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Accounting Software Applications

Course Code: COM5FS112 (2) • Module 2 Notes

MODULE II: COMPANY CREATION AND ACCOUNTING MASTERS

MODULE OVERVIEW & OPERATIONAL CONTEXT

The operational heart of any computerized accounting system lies in the precision of its master configuration and voucher recording mechanisms. In business environments powered by software like Tally Prime, setting up an enterprise demands establishing the legal company entity, architecting a structured chart of accounts via hierarchical Groups and Ledgers, mastering the specialized taxonomy of accounting vouchers, configuring core company features (F11) and screen-level parameters (F12), conducting Bank Reconciliation Statements (BRS), and managing automated payroll processing. Module II delivers an exhaustive, textbook-depth technical guide to company creation, accounting masters, and transactional voucher workflows.

UNIT 4: COMPANY CREATION & ACCOUNTS GROUPS

In accounting software architecture, a **Company** represents the highest-level independent corporate entity containing a distinct chart of accounts, transaction ledgers, inventory masters, and statutory tax parameters. A single installation of Tally Prime can host thousands of distinct company files, each maintaining isolated financial books.

1. Step-by-Step Company Creation Protocol

Company creation initializes the underlying database schema. From the **Gateway of Tally**, navigating to `Alt + K (Company) → Create` opens the primary configuration screen:

1. Company Identification Fields:
• **Company Name:** The statutory legal name of the enterprise (e.g., *Malabar Consumer Goods Private Limited*).
• **Mailing Name & Address:** The trade name and physical address printed automatically on sales invoices, tax debit notes, and formal customer correspondence.
• **State, Country & Pincode:** Critical statutory fields. Selecting the state (e.g., *Kerala*) defines the local Goods and Services Tax (GST) jurisdiction, automatically determining whether transactions evaluate as Intra-State (CGST + SGST) or Inter-State (IGST).

2. Financial Year and Books Beginning Architecture:
• **Financial Year Beginning From:** The statutory commencement of the fiscal period (in India, strictly `01-04-2025` for FY 2025–26).
• **Books Beginning From:** The exact date the enterprise physically started recording digital accounting transactions. For a newly incorporated business founded on October 1st, Financial Year begins `01-04-2025` while Books Begin from `01-10-2025`. Transactions prior to Books Beginning are strictly rejected by the database.

3. Security Control & TallyVault Encryption:
• **Enable TallyVault Password:** Applies proprietary zero-knowledge encryption to the company folder on the hard disk. The folder name on disk is scrambled into a 5-digit numerical code (e.g., `10001`, `10002`), concealing company identity from Windows File Explorer. If the TallyVault password is lost, data recovery is mathematically impossible.
• **Enable User Access Control (Security Control):** Establishes administrative credentials (Username and Password) and activates Role-Based Access Control (RBAC), enabling the administrator to configure restricted logins for billing operators and auditors.

4. Base Currency Information:
Configures the primary reporting currency: Base Currency Symbol (₹), Formal Name (`INR`), Decimal Places (2), Word representing decimal (`Paise`), and spacing conventions.

2. Company Lifecycle Operations: Select, Shut, Alter, and Delete

Operation	Shortcut Key	Operational Mechanics & Business Rules
Select Company	`Alt + F3`	Opens the company selection index, displaying company numbers, financial year spans, and encryption statuses to load a company into active memory.
Shut (Close) Company	`Ctrl + F3`	Unloads the active company from system RAM without deleting any files, returning the software to the startup selection menu.
Alter Company	`Alt + K → Alter`	Allows administrators to update telephone numbers, corporate address, email, or statutory tax settings. (Books Beginning date cannot be altered if vouchers exist).
Delete Company	`Alt + D` (in Alter screen)	Permanently purges the company database from the physical hard drive. Prompts for double confirmation ("Delete?" and "Are you sure?"). Irreversible unless external backups exist.

