

[Unit-II: Introduction of Tally Software, Creation of a company, Gateway of Tally, Accounts Information, Groups, pre-defined Groups, Creation of New Groups, Creation of sub Group.]

## Introduction to company creation

The first and foremost thing to do when we start accounting with tally is to know how to create a company in Tally ERP 9. If you are operating multiple businesses, you can create several companies in Tally.ERP 9 software.

The creation of a company involves basic information about the company, books, and details of currency.

## How to create a company in Tally

Step 1: In tally, Double click on tally icon from desktop to enter into Tally.

Step 2: after login double click on the create company option under company information. The following navigation path is used to create the company in Tally:

Gateway of Tally → Company Info → Create Company

Step 3: Enter the "Company's Mailing Name". This is an important field because it shows all the printouts.

Step 4: Enter the "Company's Full Address". This is shown on all printouts. Thus it is an important field.

Step 5: Choose the "Name of the Country" as India from the given countries list.

Step 6: Choose the "State" from the given list of states.

Step 7: Update the "Company's Pin Code", where it is located.

Step 8: Update the "Telephone Number"/ landline of the company.

Step 9: Update the "E-Mail id" and "Website" of the company.

Step 10: Update the financial year starting date of the company. In India, the financial year of the company starts on 1<sup>st</sup> April and ends on 31<sup>st</sup> March.

Step 11: Update the date from which accounting is allowed in Tally. Generally, this date and the starting date of the financial year are the same. But if the company has been formed on any other date of the year, that date will be mentioned.

Step 12: If we want to use TallyVault, enter a password. It is a secure feature that encrypts data.

### Step 13: **security control:**

Enabling this data field, we will get complete control over the data, we can assign users for specific purposes, for example :

- We can assign data entry operators who can access only voucher entry screens.
- We can assign billing clerks who can access only Sales invoice voucher
- We can assign Financial managers who can access financial data's and reports as the administrator control his access.

### Step 14: Base currency information

In this data field, the currency symbol of the country is auto selected based on the country of origin given in the previous data field. The other details to fill are Formal name of the currency, Suffix symbol to amount, Show amount in millions, number of decimal places etc.

### Step 15: save the details entered in company creation screen

After entering all the details and after verifying it seems to be right, then accept the screen by pressing Enter and again Enter to accept and save the details.

## **Gateway of Tally**

Gateway of Tally is 'the menu' that opens up every time we open Tally.

## **Accounting in Tally.ERP 9**

Accounting or book keeping is an important aspect of running a business successfully. Tally.ERP 9 provides simple-to-use accounting features that enable you to record business transactions easily.

### **Accounting Features**

You can record transactions necessary for your business by creating and maintaining masters, vouchers, and generating reports. Tally.ERP 9 enables you to perform and manage all of the major accounting operations in your business, such as:

- Booking-keeping of all transactions, including creating and maintaining invoices
- Maintaining bill-wise payment information
- Processing transactions for banking, including cheque management and reconciliation
- Managing cost and profit centres
- Implementing statutory and interest calculations
- Viewing Balance Sheet, and profit and loss account

## Accounts Information

*Accounting Data* can be recorded and maintained in *Tally.ERP 9 Accounting Software* with the help of *Masters* and *Vouchers*.

The Accounts Information lists accounting masters in which you can provide company's account details. Masters include:

1. Groups,
2. Ledgers and
3. Voucher types.

Accounts information provides:

- Single master option to work with one master at a time.
- Multiple masters option to work with many sub-masters at a time.

To view the menu options, go to **Gateway of Tally > Accounts Info.**

Masters have been classified into

1. Accounting Masters
2. Inventory Masters
3. Payroll Masters and
4. Statutory Masters

## 1.Groups:

Groups are collections of ledgers of the same nature. Account groups are maintained to determine the hierarchy of Ledger Accounts, which is helpful in determining and presenting meaningful and compliant reports.

Tally.ERP 9 has the flexibility of setting a user required chart of accounts. You can group the Ledger accounts under the required Groups at the time of creating the chart of accounts or you can alter them at any time.

The Group behavior is classified into Capital or Revenue and more specifically into Assets, Liabilities, Income and Expenditure. The Groups ascertain whether the same will affect Profit and Loss Account which is revenue in nature or Balance Sheet which is capital in nature.

## GROUPS

### Capital Account

This records the Capital and Reserves of the company. The ledgers that belong to Capital Accounts are Share Capital, Partners' Capital A/c, Proprietor's Capital Account and so on.

