Government Company.
3. Explain in detail about the appointment of auditors in Non-Government Company.
4. Explain the powers of a company auditor.
5. What are the statutory duties of a Company Auditor? Discuss.
6. Discuss the rights of a Company Auditor.
7. Elaborate a note on civil and criminal liabilities of an auditor.
8. Discuss the liabilities of a Company Auditor under the Companies Act, 2013.
9. Briefly explain the professional ethics of an auditor?

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Chapter 9 COMPANY AUDIT

(As per Provisions of the Companies Act, 2013)

RL70A

Learning Objectives

- To understand the meaning, elements and types of Audit Report.
- To analyse the procedure for conducting Share capital audit.
- To discuss duties of an auditor regarding Issue of Initial Public Offer (IPO)
- To discuss duties of an auditor regarding issue of shares for other than Cash Consideration.

POINTS TO RECALL

RECAP

From the previous chapter, we have studied the qualifications, disqualifications of an auditor, removal and resignation of an auditor, rights and powers of an auditor, duties of auditor, liabilities of auditor and Professional Ethics of an auditor.

9.1 Audit Report

Audit report is the final stage of audit process. The results of the audit are communicated through audit report. Audit report is the written opinion of an auditor regarding companies financial statements. Audit report is a document prepared by an auditor to certify the financial position and accounting records of a firm.

9.1.1 Meaning of Audit Report

Audit report is the statement included in the financial statements. It contains the opinion of the auditor in financial statements. The auditor reports to the shareholders who have appointed him.He has to provide his opinion on the truth and fairness of financial statements. Thus, the auditor protects the interest of shareholders through audit report.

9.1.2 Definition of Audit Report

- **Lancaster** has defined a report as "a report is a statement of collected and considered facts, so drawn up as to give clear and concise information to persons who are not already in possession of the full facts of subject matter of the report."
- According to Cambridge Business English Dictionary, Audit report is defined as a formal document that states an auditor's judgment of a company's accounts.

Under Sec. 143(3), auditor of a company must report to its members.

(a) The accounts examined by him;
(b) Balance Sheet, Profit and Loss Account, and Cash Flow statement, which are laid in general meeting of a company during his tenure of office; and
(c) The document declared to be attached to the Balance Sheet and Profit and Loss Account.

9.1.3 Form of Audit Report

1. Title of the report

The title of audit report should help the reader to identify the report. It should disclose the name of the client. The title distinguishes the audit report from other reports.

2. Name of the Addressee

The addressee normally refers to the person who appoints the auditor. If a company appoints the auditor, the addressee should be shareholders. As per law, the complete address of the addressee is required.

Audit Certificate

- Audit Certificate vouches the truth of the statement.
- Audit Certificate is the guarantee for accuracy of statement.
- Audit Certificate ascertains the correctness of tangible facts after verification.
- If the audit certificate is with wrong details, the auditor is responsible.
- Audit certificate does not have the scope for suggestion or opinion.

Addressee for the statutory audit shall be shareholders and in case of Special Audit, it is Central Government.

3. Introductory Paragraph

The introductory paragraph should specify that it is the auditor's opinion on financial statements audited by him. The period covered by financial statements should be stated with exact dates.

4. Scope

This part should include the matter-of-fact relating to the manner in which audit examination was made. The audit examination should cover company's accounts, Profit and Loss Account, Balance Sheet and Cash Flow Statements. The examination should be as per the relevant law. The auditor should not curtail or limit any examination task.

5. Opinion

The auditor's opinion on the books of account and financial statements examined by him is based on the information and free from bias. The auditor has to give his opinion as follows:

i. Whether the financial statements are arithmetically correct and correspond to the figures recorded in the books of accounts.

ii. In case of unqualified opinion, whether the financial statements represent a true and fair view of the state of affairs and the results of operations.

iii. In case of qualified opinion, if the Balance Sheet and Profit and Loss account do not present a true and fair view, the reasons for qualification (what and where is wrong).

6. Signature

The signature part should include the manual signature of the auditor.The personal name and signature of the auditor should be given. If the auditor is a firm, the signature of the partner and firm name should be given.

7. Place of Signature

This should include the location of the auditor or the auditor firm, which is ordinarily their city.

8. Date of the Report

The date of completion of the audit work should be mentioned in this section.

9.1.4 Contents of Audit Report

As per Sec. 143 of the Companies Act, 2013 the auditor's report shall also state—

a. whether he has sought and obtained all the information and explanations which to the best of his knowledge and belief were necessary for the purpose of his audit and if not, the details thereof and the effect of such information on the financial statements;

b. whether, in his opinion, proper books of account as required by law have been kept by the company so far as it appears from his examination of those books and proper returns adequate for the purposes of his audit have been received from branches not visited by him;

c. whether the report on the accounts of any branch office of the company audited under sub-section (8) by a person other than the company's auditor has been sent to him and the manner in which he has dealt with it in preparing his report;

d. whether the company's Balance Sheet and Profit and Loss account dealt with in the report are in agreement with the books of account and returns;

e. whether, in his opinion, the financial statements comply with the Accounting Standards;

f. the observations or comments of the auditors on financial transactions or matters which have any adverse effect on the functioning of the company;

g. whether any director is disqualified from being appointed as a director under sub-section (*2*) of section 164;

h. any qualification, reservation or adverse remark relating to the maintenance of accounts and other matters connected therewith;

i. whether the company has adequate internal financial control system in place and the operating effectiveness of such controls;

j. such other matters as may be prescribed.

9.1.5. Types of Audit Report

The audit report may be of the following types:

1. Clean or Unqualified Report

Clean or Unqualified report will be given by the auditor if the auditor is satisfied that the accounts, Balance Sheet, Profit and Loss Account and Cash Flow statement do represent a true and fair view and they are prepared in conformity with the accounting principles and statutory requirements.

2. Qualified Report

In qualified report, the auditor believes that overall financial statements are not fairly stated. The reasons for giving Qualified Report are be as follows:

i. The books of accounts, Profit and Loss Account and the Balance Sheet do not represent the true and fair view of the state of affairs and results of the operations, due to lack of conformity with the accounting principles and statutory requirements,

ii. The auditor is not able to verify the value and existence of certain assets,

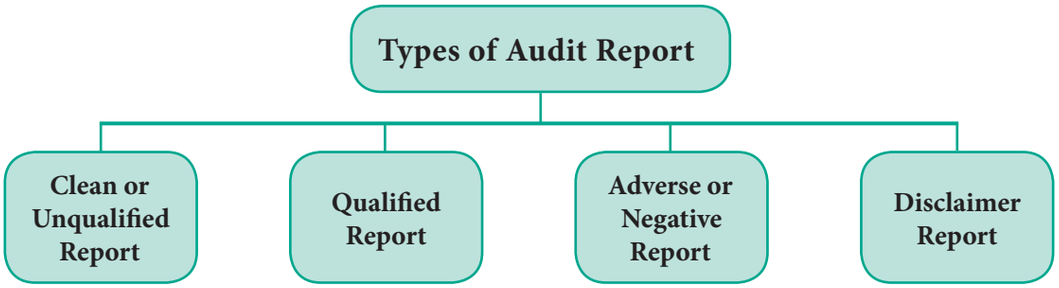
iii. The information requested by the auditor is not furnished,

iv. Proper books of account are not maintained as required by law,

v. Part of audit examination done by other auditors.

3. Adverse or Negative Report

When there is sufficient basis for the auditor to form an opinion that the whole accounts and financial statements, do not present a true and fair view of the financial condition



Specimen of Clean on Unqualified Report

To

The Sharehoders

ABC Ltd. Chennai

We have audited the attached Balance Sheet of ABC Ltd….as at…….. and the Profit and Loss Account of the company for the year ended on that date and we report that:

1. We have obtained all the information and explanations which are necessary for the purpose of audit.
2. In our opinion, proper books of accounts have been maintained in accordance with the standard accounting practices.
3. The Balance Sheet and Profit and Loss Account are in agreement with the books of accounts and returns.
4. In our opinion, and to the best of our information, the said accounts give the information required and give a true and fair view:
   - In the case of Balance Sheet of the company as at…..; and
   - In the case of Profit and Loss Account of the company for the year ended on that date.

Signatures: For X,Y&Co

Chartered Accountants Partner

and results of operation, the adverse or negative opinion will be given. The adverse or negative report will be given on the following grounds:

i. When the auditor is not satisfied with the truth and fairness of financial statements,
ii. Non conformity with the Generally Accepted Accounting Principles,
iii. Mistakes, discrepancies and material misstatement in the financial statements,
iv. Omission of a material disclosure.

4. Disclaimer Report

The auditor may disclaim or refuse opinion on the accounts, Profit and Loss Account and the Balance Sheet, when he does not have sufficient information to base his opinion. In the scope and opinion paragraph, the auditor should give disclaimer information. This may happen on the following grounds:

i. The auditor has not been able to obtain sufficient information to form his opinion,
ii. The audit examination is not adequate to form an opinion,

Specimen of Qualified Report

To

The Shareholders

ABC Ltd.

Chennai

We have audited the attached Balance Sheet of XYZ Ltd., as at….. and also the Profit and Loss account for the year ended on that date. We report that:

We have received all the information and explanations which are necessary for the purpose of audit.

We conducted our audit in accordance with the auditing standards generally accepted in India.

In our opinion, proper books of accounts as per law have been maintained by the company with the accounting standards and the Balance Sheet and Profit and Loss account gives a true and fair view and subject to the comments given hereunder:

- The stock in trade has been valued at market price, which is higher than the cost by ₹ 50,000.
- The provision for depreciation is not sufficient.
- Amount spent for the repairs of machinery ₹ 2000 has been capitalized and added to the cost of machinery.

Signatures: For X,Y&Co

Chartered Accountants Partner

iii. There are some material un-determined items in audit examination.

9.1.6 Differences between Unqualified, Qualified and Adverse Audit Report

Basis	Unqualified Audit Report	Qualified Audit Report	Adverse Audit Report
Meaning	Auditor issues a unqualified report where the auditor is fully satisfied with the work of client.	Auditor issues a qualified report where the auditor is not fully satisfied with the work of client.	Auditor issues an adverse report when he does not agree with the affirmation made in the financial statements i.e., accounts disclose a serious distortion.
True and Fair View	The auditor is satisfied that the accounts, Balance Sheet, Profit and Loss Account and Cash Flow statement do represent a true and fair view.	The books of account, Profit and Loss Account and the Balance Sheet do not represent the true and fair view of the state of affairs.	When there is sufficient basis for the auditor to form an opinion that the whole accounts and financial statements, do not present a true and fair view of the financial condition.

Opinion	The auditor gives clean opinion without any reservation.	The auditor gives an opinion subject to certain reservation.	The auditor concludes that based on his examination, he is not satisfied with the affirmation made in the financial statements.

9.2 Audit of Share Capital

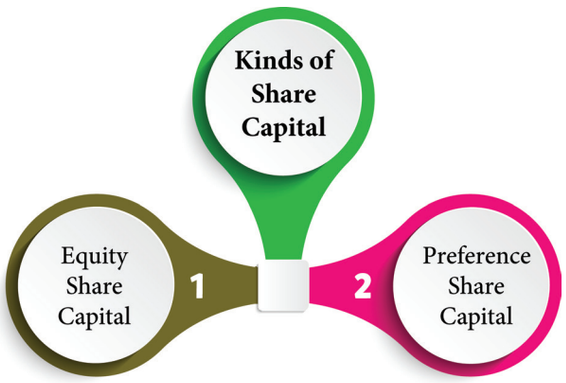
Share capital means capital raised by the company by issue of shares. This issue of share capital should be audited to verify the compliance of requirements and provisions of The Companies Act, 2013.

9.2.1. Meaning of Share Capital

A company may meet its fund requirements either through raising share capital or through borrowings. The company does a proper financial analysis before taking such a decision. The funds raised through issue of shares is termed as share capital.

9.2.2. Kinds of Share Capital

The share capital of the company is of two kinds, namely Equity share capital and Preference share capital.



1. Equity Share Capital

Equity share capital means all share capital, which is not preference share capital and called as the ordinary share capital of the company.

2. Preference Share Capital

Preference share capital means that part of the issued share capital of the company which either carries or would carry a preferential right with respect to payment of dividend and a preferential right of repayment in case of winding up or repayment of capital. Apart from these two preferential rights, preference shares can be of participating or non-participating type depending upon their right to participate in dividend payment with capital.

9.3 Audit of Share Capital of a New Company (or) Fresh Issue of Shares

The first function of the Company after incorporation was to raise funds. The funds can be raised either by issue of securities or by loan or borrowings. Section 23 of the Companies Act, 2013 makes a distinction between public and private company as far as raising funds is concerned.

Section 23 of The Companies act, 2013 provides that:

Public Companies my raise a fund or issue securities, by:

1. Issue of prospectus to public either by Initial Public Offering **(IPO) or** Follow on Public Offer **(FPO)**, or
2. Private placement, or
3. Right issue
4. Bonus issue.

Private Companies may raise fund or issue securities, by:

1. Right Issue
2. Bonus Issue
3. Private Placement.

9.3.1. Meaning of Fresh Issue of Shares

Fresh issue of shares refers to the shares issued through Initial Public Offering (IPO). It means when an unlisted company makes either a fresh issue of securities or an offer for sale of its existing securities or both for first time to public. Unlisted company is one whose security is not listed on any of the recognized stock exchange.

The underwriter serves as the intermediary between the company seeking to issue shares in an Initial Public Offering (IPO) and investors. The underwriter helps the company to prepare for the IPO, considering issues such as the amount of money sought to be raised, the type of securities to be issued, and the agreement between the underwriter and the company. Syndicate Underwriting is one in which, two or more agencies or underwriters jointly underwrite an issue of securities. Such an arrangement is entered into when the total issue is beyond the resources of one underwriter or when he does not want to block up large amount of funds in one issue. Sub-Underwriting is one in which an underwriter gets a part of the issue further underwritten by another agency. This is done to diffuse the risk involved in underwriting. The name of every underwriter is mentioned in the prospectus along with the amount of securities underwritten by him. Firm Underwriting is one in which the underwriters apply for a block of securities. Under this the underwriters agree to take up and pay for this block of securities as ordinary subscribers in addition to their commitment as underwriters.

This Initial Public Offering can be made through the fixed price method, book-building method or a combination of both. Under fixed price method, the investors know the price at which the securities are offered and allotted in advance. Book Building is a process used by companies to raise capital through Public Offerings-both Initial Public Offers (IPOs) and Follow-on Public Offers (FPOs) to aid price and demand discovery.

Private Placement is issuing share capital to a select group of people, including or not the existing shareholders, like friends, family members, Angel investors, Venture Capitalists etc.

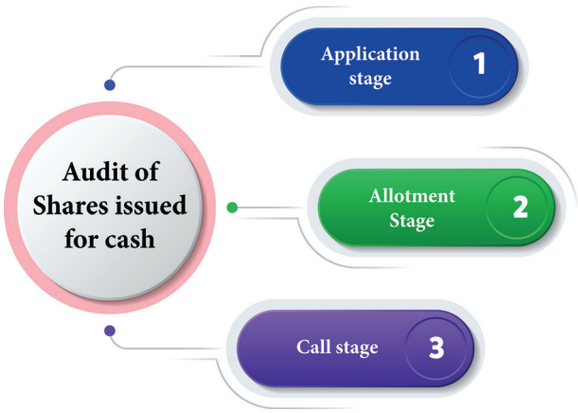
Right issue is the pro-rata issuance of equity to existing equity shareholders in the company. This results in the advantages such as control in the hands of existing shareholders, prevention of dilution of control and less costly.

9.3.2. Auditors Duties

The issue of share capital should be audited by the auditor. He should study the conditions relating to the issue of share capital in the Memorandum, Articles of Association, as well as Prospectus and see that these have been duly complied with. A company cannot issue share capital exceeding the amount prescribed in its Memorandum if its Articles permit, it may increase its authorized capital by altering its Memorandum in a general meeting. Every issue of capital should be properly authorized.

9.4 Audit of Shares issued for Cash

Shares issued for cash can be done in three stages as: (a) Application Stage, where applications were received along with application money; (b) Allotment Stage, where allotment takes place and allotment money is received subject to the receipt of minimum subscription; (c) Calls stage, where calls are made on shares and the amount due is received.



a. APPLICATION STAGE

1. The auditor should check the original share application. He should check the entries in Application and Allotment Book.
2. He should vouch the application money received with Application and Allotment Book and the corresponding entries in cash book. He should ensure that application money received was deposited in a scheduled bank until the certificate of commencement of business is obtained. He should verify whether application money received is not less than 5% of the nominal value of shares issued.
3. He should vouch the money refunded to unsuccessful applicants with Application and Allotment Book, copies of letters of regret and bank book.
4. He should check the total columns of Application and Allotment Book and see that proper journal entries have been passed in the books.

b. ALLOTMENT STAGE

1. The auditor should see that allotment begins only after the receipt of minimum subscription.
2. He should examine the Directors' Minute Book to see that all the allotments have been approved by the Board.
3. He should compare the copies of Letters of Allotment and Letters of Regret with entries made in the Application and Allotment Book.
4. He should check the amount received on allotment, by comparing Application and Allotment Book with Cash Book.
5. He should check the postings in Share Register of the amount received on application and allotment.
6. He should see that the relevant RBI and FEMA requirements, in case of allotment to non-residents.
7. He should see that appropriate journal entry debiting Share Allotment and crediting Share Capital Account has been duly made.

c. CALL STAGE

1. The auditor should examine the board of director's resolution in the Directors' Minute Book for making calls.
2. He should verify the amount received with the counterfoil of receipts.
3. He should compare the total amount due on calls with the amount collected and entered in the Cash book. He should trace out the figures of call-in-arrears by comparing the 'Schedule of Calls in Arrears with Application and Allotment Book, and check the accuracy of the amount.
4. He should see that appropriate journal entry debiting Calls Account and crediting Share Capital Account has been duly made.

9.5 Audit of shares issued for consideration other than cash

Shares may also be issued for consideration other than cash. Vendors, promoters, underwriters, etc. may be allotted shares instead of making payments to them. The audit procedure followed in this regard involves examining the contract, board of director's resolution, checking

the journal entries and examining the prospectus.

9.5.1. Meaning

Shares issued for consideration other than cash may arise where a company issues shares to vendors of business against purchase consideration; or to promoters who have borne preliminary expenses, or to underwriters against settlement of underwriting commission, etc.

9.5.2. Auditors Duties

1. **Examination of Contracts**
   Copy of contracts entered into with vendors, promoters, underwriters, etc. should be examined by the auditor to ensure that the allotment is made as per the agreements. The amount of purchase consideration for the vendors, nature and amount of consideration for the promoters, remuneration to underwriters would be mentioned in their respective agreements.
2. **Examination of Prospectus**
   He should examine the Prospectus to ensure that conditions lay down such as details of the amount payable to the vendors, promoters, and underwriters and the mode of payment.
3. **Verify Directors Minute Book**
   The auditor should examine the Minutes of the Board of Directors to ensure that the allotment is authorized by the Board.
4. **Verify Entries in Books**
   The auditor should see that the journal entry is in order. He should verify Share capital account as shown in the ledger to ascertain that share allotments are posted in the ledger accounts.
5. **Compliance with Legal Provisions**
   The auditor should verify the return filed with the Registrar of Companies to ensure that return is filed in accordance with the provisions of the Act.

9.6 Audit of Shares Issued at Premium

Share premium can be defined as the excess amount received by the company over and above the face value of shares. All types of companies can issue shares at premium. The auditor should examine the Prospectus, the Articles and the Minutes of the Directors to see whether the issue of shares at a premium is duly authorized or not. He should see that the sum available has been utilized in the manner as laid down by the Articles.

9.6.1. Meaning of Shares Issued at Premium

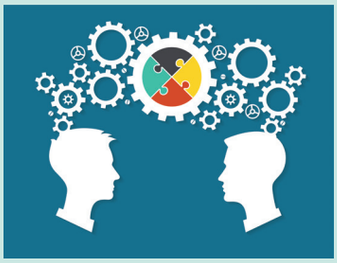
Share Premium means the shares are issued at an amount in excess of the nominal value of the shares. Section 52, of the Companies Act, 2013 states that, if a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the premium received on those shares shall be transferred to a Share Premium Account. The auditor should examine the Articles, Minutes of Board meetings to see whether issue of shares at a premium is duly authorized.

9.6.2. Auditor's Duties for Issue of Shares at Premium

The auditor should see that the amount of share premium is utilized in the manner laid down in Section 52. The share premium account may be used by the company only for –

1. Issuing fully paid bonus shares to the members of the company.
2. Writing off preliminary expenses or commission paid or discount allowed on any issue of shares or debentures of the company.
3. Providing for the premium payable on the redemption of any redeemable preference shares of the company.
4. Buying back own shares, if Articles permits and authorized by special resolution passed in general meeting.

STUDENTS ACTIVITY



1. Collect and go through the Audit Report of Public Sector Undertakings of Government of Tamil Nadu from the website of Comptroller and Auditor General of India. (www.cag.gov.in)
2. Collect the information relating to IPO by HDFC AMC.
3. Collect a prospectus of a company and refer issue of shares and discuss.
4. Collect a memorandum of association and discuss the share capital clause.
5. Collect a articles of association and refer the mode of issue of share capital and discuss.

Find out the total equity capital of Reliance Industries Limited for the year 2017-18 by going through its annual report for the year 2017-18. (Visit the website for collecting the annual report: http://www.ril.com/InvestorRelations/FinancialReporting.aspx)

SUMMARY

- Audit report is the statement containing the opinion of the auditor on the representations made by company management in financial statements and matters relevant to them.
- Title of the report, name of the addressee, introductory paragraph, scope, opinion, signature, place of signature and date of the report are the elements of Audit report.
- Clean report or unqualified report, Qualified report, Adverse or Negative report and Disclaimer are the types of audit report.
- The auditor should study the conditions relating to Issue of Share Capital in the Memorandum, Articles of Association, as well as Prospectus and see that these have been duly complied with.
- In case of shares issued for cash, there are three stages (a) Application Stage, where applications were received along with application money; (b) Allotment Stage, where allotment takes place subject to the receipt of Minimum Subscription; (c) Calls stage, where calls are made on shares and the amount due is received.
- Shares may also be issued for consideration other than cash. Vendors, Promoters, Underwriters, etc may be allotted shares instead of making payments to them.
- Share Premium means the shares are issued at an amount in excess of the nominal value of shares. The auditor should see that the amount of share premium is utilized in the manner laid down in Section 52.

KEY TERMS

- **Public Company:** According to the Companies Act, 2013 "A Public company is a company which is not a private company and has a minimum paid up capital of 5 lakh rupees and have the right to transfer of shares of a company". The Public Limited company has "Ltd" at the end of its name.
- **Private Company:** According to the Companies Act, 2013 "A Private company is a company which has a minimum paid-up capital of 1 lakh rupees and which is restricted to have the right to transfer of share".The Private Limited company has "Pvt.Ltd" at the end of its name.
- **Authorised Capital:** The authorised capital of a company is the maximum amount of share capital for which shares can be issued by a company.
- **Minimum Subscription:** The minimum shares the company needs to obtain from the public out of the total issue by the date of closure. (Presently every company need to raise 90% of the issued amount).
- **Promoters:** A promoter conceives an idea for setting-up a particular business at a given place and performs various formalities required for starting a company.
- **Underwriters:** A syndicate of banks (the lead managers) underwrites the transaction, which means they have taken on the risk of distributing the securities.
- **Prospectus:** A prospectus is a invitation to the public issued by companies that are offering securities for sale, including the details of the company and the issue.
- **Memorandum of Association:** A Memorandum of Association (MOA) is a legal document prepared in the formation and registration process of a limited liability company to define its relationship with shareholders. It is the Charter of the company.
- **Articles of Association:** is a document which states the rules and regulations of the internal affairs of the company. It is the by-laws of the company. It is the subsidiary to Memorandum of Association.
- **Preliminary Expenses:** Preliminary expenses are those expenses which are incurred in business before the incorporation and commencement of business. Example : Statuary fees, Company logo, Survey report, Charges paid to Charter accounting firm before forming a company.

EVALUATION

F5WVG

I. Multiple Choice Questions

1. The report given by the auditor reveals a true and fair view of a company is _____
   a. Unqualified report
   b. Qualified report
   c. Interim report
   d. Final report
2. Where an auditor gives an opinion on the various matters without any reservations, it is known as
   a. Clean report
   b. Qualified report
   c. Adverse report
   d. Negative report
3. If auditor gives a qualified report, following consequences will result:
   a. Board of Directors have to resign.
   b. Central Government may impose a fine on directors
   c. The recognised stock exchange on which company's shares are listed would revoke listing.
   d. The Board of directors have to give reply to such qualifications in its Board's report.

4. The Company Auditors present the audit report to :
   a. Board of director
   b. Company registrar
   c. Central Government
   d. Shareholders
5. A good Audit Report must at least meet one of the following qualifications ____.
   a. It should offer constructive and timely suggestions to the management.
   b. It should not point out mistakes.
   c. It should not be based on factual information.
   d. It should not be based on Balance Sheet.
6. Who is responsible for the appointment of Statutory Auditor of a Limited Company?
   a. Directors of the company
   b. Members of the company
   c. The Central Government
   d. All of the above
7. When restrictions that significantly affect the scope of the audit are imposed by the client, the auditor generally should issue which of the following opinion?
   a. Qualified opinion
   b. Disclaimer of opinion
   c. Adverse opinion
   d. Unqualified report with 'an emphasis of matter' paragraph;
   d. All of the above

Answer: 1.(a), 2.(a), 3.(d), 4.(d), 5.(a), 6.(b), 7.(a), 8.(c), 9.(a), 10.(a), 11.(d), 12.(c), 13.(d), 14.(a), 15.(d), 16.(a).

II. Very Short Answer Questions

1. What do you mean by Audit report?
2. What is Clean report?
3. What is Qualified report?
4. Mention the purposes for which Securities Premium account can be utilised.

III. Short Answer Questions

1. When can a qualified audit report be given?
2. What are the kinds of Share Capital?
3. Discuss the auditors' duty with regard to Issue of shares at a Premium.
4. Under what circumstances the shares can be issued for the consideration other than cash?
5. State the various stages in which shares can be issued.

IV. Essay Type Questions

1. What are the basic elements of an auditor's report? Explain.
2. Explain the types of Audit Report.
3. Discuss the procedure for the audit of shares issued for Cash.
4. As an Auditor, how will you verify shares issued for consideration other than cash. Elucidate
5. Discuss the procedure for audit of shares issued for consideration other than Cash.

References

1. Principles and Practice of Auditing, DinkarPagare, Sultan Chand & Sons.
2. Auditing Practical – Dr. G.Anitha&Dr.J.Sankari, Sai Selva Publishers Distributors.
3. Auditing Practical (As per Companies Act, 2013), L. Natarajan, Margham Publications.

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Glossary

Adverse or Negative Report	எதிர்மறை அறிக்கை
Adverse Report	எதிர்மறை அறிக்கை
Appointment	நியமனம்
Articles of Association	செயல்முறை விதிகள்
Assurance	உத்தரவாதம்
Audit Report	தணிக்கை அறிக்கை
Auditing Standards	தணிக்கை தரம்
Auditor	தணிக்கையாளர்
Auditors Duty	தணிக்கையாளர் கடமை
Authority and Responsibility	ஆணையுரிமை மற்றும் பொறுப்பாண்மை
Authorized share capital	அங்கீகரிக்கப்பட்ட பங்கு முதல்
Balance sheet	இருப்புநிலைக் குறிப்பு
Bank over draft	வங்கி மேல்வரை பற்று
Bearer Debentures	கொணர்பவர் கடனீட்டுப் பத்திரங்கள்
Bills payable	செலுத்தற்குரிய மாற்றுச் சீட்டு
Bonus Issue	ஊக்கப் பங்கு
Book value	ஏட்டு மதிப்பு
Called-up share capital	அழைக்கப்பட்ட பங்கு முதல்
Calls in Arrears	அமைப்பு நிலுவை
Capital	முதல் (அ) மூலதனம்
Capital Reserve	முதலினக்காப்பு
Cash Book	ரொக்க ஏடு
Cash flow statements	ரொக்க நடமாட்ட அறிக்கை
Cash payment	ரொக்க செலுத்துதல்கள்
Cash Receipt	ரொக்கப் பெறுதல்கள்
Casual Vacancy	தற்செயல் காலியிடம்
Catalyst	வினையூக்கி
Check list	சரிபார்ப்பு பட்டியல்

Civil Liabilities	உரிமையியல் பொறுப்புகள்
Clean Audit Report	தூய தணிக்கை அறிக்கை
Company	நிறுமம்
Company Auditor	நிறும தணிக்கையாளர்
Confirmation letter	உறுதிப்பாடு கடிதம்
Consumption	நுகர்வு
Contingent Liabilities	நிகழ்வடையாப் பொறுப்புகள்
Contractual Duties	ஒப்பந்த பணிகள்
Convertible Debentures	மாற்றத்தகு கடனீட்டுப் பத்திரங்கள்
Credit Note	வரவு குறிப்பு
Criminal Liabilities	குற்றவியல் பொறுப்புகள்
Current Liabilities	நடப்பு பொறுப்புகள்
Debenture	கடனீட்டுப் பத்திரம்
Debit Note	பற்று குறிப்பு
Depletion	சிதைவு / காலியாதல்
Depreciation	தேய்மானம்
Detective control	புலனாய்வு கட்டுப்பாடு
Disclaimer	மறுதலிப்பு
Dispatch memo	சரக்கு அனுப்புகை குறிப்பு
Disqualifications	தகுதியின்மை
Division Work	வேலைப்பகிர்வு
Effluxion of time	காலப்போக்கு
Equity Share Capital	நேர்மை பங்கு முதல்
Exhaustion	சோர்வு (அ) வெறுமையாதல்
Financial Statements	நிதி அறிக்கை
Fixed Assets	நிலைச் சொத்துகள்
Frauds	மோசடி
General Meeting	பொது கூட்டம்
General Reserve	பொதுக்காப்பு
Goods inward Book	சரக்கு உள் வரு ஏடு
Goods outward Book	சரக்கு வெளி செல்லேடு
Governance	ஆளுகை
Government Company	அரசு நிறுமம்

Gradual Deterioration	படிப்படியாக மதிப்பு குறைதல்
Indemnify	இழப்பை ஈடுகட்டுதல்
Initial Public Offering	ஆரம்ப பொது விடுப்புகள்
Internal audit	அகத்தணிக்கை
Internal Audit Report	அகத்தணிக்கை அறிக்கை
Internal auditor	அகத்தணிக்கையாளர்
Internal Check	அகச்சீராய்வு /அகச்சோதனை
Internal control	அகக்கட்டுப்பாடு
Inventions	புதிய கண்டுபிடிப்புகள்
Investigating	புலனாய்வு
Investments	முதலீடுகள்
Invoice	இடாப்பு
Irredeemable Debentures	மீள்தகா கடனீட்டுப் பத்திரங்கள்
Issued share capital	வெளியிட்ட பங்கு முதல்
Legitimate right	சட்டப்படியான உரிமை
Liabilities	பொறுப்புகள்
Long Term Loans	நீண்ட கால கடன்கள்
Management Controls	நிர்வாக கட்டுப்பாடுகள்
Memorandum of Association	அமைப்பு முறையேடு
Minimum Subscription	குறுமப் பங்கு ஒப்பம்
Minute Book	நிகழ்ச்சி குறிப்பு
Misfeasance	அதிகாரத்தை தவறாக பயன்படுத்துதல்
Mortgage Debentures	அடமான கடனீட்டுப் பத்திரங்கள்
Naked Debentures	வெற்று கடனீட்டுப் பத்திரங்கள்
Narrative record	விரிவான பதிவேடு
Natural calamities	இயற்கை சீற்றங்கள்
Negligence	கவனமின்மை
Non-Convertible Debentures	மாற்றத்தகா கடனீட்டுப் பத்திரங்கள்
Obsolescence	வழக்கொழிவு
Organisation	அமைப்பு
Outstanding Expenses	கொடுபடா செலவுகள்
Over stated	மிகைப்படுத்தி எழுதுதல்
Over time records	மிகை நேர பதிவேடு

Paid-up share capital	செலுத்திய பங்கு முதல்
Partnership	கூட்டாண்மை
Partnership Deed	கூட்டாண்மை ஒப்பாவணம்
Pass Book	செல்லேடு
Piece work records	அலகு வீத பதிவேடு
Powers	அதிகாரங்கள்
Preference Share Capital	முன்னுரிமை பங்கு முதல்
Preventive control	தடுப்புக்கட்டுப்பாடு
Private Company	தனியார் நிறுமம்
Private Placement	தனி ஒதுக்கீடு
Professional Duties	தொழிற்சார்ந்த பணிகள்
Professional misconduct	தொழிற்சார்ந்த தவறான பணிகள்
Profit & Loss Appropriation Account	இலாப நட்ட பகிர்வு கணக்கு
Profit and Loss Account	இலாப நட்டக் கணக்கு
Promoters	தோற்றுவிப்பாளர்கள்
Prospectus	தகவல் அறிக்கை
Public Company	பொது நிறுமம்
Qualifications	தகுதிகள்
Qualified Audit Report	தகுதியான தணிக்கை அறிக்கை
Qualified Report	தகுதியான அறிக்கை
Questionnaire	வினா வரிசை
Redeemable Debentures	மீள்தகு கடனீட்டுப் பத்திரங்கள்
Registered Debentures	பதிவு செய்யப்பட்ட கடனீட்டுப் பத்திரங்கள்
Removal	நீக்கம்
Remuneration	ஊதியம்
Reserve	காப்பு
Reserve Bank of India	இந்திய மைய வங்கி
Reserve capital	காப்பு முதல்
Reserve fund	காப்புநிதி
Reserves and Surplus	காப்பும் மிகுதியும்
Resignation	பணி துறப்பு
Return from investments	முதலீடுகள் மீதான வருமானம்
Revaluation Method	மறுமதிப்பீட்டுமுறை

Rights	உரிமைகள்
Rights Issue	உரிமை பங்கு
Secret Reserve	இரகசியக்காப்பு / மறைக்காப்பு
Share allotment	பங்கு ஒதுக்கீடு
Share application	பங்கு விண்ணப்பம்
Share Capital	பங்கு முதல்
Share discount	பங்கு வட்டம்
Share forfeiture	பங்கு ஒறுப்பிழப்பு
Share holder	பங்குதாரர்
Share Premium	பங்கு முனைமம்
Sinking fund	கழிவுநிதி / ஒதுக்கீட்டு சேமவைப்பு நிதி / சீர்மைநிதி
Specific Reserve	குறிப்பிட்டக்காப்பு
Standard cost method	தர அடக்க மதிப்பு
Statutory auditor	சட்டமுறை தணிக்கையாளர்
Statutory Duty	சட்டமுறை கடமைகள்
Statutory Report	சட்டமுறை அறிக்கை
Subscribed share capital	ஒப்பிய பங்கு முதல்
Sundry Creditors	பற்பல கடனீந்தோர்
Tangible asset	புலனாகும் சொத்து
Time Records	நேர வீத பதிவேடு
Trading transactions	வியாபார நடவடிக்கைகள்
Un-called share capital	அழைக்கப்படாத பங்கு முதல்
Under stated	குறைத்து எழுதுதல்
Un-issued share capital	வெளியிடா பங்கு முதல்
Unqualified Report	வரையறையற்ற அறிக்கை
Un-subscribed share capital	ஒப்பாத பங்கு முதல்
Verification	சரிபார்த்தல்
Wage sheet	கூலி பட்டியல்
Working Paper	வரைவுத் தாள்கள்

TallyPrime

UNIT 10

Introduction to TallyPrime and Accounting for Trading concerns using TallyPrime

Contents

10.1 Introduction

10.2 Practical application of TallyPrime

10.3 Practical problems

Points to recall

The following points are to be recalled before learning Introduction to TallyPrime and Accounting for Trading concerns using TallyPrime:

- Fundamental principles of accounting
- Double entry system
- Basic rules of accounting
- Journalising
- Subsidiary books
- Ledger posting
- Final accounts
- Ratio analysis

Learning objectives

To enable the students to:

- Apply TallyPrime in maintaining books of accounts
- Apply TallyPrime in generating reports

Key terms to know

- Gateway of tally
- Accounting groups
- Ledgers
- Receipt Voucher
- Payment Voucher
- Contra Voucher
- Purchase Voucher
- Sales Voucher
- Journal Voucher

BNOMW

10.1 Introduction

Computers play a major role in the productivity of an organisation. Many softwares are developed for various needs of the organisation. Accounting is the most important activity in any organisation and computerisation of accounting is essential to maintain books of accounts uptodate and prepare financial statements instantly.

Tally Solutions introduced the software TallyPrime in 2021. Previous version of Tally is Tally.ERP 9. TallyPrime is an integrated business management software. It primarily helps to maintain accounting books in simplified manner. It also helps to manage inventory, taxation, payroll, etc. TallyPrime helps to generate reports to file Goods and Services Tax (GST) returns, Tax Deducted at Source (TDS) and payroll related reports such as PF, ESI.

10.2 Practical application of TallyPrime

1. Starting Tally Prime

TallyPrime can be started in either of the ways as given below:

Click on Start > TallyPrime (or) Click on TallyPrime icon (shortcut) on the desktop

A newly installed TallyPrime, if opened, will appear as in figure 10.1.

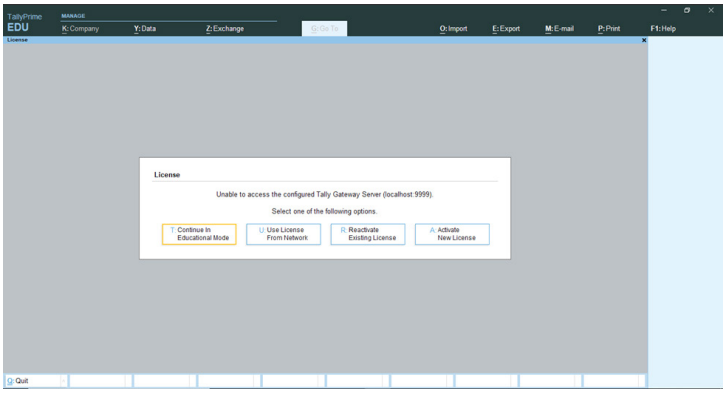


Figure 10.1 Newly installed TallyPrime screen

When TallyPrime is started, choose the mode of operation as per the options listed on the screen. If license is available, choose 'Activate New License', otherwise choose 'Continue in Educational Mode'.

For practice, 'Continue in Educational Mode' is chosen. After the selection, the first screen appears as in figure 10.2.

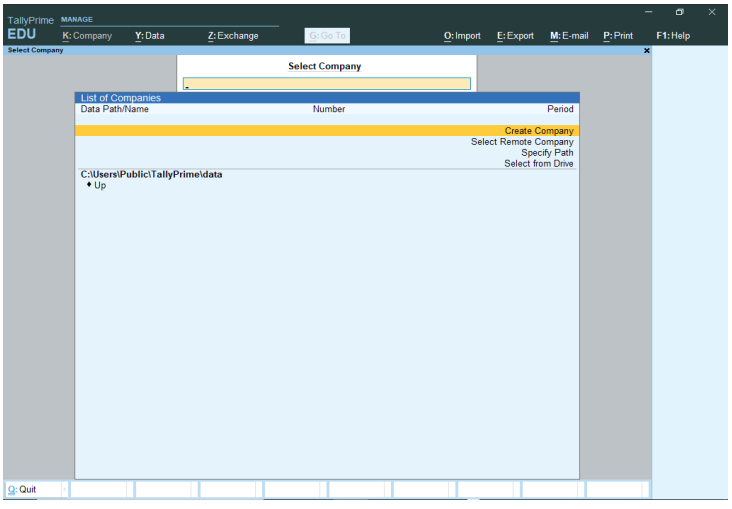


Figure 10.2 First screen in TallyPrime



When Educational Mode is used in TallyPrime, for the transactions dates of 1, 2 and 31 only can be recorded.

2. Creation of a Company

It is essential to enter the particulars of the company for which accounts are to be maintained in TallyPrime. To create a company, select "Create Company" option in first screen in TallyPrime. After selection, the Company Creation screen will appear as in figure 10.3.

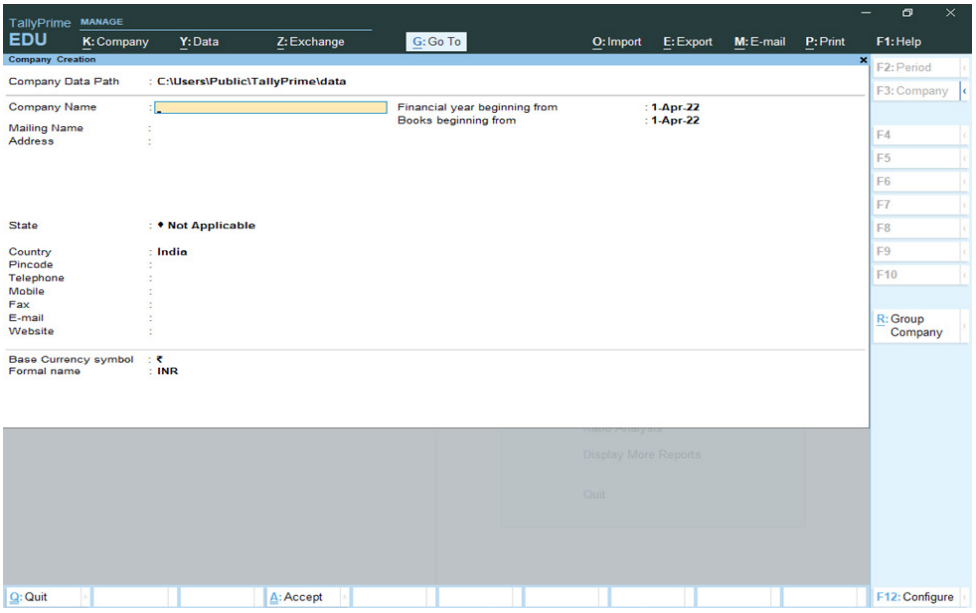


Figure 10.3 Creation of company

TallyPrime asks for Company name, address, books and financial year details, base currency information, etc. Now, provide all particulars of the company as required in TallyPrime. After completing all entries, choose 'Yes' to accept data and create company.

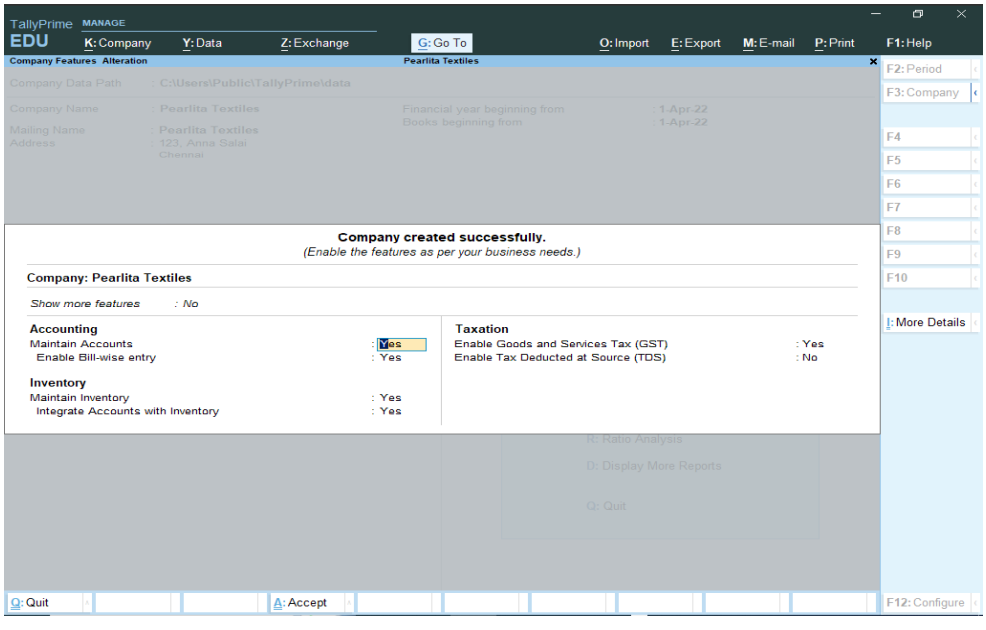


Figure 10.4 Company Features screen

Company Features

Immediately after creation of company, company features screen appears as shown in Figure 10.4. with the message company created successfully. The commonly used features for any business are enabled by default. To view all additional features set 'Yes' to 'Show more features'. Important features are detailed below:

Accounting: Under Accounting feature, Maintain Accounts is required to be set to 'Yes' to enable TallyPrime to maintain common accounting books. The accounting feature includes optional features like bill-wise entry and cost centre.

Inventory: Inventory feature includes maintain inventory and integrate accounts with inventory. These features can be set to 'Yes' or 'No' based on the requirement.

Taxation: Taxation feature allows enabling Goods and Services Tax (GST), Tax Deducted at Source (TDS) and Tax Collected at Source (TCS). Depending upon the requirement, these features can be set to 'Yes' or 'No'.



Company features can be viewed at any time from by selecting shortcut key F11 from Gateway of Tally.

Following the above procedure, multiple companies can be created.

3. Gateway of Tally

After creation of a company and whenever Tally is started, TallyPrime screen appears as in figure 10.5 given below. This screen is called Gateway of Tally. It shows the company selected under List of Selected Companies on the left pane.

Gateway of Tally is shown on the right pane which contains menu options Masters, Transactions, Utilities and Reports. The shortcut key for each menu option is a letter from the option's name, which will be highlighted in blue.

Vertical button bar is placed on the extreme right of the screen which contains buttons such as F1 and F2 for quick interaction with TallyPrime.

The Gateway of Tally screen will appear as below:

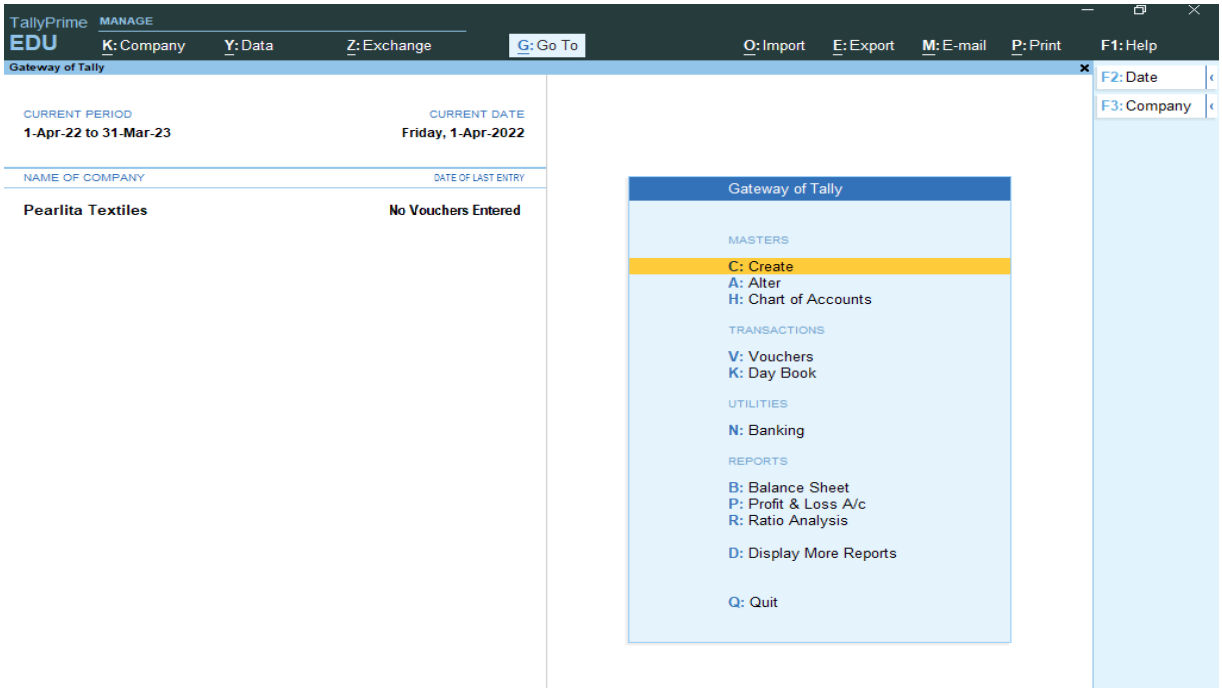


Figure 10.5 Gateway of Tally

4. Alter Company Details

To alter the company details such as company name, address, etc

F3: Company > Alter company > Select company from list of companies

After making necessary changes, Select 'Yes' to Accept.

5. Shut the Company

To shut the company in TallyPrime,

F3: Company > Shut company > Select company from list of companies



If all companies shut and TallyPrime is started, the company created at first will open.

6. Closing TallyPrime

The following are the two ways for closing TallyPrime:

Press Esc Key > Press Enter or Y or Click on Yes (or) Press Ctrl + Q

7. Select a company

If multiple companies are created, to choose a particular company, after opening TallyPrime, click F3:Company on the right button bar. TallyPrime displays the Select Company screen, with a list of companies that are already created. Select the company for which accounting has to be done from the list and press 'Enter Key'.

8. Delete a company

If a company needs to be deleted, click F3:Company on the right button bar and choose select company and select the company to be deleted and choose Alter company option. Then, Press Alt+D Keys and choose 'Yes' to delete a company.

9. Chart of Accounts

In TallyPrime, Chart of Accounts shows list of masters, namely, Accounting Masters, Inventory Masters and Payroll Masters as given in figure 10.6. Accounting Masters contain Groups, Ledgers, Voucher Types, etc. Inventory Masters contain Stock Groups, Stock Items, etc. Payroll Masters contain Employee Categories, Employee Groups, etc.

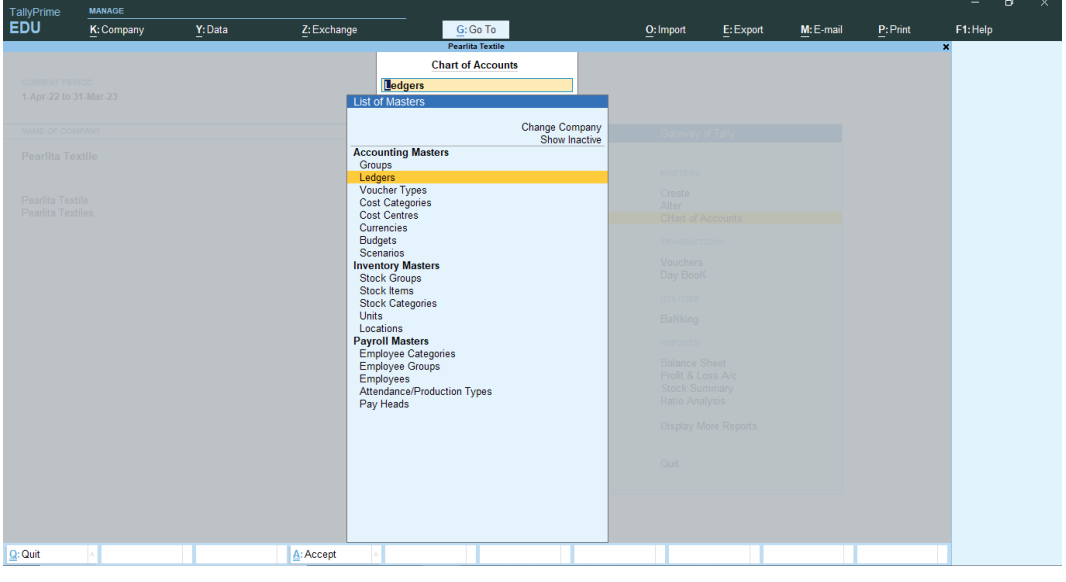


Figure 10.6 List of Masters

10. Accounting Groups

In TallyPrime, a Group is a collection of ledgers of the same nature. There are 28 predefined groups of accounts in TallyPrime which are widely used in accounts of many organisations. These predefined groups comply with the basic accounting principles of classifying various account heads into Assets, Liabilities, Income and Expense as shown below:

S.No	List of Groups
1	Branch / Divisions
2	Bank Accounts
3	Capital Account
4	Bank OD A/c
5	Current Assets
6	Cash-in-Hand
7	Current Liabilities
8	Deposits (Asset)
9	Direct Expenses
10	Duties & Taxes
11	Direct Incomes
12	Loans & Advances (Asset)
13	Fixed Assets
14	Provisions

S.No	List of Groups
15	Indirect Expenses
16	Reserves & Surplus
17	Indirect Incomes
18	Secured Loans
19	Investments
20	Stock-in-Hand
21	Loans (Liability)
22	Sundry Creditors
23	Misc. Expenses (ASSET)
24	Sundry Debtors
25	Purchase Accounts
26	Unsecured Loans
27	Sales Accounts
28	Suspense A/c

Groups are categorised as Primary Groups and Sub-Groups. Primary group includes Capital Account, Current Liabilities, Fixed Assets, Current Assets, etc. Sub-Group includes Reserves & Surplus, Sundry Creditors, Sundry Debtors, etc.

To view predefined groups,

Gateway of Tally > Masters > Chart of Accounts > Accounting Masters > Groups

After selection, TallyPrime screen will appear as in Figure 10.7.

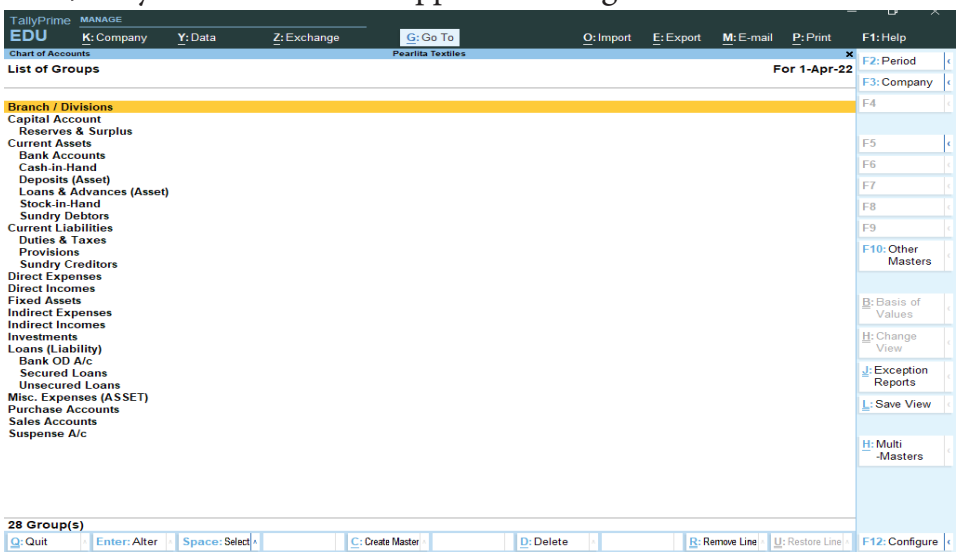


Figure 10.7 List of Groups

If any additional group is required, it can be created as follows: Gateway of Tally > Create > Group

11. Ledger Accounts

In TallyPrime, to record transactions, the transactions are to be identified with the related ledger accounts. TallyPrime has two predefined ledgers, Cash and Profit & Loss A/c. The user has to create various other ledgers based on their requirements.

To create ledger: Gateway of Tally > Masters > Create > Accounting Masters > Ledger

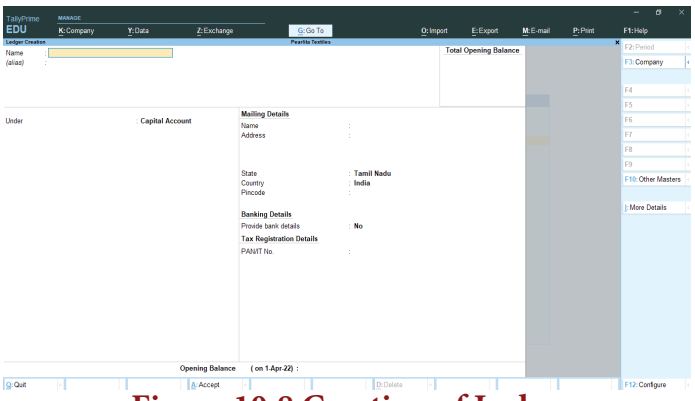


Figure 10.8 Creation of Ledger

After selection, Tally screen will appear as in Figure 10.8.

While creating a ledger, Name and the Group under which the ledger account is to be classified should be provided. Leave all other features to default values and Accept 'Yes'

12. Modification of group and ledger

Alteration or deletion of group and ledger is possible. While details of user-defined group/ ledger can be fully altered, only name can be altered for predefined group. Predefined group cannot be deleted. In Predefined ledger, Cash can be deleted, but Profit & Loss A/c cannot be deleted. However, user-defined group/ledger can be deleted.

To delete a ledger

Gateway of Tally > Masters > Alter > Accounting Masters > Ledger > Select the ledger to be deleted > Alt +D > Yes.

13. Vouchers

Voucher is a document which contains details of transactions. Transactions are to be recorded through voucher entries. TallyPrime has a set of predefined vouchers such as Purchase, Sales, Payment, Receipt and Contra.

To view the list of voucher types:
Gateway of Tally > Masters > Chart of Accounts > Accounting Masters > Voucher Types
As per the requirements of users, additional voucher type can be created.

Following are some of the major accounting vouchers used in an organisation:

(i) Receipt Voucher (ii) Payment Voucher (iii) Contra Voucher (iv) Purchase Voucher
(v) Sales Voucher (vi) Dedit Note (vii) Credit Note (viii) Journal Voucher

(i) Receipt Voucher

All transactions related to receipt either in cash or through bank are recorded using receipt voucher. In this voucher, cash or bank account is debited and other ledger account is credited.

To record receipt: Gateway of Tally > Transactions > Vouchers > F6:Receipt

(ii) Payment Voucher

All transactions related to payments either in cash or through bank are recorded using payment voucher. In this voucher, cash or bank account is credited and other ledger account is debited.

To record payment: Gateway of Tally > Transactions > Vouchers > F5:Payment

(iii) Contra Voucher

A transaction involving both cash account and bank account is recorded using contra voucher. The transaction may be for deposit of cash into bank account or withdrawal of cash from bank account. Also, a transaction involving cash and petty cash, one bank account and another account is recorded using contra voucher.

To record contra: Gateway of Tally > Transactions > Vouchers > F4:Contra

(iv) Purchase Voucher

Purchase vouchers are used for recording both cash and credit purchases of goods.

To record purchase: Gateway of Tally > Transactions > Vouchers > F9:Purchase

(v) Sales Voucher

Sales vouchers are used for recording both cash and credit sales of goods.

To record sales: Gateway of Tally > Transactions > Vouchers > F8:Sales

(vi) Debit Note

A debit note voucher is used to record the transaction details of the purchases returns for which cash is not received immediately. For the first time when debit note is used, TallyPrime will ask for the activation of debit note, Select "Yes" to activate.

To record transactions through debit note

Gateway of Tally > Transactions > Vouchers > F10:Other Vouchers > Accounting Vouchers > Debit Note (Alt + F5)

(vii) Credit Note

A credit note voucher is used to record the transaction details of the sales returns for which cash is not paid immediately. For the first time when credit note is used, TallyPrime will ask for the activation of credit note, Select "Yes" to activate.

To record transactions through credit note

Gateway of Tally > Transactions > Vouchers > F10: Other Vouchers > Accounting Vouchers > Credit Note (Alt + F6)

(viii) Journal Voucher

Journal vouchers are used for recording transactions involving other than cash, bank, purchases, sales, purchases returns and sales returns.

To record journal: Gateway of Tally > Transactions > Vouchers > F7:Journal



Transactions can be recorded in the vouchers by following two methods, a) Single Entry Mode and b) Double Entry Mode. To enter transaction in voucher through double entry mode, the mode of entry must be changed. Click "Change Mode" button appearing on the right pane (or Ctrl+H) and then click "As Voucher" option under Change Voucher Mode.



While recording transactions through vouchers under double entry mode, Dr/Cr Or To/By can be used in the journal entries. To change to Dr/Cr, the following procedure is to be followed: Gateway of Tally > Transactions > Vouchers > F12:Configure > General Details > Use Cr/Dr instead of To/By during voucher entry >Yes.

14. Viewing Reports

(a) To view Balance Sheet : Gateway of Tally > Reports > Balance Sheet

(b) To view Profit and Loss A/c : Gateway of Tally > Reports > Profit & Loss A/c

(c)To view Trial Balance : Gateway of Tally > Reports > Display More Reports > Accounting > Trial Balance

(d) To view Day Book : Gateway of Tally > Transactions > Display More Reports > Accounting > Day Book

10.3 Practical problems

Practical problem 1

Record the following transactions in the books of Pearlita in TallyPrime by creating a group State Bank of India A/c and prepare the Trial Balance and view Day book:

(i) Pearlita commenced a textile business with a capital of ₹ 1,00,000 at 123 Anna Salai, Chennai 600004.

(ii) She opened an account with SBI Chennai branch and deposited ₹ 40,000.

(iii) She also opened an account with SBI Madurai branch and deposited ₹ 10,000.

(iv) She withdrew ₹ 5,000 from SBI Chennai for office use.

(v) She transferred ₹ 4,000 from SBI Chennai Account to open SBI Trichy Account.

(vi) She gave ₹ 2,000 to the Petty Cashier for office purpose.

(vii) She paid salaries amounting ₹ 20,000 from SBI Chennai branch through ECS.

Solution

Following steps are to be followed to enter the transactions in TallyPrime:

Step 1: Creation of Company

Step 2: Analysis of transactions

Step 3: Creation of new Group – State Bank of India A/c

Step 4: Creation of new Ledgers

Step 5: Entry of transactions through vouchers

Step 6: View Trial Balance and Day Book

Above steps are explained in detail as below:

Step 1: Creation of Company

To create a company, select "Create Company" option in first screen in TallyPrime. After selection, the Company Creation screen will appear as in figure 10.1.1. Type the Company Name as "Pearlita Textiles" and provide all other data as in figure 10.1.1 given below and choose "Yes" to Accept.

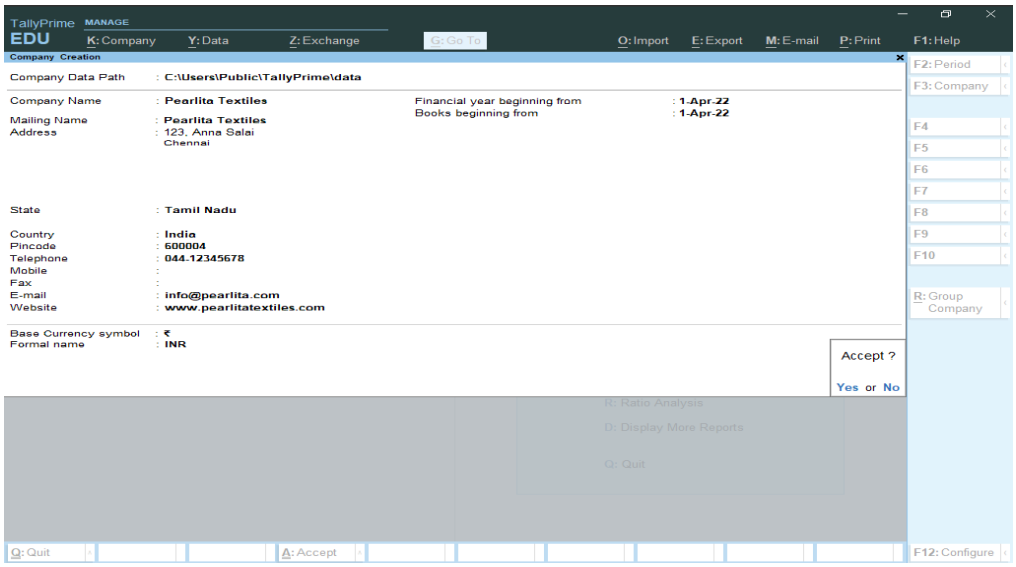


Figure 10.1.1 Creation of Company

To enable features

After accepting "Yes" in company creation screen, TallyPrime screen will appear with default features for the company created.