3. Chart of Accounts: The 28 Predefined Groups in Tally

An **Account Group** is a categorical collection of related ledger accounts sharing identical financial characteristics. Groups establish the fundamental structural taxonomy of the Balance Sheet and Profit & Loss Account. Tally Prime provides exactly **28 Predefined Groups** organized into two structural tiers:

TAXONOMY OF PREDEFINED ACCOUNTING GROUPS (15 PRIMARY + 13 SUB-GROUPS) CHART OF ACCOUNTS

BALANCE SHEET (Capital, Assets, Liabilities) • PROFIT & LOSS (Sales, Purchase, Incomes, Expenses)

1. The 15 Primary Groups (Root Architectural Pillars):

- **Capital Account:** Capital investments, owner drawings, share capital.
- **Loans (Liability):** Bank loans, external borrowing facilities.
- **Current Liabilities:** Short-term obligations settling within 12 months.
- **Fixed Assets:** Long-term physical assets (Land, Buildings, Plant, Machinery, Office Equipment).
- **Investments:** Corporate holdings in mutual funds, government bonds, equities.
- **Current Assets:** Short-term liquid assets converting to cash within 12 months.
- **Branch / Divisions:** Inter-branch ledgers for multi-location enterprises.
- **Miscellaneous Expenses (Asset):** Preliminary expenses subject to multi-year amortization.
- **Suspense Account:** Temporary holding ledger for unclassified banking receipts/payments pending investigation.
- **Sales Accounts:** Revenue derived from primary goods or service trading.
- **Purchase Accounts:** Direct cost of acquiring raw materials and trading goods.
- **Direct Incomes:** Operational income directly tied to manufacturing or services.
- **Indirect Incomes:** Non-operating revenue (Interest earned, discount received, dividend income).
- **Direct Expenses:** Factory wages, freight inward, customs duty, primary packaging costs.
- **Indirect Expenses:** Administrative rent, executive salaries, electricity, audit fees, advertising.

2. The 13 Sub-Groups (Pre-Classified Under Primary Groups):

- *Under Capital Account:* Reserves & Surplus.
- *Under Loans (Liability):* Bank OD / OCC, Secured Loans, Unsecured Loans.
- *Under Current Liabilities:* Duties & Taxes, Provisions, Sundry Creditors.
- *Under Current Assets:* Bank Accounts, Cash-in-Hand, Deposits (Asset), Loans & Advances (Asset), Stock-in-Hand, Sundry Debtors.

4. Creating and Managing Custom User-Defined Groups

While the 28 predefined groups provide a standard structural foundation, large multi-branch or diverse enterprises require custom hierarchical groups (`Gateway of Tally → Create → Group`) to enable granular managerial cost accounting:

- **Territorial Debtor Grouping:** Creating sub-groups under `Sundry Debtors` such as "*North Kerala Debtors*" and "*South Kerala Debtors*". This allows the credit control department to generate regional aged receivable reports without sorting individual customer ledgers.
- **Functional Group Properties:**
  • *Group behaves like a Sub-ledger:* When set to Yes, displays the group balance in reports as a single net figure rather than expanding every individual child ledger.
  • *Nett Debit/Credit Balances for Reporting:* Enforces displaying separate debit and credit totals instead of a single net balance.
  • *Used for Calculation (Tax/Discounts):* Enables automatic percentage calculations during invoicing.

5. Multi-Currency Accounting Architecture

For import-export businesses, Tally Prime allows configuring multiple international currencies (`Gateway of Tally → Create → Currency`). Key parameters include:
• **Currency Symbol & Formal Name:** e.g., $ for *US Dollar* or `AED` for *UAE Dirham*.
• **Rates of Exchange:** Specifying standard, buying, and selling exchange rates on transaction dates.
• **Forex Gain/Loss Accounting:** When settling foreign currency receivables or payables, exchange rate fluctuations generate automated foreign exchange gain or loss entries routed to a designated indirect expense/income ledger.

UNIT 5: LEDGERS, VOUCHER TYPES & VOUCHER ENTRY

While groups define reporting categories, **Ledgers** represent the actual operational transactional accounts where financial entries are posted. Every financial transaction in business must affect at least two distinct ledgers.

1. Ledger Masters Architecture & Bill-Wise Details

When a new company is created in Tally Prime, the system automatically creates two default ledgers:
1. **Cash:** Pre-classified under the `Cash-in-Hand` sub-group.
2. **Profit & Loss A/c:** A primary ledger holding accumulated retained earnings.

All other ledgers (e.g., *State Bank of India*, *Rent Expense*, *ABC Traders*) must be created by the user (`Gateway of Tally → Create → Ledger`). For trade debtors and trade creditors, enabling **Bill-Wise Details** is mandatory for corporate credit control:

1. New Ref (New Reference)

Generated automatically during sales or purchase voucher entry. Captures the specific invoice number (e.g., `INV-2025-084`) and credit period (e.g., 30 Days) to track that individual receivable.

2. Agst Ref (Against Reference)

Selected when recording receipts or payments. Links the payment directly to a pending historical invoice, tracking bill-by-bill settlements and calculating overdue interest.

