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Bachelor of Business Administration (BBA) | Fifth Semester | UK5SECMGT301

Computerized Accounting

Course Code: UK5SECMGT301 • Module 4 Notes

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Financial Reporting and Business Compliance

University of Kerala • FYUGP BBA Semester V • UK5SECMGT301 Module 4 Notes

1. Automated Generation of Primary Accounting Books

In a computerized accounting environment, the compilation of primary books of account is completely automated. In manual bookkeeping, recording transactions in the Day Book, Cash Book, and Bank Book demanded constant clerical transcription and manual mathematical additions. In modern CAS packages (such as Tally Prime, Zoho Books, and SAP), entering an electronic transaction voucher instantly and dynamically updates all relevant primary registers in real time.

1. The Day Book

The **Day Book** is a chronological master register displaying every financial transaction recorded by the enterprise on a specific calendar date or across a user-defined date range. It functions as a comprehensive operational window into enterprise activity:

- **Multi-Voucher Aggregation:** Displays Sales, Purchases, Payments, Receipts, Contras, and Journal vouchers sequentially with their voucher numbers, debit ledger accounts, credit ledger accounts, and monetary amounts.
- **Dynamic Multi-Dimensional Filtering:** Accountants can filter the Day Book by specific voucher types (e.g., viewing only Payment vouchers), by specific ledger accounts, or search by transaction narration keywords.
- **Drill-Down Capability:** Pressing Enter on any transaction row in the Day Book instantly opens the original underlying voucher screen, allowing authorized users to inspect full line-item details, attached electronic document scans, and user audit logs.

2. The Cash Book

The **Cash Book** tracks all physical cash inflows and disbursements managed through office cash drawers and petty cash vaults:

- **Real-Time Cash Balance Monitoring:** Displays daily opening cash balance, total cash receipts, total cash disbursements, and closing cash balance.
- **Automated Negative Cash Balance Warnings:** Because an enterprise cannot physically disburse cash that it does not possess, a credit cash balance indicates serious record-keeping omissions (such as unrecorded cash sales or delayed entry of partner cash introductions). Modern CAS platforms emit immediate pop-up warnings if a transaction would cause cash-in-hand to fall below zero.
- **Petty Cash Sub-Registers:** Maintaining an Imprest System where petty cashiers record minor office disbursements (postage, local tea, stationery) against authorized periodic cash top-ups.

3. The Bank Book

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The **Bank Book** provides a dedicated transactional sub-ledger for every commercial bank current account, savings account, or bank overdraft (OD) / cash credit (CC) facility operated by the enterprise:

- Tracks running bank ledger balances alongside transaction instrument details (cheque numbers, electronic NEFT/RTGS UTR numbers, IMPS transaction IDs).
- Distinguishes between the *Book Balance* (transactions recorded in company accounting books) and the *Effective Bank Balance* (transactions verified as cleared through Bank Reconciliation).
- Monitors sanctioned bank overdraft limits, preventing accounting operators from exceeding credit ceilings without managerial approval.

2. Extraction, Verification, and Rectification of the Trial Balance

A **Trial Balance** is an internal accounting statement listing the closing balances of all ledger accounts extracted from the general ledger at a specific point in time, divided into two columns: Debit balances and Credit balances. Its primary architectural purpose is to verify the mathematical equilibrium of the double-entry accounting system: Total Debits must equal Total Credits.

Automated Trial Balance Views in CAS

Unlike manual systems where extracting a Trial Balance required days of manual ledger balancing, CAS extracts a balanced Trial Balance instantaneously at any moment. Modern software provides flexible viewing perspectives:

- **Group-Wise (Summary) View:** Displays balances aggregated at the primary group level (e.g., Total Capital Account, Total Current Assets, Total Current Liabilities). This enables executive leadership to assess broad corporate financial health at a glance.
- **Detailed (Ledger-Wise) View:** Expands every group and sub-group down to individual constituent ledger accounts (e.g., expanding Bank Accounts to show SBI, HDFC, and Canara Bank balances), facilitating granular verification.
- **Gross vs. Net Trial Balance:** A Gross Trial Balance displays the cumulative debit total and credit total of every ledger account, while a Net Trial Balance displays only the net closing debit or credit balance.