### Reserves and Surplus [Retained Earnings]

This contains ledgers like Capital Reserve, General Reserve, Reserve for Depreciation and so on.

**Current Assets:** record the assets that do not belong either to Bank Accounts or to Cash-in-Hand sub-groups.

- **Bank Accounts** : Current account, savings account, short term deposit accounts and so on.
- **Cash-in hand** : Tally.ERP 9 automatically creates Cash A/c in this group. You can open more than one cash account, if necessary.

**Note** : An account under Cash-in-hand group or Bank Accounts/Bank OCC A/c group is printed as a separate Cash Book in the traditional Cash Book format and does not form part of the Ledger.

- **Deposits (Asset)** : Deposits contain Fixed Deposits, Security Deposits or any deposit made by the company (not received by the company, which is a liability).
- **Loans & Advances (Asset)** : This records all loans given by the company and advances of a non-trading nature (example: advance against salaries) or even for purchase of Fixed Assets. We do not recommend you to open Advances to Suppliers' account under this Group. For further details, please refer to the section on Common Errors.
- **Stock-in-hand** : This group contains accounts like Raw Materials, Work-in-Progress and Finished Goods. The balance control depends on whether you have selected Integrated Account-cum-Inventory option while creating the company. (refer to Company creation section for more details) Let us consider these options:
- **Integrated Accounts-cum-Inventory** : This option has a significant effect on the Balance Sheet and Profit & Loss Account. If set to Yes, it brings the stock/inventory balance figures from the inventory records and provides a drill down to the Stock registers from the Balance Sheet. You are not allowed to directly change the closing balance of an account under this group. You are allowed to pass transactions in Inventory records and the account balances are automatically reflected in the Balance Sheet as Closing Stock.
- **Non-integrated Accounts-cum-Inventory** : If Integrated Account-cum-Inventory option is set to No, it ignores the inventory books figures and picks up manually entered closing stock balances from the ledger account created. This provides the facility to maintain accounts separately and inventory separately.

You are not allowed to pass transactions if your accounts that come under this Group. It allows you to hold opening and closing balances only. Since no vouchers can be passed for these accounts, they are the only accounts for which the closing balances can be directly altered (by an authorised user only).

- **Sundry Debtors** : For customer accounts refer to common and possible errors in grouping of accounts section.

## Current Liabilities

Accounts like Outstanding Liabilities, Statutory Liabilities and other minor liabilities can be created directly under this group. Sub-groups under current liabilities are Duties and Taxes, Provisions and sundry creditors.

- **Duties and Taxes** : Duties and Taxes contain all tax accounts like VAT, CENVAT, Excise, Sales and other trade taxes and the total liability (or asset in case of advances paid) and the break-up of individual items.
- **Provisions** : Accounts like Provision for Taxation, Provision for Depreciation and so on are recorded under Provisions.
- **Sundry Creditors** : For trade creditors, refer to common and possible errors in grouping of accounts section.

## Investments

Group your investment accounts like Investment in Shares, Bonds, Govt. securities, long term Bank deposit accounts and so on. This allows you to view the total investments made by the company.

## Loans (Liability)

Loans that a company has borrowed, typically long-terms loans.

- **Bank OD Accounts [Bank OCC Accounts]** : Tally.ERP 9 provides you with distinct types of Bank Accounts,
- **Bank OCC A/c** : To record the company's overdraft accounts with banks. For example, Bill Discounted A/c's and Hypothecation A/c's etc.

**Note:** An account under Bank OCC A/c group is printed as a separate Cash Book in the traditional Cash Book format and does not form part of the Ledger.

- **Secured Loans** : Term loans or other long/medium term loans, which are obtained against security of some asset. does not verify the existence of the security. Typical accounts are Debentures, Term Loans, and so on.
- **Unsecured Loans** : Loans obtained without any security. Example: Loans from Directors/partners or outside parties.

## Suspense Account

In modern accounting, many large corporations use a Suspense Ledger to track the money paid or recovered, the nature of which is not yet known. The most common example is money paid for Traveling Advance whose details will be known only upon

submission of the Travelling Allowance bill. Some companies may prefer to open such accounts under Suspense Account.

- **Loans and Advances (Asset) group** : The Suspense Account is a Balance Sheet item. Any expense account even if it has 'suspense' in its name, it should be opened under Revenue group like Indirect Expenses and not under Suspense Account group.

## Miscellaneous Expenses (Asset)

This group is typically used for legal disclosure requirements such as Schedule VI of the Indian Companies Act. It should hold incorporation and pre-operative expenses.