To enable features for the company, set 'Yes' to Maintain Accounts and 'No' to all other fields and choose 'Yes' to Accept.

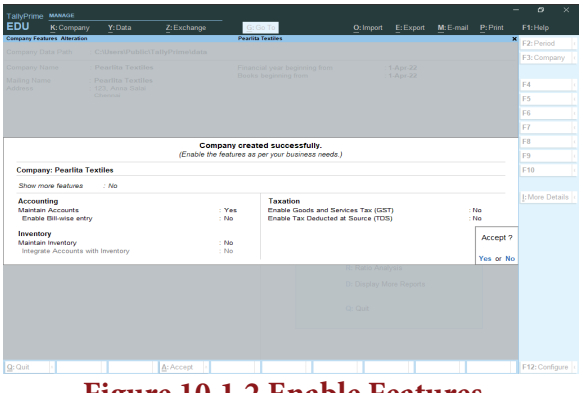


Figure 10.1.2 Enable Features

Now the Pearlita Textiles company is created and TallyPrime screen will appear.

Step 2: Analysis of transactions

Analysis of transactions, passing journal entries, identification of group and voucher type

S. No.	Particulars		Debit ₹	Credit ₹	Group	Voucher type
(i)	Cash A/c To Pearlita's Capital A/c	Dr.	1,00,000	 1,00,000	Cash-in-Hand Capital Account	Receipt
(ii)	SBI Chennai A/c To Cash A/c	Dr.	40,000	 40,000	State Bank of India A/c Cash-in-Hand	Contra
(iii)	SBI Madurai A/c To Cash A/c	Dr.	10,000	 10,000	State Bank of India A/c Cash-in-Hand	Contra
(iv)	Cash A/c To SBI Chennai A/c	Dr.	5,000	 5,000	Cash-in-Hand State Bank of India A/c	Contra
(v)	SBI Trichy A/c To SBI Chennai A/c	Dr.	4,000	 5,000	State Bank of India A/c State Bank of India A/c	Contra
(vi)	Petty Cash A/c To Cash A/c	Dr.	2,000	 2,000	Cash-in-Hand Cash-in-Hand	Contra
(vii)	Salaries A/c To SBI Chennai A/c	Dr.	20,000	 20,000	Indirect expenses State Bank of India A/c	Payment

Step 3: Creation of new Group

A new group State Bank of India A/c must be created.

To create State Bank of India A/c group

Gateway of Tally > Masters > Create > Accounting masters > Group

Now provide data as below:

Name: State Bank of India A/c Under: Bank Accounts

Set 'No' to other options and choose 'Yes' to Accept.

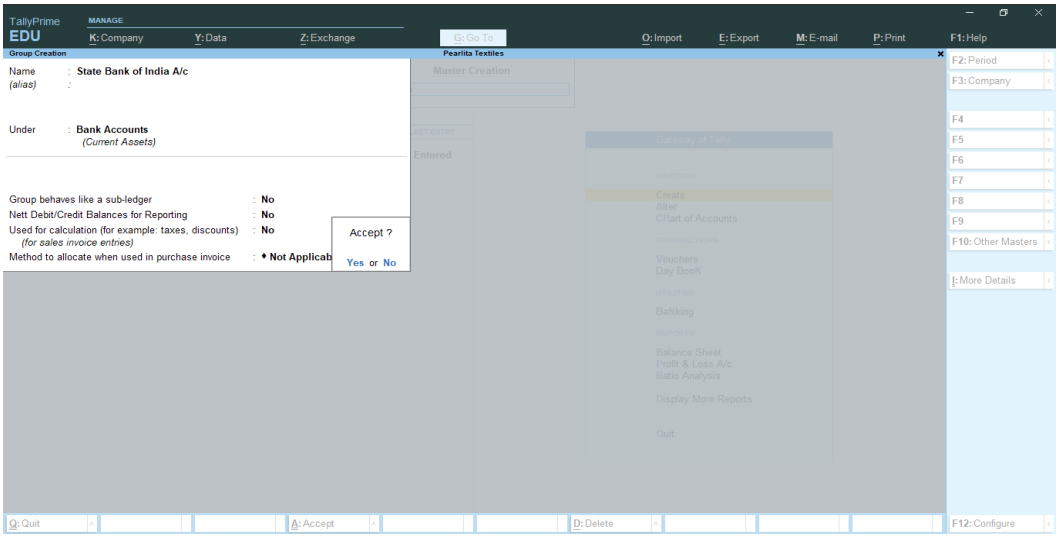


Figure 10.1.3 Creation of new group State Bank of India A/c

Step 4: Creation of new Ledgers

The following ledgers are to be created:

(i) Pearlita's Capital A/c (ii) SBI Chennai A/c, (iii) SBI Madurai A/c,
(iv) SBI Trichy A/c (v) Petty Cash A/c and (vi) Salaries A/c

(i) To create Pearlita's Capital A/c

Gateway of Tally > Masters > Create > Accounting masters > Ledger

Name : Pearlita's Capital A/c Under : Capital Account Accept: Yes.

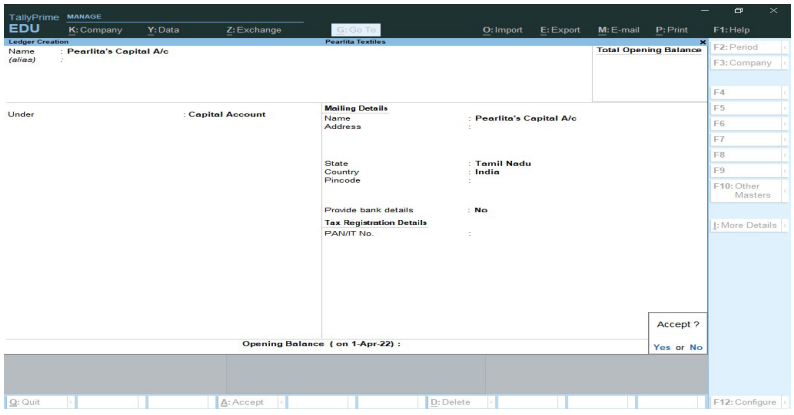


Figure 10.1.4 Creation of Pearlita's Capital A/c

(ii) To create SBI Chennai A/c

Name : SBI Chennai A/c Under : State Bank of India A/c Accept: Yes.

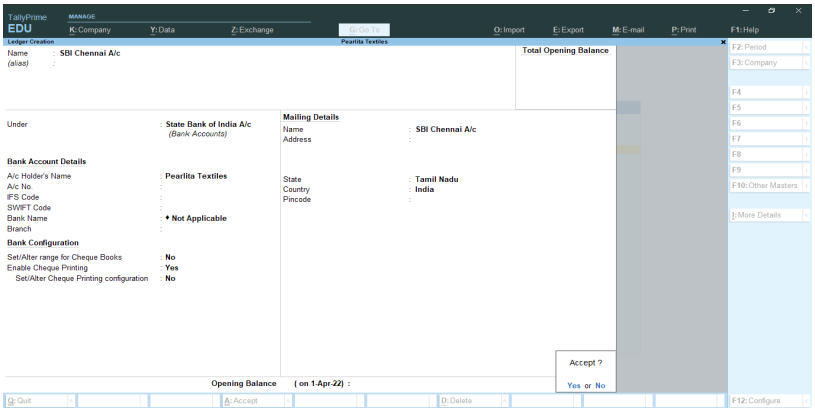


Figure 10.1.5 Creation of SBI Chennai A/c

(iii) To create SBI Madurai A/c

Name : SBI Madurai A/c Under : State Bank of India A/c Accept: Yes.

(iv) To create SBI Trichy A/c

Name : SBI Trichy A/c Under : State Bank of India A/c Accept: Yes.

(v) To create Petty Cash A/c

Name : Petty Cash A/c Under : Cash-in-Hand Accept: Yes.

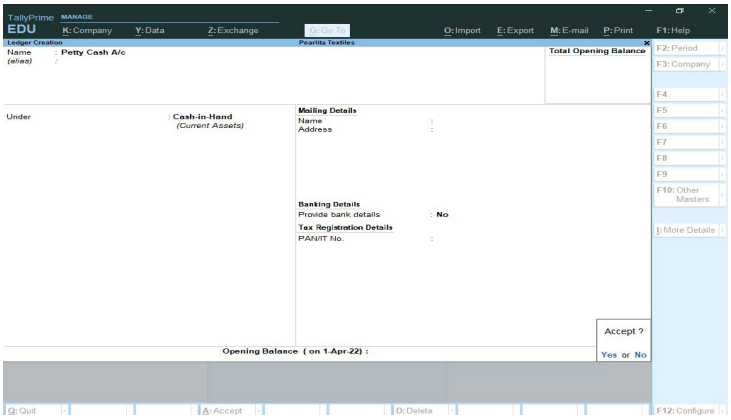


Figure 10.1.6 Creation of Petty Cash A/c

(vi) To create Salaries A/c

Name : Salaries A/c Under : Indirect Expenses Accept: Yes.

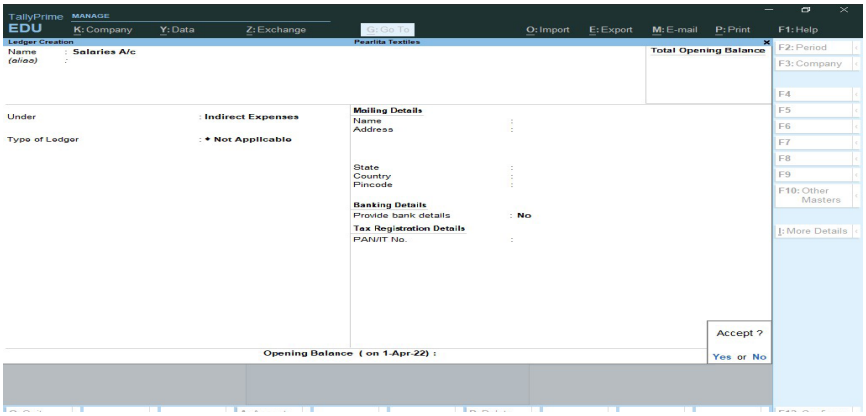


Figure 10.1.7 Creation of Salaries A/c

Step 5: Entering transactions through vouchers

To change to Dr/Cr, the following procedure is to be followed:

Gateway of Tally > Transactions > Vouchers > F12:Configure > General Details > Use Cr/Dr instead of To/By during voucher entry > Yes.

(i) Pearlita commenced a textile business with a capital of ₹ 1,00,000

F6: Receipt is to be used to record this transaction.

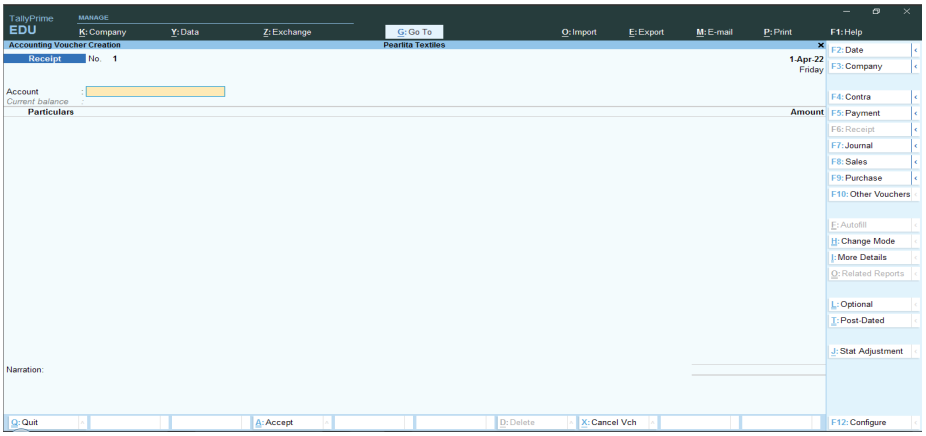


Figure 10.1.8 Receipt voucher in Single entry mode

To enter transactions in double entry mode, choose Change Mode from right pane (or Ctrl + H) and select "Double Entry" option under Change Voucher Mode.



Figure 10.1.9 Receipt voucher (Selection of "Double entry")

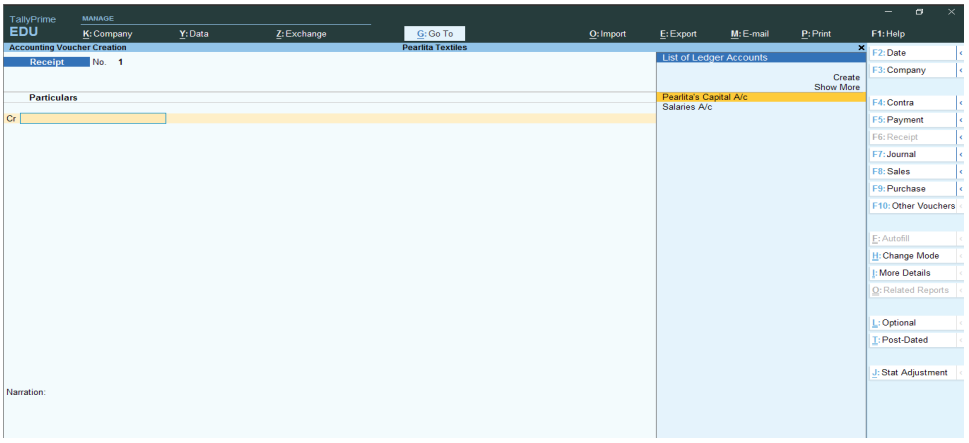


Figure 10.1.10 Receipt voucher "Double entry mode"

First, credit aspect of the transaction, "Pearlita's Capital A/c" is to be recorded by entering the amount ₹ 1,00,000, followed by the debit aspect, "Cash".

Narration : Capital introduced by Pearlita Accept: Yes.

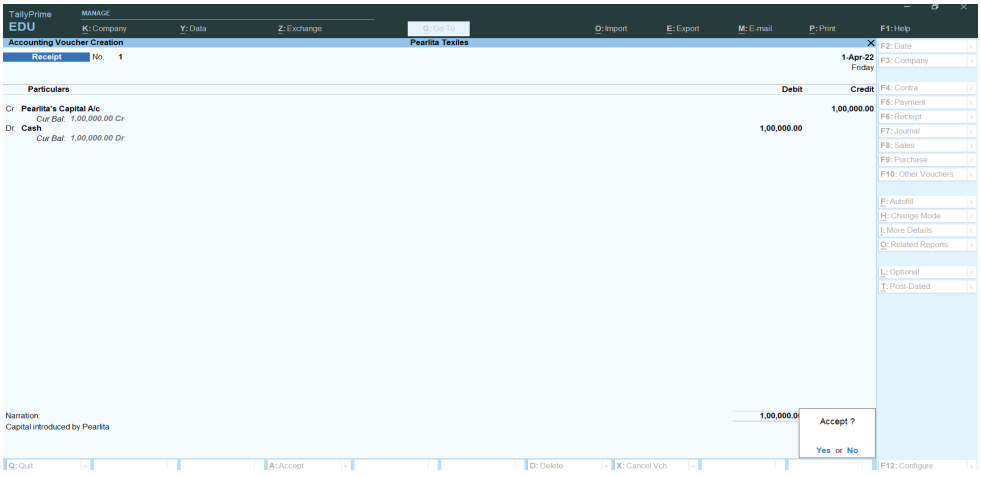


Figure 10.1.11 Receipt Voucher entry for capital introduced

(ii) Opened an account with SBI Chennai branch and deposited ₹ 40,000

F4: Contra is to be used to record this transaction.

First, credit aspect of the transaction, "Cash" is to be recorded by entering the amount ₹ 40,000, followed by the debit aspect, "SBI Chennai A/c".

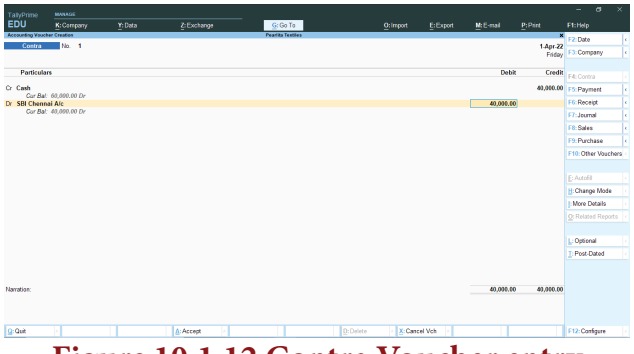


Figure 10.1.12 Contra Voucher entry for opening bank account

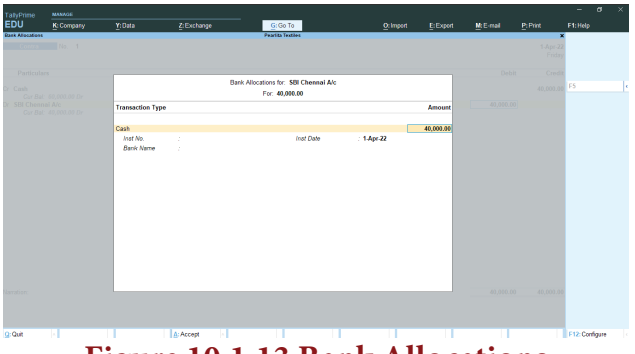


Figure 10.1.13 Bank Allocations

After entering the value for SBI Chennai A/c, Bank Allocations for SBI Chennai A/c, Denominations and Bank Allocations for SBI Chennai A/c screens will appear. For them, do not fill anything, just enter and proceed.

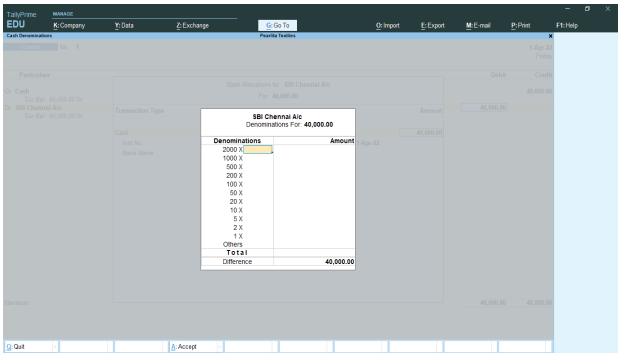


Figure 10.1.14 Denominations

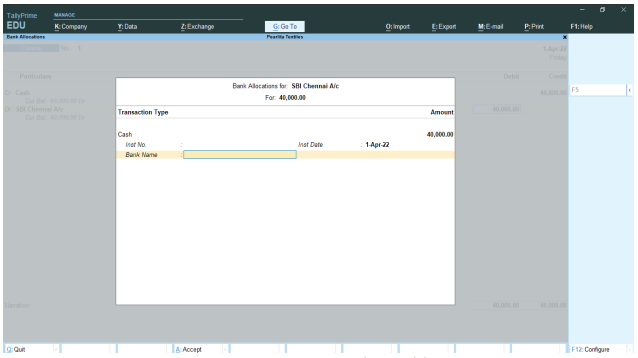


Figure 10.1.15 Bank Allocations

Narration: Opened bank account in SBI Chennai branch Accept: Yes.

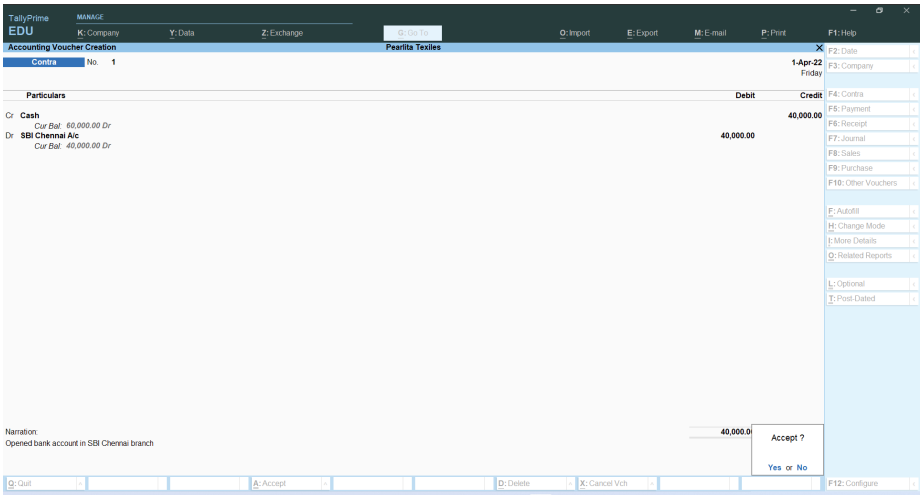


Figure 10.1.16 Contra Voucher entry for bank account opened in SBI Chennai branch

(iii) Opened an account with SBI Madurai branch and deposited ₹ 10,000

F4:Contra is to be used to record this transaction.

First, credit aspect of the transaction, "Cash" is to be recorded by entering the amount ₹ 10,000, followed by the debit aspect, "SBI Madurai A/c".

After entering the value for SBI Madurai A/c, Bank Allocations for SBI Madurai A/c, Denominations and Bank Allocations for SBI Madurai A/c screens will appear. For them, do not fill anything, just enter and proceed.

Narration: Opened bank account in SBI Madurai branch Accept: Yes.

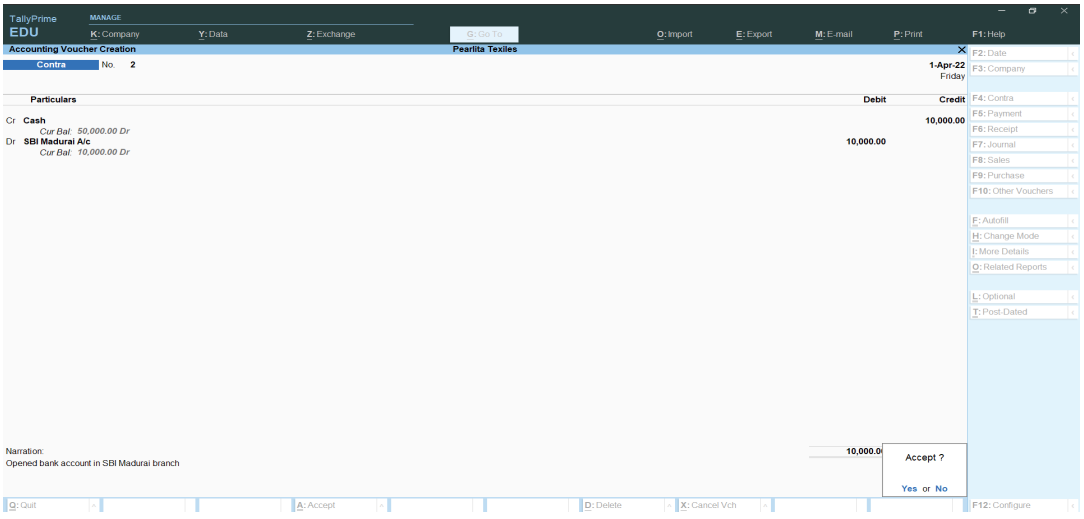


Figure 10.1.17 Contra Voucher entry for bank account opened in SBI Madurai branch

(iv) Withdrew ₹ 5,000 from SBI Chennai for office use

F4: Contra is to be used to record this transaction.

First, credit aspect of the transaction, "SBI Chennai A/c" is to be recorded by entering the amount ₹ 5,000, followed by the debit aspect, "Cash".

After entering the value for SBI Chennai A/c, Bank Allocations for SBI Chennai A/c screen will appear. For them, do not fill anything, just enter and proceed.

Narration: Cash withdrawn from bank for office use Accept: Yes.

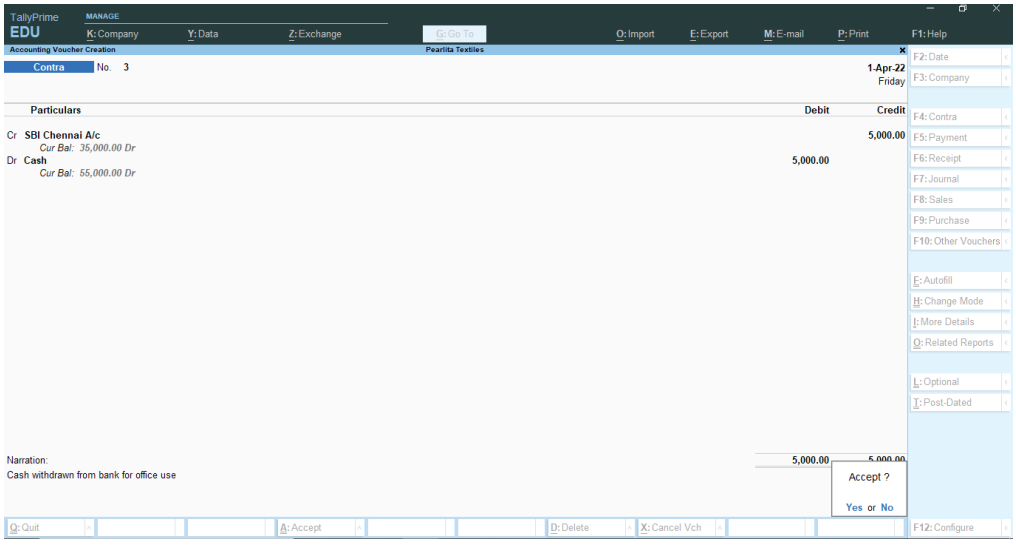


Figure 10.1.18 Contra Voucher entry for cash withdrawn from bank for office use

(v) Transferred ₹ 4,000 from SBI Chennai Account to open SBI Trichy Account

F4: Contra is to be used to record this transaction.

First, credit aspect of the transaction, "SBI Chennai A/c" is to be recorded by entering the amount ₹ 4,000, followed by the debit aspect, "SBI Trichy A/c".

After entering the value for SBI Chennai A/c, Bank Allocations for SBI Chennai A/c screen will appear. For them, do not fill anything, just enter and proceed. After entering the value for SBI Trichy A/c, Bank Allocations for SBI Trichy A/c screen will appear. For them, do notfill anything, just enter and proceed.

Narration: Amount transferred from bank SBI Chennai A/c to open SBI Trichy A/c

Accept: Yes.

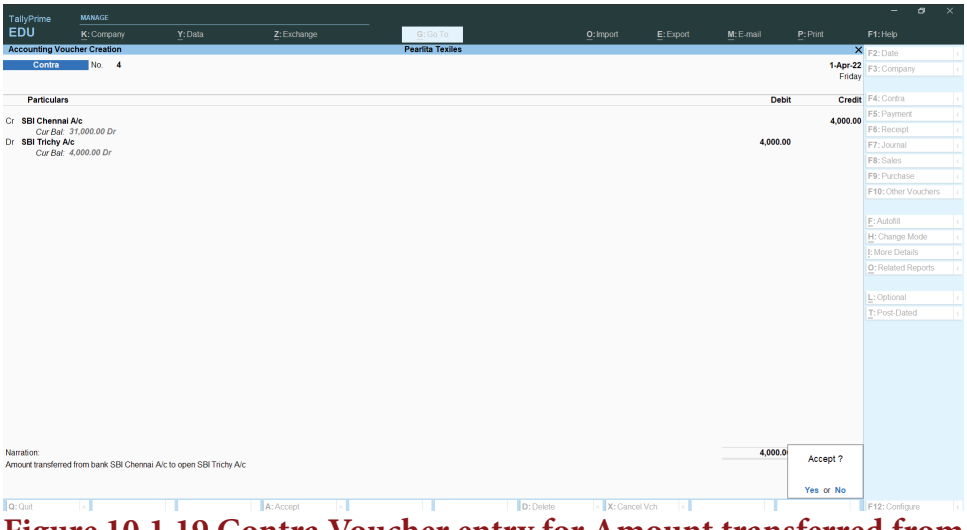


Figure 10.1.19 Contra Voucher entry for Amount transferred from SBI Chennai A/c to SBI Trichy A/c

(vi) Gave ₹ 2,000 to the Petty Cashier for office purpose.

F4: Contra is to be used to record this transaction.

First, credit aspect of the transaction, "Cash" is to be recorded by entering the amount ₹ 2,000 followed by the debit aspect, "Petty Cash A/c".

Narration: Gave cash to the Petty Cashier for office purpose

Accept: Yes.

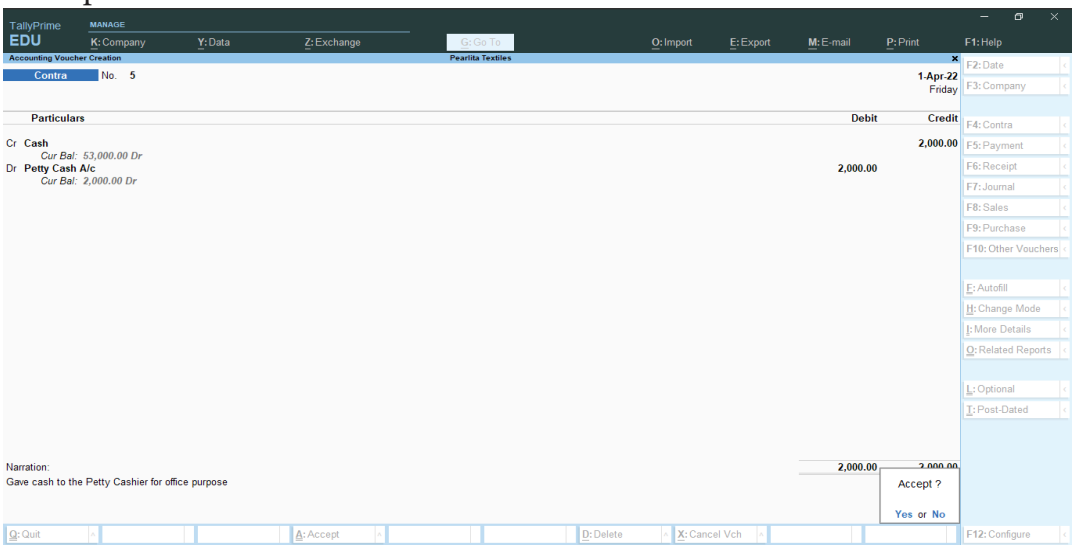


Figure 10.1.20 Contra Voucher entry for cash given to Petty cashier for office use

(vii) Paid salaries amounting ₹ 20,000 from SBI Chennai branch through ECS.

F5: Payment is to be used to record this transaction.

First, debit aspect of the transaction, "Salaries A/c" is to be recorded by entering the amount ₹ 20,000, followed by the credit aspect, "SBI Chennai A/c".

After entering the value for SBI Chennai A/c, Bank Allocations for SBI Chennai A/c screen will appear. For them, do not fill anything, just enter and proceed.

Narration: Paid Salaries from SBI Chennai branch through ECS

Accept: Yes.

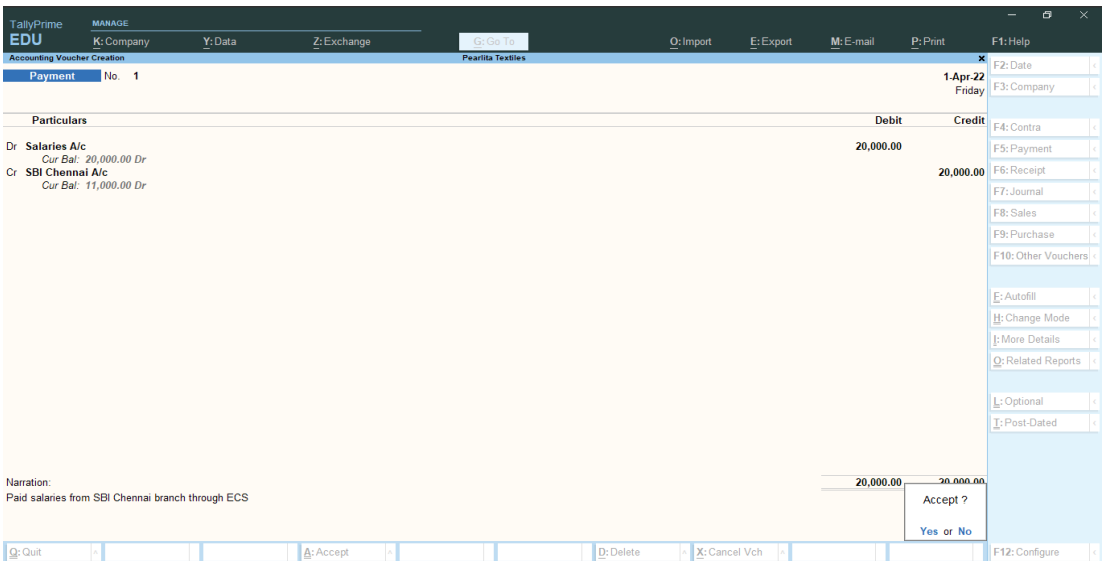


Figure 10.1.21 Payment Voucher entry for Salaries paid through ECS

Step 6: View Trial Balance and Day Book

(a) To view Trial Balance

Gateway of Tally > Reports > Display More Reports > Accounting > Trial Balance > Alt+F5 (Detailed view)

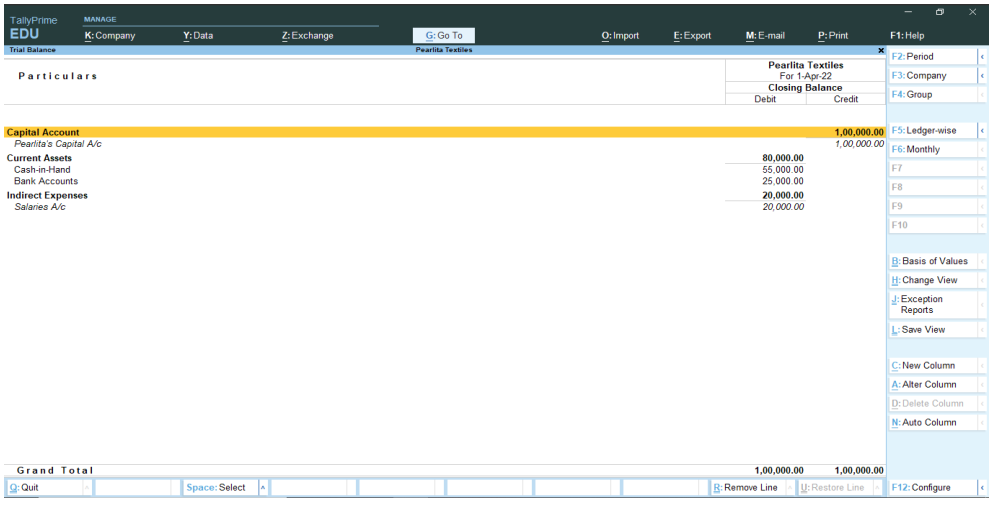


Figure 10.1.22 Trial Balance (Detailed View)

(b) To view Day Book

Gateway of Tally > Reports > Display More Reports > Accounting > Day Book > Alt+F5 (Detailed view)

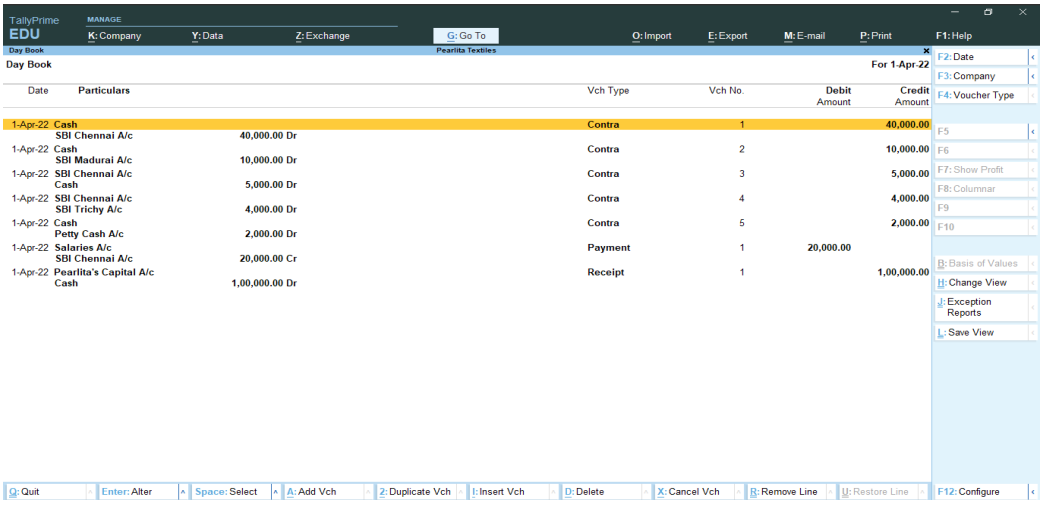


Figure 10.1.23 Day Book (Detailed View)

Practical Problem 2

(i) Haasini commenced stationery business with a capital of ₹ 2,00,000. The following transactions took place in her business.

(ii) Purchased A4 sheets from TNPL for ₹ 10,000 on credit

(iii) Purchase goods (legal size paper) from TNPL by paying cash ₹ 1,000

(iv) Of the goods (A4 sheets) purchased goods worth ₹ 2,000 were returned and no cash was received.

(v) Of the goods (legal size paper) purchased goods worth ₹ 300 were returned and the cash was received.

(vi) Sold goods (A4 sheet) to Mani for ₹ 4,000 on credit.

(vii) Of the goods sold to Mani, goods worth ₹ 1,000 was returned for which no money was paid.

(viii) Sold goods (legal size papers) to Gopal for ₹ 1,000 and the cash was received.

(ix) Of the goods sold to Gopal, he returned goods worth ₹ 400 for which cash was paid.

(x) Stationery purchased on credit from Mariya ₹ 1,000

(xi) Bought furniture on credit from Sindhu for ₹ 20,000

Record the above transactions in TallyPrime and view Profit & Loss A/c and Balance Sheet.

Solution

Following steps are to be followed to enter the transactions in TallyPrime:

Step 1: Creation of Company

Step 2: Analysis of transactions

Step 3: Creation of new Ledgers

Step 4: Entry of transactions through Vouchers

Step 5: View Profit & Loss A/c and Balance Sheet

Above steps are explained in detail as below:

Step 1: Creation of company

F3:Company > Create Company. Type the Company Name as "Haasini Stationery Business" and Choose the State as "Tamil Nadu" from the list of states and choose "Yes" to Accept.

To enable features

After accepting "Yes" in company creation screen, to enable features for the company, set 'Yes' to Maintain Accounts and 'No' to all other fields and choose 'Yes' to Accept.

Step 2: Analysis of transactions

Analysis of transactions Passing journal entries, identification of group and voucher type

S. No.	Particulars		Debit ₹	Credit ₹	Group	Voucher type
(i)	Cash A/c To Haasini's Capital A/c	Dr.	2,00,000	 2,00,000	Cash-in-Hand Capital Account	Receipt
(ii)	Purchases A/c To TNPL A/c	Dr.	10,000	 10,000	Purchase Accounts Sundry Creditors	Purchase
(iii)	Purchases A/c To Cash A/c	Dr.	1,000	 1,000	Purchase Accounts Cash-in-Hand	Purchase
(iv)	TNPL A/c To Purchases Returns A/c	Dr.	2,000	 2,000	Sundry Creditors Purchase Accounts	Debit Note
(v)	Cash A/c To Purchases Returns A/c	Dr.	300	 300	Cash-in-Hand Purchase Accounts	Receipt
(vi)	Mani A/c To Sales A/c	Dr.	4,000	 4,000	Sundry Debtors Sales Accounts	Sales
(vii)	Sales Returns A/c To Mani A/c	Dr.	1,000	 1,000	Sales Accounts Sundry Debtors	Credit Note
(viii)	Cash A/c To Sales A/c	Dr.	1,000	 1,000	Cash-in-Hand Sales Accounts	Sales
(ix)	Sales Returns A/c To Cash	Dr.	400	 400	Sales Accounts Cash-in-Hand	Payment
(x)	Stationery A/c To Mariya A/c	Dr.	1,000	 1,000	Indirect Expenses Sundry Creditors	Journal
(xi)	Furniture A/c To Sindhu A/c	Dr.	20,000	 20,000	Fixed Assets Sundry Creditors	Journal

Step 3: Creation of new Ledgers

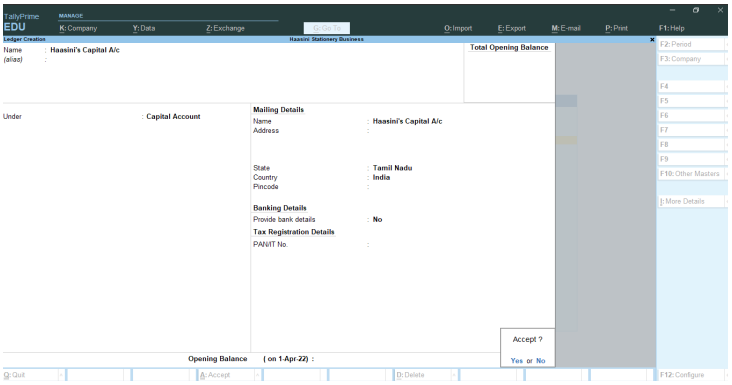


Figure 10.2.1 Creation of Haasini's Capital Account

(i) To create Haasini's Capital ledger

Gateway of Tally > Masters > Create > Accounting Masters > Ledger

Name : Haasini's Capital A/c

Under : Capital Accounts

Accept: Yes.

(ii) To create other ledger accounts

Follow the following procedure to create Purchases A/c, TNPL A/c, Purchases Returns A/c, Sales A/c, Mani A/c, Sales Returns A/c, Stationery A/c, Mariya A/c, Furniture A/c and Sindhu A/c:

Gateway of Tally > Masters > Create > Accounting Masters > Ledger > Name > Under (Group) > Accept: Yes.

Step 4: Entry of transactions through Vouchers

(i) Haasini Commenced Stationery business with a capital of ₹ 2,00,000

Gateway of Tally > Transactions > Vouchers

F6: Receipt

Credit : Haasini's Capital A/c Amount : 2,00,000

Debit : Cash Narration : Capital introduced by Haasini

Accept: Yes.

(ii) Purchased A4 Sheets from TNPL for ₹ 10,000 on credit

F9: Purchase

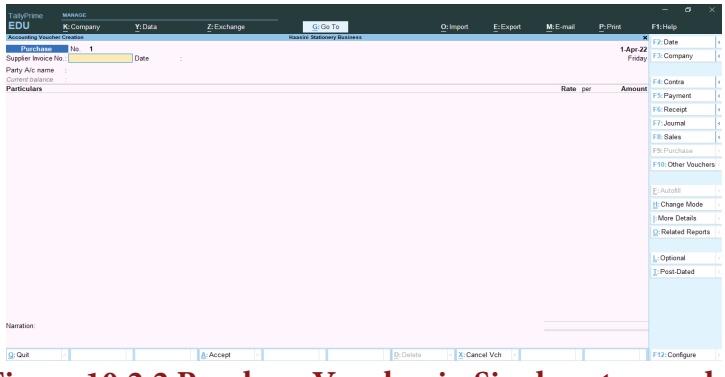


Figure 10.2.2 Purchase Voucher in Single entry mode

To enter transactions in double entry mode, choose Change Mode from right pane (or Ctrl + H) and select "As Voucher" option under Change Voucher Mode.

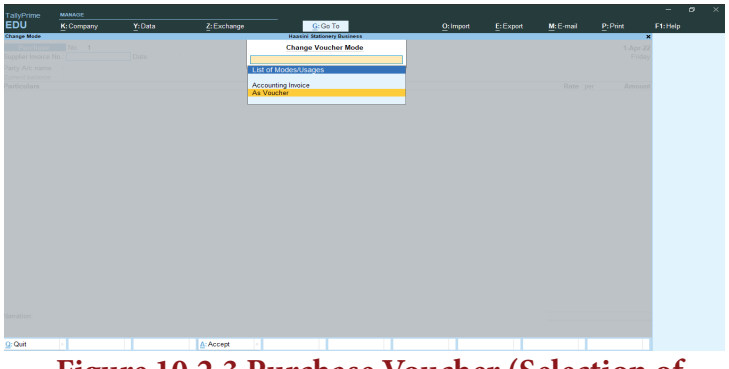


Figure 10.2.3 Purchase Voucher (Selection of "As Voucher", i.e., Double entry mode)

After selection of voucher mode, make entries as below:

Credit : TNPL A/c

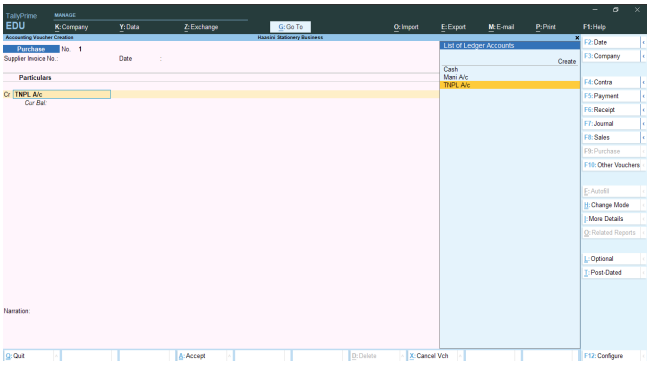


Figure 10.2.4 Purchase Voucher entry for A4 sheets Purchased from TNPL on credit

After selection of TNPL A/c, TallyPrime will display as in Figure 10.2.5 asking for Receipt Details and another screen as in Figure 10.2.6 asking for Party Details.

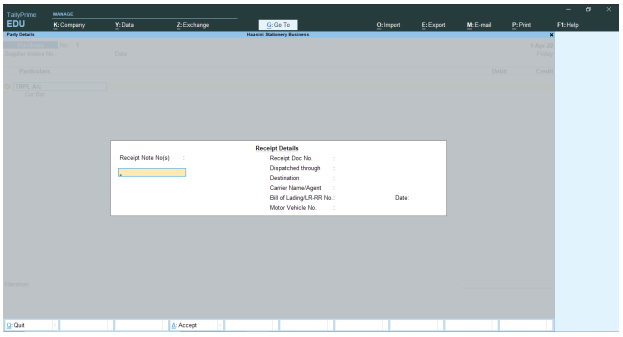


Figure 10.2.5 Receipt Details

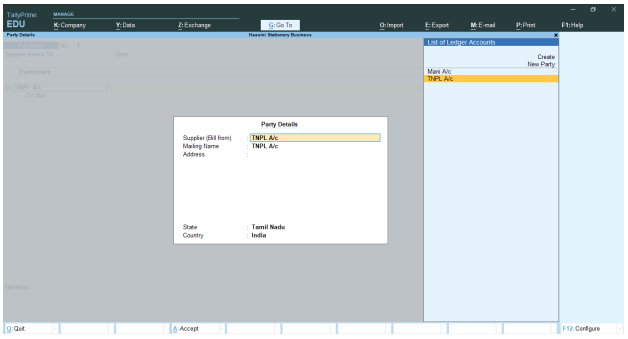


Figure 10.2.6 Party Details

Skip to the next screen without altering/giving values in both the screens.

Amount : 10,000 Debit : Purchases A/c

Narration : Purchased A4 sheets from TNPL on credit Accept: Yes.

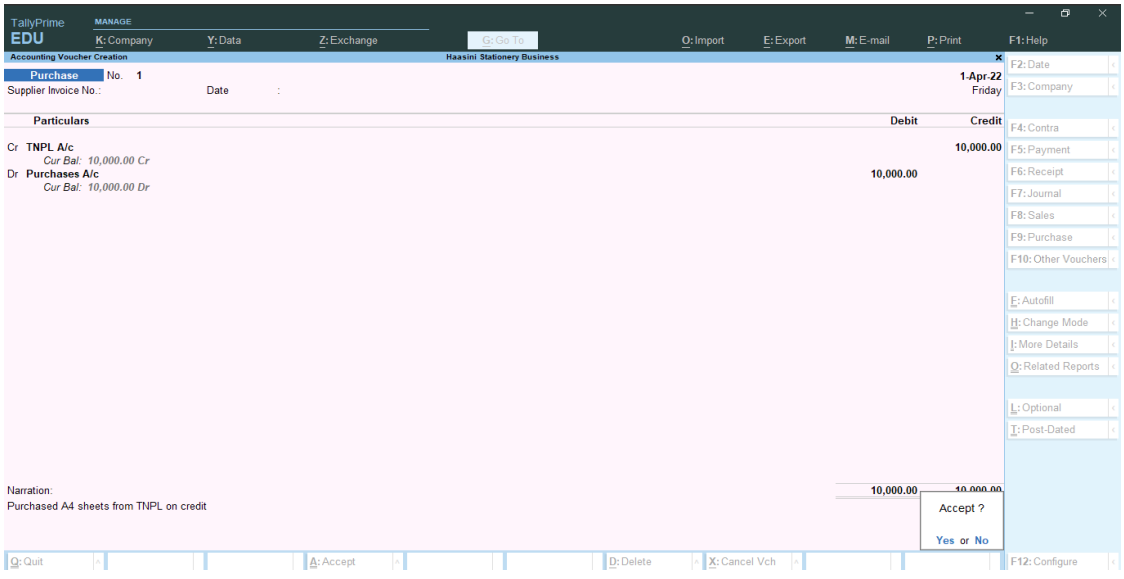


Figure 10.2.7 Purchase Voucher entry for credit purchase

(iii) Purchased goods (legal size paper) from TNPL by paying cash for ₹ 1,000

F9: Purchase

Credit : Cash

After selection of Cash, TallyPrime will ask for Receipt Details and Party Details. Skip to the next screen without altering/giving values in both the screens.

Amount : 1,000 Debit : Purchases A/c

Narration : Cash purchase of legal size paper Accept: Yes.

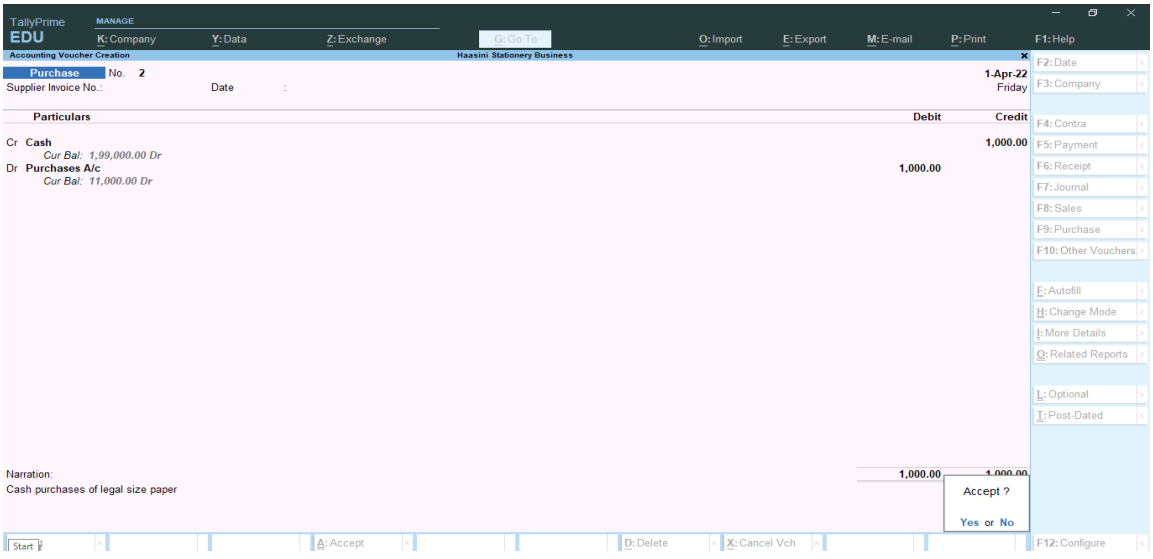


Figure 10.2.8 Purchase Voucher entry for cash purchase

(iv) Of the goods (A4 sheets) purchased goods worth ₹ 2,000 were returned and no cash was received

Gateway of Tally > Transactions > Vouchers > F10: Other Vouchers > Accounting Vouchers > select Debit Note from the List of Voucher Types

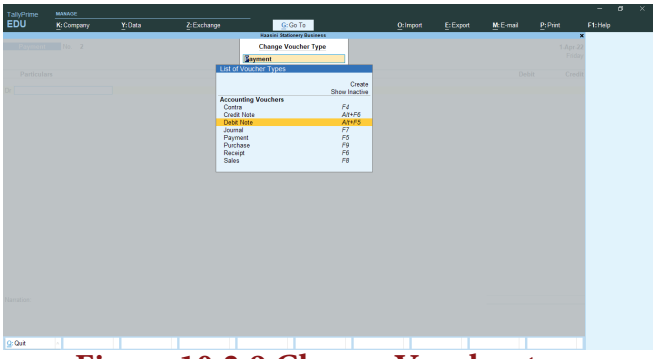


Figure 10.2.9 Change Voucher type – Selection of Debit Note

To enter transactions in double entry mode, choose Change Mode from right pane (or Ctrl + H) and select "As Voucher" option under Change Voucher Mode.

After selection of voucher mode, make entries as below:

Debit : TNPL A/c

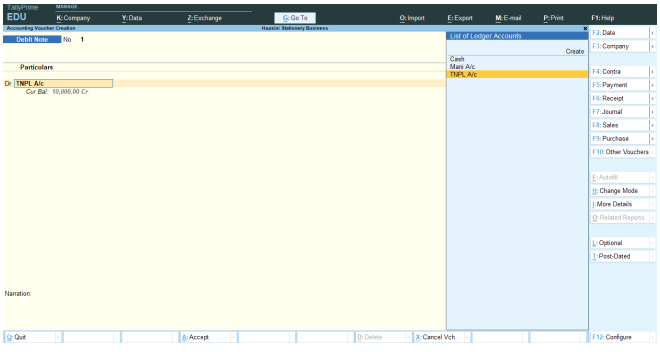


Figure 10.2.10 Creation of Debit note for purchase return

After selection of TNPL A/c, TallyPrime will display as in Figure 10.2.11 asking for Dispatch Details and another screen as in 10.2.12 for Party Details.

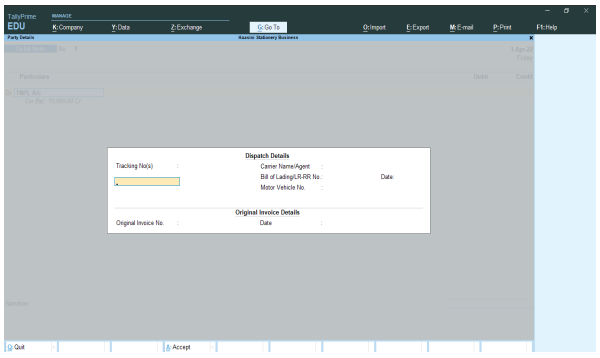


Figure 10.2.11 Dispatch Details

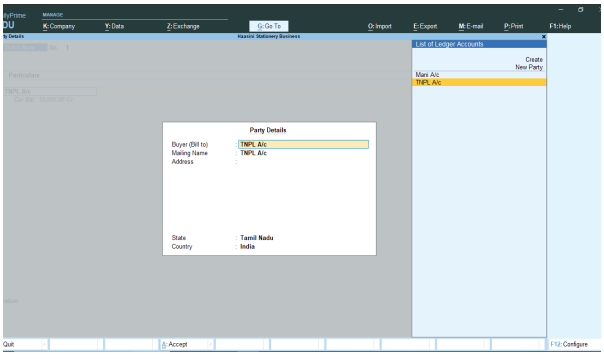


Figure 10.2.12 Party Details

Skip to next screen without altering/giving values in both the screens.

Amount : 2,000 Credit : Purchases Returns A/c

Narration : A4 sheets returned to TNPL Accept: Yes.

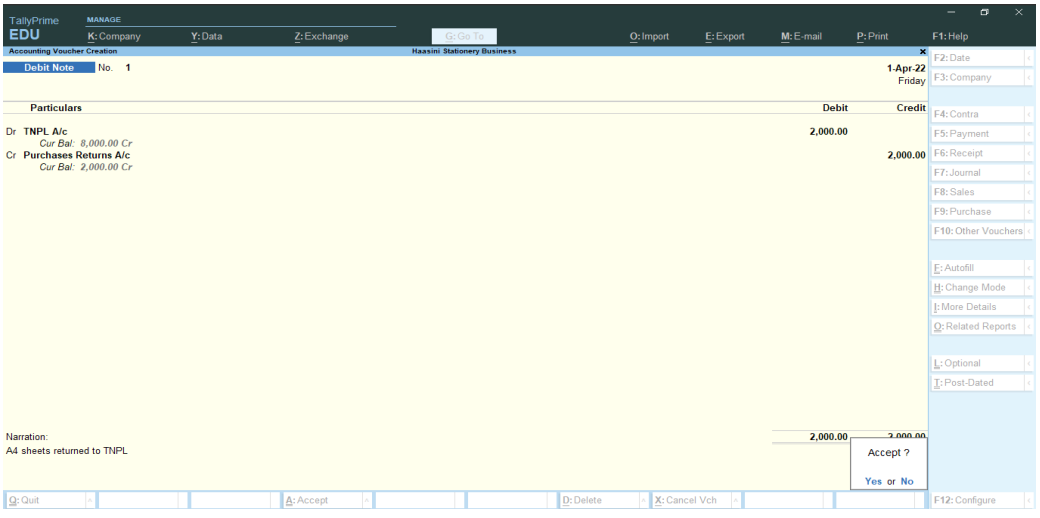


Figure 10.2.13 Debit Note entry for purchase return

(v) Of the goods (legal size paper) purchased goods worth ₹ 300 were returned and the cash was received

F6: Receipt

Credit : Purchases Returns A/c Amount : 300 Debit : Cash

Narration : Legal size paper returned and cash received Accept: Yes.

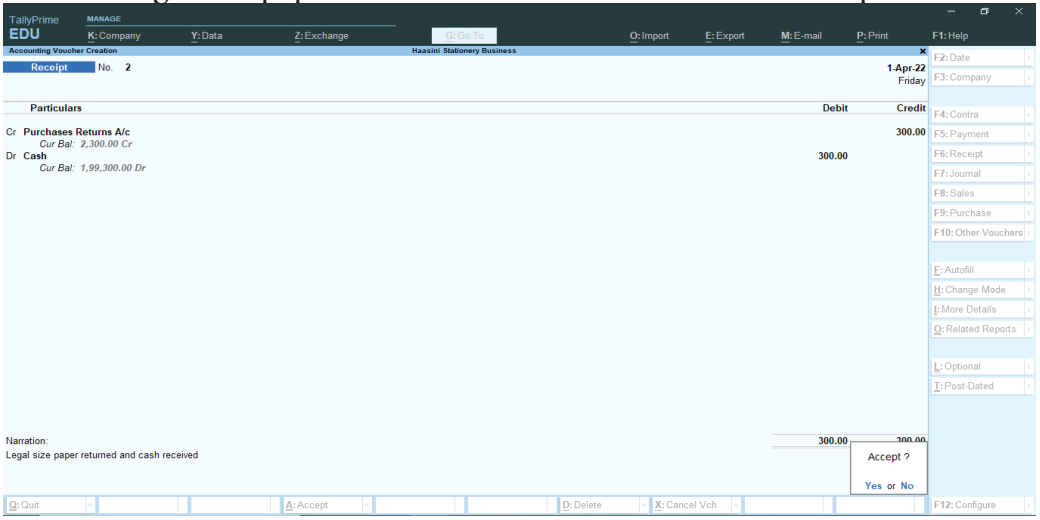


Figure 10.2.14 Receipt Voucher entry for purchase returns

(vi) Sold goods (A4 sheet) to Mani for ₹ 4000 on credit

F8: Sales

To enter transactions in double entry mode, choose Change Mode from right pane (or Ctrl + H) and select "As Voucher" option under Change Voucher Mode.

After selection of voucher mode, make entries as below:

Debit : Mani A/c

After selection of Mani A/c, TallyPrime will ask for Dispatch Details and Party Details. Skip to the next screen without altering/giving values in both the screens.

Amount : 4,000

Credit : Sales A/c

Narration : A4 sheet sold to Mani on credit

Accept: Yes.

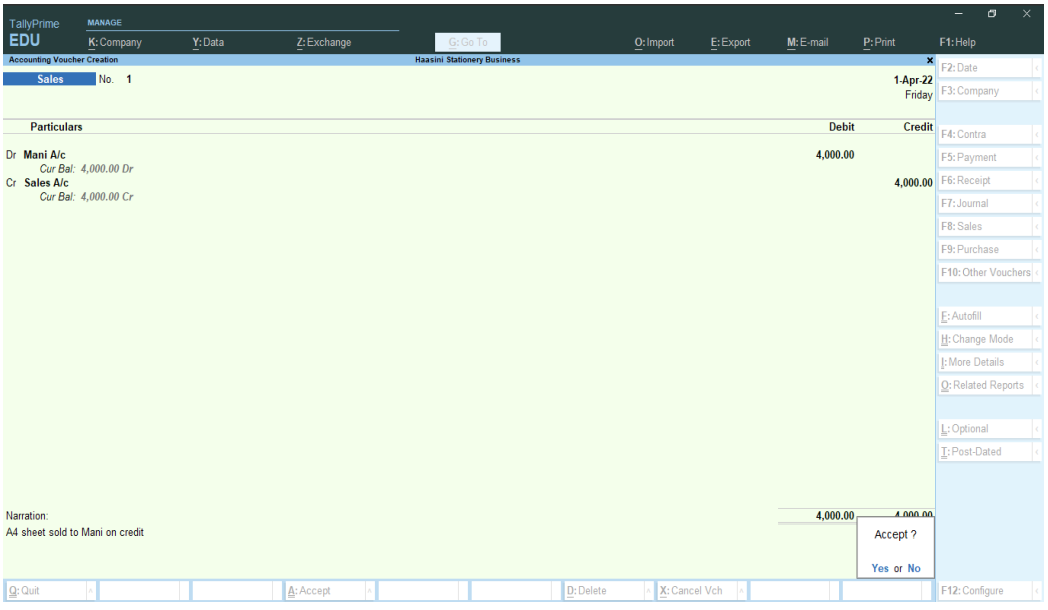


Figure 10.2.15 Sales Voucher entry for credit sales

(vii) Of the goods sold to Mani, goods worth ₹ 1,000 was returned for which no money was paid

Gateway of Tally > Transactions > Vouchers > F10: Other Vouchers > Accounting Vouchers > select Credit Note from the List of Voucher Types

To enter transactions in double entry mode, choose Change Mode from right pane (or Ctrl + H) and select "As Voucher" option under Change Voucher Mode.

After selection of voucher mode, make entries as below:

Credit : Mani A/c

After selection of Mani A/c, TallyPrime will ask for Receipt Details and Party Details. Skip to the next screen without altering/giving values in both the screens.

Amount : 1,000

Debit : Sales Returns A/c

Narration : Sales returns made by Mani

Accept: Yes.

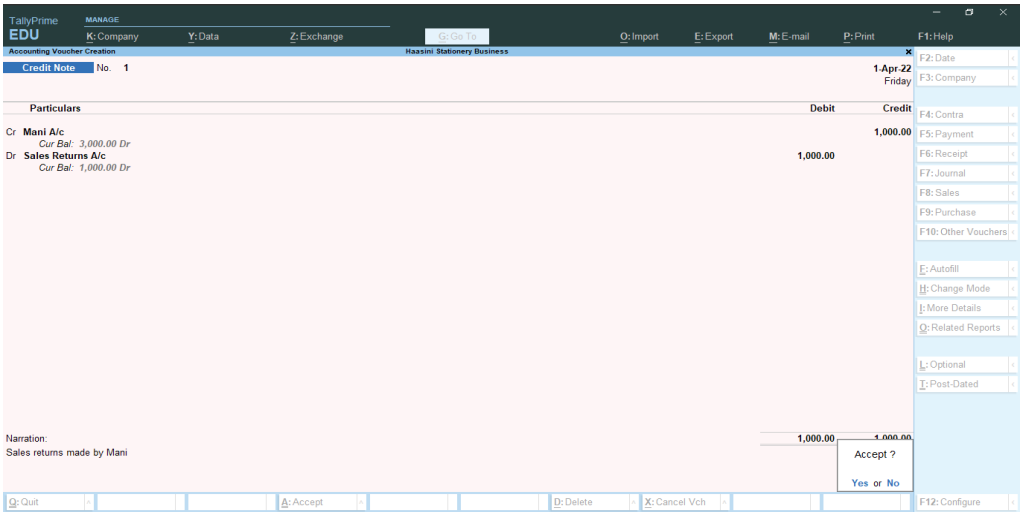


Figure 10.2.16 Creation of credit note for sales return

(viii) Sold goods (legal size papers) to Gopal for ₹ 1,000 and the cash was received

F8: Sales

To enter transactions in double entry mode, choose Change Mode from right pane (or Ctrl + H) and select "As Voucher" option under Change Voucher Mode.