Classification of Accounting Errors in CAS

While computerized systems eliminate mathematical calculation mistakes and casting errors, they cannot prevent human errors of judgment or data entry omissions. Accounting errors fall into four classical categories:

Error Classification	Operational Nature	Detection by CAS Trial Balance	Practical Real-World Example
Errors of Omission	A transaction is completely omitted from the system, or	**Undetected:** Because neither debit nor credit was recorded, Trial	A physical purchase bill of ₹25,000 was misplaced in

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Error Classification	Operational Nature	Detection by CAS Trial Balance	Practical Real-World Example
	entered as an incomplete draft.	Balance remains in mathematical balance.	a file drawer and never keyed into the software.
Errors of Commission	Correct amount entered, but posted to the wrong ledger account within the same category.	**Undetected:** Debits and credits are equal, so Trial Balance balances perfectly.	Payment received from customer "Rao Enterprises" was mistakenly credited to customer "Rao & Sons."
Errors of Principle	Violates fundamental accounting principles by confusing capital and revenue expenditures.	**Undetected:** Arithmetic equilibrium is preserved despite profound reporting distortion.	Factory machine installation wages of ₹15,000 debited to Wages Expense instead of Machinery Asset A/c.
Compensating Errors	An error in one ledger account is accidentally offset by an equal and opposite error in another ledger.	**Undetected:** Two independent mistakes neutralize each other arithmetically.	Sales account under-credited by ₹5,000, while Rent Expense account was simultaneously under-debited by ₹5,000.

Rectification Entry Mechanics in CAS

In a computerized accounting environment, correcting errors by simply modifying or deleting historical vouchers destroys the digital audit trail and violates statutory compliance mandates. Professional accountants rectify errors by posting formal **Rectification Journal Vouchers (F7)**:

- **Correcting an Error of Principle:** If machine installation wages of ₹15,000 were wrongly debited to "Factory Wages A/c," the accountant posts a journal entry: *Debit: Plant & Machinery A/c ₹15,000; Credit: Factory Wages A/c ₹15,000*, accompanied by an explicit narration detailing the rectification voucher reference.
- **Correcting an Error of Commission:** If a receipt of ₹20,000 was misallocated to "Customer B" instead of "Customer A," the accountant posts: *Debit: Customer B A/c ₹20,000; Credit: Customer A A/c ₹20,000*.

3. Automated Final Accounts Generation and Ratio Intelligence

At the close of an accounting cycle, CAS aggregates all master data and transactional vouchers to automatically construct the enterprise's final financial statements without requiring manual closing journal procedures:

1. Automated Profit and Loss Account (Income Statement)

The Profit and Loss Account measures the commercial operating performance and financial profitability of the enterprise over the designated fiscal period:

- **The Trading Component (Gross Profit Determination):** Automatically aggregates Sales Incomes and Direct Manufacturing Incomes against Cost of Goods Sold (Opening Stock + Direct Purchases + Direct Manufacturing Expenses - Closing Stock). The software automatically transfers the resulting **Gross Profit** to the Profit and Loss section.
- **The Profit & Loss Component (Net Profit Determination):** Deducts Indirect Operating Expenses (administrative salaries, office rent, insurance, marketing, legal costs) and Non-Operating Expenses (depreciation, loan interest, bank charges) from Gross Profit plus Indirect Incomes. The resulting **Net Profit** is automatically credited directly to the Capital / Reserves & Surplus ledger on the Balance Sheet.
- **Format Customization:** CAS allows users to view financial statements in the traditional horizontal "T-Format" or in the standardized vertical corporate format mandated under Schedule III of the Companies Act, 2013.

2. Automated Balance Sheet Generation

The **Balance Sheet** provides a structural snapshot of the enterprise's financial position at a specific closing date, structured according to the fundamental accounting equation: *Assets = Capital + Liabilities*.