Companies would write off a permissible portion of the account every year. A balance remains to an extent that cannot be written off in Profit & Loss Account. Tally.ERP 9 does not show loss, carried forward in the Profit & Loss Account, under this group. The Profit & Loss Account balance is displayed separately in the Balance Sheet.

## Branch/Divisions

This maintains ledger accounts of all your company's branches, divisions, affiliates, sister concerns, subsidiaries and so on. Tally.ERP 9 permits Sales and Purchase transactions to take place with accounts opened here. Remember, these are their accounts in your books and not their books of accounts. Just treat them as any other party account. If you wish to maintain the books of a branch/division on your computer, you must open a separate company. (Tally.ERP 9 allows maintenance of multiple company accounts).

## Sales Account

You can classify your sales accounts based on Tax slabs or type of sales. This also becomes a simple mechanism for preparation of Tax returns.

For example,

- Domestic Sales
- Export Sales

Now under Domestic Sales open the following ledgers:

- Sales (10%)
- Sales (5%)
- Sales (exempt)

You can even open an account as Sales Returns under the group Domestic Sales to view your net sales after returns (or the returns may be directly passed through Journal against the specific Sales account).

**Note:** Do not create customer accounts under this group. For more details, refer to common and possible errors in grouping of accounts section.

## Purchase Account

This is similar to sales accounts, except for the type of transactions.

## Direct Income [Income Direct]

These are Non-trade income accounts that affect Gross Profit. All trade income accounts fall under Sales Accounts. You may also use this group for accounts like Servicing, Contract Charges that follow sales of equipment.

For a professional services company, you may not use Sales Account group at all. Instead, open accounts like Professional Fees under this group.

## Indirect Income [Income Indirect]

These are miscellaneous non-sale income accounts. Example: Rent Received and Interest Received.

## Direct Expenses [Expenses Direct]

These are Manufacturing or direct trading expenses. These accounts determine the Gross Profit of the company.

## Indirect Expenses [Expenses Indirect]

All administrative, selling or non-direct expenses.

Profit & Loss Account is a reserved primary account in Tally.ERP 9. You can use this account to pass adjustment entries through journal vouchers. For example, transfer of profit or loss account to Capital or Reserve account.

## Common and Possible Errors in Grouping and Account Classification

### Debtor/Creditor classification

Accounts of parties with whom your company is trading should be opened under any of the following groups (or sub-groups under them):

- Sundry Debtors
- Sundry Creditors
- Branch/Divisions

Sales and Purchase account groups are meant for revenue accounts and are reflected in the Profit & Loss Account. If you open party accounts under these groups, it becomes difficult to pass sales or purchase voucher transactions.

For example, in a sales voucher transaction entry, you must debit an account, which can be sundry debtor, branch/division or even a sundry creditor. Moreover, other facilities like bill-wise allocation and tracking will not be available unless the accounts belong to one of these groups.

## Opening two accounts of the same party

Tally.ERP 9 classifies debtors, creditors and branch/divisions for convenience. This helps you in the process of keeping the accounts of a particular group together during display and analysis. Thus you can pass both sales and purchase entries for a party account placed under Sundry Debtors. Use the classification depending on the most natural group for the party.

For example, parties from whom you buy frequently can be placed under Sundry Creditors, as that is the natural place to look for their account. Tally.ERP 9 does not restrict the accounts from having obverse balances. Thus, a Sundry Debtor can have a credit balance depending on the state of his account.

Therefore, you need not open two accounts for the same party - one under Sundry Debtors and another under Sundry Creditors. Tally.ERP 9 restricts opening of two identical ledger accounts. In such cases, you may decide to circumvent by marking one account as "A & Co - S/Dr" and another "A & Co - S/Cr". This will allow you to have two accounts of the same party under two groups, but you will lose the advantage of analyzing net position at a single instance. It is always better to maintain a single account to obtain best benefits.

Expenditure items are entered under Liabilities group. For example, the expenditure item Rates & Taxes under the group Duties and Taxes.

The group Duties and Taxes is specifically meant to handle taxation liabilities of your company. Rates & Taxes and other statutory expenses should be placed under Indirect Expenses.

Simply adhering to the reserved groups may be sufficient for many organizations. For greater diversity, Tally.ERP 9 allows you to create your own groups, either as sub-groups or primary groups. Groups can be sub-classified to practically an unlimited level, giving you a virtual accounting tree. At the lowest level, of course, would be the ledger account.

**Note** : While it is necessary to assign every ledger to a group/sub-group, it is not essential to have your own sub-classification of accounts; you may simply use the reserved groups for grouping your ledger accounts.

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