3. Advance

Used when receiving or paying money prior to invoice generation (e.g., 20% advance booking deposit). Adjusted against the final invoice using "Agst Ref" upon delivery.

4. On Account

Used when a customer makes an unallocated lump-sum payment without specifying which specific outstanding invoices are being settled.

2. Standard Accounting Voucher Types & Shortcut Keys

A **Voucher** is the digital container recording an individual business transaction. In Tally Prime, specialized voucher types correspond to specific commercial actions:

Shortcut	Voucher Type	Accounting Purpose & Permitted Ledgers	Practical Business Example
`F4`	**Contra Voucher**	Strictly for internal funds movement between Cash and Bank accounts. No third-party expense or revenue accounts permitted.	Withdrawing ₹25,000 cash from SBI Current A/c for office petty cash.
`F5`	**Payment Voucher**	Recording all outflows of cash or bank funds for expenses, creditor settlements, or fixed asset acquisitions.	Issuing a bank cheque for ₹1,50,000 to settle supplier invoice.
`F6`	**Receipt Voucher**	Recording all inflows of cash or bank funds from customers, capital introduction, interest, or asset disposals.	Receiving ₹80,000 NEFT transfer from a trade customer.
`F7`	**Journal Voucher**	Non-cash adjustment entries: depreciation, bad debt write-offs, accrued expenses, prepaid expenses, year-end provisions.	Debiting Depreciation A/c and crediting Machinery A/c by ₹50,000.
`F8`	**Sales Voucher**	Recording credit and cash sales of goods or services. Supports Accounting Invoice mode and Item Invoice mode.	Selling 10 units of Laptops at ₹55,000 each plus 18% GST to a retailer.
`F9`	**Purchase Voucher**	Recording credit and cash purchases of trading inventory, raw materials, or capital equipment from vendors.	Purchasing raw timber from a supplier on 45 days credit.
`Ctrl + F8`	**Credit Note**	Issued to customers for goods returned (sales return), price rebates, or post-sale trade discount adjustments.	Customer returns 2 defective monitors; reducing debtor balance.
`Ctrl + F9`	**Debit Note**	Issued to suppliers for goods returned (purchase return) or debiting vendor for shortage/damage in delivered stock.	Returning spoiled chemical drums to vendor; debiting vendor account.

3. Specialized Control Vouchers & Voucher Classes

Beyond regular accounting vouchers, modern software provides advanced operational automation:

- **Memorandum Voucher (`Ctrl + F10`):** A non-accounting voucher that records provisional transactions without impacting financial statements or ledger balances. Used for temporary cash advances to traveling executives, converting to a formal Payment voucher upon submission of verified expense bills.
- **Reversing Journal:** Automated accrual vouchers that are active only on specific reporting dates and automatically reverse on the following day. Used to model temporary month-end expense provisions for

management reporting without altering statutory ledgers.

- **Post-Dated Vouchers (`Ctrl + T`):** When receiving or issuing post-dated cheques (PDCs), marking the voucher as "Post-Dated" ensures the bank balance is not altered until the cheque maturity date arrives, maintaining accurate current liquidity.
- **Voucher Classes:** Pre-configured templates that automate repetitive voucher calculations. In Sales Vouchers, a voucher class can be configured to automatically append CGST, SGST, and a Round-Off ledger (calculating fractional paise automatically), preventing billing operators from forgetting mandatory tax lines.

UNIT 6: ACCOUNTING FEATURES, INVENTORY FEATURES & CONFIGURATION MENU

A critical strength of modern accounting systems is their deep configurability. Tally Prime provides two distinct control tiers: **Company Features (F11)**, which apply globally across the entire company file, and the **Configuration Menu (F12)**, which governs local screen-level data entry behaviors.

1. Company Features Architecture (F11)

Pressing `F11` opens the comprehensive company features dashboard organized into three functional pillars:

1. Accounting Features

• **Maintain Accounts:** Enables core financial accounting.
• **Enable Bill-wise Entry:** Activates bill-by-bill tracking for receivables and payables.
• **Enable Cost Centres:** Allocates revenues and expenses to specific business branches, projects, or profit centers.
• **Enable Interest Calculation:** Automatically computes penal interest on overdue customer invoices.

2. Inventory Features

• **Maintain Inventory:** Activates stock items and physical tracking.
• **Integrate Accounts with Inventory:** Automatically links stock closing valuation to the Balance Sheet.
• **Enable Multi-Godowns:** Tracks inventory across multiple warehouses, retail floors, or factory sites.
• **Enable Batches / Expiry:** Mandatory for pharmaceuticals and food processing.