- **Liabilities & Equity:** Classifies owner capital, accumulated reserves, long-term bank borrowings, and current liabilities (sundry creditors, short-term provisions, unpaid tax dues).
- **Assets:** Classifies non-current fixed capital assets (land, buildings, plant machinery, intangible software licenses) and current liquid assets (closing inventory, trade receivables, bank balances, cash).
- **Automated Working Capital Reporting:** CAS extracts dynamic working capital metrics to evaluate operational liquidity:

$$\text{Working Capital} = \text{Current Assets} - \text{Current Liabilities}$$

Formula Legend:
Working Capital = The net liquid operational capital available to fund day-to-day business operations.
Current Assets = Assets convertible to cash within twelve months (cash, bank, debtors, finished inventory).
Current Liabilities = Financial obligations due for settlement within twelve months (creditors, bank overdrafts, tax dues).

$$\text{Current Ratio} = \text{Current Liabilities}\text{Current Assets}$$

Formula Legend:
Current Ratio = Premier liquidity metric measuring the enterprise's ability to cover short-term debts with short-term assets.
Standard Benchmark = An empirical ratio of 2:1 is generally regarded as standard for commercial enterprises.

4. Statutory GST Configuration, Tax Invoicing, and E-Way Bills

In India, the Goods and Services Tax (GST) is a unified destination-based indirect tax levied on the supply of goods and services. A primary competitive strength of modern Indian CAS platforms is their deep, automated statutory GST architecture.

Master GST Setup in CAS

Activating GST requires configuring core enterprise tax parameters:

- **Tax Registration Details:** Specifying the enterprise's 15-digit GSTIN, State code (e.g., 32 for Kerala, 33 for Tamil Nadu, 27 for Maharashtra), Registration Type (Regular vs. Composition Scheme), and GST applicability start date.
- **The "Duties & Taxes" Ledger Architecture:** CAS configures three distinct statutory tax ledgers:
  - **CGST (Central GST):** Levied on Intra-State supplies and remitted to the Central Government.
  - **SGST (State GST):** Levied on Intra-State supplies and remitted to the respective State Government.
  - **IGST (Integrated GST):** Levied on Inter-State supplies (and international imports) and administered by the Centre.
- **HSN and SAC Master Mapping:** Every stock item must be assigned a standardized **HSN (Harmonized System of Nomenclature)** code for physical goods or **SAC (Services Accounting Code)** for intangible services, along with its statutory GST slab (0%, 5%, 12%, 18%, or 28%).

Statutory GST Tax Invoice Architecture

Under Rule 46 of the CGST Rules, a legal tax invoice issued by a registered taxpayer must contain specific mandatory statutory data elements generated automatically by the CAS:

Statutory Invoice Field	Regulatory Requirement under CGST Rules	Operational Role in Input Tax Credit (ITC)
Invoice Number & Date	Consecutive, unique serial number containing only alphanumeric characters; maximum 16 characters.	Prevents duplicate tax credit claims and establishes legal supply date.

Statutory Invoice Field	Regulatory Requirement under CGST Rules	Operational Role in Input Tax Credit (ITC)
Supplier & Recipient Details	Legal trade name, registered address, and 15-digit GSTIN of both supplier and buyer.	Mandatory to enable the recipient to claim Input Tax Credit in GSTR-2B.
Place of Supply (POS)	Name of the state where supply is delivered, along with state numerical code.	Determines whether the transaction attracts CGST+SGST or IGST.
HSN / SAC Codes	Mandatory 4-digit, 6-digit, or 8-digit tariff code based on annual turnover thresholds.	Validates statutory tax rate classification during government portal audits.
Tax Breakup Columns	Itemized taxable value, CGST rate/amount, SGST rate/amount, or IGST rate/amount.	Enables automated reconciliation between GSTR-1 outward tax and GSTR-3B tax payment.
IRN & Signed QR Code	64-character Invoice Reference Number (IRN) and digitally signed QR code for e-invoicing.	Mandatory for B2B supplies by businesses surpassing statutory annual turnover thresholds.