After selection of voucher mode, make entries as below:

Debit : Cash

After selection of Cash, TallyPrime will ask for Dispatch Details and Party Details. Skip to the next screen without altering/giving values in both the screens.

Amount : 1,000 Credit : Sales A/c

Narration : Cash sales made Accept: Yes.

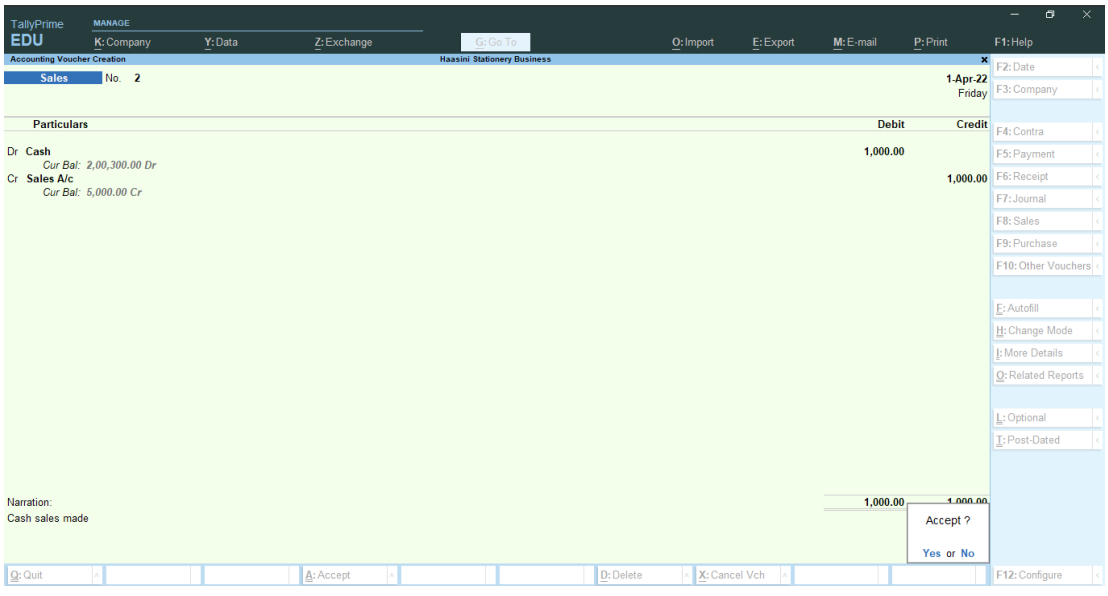


Figure 10.2.17 Sales Voucher entry for cash sales

(ix) Of the goods sold to Gopal, he retuned goods worth ₹ 400 for which cash was paid

F5: Payment

Debit : Sales Returns A/c Amount : 400 Credit : Cash

Narration : Sales returns made for which cash was paid Accept: Yes.

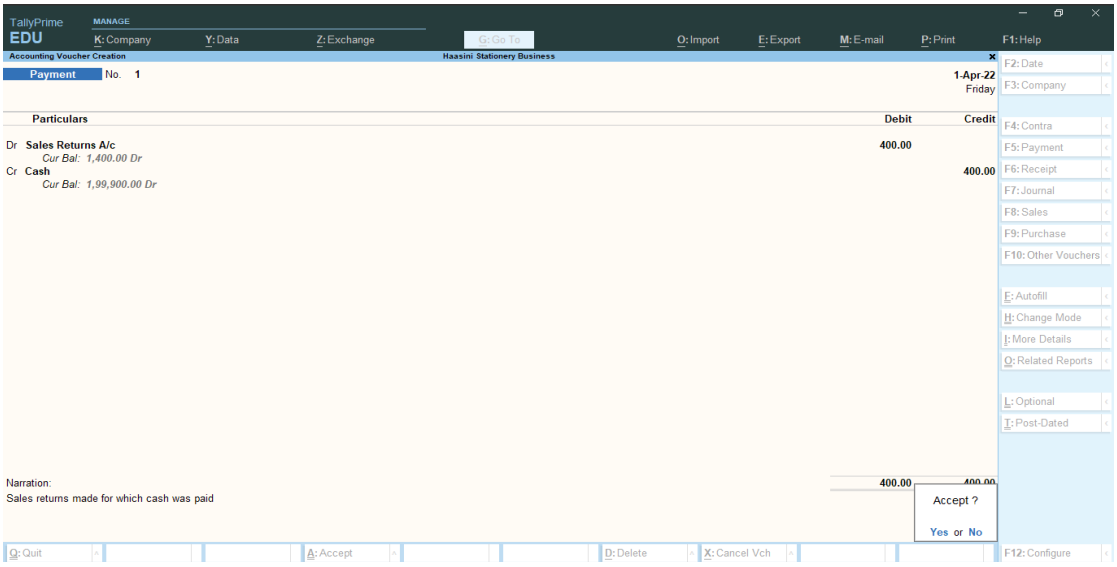


Figure 10.2.18 Payment Voucher entry for sales returns

(x) Stationery purchased on credit from Mariya ₹ 1000

F7: Journal

Debit : Stationery A/c

Amount : 1,000

Credit : Mariya A/c

Narration : Stationery purchased on credit

Accept: Yes.

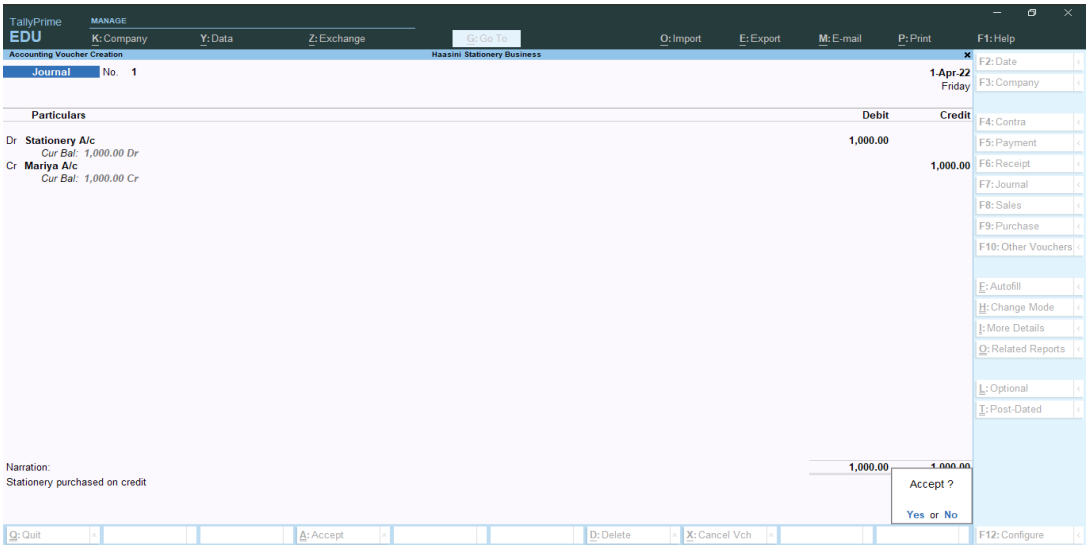


Figure 10.2.19 Journal voucher entry for stationery purchased

(xi) Bought furniture on credit from Sindhu for ₹ 20,000

F7: Journal

Debit : Furniture A/c

Amount : 20,000

Credit : Sindhu A/c

Narration : Furniture bought on credit

Accept: Yes.

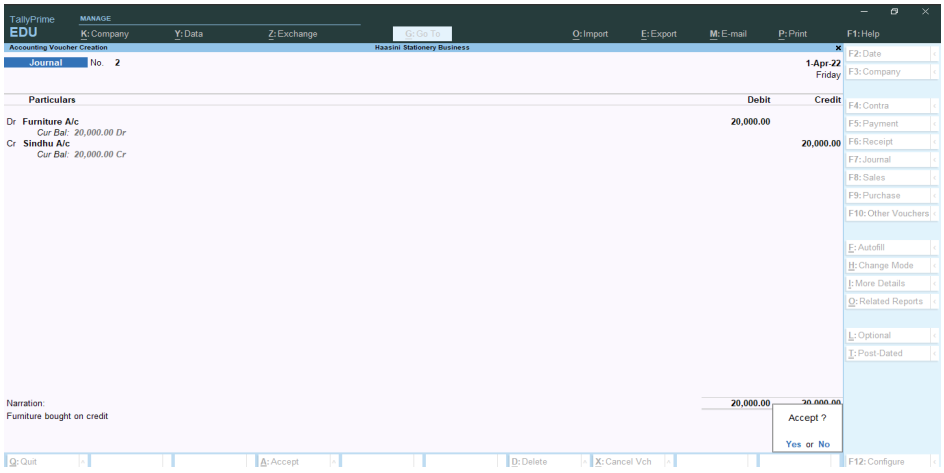


Figure 10.2.20 Journal Voucher entry for furniture bought on credit

Step 5: View Profit & Loss A/c and Balance Sheet

(a) To view Profit and Loss A/c

Gateway of Tally > Reports > Profit & Loss A/c > Alt + F5 (Detailed View)

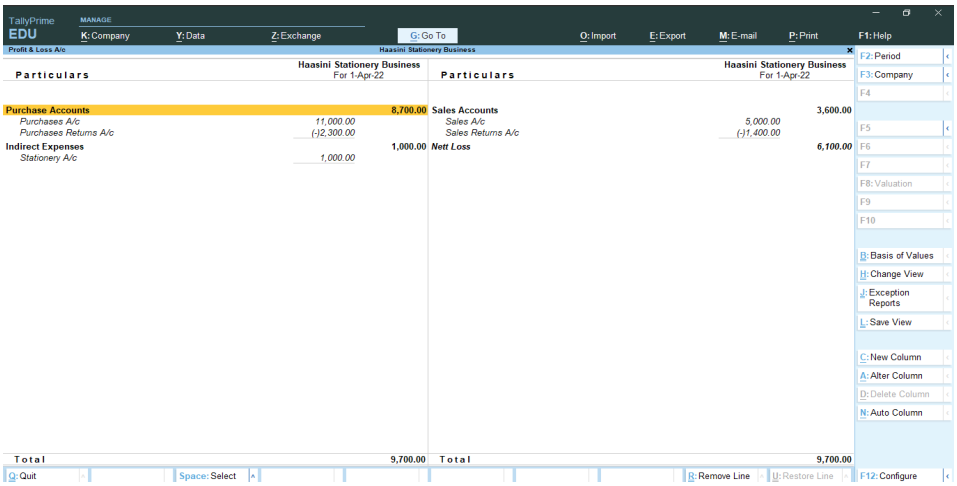


Figure 10.2.21 Profit & Loss A/c (Detailed view)

(b) To view Balance Sheet

Gateway of Tally > Reports > Balance Sheet > Alt + F5 (Detailed View)

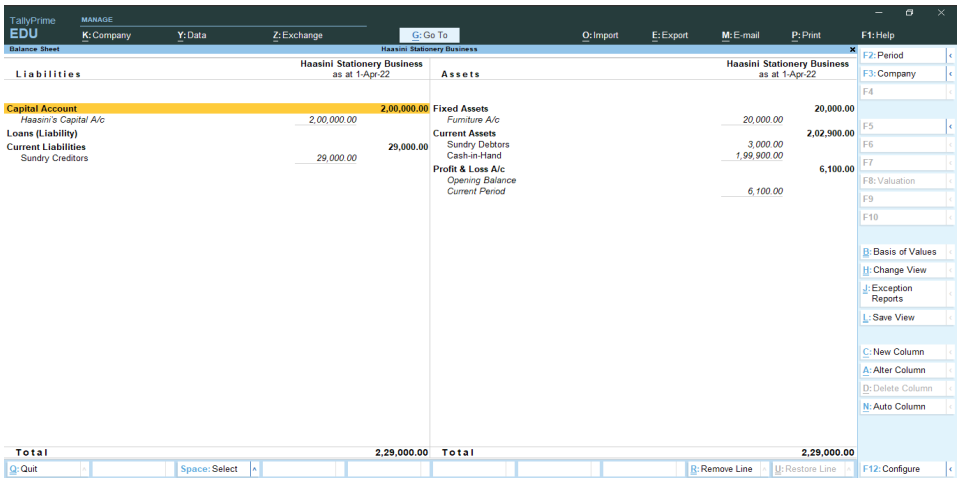


Figure 10.2.22 Balance sheet (Detailed view)

Practical problem 3

Record the following transactions in TallyPrime and prepare Trial Balance, Profit & Loss A/c and Balance Sheet.

(i) Rani commenced a chemical business with a capital of ₹ 5,00,000 at No.2 Nehru Street, Madurai 625001.
(ii) An account is opened with SBI and deposited ₹ 40,000
(iii) Purchased furniture by paying cash ₹ 5,000
(iv) Goods purchased on credit from Banu for ₹ 20,000
(v) Cash sales made for ₹ 40,000
(vi) Goods purchased from Victor for ₹ 4,000 and paid by cheque
(vii) Goods sold to Mehta on credit for ₹ 30,000
(viii) Money withdrawn from bank for office use ₹ 20,000
(ix) Money withdrawn from bank for personal use ₹ 10,000
(x) Part payment of ₹ 1,000 made to Banu by cheque
(xi) Mehta made part payment of ₹ 4,000 by cash
(xii) Salaries paid to staff through ECS ₹ 2,000
(xiii) Carriage on purchases of ₹ 1,000 paid by cash
(xiv) Purchased laptop from Muthu Ltd. on credit for ₹ 30,000
(xv) Returned goods worth ₹ 2,000 to Victor for which cash was not received immediately.
(xvi) Mehta returned goods worth ₹ 5,000 for which cash was not paid immediately.

Solution

Following steps are to be followed to enter the transactions in TallyPrime:

Step 1: Creation of Company
Step 2: Analysis of transactions
Step 3: Creation of new Ledgers
Step 4: Entry of transactions through Vouchers
Step 5: View Trial Balance, Profit & Loss A/c and Balance Sheet

Above steps are explained in detail as below:

Step 1: Creation of company

F3:Company > Create Company. Type the Company Name as "Rani Chemicals" and the address and Choose the State as "Tamil Nadu" from the list of states and choose "Yes" to Accept.

To enable features

After accepting "Yes" in company creation screen, to enable features for the company, set 'Yes' to Maintain Accounts and 'No' to all other fields and choose 'Yes' to Accept.

Step 2: Analysis of transactions

Analysis of transactions passing journal entries, identification of group and voucher type

S. No.	Particulars	Debit ₹	Credit ₹	Group	Voucher type
(i)	Cash A/c Dr. To Rani's Capital A/c	5,00,000	 5,00,000	Cash-in-Hand Capital Account	Receipt
(ii)	SBI A/c Dr. To Cash A/c	40,000	 40,000	Bank Accounts Cash-in-Hand	Contra
(iii)	Furniture A/c Dr. To Cash A/c	5,000	 5,000	Fixed Assets Cash-in-Hand	Payment
(iv)	Purchases A/c Dr. To Banu A/c	20,000	 20,000	Purchase Accounts Sundry Creditors	Purchase

S. No.	Particulars	Debit ₹	Credit ₹	Group	Voucher type
(v)	Cash A/c Dr. To Sales A/c	40,000	40,000	Cash-in-Hand Sales Accounts	Sales
(vi)	Purchases A/c Dr. To SBI A/c	4,000	4,000	Purchase Accounts Bank Accounts	Purchase
(vii)	Mehta A/c Dr. To Sales A/c	30,000	30,000	Sundry Debtors Sales Accounts	Sales
(viii)	Cash A/c Dr. To SBI A/c	20,000	20,000	Cash-in-Hand Bank Accounts	Contra
(ix)	Drawings A/c Dr. To SBI A/c	10,000	10,000	Capital Account Bank Accounts	Payment
(x)	Banu A/c Dr. To SBI A/c	1,000	1,000	Sundry Creditors Bank Accounts	Payment
(xi)	Cash A/c Dr. To Mehta A/c	4,000	4,000	Cash-in-Hand Sundry Debtors	Receipt
(xii)	Salaries A/c Dr. To SBI A/c	2,000	2,000	Indirect Expenses Bank Accounts	Payment
(xiii)	Carriage Inwards A/c Dr. To Cash A/c	1,000	1,000	Direct Expenses Cash-in-Hand	Payment
(xiv)	Laptop A/c Dr. To Muthu A/c	30,000	30,000	Fixed Assets Sundry Creditors	Journal
(xv)	Victor A/c Dr. To Purchases Returns A/c	2,000	2,000	Sundry Creditors Purchase Accounts	Debit Note
(xvi)	Sales Returns A/c Dr. To Mehta A/c	5,000	5,000	Sales Accounts Sundry Debtors	Credit Note

Step 3: Creation of new Ledgers

Follow the following procedure to create Rani's Capital A/c, SBI A/c, Furniture A/c, Purchases A/c, Banu A/c, Sales A/c, Mehta A/c, Drawings A/c, Salaries A/c, Carriage Inwards A/c, Laptop A/c, Muthu Ltd A/c, Victor A/c, Purchases Returns A/c and Sales Returns A/c:

Gateway of Tally > Masters > Create > Accounting Masters > Ledger > Name > Under (Group) > Accept: Yes.

Step 4: Entry of transactions through Vouchers

(i) Rani commenced a chemical business with a capital of ₹ 5,00,000

Gateway of Tally > Transactions > Vouchers

F6: Receipt

Credit : Rani's Capital A/c Amount : 5,00,000 Debit : Cash

Narration : Capital introduced by Rani Accept: Yes.

(ii) An account is opened with SBI and deposited ₹ 40,000

F4: Contra

Credit : Cash Amount : 40,000 Debit : SBI A/c

The TallyPrime will show the Amount for the Debit aspect press enter key, then TallyPrime will ask for Bank Allocations for SBI A/c, Denominations and Bank Allocations for SBI A/c. Skip those screens without altering/giving values.

Narration : Account is opened with SBI Accept: Yes.

(iii) Purchased furniture by paying cash ₹ 5,000

F5: Payment

Debit : Furniture A/c

Amount : 5,000

Credit : Cash

Narration : Purchased furniture by cash

Accept: Yes.

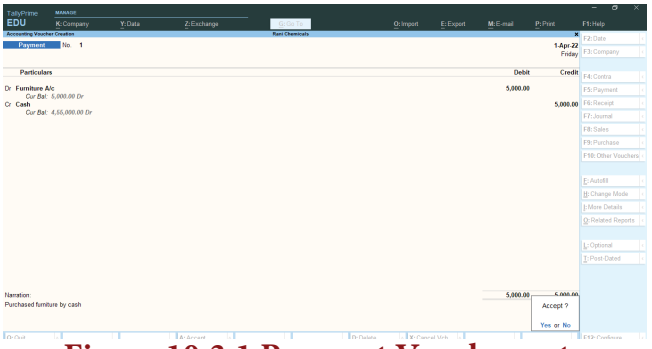


Figure 10.3.1 Payment Voucher entry for purchase of furniture by cash

(iv) Goods purchased on credit from Banu for ₹ 20,000

F9: Purchase

To enter transactions in double entry mode, choose Change Mode from right pane (or Ctrl + H) and select "As Voucher" option under Change Voucher Mode.

After selection of voucher mode, make entries as below:

Credit : Banu A/c

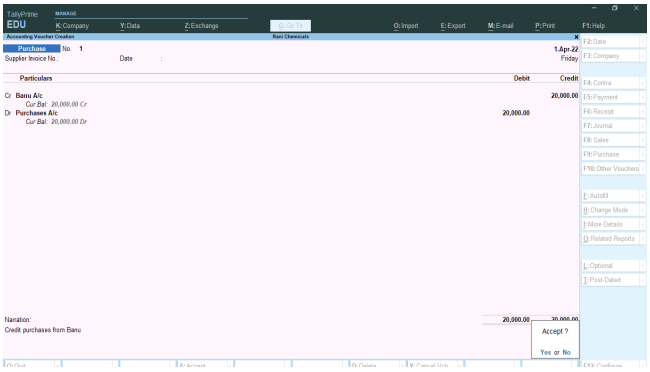


Figure 10.3.2 Purchase Voucher entry for credit purchases from Banu

After selection of Banu A/c, TallyPrime will ask for Receipt Details and Party Details. Skip to the next screen without altering/giving values in both the screens.

Amount : 20,000

Debit : Purchases A/c

Narration : Credit purchases from Banu

Accept: Yes.

(v) Cash sales made for ₹ 40,000

F8: Sales

To enter transactions in double entry mode, choose Change Mode from right pane (or Ctrl + H) and select "As Voucher" option under Change Voucher Mode.

After selection of voucher mode, make entries as below:

Debit : Cash

After selection of Cash, TallyPrime will ask for Dispatch Details and Party Details. Skip to the next screen without altering/ giving values in both the screens.

Amount : 40,000

Credit : Sales A/c

Narration : Cash sales

Accept: Yes.

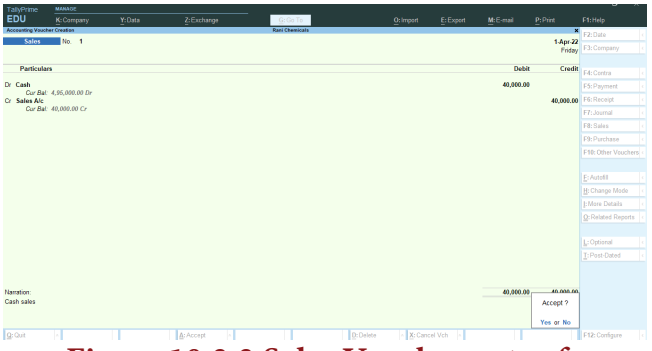


Figure 10.3.3 Sales Voucher entry for cash sales

(vi) Goods purchased from Victor for ₹ 4,000 and paid by cheque

F9: Purchase

To enter transactions in double entry mode, choose Change Mode from right pane (or Ctrl + H) and select "As Voucher" option under Change Voucher Mode.

After selection of voucher mode, make entries as below:

Credit : SBI A/c

After selecting the SBI A/c, TallyPrime will ask for Receipt Details and Party Details. Skip to the next screen without altering/giving values in both the screens.

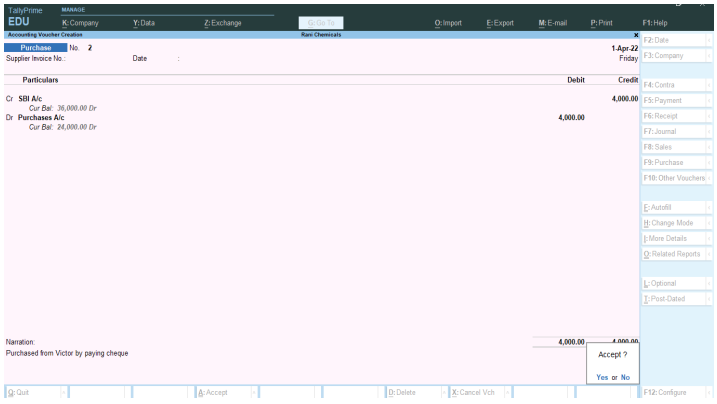


Figure 10.3.4 Purchase Voucher entry for cash purchases

Amount : 4,000

After entering the values TallyPrime will ask for Bank Allocations for SBI A/c. Skip to the next screen without altering/giving values.

Debit : Purchases A/c

Narration : Purchased from Victor by paying cheque Accept: Yes.

(vii) Goods sold to Mehta on credit for ₹ 30,000

F8: Sales

To enter transactions in double entry mode, choose Change Mode from right pane (or Ctrl + H) and select "As Voucher" option under Change Voucher Mode.

After selection of voucher mode, make entries as below:

Debit : Mehta A/c

After selection of Mehta A/c, TallyPrime will ask for Dispatch Details and Party Details. Skip to the next screen without altering/ giving values in both the screens.

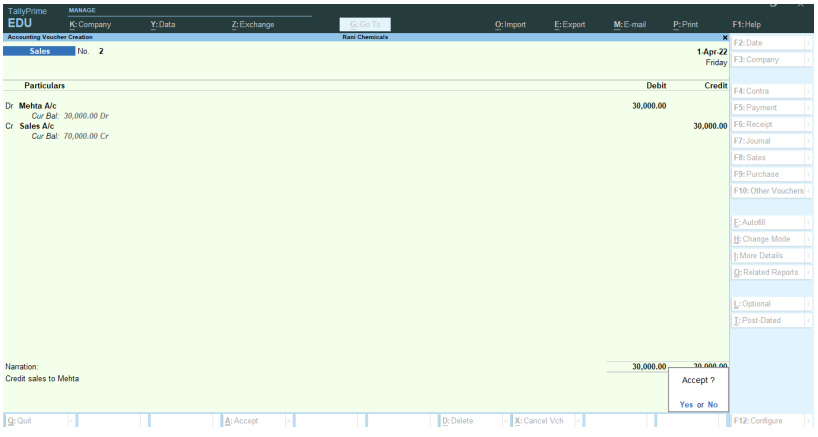


Figure 10.3.5 Sales Voucher entry for credit sales of Mehta

Amount : 30,000

Credit : Sales A/c

Narration : Credit sales to Mehta

Accept: Yes.

(viii) Money withdrawn from bank for office use ₹ 20,000

F4: Contra

Credit : SBI A/c Amount : 20,000

After entering the value of SBI A/c, TallyPrime will ask for Bank Allocations for SBI A/c. Skip to the next screen without altering/giving values.

Debit : Cash Narration : Money withdrawn for office use Accept: Yes.

(ix) Money withdrawn from bank for personal use ₹ 10,000

F5: Payment

Debit : Drawings A/c

Amount : 10,000

Credit : SBI A/c

The TallyPrime will show the Amount for the Credit aspect press enter key, then TallyPrime will ask for Bank Allocations for SBI A/c. Skip to the next screen without altering/ giving values.

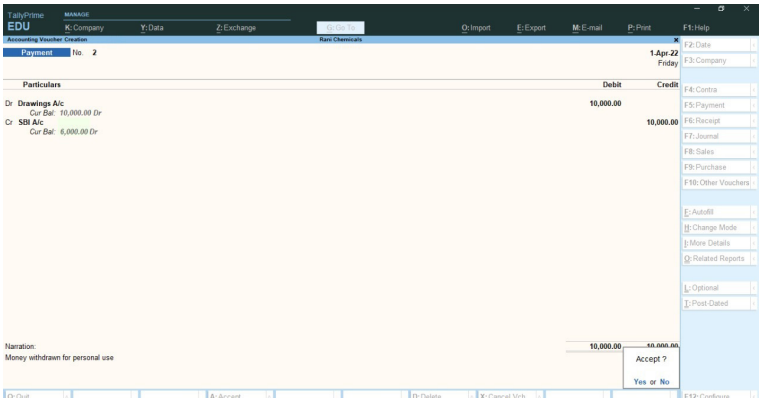


Figure 10.3.6 Payment Voucher entry for money withdrawn for personal use

Narration : Money withdrawn for personal use

Accept: Yes.

(x) Part payment of ₹ 1,000 made to Banu by cheque

F5: Payment

Debit : Banu A/c

Amount : 1,000

Credit : SBI A/c

The TallyPrime will show the Amount for the Credit aspect press enter key, then TallyPrime will ask for Bank Allocations for SBI A/c. Skip to the next screen without altering/ giving values.

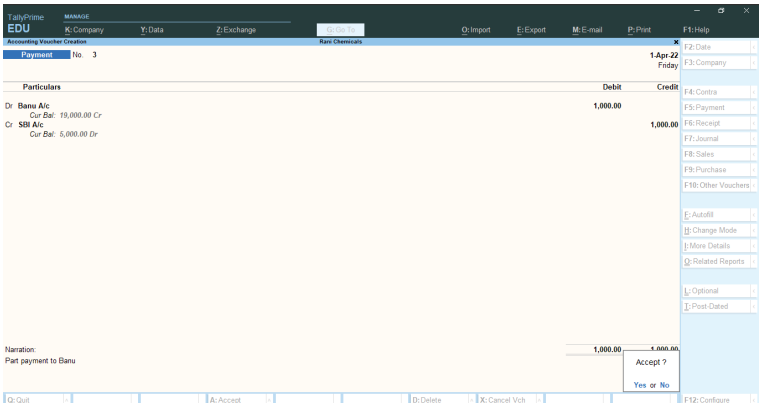


Figure 10.3.7 Payment Voucher entry for part payment to Banu

Narration : Part payment to Banu

Accept: Yes.

(xi) Mehta made part payment of ₹ 4,000 by cash

F6: Receipt

Credit : Mehta A/c Amount : 4,000 Debit : Cash

Narration : Part payment received from Mehta Accept: Yes.

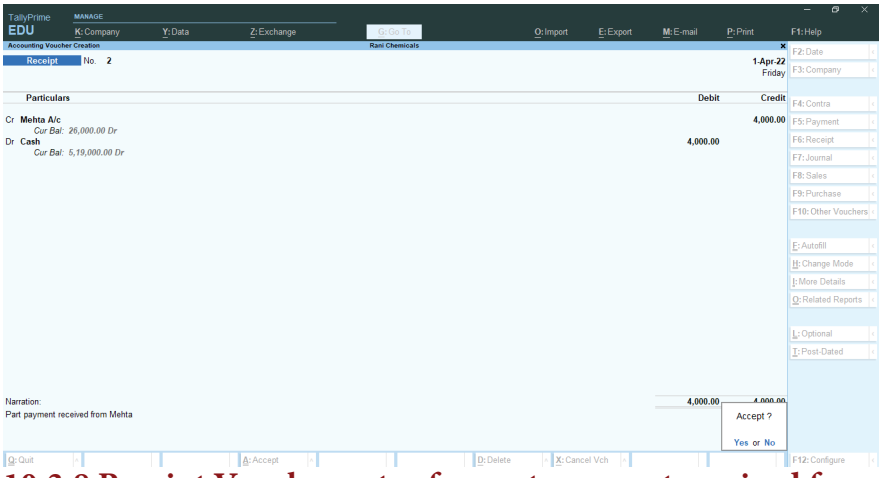


Figure 10.3.8 Receipt Voucher entry for part payment received from Mehta

(xii) Salaries paid to staff through ECS ₹ 2,000

F5: Payment

Debit : Salaries A/c Amount : 2,000 Credit : SBI A/c

The TallyPrime will show the Amount for the Credit aspect enter, then TallyPrime will ask for Bank Allocations for SBI A/c. Skip to the next screen without altering/giving values.

Narration : Salaries paid through ECS Accept: Yes.

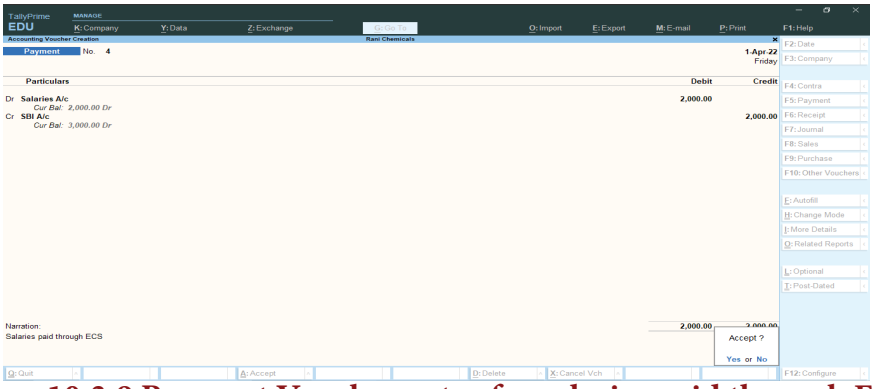


Figure 10.3.9 Payment Voucher entry for salaries paid through ECS

(xiii) Carriage on purchases of ₹ 1,000 paid by cash

F5: Payment

Debit : Carriage Inwards A/c Amount : 1,000 Credit : Cash A/c

Narration : Carriage on purchases paid by cash Accept: Yes.

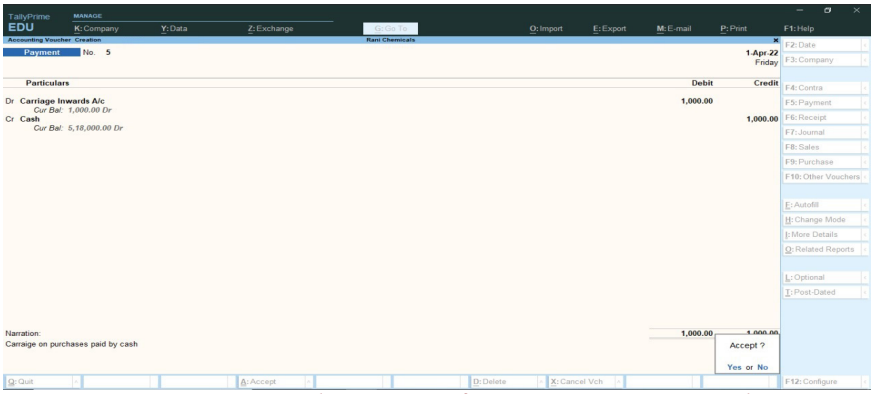


Figure 10.3.10 Payment Voucher entry for carriage on purchases paid by cash

(xiv) Purchased laptop from Muthu Ltd. on credit for ₹ 30,000

F7: Journal

Debit : Laptop A/c Amount : 30,000 Credit : Muthu Ltd A/c

Narration : Credit purchases of Laptop Accept: Yes.

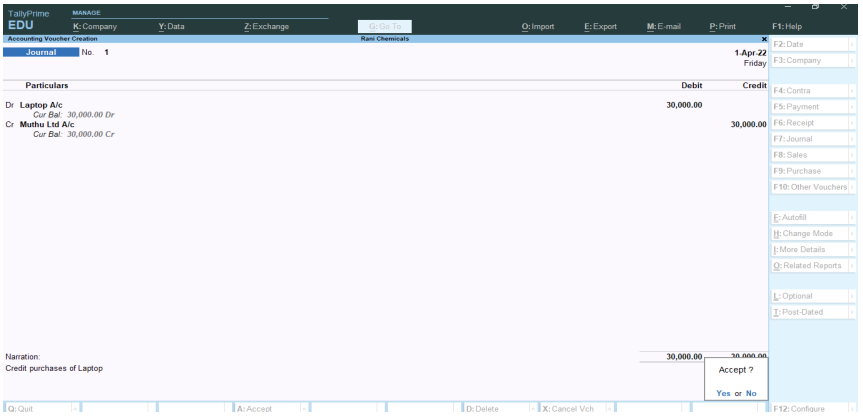


Figure 10.3.11 Journal Voucher entry for credit purchases of Laptop

(xv) Returned goods worth ₹ 2,000 to Victor for which cash was not received immediately.

Gateway of Tally > Transactions > Vouchers > Choose F10: Other Vouchers > Accounting Vouchers > select Debit Note from the List of Vouchers Types

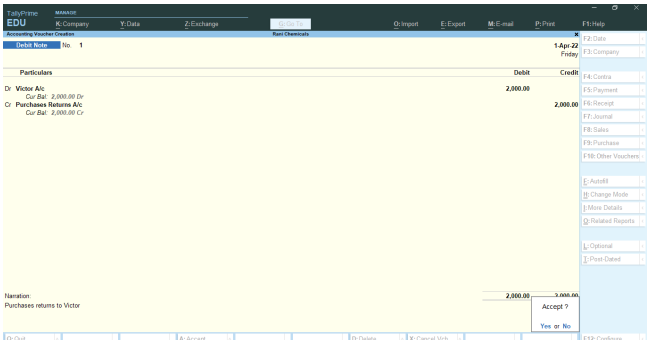


Figure 10.3.12 Debit Note Voucher entry for goods returned to Victor

To enter transactions in double entry mode, choose Change Mode from right pane (or Ctrl + H) and select "As Voucher" option under Change Voucher Mode.

After selection of voucher mode, make entries as below:

Debit : Victor A/c

After selection of Victor A/c, TallyPrime will ask for Dispatch Details and Party Details. Skip to the next screen without altering/giving values in both the screens.

Amount : 2,000 Credit : Purchases Returns A/c

Narration : Purchases returns to Victor Accept: Yes.

(xvi) Mehta returned goods worth ₹ 5,000 for which cash was not paid immediately

Gateway of Tally > Transactions > Vouchers > F10: Other Vouchers > Accounting Vouchers > select Credit Note from the List of Vouchers Types

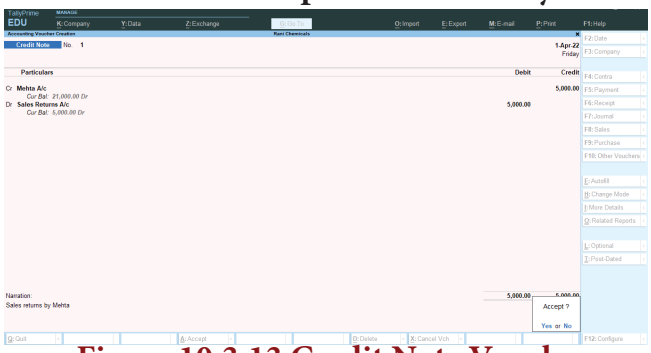


Figure 10.3.13 Credit Note Voucher entry for sales return by Mehta

To enter transactions in double entry mode, choose Change Mode from right pane (or Ctrl + H) and select "As Voucher" option under Change Voucher Mode.

After selection of voucher mode, make entries as below:

Credit : Mehta A/c

After selection of Mehta A/c, TallyPrime will ask for Receipt Details and Party Details. Skip to the next screen without altering/giving values in both the screens.

Amount : 5,000 Debit : Sales Returns A/c Narration : Sales return by Mehta Accept: Yes.

Step 5: View Trial Balance, Profit & Loss A/c and Balance Sheet

(a) To view Trial Balance

Gateway of Tally > Reports > Display More Reports > Accounting > Trial Balance > Alt + F5 (Detailed view)

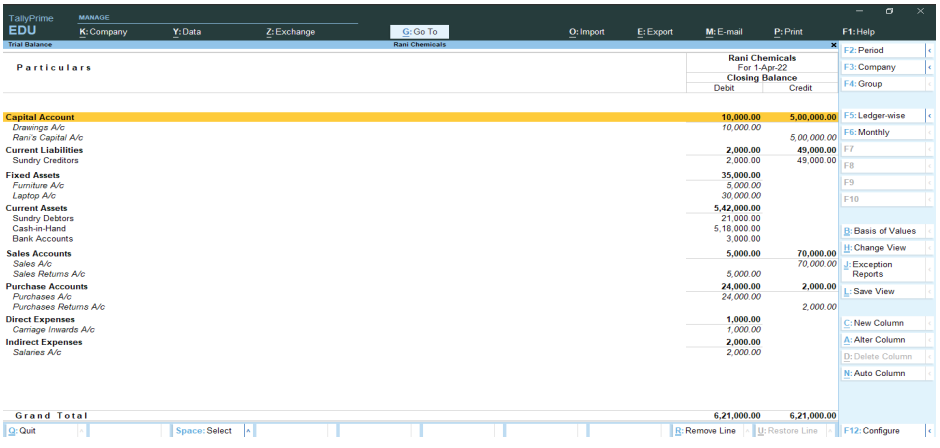


Figure 10.3.14 Trial Balance (Detailed view)

(b) To view Profit & Loss A/c

Gateway of Tally > Reports > Profit & Loss A/c > Alt + F5 (Detailed view)

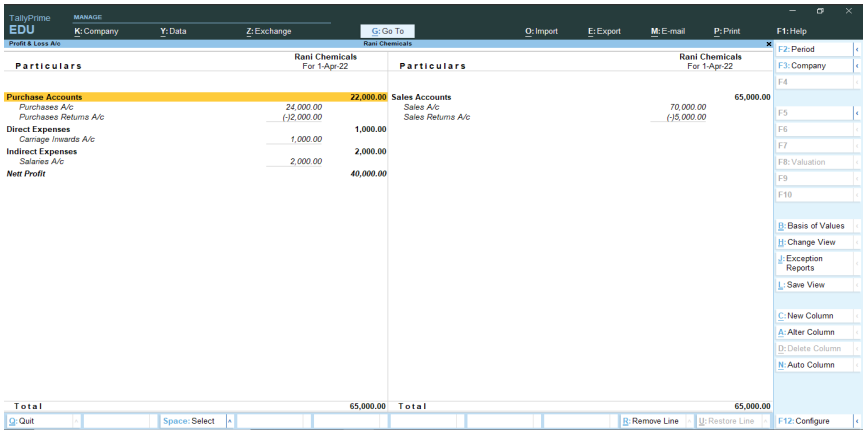


Figure 10.3.15 Profit & Loss A/c (Detailed view)

(c) To view Balance Sheet

Gateway of Tally > Reports > Balance Sheet > Alt + F5 (Detailed view)

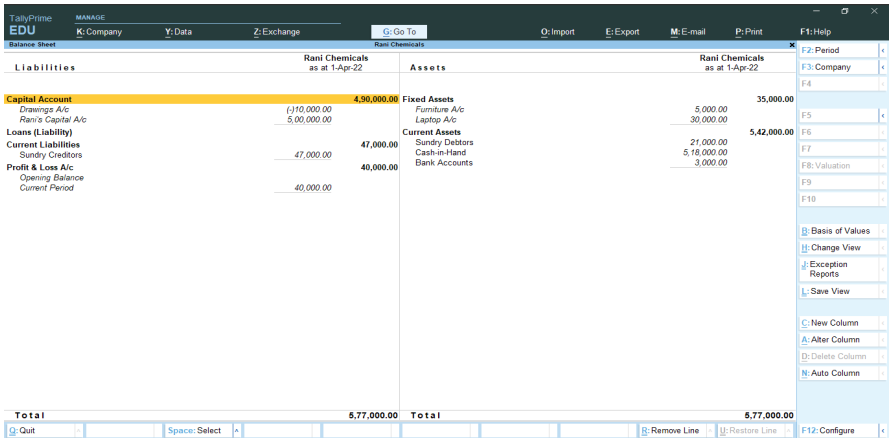


Figure 10.3.16 Balance Sheet (Detailed view)

Practical Problem 4

The following balance sheet has been extracted from the books of Deri Automobiles, 5 Gandhi Street, Chennai - 600004, as on 01-04-2022.

Liabilities	₹	Assets	₹
Capital	2,40,000	Machinery	1,00,000
Sundry creditors:		Furniture	20,000
Ramesh A/c	10,000	Stock	20,000
		Sundry debtors:	
		Basha A/c	40,000
		Cash	20,000
		Bank	50,000
	2,50,000		2,50,000

During the year, the following transactions took place:

(i) Cash purchases made for ₹ 5,000
(ii) Wages paid by cash ₹ 1,000
(iii) Rent paid by cheque ₹ 4,000
(iv) Good purchased on credit from Veena ₹ 15,000
(v) Goods sold on credit to Jothi ₹ 25,000
(vi) Payment made to Veena by cheque ₹ 5,000
(vii) Cash received from Ramesh ₹ 10,000
(viii) Cash sales made to Ranjith for ₹ 6,000
(ix) Depreciate machinery at 10%
(x) Closing stock on 31.03.2022 ₹ 15,000

You are required to record the above transactions using TallyPrime. Also prepare opening balance sheet, Trial Balance, Profit & Loss Account and the closing balance sheet.

Solution

Following steps are to be followed to enter the transactions in TallyPrime:

Step 1: Creation of Company

Step 2: Creation of ledgers for recording opening balances

Step 3: View opening Balance Sheet

Step 4: Analysis of transactions

Step 5: Creation of new Ledgers

Step 6: Entry of transactions through vouchers

Step 7: View Trial Balance, Profit & Loss A/c and Closing Balance Sheet

Above steps are explained in detail as below:

Step 1: Creation of company

F3:Company > Create Company. Type the Company Name as "Deri Automobiles" and the address and Choose the State as "Tamil Nadu" from the list of states and choose "Yes" to Accept.

To enable features

After accepting "Yes" in company creation screen, to enable features for the company, set 'Yes' to Maintain Accounts and 'No' to all other fields and choose 'Yes' to Accept.

Step 2: Creation of ledgers for recording opening balances

(i) To create Capital A/c

Gateway of Tally > Masters > Create > Accounting Masters > Ledger

Name : Capital A/c Under : Capital Account

Opening Balance : 2,40,000 Accept: Yes.

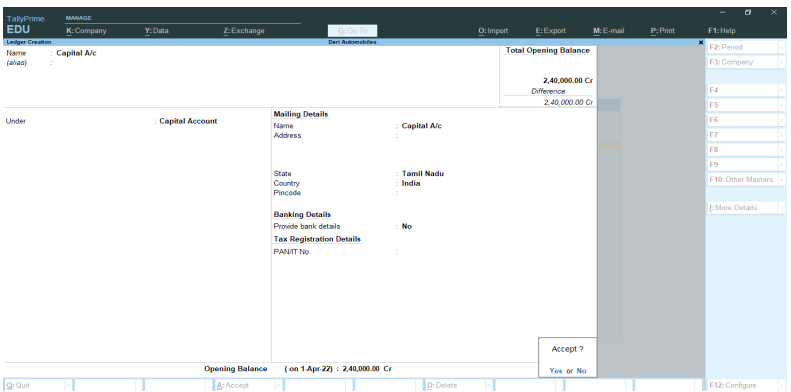


Figure 10.4.1 Creation of Capital A/c

(ii) To create Ramesh A/c

Name : Ramesh A/c Under : Sundry Creditors

Opening Balance : 10,000 Accept: Yes.

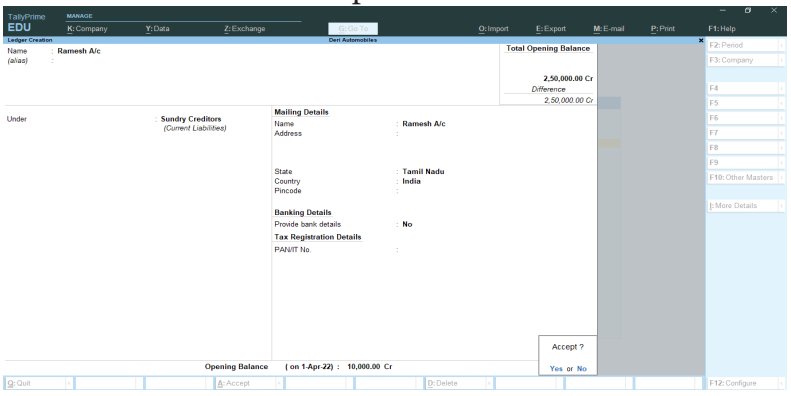


Figure 10.4.2 Creation of Ramesh A/c

(iii) To create Machinery A/c

Name : Machinery A/c Under : Fixed Assets

Opening Balance : 1,00,000 Accept: Yes.

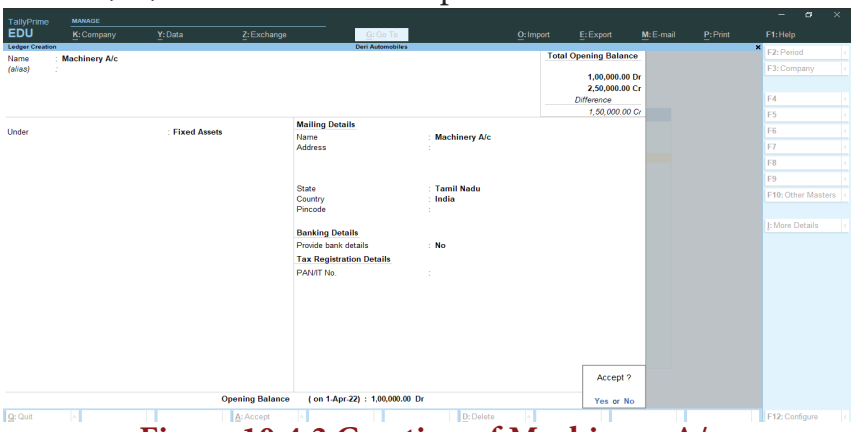


Figure 10.4.3 Creation of Machinery A/c

(iv) To create Furniture A/c

Name : Furniture A/c Under : Fixed Assets

Opening Balance : 20,000 Accept: Yes.

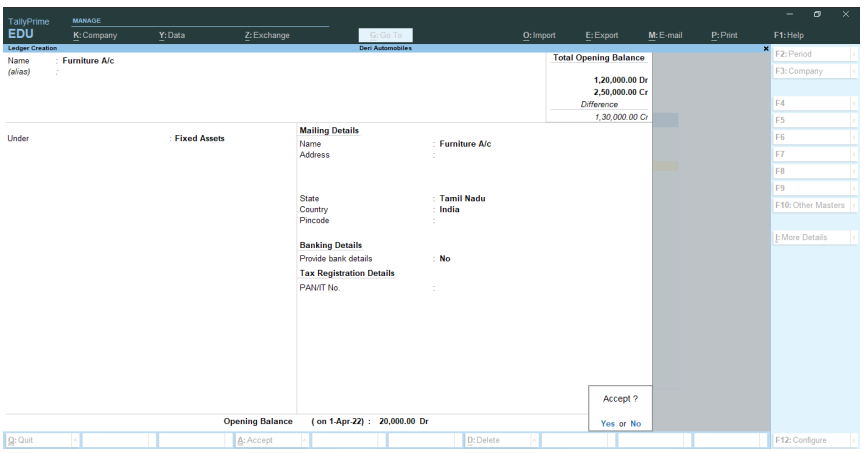


Figure 10.4.4 Creation of Furniture A/c

(v) To create Opening Stock A/c

Name : Opening Stock A/c Under : Stock-in-Hand

Opening Balance : 20,000 Accept: Yes.

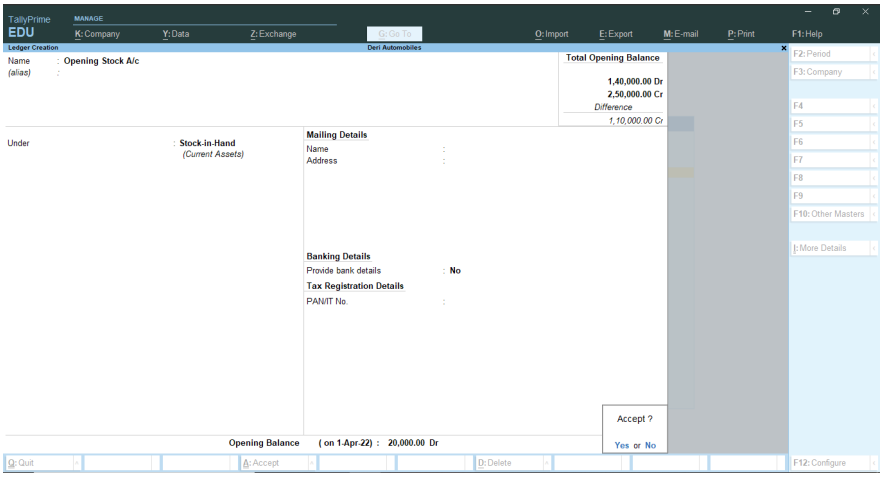


Figure 10.4.5 Creation of Opening Stock A/c

(vi) To create Basha A/c

Name : Basha A/c Under : Sundry Debtors

Opening Balance : 40,000 Accept: Yes.

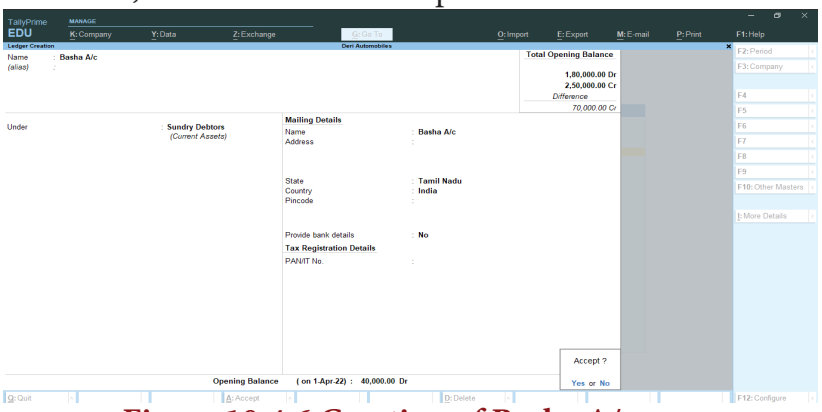


Figure 10.4.6 Creation of Basha A/c

(vii) To record opening cash balance

Cash is a predefined ledger account in TallyPrime. To enter the opening balance, it has to be altered.

To alter cash

Gateway of Tally > Masters > Alter > Accounting Masters > Ledger > List of Ledgers > Cash

Name : Cash A/c Under : Cash-in-Hand

Opening Balance : 20,000 Accept: Yes.

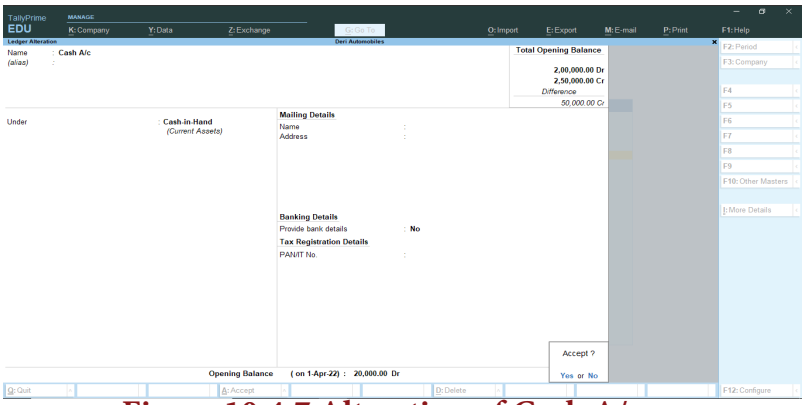


Figure 10.4.7 Alteration of Cash A/c

(viii) To create Bank A/c

Gateway of Tally > Masters > Create > Accounting Masters > Ledger

Name : Bank A/c Under : Bank Accounts

Opening Balance : 50,000 Accept: Yes.

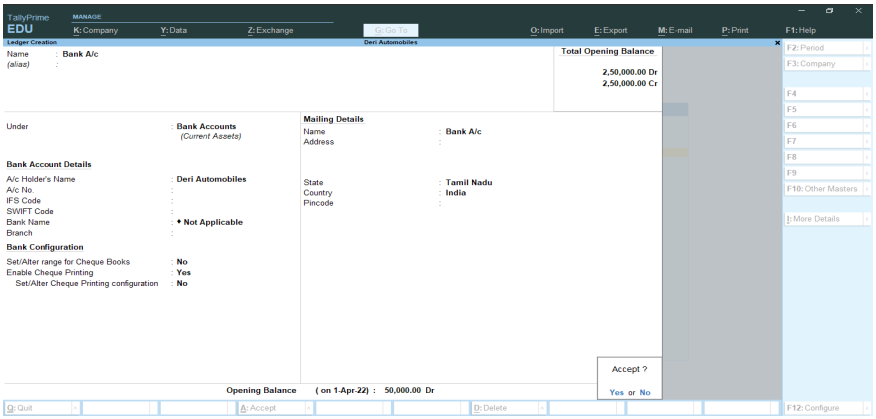


Figure 10.4.8 Creation of Bank A/c

Step 3: View opening Balance Sheet

Gateway of Tally > Reports > Balance sheet > Alt + F5 (Detailed view)

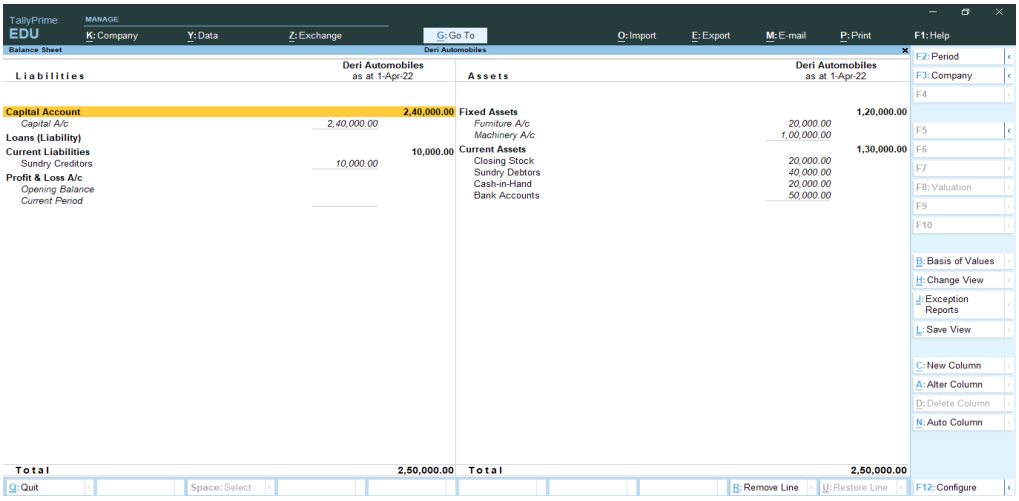


Figure 10.4.9 Opening Balance Sheet (Detailed View)

Step 4: Analysis of transactions

Analysis of transactions, passing journal entries, identification of group and voucher type

S. No.	Particulars		Debit ₹	Credit ₹	Group	Voucher type
(i)	Purchases A/c	Dr.	5,000		Purchase Accounts	Purchase
	To Cash A/c			5,000	Cash-in-Hand	
(ii)	Wages A/c	Dr.	1,000		Direct Expenses	Payment
	To Cash A/c			1,000	Cash-in-Hand	
(iii)	Rent A/c	Dr.	4,000		Indirect Expenses	Payment
	To Bank A/c			4,000	Bank Accounts	
(iv)	Purchases A/c	Dr.	15,000		Purchase Accounts	Purchase
	To Veena A/c			15,000	Sundry Creditors	
(v)	Jothi A/c	Dr.	25,000		Sundry Debtors	Sales
	To Sales A/c			25,000	Sales Accounts	
(vi)	Venna A/c	Dr.	5,000		Sundry Creditors	Payment
	To Bank A/c			5,000	Bank Accounts	
(vii)	Cash A/c	Dr.	10,000		Cash-in-Hand	Receipt
	To Ramesh A/c			10,000	Sundry Creditors	
(viii)	Cash A/c	Dr.	6,000		Cash-in-Hand	Sales
	To Sales A/c			6,000	Sales Accounts	
(ix)	Depreciation A/c	Dr.	10,000		Indirect Expenses	Journal
	To Machinery A/c			10,000	Fixed Assets	

Step 5: Creation of new Ledger accounts

Follow the following procedure to create Purchases A/c, Wages A/c, Rent A/c, Veena A/c, Jothi A/c, Sales A/c and Depreciation A/c:

Gateway of Tally > Masters > Create> Accounting Masters > Ledger > Name > Under (Group) > Accept: Yes.

Step 6: Enter of transactions through vouchers

(i) Cash purchases made for ₹ 5,000

Gateway of Tally > Transactions > Vouchers

F9: Purchase

To enter transactions in double entry mode, choose Change Mode from right pane (or Ctrl + H) and select "As Voucher" option under Change Voucher Mode.

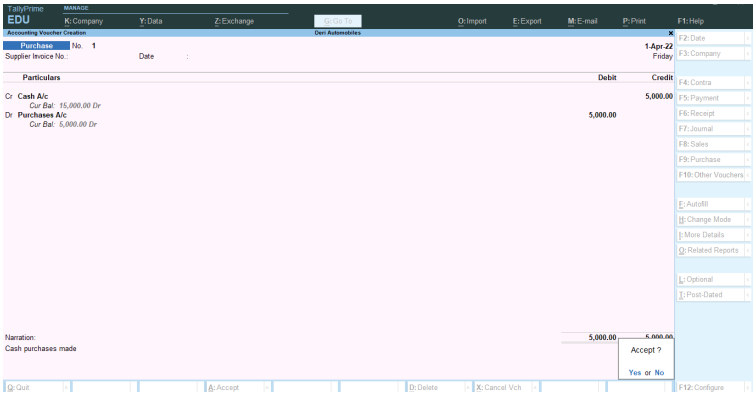


Figure 10.4.10 Payment Voucher entry for cash purchases

After selection of voucher mode, make entries as below:

Credit : Cash A/c

After selection of Cash, TallyPrime will ask for Receipt Details and Party Details. Skip to the next screen without altering/giving values in both the screens.

Amount : 5,000 Debit : Purchases A/c

Narration : Cash purchases made Accept: Yes.

(ii) Wages paid by cash ₹ 1,000

F5: Payment

Debit : Wages A/c Amount : 1,000 Credit : Cash A/c

Narration : Wages paid by cash Accept: Yes.

(iii) Rent paid by cheque ₹ 4,000

F5: Payment

Debit : Rent A/c Amount : 4,000 Credit : Bank A/c

The TallyPrime will show the Amount for the Credit aspect enter, then TallyPrime will ask for Bank Allocations for Bank A/c. Skip to the next screen without altering/giving values.

Narration : Rent paid by cheque Accept: Yes.

(iv) Goods purchased on credit from Veena ₹ 15,000

F9: Purchase

To enter transactions in double entry mode, choose Change Mode from right pane (or Ctrl + H) and select "As Voucher" option under Change Voucher Mode.

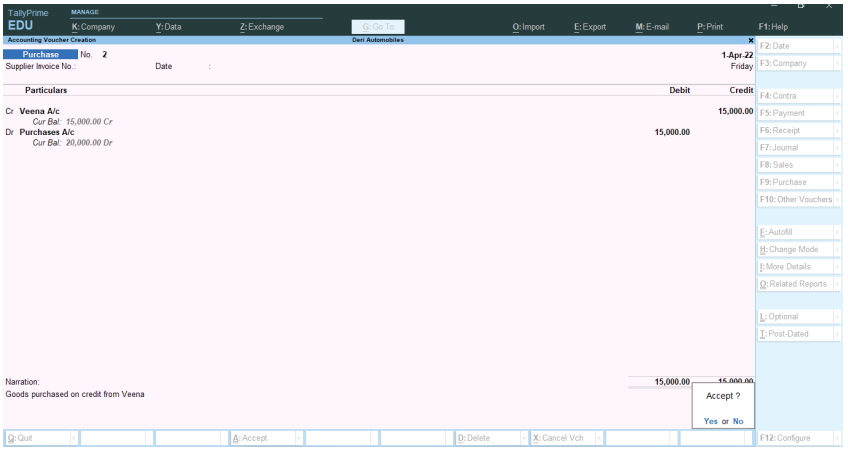


Figure 10.4.11 Purchase Voucher entry for goods purchased on credit from Veena

After selection of voucher mode, make entries as below:

Credit : Veena A/c

After selection of Veena A/c, TallyPrime will ask for Receipt Details and Party Details. Skip to the next screen without altering/giving values in both the screens.

Amount : 5,000 Debit : Purchases A/c

Narration : Goods purchased on credit from Veena Accept: Yes.

(v) Goods sold on credit to Jothi ₹ 25,000

F8: Sales

To enter transactions in double entry mode, choose Change Mode from right pane (or Ctrl + H) and select "As Voucher" option under Change Voucher Mode.

After selection of voucher mode, make entries as below:

Debit : Jothi A/c

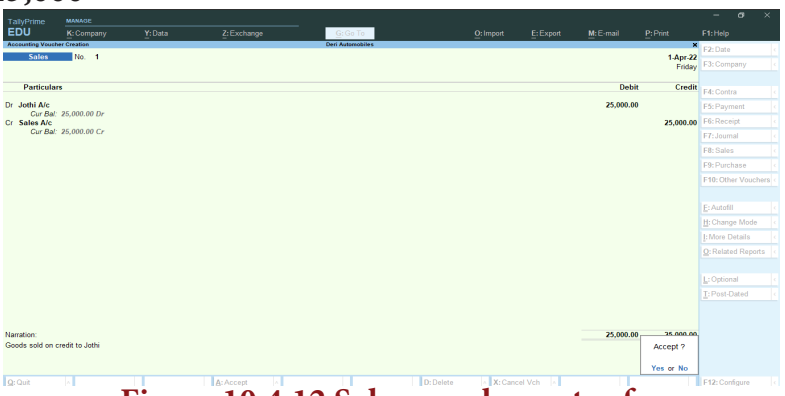


Figure 10.4.12 Sales voucher entry for goods sold on credit to Jothi

After selection of Jothi A/c, TallyPrime will ask for Dispatch Details and Party Details. Skip to the next screen without altering/giving values in both the screens.