3. Statutory & Taxation Features

• **Enable GST:** Configures state jurisdiction, GSTIN number, GSTR-1 filing periodicity, and e-Invoicing thresholds.
• **Enable TDS:** Configures corporate Tax Deduction Account Number (TAN), deductor category, and expense threshold limits.
• **Enable TCS:** Tax Collection at Source on scrap, timber, and high-value vehicle sales.

2. Cost Categories and Cost Centres

In corporate accounting, managers need to break down revenue and expenses beyond statutory ledgers (e.g., knowing not just total advertising expense, but how much was spent on *Product Launch A* vs *Product Launch B*):

- **Cost Category:** Represents the broad dimension of classification (e.g., *Departments*, *Branches*, or *Projects*).
- **Cost Centre:** Represents the specific sub-units within a category (e.g., under Category "Branches": *Kochi Branch*, *Calicut Branch*, *Trivandrum Branch*).

- **Transactional Allocation:** When entering an expense voucher (e.g., Rent Payment of ₹1,00,000), Tally prompts for cost center allocation, splitting ₹50,000 to Kochi, ₹30,000 to Calicut, and ₹20,000 to Trivandrum, generating instantaneous branch profitability reports.

UNIT 7: DAY BOOK, CASH/BANK BOOKS, RECTIFICATION & BRS

Financial accounting requires continuous verification, ledger auditing, and reconciliation against external banking telemetry to ensure institutional data fidelity.

1. Inspection Registers: Day Book, Cash Book, and Bank Book

- **The Day Book (`Gateway of Tally → Day Book`):** Displays all transactions recorded across all voucher types chronologically. Pressing `F2` changes the inspection date; pressing `Alt + F2` defines a multi-month period; pressing `F4` filters for a single voucher type (e.g., inspecting only Payment vouchers).
- **Cash & Bank Books:** Accessed under *Display More Reports → Account Books → Cash/Bank Summary*. Provides a real-time view of daily debit receipts, credit disbursements, and closing balances across physical cash chests and commercial bank current accounts.
- **Exception Reports:** Identifies operational irregularities: Negative Cash Balance warnings, Negative Stock alerts, Overdue Payables, and Cancelled Vouchers log.

2. Bank Reconciliation Statement (BRS) Architecture

The balance shown in a company's internal Bank Ledger rarely matches the balance reported on the bank's external Passbook/Statement due to temporal timing differences:

BANK RECONCILIATION DISCREPANCY DRIVERS BRS ANALYSIS

BALANCE AS PER CASH/BANK BOOK ± TIMING DIFFERENCES = BALANCE AS PER BANK PASSBOOK

Primary Sources of Temporal Divergence:

- **Cheques Issued but Not Yet Presented for Payment:** The company debited creditor and credited bank internally, but the payee has not yet cleared the cheque at their bank. (Internal book balance is lower than bank passbook).
- **Cheques Deposited but Not Yet Cleared:** The company debited bank internally upon receiving a cheque, but clearinghouse transit takes 2 working days. (Internal book balance is higher than bank passbook).
- **Direct Bank Charges / Interest Debited:** Bank charges, processing fees, or loan interest auto-debited by the bank without prior internal intimation.
- **Direct Customer Collections:** Trade debtors remitting payments via RTGS/NEFT/UPI directly into the company bank account without sending remittance advice.

Reconciling Discrepancy Item	Impact on Internal Bank Ledger	Correction / Reconciliation Action
Cheque Issued but Unpresented	Internal ledger balance is lower.	Add back to internal balance to arrive at bank statement balance.
Cheque Deposited but Uncleared	Internal ledger balance is higher.	Deduct from internal balance to arrive at bank statement balance.
Direct Customer NEFT / RTGS	Bank statement is higher; internal ledger unaware.	Record a Receipt Voucher (F6) in Tally to update internal ledger.
Bank Service Charges Debited	Bank statement is lower; internal ledger unaware.	Record a Payment Voucher (F5) under Bank Charges ledger.

UNIT 8: PAYROLL PROCESSING

Payroll processing encompasses the computerized calculation of employee salaries, statutory deductions (Provident Fund, Employee State Insurance, Professional Tax, TDS), attendance tracking, and generation of individual Pay Slips.

1. Payroll Masters Architecture

Executing payroll in accounting software requires configuring a structured hierarchy of masters:

1. Employee Groups & Employees

Employees are categorized into cost departments (e.g., *Executive Management*, *Sales & Marketing*, *Factory Production*). Individual profiles capture Date of Joining, Designation, Bank Account Number, PAN, Aadhaar, Universal Account Number (UAN for PF), and ESI Insurance Number.