The E-Way Bill System

An **Electronic Way Bill (E-Way Bill)** is a statutory digital document generated on the national GST portal evidencing the physical movement of goods. Under GST regulations, generating an E-Way Bill is mandatory prior to commencing consignment transit whenever the consignment value of goods exceeds **₹50,000** (for both inter-state and intra-state transport):

- **Part A:** Captures consignment transaction details—supplier GSTIN, recipient GSTIN, dispatch address, delivery address, HSN code, and invoice value.
- **Part B:** Captures transport vehicle details—vehicle registration number, transporter ID, and railway receipt / airway bill number.
- **Automated Generation in CAS:** When an operator saves a sales invoice exceeding ₹50,000, modern CAS software prompts for transporter credentials, generates an authorized JSON payload, and communicates directly via API with the E-Way bill portal to fetch the 12-digit E-Way Bill number and embed it directly on the printed tax invoice.

5. Tax Deducted at Source (TDS) Configuration and Administration

Tax Deducted at Source (TDS) is an indirect income-tax collection mechanism mandated under the Indian Income Tax Act, 1961, requiring the payer (the deductor) to deduct income tax at statutory rates at the time of crediting or paying specified commercial payments to the recipient (the deductee):

Common Commercial TDS Sections in CAS

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- **Section 194C (Payments to Contractors & Sub-Contractors):** Deducting 1% for individual/HUF contractors and 2% for corporate entities on contract payments exceeding statutory thresholds.
- **Section 194J (Fees for Professional & Technical Services):** Deducting 10% on professional consulting fees and 2% on technical call center services exceeding ₹30,000 annually.
- **Section 194I (Rent Payments):** Deducting 10% on land and building rent and 2% on plant and machinery lease payments exceeding ₹2,40,000 annually.

Automated TDS Processing Workflow

Configuring TDS in CAS eliminates the risk of costly statutory penalties for non-deduction:

1. **TDS Nature of Payment Setup:** Defining statutory sections, payment codes, threshold exemption limits, and standard deduction rates.
2. **Vendor Master Tagging:** Linking vendor ledgers to appropriate deductee types (Company vs. Non-Company) and entering verified Permanent Account Numbers (PAN). If a vendor lacks a valid PAN, the software automatically enforces the mandatory 20% punitive deduction rate under Section 206AA.
3. **Automated Voucher Deduction:** When a professional legal bill of ₹1,00,000 is entered in a Purchase or Journal voucher, the software automatically debits "Legal Expenses A/c" for ₹1,00,000, credits "Vendor A/c" for ₹90,000, and credits "TDS Payable under Sec 194J A/c" for ₹10,000 in a single operational step.
4. **Statutory Challan Remittance & Form 26Q:** At month-end, the CAS generates electronic tax payment challans (ITNS 281) and compiles quarterly electronic TDS return files (Form 26Q for non-salary payments and Form 24Q for salary deductions) for submission to the tax department.

6. Comprehensive Payroll Accounting Architecture in CAS

Managing employee compensation is one of the most operationally demanding administrative functions in any enterprise. Modern CAS platforms incorporate dedicated **Payroll Engines** that seamlessly integrate human resource attendance tracking with general ledger accounting.

$$\text{Net Salary Payable} = \text{Gross Earnings} - \text{Total Statutory Deductions}$$

Formula Legend:
Net Salary Payable = The take-home monetary compensation disbursed to the employee's bank account.
Gross Earnings = Total compensation components (Basic Pay + DA + HRA + Special Allowances + Overtime).
Statutory Deductions = Mandatory deductions (Employee EPF @ 12% + Employee ESI @ 0.75% + Professional Tax + TDS).