Amount : 25,000 Credit : Sales A/c

Narration : Goods sold on credit to Jothi Accept: Yes.

(vi) Payment made to Veena by cheque ₹ 5,000

F5: Payment

Debit : Veena A/c

Amount : 5,000

Credit : Bank A/c

The TallyPrime will show the Amount for the Credit aspect press enter key, then TallyPrime will ask for Bank Allocations for Bank A/c. Skip to the next screen without altering/giving values.

Narration : Payment made to Veena by cheque

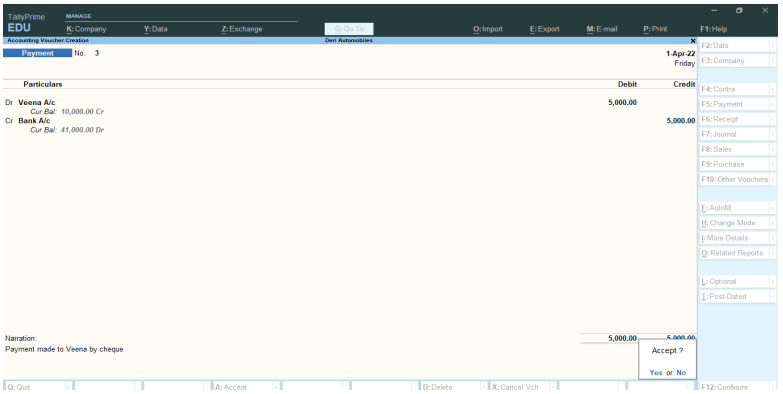


Figure 10.4.13 Payment voucher entry for payment made to Veena by cheque

Accept: Yes.

(vii) Cash received from Ramesh ₹ 10,000

F6: Receipt

Credit : Ramesh A/c Amount : 10,000 Debit : Cash A/c

Narration : Cash received from Ramesh Accept: Yes.

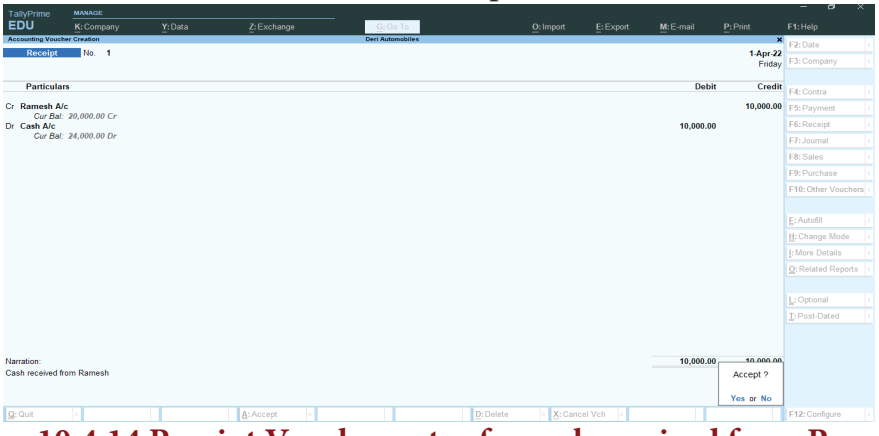


Figure 10.4.14 Receipt Voucher entry for cash received from Ramesh

(viii) Cash sales made to Ranjith for ₹ 6,000

F8: Sales

To enter transactions in double entry mode, choose Change Mode from right pane (or Ctrl + H) and select "As Voucher" option under Change Voucher Mode.

After selection of voucher mode, make entries as below:

Debit : Cash A/c

After selection of Cash A/c, TallyPrime will ask for Dispatch Details and Party Details. Skip to the next screen without altering/giving values in both the screens.

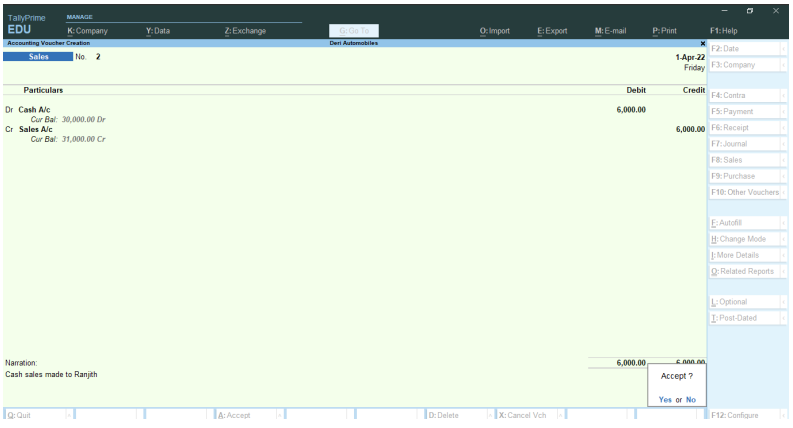


Figure 10.4.15 Sales Voucher entry for cash sales made to Ranjith

Amount : 6,000 Credit : Sales A/c

Narration : Cash sales made to Ranjith Accept: Yes.

(ix) Depreciate machinery at 10%

F7: Journal

Debit : Depreciation A/c Amount : 10,000 Credit : Machinery A/c

Narration : Machinery depreciated at 10% Accept: Yes.

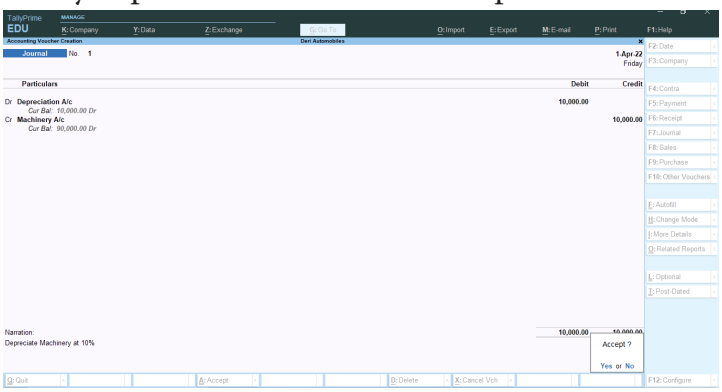


Figure 10.4.16 Journal Voucher entry to provide depreciation

(x) Closing stock on 31.03.2022 ₹ 15,000

The closing stock has to be recorded by altering the Opening Stock A/c.

Gateway of Tally > Masters > Alter > Accounting Masters> Ledger > List of Ledgers > Opening Stock A/c

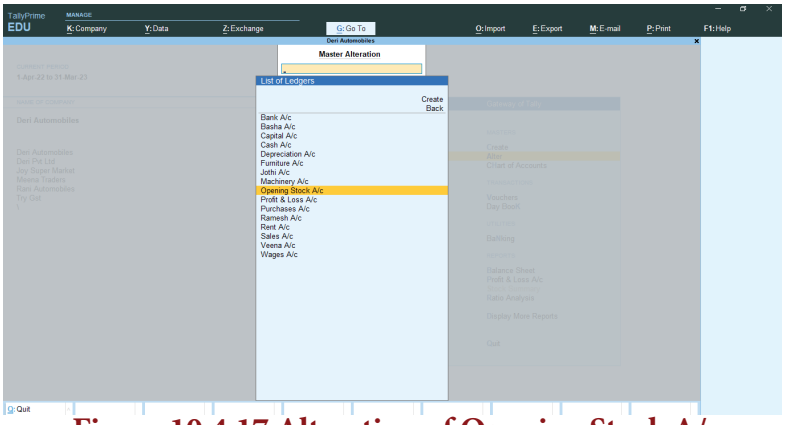


Figure 10.4.17 Alteration of Opening Stock A/c

and while entering the date of closing stock, the date of opening stock has to be entered.

Closing Balance 1.4.2022 ₹ 15,000 Accept: Yes.

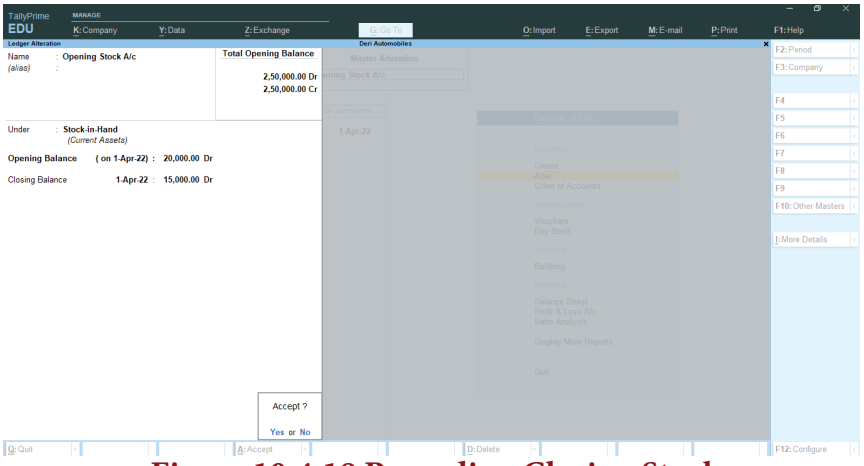


Figure 10.4.18 Recording Closing Stock

Step 7: To view Trial Balance, Profit & Loss A/c and Closing Balance Sheet

a) To view Trial Balance

Gateway of Tally > Reports > Display More Reports > Accounting > Trial Balance > Alt+F5 (Detailed view)

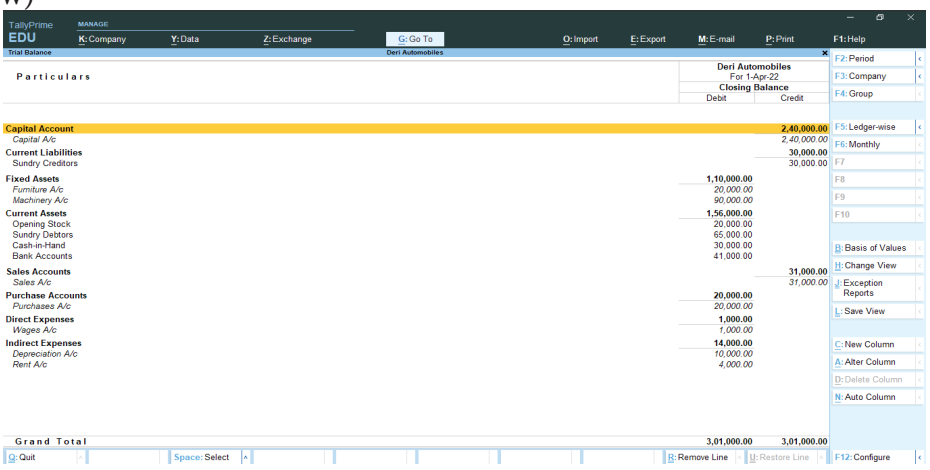


Figure 10.4.19 Trial Balance (Detailed View)

b) To view Profit and Loss A/c

Gateway of Tally > Reports > Profit & Loss A/c > Alt+F5 (Detailed view)

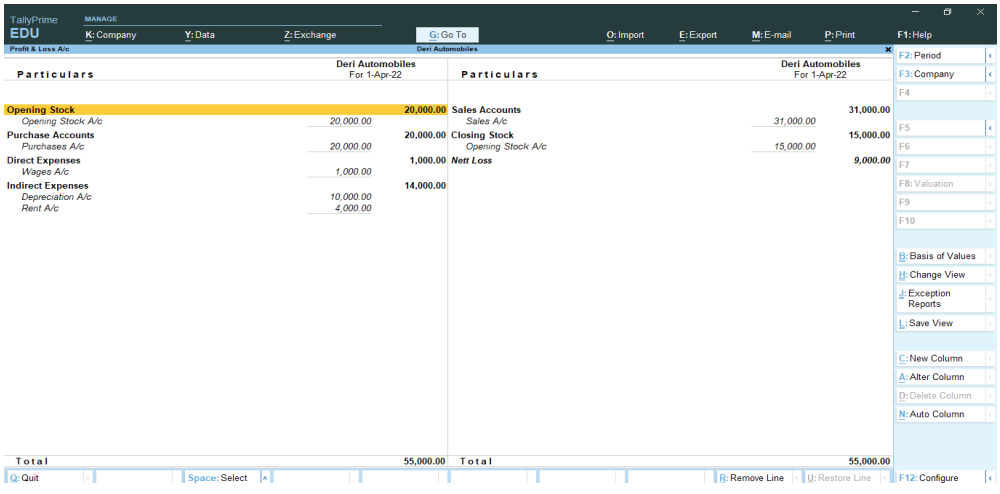


Figure 10.4.20 Profit & Loss A/c (Detailed view)

c) To view Closing Balance Sheet

Gateway of Tally > Reports > Balance Sheet > Alt+F5 (Detailed view)

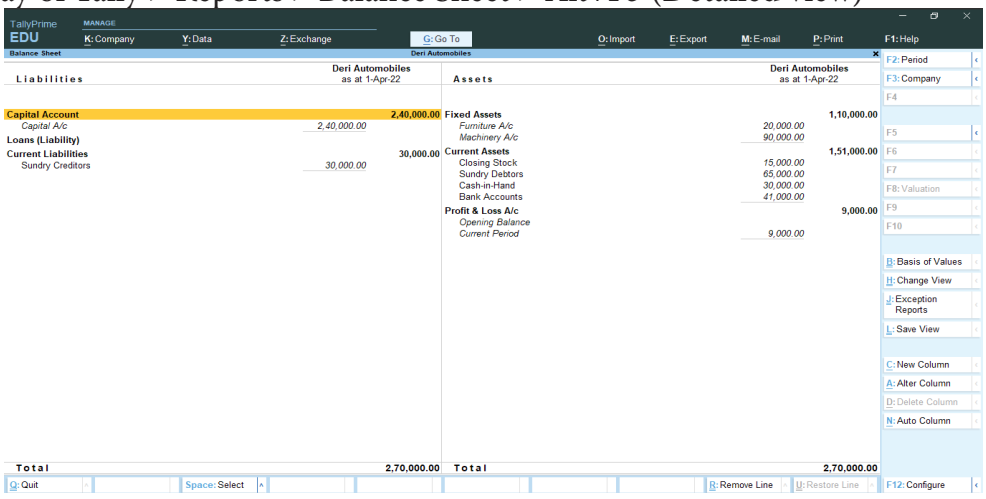


Figure 10.4.21 Closing Balance Sheet (Detailed view)

Points to remember

(i) Gateway of Tally is the opening screen of Tally. It is shown on the right pane which contains menu options such as transactions and reports.

(ii) Chart of Accounts shows list of masters, namely, accounting masters, inventory masters and payroll masters.

(iii) Accounting group is a collection of ledger accounts of same nature.

(iv) TallyPrime has two predefined ledgers, Cash and Profit & Loss A/c.

(v) Different types of vouchers such as receipt, payment, sales, purchases, etc. can be used for recording transactions in TallyPrime.

(vi) Deposit of cash into bank account and withdrawal of cash from bank account are recorded in contra voucher.

(vii) Journal vouchers are used for recording transactions involving other than cash, bank, purchases, sales, purchases returns and sales returns.

Self-examination questions

I. Multiple choice questions

Choose the correct answer

1. Under which of the following group salary paid comes?
   (a) Direct Incomes (b) Direct Expenses (c) Indirect Incomes (d) Indirect Expenses
2. What are the predefined Ledgers in TallyPrime?
   (i) Cash (ii) Profit & Loss A/c (iii) Capital A/c (iv) Drawings A/c
   (a) (i) and (ii) (b) (ii) and (iii) (c) (iii) and (iv) (d) (i) and (iv)
3. Contra voucher is used for
   (a) Credit sales (b) Withdrawal of cash from bank for office use
   (c) Reports (d) Credit purchase of assets
4. Which is the voucher used to record purchase returns for which cash is not received immediately?
   (a) Purchase Voucher (b) Debit Note (c) Credit Note (d) Sales Voucher

5. ₹ 5,000 withdrawn from bank for personal use of the proprietor. In which voucher type, this transaction will be recorded in TallyPrime?
   (a) Contra Voucher (b) Receipt Voucher (c) Payment Voucher (d) Sales Voucher
6. In which voucher type credit purchase of fixed asset is recorded in TallyPrime?
   (a) Receipt Voucher (b) Journal Voucher (c) Purchase Voucher (d) Payment Voucher
7. Which of the following options is used to view Trial Balance from Gateway of Tally?
   (a) Gateway of Tally -> Reports -> Trial Balance
   (b) Gateway of Tally -> Trial Balance
   (c) Gateway of Tally -> Reports -> Display more reports -> Accounting -> Trial Balance
   (d) None of these
8. Which of the following is not true?
   (a) Payment voucher is used to record rent paid by cash
   (b) Payment voucher is used to record rent paid through bank
   (c) Groups can be created in TallyPrime
   (d) New Ledger A/c cannot be created in TallyPrime

Answers

1(d)	2 (a)	3 (b)	4 (b)	5 (c)	6 (b)	7 (c)	8 (d)

II. Very short answer questions

1. How a company is created in TallyPrime?
2. Is altering company details possible in TallyPrime?
3. What is a group in TallyPrime?
4. How is a ledger created in TallyPrime?
5. State the procedure to view Balance Sheet in TallyPrime.

III. Short answer questions

1. Briefly explain the pre-defined ledgers available in TallyPrime.
2. Write a brief note on contra voucher.
3. State the uses of debit note and credit note.
4. How is purchase of goods recorded in TallyPrime?

IV. Exercises

1. Record the following transactions in the books of Bragathish in Tally Prime by creating a group Indian Bank A/c and prepare the Trial Balance and view Day book:
   (i) Bragathish commenced a cycle store business with a capital of ₹ 2,50,000 by cash at 15 Gandi Street, Salem.
   (ii) He opened an account with Indian Bank Salem branch and deposited ₹ 60,000.
   (iii) He also opened an account with Indian Bank Erode branch and deposited ₹ 25,000.
   (iv) He withdrew ₹ 12,500 from Indian Bank Salem for office use.
   (v) He transferred ₹ 10,000 from Indian Bank Salem Account to open Indian Bank Thanjavur Account.
   (vi) He gave ₹ 5,000 to the Petty Cashier for office purpose.
   (vii) Paid salaries amounting ₹ 30,000 from Indian Bank Salem branch through ECS.

(Ans: Trial Balance Total: 2,50,000)

2. Record the following transactions in TallyPrime and prepare Profit & Loss A/c and Balance Sheet.

   (i) Kamala commenced stationery business with a capital of ₹ 80,000 by cash. The following transactions took place in her business.

   (ii) Purchased goods (Pencils) from X Ltd for ₹ 18,000 on credit

   (iii) Purchase goods (Pens) from Y Ltd by paying cash ₹ 16,000

   (iv) Of the goods (Pencils) purchased from X Ltd, goods worth ₹ 1,000 were returned and no cash was received.

   (v) Of the goods (Pens) purchased from Y Ltd, goods worth ₹ 200 were returned and the cash was received.

   (vi) Sold goods (Pencils) to Kumar for ₹ 2,000 on credit.

   (vii) Of the goods sold to Kumar, goods worth ₹ 500 was returned for which no money was paid.

   (viii) Sold goods (Pens) to Mano for ₹ 3,000 and the cash was received.

   (ix) Of the goods sold to Mano, he returned goods worth ₹ 600 for which cash was paid.

   (x) Stationery purchased on credit from Samuel ₹ 1,000

   (xi) Bought furniture on credit from Chitra for ₹ 10,000

   (Ans: Net Loss: 29,900 Balance Sheet Total: 1,08,000)

3. Record the following transactions in TallyPrime and prepare Trial Balance, Profit & Loss A/c and Balance Sheet.

   (i) Vinitha commenced a textile business with a capital of ₹ 6,00,000 at No.3, Pari Street, Vellore.

   (ii) An account is opened with Canara Bank and deposited ₹ 90,000

   (iii) Purchased furniture by paying cash ₹ 4,000

   (iv) Goods purchased on credit from Amreen for ₹ 90,000

   (v) Cash sales made for ₹ 10,000

   (vi) Goods purchased from Mary for ₹ 7,000 and paid by cheque

   (vii) Goods sold to Mohan on credit for ₹ 40,000

   (viii) Money withdrawn from bank for office use ₹ 10,000

   (ix) Money withdrawn from bank for personal use ₹ 5,000

   (x) Part payment of ₹ 2,000 made to Amreen by cheque

   (xi) Mohan made part payment of ₹ 3,000 by cash

   (xii) Rent paid through NEFT ₹ 10,000

   (xiii) Wages paid by cash ₹ 2,000

   (xiv) Purchased laptop from Maya Ltd. on credit for ₹ 40,000

   (xv) Returned goods worth ₹ 4,000 to Mary for which cash was not received immediately.

   (xvi) Mohan returned goods worth ₹ 2,000 for which cash was not paid immediately.

   (Ans: Trial Balance Total: 7,82,000 Net Loss: 57,000 Balance Sheet Total: 7,19,000)

4. The following balance sheet has been extracted from the books of Yahya Automobiles, 15 Gandhi Street, Viluppuram, as on 01-04-2022.

Liabilities	₹	Assets	₹
Capital	4,30,000	Plant	2,50,000
Sundry creditors:		Furniture	20,000
Iniya A/c	20,000	Stock	10,000
		Sundry debtors	
		Dinesh A/c	50,000
		Cash	30,000
		Bank	90,000
	4,50,000		4,50,000

During the year, the following transactions took place:

(i) Cash purchases made for ₹ 8,000
(ii) Wages paid by cash ₹ 2,000
(iii) Rent paid by cheque ₹ 6,000
(iv) Good purchased on credit from Sridevi ₹ 12,000
(v) Goods sold on credit to Poonkodi ₹ 20,000
(vi) Payment made to Sridevi by cheque ₹ 8,000
(vii) Cash received from Dinesh ₹ 12,000
(viii) Cash sales made to Ramya for ₹ 6,000
(ix) Depreciate plant by 10%
(x) Closing stock on 31.03.2022 ₹ 17,000

You are required to record the above transactions using TallyPrime. Also prepare opening balance sheet, Profit & Loss Account and the closing balance sheet.

(Ans: Net Loss: 20,000 Balance Sheet Total: 4,54,000)

UNIT 11

Accounting of not for profit organisation using TallyPrime

Contents

11.1 Introduction

11.2 Practical application of TallyPrime for not for profit organisation

11.3 Practical problems

Points to recall

The following points are to be recalled before learning the Accounting of not for profit organisation using TallyPrime

- Capital expenditure
- Revenue expenditure
- Deferred revenue expenditure
- Capital receipt
- Revenue receipt
- Income and expenditure account
- Balance sheet

Learning objectives

To enable the students to

- Apply TallyPrime in maintaining books of accounts of not-for-profit organisation
- Apply TallyPrime in generating reports of not-for-profit organisation

Key terms to know

- Not-for-profit organisation
- Receipts and payments account
- Income and expense account
- Accounting groups
- Accounting vouchers

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11.1 Introduction

Not–for–Profit organisations are the organisations which function without any profit motive. Their main aim is to provide services to a specific group or the public at large. Generally, they do not undertake business or trading activities. Their main sources of income include subscription from members, donations and grant-in-aid from government.

The accounting principles and process for preparing financial statements are common for both trading as well as not-for-profit organisation. In not-for-profit organisation, Income and Expenditure Account, which is a nominal account, is prepared instead of Profit and Loss Account to determine the surplus or deficit made during the year. Accounting of not-for-profit organisation can be done using TallyPrime. There is no difference in recording of transactions in TallyPrime. Preparation of Income and Expense A/c is also possible in TallyPrime.

11.2 Practical application of TallyPrime for not for profit organisation

In TallyPrime, by default Profit & Loss A/c will be enabled and will appear in the Gateway of Tally. To use the Income & Expense A/c instead of Profit & Loss A/c, "Profit & Loss A/c" ledger should be altered accordingly.

To Alter "Profit & Loss A/c"

Gateway of Tally > Masters > Alter > Accounting Masters > Ledger > List of Ledgers > Profit & Loss A/c

The Ledger Alteration screen appears as shown below:

Set the option "Use as Income & Expense A/c" to "Yes" Accept: Yes.

Save the Profit & Loss A/c ledger.

Now the Income & Expense A/c is listed in the Gateway of Tally.

To View Income & Expense Account

Gateway of Tally > Reports > Income & Expense A/c > Alt+ F5 (Detailed View)

To view Balance Sheet

Gateway of Tally > Reports > Balance Sheet > Alt + F5 (Detailed View)

11.3 Practical Problems

Practical Problem 1

From the following Receipts and Payment account and from the information given below of Ramanathapuram Sports Club, prepare Trial Balance, Income and Expense account for the year ended 31st December 2018 and the balance sheet as on that date.

Receipts	₹	₹	Payments	₹	₹
To Balance b/d			By Rent		11,000
Cash in hand	5,000		By Entertainment		
Cash at bank	10,000	15,000	expenses		11,200
To Subscription			By Furniture		10,000
2017	12,000		By Sports materials		
2018	33,000		purchased		13,000
2019	16,000	61,000	By Match expenses		12,000
To Entrance fees		6,000	By Investments made		28,000
To General donations		7,000	By Balance c/d		
To Sale of old sports			Cash in hand	1,300	
Materials		1,000	Cash at bank	4,000	5,300
To Miscellaneous					
Receipts		500			
		90,500			90,500

Additional information:

(i) Capital fund as on 1st January 2018 ₹ 30,000.

(ii) Opening stock of sports material ₹ 3,000 and closing stock of sports material ₹ 5,000.

(iii) Match expenses paid by cash ₹ 3,700 paid by bank ₹ 8,300. All the other income and expenses are received and paid through bank account.

Solution

Following steps are to be followed to enter the transactions in TallyPrime:

Step 1: Creation of Company
Step 2: Change the ledger Profit & Loss A/c as "Income and Expense A/c"
Step 3: Creation of ledgers for recording opening balances
Step 4: View opening Balance Sheet
Step 5: Analysis of transactions
Step 6: Creation of new Ledgers
Step 7: Entry of transactions through vouchers
Step 8: View Trial Balance, Income & Expense A/c and Closing Balance Sheet
Above steps are explained in detail as below:

Step 1: Creation of company

F3: Company > Create Company. Type the Company Name as "Ramanathapuram Sports Club" and choose the State as "Tamil Nadu" from the list of states. Mention 1.1.2018 for financial year beginning from and mention 31.12.2018 for books beginning from and choose "Yes" to Accept.

To enable features

After accepting "Yes" in company creation screen, to enable features for the company, set 'Yes' to Maintain Accounts and 'No' to all other fields and choose 'Yes' to Accept.

Step 2: Change the ledger Profit & Loss A/c as "Income and Expense A/c"

Gateway of Tally > Masters > Alter > Accounting Masters > Ledger > List of Ledgers > Profit & Loss A/c > Use as Income & Expense A/c > Yes > Accept: Yes.

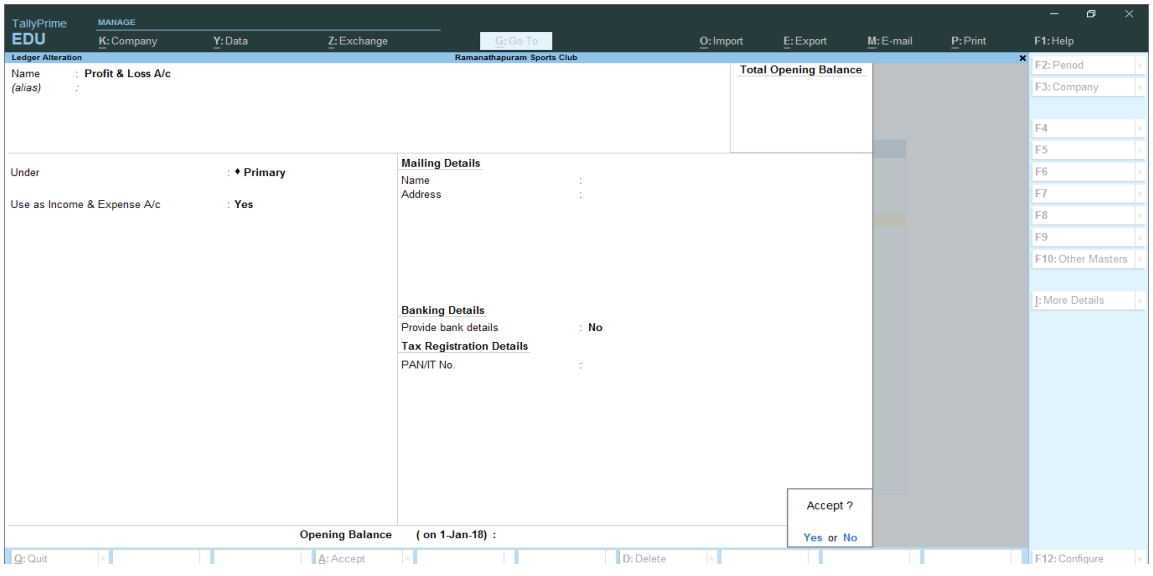


Figure 11.1.1 Profit & Loss A/c Ledger Alteration to Income and Expense A/c

Step 3: Creation of ledgers for recording opening balances

(i) To record opening cash balance

Cash is a predefined ledger account in TallyPrime. To enter the opening balance, it has to be altered.

To alter cash

Gateway of Tally > Masters > Alter > Accounting Masters > Ledger > list of Ledgers > Cash

Name	: Cash A/c	Under : Cash-in-Hand
Opening Balance	: 5,000	Accept: Yes.

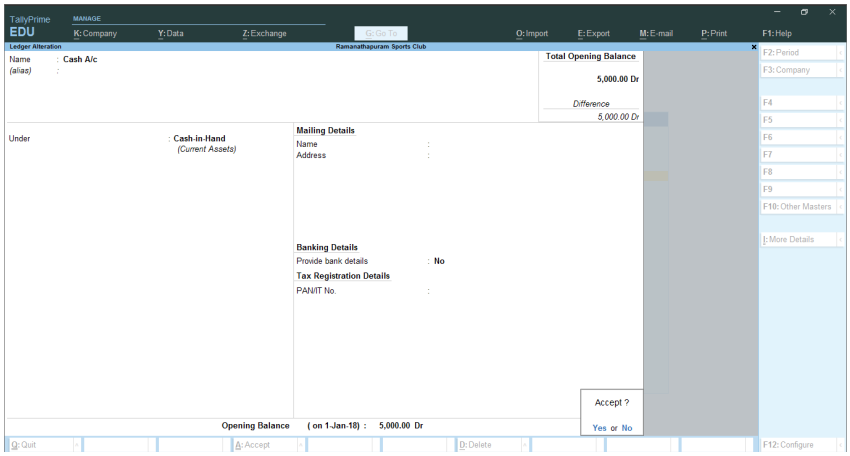


Figure 11.1.2 Alteration of Cash A/c

(ii) To Create Bank A/c

Gateway of Tally > Masters > Create > Accounting Masters > Ledger

Name	: Bank A/c	Under : Bank Accounts
Opening Balance	: 10,000	Accept: Yes.

(iii) To Create Subscription (2017) A/c

Name	: Subscription (2017) A/c	Under : Current Assets
Opening Balance	: 12,000	Accept: Yes.

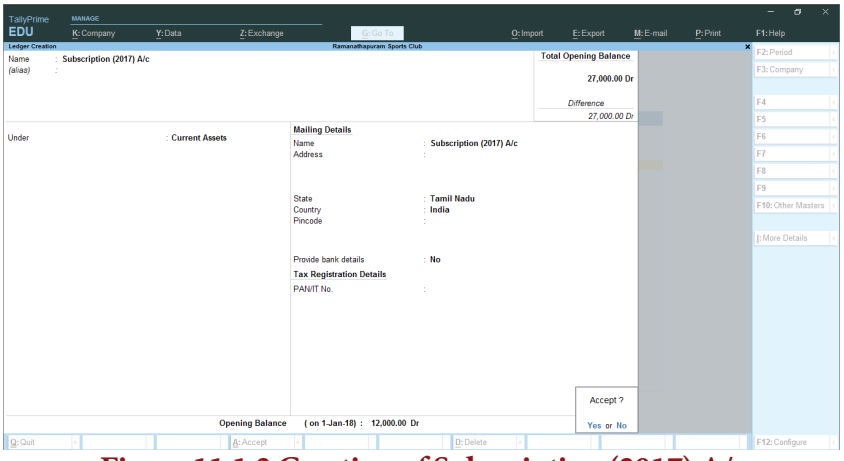


Figure 11.1.3 Creation of Subscription (2017) A/c

(iv) To Create Capital Fund A/c

Name	: Capital Fund A/c	Under : Capital Account
Opening Balance	: 30,000	Accept: Yes.

(v) To Create Sports Materials A/c

Name	: Sports Materials A/c	Under : Stock-in-Hand
Opening Balance	: 3,000	Accept: Yes.

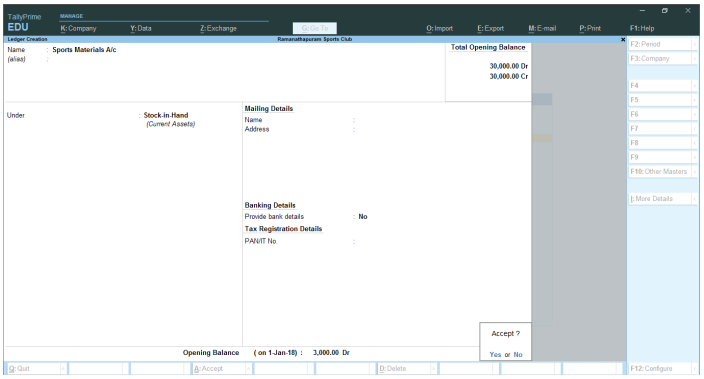


Figure 11.1.4 Creation of Sports Materials A/c

Step 4: View opening Balance Sheet

Gateway of Tally > Reports > Balance sheet > Alt+F5 (Detailed View)

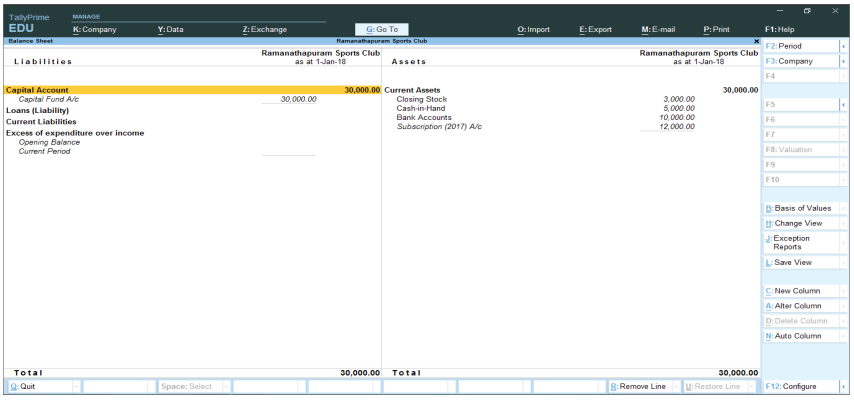


Figure 11.1.5 Opening Balance Sheet (Detailed View)

Step 5: Analysis of transactions made during the year

Analysis of transactions, passing journal entries, identification of group and voucher type

Particulars	Debit ₹	Credit ₹	Group	Voucher type
(i) Subscription due for 2017 of ₹ 12,000 received				
Bank A/c Dr. To Subscription (2017) A/c	12,000	 12,000	Bank Accounts Current Assets	Receipt
(ii) Subscription for 2018 ₹ 33,000 received				
Bank A/c Dr. To Subscription (2018) A/c	33,000	 33,000	Bank Accounts Indirect Incomes	Receipt
(iii) Subscription of 2019 received in advance ₹ 16,000				
Bank A/c Dr. To Subscription (2019) A/c	16,000	 16,000	Bank Accounts Current Liabilities	Receipt
(iv) Entrance fees received ₹ 6,000				
Bank A/c Dr. To Entrance Fees A/c	6,000	 6,000	Bank Accounts Indirect Incomes	Receipt
(v) General donations received ₹ 7,000				
Bank A/c Dr. To General Donations A/c	7,000	 7,000	Bank Accounts Indirect Incomes	Receipt
(vi) Sale of old sports materials ₹ 1,000				
Bank A/c Dr. To Old Sports Materials A/c	1,000	 1,000	Bank Accounts Indirect Incomes	Receipt

Particulars		Debit ₹	Credit ₹	Group	Voucher type
(vii) Miscellaneous receipts ₹ 500					
Bank A/c	Dr.	500		Bank Accounts	Receipt
To Miscellaneous Receipts A/c			500	Indirect Incomes	
(viii) Rent paid ₹ 11,000					
Rent A/c	Dr.	11,000		Indirect Expenses	Payment
To Bank A/c			11,000	Bank Accounts	
(ix) Entertainment expenses paid ₹ 11,200					
Entertainment Expenses A/c	Dr.	11,200		Indirect Expenses	Payment
To Bank A/c			11,200	Bank Accounts	
(x) Furniture bought ₹ 10,000					
Furniture A/c	Dr.	10,000		Fixed Assets	Payment
To Bank A/c			10,000	Bank Accounts	
(xi) Sports materials bought ₹ 13,000					
Sports Materials (Expenses) A/c	Dr.	13,000		Indirect Expenses	Payment
To Bank A/c			13,000	Bank Accounts	
(xii) Match expenses paid by cash ₹ 3,700 and paid by bank ₹ 8,300					
Match Expenses A/c	Dr.	12,000		Indirect Expenses	
To Cash A/c			3,700	Cash-in-Hand	Payment
To Bank A/c			8,300	Bank Accounts	
(xiii) Investment made for ₹ 28,000					
Investments A/c	Dr.	28,000		Investments	Payment
To Bank A/c			28,000	Bank Accounts	

Step 6: Creation of new Ledgers

Follow the following procedure to create Subscription (2018), Subscription (2019) A/c, Entrance Fees A/c, General Donations A/c, Old Sports Materials A/c, Miscellaneous Receipts A/c, Rent A/c, Entertainment Expenses A/c, Furniture A/c, Sports Materials (Expenses) A/c, Match Expenses A/c and Investments A/c:

Gateway of Tally > Masters > Create> Accounting Masters > Ledger > Name > Under (Group) > Accept: Yes.

Step 7: Entry of transactions through vouchers

(i) Subscription due for 2017 of ₹ 12,000 received

Gateway of Tally > Transactions > Vouchers

F6: Receipt

Credit : Subscription (2017) A/c

Amount : 12,000

Debit : Bank A/c

The TallyPrime will show the Amount for the Debit aspect. Press Enter key, then TallyPrime will ask for Bank Allocations for Bank A/c. Skip to the next screen without altering/giving values.

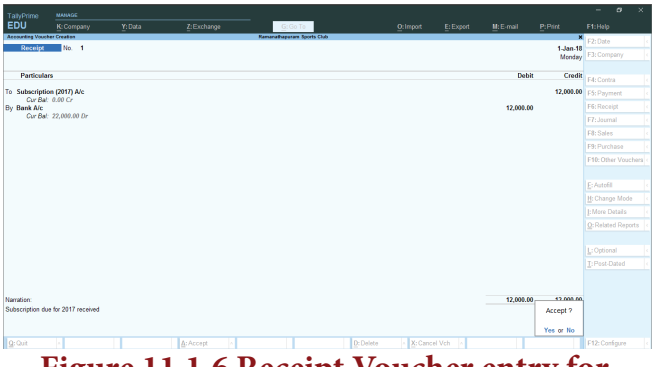


Figure 11.1.6 Receipt Voucher entry for subscription due for 2017 received

Narration : Subscription due for 2017 received

Accept: Yes.

(ii) Subscription for 2018 ₹ 33,000 received

F6: Receipt

Credit : Subscription (2018) A/c

Amount : 33,000

Debit : Bank A/c

The TallyPrime will show the Amount for the Debit aspect. Press Enter key, then TallyPrime will ask for Bank Allocations for Bank A/c. Skip to the next screen without altering/giving values.

Narration : Subscription for 2018 received

Accept: Yes.

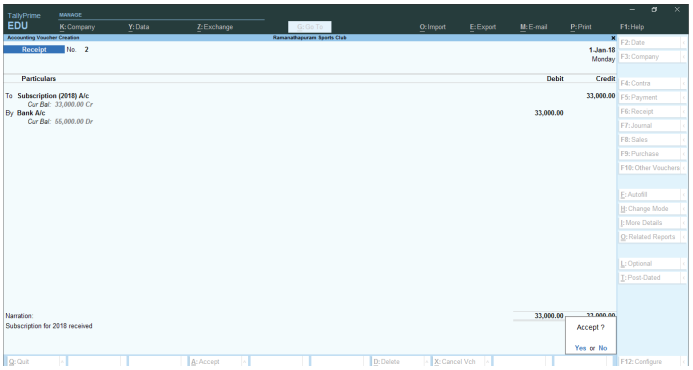


Figure 11.1.7 Receipt Voucher entry for subscription for 2018 received

(iii) Subscription for 2019 received in advance ₹ 16,000

F6: Receipt

Credit : Subscription (2019) A/c

Amount : 16,000

Debit : Bank A/c

The TallyPrime will show the Amount for the Debit aspect. Press Enter key, then TallyPrime will ask for Bank Allocations for Bank A/c. Skip to the next screen without altering/giving values.

Narration : Subscription of 2019 received in advance

Accept: Yes.

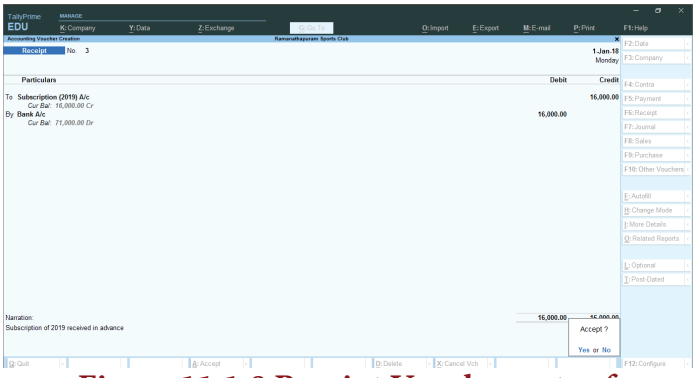


Figure 11.1.8 Receipt Voucher entry for subscription of 2019 received in advance

(iv) Entrance fees received ₹ 6,000

F6: Receipt

Credit : Entrance Fees A/c

Amount : 6,000

Debit : Bank A/c

The TallyPrime will show the Amount for the Debit aspect. Press Enter key, then TallyPrime will ask for Bank Allocations for Bank A/c. Skip to the next screen without altering/giving values.

Narration : Entrance Fees received

Accept: Yes.

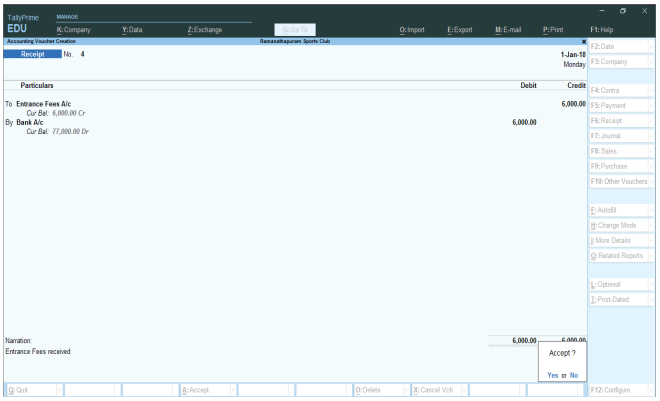


Figure 11.1.9 Receipt Voucher entry for entrance fees received

(v) General donations received ₹ 7,000

F6: Receipt

Credit : General Donations A/c

Amount : 7,000

Debit : Bank A/c

The TallyPrime will show the Amount for the Debit aspect. Press Enter key, then TallyPrime will ask for Bank Allocations for Bank A/c. Skip to the next screen without altering/giving values.

Narration : General donations received

Accept: Yes.

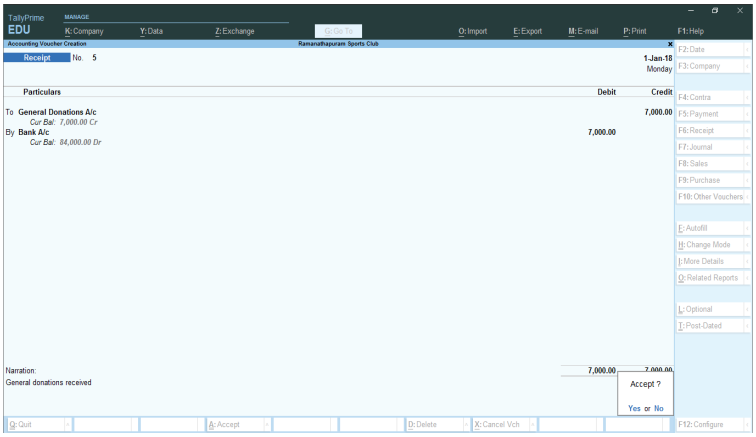


Figure 11.1.10 Receipt Voucher entry for general donations received

(vi) Sale of Old Sports Materials ₹ 1,000

F6: Receipt

Credit : Old Sports Materials A/c

Amount : 1,000

Debit : Bank A/c

The TallyPrime will show the Amount for the Debit aspect. Press Enter key, then TallyPrime will ask for Bank Allocations for Bank A/c. Skip to the next screen without altering/giving values.

Narration : Sale of old sports materials

Accept: Yes.

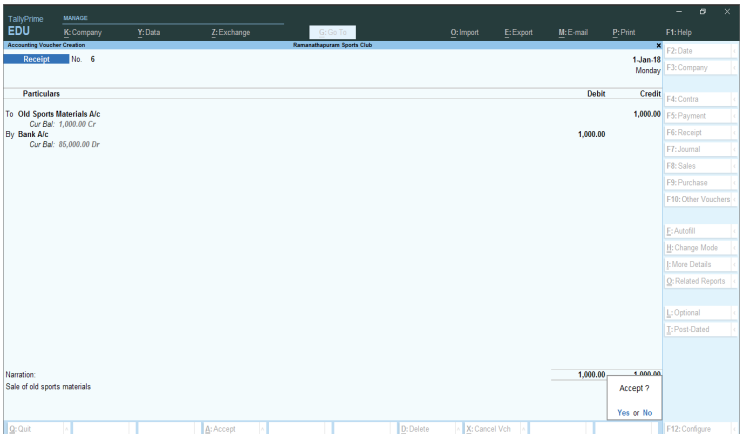


Figure 11.1.11 Receipt Voucher entry for sale of old sports materials

(vii) Miscellaneous Receipt ₹ 500

F6: Receipt

Credit : Miscellaneous Receipts A/c

Amount : 500

Debit : Bank A/c

The TallyPrime will show the Amount for the Debit aspect. Press Enter key, then TallyPrime will ask for Bank Allocations for Bank A/c. Skip to the next screen without altering/giving values.

Narration : Miscellaneous receipts Accept: Yes.

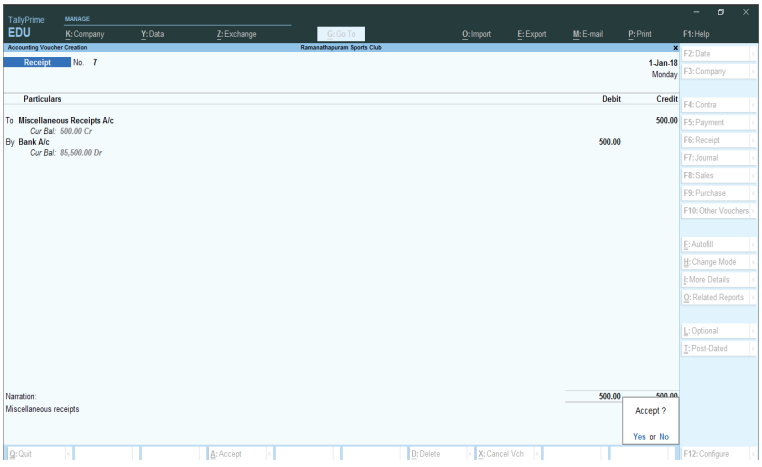


Figure 11.1.12 Receipt Voucher entry for miscellaneous receipts

(viii) Rent paid ₹ 11,000

F5: Payment

Debit : Rent A/c Amount : 11,000 Credit : Bank A/c

The TallyPrime will show the Amount for the Credit aspect. Press Enter key, then TallyPrime will ask for Bank Allocations for Bank A/c. Skip to the next screen without altering/giving values.

Narration : Rent paid Accept: Yes.

(ix) Entertainment Expenses Paid ₹ 11,200

F5: Payment

Debit : Entertainment Expenses A/c Amount : 11,200 Credit : Bank A/c

The TallyPrime will show the Amount for the Credit aspect. Press Enter key, then TallyPrime will ask for Bank Allocations for Bank A/c. Skip to the next screen without altering/giving values.

Narration : Entertainment Expenses Paid Accept: Yes.

(x) Furniture bought ₹ 10,000

F5: Payment

Debit : Furniture A/c

Amount : 10,000

Credit : Bank A/c

The TallyPrime will show the Amount for the Credit aspect. Press Enter key, then TallyPrime will ask for Bank Allocations for Bank A/c. Skip to the next screen without altering/giving values.

Narration : Bought furniture Accept: Yes.

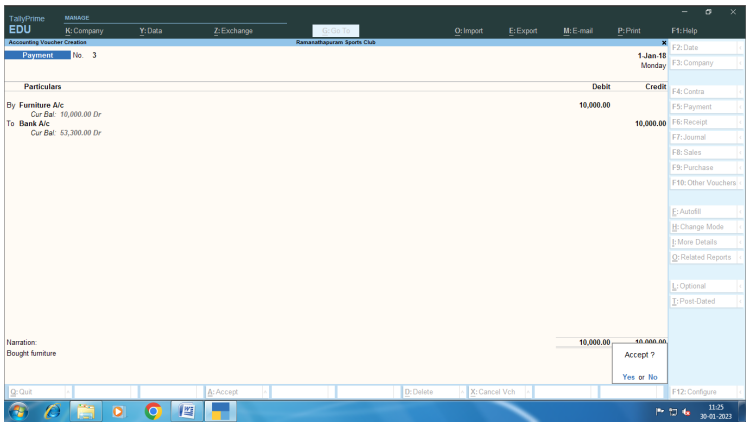


Figure 11.1.13 Payment Voucher entry for furniture bought

(xi) Sports materials bought ₹ 13,000

F5: Payment

Debit : Sport Materials (Expenses) A/c

Amount : 13,000

Credit : Bank A/c

The TallyPrime will show the Amount for the Credit aspect. Press Enter key, then TallyPrime will ask for Bank Allocations for Bank A/c. Skip to the next screen without altering/giving values.

Narration : Bought sports materials

Accept: Yes.

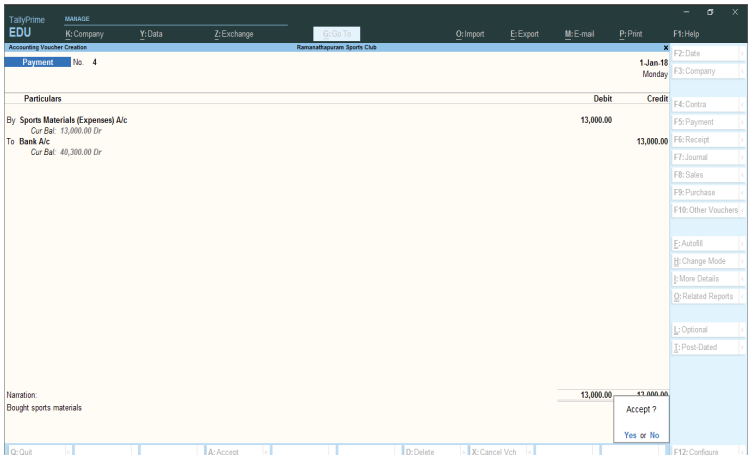


Figure 11.1.14 Payment Voucher entry for sports materials bought

(xii) Match expenses paid by cash ₹ 3,700 paid by bank ₹ 8,300

F5: Payment

Debit : Match Expenses A/c; Amount:12,000

Credit : Cash A/c; Amount: 3,700

Credit : Bank A/c; Amount: 8,300

After entering the value of Bank A/c, TallyPrime will ask for Bank Allocations for Bank A/c. Skip to the next screen without altering/giving values.

Narration : Match expenses paid by cash and bank

Accept: Yes.

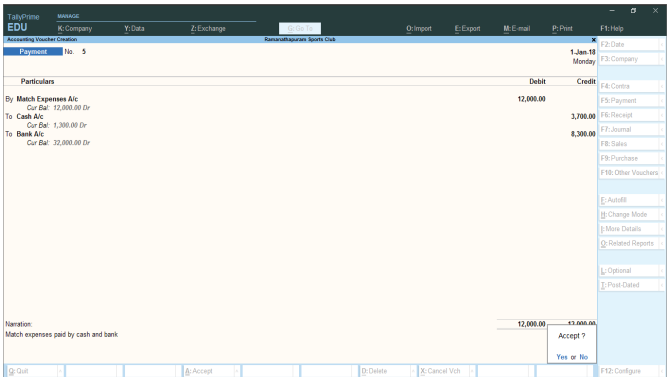


Figure 11.1.15 Payment Voucher entry for match expenses paid by cash and bank

(xiii) Investment made for ₹ 28,000

F5: Payment

Debit : Investments A/c

Amount : 28,000

Credit : Bank A/c

The TallyPrime will show the Amount for the Credit aspect. Press Enter key, then TallyPrime will ask for Bank Allocations for Bank A/c. Skip to the next screen without altering/giving values.

Narration : Made investment

Accept: Yes.

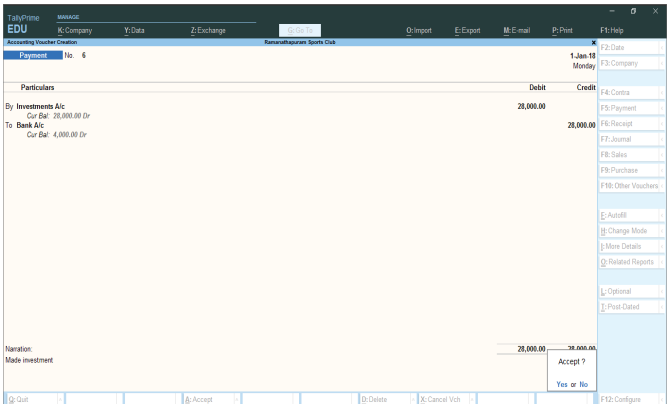


Figure 11.1.16 Payment Voucher entry for investment made

(xiv) To record closing stock of materials ₹ 5,000

The closing stock of sports materials has to be recorded by altering the Sports Materials A/c.

Gateway of Tally > Masters > Alter > Accounting Masters > Ledger > List of Ledgers > Sports Materials A/c

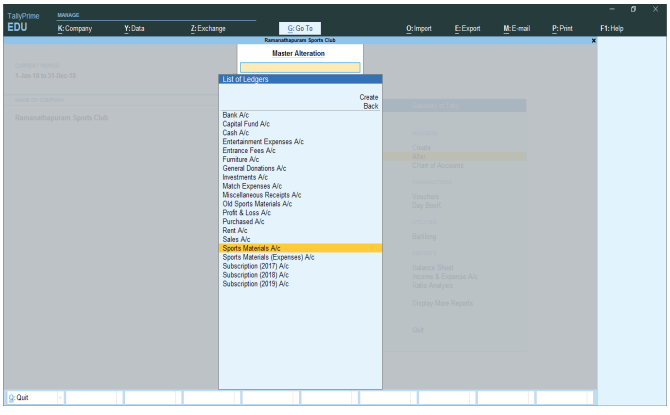


Figure 11.1.17 Alteration of Sports Materials A/c

While entering the date of closing stock, the date of opening stock has to be entered.

Closing Balance 1.4.2022 ₹ 5,000 Accept: Yes.

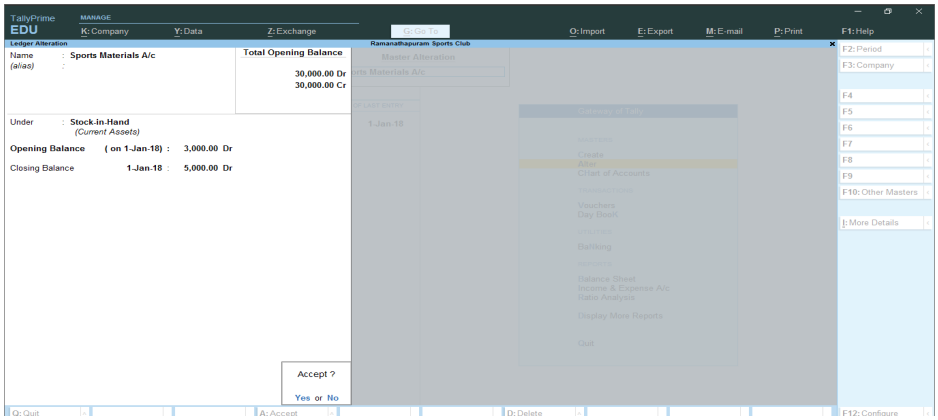


Figure 11.1.18 Recording closing stock of sports materials

Step 8: View Trial Balance, Income & Expense A/c and Closing Balance Sheet

(a)To View Trial Balance

Gateway of Tally > Reports > Display More Reports > Accounting > Trial Balance > Alt+F5 (Detailed View)

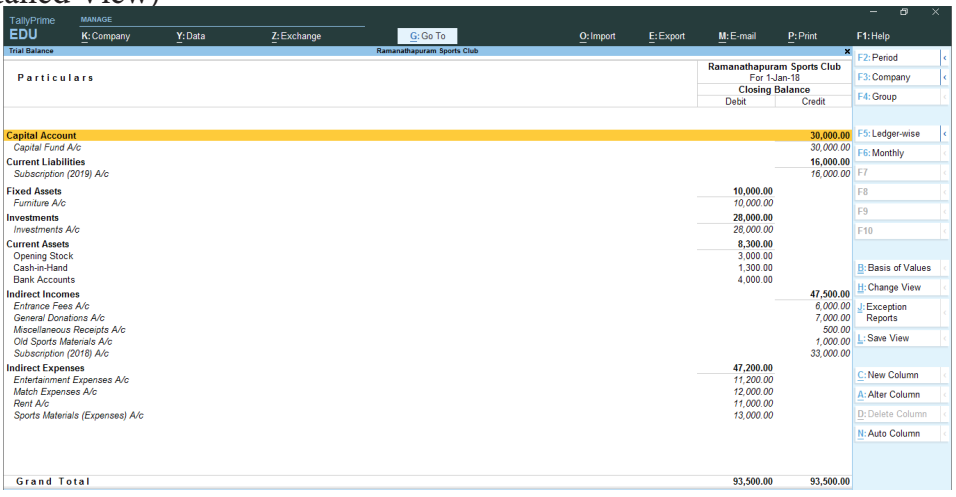


Figure 11.1.19 Trial Balance (Detailed View)

(b) To View Income & Expense A/c

Gateway of Tally > Reports > Income & Expense A/c > Alt+ F5 (Detailed View)

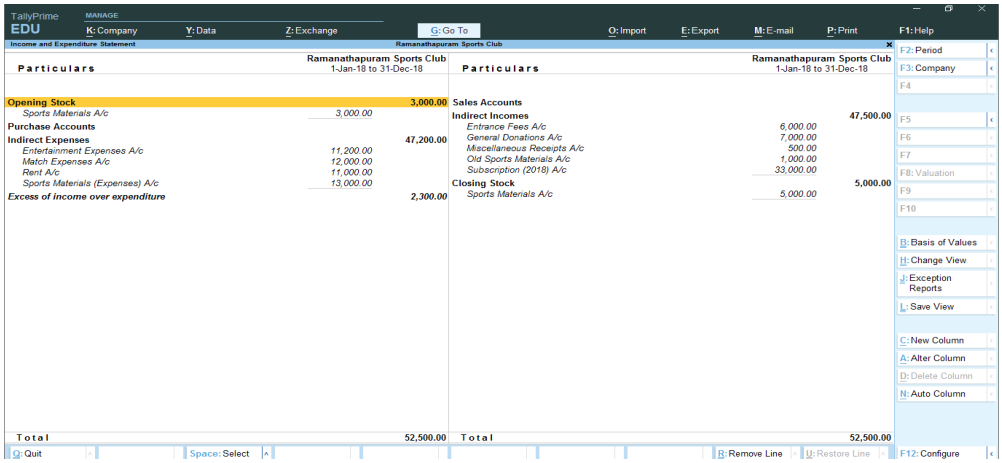


Figure 11.1.20 Income & Expense Account (Detailed View)

(c) To View Closing Balance Sheet

Gateway of Tally > Reports > Balance Sheet > Alt + F5 (Detailed View)

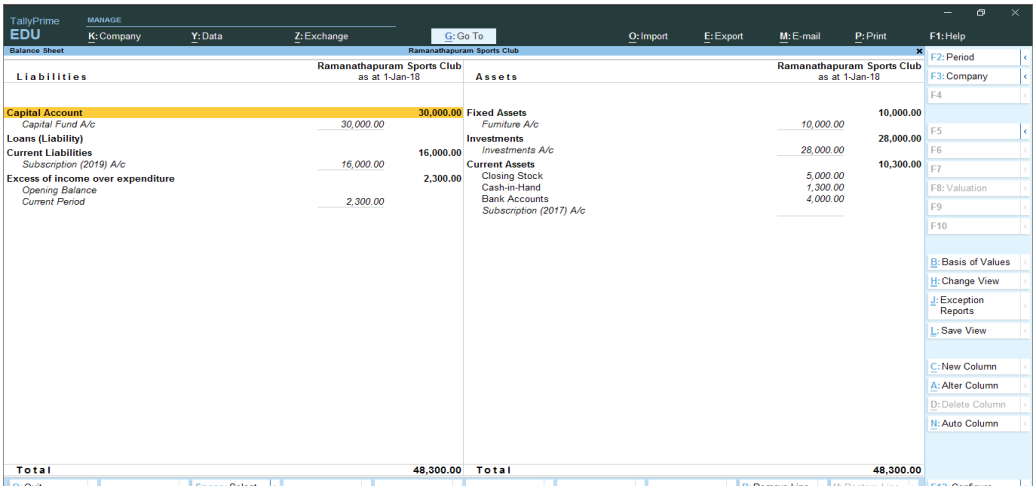


Figure 11.1.21 Closing Balance Sheet (Detailed View)

Practical problem 2

Tamil Nadu Housing Board (TNHB) constructed an apartment consisting of 50 houses in Chennai and sold to 50 persons. It collected ₹ 16,000 from each house owner as caution deposit.

The owners of the houses were asked to form an association as per the Societies Registration Act. The owners named the apartment as STAR APARTMENT and formed an association in the name of STAR APARTMENT OWNERS' WELFARE ASSOCIATION.

On 1.4.2021, the owners contributed ₹ 1,000 per household in cash as one time admission fee to become the member of the association. They got registered their association by paying ₹ 5,000 as cash. A bank account was opened in the name of the association in State Bank of India and ₹ 30,000 was deposited.

TNHB handed over the caution deposit of ₹ 8,00,000 by cheque and it was deposited in the bank on the same day. The association decided to collect ₹ 2,000 per month as maintenance charges for each house hold. For the year 2021-22, all the members have paid the maintenance charges by cash except Mr. Narayanan who has failed to pay for two months and Mr. Ramesh who has due for one month.

They appointed Mrs. Regina as an Accountant and paid ₹ 5,000 per month as salary by cash. They also appointed Mrs. Meenakshi as a sweeper by paying ₹ 6,000 per month.