2. Units & Attendance Types

Defines how work duration is measured. Configures calendar units (Months, Days) and production units (Hours, Pieces). Attendance types track *Present* (positive attendance), *Absent / Leave Without Pay* (deduction), and *Overtime* (production-based earning).

3. Earnings Pay Heads

Components that increase gross employee compensation:
• **Basic Pay:** Fixed monthly salary component.
• **Dearness Allowance (DA):** Cost-of-living allowance.
• **House Rent Allowance (HRA):** Statutory housing benefit.
• **Overtime Pay:** Computed as a rate per hour.

4. Deductions & Statutory Pay Heads

Components that reduce take-home net salary:
• **Employee Provident Fund (EPF):** 12% statutory employee deduction.
• **Employee State Insurance (ESI):** 0.75% employee deduction.
• **Professional Tax (PT):** State employment tax.
• **Income Tax (TDS):** Tax deduction under Section 192.

2. Statutory Rate Calculations for Indian Payroll

Statutory Component	Employee Deduction	Employer Contribution
Employees' Provident Fund (EPF)	12% of (Basic Pay + DA), capped optionally at ₹15,000 monthly wage ceiling.	12% split: 8.33% to Employees' Pension Scheme (EPS capped at ₹1,250) + 3.67% to EPF + 0.5% EDLI + 0.5% Admin charges.
Employees' State Insurance (ESI)	0.75% of Gross Wages (applicable if gross wage ≤ ₹21,000 per month).	3.25% of Gross Wages contributed by employer.
Professional Tax (PT)	Graduated slab deduction based on state schedule (e.g., ₹100 to ₹250 per half-year/month).	Nil (pure employee statutory tax).
Gratuity Provision	Nil.	Statutory provision computed under Payment of Gratuity Act: (15 × Last Drawn Basic × Years of Service) / 26.

3. Defining Salary Details and Automated Processing

Under **Salary Details**, the software defines the specific wage formula for each employee group. When monthly payroll is processed:

1. **Attendance Voucher (`Ctrl + F5`):** Records monthly attendance, absent days, and overtime hours worked.
2. **Payroll Voucher (`Ctrl + F4`):** Using the *AutoFill* utility (`Alt + A`), the system automatically calculates Basic Pay, allowances, and statutory PF/ESI deductions across hundreds of employees in seconds.
3. **Pay Slip Generation:** Exports itemized, audit-ready Pay Slips showing Gross Earnings, Deductions, and Net Take-Home Salary for distribution to staff.

ENTERPRISE BENCHMARK: PAYROLL & BRS INTEGRATION IN FMCG DISTRIBUTION

Automated Corporate Reconciliation: An FMCG trading enterprise employing 120 staff in Calicut previously required two full days each month to compute manual salary sheets and three days to reconcile four corporate bank accounts.

• By configuring Tally Prime's structured Payroll Masters with automated PF/ESI slabs, monthly payroll generation collapsed from 16 labor hours to **12 minutes**, eliminating human calculation errors and ensuring statutory PF returns filed on time.

• Using electronic Bank Reconciliation (importing CSV statement files directly into Tally), over 2,500 monthly transactions reconciled with a single click, immediately isolating ₹4.8 Lakhs in unpresented customer cheques and securing working capital liquidity.

MODULE II COMPREHENSIVE MASTERY SUMMARY

EXECUTIVE SUMMARY

COMPANY MASTERS + VOUCHER DISCIPLINE + F11 CONFIGURATION + BRS + PAYROLL = OPERATIONAL EXCELLENCE

Area	Core Technical Capability	Strategic Business Value
Company Creation	Financial Year vs Books Begin, TallyVault encryption, state tax rules.	Establishes tamper-proof fiscal identity and legal compliance.
Account Groups	28 Predefined Groups (15 Primary + 13 Sub-groups), custom groups.	Enforces standardized Balance Sheet and P&L taxonomy.
Voucher Operations	F4 Contra, F5 Payment, F6 Receipt, F7 Journal, F8 Sales, F9 Purchase.	Guarantees rigorous double-entry recording across all operations.
Features & BRS	F11 Company Features, F12 screen options, Bank Reconciliation.	Isolates temporal cash flow timing differences and prevents leakage.
Payroll Processing	Employee groups, Pay Heads (Earnings/Deductions), PF/ESI slabs.	Automates statutory compliance and monthly pay slip distribution.