Step-by-Step Architecture of Payroll Setup

1. **Configuring Employee Groups:** Categorizing the workforce into functional hierarchical tiers (e.g., Senior Management, Administrative Staff, Field Sales Executives, Factory Workers) sharing identical compensation rules.
2. **Creating Employee Masters:** Recording comprehensive employee profiles—legal full name, employee identification number, date of joining, official designation, PAN, Aadhaar number, bank account IFSC credentials, Universal Account Number (UAN), and Provident Fund (PF) registration numbers.
3. **Defining Pay Heads:** A **Pay Head** is an individual component of earnings, deductions, or employer contributions:
   - **Earnings Pay Heads:** Basic Salary (typically 40–50% of CTC), Dearness Allowance (DA), House Rent Allowance (HRA), Conveyance Allowance, Medical Allowance, and Performance Bonus.
   - **Employee Statutory Deductions:** Employee Provident Fund (EPF - 12% of Basic+DA), Employee State Insurance (ESI - 0.75% of gross wages for employees earning under ₹21,000 monthly), Professional Tax (PT - tiered state-specific municipal levies), and Salary TDS.
   - **Employer Statutory Contributions:** Employer Provident Fund Contribution (12% split between EPF and Employee Pension Scheme - EPS) and Employer ESI Contribution (3.25%), which represent corporate operating expenses rather than deductions from employee pay.
4. **Defining Salary Structures:** Associating specific Pay Heads with individual employees or entire employee groups, specifying fixed monthly amounts or mathematical percentage formulas (e.g., HRA configured automatically as 40% of Basic Salary).
5. **Attendance and Production Types:** Configuring tracking units: Calendar attendance (Present, Absent, Paid Leave), and Production units (Overtime hours, piece-rate units produced).
6. **Executing Automated Payroll Processing:**
   - **Step A (Attendance Voucher):** Recording monthly attendance and overtime hours for all staff.
   - **Step B (Payroll Voucher):** Pressing the Payroll Auto-Fill function (Alt+A). The software calculates gross pay, computes exact statutory EPF/ESI/TDS deductions, and automatically posts the aggregate salary expense journal entry.
   - **Step C (Salary Payment Voucher):** Generating electronic bank transfer files for batch disbursement to employee salary accounts.
   - **Step D (Automated Payslip Generation):** Extracting professional, individualized digital **Payslips** displaying full earnings breakdowns, statutory deductions, net take-home pay, and leave balances, ready for automated PDF email distribution to employees.

7. Automated GST Return Preparation and ITC Reconciliation (GSTR-1, 2B, 3B)

Modern enterprise accounting software acts as an automated bridge between daily frontline commercial billing and the government Goods and Services Tax Network (GSTN) portal. Instead of

manually re-entering sales and purchase details, the CAS synthesizes statutory returns automatically:

1. GSTR-1 (Outward Supplies Register)

GSTR-1 compiles all outward supplies of taxable goods and services made by the enterprise during the tax period (monthly or quarterly):

- **Table 4 (B2B Invoices):** Supplies made to registered taxpayers with verified 15-digit GSTINs, itemized by invoice number, rate, and tax values.
- **Table 5 & Table 7 (B2C Supplies):** Supplies made to unregistered end consumers, categorized into Large Inter-State invoices (exceeding ₹2,50,000) and consolidated Small retail supplies.
- **Table 9 (Amendments & Credit/Debit Notes):** Formal adjustments, commercial return notes, and post-sale turnover discounts linked to original invoices.
- **Table 12 (HSN Summary):** Comprehensive tariff summary aggregating total quantity, taxable value, CGST, SGST, IGST, and cess across all HSN/SAC codes.

2. GSTR-2B Automated ITC Reconciliation

GSTR-2B is an auto-drafted, static Input Tax Credit (ITC) statement generated by the GSTN portal for every registered business, reflecting all outward invoices filed by its vendors. A business is legally prohibited under Section 16(2)(aa) of the CGST Act from claiming input tax credit on purchases unless the vendor has actually reported the invoice in their GSTR-1 and the credit is visible in the buyer's GSTR-2B.

Modern CAS platforms incorporate intelligent **GSTR-2B Reconciliation Engines**:

- The accountant imports the monthly JSON GSTR-2B file downloaded from the GST portal directly into the accounting software.
- The software's algorithmic matcher cross-references every vendor invoice in the general ledger against GSTR-2B, matching by Vendor GSTIN, Invoice Number, Invoice Date, Taxable Value, and Tax Amount.
- Transactions are automatically partitioned into three buckets: **Fully Matched** (ITC eligible for immediate claim); **Mismatched Values** (slight differences in tax calculations or date typos requiring vendor clarification); and **Missing in 2B** (invoices recorded in company books but omitted by defaulting suppliers).
- The software generates automated WhatsApp or email reminders to non-compliant vendors requesting urgent GSTR-1 filing, safeguarding the enterprise from severe working capital blockage.