The association entered into an agreement with Mr. Suresh and Brothers to provide 2 members as security guard by paying ₹ 8,000 per person per month as salary by cheque.

They dug a well at a cost of ₹ 2,00,000 by paying a cheque for which depreciation at 5% p.a. under Straight Line Method of depreciation is to be followed.

They also went for 2 borewells with motors at a cost of ₹ 70,000 each by cheque, for which depreciation at 10% p.a. under Straight Line Method is to be charged.

Other expenses made during the year are as follows:

Electricity charges paid by cheque	:	₹ 1,20,000
Lift maintenance charges paid by cheque	:	₹ 60,000
Repairs and maintenance of motors paid by cash	:	₹ 10,000
Audit fees paid by cheque	:	₹ 10,000

Enter the above transactions in the books of Star Apartment Owners' Welfare Association through Tally Prime and view Trial Balance as on 31.3.2022, Income and Expenses Account for 2021-22 and the Balance Sheet as on 31.3.2022.

Solution

Following steps are to be followed to enter the transactions in TallyPrime:

Step 1: Creation of Company
Step 2: Analysis of transactions
Step 3: Creation of new Ledgers
Step 4: Change the period and date
Step 5: Entry of transactions through vouchers
Step 6: View Trial Balance, Income & Expense A/c and Balance sheet

Above steps are explained in detail as below:

Step 1: Creation of Company

F3: Company > Create Company. Type the Company Name as "Star Apartment Owners' Welfare Association" and choose the State as "Tamil Nadu" from the list of states. Mention 1.4.2021 for financial year beginning from and mention 1.4.2021 for books beginning from and choose "Yes" to Accept.

To enable features

After accepting "Yes" in company creation screen, to enable features for the company, set 'Yes' to Maintain Accounts and 'No' to all other fields and choose 'Yes' to Accept.

Step 2: Analysis of transactions

Analysis of transactions, passing journal entries, identification of group and voucher type

S. No.	Particulars		Debit ₹	Credit ₹	Group	Voucher type
(i)	Cash A/c To Admission Fees A/c	Dr.	50,000	 50,000	Cash-in-Hand Indirect Incomes	Receipt
(ii)	Registration Fees A/c To Cash A/c	Dr.	5,000	 5,000	Indirect Expenses Cash-in-Hand	Payment
(iii)	State Bank of India A/c To Cash A/c	Dr.	30,000	 30,000	Bank Accounts Cash-in-Hand	Contra
(iv)	State Bank of India A/c To Corpus Fund A/c	Dr.	8,00,000	 8,00,000	Bank Accounts Capital Accounts	Receipt
(v)	Cash A/c* To Maintenance Charges A/c	Dr.	11,94,000	 11,94,000	Cash-in-Hand Indirect Incomes	Receipt
(vi)	Accountant Salaries A/c To Cash A/c	Dr.	60,000	 60,000	Indirect Expenses Cash-in-Hand	Payment
(vii)	Sweeper Salaries A/c To Cash A/c	Dr.	72,000	 72,000	Indirect Expenses Cash-in-Hand	Payment
(viii)	Security Charges A/c To State Bank of India A/c	Dr.	1,92,000	 1,92,000	Indirect Expenses Bank Accounts	Payment
(ix)	Well A/c To State Bank of India A/c	Dr.	2,00,000	 2,00,000	Fixed Assets Bank Accounts	Payment
(x)	Borewells A/c To State Bank of India A/c	Dr.	1,40,000	 1,40,000	Fixed Assets Bank Accounts	Payment
(xi)	Electricity Charges A/c To State Bank of India A/c	Dr.	1,20,000	 1,20,000	Indirect Expenses Bank Accounts	Payment
(xii)	Lift Maintenance A/c To State Bank of India A/c	Dr.	60,000	 60,000	Indirect Expenses Bank Accounts	Payment

S. No.	Particulars		Debit ₹	Credit ₹	Group	Voucher type
(xiii)	Repairs and Maintenance A/c To Cash A/c	Dr.	10,000	 10,000	Indirect Expenses Cash-in-Hand	Payment
(xiv)	Audit Fees A/c To State Bank of India A/c	Dr.	10,000	 10,000	Indirect Expenses Bank Accounts	Payment
(xv)	Narayanan A/c To Maintenance Charges A/c	Dr.	4,000	 4,000	Sundry Debtors Indirect Incomes	Journal
(xvi)	Ramesh A/c To Maintenance Charges A/c	Dr.	2,000	 2000	Sundry Debtors Indirect Incomes	Journal
(xvii)	Depreciation on Well A/c To Well A/c	Dr.	10,000	 10,000	Indirect Expenses Fixed Assets	Journal
(xviii)	Depreciation on Borewells A/c To Borewells A/c	Dr.	14,000	 14,000	Indirect Expenses Fixed Assets	Journal

* **Note:** Maintenance charges received:

Maintenance charges to be received (50 × 2,000 × 12)			12,00,000
Less: Dues from members:			
Narayanan	: (2 × 2,000)	4,000	
Ramesh	: (1 × 2,000)	2,000	6,000
Amount received			11,94,000

Step 3: Creation of new Ledgers

Follow the following procedure to create Admission Fees A/c, Registration Fees A/c, State Bank of India A/c, Corpus Fund A/c, Maintenance Charges A/c, Accountant Salaries A/c, Sweeper Salaries A/c, Security Charges A/c, Well A/c, Borewells A/c, Electricity Charges A/c, Lift Maintenance A/c, Repairs and Maintenance A/c, Audit Fees A/c, Narayanan A/c, Ramesh A/c and Depreciation on Well A/c and Depreciation on Borewells A/c:

Gateway of Tally > Masters > Create > Accounting Masters > Ledger > Name > Under (Group) > Accept: Yes.

Step 4: Change the period and date

The period must be taken as 1.4.2021 to 31.3.2022 and the date must be taken as 1.4.2021.

Gateway of Tally > F2: Period > From 1.4.2021 To 31.3.2022 > Enter

F2: Date > 1.4.2021 > Enter

Step 5: Entry of transactions through vouchers

(i) The owners contributed ₹ 1,000 per household in cash as one time admission fee to become the member of the association

F6: Receipt

Credit : Admission Fees A/c

Amount : 50,000 (1,000 × 50)

Debit : Cash

Narration : Admission fees received from the members

Accept: Yes.

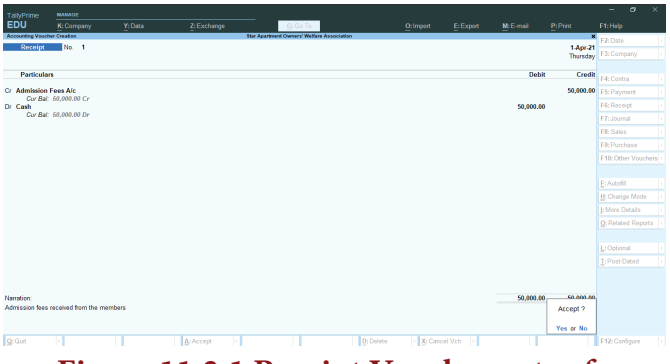


Figure 11.2.1 Receipt Voucher entry for admission fees received from the members

(ii) Registered the association by paying ₹ 5,000 as cash

F5: Payment

Debit : Registration Fees A/c Amount : 5,000 Credit : Cash

Narration : Registration fees paid Accept: Yes.

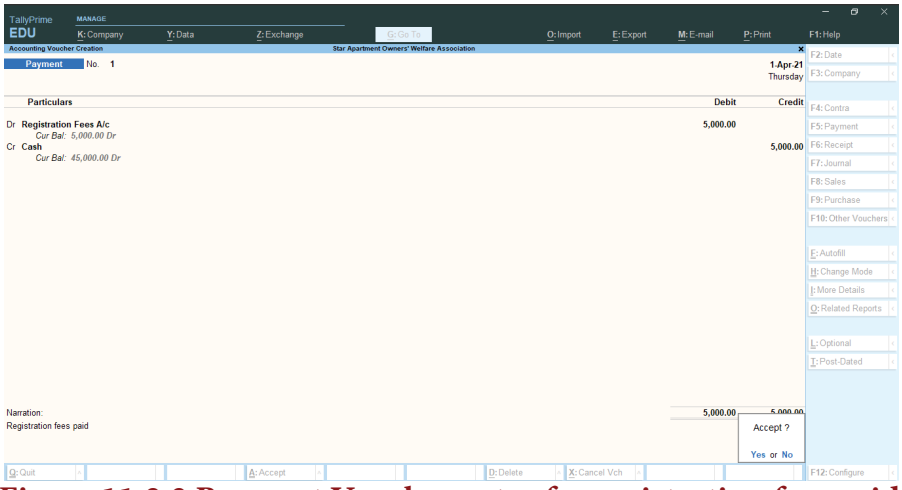


Figure 11.2.2 Payment Voucher entry for registration fees paid

(iii) A bank account was opened in the name of the association in State Bank of India and ₹ 30,000 was deposited

F4: Contra

Credit : Cash Amount : 30,000 Debit : State Bank of India A/c

The TallyPrime will show the Amount for the Debit aspect. Press Enter key, then TallyPrime will ask for Bank Allocations for State Bank of India A/c, Denominations and Bank Allocations for State Bank of India A/c. Skip those screens without altering/giving values.

Narration : Bank account opened in SBI Accept: Yes.

(iv) TNHB handed over the caution deposit of ₹ 8,00,000 by cheque and it was deposited in the bank on the same day

F6: Receipt

Credit : Corpus Fund A/c

Amount : 8,00,000

Debit : State Bank of India A/c

The TallyPrime will show the Amount for the Debit aspect. Press Enter key, then TallyPrime will ask for Bank Allocations for State Bank of India A/c. Skip to the next screen without altering/giving values.

Narration : Caution deposit received from TNHB through bank

Accept: Yes.

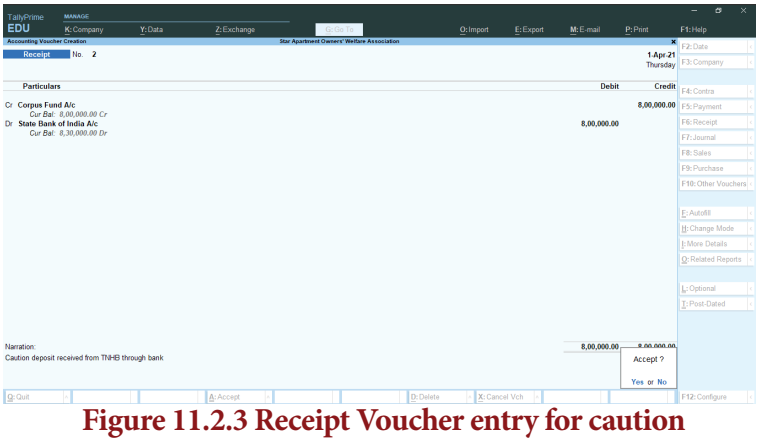


Figure 11.2.3 Receipt Voucher entry for caution deposit received from TNHB through Bank

(v) Maintenance Charges Collected ₹ 2000 per month for each house hold, Narayanan who has failed to pay for two months and Mr. Ramesh who has due for one month.

F6: Receipt

Credit : Maintenance Charges A/c Amount : 11,94,000 Debit : Cash

Narration : Maintenance charges received Accept: Yes.

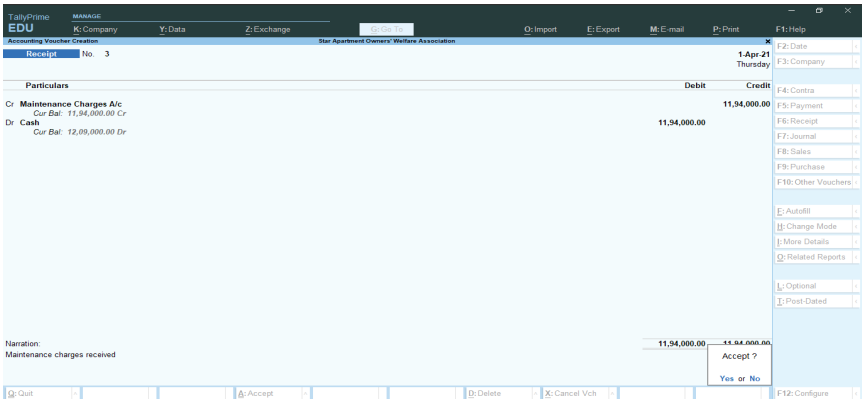


Figure 11.2.4 Receipt Voucher entry for maintenance charges received

(vi) Paid salaries of ₹ 5,000 per month by cash to the accountant

F5: Payment

Debit : Accountant Salaries A/c Amount : 60,000 (5,000×12) Credit : Cash

Narration : Accountant salary paid Accept: Yes.

(vii) Paid sweeper's salaries of ₹ 6,000 per month by cash

F5: Payment

Debit : Sweeper Salaries A/c Amount : 72,000 (6000×12) Credit : Cash

Narration : Sweeper's salaries paid Accept: Yes.

(viii) Security guards' salaries of ₹ 8,000 each per month paid by cheque.

F5: Payment

Debit : Security Charges A/c

Amount : 1,92,000 (8,000 × 2 × 12)

Credit : State Bank of India A/c

The TallyPrime will show the Amount for the Credit aspect. Press Enter key, then TallyPrime will ask for Bank Allocations for State Bank of India A/c. Skip to the next screen without altering/giving values

Narration : Security charges paid

Accept: Yes.

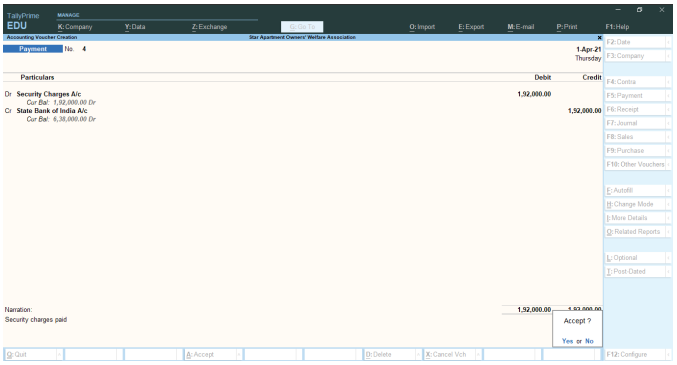


Figure 11.2.5 Payment Voucher entry for security charges paid

(ix) Payment of ₹ 2,00,000 paid by cheque to dig a well

F5: Payment

Debit : Well A/c

Amount : 2,00,000

Credit : State Bank of India A/c

The TallyPrime will show the Amount for the Credit aspect. Press Enter key, then TallyPrime will ask for Bank Allocations for State Bank of India A/c. Skip to the next screen without altering/giving values.

Narration : Digging cost of well paid

Accept: Yes.

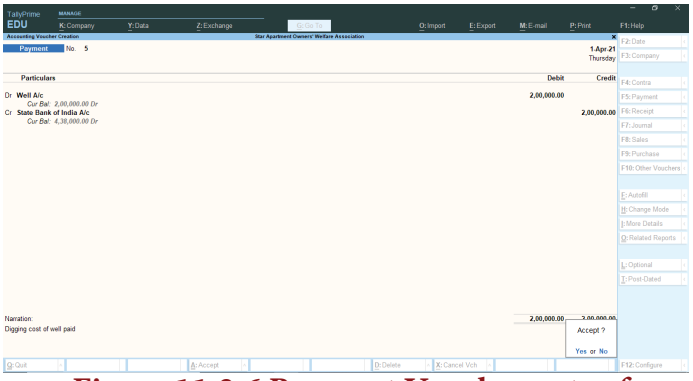


Figure 11.2.6 Payment Voucher entry for digging cost of well paid

(x) Bore Wells cost of ₹ 70,000 each paid by cheque

F5: Payment

Debit : Borewells A/c Amount: 1,40,000 (70,000 × 2) Credit : State Bank of India A/c

The TallyPrime will show the Amount for the Credit aspect. Press Enter key, then TallyPrime will ask for Bank Allocations for State Bank of India A/c. Skip to the next screen without altering/giving values.

Narration : Borewells expenses paid Accept: Yes.

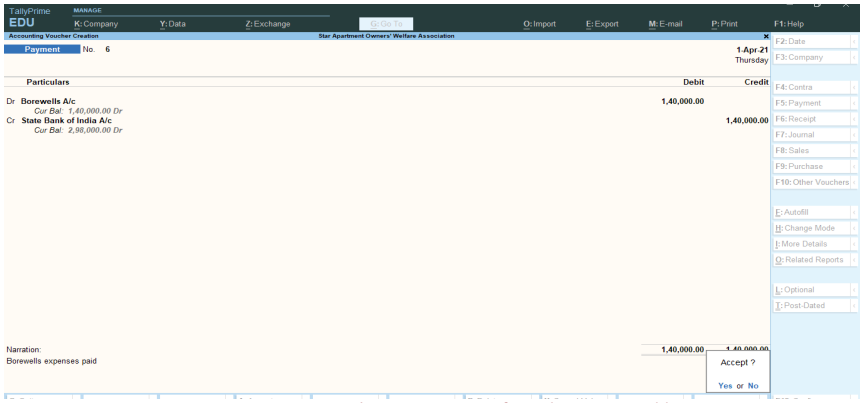


Figure 11.2.7 Payment Voucher entry for borewells expenses paid

(xi) Electricity charges paid by cheque: ₹ 1,20,000

F5: Payment

Debit : Electricity Charges A/c Amount : 1,20,000 Credit : State Bank of India A/c

The TallyPrime will show the Amount for the Credit aspect. Press Enter key, then TallyPrime will ask for Bank Allocations for State Bank of India A/c. Skip to the next screen without altering/giving values.

Narration : Electricity charges paid Accept: Yes.

(xii) Lift maintenance charges paid by cheque: ₹ 60,000

F5: Payment

Debit : Lift Maintenance A/c Amount : 60,000 Credit : State Bank of India A/c

The TallyPrime will show the Amount for the Credit aspect. Press Enter key, then TallyPrime will ask for Bank Allocations for State Bank of India A/c. Skip to the next screen without altering/giving values.

Narration : Lift maintenance paid Accept: Yes.

(xiii) Repairs and maintenance of motors paid by cash: ₹ 10,000

F5: Payment

Debit : Repairs and Maintenance A/c Amount : 10,000 Credit : Cash

Narration : Repairs and maintenance paid Accept: Yes.

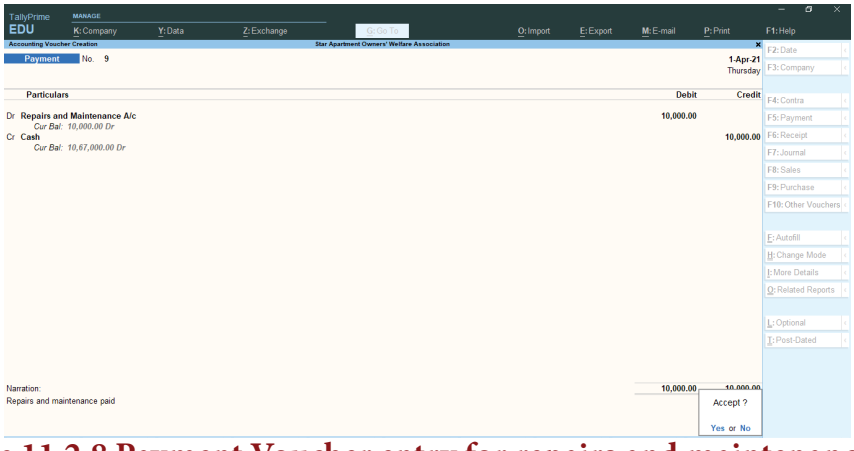


Figure 11.2.8 Payment Voucher entry for repairs and maintenance paid

(xiv) Audit fees paid by cheque: ₹ 10,000

F5: Payment

Debit : Audit Fees A/c Amount : 10,000 Credit : State Bank of India A/c

The TallyPrime will show the Amount for the Credit aspect. Press Enter key, then TallyPrime will ask for Bank Allocations for State Bank of India A/c. Skip to the next screen without altering/ giving values.

Narration : Audit fees paid Accept: Yes.

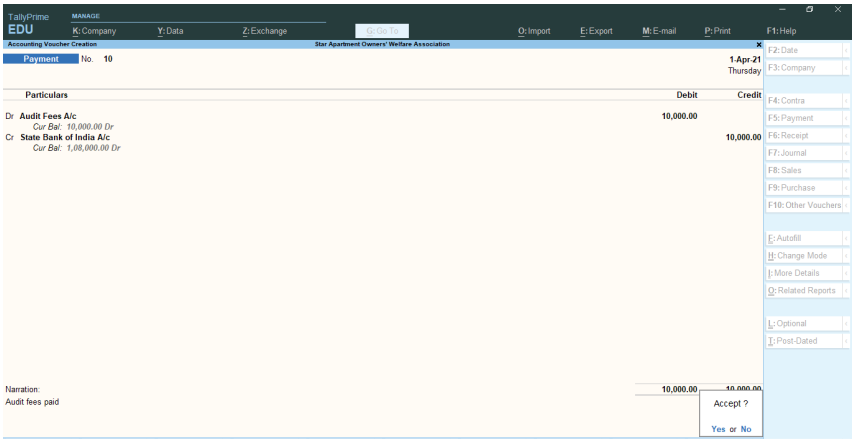


Figure 11.2.9 Payment Voucher entry for audit fees paid

(xv) Maintenance charges due from Narayanan for two months ₹ 2000 per month

F7: Journal

Debit : Narayanan A/c

Amount : 4000 (2 × 2000)

Credit : Maintenance Charges A/c

Narration : Maintenance charges due from Narayanan

Accept: Yes.

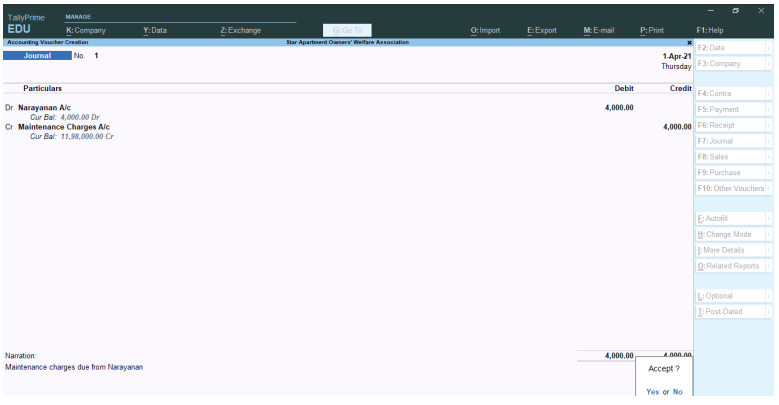


Figure 11.2.10 Journal Voucher entry for maintenance charges due from Narayanan

(xvi) Maintenance charges due from Ramesh for one month of ₹ 2000

F7: Journal

Debit : Ramesh A/c

Amount : 2,000

Credit : Maintenance Charges A/c

Narration : Maintenance charges due from Ramesh

Accept: Yes.

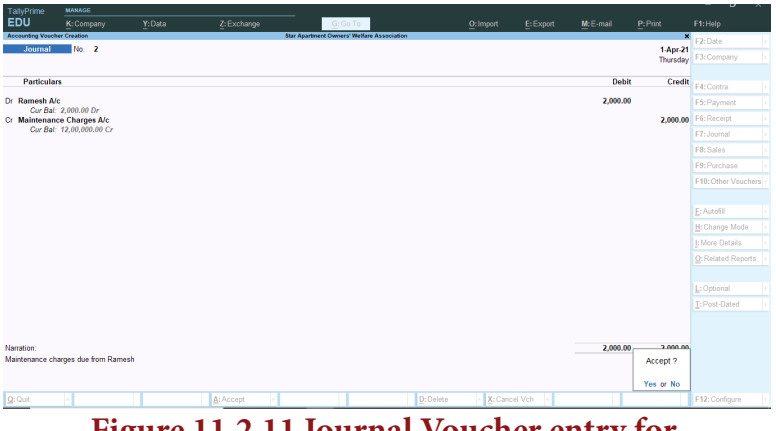


Figure 11.2.11 Journal Voucher entry for Maintenance charges due from Ramesh

(xvii) Depreciation at 5% p.a. under Straight Line Method of depreciation charged on well

F7: Journal
Debit : Depreciation on Well A/c
Amount : 10,000 (2,00,000 × 5%)
Credit : Well A/c
Narration : Depreciation charged on well
Accept: Yes.

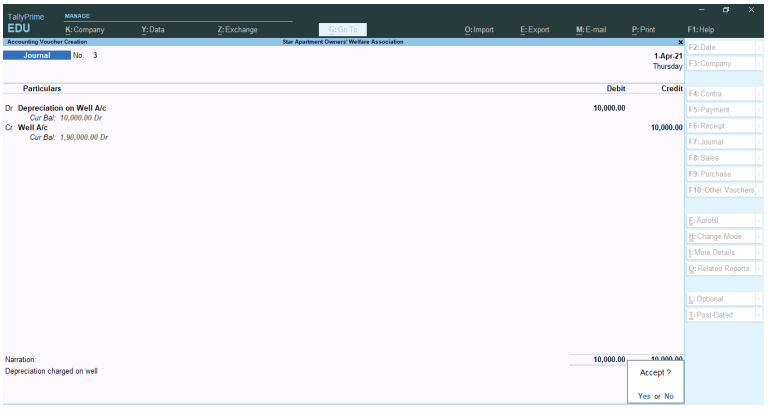


Figure 11.2.12 Journal Voucher entry for depreciation charged on well

(xviii) Depreciation at 10% p.a. under Straight Line Method charged on borewells

F7: Journal
Debit : Depreciation on Borewells A/c
Amount : 14,000 (70,000 × 10% × 2)
Credit : Borewells A/c
Narration : Depreciation charged on borewells
Accept: Yes.

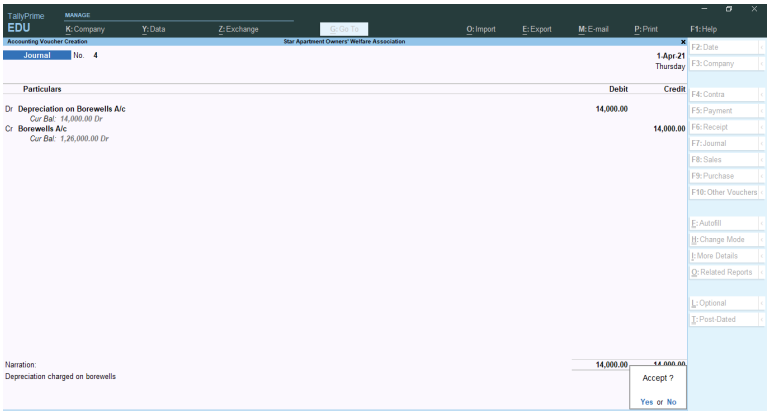


Figure 11.2.13 Journal Voucher entry for depreciation charged on borewells

Step 6: View Trial Balance, Income & Expense A/c and Balance sheet

(a) To view Trial Balance

Gateway of Tally > Reports > Display More Reports > Accounting > Trial Balance > Alt + F5 (Detailed View)

Then, click F2: Period, mention the period From 1.4.2021 To 31.3.2022 and Enter.

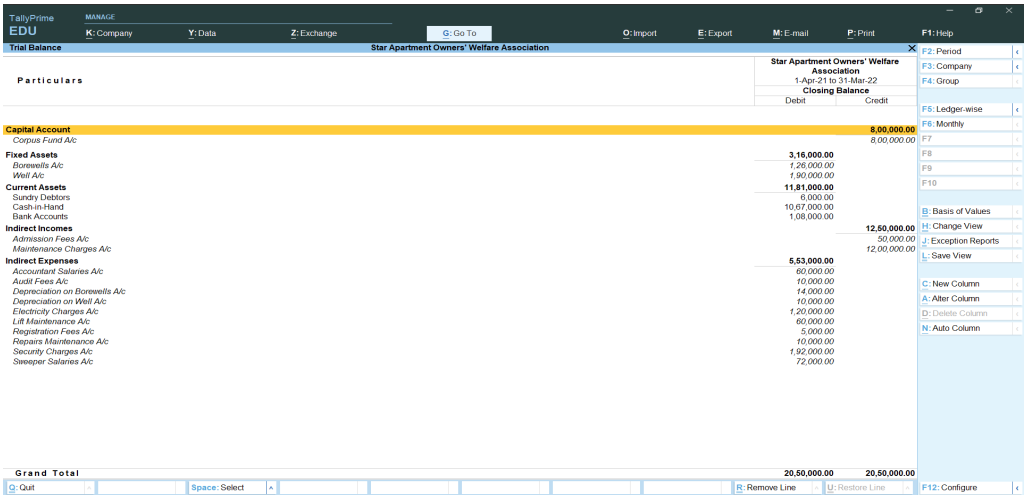


Figure 11.2.14 Trial Balance (Detailed View)

(b) To view Income and Expense A/c

Gateway of Tally > Reports > Income and Expense A/c > Alt + F5 (Detailed View)

Then, click F2: Period, mention the period From 1.4.2021 To 31.3.2022 and Enter.

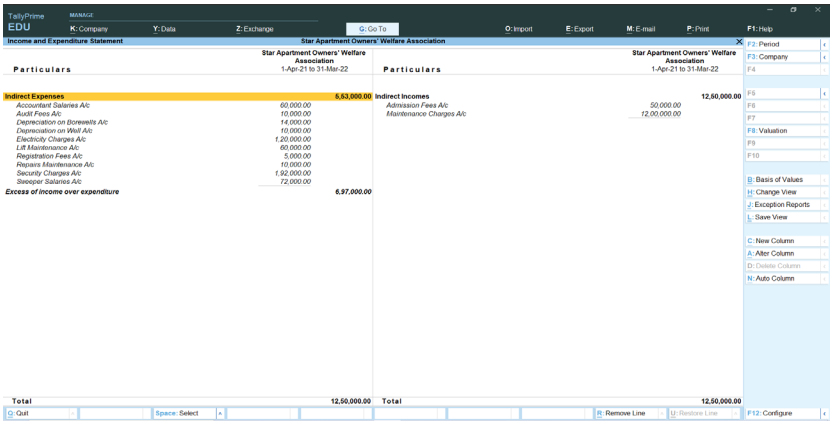


Figure 11.2.15 Income and Expense A/c (Detailed View)

(c)To view Balance Sheet

Gateway of Tally > Reports > Balance Sheet > Alt + F5 (Detailed View)

Then, click F2: Period, mention the period From 1.4.2021 To 31.3.2022 and Enter.

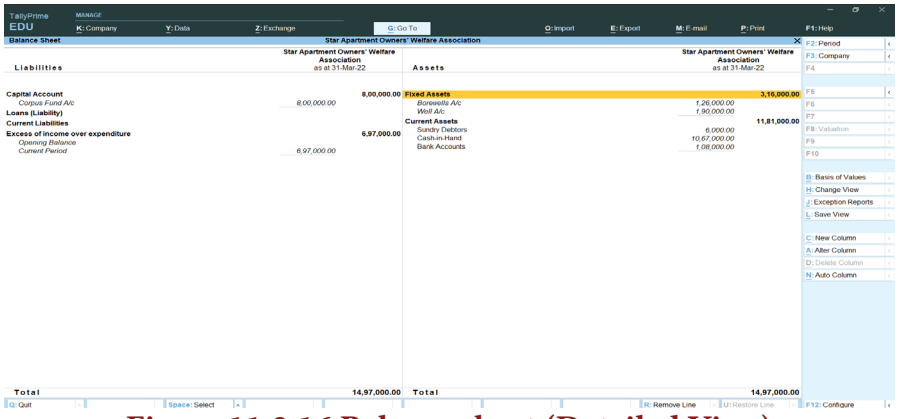


Figure 11.2.16 Balance sheet (Detailed View)

Problem 3:

Continue Problem 2 (Star Apartment Owners' Welfare Association) with the following information:

In April 2022, Mr. Narayanan and Mr. Ramesh paid their dues of 2021-22 ₹ 4,000 and ₹ 2,000 respectively by cash. During the year 2022-23, the maintenance charges from all households amounting to ₹ 12,00,000 were received through bank.

The following are the other transactions took place during the financial year 2022-23:

Particulars	₹
Salaries paid to Mrs. Regina, the accountant	60,000
Salaries paid to Mrs. Meenakshi, the sweeper by cash	72,000
Amount paid for security guards by cheque	1,92,000
Lift maintenance charges paid through net banking	60,000
Electricity charges paid by cheque	1,30,000
Cash withdrawn from bank for office use	1,00,000
Bonus given to employees by cash	11,000
Registration renewal charges paid by cash	800
Cash received from members to celebrate New Year	20,000
Expenses made on New Year celebration by cash	20,000
Expenses made on Pongal celebration by cash	10,000
Repairs made to motors paid by cash	4,000
Audit fees paid by cheque	10,000

Charge depreciation at 5% p.a. on well and 10% p.a. on borewells under Straight Line Method of depreciation.

View the opening balance sheet and enter the above transactions in Tally Prime and view the Income and Expense Account for 2022-2023 and the closing balance sheet as on 31.3.2023.

Solution

Following steps are to be followed to enter the transactions in TallyPrime:

Step 1: View opening balance sheet
Step 2: Analysis of transactions
Step 3: Creation of new Ledgers
Step 4: Change the period and date of transaction
Step 5: Entry of transactions through vouchers
Step 6: View Income and Expense A/c and Closing Balance Sheet

Above steps are explained in detail as below:

Step 1: View opening balance sheet

Gateway of Tally > Reports > Balance Sheet > Alt + F5 (Detailed View)

Then, click F2: Period, mention the period From 1.4.2021 To 31.3.2022 and Enter.

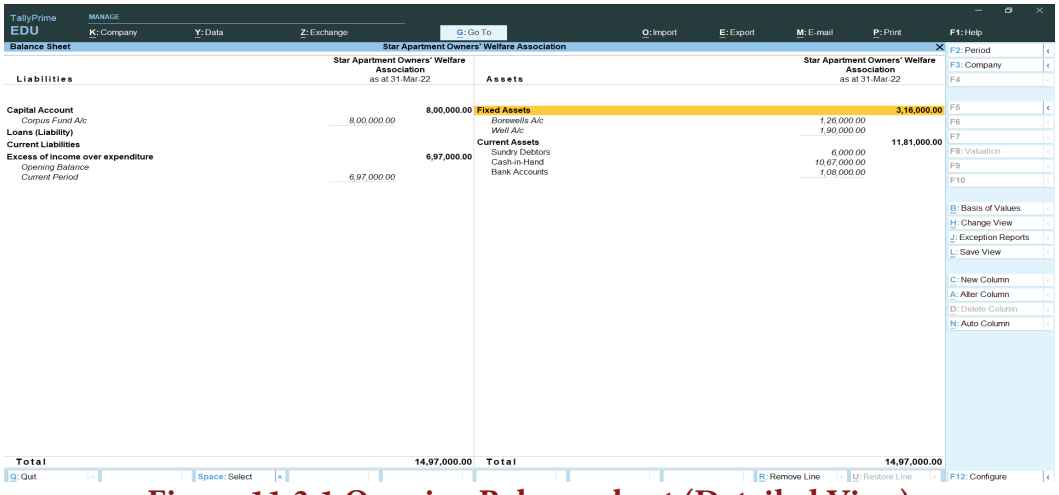


Figure 11.3.1 Opening Balance sheet (Detailed View)

Step 2: Analysis of transactions

Analysis of transactions, passing journal entries, identification of group and voucher type

S. No.	Particulars		Debit ₹	Credit ₹	Group	Voucher type
(i)	Cash A/c To Narayanan A/c	Dr.	4,000	 4,000	Cash-in-Hand Sundry Debtors	Receipt
(ii)	Cash A/c To Ramesh A/c	Dr.	2,000	 2,000	Cash-in-Hand Sundry Debtors	Receipt
(iii)	State Bank of India A/c To Maintenance Charges A/c	Dr.	12,00,000	 12,00,000	Bank Accounts Indirect Incomes	Receipt
(iv)	Accountant Salaries A/c To Cash A/c	Dr.	60,000	 60,000	Indirect Expenses Cash-in-Hand	Payment
(v)	Sweeper Salaries A/c To Cash A/c	Dr.	72,000	 72,000	Indirect Expenses Cash-in-Hand	Payment
(vi)	Security Charges A/c To State Bank of India A/c	Dr.	1,92,000	 1,92,000	Indirect Expenses Bank Accounts	Payment
(vii)	Lift Maintenance A/c To State Bank of India A/c	Dr.	60,000	 60,000	Indirect Expenses Bank Accounts	Payment

S. No.	Particulars		Debit ₹	Credit ₹	Group	Voucher type
(viii)	Electricity Charges A/c To State Bank of India A/c	Dr.	1,30,000	 1,30,000	Indirect Expenses Bank Accounts	Payment
(ix)	Cash A/c To State Bank of India A/c	Dr.	1,00,000	 1,00,000	Cash-in-Hand Bank Accounts	Contra
(x)	Bonus A/c To Cash A/c	Dr.	11,000	 11,000	Indirect Expenses Cash-in-Hand	Payment
(xi)	Registration Renewal Charges A/c To Cash A/c	Dr.	800	 800	Indirect Expenses Cash-in-Hand	Payment
(xii)	Cash A/c To New Year Celebration Fund A/c	Dr.	20,000	 20,000	Cash-in-Hand Reserves & Surplus	Receipt
(xiii)	New Year Celebration Fund A/c To Cash A/c	Dr.	20,000	 20,000	Reserves & Surplus Cash-in-Hand	Payment
(xiv)	Pongal Expenses A/c To Cash A/c	Dr.	10,000	 10,000	Indirect Expenses Cash-in-Hand	Payment
(xv)	Repairs and Maintenance A/c To Cash A/c	Dr.	4,000	 4,000	Indirect Expenses Cash-in-Hand	Payment
(xvi)	Audit Fees A/c To State Bank of India A/c	Dr.	10,000	 10,000	Indirect Expenses Bank Accounts	Payment
(xvii)	Depreciation on Well A/c To Well A/c	Dr.	10,000	 10,000	Indirect Expenses Fixed Assets	Journal
(xviii)	Depreciation on Borewells A/c To Borewells A/c	Dr.	14,000	 14,000	Indirect Expenses Fixed Assets	Journal

Step 3: Creation of new Ledgers

Follow the following procedure to create Bonus A/c, Registration Renewal Charges A/c, New Year Celebration Fund A/c and Pongal Expenses A/c:

Gateway of Tally > Masters > Create > Accounting Masters > Ledger > Name > Under (Group) > Accept: Yes.

Step 4: Change the period and date

The period must be taken as 1.4.2022 to 31.3.2023 and the date must be taken as 1.4.2022.

Gateway of Tally > F2: Period > From 1.4.2022 To 31.3.2023 > Enter

F2: Date > 1.4.2022 > Enter

Step 5: Entry of transactions through vouchers

(i) Maintenance charges of ₹ 4,000 received from Mr. Narayanan, which is due during the previous year 2021-22

Gateway of Tally > Transactions > Vouchers

F6: Receipt

Credit : Narayanan A/c

Amount : 4,000

Debit : Cash

Narration : Maintenance charges due from Narayanan received

Accept: Yes.

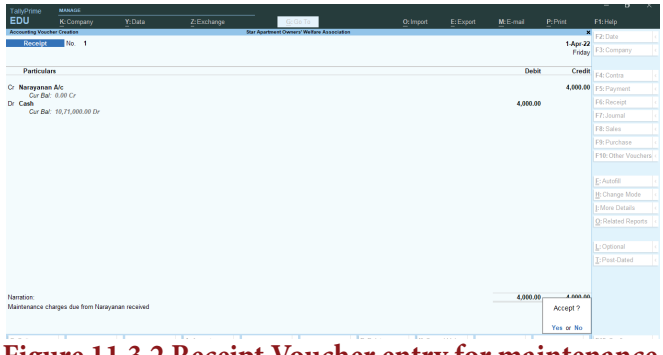


Figure 11.3.2 Receipt Voucher entry for maintenance charges due for the previous year received from Narayanan

(ii) Maintenance charges of ₹ 2,000 received from Mr. Ramesh, which is due during the previous year 2021-22

F6: Receipt

Credit : Ramesh A/c Amount : 2,000 Debit : Cash
Narration : Maintenance charges due from Ramesh received Accept: Yes.

(iii) Received Maintenance Charges of ₹ 12,00,000 from all households through bank

F6: Receipt
Credit : Maintenance Charges A/c
Amount : 12,00,000
Debit : State Bank of India A/c

The TallyPrime will show the Amount for the Debit aspect. Press Enter key, then TallyPrime will ask for Bank Allocations for State Bank of India A/c. Skip to the next screen without altering/giving values.

Narration : Maintenance charges received
Accept: Yes.

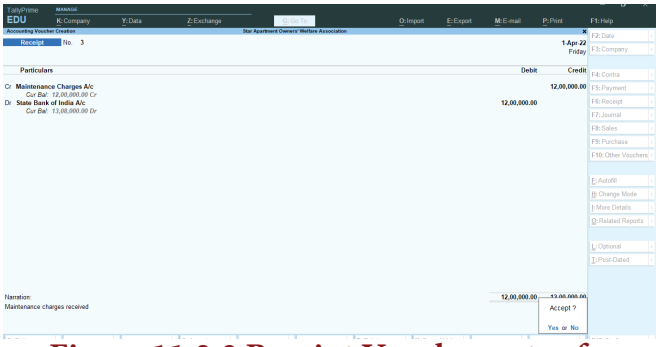


Figure 11.3.3 Receipt Voucher entry for maintenance charges received

(iv) Salaries paid to the accountant by cash: ₹ 60,000

F5: Payment
Debit : Accountant Salaries A/c Amount : 60,000 Credit : Cash
Narration : Salary paid to accountant Accept: Yes.

(v) Salaries paid to the sweeper by cash: ₹ 72,000

F5: Payment
Debit : Sweeper Salaries A/c Amount : 72,000 Credit : Cash
Narration : Salaries paid to sweeper Accept: Yes.

(vi) Security charges paid by cheque: ₹ 1,92,000

F5: Payment

Debit : Security Charges A/c Amount : 1,92,000 Credit : State Bank of India A/c

The TallyPrime will show the Amount for the Credit aspect. Press Enter key, then TallyPrime will ask for Bank Allocations for State Bank of India A/c. Skip to the next screen without altering/giving values.

Narration : Security charges paid by cheque Accept: Yes.

(vii) Lift maintenance charges paid through net banking: ₹ 60,000

F5: Payment

Debit : Lift Maintenance A/c Amount : 60,000 Credit : State Bank of India A/c

The TallyPrime will show the Amount for the Credit aspect. Press Enter key, then TallyPrime will ask for Bank Allocations for State Bank of India A/c. Skip to the next screen without altering/giving values.

Narration : Lift maintenance charges paid Accept: Yes.

(viii) Electricity charges paid by cheque: ₹ 1,30,000

F5: Payment

Debit : Electricity Charges A/c Amount : 1,30,000 Credit : State Bank of India A/c

The TallyPrime will show the Amount for the Credit aspect. Press Enter key, then TallyPrime will ask for Bank Allocations for State Bank of India A/c. Skip to the next screen without altering/giving values.

Narration : Electricity charges paid by cheque Accept: Yes.

(ix) Cash withdrawn from bank for office use: ₹ 1,00,000

F4: Contra

Credit : State Bank of India A/c Amount : 1,00,000

After entering the value of State Bank of India A/c, TallyPrime will ask for Bank Allocations for State Bank of India A/c. Skip to the next screen without altering/giving values.

Debit : Cash Narration : Cash withdrawn from bank for office use Accept: Yes.

(x) Bonus given to employees: ₹ 11,000

F5: Payment

Debit : Bonus A/c Amount : 11,000 Credit : Cash

Narration : Bonus paid to employees Accept: Yes.

(xi) Registration renewal charges paid during the year: ₹ 800

F5: Payment

Debit : Registration Renewal Charges A/c

Amount : 800

Credit : Cash

Narration : Registration renewal charges paid

Accept: Yes.

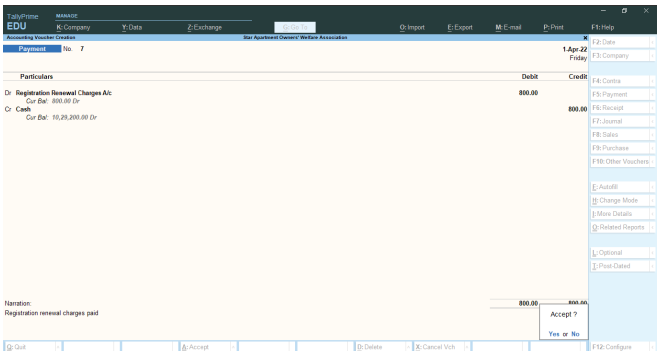


Figure 11.3.4 Payment Voucher entry for registration renewal charges paid

(xii) Cash received from members to celebrate New Year: ₹ 20,000

F6: Receipt

Credit : New Year Celebration Fund A/c

Amount : 20,000

Debit : Cash

Narration : Cash collected towards New Year celebration

Accept: Yes.

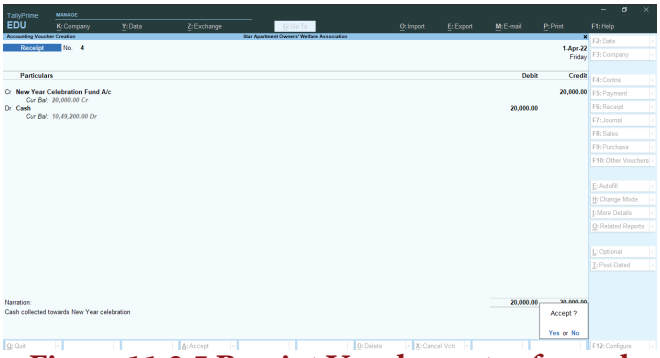


Figure 11.3.5 Receipt Voucher entry for cash collected towards New Year celebration

(xiii) Expenses made on New Year celebration by cash: ₹ 20,000

F5: Payment

Debit : New Year Celebration Fund A/c

Amount : 20,000

Credit : Cash

Narration : Cash paid for expenses on New Year celebration

Accept: Yes.

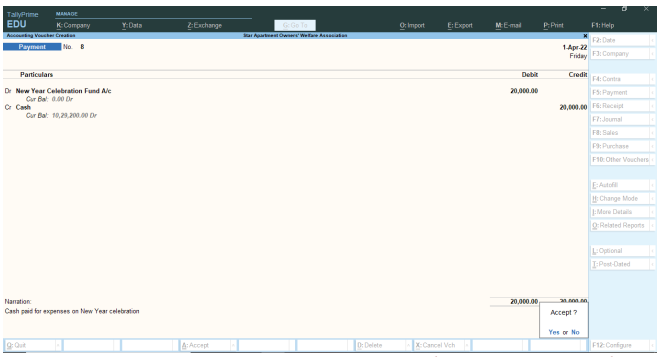


Figure 11.3.6 Payment Voucher entry cash paid for expenses on New Year celebration

(xiv) Expenses made on Pongal celebration by cash: ₹ 10,000

F5: Payment

Debit : Pongal Expenses A/c

Amount : 10,000

Credit : Cash

Narration : Cash paid for expenses on Pongal celebration

Accept: Yes.

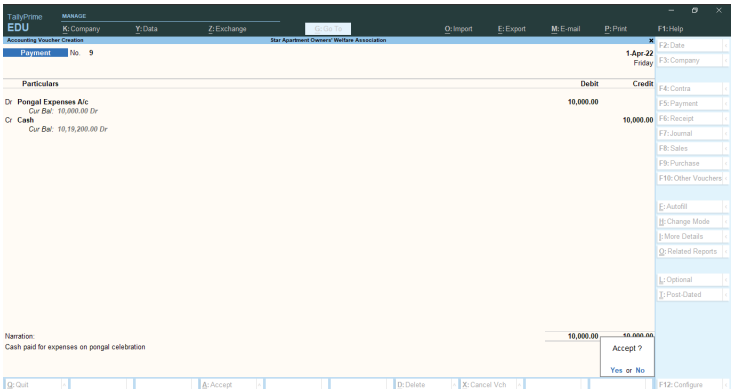


Figure 11.3.7 Payment Voucher entry for cash paid for expenses on Pongal celebration

(xv) Repairs made to motors by cash: ₹ 4,000

F5: Payment

Debit : Repairs and Maintenance A/c

Amount : 4,000

Credit : Cash

Narration : Cash paid for repairs of motors

Accept: Yes.

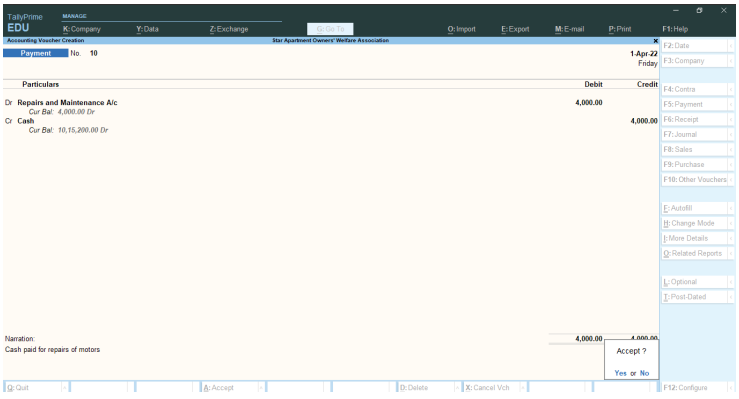


Figure 11.3.8 Payment Voucher entry for cash paid for repairs of motors

(xvi) Audit fees paid by cheque: ₹ 10,000

F5: Payment

Debit : Audit Fees A/c Amount : 10,000 Credit : State Bank of India A/c

The TallyPrime will show the Amount for the Credit aspect. Press Enter key, then TallyPrime will ask for Bank Allocations for State Bank of India A/c. Skip to the next screen without altering/giving values.

Narration : Audit fees paid by cheque Accept: Yes.

(xvii) Depreciation at 5% p.a. under Straight Line Method of depreciation charged on well

F7: Journal

Debit : Depreciation on Well A/c Amount : 10,000 (2,00,000 × 5%) Credit : Well A/c

Narration : Depreciation charged on well Accept: Yes.

(xviii) Depreciation at 10% p.a. under Straight Line Method charged on borewells

F7: Journal

Debit : Depreciation on Borewells A/c Amount : 14,000 (70,000 × 10% × 2)

Credit : Borewells A/c Narration : Depreciation charged on borewells

Accept: Yes.

Step 6: View Income and Expense A/c and Closing Balance Sheet

(a)To View Income & Expense A/c

Gateway of Tally > Reports > Income & Expense A/c > Alt+ F5 (Detailed View)

Then, click F2: Period, mention the period From 1.4.2022 To 31.3.2023 and enter

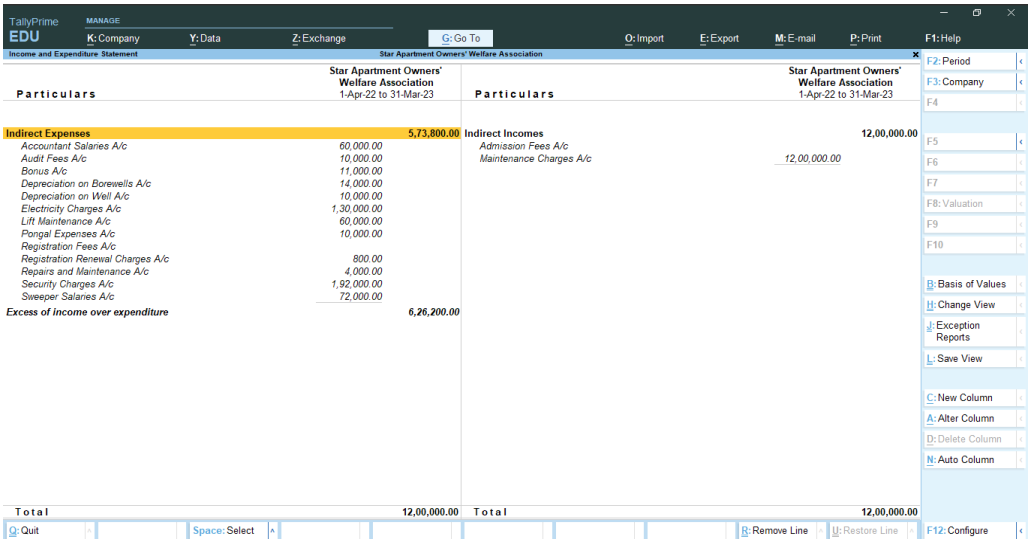


Figure 11.3.9 Income & Expense A/c (Detailed View)

(b) To View Closing Balance Sheet

Gateway of Tally > Reports > Balance Sheet > Alt+ F5 (Detailed View)

Then, click F2: Period, mention the period From 1.4.2022 To 31.3.2023 and enter

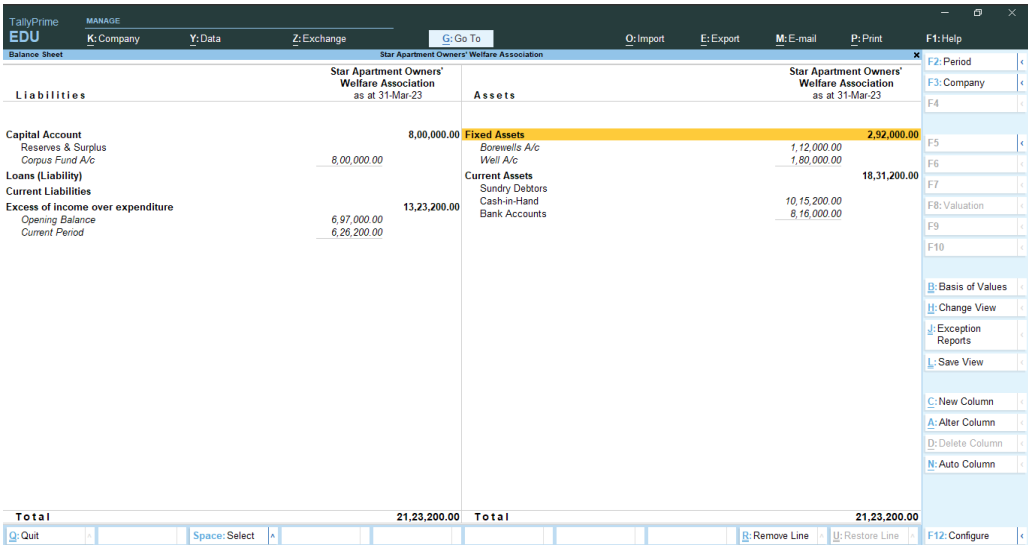


Figure 11.3.10 Closing Balance Sheet (Detailed View)

Points to remember

(i) Not–for–profit entities exist to provide services to the members or to the society at large.

(ii) Income and Expenditure Account is prepared to ascertain surplus (the excess of revenue income over revenue expenditure) or deficit (excess of revenue expenditure over revenue income) for a particular accounting year, which is the result of the entity's over all activities for the accounting year.

(iii) In TallyPrime, Profit & Loss A/c should be altered to use Income & Expense A/c.

Self–examination questions

I Multiple choice questions

Choose the correct answer

1. Income and expenditure account is a
   (a) Nominal A/c (b) Real A/c
   (c) Personal A/c (d) Representative personal account
2. Under which of the following group subscription received comes?
   (a) Direct Incomes (b) Direct Expenses
   (c) Indirect Incomes (d) Indirect Expenses
3. In which voucher type purchase of borewell motor by a not-for-profit organisation by cheque is recorded in TallyPrime?
   (a) Receipt Voucher (b) Journal Voucher
   (c) Purchase Voucher (d) Payment Voucher
4. Which of the following options is used to view Income & Expense A/c from Gateway of Tally?
   (a) Gateway of Tally -> Reports -> Income & Expense A/c
   (b) Gateway of Tally -> Income & Expense A/c
   (c) Gateway of Tally -> Reports -> Display -> Income & Expense A/c
   (d) None of these

Answers

1(a)	2 (c)	3 (d)	4 (a)

II Very short answer questions

1. How is Income and Expense A/c viewed in TallyPrime?
2. State the procedure to view Balance Sheet of a not-for-profit organisation using TallyPrime.
3. How is depreciation recorded for a not-for-profit organisation using TallyPrime?

III Short answer questions

1. Explain how to alter "Profit & Loss A/c" to "Income & Expense A/c" in TallyPrime.
2. State the procedure to create Subscription received A/c, Registration renewal charges paid A/c and Maintenance charges received A/c.

IV Exercises

1. Following is the Receipts and Payments Account of Salem Recreation Club for the year ended 31st March, 2019.

Receipts	₹	₹	Payments	₹
To Balance b/d:			By Furniture	15,000
Cash in hand		9,000	By Stationery	2,400
To Subscriptions			By Investment	12,500
2018 – 2019	12,500		By Postage	1,000
2019 – 2020	400	12,900	By Balance c/d:	
To Proceeds from entertainment		12,000	Cash in hand	3,500
To Sundry receipts		500		
		34,400		34,400

Additional information:

(i) There are 450 members each paying annual subscription of ₹ 30.

(ii) Stock of stationery on 31st March, 2018 ₹ 300 and on March 31, 2019 ₹ 500.

(iii) Capital fund as on 1st April 2018 was ₹ 9,300.

Prepare income and expenditure account for the year ended 31st March, 2019 and the balance sheet as on that date using TallyPrime.

(Ans: Surplus: 22,800 Balance Sheet Total:32,500)

2. Tamil Nadu Housing Board (TNHB) constructed an apartment consisting of 20 houses in Madurai and sold to 20 persons. It collected ₹ 30,000 from each house owner as caution deposit.

The owners of the house were asked to form an association as per the Societies Registration Act. The owners named the apartment as VAIGAI APARTMENT and formed an association in the name of VAIGAI APARTMENT OWNERS' WELFARE ASSOCIATION.

On 1.4.2021, the owners contributed ₹ 7,500 per household in cash as one time registration fee to become the member of the association. They got registered their association by paying ₹ 8,000 as cash. A bank account was opened in the name of the association in Canara Bank and ₹ 1,00,000 was deposited.

TNHB handed over the caution deposit of ₹ 6,00,000 by cheque and it was deposited in the bank on the same day.

The association decided to collect ₹ 1,500 per month as maintenance charges for each house hold. For the year 2021-22, all the members have paid the maintenance charges by cash except Mr. Pandian who has failed to pay for two months and Mr. Muthu who has due for one month.

They appointed Mrs. Subha as an Accountant and paid ₹ 6,000 per month as salary by cash. They also appointed Mrs. Radha as a sweeper by paying ₹ 4,000 per month by cash.

The association entered into an agreement with M/s Meenakshi Agencies to provide 2 members as security guard by paying ₹ 7,000 each per month as salary by cheque.

They dug a well at a cost of ₹ 3,00,000 by paying a cheque for which depreciation at 5% p.a. under Straight Line Method of depreciation is to be followed.

They also went for 2 borewells with motors at a cost of ₹ 30,000 each by cheque, for which depreciation at 10% p.a. under Straight Line Method is to be charged.

Other expenses made during the year is as follows:

Electricity charges paid by cheque	: ₹ 40,000
Lift maintenance charges paid by cheque	: ₹ 20,000
Repairs and maintenance of motors paid by cash	: ₹ 5,000
Audit fees paid by cheque	: ₹ 4,000

Enter the above transactions in the books of Vaigai Apartment Owners' Welfare Association through Tally Prime and view Income and Expenses Account for 2021-22 and Balance Sheet as on 31.3.2022. Also show the Trial Balance as on 31.3.2022.

(Ans: Trial Balance Total:11,10,000 Surplus: 1,24,000 Balance Sheet Total: 7,24,000)

3. Continue Problem 2 (Vaigai Apartment Owners'Welfare Association) with the following information:

In April 2022, Mr. Pandian and Mr. Muthu paid their dues of 2021-22 ₹ 3,000 and ₹ 1,500 respectively by cash.

Received maintenance charges from all household ₹ 3,60,000 through bank for the financial year 2022-2023.

The following are the other transactions took place during the financial year 2022-23:

Particulars	₹
Salaries paid to Mrs. Subha, the accountant by cash	72,000
Salaries paid to Mrs. Radha, the sweeper by cash	48,000
Amount paid for Security guards by cheque	1,68,000
Lift maintenance charges paid through net banking	30,000
Electricity charges paid by cheque	50,000
Cash withdrawn from bank for office use	40,000
Bonus given to employees by cash	7,000
Registration renewal charges paid during the year by cheque	500
Cash received from members to celebrate New Year	10,000
Expenses made on New Year celebration by cash	10,000
Expenses made on Pongal celebration by cash	6,000
Repairs made to motors by cash	3,000
Audit fees paid by cheque	4,000

Charge depreciation at 5% p.a. on well and 10% p.a. on borewells under Straight Line Method of depreciation.

View the opening balance sheet and enter the above transactions in Tally Prime and view the Income and Expense Account for 2022-2023 and the closing balance sheet as on 31.3.2023.

(Ans: Deficit: 49,500 Balance Sheet Total: 6,74,500)

UNIT 12

Recording Inventory Details using TallyPrime

Contents

12.1 Introduction

12.2 Practical application of TallyPrime for Transactions involving Inventory

12.3 Practical problems

Points to recall

The following points are to be recalled before learning Recording Inventory Details using TallyPrime:

- Purchases
- Sales
- Purchase Voucher
- Sales Voucher
- Stock

Learning objectives

To enable the students to

- Understand the accounting treatment of transactions involving inventory in TallyPrime
- Prepare accounting voucher entries for transactions involving inventory
- Apply TallyPrime in maintaining books of accounts for transactions involving inventory and generating inventory reports.

Key terms to know

- Stock item
- Stock group
- Stock category
- Godown
- Unit of measure

12.1 Introduction

Inventories are assets, held for sale in the ordinary course of business; in the process of production for such sale; or in the form of materials or supplies to be consumed in the production process or in the rendering of services.

Thus, inventories include the following:

i) Raw materials: These are the basic inputs in a production process which is converted into finished goods.

ii) Work-in-process: Semi-finished product at different stages of production is known as work-in-process.

iii) Finished goods: Final products ready for sale are known as finished goods.

Incase of a trading concern, finished goods are purchased and sold.

12.2 Practical application of TallyPrime for Transactions involving Inventory

The inventory system operates in the same way as accounting system in TallyPrime. In the place of ledgers, stock items are used and in the place of accounting groups, stock groups and stock categories are used.

Stock Item

Stock items are goods that are traded by a business unit. For example, Aavin Nice Milk is a stock item for an Aavin Parlour. Stock item is to be created in TallyPrime for each inventory item to be accounted for.

The following procedure is followed to create stock item:

Gateway of Tally > Masters > Create > Inventory Masters > Stock Item

Stock Group

Stock items can be classified into stock groups based on common features of the item like quality, manufacturer's brand name, type of product, model, etc. For example, for the stock item Aavin Nice Milk, Milk can be taken as the group. Thus, Stock Group is a collection of stock items of the same features. The relationship between stock item and stock group is like ledger and group for accounting in TallyPrime.

The following procedure is followed to create stock group:

Gateway of Tally > Masters > Create > Inventory Masters > Stock Group

Stock Category

Stock category offers a parallel classification of stock items. Like stock groups, classification is done based on similarity in behaviour or nature such as colour, size. Stock category is a different group of its own.

The following procedure is followed to create stock category:

Gateway of Tally > Masters > Create > Inventory Masters > Stock Category

Unit

Stock items are purchased and sold based on quantity. The quantity in turn is measured by units. In TallyPrime, it is done using Unit of measure. The units can either be simple or compound.

Simple units include numbers, kilograms, metres, etc.

A compound unit is a combination of two simple units. Example: 1 Dozen = 12 Pieces

The following procedure is followed to create simple unit:

Gateway of Tally > Masters > Create > Inventory Masters > Unit > Type > Simple

The following procedure is followed to create compound unit:

Gateway of Tally > Masters > Create > Inventory Masters > Unit > Type > Compound

Godown (Location)

The place where stock items are stored is referred to Godown. Stock reports can be obtained for each godown and account for the movement of stock between godowns (locations).

Any number of stock godowns can be created.

The following procedure is followed to create Godown:

Gateway of Tally > Masters > Create > Inventory Masters > Godown (Location)

Inventory reports

(a) Stock Summary

Stock summary shows the closing balance of the stock items (Quantity, Rate and Value).

To view Stock Summary

Gateway of Tally > Reports > Stock Summary > Alt + F5 (Detailed View)

(b) Stock Item Monthly Summary

Stock item monthly summary shows the opening balance, inwards (purchases, returns inwards), outwards (sales, returns outwards) and closing balance of the stock items.

To view Stock Item Monthly Summary

Gateway of Tally > Reports > Stock Summary > Alt + F5 (Detailed View) > Stock Item > Enter

(or) Gateway of Tally > Reports > Display More Reports > Inventory > Inventory Books > Summary > Stock Item > Enter

(c) Inventory report of Godowns

Closing balance of the Godown, inwards (purchases, returns inwards), outwards (sales, returns outwards) and closing balance of the stock items in a godown can be viewed through Godowns.

To view Godown Stock Summary and Monthly Summary

Gateway of Tally > Reports > Display More Reports > Inventory > Inventory Books > Summary > Godowns > Enter > Select the Godown > Enter (Godown closing balance value) > Select the Stock item > Enter (Monthly Summary of the stock item in the Godown)

(d) Stock Group Summary

Closing balance of the stock items in a stock group (Quantity, Rate, Value) inwards (purchases, returns inwards), outwards (sales, returns outwards) and closing balance of the stock items in a stock group can be viewed through Stock Group Summary.

To view Stock Group Summary

Gateway of Tally > Reports > Display More Reports > Inventory > Inventory Books > Summary > Stock Group Summary > Enter > Select the Stock Group > Enter (Closing balance of the stock items) > Select the Stock item > Enter (Monthly Summary of the stock item in the Stock Group)

(e) Stock Category Summary

Closing balance of the stock items in a stock category (Quantity, Rate, Value) inwards (purchases, returns inwards), outwards (sales, returns outwards) and closing balance of the stock items in a stock category can be viewed through Stock Category Summary.

To view Stock Category Summary

Gateway of Tally > Reports > Display More Reports > Inventory > Inventory Books > Summary > Stock Category Summary > Enter > Select the Stock Category > Enter (Closing balance of the stock items) > Select the Stock item > Enter (Monthly Summary of the stock item in the Stock Category)

12.3 Practical problems

Practical problem 1

1. Rovina took Aavin Parlour dealership in Mogappair during 2022-2023, Chennai and introduced ₹ 6,00,000 as capital by cash.
2. Opened a bank account in SBI, Chennai and deposited ₹5,80,000.
3. During the year 2022-2023, the following purchases were made and the payment was made through bank:
   (i) Aavin Nice 10,000 milk packets of 500 ML @ ₹18 per packet
   (ii) Aavin Green Magic 5,000 milk packets of 500 ML @ ₹20 per packet
   (iii) Aavin Premium 2,000 milk packets of 500 ML @ ₹28 per packet
4. During the year 2022-2023, sales made were as follows:
   (i) Aavin Nice 10,000 milk packets of 500 ML @ ₹20 per packet and cash received
   (ii) Aavin Green Magic 4,900 milk packets of 500 ML @ ₹22 per packet and cash received
   (iii) Aavin Premium 1,980 milk packets of 500 ML @ ₹30 per packet and cash received
5. Other transactions made during 2022-2023 were as follows:
   (i) Cash ₹3,00,000 was deposited into the bank
   (ii) Salaries paid through bank ₹2,40,000
   (iii) Rent paid by cash ₹60,000
   (iv) Electricity bills paid through bank ₹12,000.

Record the above transactions in TallyPrime and view (a) Profit & Loss A/c (b) Balance Sheet (c) Stock Summary (d) Stock Monthly Summary of Aavin Green Magic and (e) Stock Vouchers of Aavin Green Magic.

Solution

Following steps are to be followed to enter the transactions in TallyPrime:

Step 1: Creation of Company
Step 2: To enable features
Step 3: Analysis of transactions
Step 4: Creation of new Ledgers
Step 5: Creation of Stock Group
Step 6: Creation of Unit
Step 7: Creation of Stock Item
Step 8: Entry of transactions through Vouchers
Step 9: View (a) Profit & Loss A/c (b) Balance Sheet (c) Stock Summary (d) Stock Monthly Summary of Aavin Green Magic and (e) Stock Vouchers of Aavin Green Magic.

Above steps are explained in detail as below:

Step 1: Creation of company

F3:Company > Create Company. Type the Company Name as "Aavin Parlour Mogappair" and choose the State as "Tamil Nadu" from the list of states and choose "Yes" to Accept.

Step 2: To enable features

After accepting "Yes" in company creation screen, to enable features for the company, set 'Yes' to Maintain Accounts, set 'No' to Bill-wise entry, set 'Yes' to Maintain Inventory, set 'Yes' to Integrate Accounts with Inventory, set 'No' to Enable Goods and Services Tax (GST) and set 'No' to Enable Tax Deducted at Source (TDS) and choose 'Yes' to Accept.

Step 3: Analysis of transactions

Analysis of transactions, passing journal entries, identification of group and voucher type

S. No.	Particulars		Debit ₹	Credit ₹	Group	Voucher type
1	Cash A/c	Dr.	6,00,000		Cash-in-Hand	Receipt
	To Rovina's Capital A/c			6,00,000	Capital Account	
2	State Bank of India A/c	Dr.	5,80,000		Bank Accounts	Contra
	To Cash A/c			5,80,000	Cash-in-Hand	
3	Purchases A/c*	Dr.	3,36,000		Purchase Accounts	Purchase
	To State Bank of India A/c			3,36,000	Bank Accounts	
4	Cash A/c	Dr.	3,67,200		Cash-in-Hand	Sales
	To Sales A/c**			3,67,200	Sales Accounts	
5 (i)	State Bank of India A/c	Dr.	3,00,000		Bank Accounts	Contra
	To Cash A/c			3,00,000	Cash-in-Hand	
5 (ii)	Salaries A/c	Dr.	2,40,000		Indirect Expenses	Payment
	To State Bank of India A/c			2,40,000	Bank Accounts	
5 (iii)	Rent A/c	Dr.	60,000		Indirect Expenses	Payment
	To Cash A/c			60,000	Cash-in-Hand	
5 (iv)	Electricity Charges A/c	Dr.	12,000		Indirect Expenses	Payment
	To State Bank of India A/c			12,000	Bank Accounts	

* Purchases = (10,000 × 18) + (5,000 × 20) + (2,000 × 28) = ₹3,36,000

** Sales = (10,000 × 20) + (4,900 × 22) + (1,980 × 30) = ₹3,67,200

Step 4: Creation of new Ledgers

Follow the following procedure to create Rovina's Capital A/c, State Bank of India A/c, Purchases A/c, Sales A/c, Salaries A/c, Rent A/c and Electricity Charges A/c:

Gateway of Tally > Masters > Create > Accounting Masters > Ledger > Name > Under (Group) > Accept: Yes.

Step 5: Creation of Stock Group

Gateway of Tally > Masters > Create > Inventory Masters > Stock Group

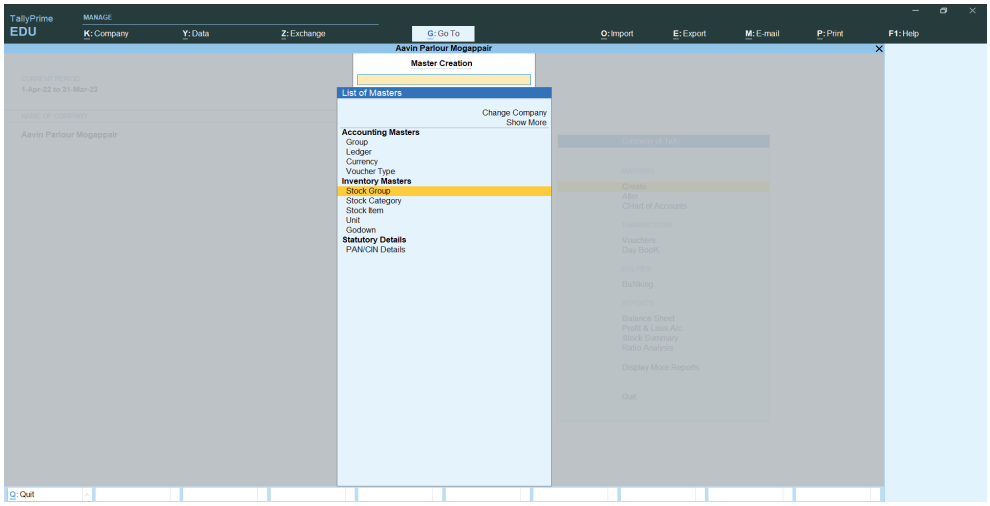


Figure 12.1.1 Selection of Stock Group

After selecting stock group, give milk stock group

Name : Milk

Under : Primary

Give "No" for Should quantities of items be added

Accept: Yes.

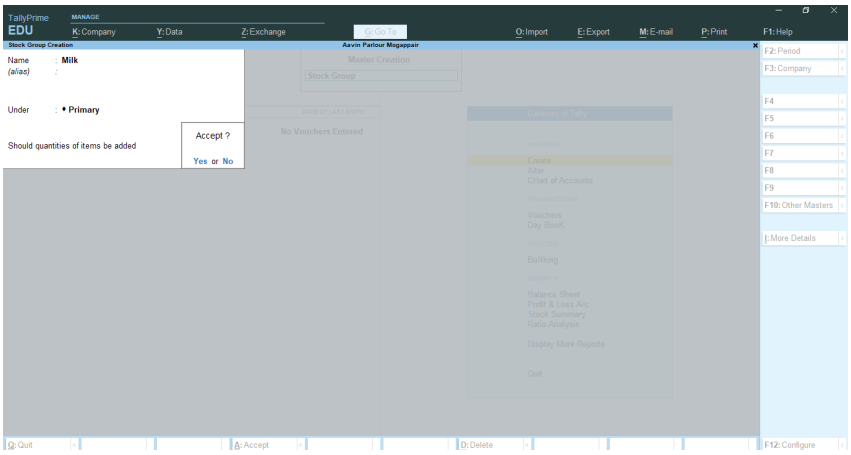


Figure 12.1.2 Creation of stock group - Milk

Step 6: Creation of Unit

Gateway of Tally > Masters > Create > Inventory Masters > Unit

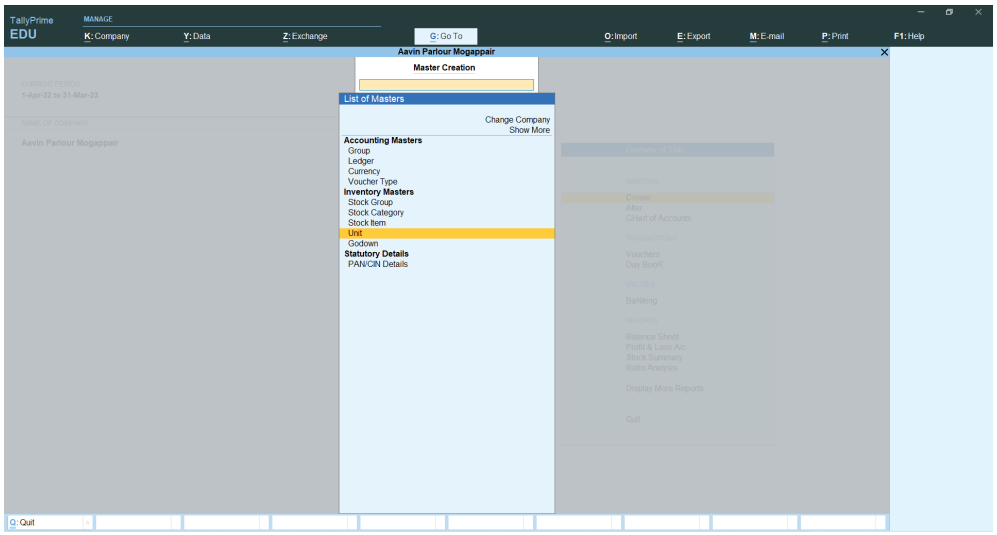


Figure 12.1.3 Selection of Unit

After selecting unit, give pac unit

Symbol : Pac

Formal name : Packs

Number of decimal places : 0

Accept: Yes.

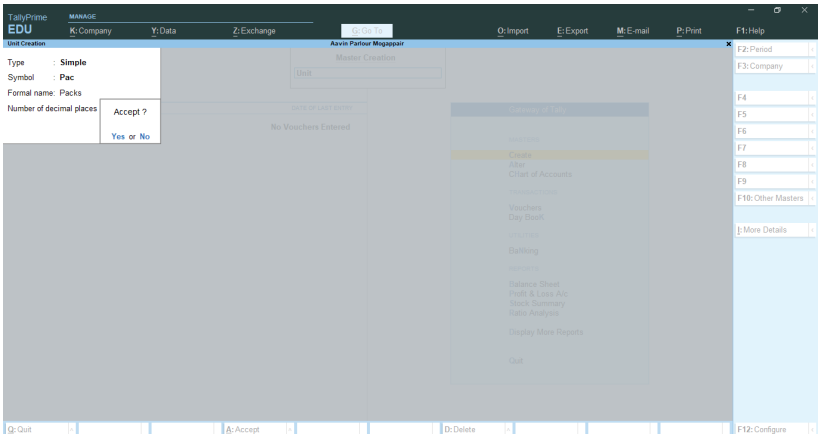


Figure 12.1.4 Creation of packs as unit

Step 7: Creation of Stock Item

Gateway of Tally > Masters > Create > Inventory Masters > Stock Item

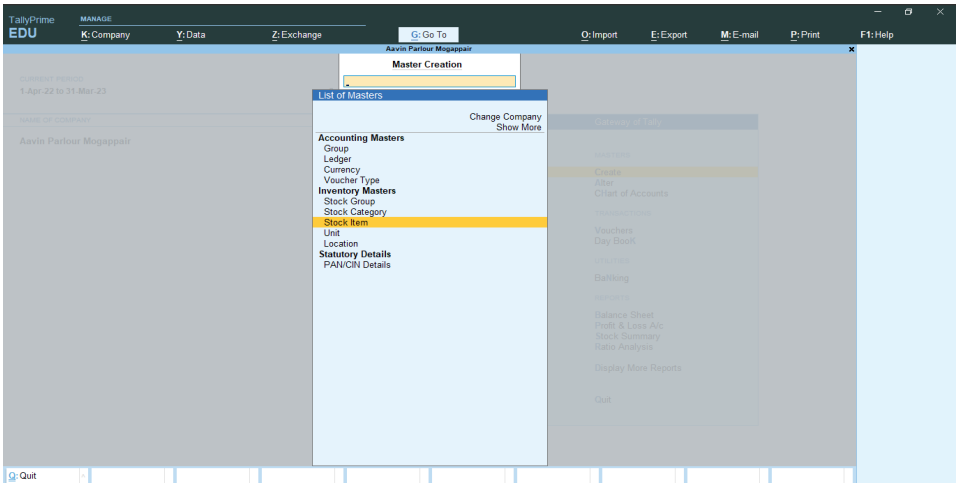


Figure 12.1.5 Selection of Stock Item

After selecting stock item give,

(i) To create Stock item – Aavin Nice

Name : Aavin Nice

Under : Milk (Select from List of Groups)

Units : Pac (Select from Units)

Accept: Yes.

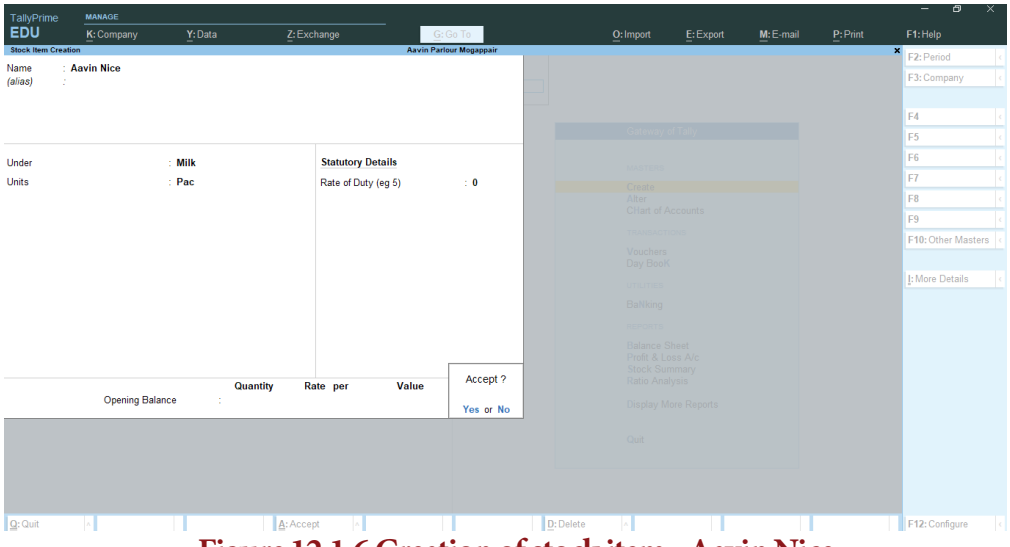


Figure 12.1.6 Creation of stock item - Aavin Nice

(ii) To create Stock item – Aavin Green Magic

Name : Aavin Green Magic Under : Milk (Select from List of Groups)
Units : Pac (Select from Units) Accept: Yes.

(iii) To create Stock item – Aavin Premium

Name : Aavin Premium Under : Milk (Select from List of Groups)
Units : Pac (Select from Units) Accept: Yes.

Step 8: Entry of transactions through Vouchers

1. Rovina introduced ₹ 6,00,000 as capital by cash

Gateway of Tally > Transactions > Vouchers
F6: Receipt
Credit : Rovina's Capital A/c Amount : 6,00,000 Debit : Cash
Narration : Capital introduced by Rovina Accept: Yes.

2. Opened a bank account in SBI, Chennai and deposited ₹5,80,000

F4: Contra
Credit : Cash Amount : 5,80,000 Debit : State Bank of India A/c

The TallyPrime will show the Amount for the Debit aspect. Press Enter key, then TallyPrime will ask for Bank Allocations for State Bank of India A/c, Denominations and Bank Allocations for State Bank of India A/c. Skip those screens without altering/giving values.

Narration : Open bank account in SBI Chennai

Accept: Yes.

3. Purchases made and the payment made through bank:

(i) Aavin Nice 10,000 milk packets of 500 ML @ ₹18 per packet

(ii) Aavin Green Magic 5,000 milk packets of 500 ML @ ₹20 per packet

(iii) Aavin Premium 2,000 milk packets of 500 ML@ ₹28 per packet

F9: Purchase
Party A/c name : State Bank of India A/c (Select from List of Ledger Accounts)

After selection of State Bank of India A/c, TallyPrime will ask for Receipt Details and Party details. Skip to next screen without altering/giving values.

Purchase Ledger : Purchases A/c (Select from List of Ledger Accounts)
(i) Name of Item : Aavin Nice (Select from List of Stock Items)
Quantity: 10,000 Rate: 18
(ii) Name of Item : Aavin Green Magic (Select from List of Stock Items)
Quantity: 5,000 Rate: 20
(iii) Name of Item : Aavin Premium (Select from List of Stock Items)
Quantity: 2,000 Rate: 28

Press "enter key" four times, TallyPrime will ask for Bank Allocations for State Bank of India A/c. Skip to next screen without altering/giving values.

Narration : Purchased milk and payment made through Bank

Accept: Yes.

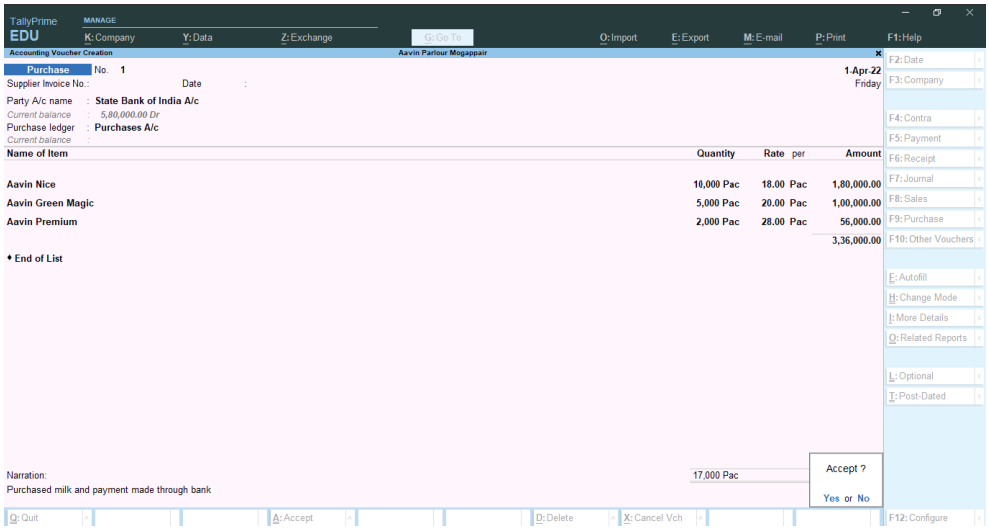


Figure 12.1.7 Purchase voucher entry for Aavin milk purchased

4. During the year 2022-2023, sales made were as follows:

(i) Aavin Nice 10,000 milk packets of 500 ML @ ₹20 per packet and cash received

(ii) Aavin Green Magic 4,900 milk packets of 500 ML @ ₹22 per packet and cash received

(iii) Aavin Premium 1,980 milk packets of 500 ML @ ₹30 per packet and cash received

F8: Sales

Party A/c name : Cash (Select from List of Ledger Accounts)

After selection of Cash, TallyPrime will ask for Dispatch Details and Party details. Skip to next screen without altering/giving values.

Sales Ledger : Sales A/c (Select from List of Ledger Accounts)

(i) Name of Item : Aavin Nice (Select from List of Stock Items)
Quantity: 10,000 Rate: 20

(ii) Name of Item : Aavin Green Magic (Select from List of Stock Items)
Quantity: 4,900 Rate: 22

(iii) Name of Item : Aavin Premium (Select from List of Stock Items)
Quantity: 1,980 Rate: 30

Narration : Cash sales of milk made

Accept: Yes.

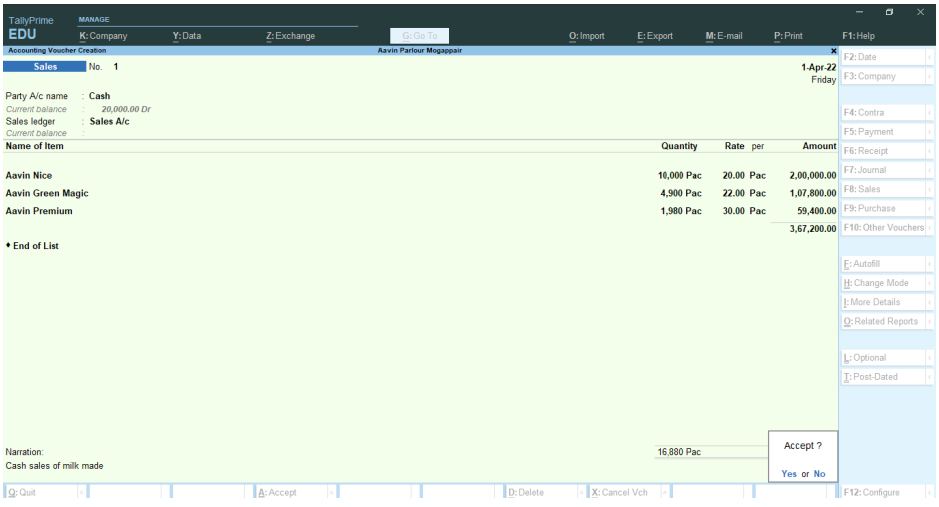


Figure 12.1.8 Sales voucher entry for Cash sales of milk

5. Other transactions made during 2022-2023:

(i) Cash ₹3,00,000 was deposited into the bank

F4: Contra

Credit : Cash

Amount : 3,00,000

Debit : State Bank of India A/c

The TallyPrime will show the Amount for the Debit aspect. Press Enter key, then TallyPrime will ask for Bank Allocations for State Bank of India A/c, Denominations and Bank Allocations for State Bank of India A/c. Skip those screens without altering/ giving values.

Narration : Deposited cash in to bank

Accept: Yes.

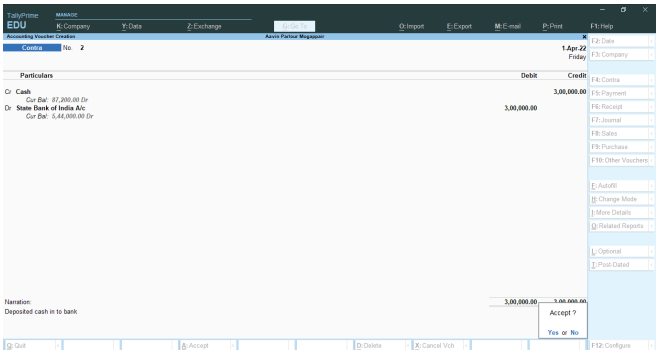


Figure 12.1.9 Contra voucher entry for deposited cash in to bank

(ii) Salaries paid through bank ₹2,40,000

F5: Payment

Debit : Salaries A/c

Amount : 2,40,000

Credit : State Bank of India A/c

The TallyPrime will show the Amount for the Credit aspect. Press Enter key, then TallyPrime will ask for Bank Allocations for State Bank of India A/c. Skip to the next screen without altering/giving values.

Narration : Salaries paid through bank

Accept: Yes.

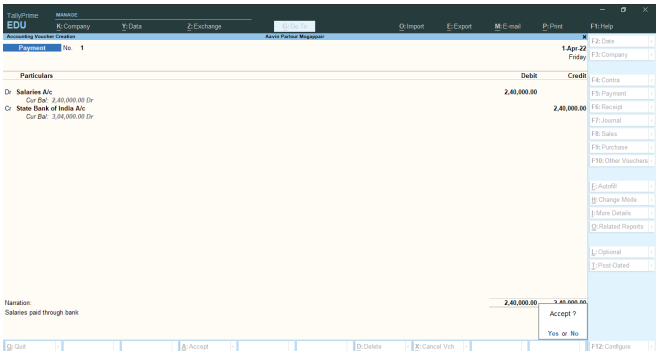


Figure 12.1.10 Payment voucher entry for salaries paid through bank

(iii) Rent paid by cash ₹60,000

F5: Payment

Debit : Rent A/c

Amount : 60,000

Credit : Cash

Narration : Rent paid by cash

Accept: Yes.

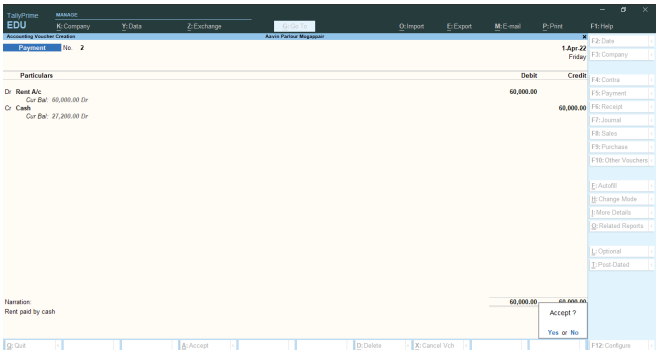


Figure 12.1.11 Payment voucher entry for rent paid by cash

(iv) Electricity bills paid through bank Rs.12,000

F5: Payment

Debit : Electricity Charges A/c

Amount : 12,000

Credit : State Bank of India A/c

The TallyPrime will show the Amount for the Credit aspect. Press Enter key, then TallyPrime will ask for Bank Allocations for State Bank of India A/c. Skip to the next screen without altering/giving values.

Narration :Electricity bills paid through bank

Accept: Yes.

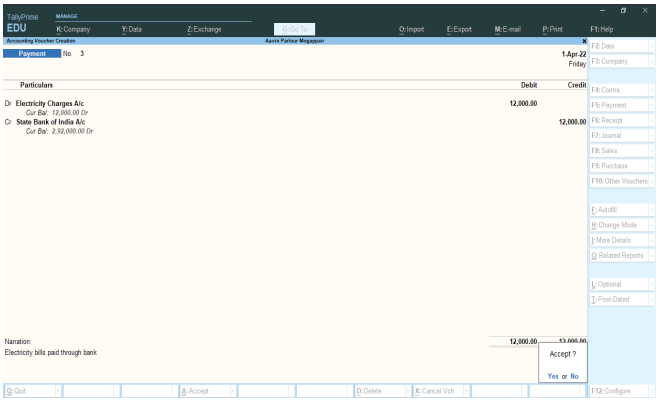


Figure 12.1.16 Payment voucher entry for electricity bills paid through bank

Step 9: View (a) Profit & Loss A/c (b) Balance Sheet (c) Stock Summary (d) Stock Monthly Summary of Aavin Green Magic and (e) Stock Vouchers of Aavin Green Magic.

(a) To view Profit and Loss A/c

Gateway of Tally > Reports > Profit & Loss A/c > Alt+F5 (Detailed view)

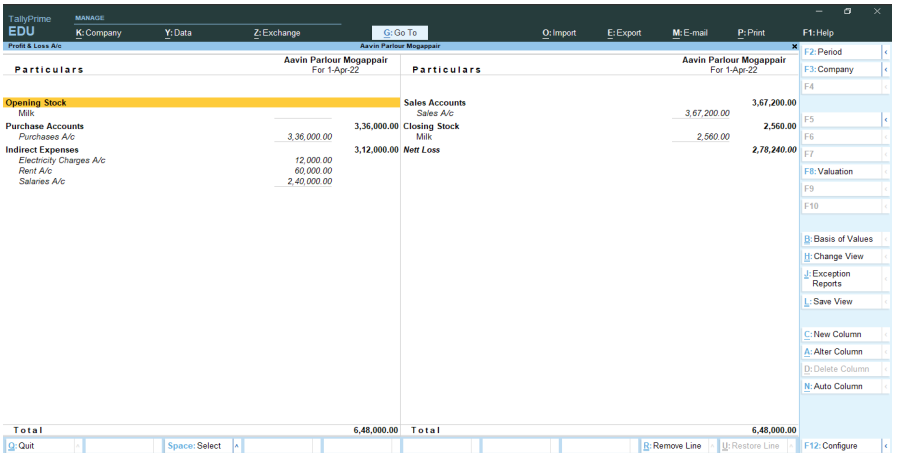


Figure 12.1.12 Profit & Loss A/c (Detailed view)

(b) To view Balance Sheet

Gateway of Tally > Reports > Balance Sheet > Alt + F5 (Detailed View)

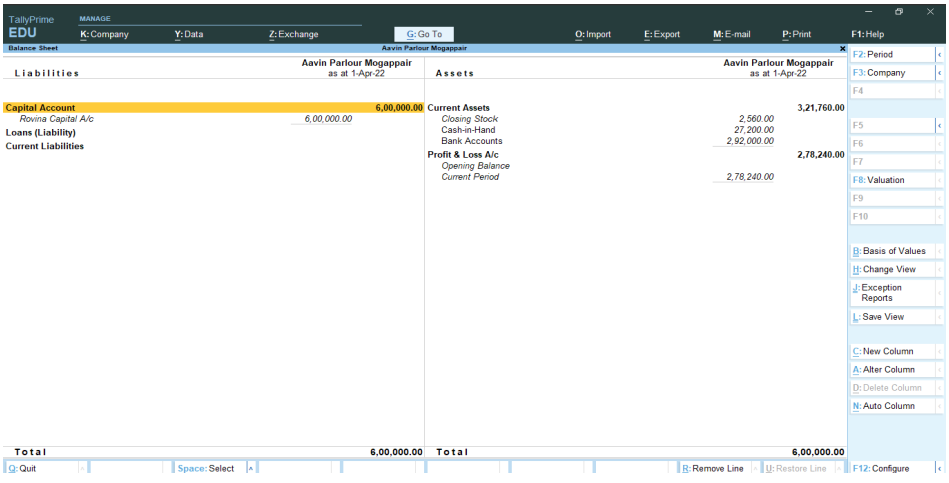


Figure 12.1.13 Balance Sheet (Detailed view)

(c) To view Stock Summary

Gateway of Tally > Reports > Stock Summary > Alt + F5 (Detailed View)

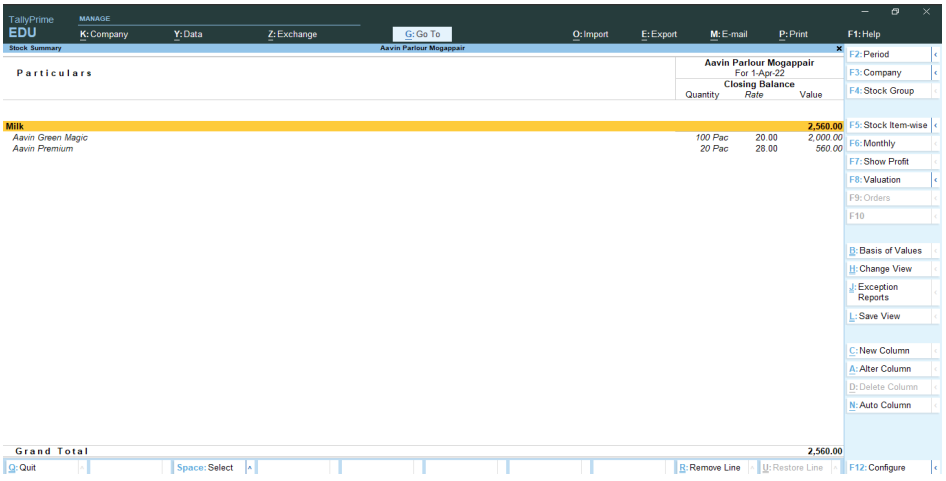


Figure 12.1.14 Stock Summary (Detailed View)

(d) To view Stock Monthly Summary of Aavin Green Magic

Gateway of Tally > Reports > Stock Summary > Alt + F5 (Detailed View) > Aavin Green Magic > Enter

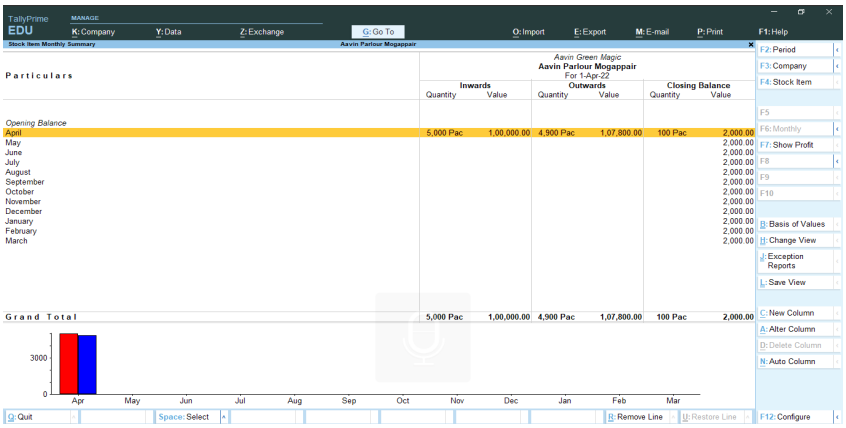


Figure 12.1.15 Stock Monthly Summary of Aavin Green Magic

(e) To view Stock Vouchers of Aavin Green Magic

Gateway of Tally > Reports > Stock Summary > Alt + F5 (Detailed View) > Aavin Green Magic > Enter >Aavin Green Magic Inwards, Outwards and closing balance > Enter

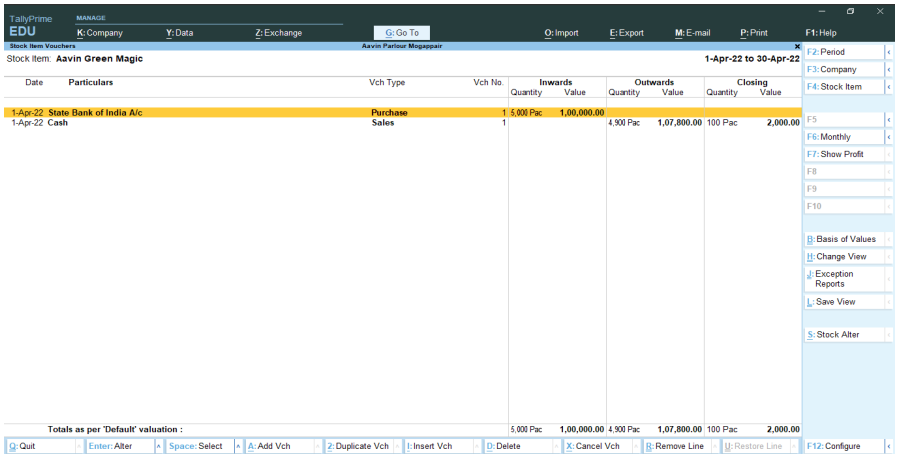


Figure 12.1.16 Stock Vouchers of Aavin Green Magic

Practical problem 2

1. Sharmila is a dealer of Aavin Parlour having business places in Chennai, Trichy and Coimbatore.
2. Balance Sheet as on 1.4.2022 is as follows:

Liabilities	₹	Assets	₹
Sharmila's Capital	7,50,000	Furniture	50,000
P&L A/c	35,000	Stock in Trichy Branch:	
		Aavin Ghee (500 ML bottles)	13,000
		50 @ ₹260 per bottle	
		Cash at Indian Bank	7,00,000
		Cash in hand	22,000
	7,85,000		7,85,000

3. During the year 2022-2023, the following purchases were made and the payment was made through bank:

(i) For Chennai branch:

a) Aavin Nice Milk : 600 packets of 500 ML @ ₹18 per packet
b) Aavin curd : 1,000 packets of 200 ML @ ₹15 per packet
c) Aavin Ghee : 500 bottles of 500 ML @ ₹ 260 per bottle

(ii) For Trichy branch:

a) Aavin Nice Milk : 1,000 packets of 500 ML @ ₹18 per packet
b) Aavin curd : 2,000 packets of 200 ML @ ₹15 per packet
c) Aavin Ghee : 600 bottles of 500 ML @ ₹ 260 per bottle

(iii) For Coimbatore branch:

a) Aavin Nice Milk : 1,200 packets of 500 ML @ ₹18 per packet
b) Aavin curd : 2,500 packets of 200 ML @ ₹15 per packet
c) Aavin Ghee : 800 bottles of 500 ML @ ₹ 260 per bottle

4. During the year 2022-2023,Cash sales made were as follows:

(i) In Chennai branch:

a) Aavin Nice Milk : 550 packets of 500 ML @ ₹20 per packet
b) Aavin curd : 900 packets of 200 ML @ ₹18 per packet
c) Aavin Ghee : 500 bottles of 500 ML @ ₹ 280 per bottle

(ii) In Trichy branch:

a) Aavin Nice Milk : 950 packets of 500 ML @ ₹20 per packet
b) Aavin curd : 1,800 packets of 200 ML @ ₹18 per packet
c) Aavin Ghee : 500 bottles of 500 ML @ ₹ 280 per bottle

(iii) In Coimbatore branch:

a) Aavin Nice Milk : 1,200 packets of 500 ML @ ₹20 per packet
b) Aavin curd : 2,300 packets of 200 ML @ ₹18 per packet
c) Aavin Ghee : 700 bottles of 500 ML @ ₹ 280 per bottle

5. Other transactions made during 2022-2023 were as follows:
(i) Salaries paid through bank ₹35,000
(ii) Rent paid by cash ₹35,000

Record the above transactions in TallyPrime and view Profit & Loss A/c, Balance Sheet, Stock summary, Stock monthly Summary Aavin curd, Stock vouchers of Aavin curd, Inventory reports of Godowns, Trichy Godown Summary, monthly Summary of Aavin Ghee in Trichy Godown, Stock Group Summary of Aavin Ghee and Stock Category Summary (500 ML-Aavin Ghee).

Solution

Following steps are to be followed to enter the transactions in TallyPrime:

Step 1: Creation of Company
Step 2: Creation of ledgers for recording opening balances
Step 3: Creation of Stock Group
Step 4: Creation of Stock category
Step 5: Creation of Unit
Step 6: Creation of Godown
Step 7: Creation of Stock Item
Step 8: View opening Balance Sheet
Step 9: Creation of Stock category
Step 10: Creation of Unit
Step 11: Creation of Godown
Step 12: Creation of Stock Item
Step 13: Analysis of transactions
Step 14: Creation of new Ledgers
Step 15: Entry of transactions through vouchers
Step 16: View Profit & Loss A/c, Balance Sheet, Stock Summary and Inventory Reports

Above steps are explained in detail as below:

Step 1: Creation of company

F3: Company > Create Company. Type the Company Name as "Aavin Parlour Chennai" and choose the State as "Tamil Nadu" from the list of states and choose "Yes" to Accept.

To enable features

After accepting "Yes" in company creation screen, to enable features for the company, set 'Yes' to Maintain Accounts, set 'No' to Bill-wise entry, set 'Yes' Maintain Inventory,set 'Yes' to Integrate Accounts with Inventory, set 'No' to Enable Goods and Services Tax (GST) and set 'No' to Enable Tax Deducted at Source (TDS)and choose 'Yes' to Accept.

Step 2: Creation of ledgers for recording opening balances

(i) To create Sharmila's Capital A/c

Gateway of Tally > Masters > Create > Accounting Masters > Ledger

Name : Sharmila's Capital A/c Under : Capital Account
Opening Balance : 7,50,000 Accept: Yes.

(ii) To record opening Profit & Loss A/c balance

Profit & Loss A/c is a predefined ledger account in TallyPrime. To enter the opening balance, it has to be altered.

To alter Profit & Loss A/c

Gateway of Tally > Masters > Alter > Accounting Masters > Ledger > List of Ledgers > Profit & Loss A/c

Name : Profit & Loss A/c Under : Primary Opening Balance : 35,000 Accept: Yes.

(iii)To create Furniture A/c

Gateway of Tally > Masters > Create > Accounting Masters > Ledger

Name : Furniture A/c Under : Fixed Account Opening Balance : 50,000 Accept: Yes.

(iv)To create Indian Bank A/c

Name : Indian Bank A/c Under : Bank Account
Opening Balance : 7,00,000 Accept: Yes.

(v)To record opening cash balance

Cash is a predefined ledger account in TallyPrime. To enter the opening balance, it has to be altered.

To alter cash

Gateway of Tally > Masters > Alter > Accounting Masters > Ledger > List of Ledger Cash
Name : Cash A/c Under : Cash-in-Hand
Opening Balance : 22,000 Accept: Yes.

Step 3: Creation of Stock Group

Aavin stock group

Gateway of Tally > Masters > Create > Inventory Masters > Stock Group
After selecting stock group, give
Name : Aavin Under : Primary
Give "No" for Should quantities of items be added
Accept: Yes.

Step 4: Creation of Stock Category

Gateway of Tally > Masters > Create > Inventory Masters > Stock Category

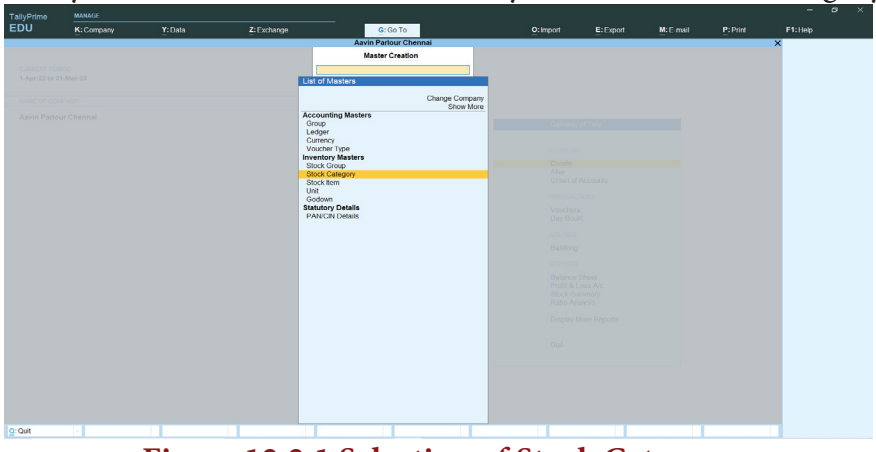


Figure 12.2.1 Selection of Stock Category

After selecting Stock Category, give
Stock Category 500 ML
Name : 500 ML Under : Primary Accept: Yes.

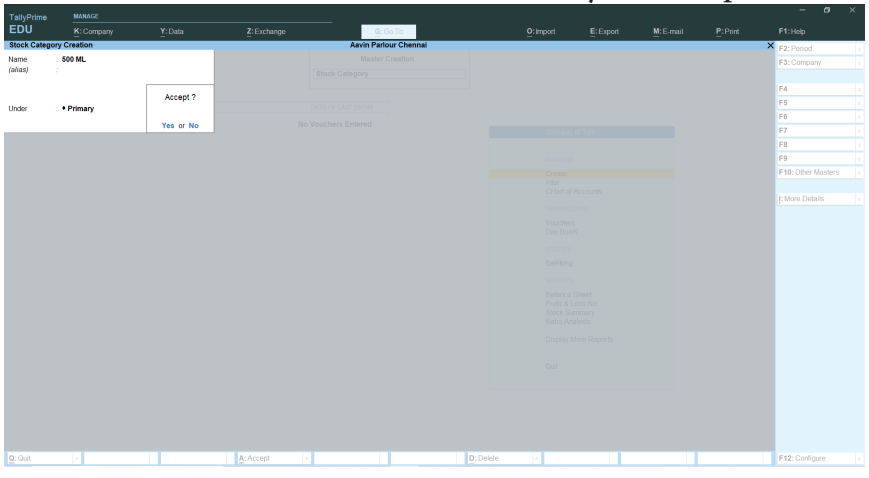


Figure 12.2.2 Creation of Stock Category - 500 ML

Step 5: Creation of Unit

Bottle unit

Gateway of Tally > Masters > Create > Inventory Masters > Unit

After selecting unit, give

Symbol : Btl Formal name : Bottle Number of decimal : 0 Accept: Yes.

Step 6: Creation of Godown

Gateway of Tally > Masters > Create > Inventory Masters > Godown

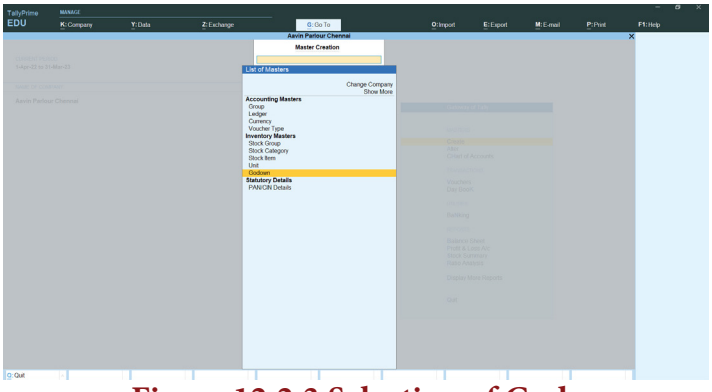


Figure 12.2.3 Selection of Godown

After selecting Godown, TallyPrime will ask for "Create New", "Alter Existing", select "Create New".

To create Trichy Godown

Name : Trichy

Under : Primary

Accept: Yes.

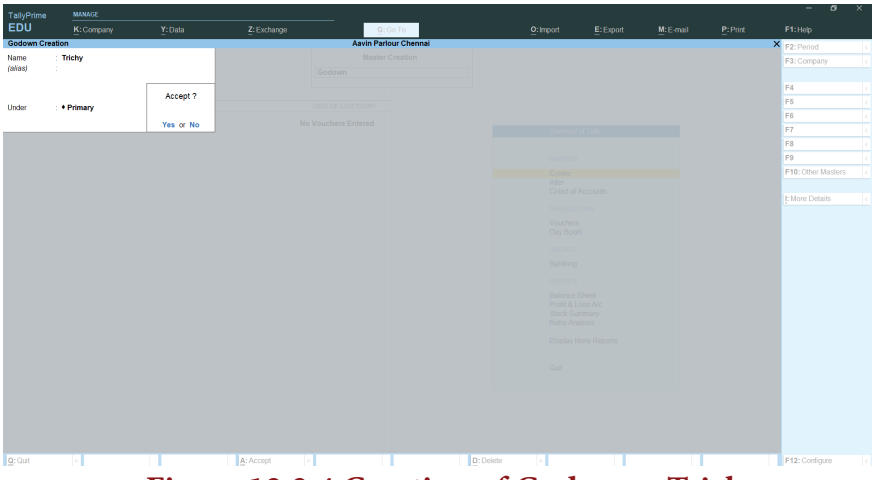


Figure 12.2.4 Creation of Godown - Trichy

Step 7: Creation of Stock Item

Gateway of Tally > Masters > Create > Inventory Masters > Stock Item

F12 – Configuration > Inventory Details > Use stock category for Stock Items > Yes

After selecting stock item, give

To create Stock item – Aavin Ghee

Name : Aavin Ghee

Under : Aavin (Select from List of Groups)

Category : 500 ML (Select from List of Categories)

Units : Btl (Select from Units)

Opening Balance Quantity: 50

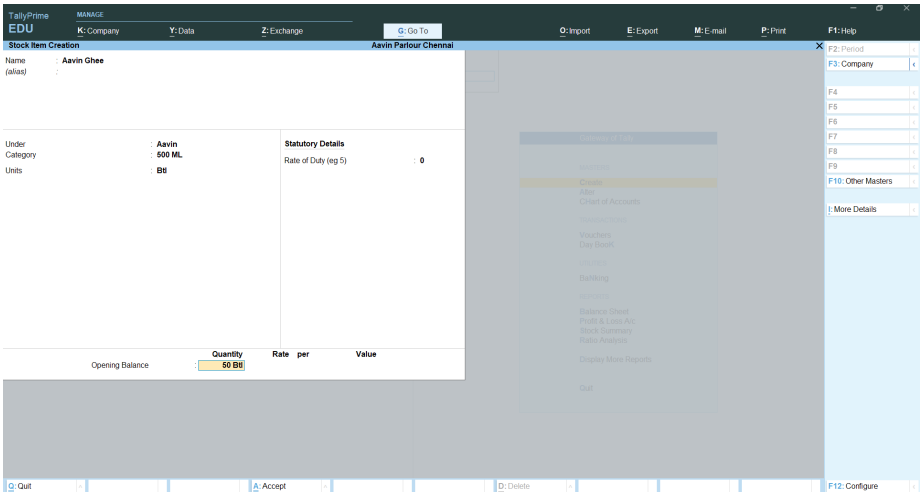


Figure 12.2.5 Creation of Stock Item – Aavin Ghee

After entering in to Quantity TallyPrime will ask for Allocations of Aavin Ghee for 50 Btl Give the following details:

Godown : Trichy (Select from List of Godowns) Rate : 260 Accept: Yes.

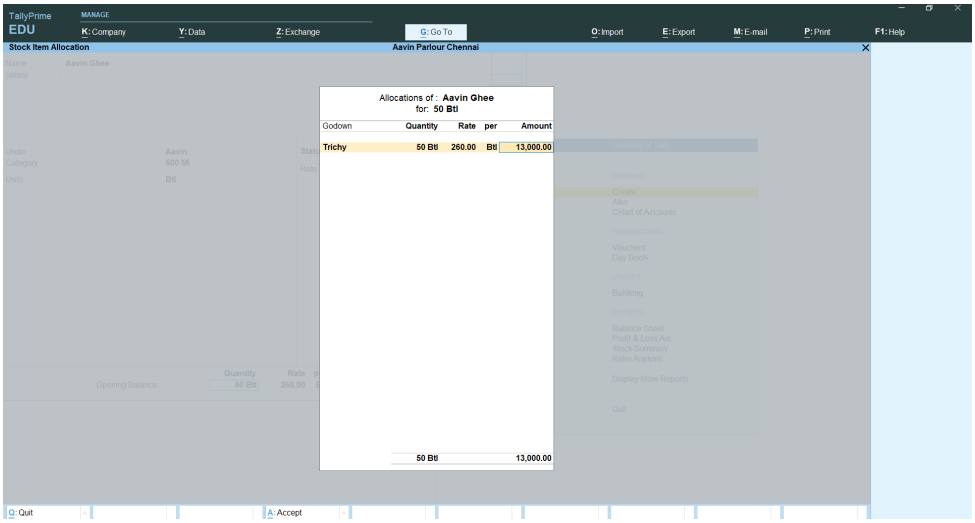


Figure12.2.6 Allocations of Aavin Ghee for 50 Btl

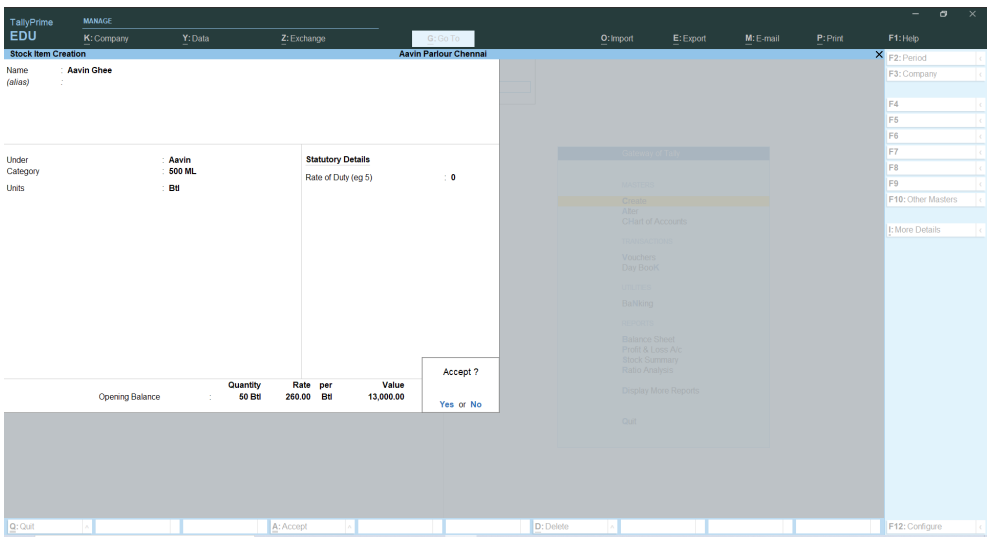


Figure 12.2.7 Creation of Stock Item – Aavin Ghee

Step 8: View opening Balance Sheet

Gateway of Tally > Reports > Balance Sheet> Alt + F5 (Detailed View)

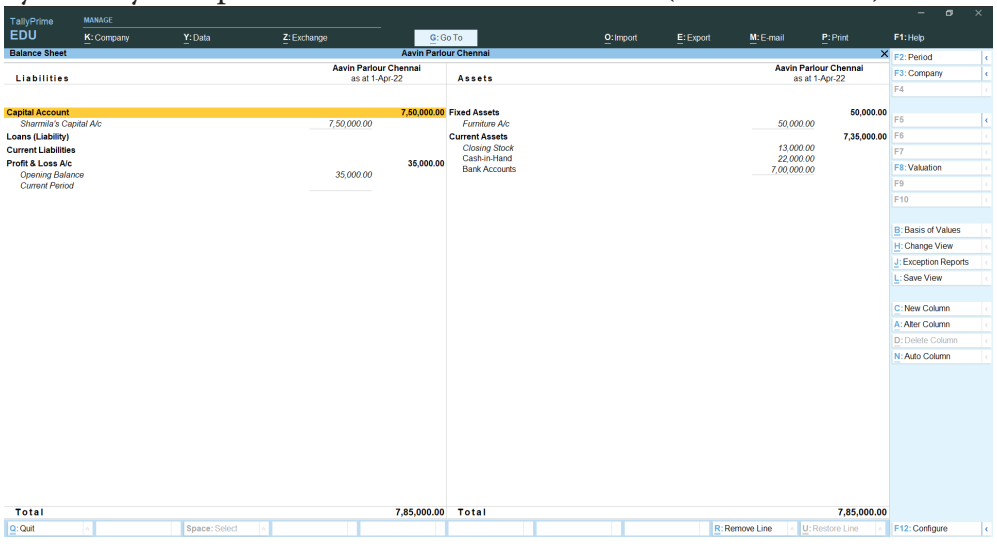


Figure 12.2.8 Opening Balance Sheet (Detailed View)

Step 9: Creation of Stock category

Stock Category 200 ML

Gateway of Tally > Masters > Create > Inventory Masters > Stock Category

After selecting Stock category, give

Name : 200 ML Under : Primary

Accept: Yes.

Step 10: Creation of Units

Packs unit

Gateway of Tally > Masters > Create > Inventory Masters > Unit

After selecting unit, give

Symbol : Pac Formal name : Packs

Number of decimal Places : 0

Accept: Yes.

Step 11: Creation of Godowns

Gateway of Tally > Masters > Create > Inventory Masters > Godown

After selecting godown, give

(i) Chennai Godown

Name : Chennai (Select from List of Godowns)

Under : Primary Accept: Yes.

(ii) Coimbatore Godown

Name : Coimbatore (Select from List of Godowns)

Under : Primary Accept: Yes.

Step 12: Creation of Stock Item

Gateway of Tally > Masters > Create > Inventory Masters > Stock Item

After selecting stock item, give

(i) To create Stock item – Aavin Curd

Name : Aavin Curd

Under : Aavin (Select from List of Groups)

Category : 200 ML (Select from List of Categories)

Units : Pac (Select from Units)

Accept: Yes.

(ii)To create Stock item – Aavin Nice Milk

Name : Aavin Nice Milk

Under : Aavin (Select from List of Groups)

Category : 500 ML (Select from List of Categories)

Units : Pac (Select from Units)

Accept: Yes.

Step 13: Analysis of transactions

Analysis of transactions, passing journal entries, identification of group and voucher type

S. No.	Particulars	Debit ₹	Credit ₹	Group	Godown	Voucher type
3 (i)	Purchases A/c Dr. To Indian Bank A/c	1,55,800	 1,55,800	Purchases Accounts Bank Accounts	Chennai	Purchase
3 (ii)	Purchases A/c Dr. To Indian Bank A/c	2,04,000	 2,04,000	Purchases Accounts Bank Accounts	Trichy	Purchase
3 (iii)	Purchases A/c Dr. To Indian Bank A/c	2,67,100	 2,67,100	Purchases Accounts Bank Accounts	Coimbatore	Purchase
4 (i)	Cash A/c Dr. To Sales A/c	1,67,200	 1,67,200	Cash-in-Hand Sales Accounts	Chennai	Sales
4 (ii)	Cash A/c Dr. To Sales A/c	1,91,400	 1,91,400	Cash-in-Hand Sales Accounts	Trichy	Sales
4 (iii)	Cash A/c Dr. To Sales A/c	2,61,400	 2,61,400	Cash-in-Hand Sales Accounts	Coimbatore	Sales
5 (i)	Salaries A/c Dr. To Indian Bank A/c	35,000	 35,000	Indirect Expenses Cash-in-Hand		Payment
5 (ii)	Rent A/c Dr. To Cash A/c	35,000	 35,000	Indirect Expenses Bank Accounts		Payment

3. (i) Chennai Branch Purchases = (600 × 18) + (1,000 × 15) + (500 × 260) = ₹1,55,800
3. (ii) Trichy Branch Purchases = (1,000 × 18) + (2,000 × 15) + (600 × 260) = ₹2,04,000
3. (iii) Coimbatore Branch Purchases = (1,200 × 18) + (2,500 × 15) + (800 × 260) = ₹2,67,100
4. (i) Chennai Branch Sales = (550 × 20) + (900 × 18) + (500 × 280) = ₹1,67,200
4. (ii) Trichy Branch Sales = (950 × 20) + (1,800 × 18) + (500 × 280) = ₹1,91,400
4. (iii) Coimbatore Branch Sales = (1,200 × 20) + (2,300 × 18) + (700 × 280) = ₹2,61,400

Step 14: Creation of new Ledgers

Follow the following procedure to create Purchases A/c, Sales A/c, Salaries A/c and Rent A/c :

Gateway of Tally > Masters > Create > Accounting Masters > Ledger > Name > Under (Group) > Accept: Yes.

Step 15: Entry of transactions through vouchers

3. During the year 2022-2023, the following purchases were made and the payment was made through bank:

(i) For Chennai branch:

(a) Aavin Nice Milk : 600 packets of 500 ML @ ₹18 per packet
(b) Aavin curd : 1,000 packets of 200 ML @ ₹15 per packet
(c) Aavin Ghee : 500 bottles of 500 ML @ ₹ 260 per bottle

Gateway of Tally > Transactions > Vouchers

F9: Purchase

Party A/c name : Indian Bank A/c (Select from List of Ledger Accounts)

After selection of Indian Bank A/c, TallyPrime will ask for Receipt Details and Party details. Skip to next screen without altering/giving values.

Purchase Ledger : Purchases A/c (Select from List of Ledger Accounts)

(i) Name of Item : Aavin Nice Milk (Select from List of Stock Items)

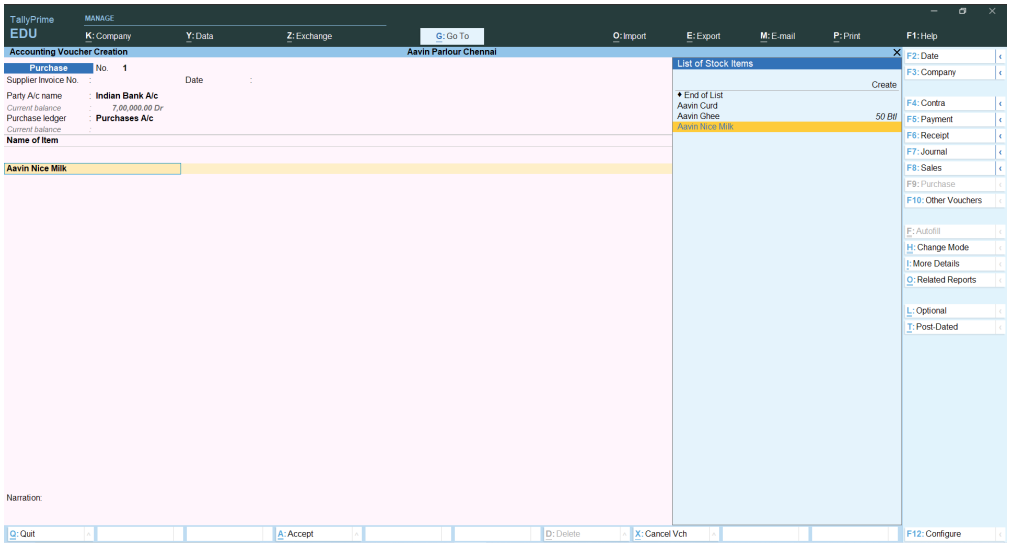


Figure 12.2.9 Purchase voucher entry for Aavin nice milk purchased

After selection of Aavin Nice Milk TallyPrime will ask for Item Allocations for Aavin Nice Milk

Give the following details:

Godown : Chennai (Select from List of Godowns)

Quantity : 600

Rate : 18

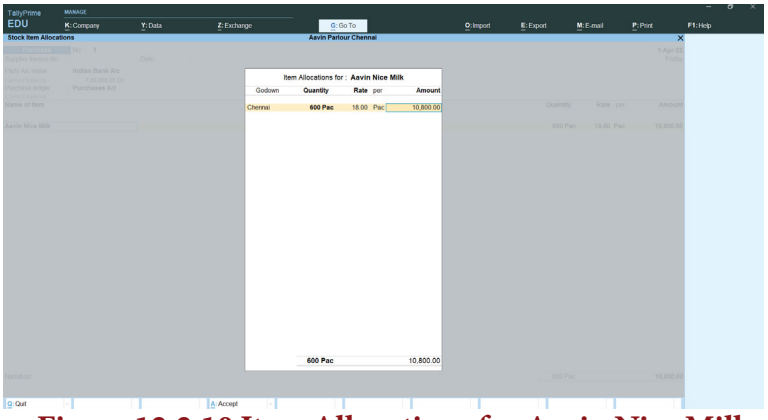


Figure 12.2.10 Item Allocations for Aavin Nice Milk

(ii) Name of Item : Aavin Curd (Select from List of Stock Items)

Godown : Chennai (Select from List of Godowns)

Quantity : 1,000 Rate : 15

(iii) Name of Item : Aavin Ghee (Select from List of Stock Items)

Godown : Chennai (Select from List of Godowns)

Quantity : 500 Rate : 260

Press "enter key" four times, TallyPrime will ask for Bank Allocations for Indian Bank A/c. Skip to next screen without altering/giving values.