3. GSTR-3B (Consolidated Monthly Return)

A standardized monthly self-declaration summary return where the enterprise reports total outward taxable turnover, claims verified eligible Input Tax Credit (ITC), and executes electronic tax liability payments. The CAS calculates net tax payable by auto-offsetting available ITC against outward liabilities according to statutory cross-utilization rules (IGST credit offset first against IGST, then CGST/SGST; CGST credit offset against CGST/IGST, but never SGST), and generates the required electronic cash ledger challans for any remaining cash deficit.

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8. Management Information System (MIS) Reports and Executive Dashboards

Beyond meeting mandatory statutory tax obligations, the primary operational value of CAS for corporate leadership lies in its **Management Information System (MIS)** reporting capabilities. Executive directors and finance heads utilize dynamic CAS reports to steer strategic commercial decisions:

1. Cash Flow and Funds Flow Statements

- **Cash Flow Statement:** Formulated in compliance with Accounting Standard 3 (AS 3) / Ind AS 7, categorizing all cash inflows and outflows into three operational domains: **Operating Activities** (cash generated from routine trading, customer collections, supplier payments); **Investing Activities** (capital expenditures on plant machinery, disposal of fixed assets, interest income); and **Financing Activities** (equity capital introduced, debentures issued, long-term bank loan repayments, dividends disbursed).
- **Funds Flow Statement:** Analyzes changes in corporate working capital position between two balance sheet dates, distinguishing permanent long-term sources of funds from long-term applications of funds.

2. Accounts Receivable Ageing Analysis and Credit Control

Uncontrolled customer receivables destroy corporate liquidity. CAS platforms generate dynamic **Receivables Ageing Reports** categorizing outstanding customer debt into standardized risk brackets (e.g., 0–30 Days, 31–60 Days, 61–90 Days, and Over 90 Days overdue):

- Identifies chronic defaulting debtors and calculates Days Sales Outstanding (DSO).
- Enforces automated credit limit blocking during sales order entry: if a customer has unpaid overdue invoices surpassing 60 days, billing clerks are physically blocked by the software from saving new sales vouchers.
- Tracks interest on overdue balances, calculating automated monthly commercial interest charges against delinquent accounts.

9. Statutory Gratuity and Bonus Calculations in Corporate Payroll

In organized Indian corporate enterprises, payroll administration extends beyond monthly wages to encompass statutory long-term terminal benefits and annual employee profit bonuses:

1. The Payment of Gratuity Act, 1972

Gratuity is a statutory lump-sum terminal monetary benefit payable to an employee upon retirement, resignation, death, or disablement, provided the employee has rendered continuous service of not less than **five continuous years** in the establishment.

For establishments covered under the Act, statutory gratuity is calculated using the mandated formula:

$$\text{Gratuity} = 2615 \times \text{Last Drawn Wage} \times \text{Completed Years of Service}$$

Formula Legend:
Gratuity = Total statutory terminal gratuity entitlement payable to the exiting employee.
15 = Mandated 15 days of wages calculated for each completed year of service.
Last Drawn Wage = Monthly Basic Salary plus Dearness Allowance (DA) earned in the final month of employment.
26 = Statutory number of working days in a calendar month (excluding four weekly rest days).
Completed Years of Service = Continuous years of service; fractions exceeding six months are rounded up to one full year.
Modern CAS payroll modules track employee joining dates and calculate monthly corporate actuarial gratuity provisions, automatically crediting the "Provision for Gratuity" liability ledger to prevent unexpected lump-sum cash shocks upon senior employee retirements.

2. The Payment of Bonus Act, 1965

Mandates the annual payment of statutory profit-sharing bonuses to employees earning wages up to statutory wage ceilings who have worked for a minimum of 30 working days in the financial year. The Act prescribes a **Statutory Minimum Bonus of 8.33%** of wages earned during the year (or ₹100, whichever is higher), rising up to a **Statutory Maximum Bonus of 20%** based on the enterprise's available allocable surplus. CAS payroll engines calculate cumulative annual earnings and generate accurate bonus calculation schedules compliant with statutory Form A, B, and C requirements.

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