Narration : Purchased dairy products and payment made through bank

Accept: Yes.

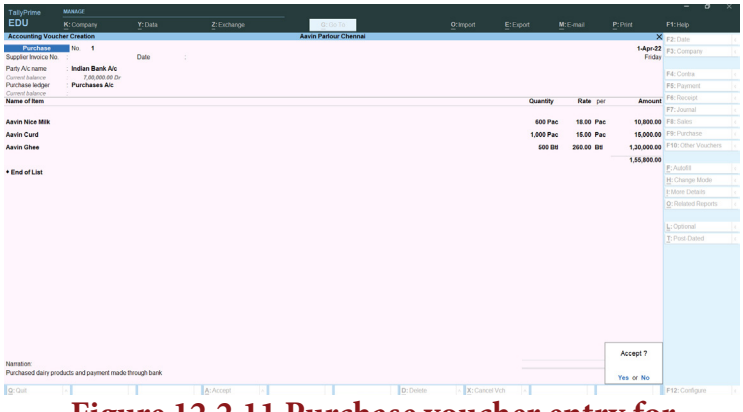


Figure 12.2.11 Purchase voucher entry for dairy products purchased

(ii)For Trichy branch:

(a) Aavin Nice Milk : 1,000 packets of 500 ML @ ₹18 per packet

(b) Aavin Curd : 2,000 packets of 200 ML @ ₹15 per packet

(c) Aavin Ghee : 600 bottles of 500 ML @ ₹ 260 per bottle

F9: Purchase

Party A/c name :Indian Bank A/c (Select from List of Ledger Accounts)

After selection of Indian Bank A/c, TallyPrime will ask for Receipt Details and Party details. Skip to next screen without altering/giving values in both the screens.

Purchase Ledger : Purchases A/c (Select from List of Ledger Accounts)

(i) Name of Item : Aavin Nice Milk (Select from List of Stock Items)

Godown : Trichy (Select from List of Godowns)

Quantity : 1,000 Rate : 18

(ii) Name of Item : Aavin Curd (Select from List of Stock Items)

Godown : Trichy (Select from List of Godowns)

Quantity : 2,000 Rate : 15

(iii) Name of Item : Aavin Ghee (Select from List of Stock Items)

Godown : Trichy (Select from List of Godowns)

Quantity : 600

Rate : 260

Press "enter key" four times, TallyPrime will ask for Bank Allocations for Indian Bank A/c. Skip to next screen without altering/ giving values.

Narration : Purchased dairy products and payment made through bank

Accept: Yes.

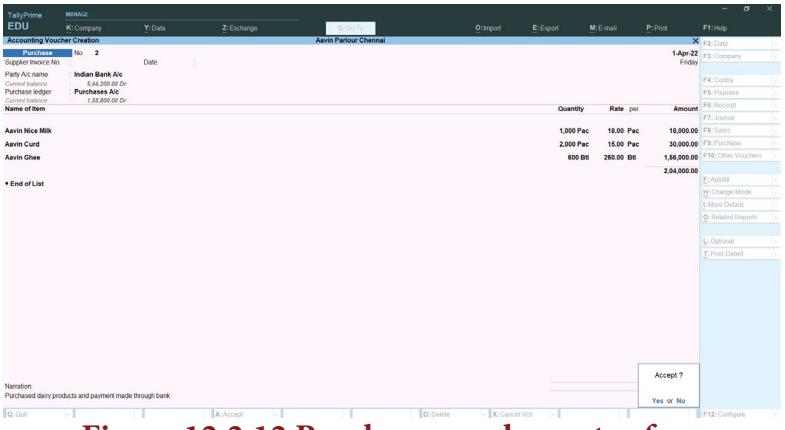


Figure 12.2.12 Purchase voucher entry for dairy products purchased

(iii) For Coimbatore branch:

(a) Aavin Nice Milk : 1,200 packets of 500 ML @ ₹18 per packet

(b) Aavin Curd : 2,500 packets of 200 ML @ ₹15 per packet

(c) Aavin Ghee : 800 bottles of 500 ML @ ₹ 260 per bottle

F9: Purchase

Party A/c name :Indian Bank A/c (Select from List of Ledger Accounts)

After selection of Indian Bank A/c, TallyPrime will ask for Receipt Details and Party details. Skip to next screen without altering/giving values in both the screens.

Purchase Ledger : Purchases A/c (Select from List of Ledger Accounts)

(i) Name of Item : Aavin Nice Milk (Select from List of Stock Items)

Godown : Coimbatore (Select from List of Godowns)

Quantity : 1,200 Rate : 18

(ii) Name of Item : Aavin Curd (Select from List of Stock Items)
Godown : Coimbatore (Select from List of Godowns)
Quantity : 2,500 Rate : 15
(iii) Name of Item : Aavin Ghee (Select from List of Stock Items)
Godown : Coimbatore (Select from List of Godowns)
Quantity : 800 Rate : 260

Press "enter key" four times, TallyPrime will ask for Bank Allocations for Indian Bank A/c. Skip to next screen without altering/giving values.

Narration : Purchased dairy products and payment made through bank

Accept: Yes.

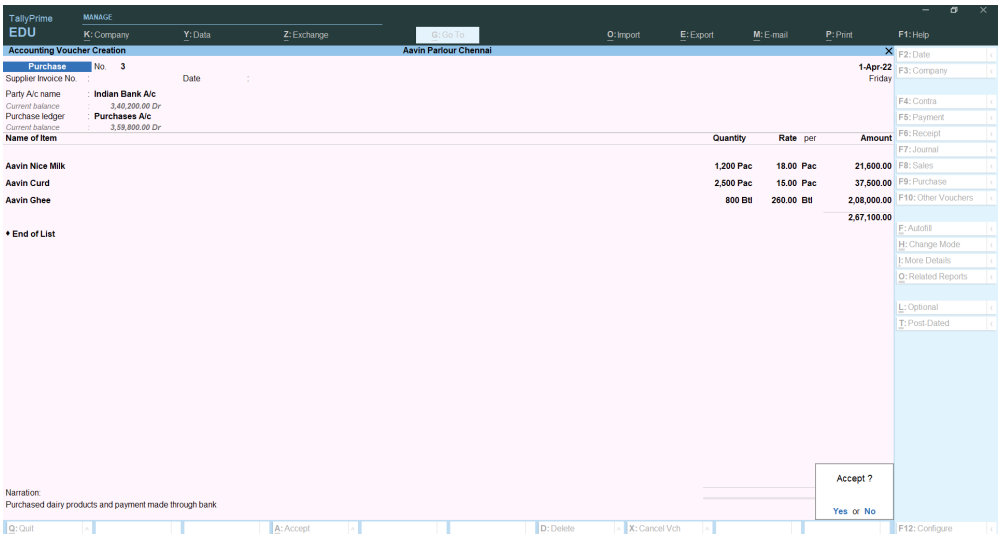


Figure 12.2.13 Purchase voucher entry for dairy products purchased

4. During the year 2022-2023, sales made were as follows:

(i) In Chennai branch:

a) Aavin Nice Milk : 550 packets of 500 ML @ ₹20 per packet
b) Aavin curd : 900 packets of 200 ML @ ₹18 per packet
c) Aavin Ghee : 500 bottles of 500 ML @ ₹ 280 per bottle

F8: Sales

Party A/c name : Cash (Select from List of Ledger Accounts)

After selection of Cash, TallyPrime will ask for Dispatch Details and Party details. Skip to next screen without altering/giving values in both the screens.

Sales Ledger : Sales A/c (Select from List of Ledger Accounts)
(i) Name of Item : Aavin Nice Milk (Select from List of Stock Items)
Godown : Chennai (Select from List of Godowns)
Quantity : 550 Rate : 20
(ii) Name of Item : Aavin Curd (Select from List of Stock Items)
Godown : Chennai (Select from List of Godowns)
Quantity : 900 Rate : 18

(iii) Name of Item : Aavin Ghee (Select from List of Stock Items)

Godown : Chennai (Select from List of Godowns)

Quantity : 500 Rate : 280

Narration : Cash sales of dairy products made

Accept: Yes.

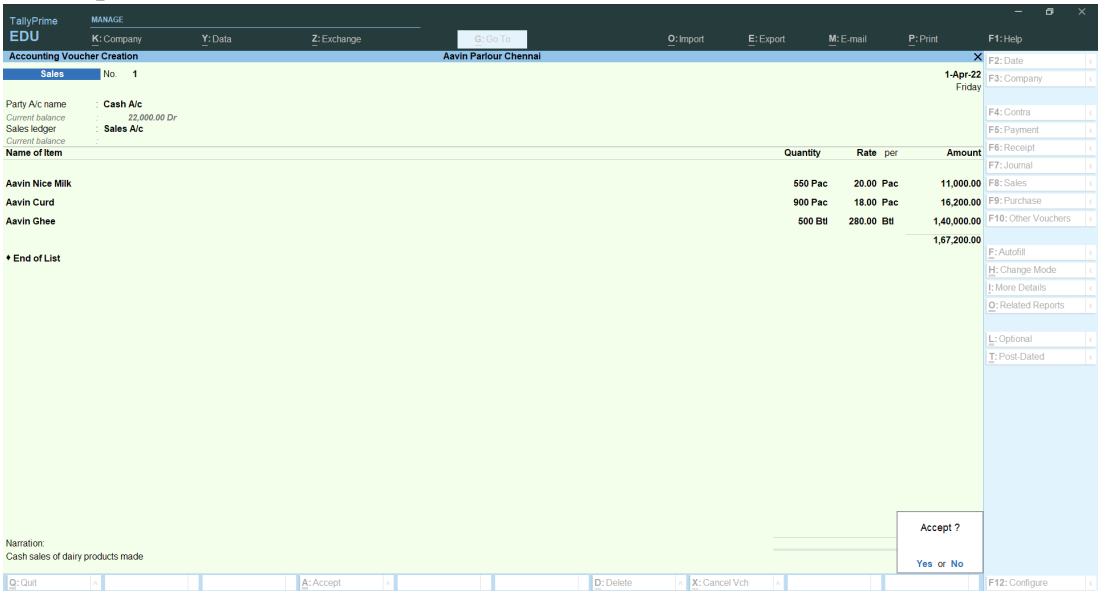


Figure 12.2.14 Sales voucher entry for Cash sales of dairy products made

(ii) In Trichy branch:

a) Aavin Nice Milk : 950 packets of 500 ML @ ₹20 per packet

b) Aavin Curd : 1,800 packets of 200 ML @ ₹18 per packet

c) Aavin Ghee : 500 bottles of 500 ML @ ₹ 280 per bottle

F8: Sales

Party A/c name : Cash (Select from List of Ledger Accounts)

After selection of Cash, TallyPrime will ask for Dispatch Details and Party details. Skip to next screen without altering/giving values in both the screens.

Sales Ledger : Sales A/c (Select from List of Ledger Accounts)

(i) Name of Item : Aavin Nice Milk (Select from List of Stock Items)

Godown : Trichy (Select from List of Godowns)

Quantity : 950 Rate : 20

(ii) Name of Item : Aavin Curd (Select from List of Stock Items)

Godown : Trichy (Select from List of Godowns)

Quantity : 1,800 Rate : 18

(iii) Name of Item : Aavin Ghee (Select from List of Stock Items)

Godown : Trichy (Select from List of Godowns)

Quantity : 500 Rate : 280

Narration : Cash sales of dairy products made

Accept: Yes.

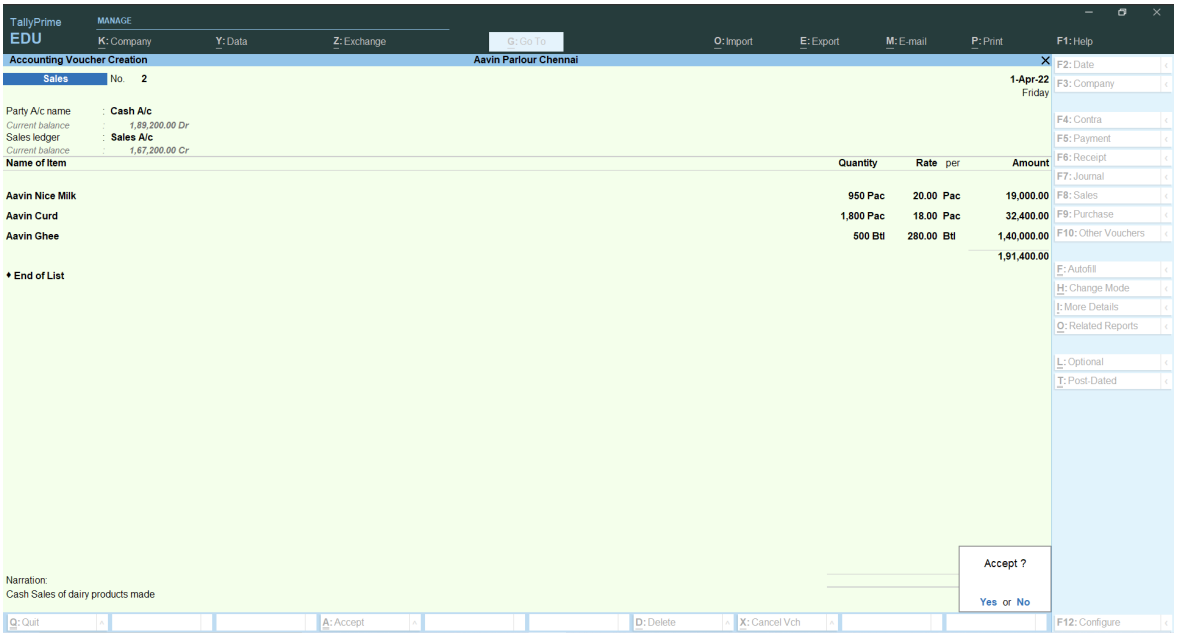


Figure 12.2.15 Sales voucher entry for Cash sales of dairy products made

(iii) In Coimbatore branch:

(a) Aavin Nice Milk : 1,200 packets of 500 ML @ ₹20 per packet

(b) Aavin curd : 2,300 packets of 200 ML @ ₹18 per packet

(c) Aavin Ghee : 700 bottles of 500 ML @ ₹ 280 per bottle

F8: Sales

Party A/c name : Cash (Select from List of Ledger Accounts)

After selection of Cash, TallyPrime will ask for Dispatch Details and Party details. Skip to next screen without altering/giving values in both the screens.

Sales Ledger : Sales A/c (Select from List of Ledger Accounts)

(i) Name of Item : Aavin Nice Milk (Select from List of Stock Items)

Godown : Coimbatore (Select from List of Godowns)

Quantity : 1,200 Rate : 20

(ii) Name of Item : Aavin Curd (Select from List of Stock Items)

Godown : Coimbatore (Select from List of Godowns)

Quantity : 2,300 Rate : 18

(iii) Name of Item : Aavin Ghee (Select from List of Stock Items)

Godown : Coimbatore (Select from List of Godowns)

Quantity : 700 Rate : 280

Narration : Cash sales of dairy products made

Accept: Yes.

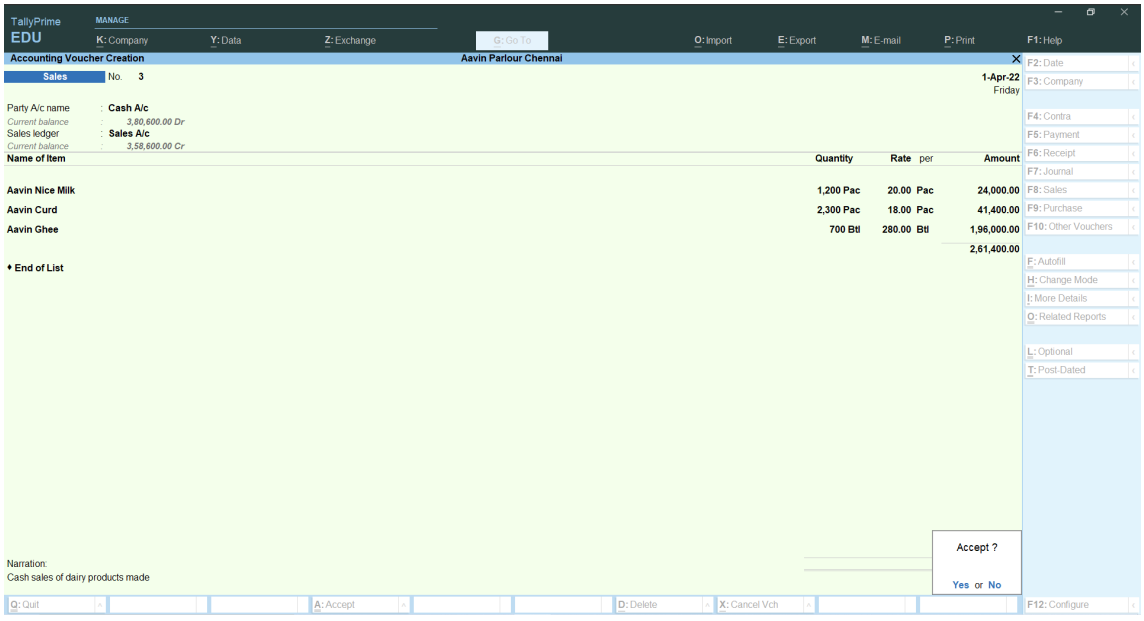


Figure 12.2.16 Sales voucher entry for Cash sales of dairy products made

5. Other transactions made during 2022-2023 were as follows:

(i) Salaries paid through bank ₹35,000

F5: Payment

Debit : Salaries A/c Amount : 35,000 Credit : Indian Bank A/c

The TallyPrime will show the Amount for the Credit aspect. Press Enter key, then TallyPrime will ask for Bank Allocations for Indian Bank A/c. Skip to next screen without altering/giving values.

Narration : Salaries paid through bank Accept: Yes.

(ii) Rent paid by cash ₹35,000

F5: Payment

Debit : Rent A/c Amount : 35,000 Credit : Cash

Narration : Rent paid by cash Accept: Yes.

Step 16: View Profit & Loss A/c, Balance Sheet, Stock Summary and Inventory Reports

(a) To view Profit and Loss A/c

Gateway of Tally > Reports > Profit & Loss A/c> Alt+F5 (Detailed view)

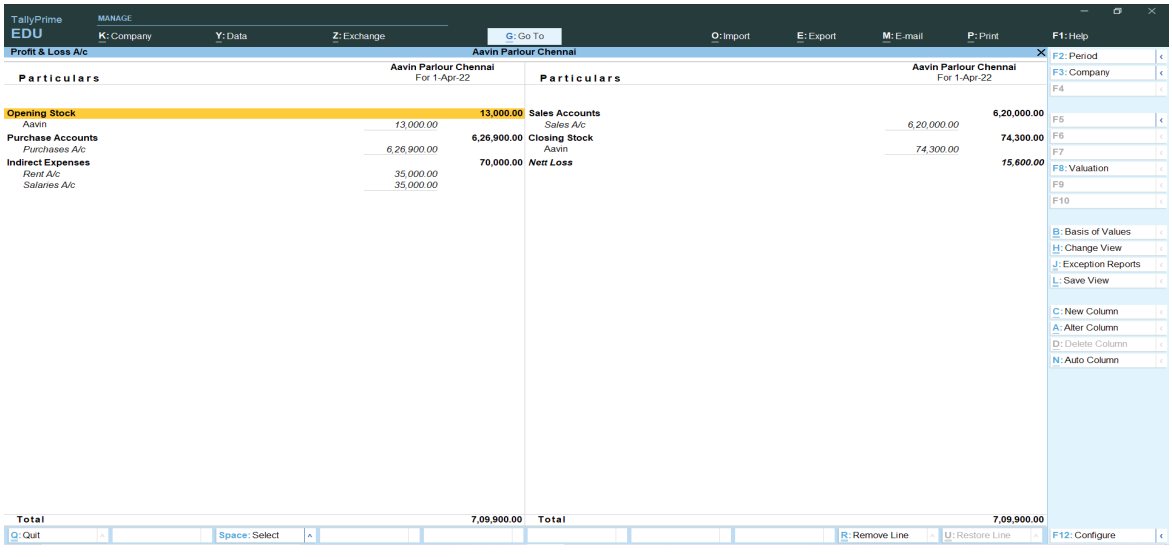


Figure 12.2.17 Profit & Loss A/c (Detailed view)

(b) To view Balance Sheet

Gateway of Tally > Reports > Balance Sheet> Alt + F5 (Detailed View)

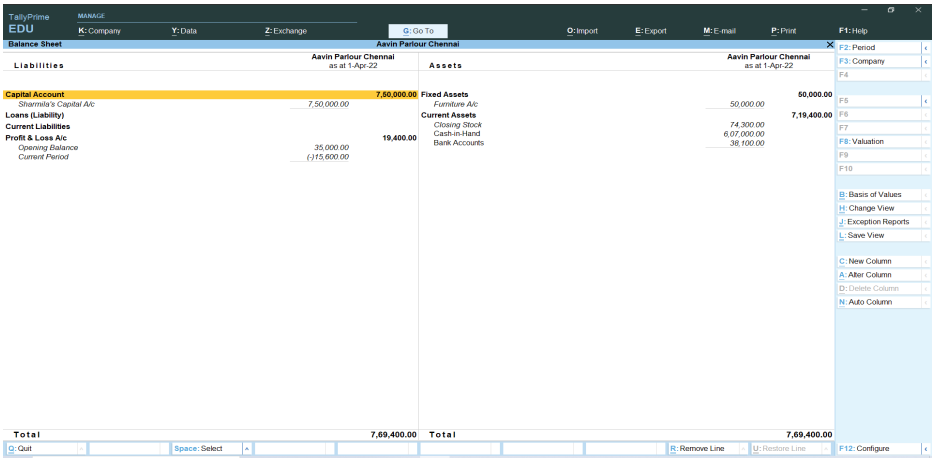


Figure 12.2.18 Balance Sheet (Detailed view)

(c) Stock Summary

(i) To view Stock Summary

Gateway of Tally > Reports > Stock Summary > Alt + F5 (Detailed View)

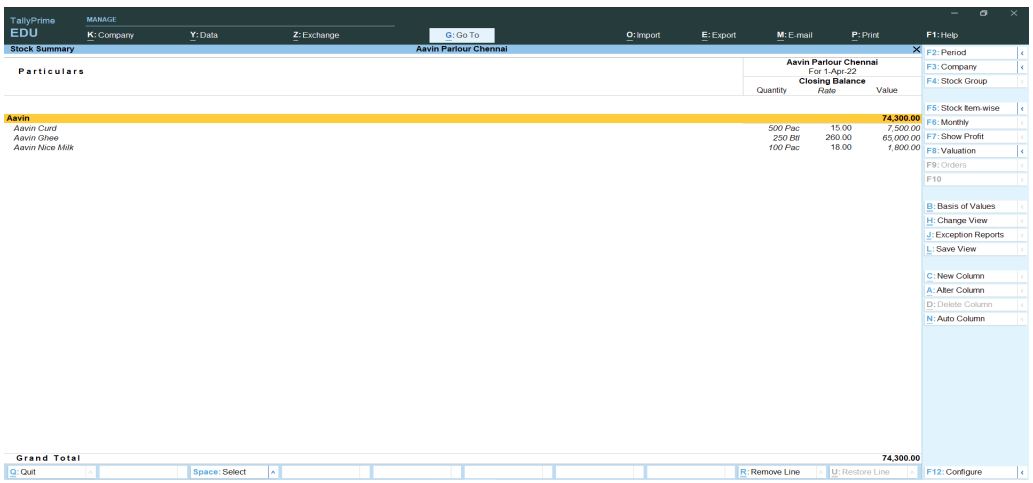


Figure 12.2.19 Stock Summary (Detailed View)

(ii) To view Stock Monthly Summary of Aavin Curd

Gateway of Tally > Reports > Stock Summary > Alt + F5 (Detailed View) > Aavin Curd > Enter

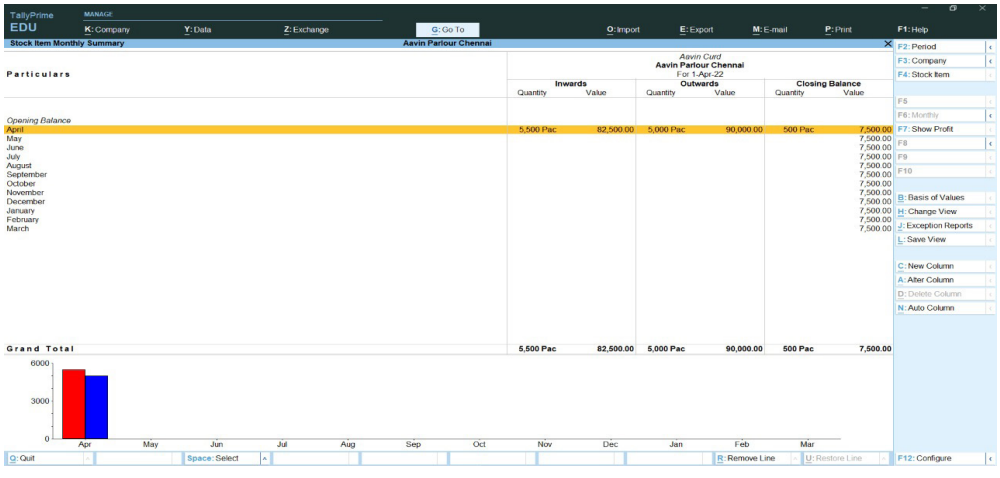


Figure 12.2.20 Stock Monthly Summary of Aavin Curd

(iii) To view Stock Vouchers of Aavin Curd

Gateway of Tally > Reports > Stock Summary > Alt + F5 (Detailed View) > Aavin Curd > Enter >Aavin Curd Inwards, Outwards and closing balance > Enter

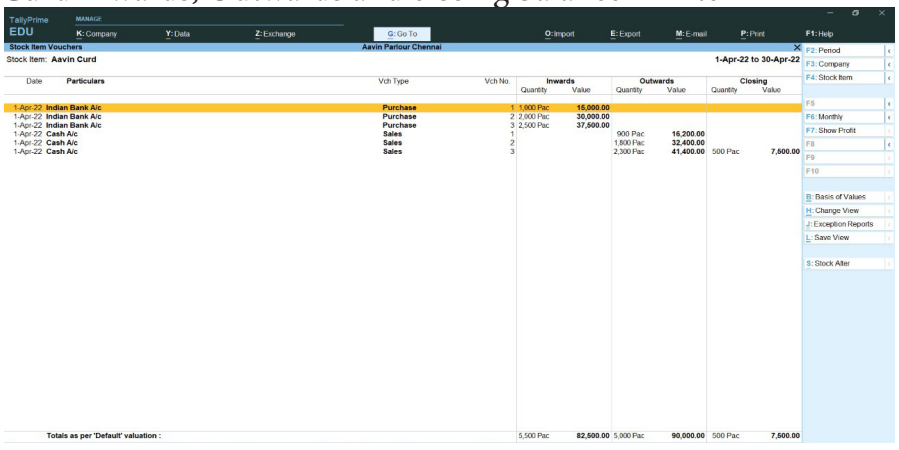


Figure 12.2.21 Stock Vouchers of Aavin Curd

(d) To view Inventory Reports

1. Godown

(i) To view List of Godowns

Gateway of Tally > Reports > Display More Reports > Inventory > Inventory Books > Summary > Godowns

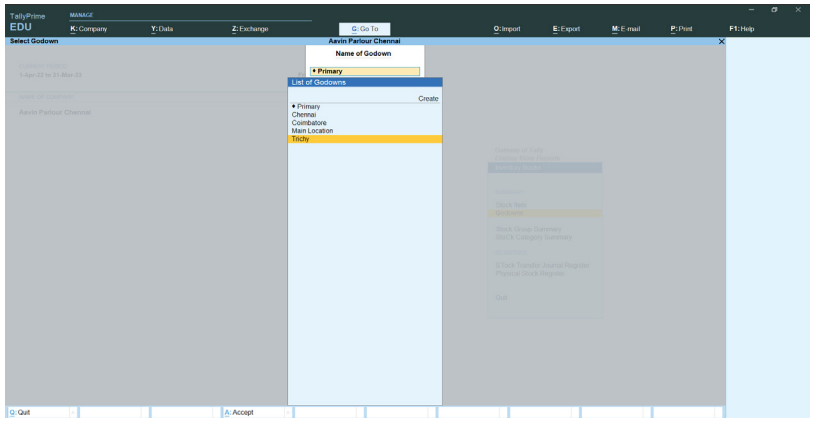


Figure 12.2.22 Selection of Godowns - Trichy

(ii) To view Trichy Godown Summary

Gateway of Tally > Reports > Display More Reports > Inventory > Inventory Books > Summary > Godowns > Enter > Select the Trichy Godown > Enter > Alt + F5 (Detailed View)

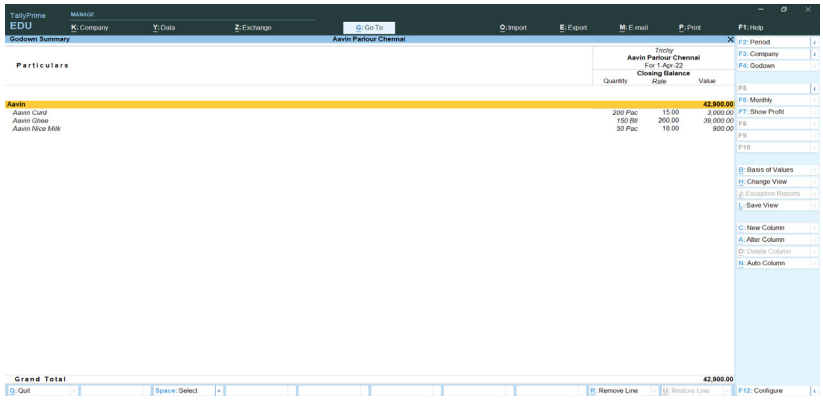


Figure 12.2.23 Godowns Summary of Trichy Godown (Detailed View)

(iii) To view Monthly Summary of Aavin Ghee in Trichy Godown

Gateway of Tally > Reports > Display More Reports > Inventory > Inventory Books > Summary > Godowns > Enter > Select the Trichy Godown > Enter > Alt + F5 (Detailed View) > Select the Aavin Ghee Stock item > Enter

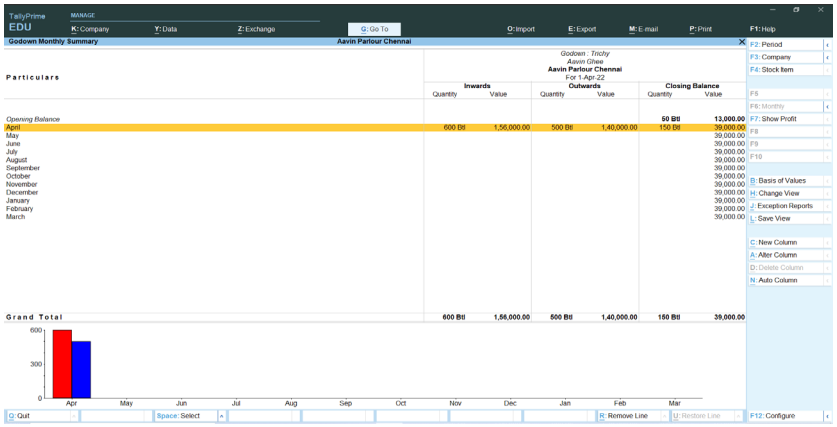


Figure 12.2.24 Monthly Summary of Trichy Godown

2. Stock Group Summary

(i) To view List of Stock Groups

Gateway of Tally > Reports > Display More Reports > Inventory > Inventory Books > Summary > Stock Group Summary > Enter

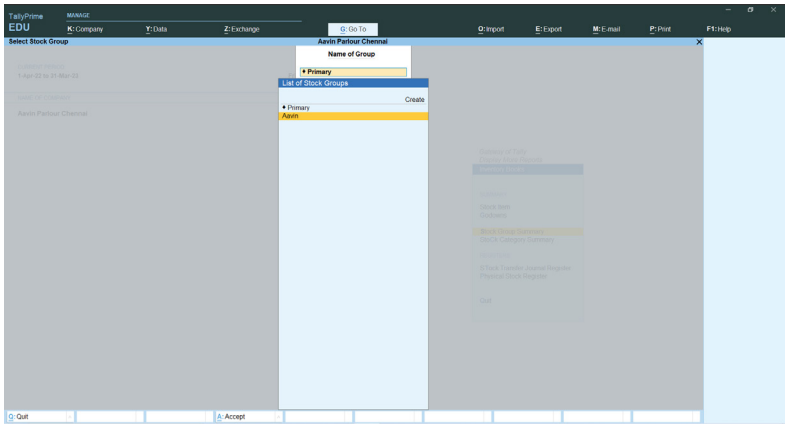


Figure 12.2.25 Selection of List of Stock Groups

(ii) To view Stock Group Summary of Aavin

Gateway of Tally > Reports > Display More Reports > Inventory > Inventory Books > Summary > Stock Group Summary > Aavin > Enter

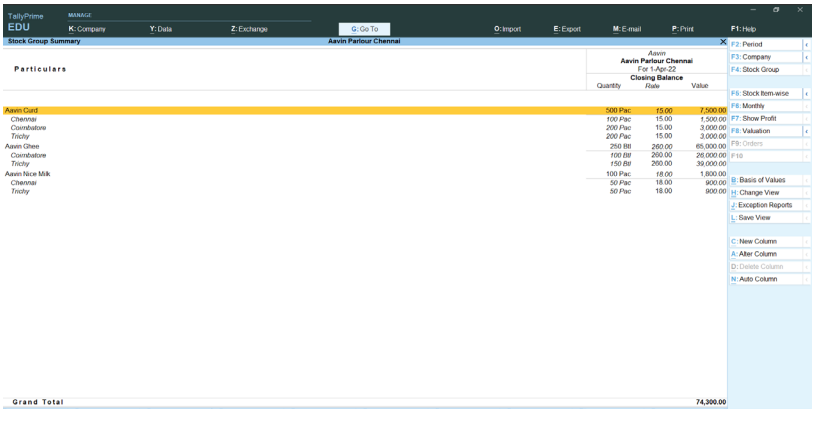


Figure 12.2.26 Stock Group Summary of Aavin

(iii) To view Aavin Ghee Stock Group Summary

Gateway of Tally > Reports > Display More Reports > Inventory > Inventory Books > Summary > Stock Group Summary > Aavin > Enter > Select the Aavin Ghee Stock Group > Enter

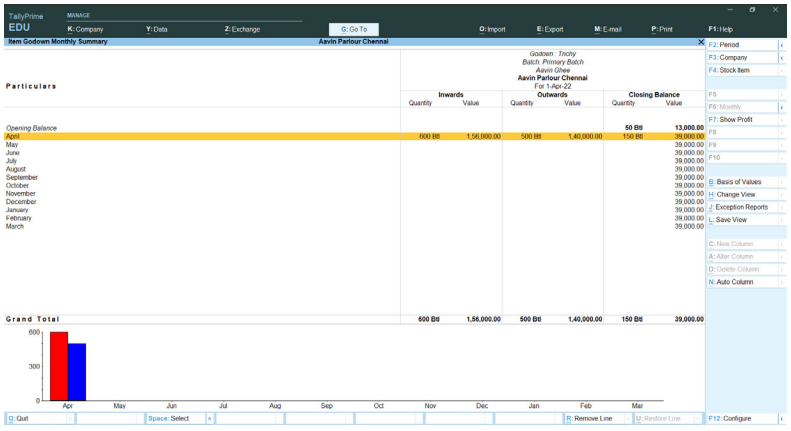


Figure 12.2.27 Monthly Summary of Aavin Ghee

3. Stock Category Summary

(i) To view List of Stock Categories

Gateway of Tally > Reports > Display More Reports > Inventory > Inventory Books > Summary > Stock Category Summary > Enter

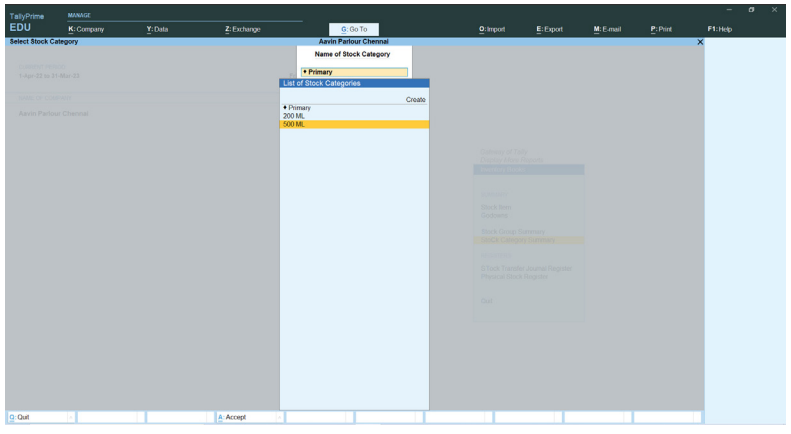


Figure 12.2.28 Selection of List of Stock Categories

(ii) To view 500ML Stock Category Summary

Gateway of Tally > Reports > Display More Reports > Inventory > Inventory Books > Summary > Stock Category Summary > Enter > Select the 500ML Category > Enter

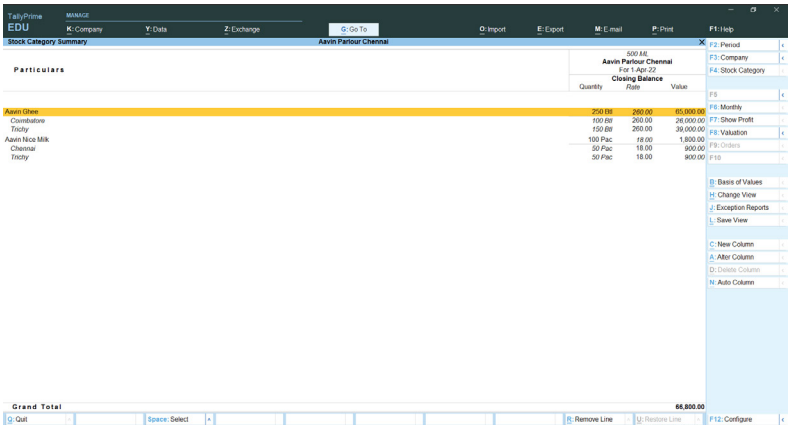


Figure 12.2.29 Stock Category Summary of 500 ML

(iii) To view Aavin Ghee Monthly Summary

Gateway of Tally > Reports > Display More Reports > Inventory > Inventory Books > Summary > Stock Category Summary> Enter > Select the 500ML Category > Enter > Select the Aavin Ghee Stock Category > Enter

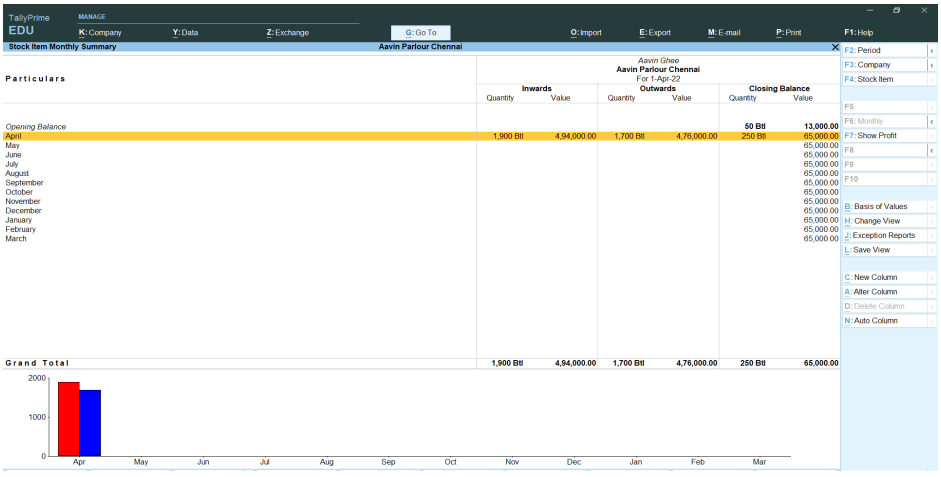


Figure 12.2.30 Monthly Summary of Aavin Ghee

Points to remember

(i) Stock items are goods that are traded by a business unit
(ii) Stock Group is a collection of stock items of the same features
(iii) Stock category is a different group of its own.
(iv) Stock quantity is measured by unit of measure
(v) The place where stock items are stored is referred to Godown

Self–examination questions

I Multiple choice questions

Choose the correct answer

1. Which of the following is used in place of ledger to record inventory in TallyPrime?
   (a) Stock group (b) Stock item (c) Stock category (d) Godown
2. Which of the following is not true?
   (a) Stock category offers a parallel classification of stock items
   (b) The relationship between stock item and stock group is like ledger and group for accounting in TallyPrime
   (c) Simple units include numbers, kilograms, metres
   (d) Stock summary shows the opening balance of the stock items
3. Which of the following options is used to create Simple unit in TallyPrime?
   (a) Gateway of Tally > Masters > Create > Inventory Masters > Unit > Type > Simple
   (b) Gateway of Tally > Reports > Create > Inventory Masters > Unit > Type > Simple
   (c) Gateway of Tally > Masters > Create > Inventory Masters > Type > Simple
   (d) Gateway of Tally > Create > Inventory Masters > Unit > Type > Simple
4. Which of the following is not true?
   (a) Stock items can be classified into stock groups
   (b) Inventory system operates in the same way as accounting system in TallyPrime
   (c) The stock units can not be created as compound units
   (d) The place where stock items are stored is referred to Godown

Answers

1(b)	2 (d)	3 (a)	4 (c)

II Very short answer questions

1. What is stock item?
2. What is stock category?
3. What is Godown? How is it created in TallyPrime?
4. State the procedure to view Stock Item Monthly Summary in TallyPrime.

III Short answer questions

1. What is Stock Group? How is it created in TallyPrime?
2. What is unit in inventory? Briefly explain its types.
3. Briefly explain about the inventory reports generated by TallyPrime.

IV Exercises

1. Record the following transactions in TallyPrime and view (a) Profit & Loss A/c (b) Balance Sheet (c) Stock Summary (d) Stock Monthly Summary of Basmati Rice and (e) Stock Vouchers of Basmati Rice.

A) Mala started rice trading business in Dindigul during 2022-2023 and introduced ₹10,00,000 as capital by cash.

B) Opened a bank account in Canara Bank and deposited ₹9,00,000.

C) During the year 2022-2023, the following purchases were made and the payment was made through bank:

(i) 100 bags of White rice @ ₹1,200 per bag

(ii) 200 bags of Basmati rice @ ₹1,500 per bag

(iii) 300 bags of Red rice @ ₹1,300 per bag

D) During the year 2022-2023, sales made were as follows:

(i) 100 bags of White rice @ ₹1,300 per bag and cash received

(ii) 180 bags of Basmati rice @ ₹1,700 per bag and cash received

(iii) 250 bags of Red rice @ ₹1,500 per bag and cash received

E) Other transactions made during 2022-2023 were as follows:

(i) Cash ₹4,00,000 was deposited into the bank

(ii) Salaries paid through bank ₹2,00,000

(iii) Rent paid by cash ₹50,000

(iv) Electricity bills paid through bank ₹15,000.

(Ans: a) Net Loss: 1,69,000 b) Balance Sheet Total: 10,00,000 c) Stock Summary: Rice (Total Amount: 95,000) Basmati Rice (Quantity: 20 Bag, Rate per unit: 1,500, Total Amount: 30,000) Red Rice (Quantity: 50 Bag, Rate per unit: 1,300, Total Amount: 65,000) d)Stock Monthly Summary of Basmati Rice: Inwards (Quantity 200 Bag, Total Amount: 3,00,000) Outwards (Quantity: 180 Bag, Total Amount: 3,06,000), Closing Balance (Quantity: 20 Bag, Total Amount: 30,000) e) Total Stock Item Vouchers of Basmati Rice: Purchase Inwards (Quantity: 200 Bag, Total Amount: 3,00,000) Sales Outwards (Quantity: 180 Bag, Total Amount: 3,06,000) Closing Balance (Quantity: 20 Bag, Total Amount: 30,000)

2. Renuka is a dealer of rice having business places in Nagapattinam, Karur and Tirunelveli. Balance Sheet as on 1.4.2022 is as follows:

Liabilities	₹	Assets	₹
Renuka's Capital	9,00,000	Furniture	60,000
P & L A/c	90,000	Stock in Nagapattinam Branch: White rice 50 bags @ ₹1,000 per bag	50,000
		Cash at Bank of India	8,00,000
		Cash in hand	80,000
	9,90,000		9,90,000

A) During the year 2022-2023, the following purchases were made and the payment was made through bank:

(i) For Nagapattinam branch:
- (a) 60 bags of 10 kgs of Basmati rice @ ₹1,300 per bag
- (b) 70 bags of 15 kgs of Red rice @ ₹1,200 per bag
- (c) 50 bags of 20 kgs of White rice @ ₹1,000 per bag

(ii) For Karur branch:
- (a) 20 bags of 10 kgs of Basmati rice @ ₹1,300 per bag
- (b) 30 bags of 15 kgs of Red rice @ ₹1,200 per bag
- (c) 10 bags of 20 kgs of White rice @ ₹1,000 per bag

(iii) For Tirunelveli branch:
- (a) 20 bags of 10 kgs of Basmati rice @ ₹1,300 per bag
- (b) 30 bags of 15 kgs of Red rice @ ₹1,200 per bag
- (c) 10 bags of 20 kgs of White rice @ ₹1,000 per bag

B) During the year 2022-2023, cash sales made were as follows:

(i) In Nagapattinam branch:
- (a) 60 bags of 10 kgs of Basmati rice @ ₹1,400 per bag
- (b) 60 bags of 15 kgs of Red rice @ ₹1,300 per bag
- (c) 40 bags of 20 kgs of White rice @ ₹1,200 per bag

(ii) In Karur branch:
- (a) 18 bags of 10 kgs of Basmati rice @ ₹1,400 per bag
- (b) 20 bags of 15 kgs of Red rice @ ₹1,300 per bag
- (c) 10 bags of 20 kgs of White rice @ ₹1,200 per bag

(iii) In Tirunelveli branch:
- (a) 18 bags 10 kgs of Basmati rice @ ₹1,400 per bag
- (b) 20 bags 15 kgs of Red rice @ ₹1,300 per bag
- (c) 10 bags 20 kgs of White rice @ ₹1,200 per bag

C) Other transactions made during 2022-2023 were as follows:
- (i) Salaries paid through bank ₹40,000
- (ii) Rent paid by cash ₹90,000

Record the above transactions in TallyPrime and view Profit & Loss A/c, Balance Sheet, Stock summary, Inventory reports of Godowns (Tirunelveli), Stock Group Summary and Stock Category Summary (15 kgs).

(Ans: a) Net Loss: 98,400 b) Balance Sheet Total: 9,00,000 c) Stock Summary : Rice: (Total Amount: 1,01,200), Basmati Rice (Quantity: 4 Bag, Rate per unit: 1,300, Total Amount: 5,200), Red Rice (Quantity: 30 Bag, Rate per unit: 1,200, Total Amount: 36,000), White Rice (Quantity: 60 Bag, Rate per unit: 1,000, Total Amount: 60,000) d) Godown Summary of Tirunelveli: Rice: Closing Balance (Quantity: 12 Bags, Rate per Unit: 1,216, Total Amount: 14,600), Basmathi Rice (Quantity: 2 Bag, Rate per unit: 1,300, Total Amount: 2,600), Red Rice (Quantity: 10 Bag, Rate per unit: 1,200, Total Amount: 12,000) e) Stock Category Summary:15kg: Red Rice (Quantity: 30 Bag, Rate per Unit: 1,200,Total Amount: 36,000), Nagapattinam (Quantity: 10 Bag, Rate per unit : 1,200, Total Amount: 12,000), Karur: (Quantity :10 Bag, Rate per unit: 1,200, Total Amount: 12,000) Tirunelveli: (Quantity :10 Bag, Rate per unit: 1,200, Total Amount: 12,000)

UNIT 13

Recording Goods and Services Tax (GST) using TallyPrime

Contents

13.1 Introduction

13.2 GST Structure

13.3 GST Rates

13.4 Practical application of TallyPrime for Transactions involving GST

13.5 Practical problems

Points to recall

The following points are to be recalled before learning the Recording Goods and Services Tax (GST) using TallyPrime:

- Purchases
- Sales
- Purchase Voucher
- Sales Voucher

Learning objectives

To enable the students to

- Understand recording GST in TallyPrime
- Apply TallyPrime in Maintaining Accounts relating to GST and generating GSTR-1, GSTR-2

Key terms to know

- Goods and Services Tax (GST)
- Input tax credit
- GST Structure
- CGST, SGST, UTGST and IGST
- GSTR-1, GSTR-2

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13.1 Introduction

Goods and Services Tax (GST) is a tax on supply of goods and services. GST is to be paid, while goods are purchased from the supplier and GST is to be collected while goods are sold to the customers.

When goods or services move from manufacturer to wholesaler to retailer to end consumer, suppliers at each stage are permitted to set off the GST paid on the purchase of goods or services against the GST to be paid on the supply of goods or services respectively, called input tax credit.

13.2 GST Structure

Sale of goods and services may take place within a state (intra state) or from one state to another state (inter state). The following categories of GST are applicable:

CGST: It is applicable on the supplies made within the state and is collected by central government.

SGST: It is applicable on the supplies made within the state and is collected by state government.

UTGST: It is applicable on the supplies made within the Union Territory and is collected by Union Territory.

IGST: It is applicable on the supplies made from one state to another state and is collected and shared between central government and the relevant state government.

13.3 GST Rates

Different GST rates are charged on the supply of products and services ranging from zero per cent to 28 per cent.

Examples:

For rice bags less than 26 kilo grams = 5%
For curd packets = 5%
For dried fruits (Dates, Pineapples, etc) = 12%
For corn flakes packets = 18%



The following website can be referred for GST rates:
www.gstcouncil.gov.in



A business can get registered under GST Law. On registration, it will be given a unique 15-digit PAN-based registration number, called GST Identification Number (GSTIN). Transactions involving GST can be recorded through TallyPrime.

13.4 Practical application of TallyPrime for Transactions involving GST

To enable features

After accepting "Yes" in company creation screen, to enable features for the company, set 'Yes' to Maintain Accounts, set 'No' to Bill-wise entry, set 'Yes' Maintain Inventory, set 'No' to Integrate Accounts with Inventory and set 'Yes' to Enable Goods and Services Tax (GST).

After accepting "Yes" in Enable Goods and Services Tax (GST) screen, fill GST Details as below:

Set Registration Type	: Regular (Select from Registration types)
Assessee of Other Territory	: No
GSTIN/UIN	: 33ABCDE1234A1A0
Periodicity of GSTR1	: Monthly (Select from Periodicity)
Set/alter GST rate details	: Yes

After accepting "Yes" in Set/alter GST rate details screen, the GST Details for Company screen will open. Skip HSN/SAC details and give "Taxable" in Taxability and then give rate for Integrated Tax, Central Tax and State Tax and set 'No' to all other fields and choose 'Yes' to Accept.

To view GSTR-1

Gateway of Tally > Reports > Display More Reports > Statutory > GST Reports > GSTR-1 > Alt + F5 (Detailed View)

To view GSTR-2

Gateway of Tally > Reports > Display More Reports > Statutory > GST Reports > GSTR-2 > Alt + F5 (Detailed View)

13.5 Practical problems

Practical problem 1

(i) Meena commenced rice trading business in Hosur in the name of Meena Traders by introducing a capital of ₹ 2,00,000 by cash.

(ii) Opened a bank account in the name of Meena Traders and deposited ₹ 1,00,000. Obtained GST number "33ABCDE1234A1A0" for the business.

(iii) Bought 20 bags of 10 Kgs boiled rice @ ₹ 500 per bag from Sania Traders (GST Number: 33ABCDE2345A1A0) and paid CGST of 2.5% and SGST of 2.5% on the same by cheque.

(iv) Purchased from Murali Traders (GST Number: 33ABCDE3456A1A0) 10 bags of 10 Kgs raw rice @ ₹ 480 per bag on credit and CGST of 2.5% and SGST of 2.5% are to be paid.

(v) Sold 5 bags of boiled rice to Mano Traders (GST Number: 33ABCDE4567A1A0) @ ₹ 600 per bag on credit for which CGST of 2.5% and SGST of 2.5% are to be collected.

(vi) Sold for cash 6 bags of raw rice to Sambath & Co (GST Number: 33ABCDE5678A1A0) @ ₹ 540 per bag for which CGST of 2.5% and SGST of 2.5% are collected.

Record the above transactions in TallyPrime and view Balance Sheet and GSTR 2.

Solution

Following steps are to be followed to enter the transactions in TallyPrime:

Step 1: Creation of Company **Step 2:** To enable features

Step 3: Analysis of transactions **Step 4:** Creation of new Ledgers

Step 5: Creation of Stock Group

Step 6: Creation of Unit

Step 7: Creation of Stock Item

Step 8: Entry of transactions through Vouchers

Step 9: View Balance Sheet and GSTR-2

Above steps are explained in detail as below:

Step 1: Creation of company

F3:Company > Create Company. Type the Company Name as "Meena Traders" and choose the State as "Tamil Nadu" from the List of states and choose "Yes" to Accept.

Step 2: To enable features

After accepting "Yes" in company creation screen, to enable features for the company, set 'Yes' to Maintain Accounts, set 'No' to Bill-wise entry, set 'Yes' to Maintain Inventory, set 'Yes' to Integrate Accounts with Inventory and set 'Yes' to Enable Goods and Services Tax (GST).

After accepting "Yes" in Enable Goods and Services Tax (GST) screen, fill GST Details as given below:

Set Registration Type : Regular (Select from Registration types)

Assessee of Other Territory : No

GSTIN/UIN : 33ABCDE1234A1A0

For practical purpose, a dummy GSTIN/UIN is given. When the correct GSTIN/UIN is not given, TallyPrime will give a warning. Press Enter key and continue

Periodicity of GSTR1 : Monthly (Select from Periodicity)

Set/alter GST rate details : Yes

After accepting "Yes" in Set/alter GST rate details screen, the GST Details for Company screen will open. Give "Taxable" in Taxability and then give details as shown in figure 13.1.1:

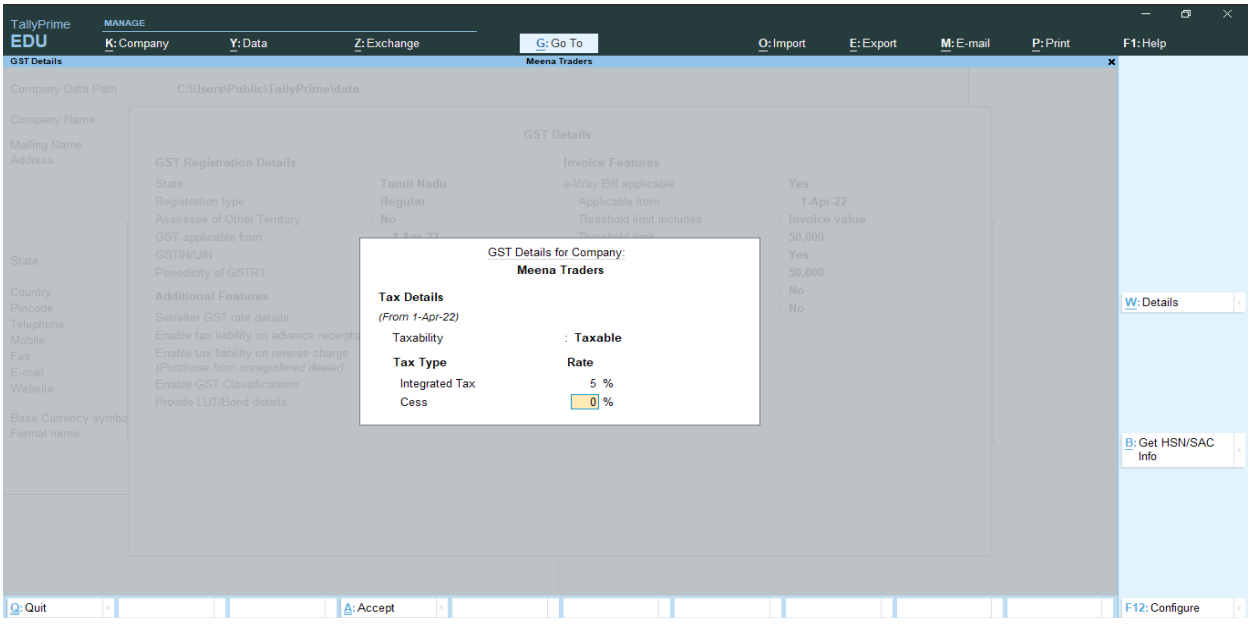


Figure 13.1.1 GST Details for Company

Set 'No' to e-Way Bill as applicable and choose 'Yes' to Accept.

And Enable Tax Deducted at Source (TDS) to 'No' and choose 'Yes' to Accept.

Step 3: Analysis of transactions

Analysis of transactions, passing journal entries, identification of group and voucher type

S. No.	Particulars		Debit ₹	Credit ₹	Group	Voucher type
(i)	Cash A/c	Dr.	2,00,000		Cash-in-Hand	Receipt
	To Meena's Capital A/c			2,00,000	Capital Account	
(ii)	Bank A/c	Dr.	1,00,000		Bank Accounts	Contra
	To Cash A/c			1,00,000	Cash-in-Hand	
(iii)	Purchases A/c (20x500)	Dr.	10,000		Purchase Accounts	Purchase
	CGST A/c (10,000x2.5%)	Dr.	250		Duties & Taxes	
	SGST A/c (10,000x2.5%)	Dr.	250		Duties & Taxes	
	To Bank A/c			10,500	Bank Accounts	
(iv)	Purchases A/c (10x480)	Dr.	4,800		Purchase Accounts	Purchase
	CGST A/c (4,800x2.5%)	Dr.	120		Duties & Taxes	
	SGST A/c (4,800x2.5%)	Dr.	120		Duties & Taxes	
	To Murali Traders A/c			5,040	Sundry Creditors	
(v)	Mano A/c	Dr.	3,150		Sundry Debtors	Sales
	To Sales A/c (5x600)			3,000	Sales Accounts	
	To CGST A/c (3,000x2.5%)			75	Duties & Taxes	
	To SGST A/c (3,000x2.5%)			75	Duties & Taxes	
(vi)	Cash A/c	Dr.	3,402		Cash-in-Hand	Sales
	To Sales A/c (6x540)			3,240	Sales Accounts	
	To CGST A/c (3,240x2.5%)			81	Duties & Taxes	
	To SGST A/c (3,240x2.5%)			81	Duties & Taxes	

Step 4: Creation of new Ledgers

(i) To create Meena's Capital A/c

Gateway of Tally > Masters > Create > Accounting Masters > Ledger

Name : Meena's Capital A/c Under : Capital Account

Registration type : Regular GSTIN/UIN : 33ABCDE1234A1A0 Accept: Yes.

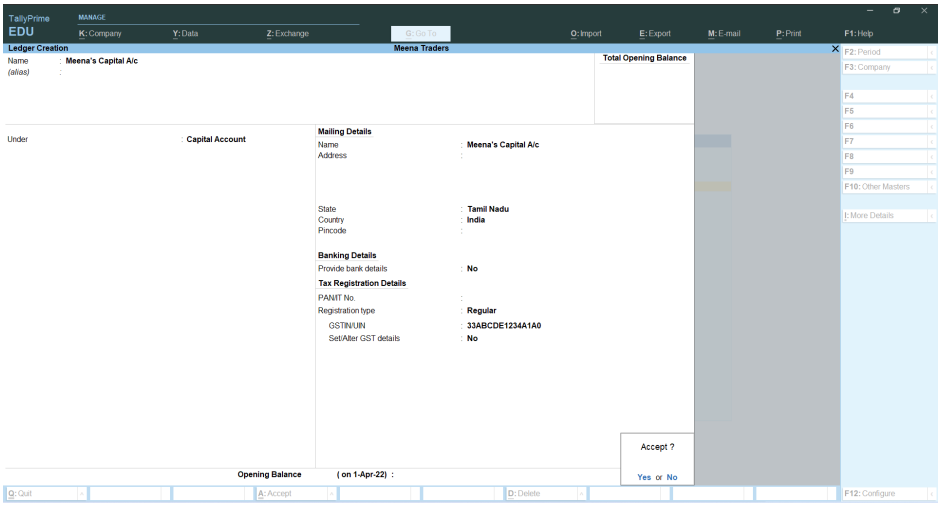


Figure13.1.2 Creation of Meena's Capital A/c

(ii) To create Bank A/c

Name : Bank A/c Under : Bank Accounts Accept: Yes.

(iii) To create Purchases A/c

Name : Purchases A/c Under : Purchase Accounts Types of Ledger : Not Applicable
Is GST applicable : Applicable Types of Supply : Goods Accept: Yes.

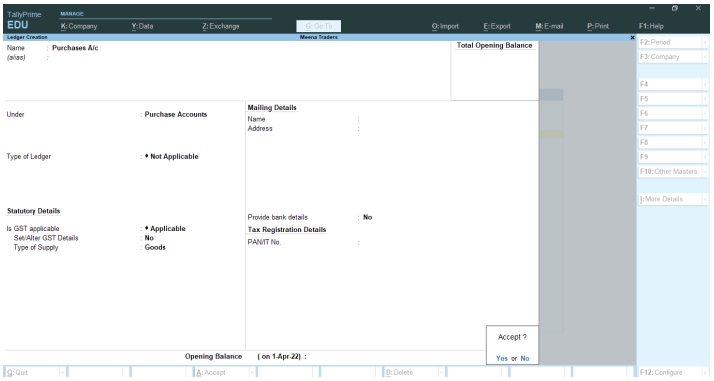


Figure 13.1.3 Creation of Purchases A/c

(iv) To create Sales A/c

Name : Sales A/c Under : Sales Accounts Types of Ledger : Not Applicable
Is GST applicable : Applicable Types of Supply : Goods Accept: Yes.

(v) To create Murali Traders A/c

Name : Murali Traders A/c Under : Sundry Creditors
Registration type : Regular GSTIN/UIN : 33ABCDE3456A1A0 Accept: Yes.

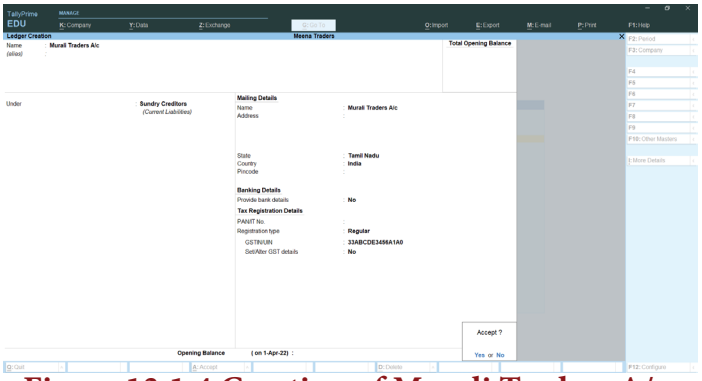


Figure 13.1.4 Creation of Murali Traders A/c

(vi) To create Mano Traders A/c

Name : Mano Traders A/c Under : Sundry Debtors
Registration type : Regular GSTIN/UIN : 33ABCDE4567A1A0 Accept: Yes.

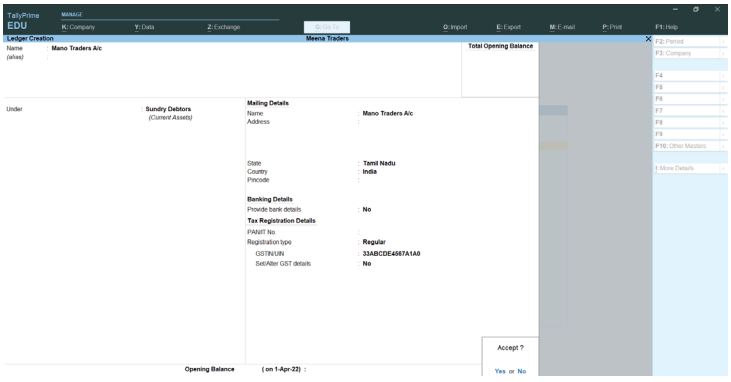


Figure 13.1.5 Creation of Mano Traders A/c

(vii) To create CGST A/c

Name : CGST A/c Under : Duties & Taxes Types of duty/tax : GST
Tax type : Central Tax Percentage of calculation : 2.50%
Rounding method: Not Applicable Accept: Yes.

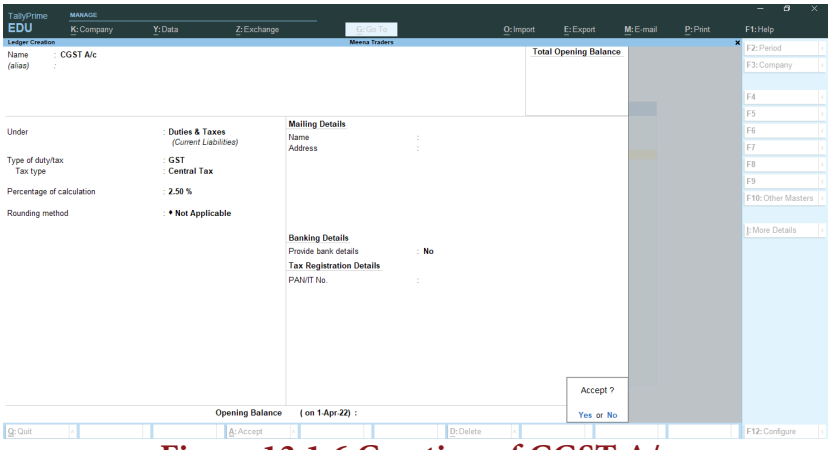


Figure 13.1.6 Creation of CGST A/c

(viii) To create SGST A/c

Name : SGST A/c Under : Duties & Taxes Types of duty/tax : GST
Tax type : State Tax Percentage of calculation : 2.50%
Rounding method: Not Applicable Accept: Yes.

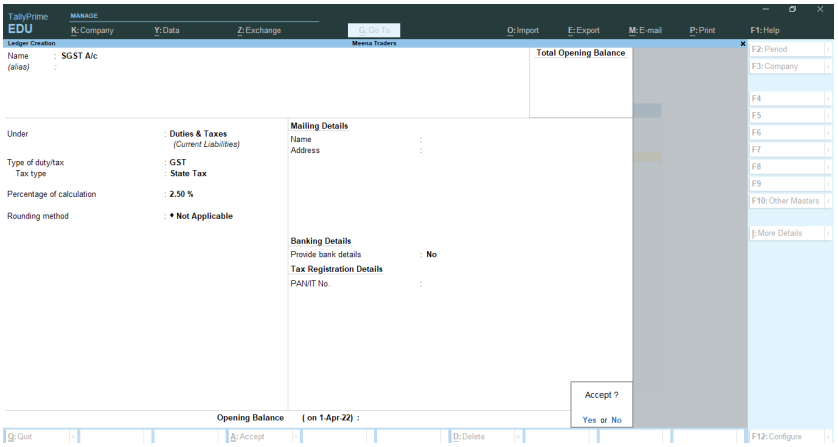


Figure 13.1.7 Creation of SGST A/c

Step 5: Creation of Stock Group

Rice Stock Group

Gateway of Tally > Masters > Create > Inventory Masters > Stock Group

After selecting stock group, give

Name : Rice
Under : Primary

Give "No" for Should quantities of items be added and for Set/Alter GST details.

Accept: Yes.

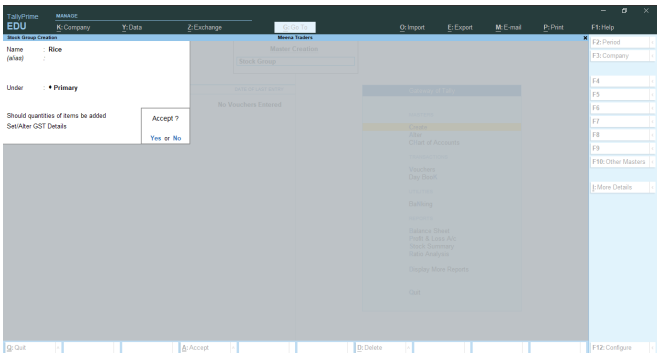


Figure 13.1.8 Creation of Rice stock group

Step 6: Creation of Unit

Bag unit

Gateway of Tally > Masters > Create > Inventory Masters > Unit

After selecting unit, give

Symbol : Bag Formal name : Bags

Use Quantity Code (UQC) : BAG-BAGS (Select from List of UQCs)

Number of decimal places : 0 Accept : Yes

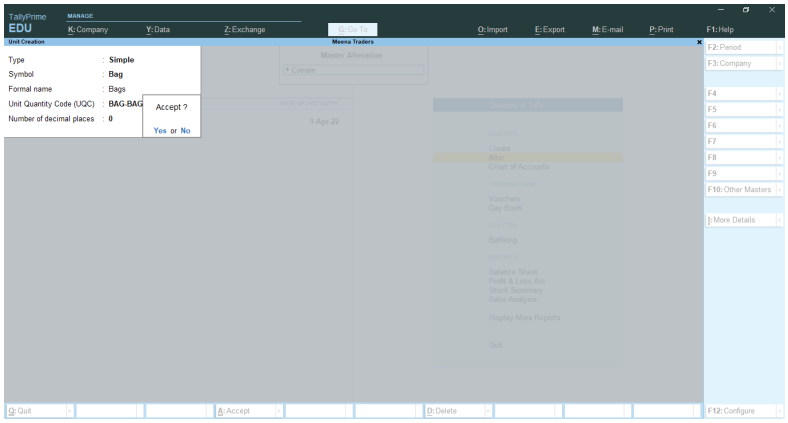


Figure 13.1.9 Creation of Bags as unit

Step 7: Creation of Stock Item

Gateway of Tally > Masters > Create > Inventory Masters > Stock Item

After selecting stock item, give

(i) To create Boiled Rice Stock item

Name : Boiled Rice Under : Rice (Select from List of Groups)

Units : Bag (Select from Units) GST Applicable : Applicable (Select from Applicablity)

Type of Supply : Goods (Select from Supply Types) Accept : Yes

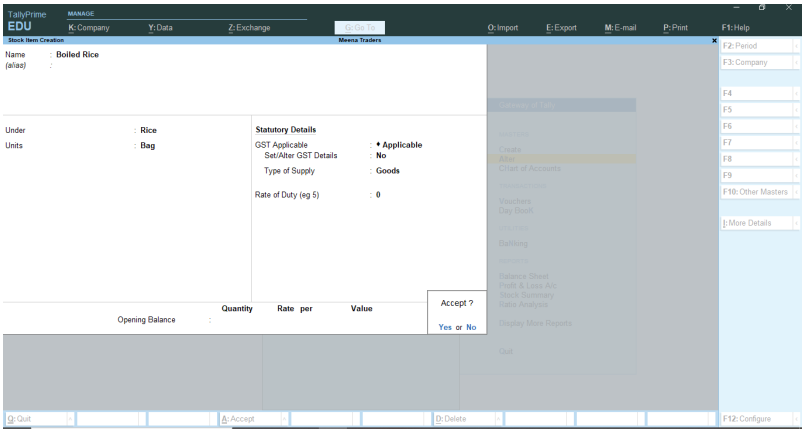


Figure 13.1.10 Creation of Boiled Rice stock item

(ii)To create Raw Rice Stock item

Name : Raw Rice Under : Rice (Select from List of Groups)

Units : Bag (Select from Units) GST Applicable : Applicable (Select from Applicablity)

Type of Supply : Goods (Select from Supply Types) Accept : Yes

Step 8: Entry of transactions through vouchers

(i) Meena introduced capital of ₹ 2,00,000 by cash

Gateway of Tally > Transactions > Vouchers

F6: Receipt

Credit : Meena's Capital A/c Amount : 2,00,000 Debit : Cash

Narration : Capital introduced by Meena Accept : Yes

(ii) Opened a bank account and deposited ₹ 1,00,000

F4: Contra

Credit : Cash Amount : 1,00,000 Debit : Bank A/c

The TallyPrime will show the Amount for the Debit aspect. Press Enter key, then TallyPrime will ask for Bank Allocations for Bank A/c, Denominations and Bank Allocations for Bank A/c. Skip to next screen without altering/giving values.

Narration : Opened a bank account Accept: Yes.

(iii) Bought 20 bags of 10 Kgs. boiled rice @ ₹ 500 per bag from Sania Traders and paid CGST of 2.5% and SGST of 2.5% on the same by cheque

F9: Purchase

Party A/c name : Bank A/c (Select from List of Ledger Accounts)

After selection of Bank, TallyPrime will ask for Receipt Details. Skip to next screen without altering/giving values.

Now, the Party Details screen will open as follows:

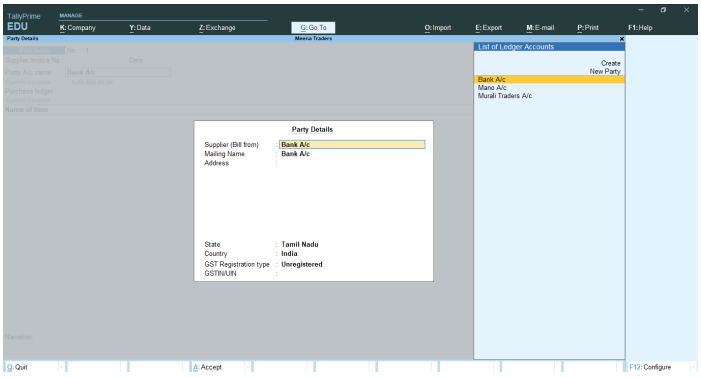


Figure 13.1.11 Party Details

Then fill the following details in Party Details screen

GST Registration type : Regular (Select from Registration types)

GSTIN/UIN : 33ABCDE2345A1A0

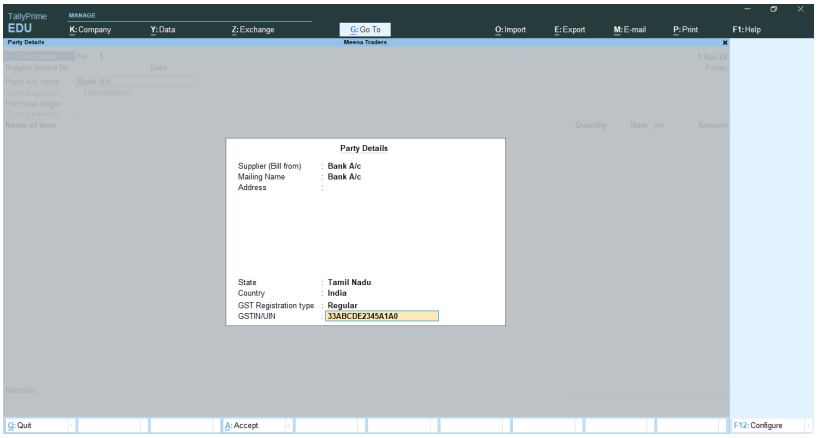


Figure 13.1.12 Altering party details

Purchase ledger : Purchases A/c (Select from List of Ledger Accounts)

Name of Item : Boiled Rice (Select from List of Stock Items)

Quantity : 20 Rate: 500

Press "enter key" twice, Select CGST & SGST from List of Ledger Accounts

Press "enter key" three times, TallyPrime will ask for Bank Allocations for Bank A/c. Skip to next screen without altering/giving values.

Narration : Purchased boiled rice and payment made by cheque

Accept : Yes

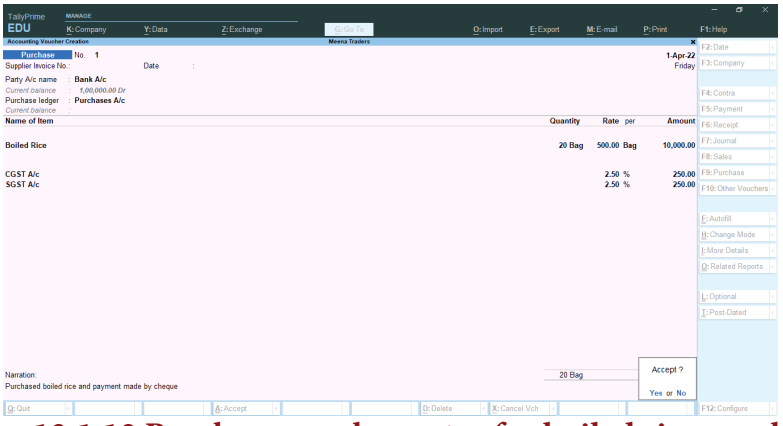


Figure 13.1.13 Purchase voucher entry for boiled rice purchased

(iv) Purchased from Murali Traders 10 bags of raw rice @ ₹ 480 per bag on credit for which CGST of 2.5% and SGST of 2.5% are payable

F9: Purchase

Party A/c name : Murali Traders A/c (Select from List of Ledger Accounts)

After selection of Murali Traders A/c, TallyPrime will ask for Receipt Details and Party Details. Skip to next screen without altering/giving values.

Purchase ledger : Purchases A/c (Select from List of Ledger Accounts)

Name of Item : Raw Rice (Select from List of Stock Items) Quantity: 10 Rate: 480

Press "enter key" twice, Select CGST & SGST from List of Ledger Accounts

Narration : Purchased raw rice from Murali traders on credit Accept : Yes

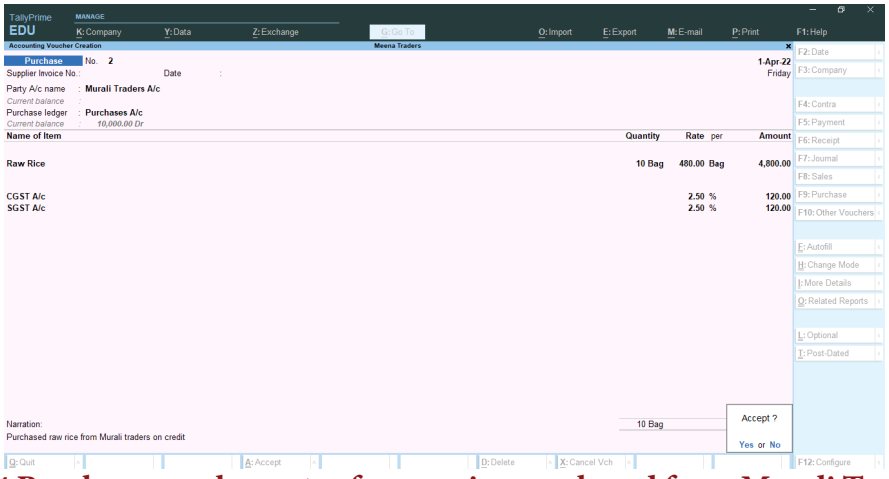


Figure 13.1.14 Purchase voucher entry for raw rice purchased from Murali Traders on credit

(v) Sold 5 bags of boiled rice to Mano Traders (GST Number: 33ABCDE4567A1A0) @ ₹ 600 per bag on credit for which CGST of 2.5% and SGST of 2.5% are to be collected.

F8: Sales

Party A/c name : Mano Traders A/c (Select from List of Ledger Accounts)

After selection of Mano Traders A/c, TallyPrime will ask for Dispatch Details. Skip to next screen without altering/giving values.

Now, the Party Details screen will open, fill the following details in Party Details screen:

GST Registration type : Regular (Select from Registration types)

GSTIN/UIN : 33ABCDE4567A1A0

Sales Ledger : Sales A/c (Select from List of Ledger Accounts)

Name of Item : Boiled Rice (Select from List of Stock Items) Quantity: 5 Rate: 600

Press "enter key" twice, Select CGST & SGST from List of Ledger Accounts

Narration : Sold boiled rice to Mano Traders on credit Accept : Yes

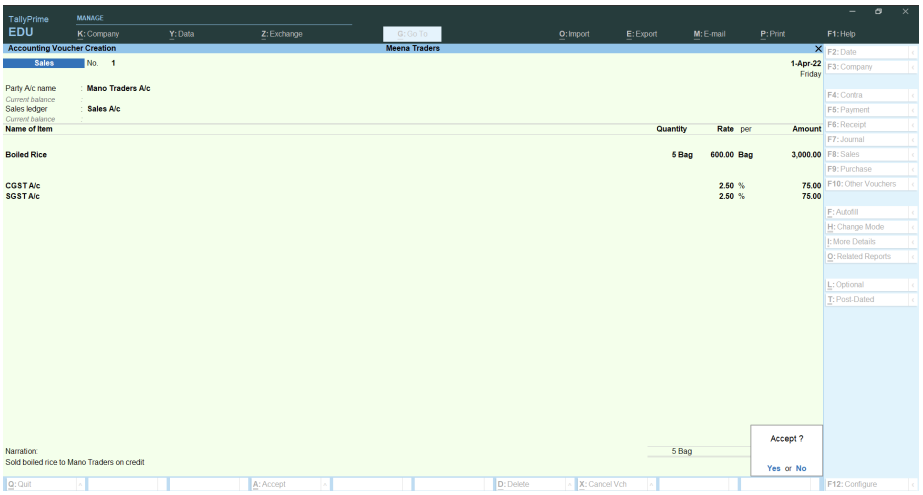


Figure 13.1.15 Sales voucher entry for boiled rice sold to Mano Traders on credit

(vi) Sold 6 bags of raw rice to Sambath & Co @ ₹ 540 per bag for which CGST of 2.5% and SGST of 2.5% are applicable and received cash

F8: Sales

Party A/c name : Cash (Select from List of Ledger Accounts)

After selection of Cash, TallyPrime will ask for Dispatch Details. Skip to next screen without altering/giving values in Dispatch Details.

Now, the Party Details screen will open

Fill the following details in Party Details screen:

GST Registration type : Regular (Select from Registration types)

GSTIN/UIN : 33ABCDE5678A1A0

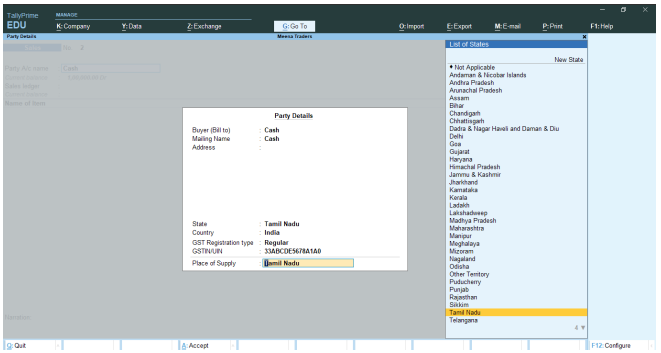


Figure 13.1.16 Altering party details

Sales Ledger : Sales A/c (Select from List of Ledger Accounts)

Name of Item : Raw Rice (Select from List of Stock Items) Quantity : 6 Rate : 540

Press "enter key" twice, Select CGST & SGST from List of Ledger Accounts

Narration : Cash sales of raw rice made Accept : Yes

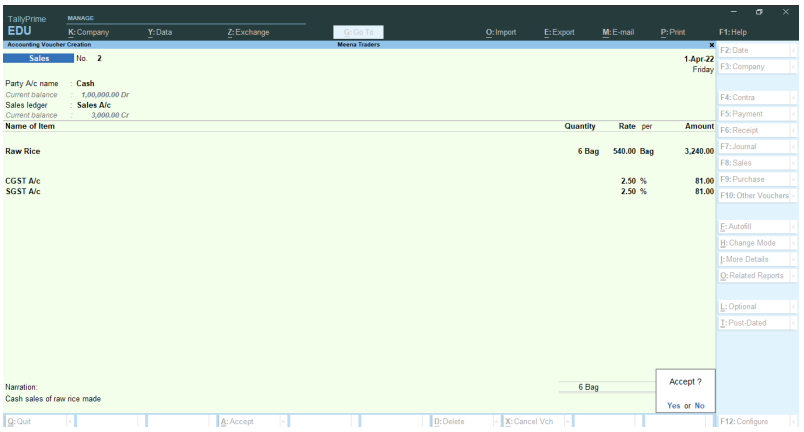


Figure 13.1.17 Sales voucher entry for cash sales of raw rice made

Step 9: View Balance Sheet and GSTR-2

(a) To view Balance Sheet

Gateway of Tally > Reports > Balance Sheet > Alt + F5 (Detailed View)

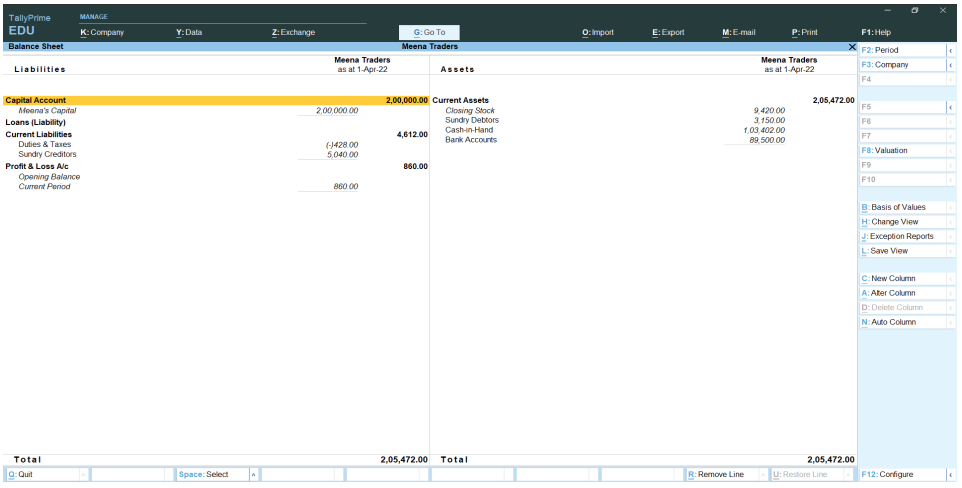


Figure 13.1.18 Balance sheet (Detailed View)

(b) To view GSTR-2

Gateway of Tally > Reports > Display More Reports > Statutory > GST Reports > GSTR-2 > Alt + F5 (Detailed View)

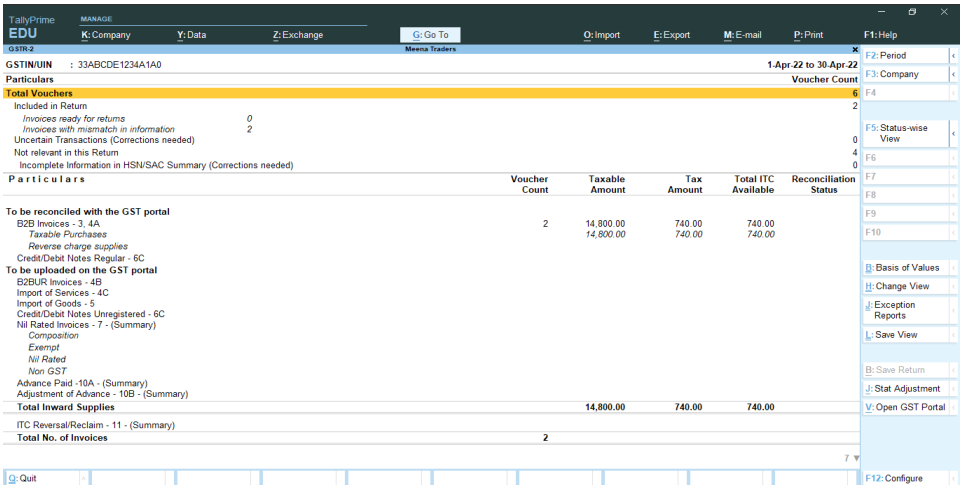


Figure 13.1.19 GSTR-2 (Detailed View)

Practical problem 2

(i) Joy started a super market in the name of Joy Super Market with a capital of ₹ 5,00,000 by cash.

(ii) Opened a bank account with State Bank of India and deposited ₹ 2,00,000 and obtained GST number "33FGHIJ1234A1A0" for the business.

(iii) Purchased 40 packets of Curd @ ₹30 per packet from Thomas Traders (GST Number: 33FGHIJ 2345A1A0) payment made by cheque. Applicable CGST is 2.5% and SGST is 2.5%.

(iv) Purchased 100 packets of Dried Fruits @ ₹100 per packet from Elahi Traders (GST Number: 33FGHIJ3456A1A0) on credit. Applicable CGST is 6% and SGST is 6%.

(v) Purchased 10 packets of Corn flakes @ ₹ 200 per packet from John Traders (GST Number: 33FGHIJ4567A1A0) on credit. Applicable CGST is 9% and SGST is 9%.

(vi) Sold 1 packet of Curd @ ₹ 40; 2 packets of dried fruits @ ₹ 120 per packet and 1 packet of Corn flakes @ ₹ 240 and to Mani and cash received.

Record the above transactions in TallyPrime and view Balance Sheet, GSTR-1, Tax invoice for purchases made from Elahi Traders and Tax invoice for sale made to Mani

Solution

Following steps are to be followed to enter the transactions in TallyPrime:

Step 1: Creation of Company
Step 2: To Enable features
Step 3: Analysis of transactions
Step 4: Creation of new Ledgers
Step 5: Creation of Stock Group
Step 6: Creation of Unit
Step 7: Creation of Stock Item
Step 8: Entry of transactions through Vouchers
Step 9: View Balance Sheet, GSTR-1 and Tax invoice

Above steps are explained in detail as below:

Step 1: Creation of company

F3:Company > Create Company. Type the Company Name as "Joy Super Market" and choose the State as "Tamil Nadu" from the List of states and choose "Yes" to Accept.

Step 2: To enable features

After accepting "Yes" in company creation screen, to enable features for the company, set 'Yes' to Maintain Accounts, set 'No' to Bill-wise entry, set 'Yes' to Maintain Inventory, set 'No' to Integrate Accounts with Inventory and set 'Yes' to Enable Goods and Services Tax (GST).

After accepting "Yes" in Enable Goods and Services Tax (GST) screen, fill GST Details as below:

Set Registration Type : Regular (Select from Registration types)

Assessee of Other Territory : No

GSTIN/UIN : 33FGHIJ1234A1A0

Periodicity of GSTR1 : Monthly (Select from Periodicity)

Set/alter GST rate details : No

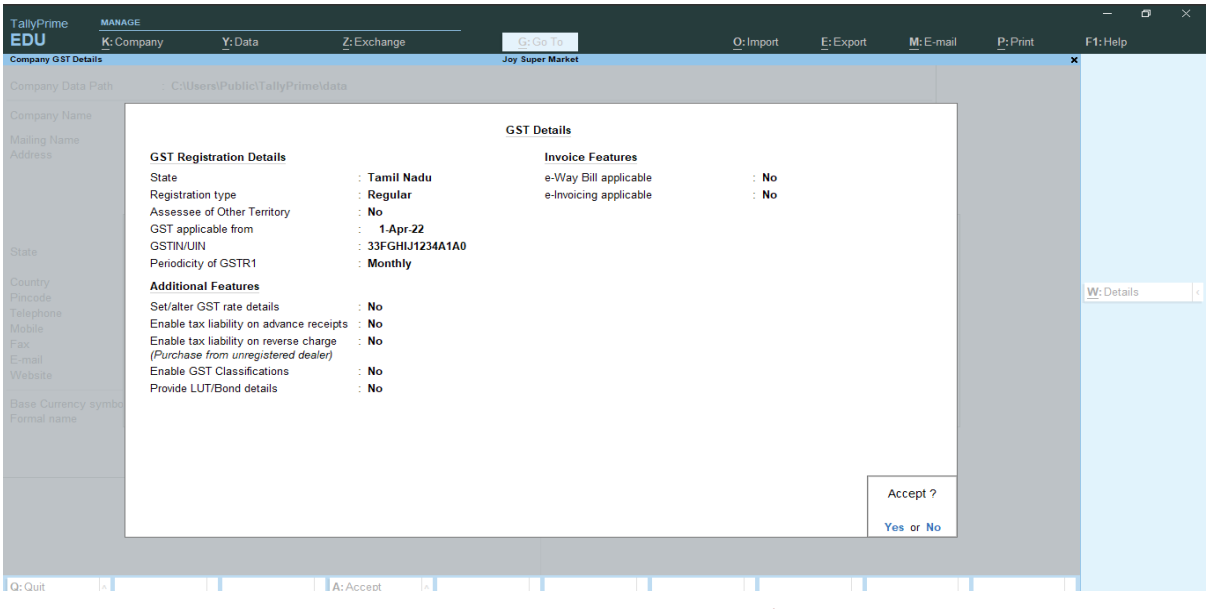


Figure 13.2.1 GST Details

Set 'No' to e-Way Bill as applicable and choose 'Yes' to Accept.

And Enable Tax Deducted at Source (TDS) to 'No' and choose 'Yes' to Accept.

Step 3: Analysis of transactions

Analysis of transactions, passing journal entries, identification of group and voucher type

S. No.	Particulars		Debit ₹	Credit ₹	Group	Voucher type
(i)	Cash A/c	Dr.	5,00,000		Cash-in-Hand	Receipt
	To Joy's Capital A/c			5,00,000	Capital Account	
(ii)	State Bank of India A/c	Dr.	2,00,000		Bank Accounts	Contra
	To Cash A/c			2,00,000	Cash-in-Hand	
(iii)	Purchases A/c (40×30)	Dr.	1,200		Purchase Accounts	Purchase
	CGST A/c (1,200×2.5%)	Dr.	30		Duties & Taxes	
	SGST A/c (1,200×2.5%)	Dr.	30		Duties & Taxes	
	To State Bank of India A/c			1,260	Bank Accounts	
(iv)	Purchases A/c (100×100)	Dr.	10,000		Purchase Accounts	Purchase
	CGST A/c (10,000×6%)	Dr.	600		Duties & Taxes	
	SGST A/c (10,000×6%)	Dr.	600		Duties & Taxes	
	To Elahi Traders A/c			11,200	Sundry Creditors	
(v)	Purchases A/c (10×2,000)	Dr.	2,000		Purchase Accounts	Purchase
	CGST A/c (2,000×9%)	Dr.	180		Duties & Taxes	
	SGST A/c (2,000×9%)	Dr.	180		Duties & Taxes	
	To John Traders A/c			2,360	Sundry Creditors	
(vi)	Cash A/c	Dr.	594		Cash-in-Hand	Sales
	To Sales A/c (40+240+240)			520	Sales Accounts	
	To CGST A/c (1+14.4+21.6)			37	Duties & Taxes	
	To SGST A/c (1+14.4+21.6)			37	Duties & Taxes	

Step 4: Creation of new Ledgers

Gateway of Tally > Masters > Create > Accounting Masters > Ledger

(i) To create Joy's Capital A/c

Name : Joy's Capital A/c
Under : Capital Account
Registration type : Regular
GSTIN/UIN : 33FGHIJ1234A1A0
Accept: Yes.

(ii) To create State Bank of India A/c

Name : State Bank of India A/c
Under : Bank Accounts
Accept: Yes.

(iii) To create Purchases A/c

Name : Purchases A/c
Under : Purchase Accounts
Types of Ledger : Not Applicable
Is GST applicable : Applicable
Types of Supply : Goods
Accept: Yes.

(iv) To create Sales A/c

Name : Sales A/c
Under : Sales Accounts
Types of Ledger : Not Applicable
Is GST applicable : Applicable
Types of Supply : Goods
Accept: Yes.

(v) To create Elahi Traders A/c

Name : Elahi Traders A/c
Under : Sundry Creditors
Registration type : Regular
GSTIN/UIN : 33FGHIJ3456A1A0
Accept: Yes.

(vi) To create John Traders A/c

Name : John Traders A/c
Under : Sundry Creditors
Registration type : Regular
GSTIN/UIN : 33FGHIJ4567A1A0
Accept: Yes.

(vii) To create CGST A/c

Name : CGST A/c
Under : Duties & Taxes
Types of duty/tax: GST
Tax type : Central Tax
Percentage of calculation: 0%
Rounding method : Not Applicable
Accept: Yes.

(viii) To create SGST A/c

Name : SGST A/c
Under : Duties & Taxes
Types of duty/tax: GST
Tax type : State Tax
Percentage of calculation: 0%
Rounding method : Not Applicable
Accept: Yes.

Step 5: Creation of Stock Group

Dairy Products Stock Group
Gateway of Tally > Masters > Create > Inventory Masters > Stock Group
After selecting stock group, give
Name : Dairy Products Under : Primary
Give "No" for Should quantities of items to be added and for Set/Alter GST details.
Accept: Yes.

Step 6: Creation of Unit

Pac unit
Gateway of Tally > Masters > Create > Inventory Masters > Unit
After selecting unit, give
Symbol : Pac Formal name : Packs
Use Quantity Code (UQC) : PAC-PACKS (Select from List of UQCs)
Number of decimal places : 0 Accept: Yes.

Step 7: Creation of Stock Item

Gateway of Tally > Masters > Create > Inventory Masters > Stock Item
After selecting stock item, give

(i) To create Curd stock item

Name : Curd Under : Dairy Products (Select from List of Groups)
Units : Pac (Select from Units) GST Applicable : Applicable (Select from applicablity)
Set/Alter GST Details : Yes

After accepting "Yes" in Set/alter GST rate details, the GST Details for Company screen will open. Give "Calculation type" in "On Value" and "Taxable" in Taxability and then give details as shown in figure 13.2.2:

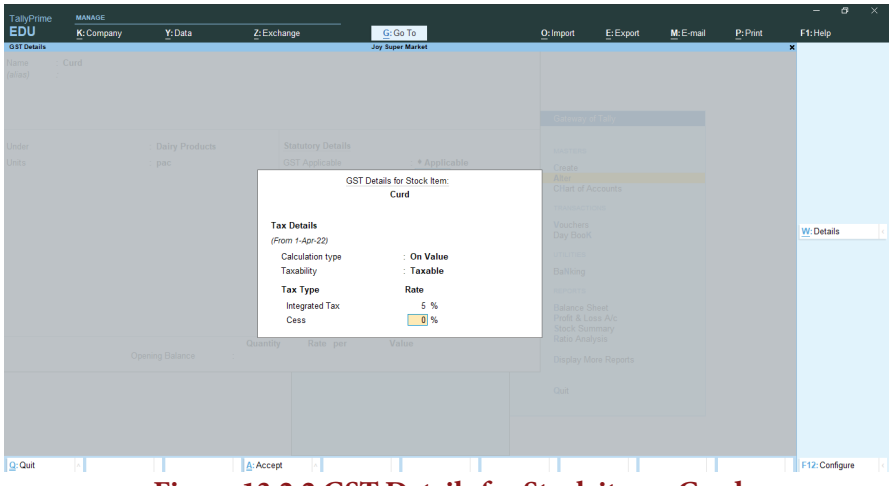


Figure 13.2.2 GST Details for Stock item - Curd

Types of Supply : Goods (Select from Supply types) Accept: Yes.

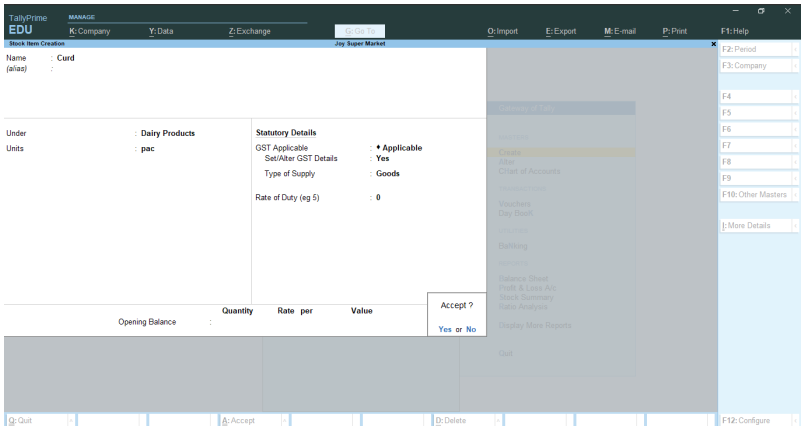


Figure 13.2.3 Creation of stock item - Curd

(ii) To create Dried Fruits stock item

Name : Dried Fruits Under : Dairy Products (Select from List of Groups)

Units : Pac (Select from Units) GST Applicable : Applicable (Select from Applicablity)

Set/Alter GST Details : Yes

After accepting "Yes" in Set/alter GST rate details, the GST Details for Company screen will open. Give "Calculation type" in "On Value" and "Taxable" in Taxability and then give details as shown in figure 13.2.4:

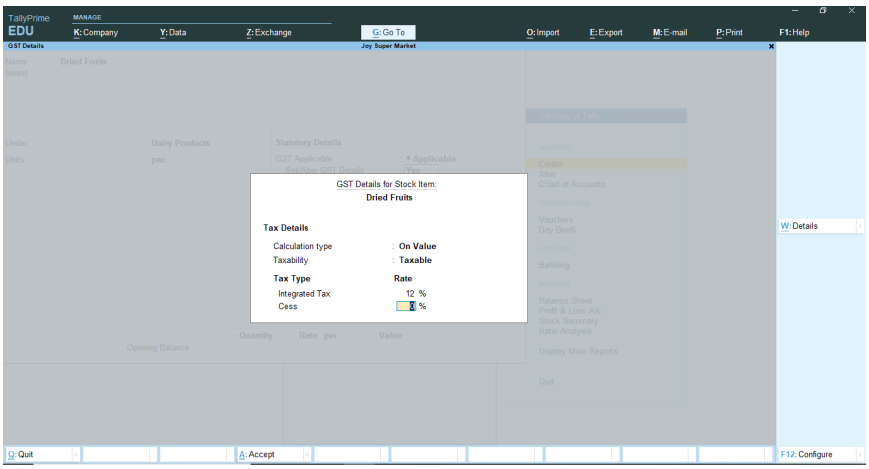


Figure 13.2.4 GST Details for Stock item – Dried Fruits

Types of Supply : Goods (Select from Supply types) Accept: Yes.

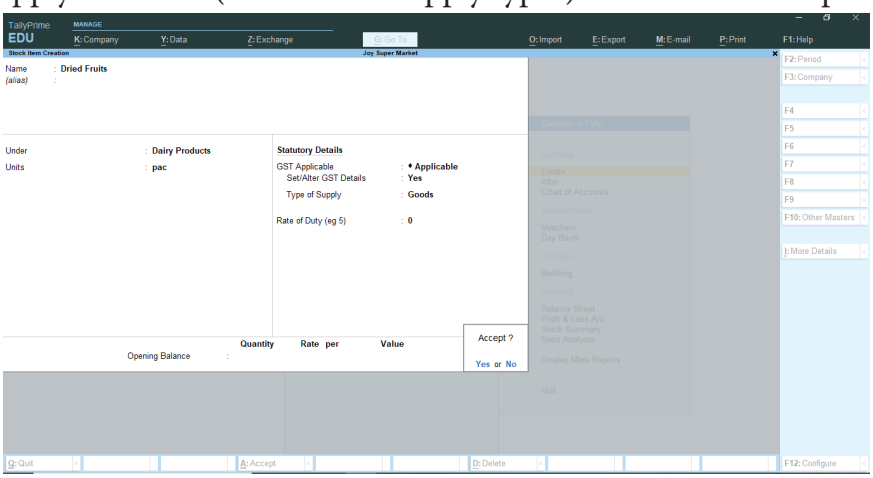


Figure 13.2.5 Creation of stock item - Dried Fruits

(iii) To create Corn Flakes stock item

Name : Corn Flakes Under : Dairy Products (Select from List of Groups)

Units : Pac (Select from Units) GST Applicable : Applicable (Select from Applicablity)

Set/Alter GST Details : Yes

After accepting "Yes" in Set/alter GST rate details, the GST Details for Company screen will open. Give "Calculation type" in "On Value" and "Taxable" in Taxability and then give details as shown in figure 13.2.6:

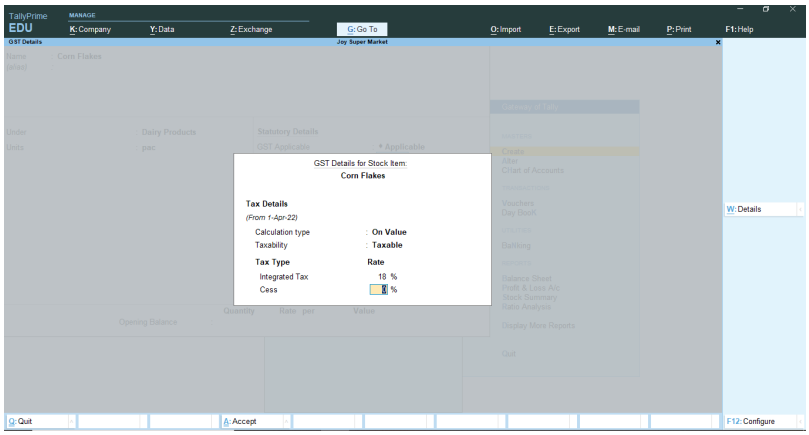


Figure 13.2.6 GST Details for Stock item - Corn Flakes

Types of Supply : Goods (Select from Supply types) Accept : Yes

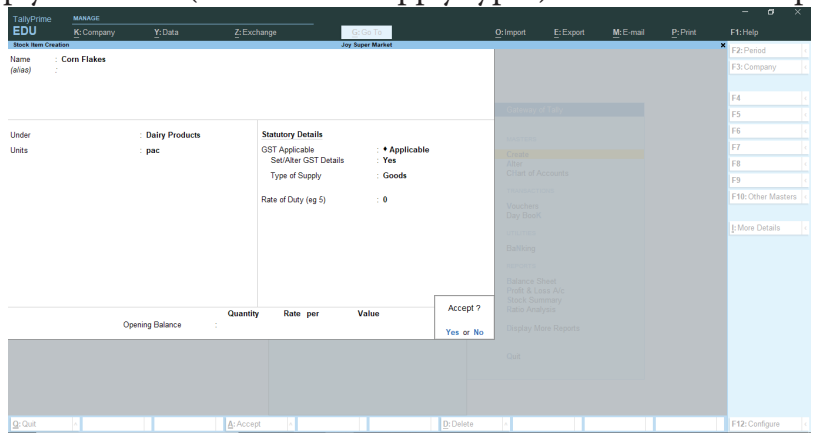


Figure 13.2.7 Creation of stock item – Corn Flakes

Step 8: Entry of transactions through vouchers

(i) Joy introduced capital of ₹ 5,00,000 by cash

F6: Receipt

Credit : Joy's Capital A/c Amount : 5,00,000 Debit : Cash

Narration : Capital introduced by Joy Accept: Yes.

(ii) Opened a bank account with SBI and deposited ₹ 2,00,000

F4: Contra

Credit : Cash Amount : 2,00,000 Debit : State Bank of India A/c

The TallyPrime will show the Amount for the Debit aspect enter, then TallyPrime will ask for Bank Allocations for State Bank of India A/c, Denominations and Bank Allocations for State Bank of India A/c. Skip those screens without altering/giving values.

Narration : Open bank account with SBI Accept: Yes.

(iii) Purchased 40 packets of Curd @ ₹ 30 per packet from Thomas Traders, payment made by cheque and applicable CGST is 2.5% and SGST is 2.5%

F9: Purchase

Party A/c name : State Bank of India A/c

After selection of State Bank of India A/c, TallyPrime will ask for Receipt Details. Skip to next screen without altering/giving values in Receipt Details.

Now, the Party Details screen will open, fill the following details in Party Details screen:

GST Registration type : Regular (Select from Registration types)

GSTIN/UIN : 33FGHIJ2345A1A0

Purchase ledger : Purchases A/c (Select from List of Ledger Accounts)

Name of Item : Curd (From List of Stock Items) Quantity: 40 Rate: 30

Press "enter key" twice, select CGST & SGST from List of Ledger Accounts

Press "enter key" three times, TallyPrime will ask for Bank Allocations for Bank A/c. Skip to next screen without altering/giving values in Receipt Details.

Narration : Purchased curd packets and payment made by cheque Accept : Yes

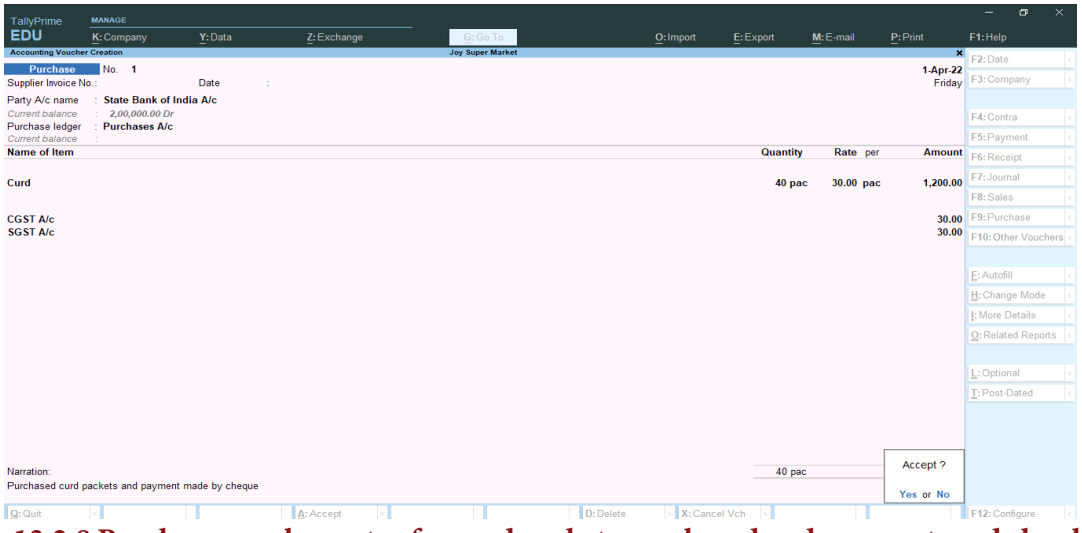


Figure 13.2.8 Purchase voucher entry for curd packets purchased and payment made by cheque

(iv) Purchased 100 packets of Dried Fruits @ ₹ 100 per packet from Elahi Traders on credit and applicable CGST is 6% and SGST is 6%

F9: Purchase

Party A/c name : Elahi Traders A/c (Select from List of Ledger Accounts)

After selection of Elahi Traders A/c, TallyPrime will ask for Receipt Details and Party Details Skip to next screen without altering/giving values.

Purchase ledger : Purchases A/c (Select from List of Ledger Accounts)

Name of Item : Dried Fruits (Select from List of Stock Items)

Quantity: 100 Rate: 100

Press "enter key" twice, select CGST & SGST from List of Ledger Accounts

Narration : Purchased dried fruits from Elahi traders on credit

Accept : Yes

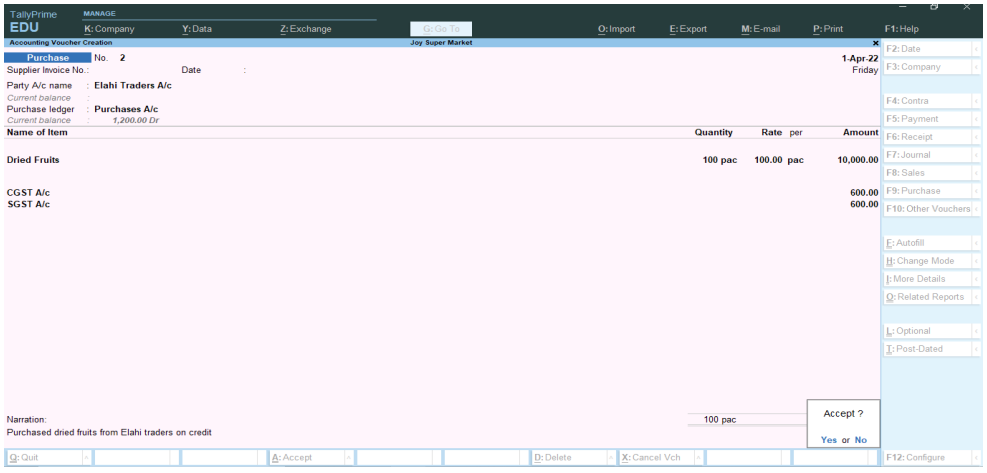


Figure 13.2.9 Purchase voucher entry for dried fruits purchased from Elahi traders on credit

(v) Purchased 10 packets of Corn flakes@ ₹ 200 per packet from John Traders on credit and applicable CGST is 9% and SGST is 9%

F9: Purchase

Party A/c name : John Traders A/c (Select from List of Ledger Accounts)

After selection of John Traders A/c, TallyPrime will ask for Receipt Details and Party Details. Skip to next screen without altering/giving values in both the Screens.

Purchase ledger : Purchases A/c (Select from List of Ledger Accounts)

Name of Item : Corn Flakes (Select from List of Stock Items)

Quantity: 10 Rate: 200

Press "enter key" twice, select CGST & SGST from List of Ledger Accounts

Narration : Purchased corn flakes from John traders on credit Accept : Yes

(vi) Sold 1 packet of Curd @ ₹ 40; 2 packets of dried fruits @ ₹ 120 per packet and 1 packet of Corn flakes @ ₹ 240 to Mani and cash received.

F8: Sales

Party A/c name : Cash (Select from List of Ledger Accounts)

After selection of Cash, TallyPrime will ask for Dispatch Details. Skip to next screen without altering/giving values in Dispatch Details.

Now, the Party Details screen will open, fill the details in Party Details screen:

GST Registration type : Consumer (Select from Registration types)

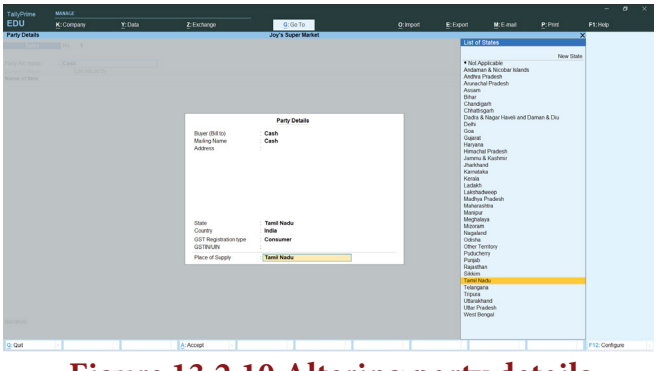


Figure 13.2.10 Altering party details

Then enter the following details:

Sales Ledger : Sales A/c (Select from List of Ledger Accounts)

Name of Item : Curd (Select from List of Stock Items) Quantity: 1 Rate: 40

Name of Item : Dried Fruits (Select from List of Stock Items) Quantity: 2 Rate: 120

Name of Item : Corn Flakes (Select from List of Stock Items) Quantity: 1 Rate: 240

Press "enter key" twice, Select CGST & SGST from List of Ledger Accounts

Narration : Cash sales of dried fruits and corn flakes made Accept : Yes

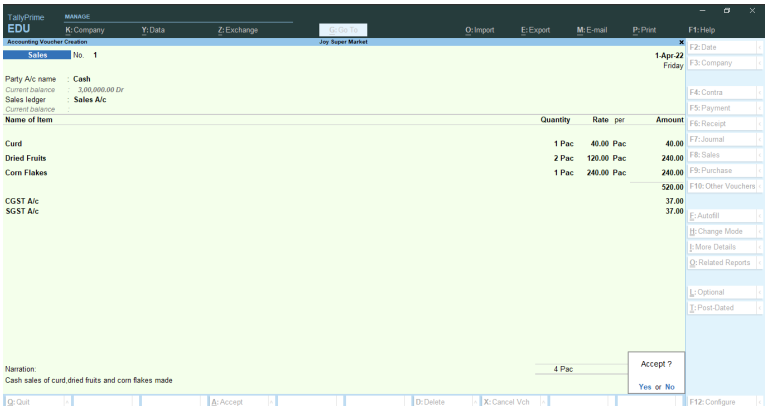


Figure 13.2.11 Sales voucher entry for cash sales of curd, dried fruits and corn flakes made

Step 9: View Balance Sheet, GSTR-1 and Tax invoice

(a) To view Balance Sheet

Gateway of Tally > Reports > Balance Sheet > Alt + F5 (Detailed View)

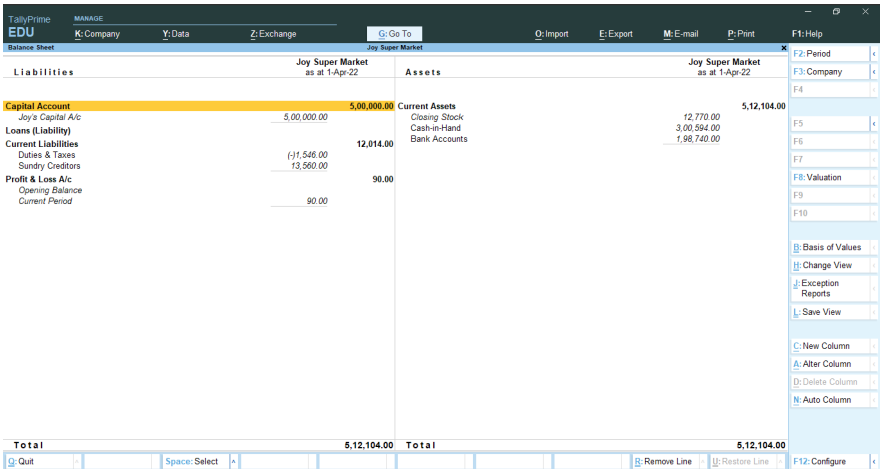


Figure 13.2.12 Balance sheet (Detailed View)

(b) To view GSTR-1

Gateway of Tally > Reports > Display More Reports > Statutory > GST Reports > GSTR-1 > Alt + F5 (Detailed View)

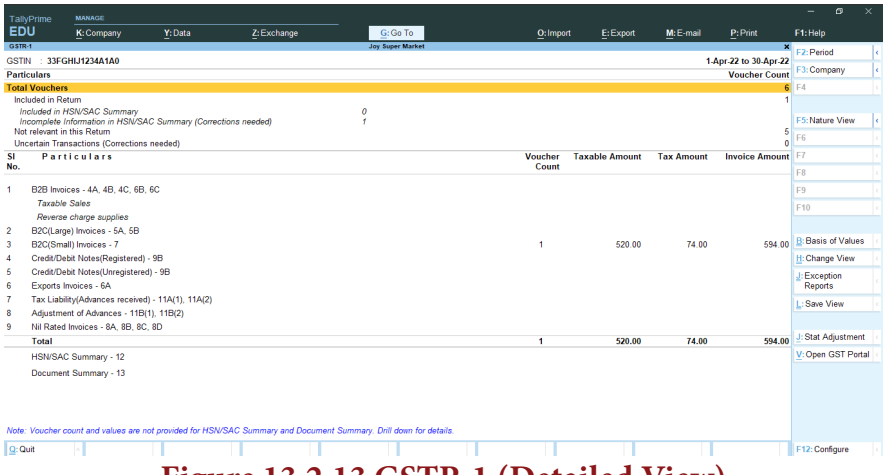


Figure 13.2.13 GSTR-1 (Detailed View)

(c) To view Tax Invoice

(i) Tax Invoice for Purchase made from Elahi Traders

Gateway of Tally > Reports > Display More Reports > Day Book > Purchase Voucher (2) > Enter > Ctrl + P > P-Print> Save PDF in Desktop

(ii) Tax Invoice for Sales made to Mani

Gateway of Tally > Reports > Display More Reports > Day Book > Sales Voucher (1) > Enter > Ctrl + P > P-Print> Save PDF in Desktop

INVOICE

Joy Super Market GSTIN/UIN: 33FGHIJ1234A1A0 State Name : Tamil Nadu, Code : 33	Invoice No. **2**	Dated **1-Apr-22**
	Supplier Invoice No. & Date.	Other References
Consignee (Ship to) **Joy Super Market** GSTIN/UIN : 33FGHIJ1234A1A0 State Name : Tamil Nadu, Code : 33		
Supplier (Bill from) **Elahi Traders A/c** State Name : Tamil Nadu, Code : 33		

Sl No.	Description of Goods	Quantity	Rate	per	Amount
1	**Dried Fruits**	**100 Pac**	100.00	Pac	**10,000.00**
	CGST A/c				**600.00**
	SGST A/c				**600.00**
	Total	**100 Pac**			**₹ 11,200.00**

Amount Chargeable (in words) *E. & O.E*
INR Eleven Thousand Two Hundred Only

Company's GSTIN/UIN : **33FGHIJ3456A1A0**

for Elahi Traders A/c

Authorised Signatory

Figure 13.2.14 Tax Invoice for Purchase made from Elahi Traders

Tax Invoice

Joy Super Market GSTIN/UIN: 33FGHIJ1234A1A0 State Name : Tamil Nadu, Code : 33	Invoice No. **1**	Dated **1-Apr-22**
	Delivery Note	Mode/Terms of Payment
	Reference No. & Date.	Other References
Consignee (Ship to) **Cash** State Name : Tamil Nadu, Code : 33	Buyer's Order No.	Dated
	Dispatch Doc No.	Delivery Note Date
	Dispatched through	Destination
	Terms of Delivery	
Buyer (Bill to) **Cash** State Name : Tamil Nadu, Code : 33 Place of Supply : Tamil Nadu		

Sl No.	Description of Goods	HSN/SAC	Quantity	Rate	per	Amount
1	**Curd**		**1 Pac**	40.00	Pac	**40.00**
2	**Dried Fruits**		**2 Pac**	120.00	Pac	**240.00**
3	**Corn Flakes**		**1 Pac**	240.00	Pac	**240.00**
						520.00
	CGST A/c					**37.00**
	SGST A/c					**37.00**
	Total		**4 Pac**			**₹ 594.00**

Amount Chargeable (in words) *E. & O.E*
INR Five Hundred Ninety Four Only

HSN/SAC	Taxable Value	Central Tax		State Tax		Total
		Rate	Amount	Rate	Amount	Tax Amount
	40.00	2.50%	1.00	2.50%	1.00	2.00
	240.00	6%	14.40	6%	14.40	28.80
	240.00	9%	21.60	9%	21.60	43.20
Total	**520.00**		**37.00**		**37.00**	**74.00**

Tax Amount (in words) : **INR Seventy Four Only**

Declaration
We declare that this invoice shows the actual price of the goods described and that all particulars are true and correct.

for Joy Super Market

Authorised Signatory

Figure 13.2.15 Tax Invoice for Sales made to Mani

Points to remember

(i) Goods and Services Tax (GST) is a tax on supply of goods and services

(ii) There are four categories of GST namely CGST, SGST, UTGST and IGST

(iii) Different GST rates are charged on the supply of products and services ranging from zero per cent to 28 per cent.

Self–examination questions

QFM20

I Multiple choice questions

Select the correct answer

1. GST applicable on the supplies made within the state and collected by central government is known as

   (a) CGST (b) SGST (c) UTGST (d) IGST

2. Under which of the following group SGST comes TallyPrime?

   (a) Direct Incomes (b) Direct Expenses (c) Indirect Expenses (d) Duties & Taxes

3. Which of the following options is used to view GSTR-1 from Gateway of Tally?

   (a) Gateway of Tally > Reports > Statutory > GST Reports > GSTR-1 > Alt + F5

   (b) Gateway of Tally > Reports > Display More Reports > GST Reports > GSTR-1 > Alt + F5

   (c) Gateway of Tally > Reports > Display More Reports > Statutory > GST Reports > GSTR-1 > Alt + F5

   (d) Gateway of Tally > Reports > GST Reports > GSTR-1 > Alt + F5

Answers

1(a)	2 (d)	3 (c)

II Very short answer questions

1. How is GSTR-2 viewed in TallyPrime?
2. How are CGST and SGST amount recorded in TallyPrime?

III Short answer questions

1. Explain printing of Tax invoice for Purchases and Sales involving GST in TallyPrime.
2. State the procedure to create CGST A/c, SGST A/c and IGST A/c in TallyPrime.

IV Exercises

1. Record the above transactions in TallyPrime and view Balance Sheet and GSTR-2.
   (i) Sana commenced rice trading business in Kanyakumari in the name of Sana Traders by introducing a capital of ₹ 5,00,000 by cash.
   (ii) Opened a bank account in the name of Sana Traders and deposited ₹ 3,00,000. Obtained GST number "33ABCDE6789A1A0" for the business.
   (iii) Bought 10 bags of 15 Kgs boiled rice @ ₹ 760 per bag from Mary Traders (GST Number: 33ABCDE7890A1A0) and paid CGST of 2.5% and SGST of 2.5% on the same by cheque.
   (iv) Purchased from Gemini Traders (GST Number: 33ABCDE1234A1A0) 10 bags of 10 Kgs raw rice @ ₹ 500 per bag on credit and CGST of 2.5% and SGST of 2.5% are to be paid.
   (v) Sold 3 bags of boiled rice to Kumar Traders (GST Number: 33ABCDE4321A1A0) @ ₹ 800 per bag on credit for which CGST of 2.5% and SGST of 2.5% are to be collected.
   (vi) Sold for cash 4 bags of raw rice to Sudarsan & Co (GST Number: 33ABCDE8765A1A0) @ ₹ 560 per bag for which CGST of 2.5% and SGST of 2.5% are collected.

   (Ans: Balance Sheet Total: 5,05,212, GSTR-2: 12,600, | 630, | 630)
2. Record the following transactions in TallyPrime and view Balance Sheet, GSTR-1, Tax invoice for sales made to Senthamarai and Tax invoice for purchases made from Chandran Traders.
   (i) Malar started a super market in the name of Malar Super Market with a capital of ₹ 5,00,000 by cash.
   (ii) Opened a bank account with State Bank of India and deposited ₹ 4,00,000 and obtained GST number "33FGHIJ3456A1A0" for the business.
   (iii) Purchased 50 packets of Curd @ ₹ 40 per packet from Suresh Traders (GST Number: 33FGHIJ4567A1A0) payment made by cheque. Applicable CGST is 2.5% and SGST is 2.5%.
   (iv) Purchased 50 packets of Dried Fruits @ ₹ 140 per packet from Chandran Traders (GST Number: 33FGHIJ5678A1A0) on credit. Applicable CGST is 6% and SGST is 6%.
   (v) Purchased 5 packets of Corn flakes @ ₹ 100 per packet from William Traders (GST Number: 33FGHIJ6789A1A0) on credit. Applicable CGST is 9% and SGST is 9%.
   (vi) Sold 1 packet of Curd @ ₹ 50; 2 packets of dried fruits @ ₹ 160 per packet and 1 packet of Corn flakes @ ₹ 120 to Senthamarai and cash received.

   (Ans: Balance Sheet Total: 5,07,532, GSTR-1: 490, | 62.50, | 552.50)

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AUDITING PRACTICAL AND TALLYPRIME
MODEL QUESTION PAPER

CLASS: XII **5 X 10 = 50**

Note: 1. Answer any five questions

2. First Question is compulsory

1. Explain a system of internal check as regards cash receipt.
2. State the Auditor's duty as regards to identification of cash in hand and cash at bank.
3. Explain the Auditor's duty with regard to share capital.
4. What is secret reserve? Explain the duties of an auditor with the secret reserve.
5. What are the statutory duties of a company auditor? Discuss.
6. Briefly explain the following with respect to TallyPrime:
   a) Creation of company
   b) Groups and Ledgers
   c) Procedure to create Subscription received A/c, Registration renewal charges paid A/c and Maintenance charges received A/c.
   d) Viewing reports for a trading concern.
7. Explain in detail regarding with respect to TallyPrime:
   a) Vouchers
   b) Creation of stock item, stock category, godown, CGST A/c, SGST A/c and IGST A/c.

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