MC 2.4

M.COM.

SEMESTER - II

(REVISED SYLLABUS AS PER NEP 2020)

ADVANCED TRENDS IN ACCOUNTING - II

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Programme Name: M.Com (Advanced Accountancy)
Course Name : <u>Advanced Trends in Accounting - II</u>

Total Credits: 02 **Total Marks: 50**
University assessment: 25 **College assessment: 25 Aims & Objectives**

1. To understand Financial Report and its Technicalities.
2. To know GST and its practicality.

Course outcomes:

CO1. Learners will be able to prepare Financial report and do its analysis.
CO2. Learners will be able to activate GST masters in Tally and set up GST rate, Update Party GSTIN and updating GST in service ledgers.

<u>MODULE I: (2 CREDITS)</u>

Unit 1: Financial Report

A) **Trial Balance-** Phase of the accounting process, Ledger balances on a particular date and classification of errors

B) **Profit and loss account-**Introduction, purpose, analysis of report, direct and indirect cost and format of profit and loss account. **Balance sheet-**Features, Purpose, importance, and balance sheet formats.

Unit 2: Goods and Services Tax (GST)

A) **About Goods and Services Tax (GST)-**An introduction including concept of GST, need and benefit of GST.

B) **GST taxes and invoices-** GST rate, application of CGST, SGST AND IGST, Printing of tax invoices and computation of GST liability. **Activating GST masters in Tally-**GST compliance, setting up of GST rate, Updating Party GSTIN and Updating GST in service Ledgers.

References:

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- Indirect Taxes: Law and Practice by V.S. Datey, Taxmann
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- GST Law & practice with Customs & FTP by V.S. Datey, Taxmann
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- Tally Erp 9 Power Of Simplicity Book, Shraddha Singh NavneetMehra

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TRIAL BALANCE

Unit Structure

1.1. INTRODUCTION:

The trial balance represents a critical phase in the accounting cycle where all ledger account balances are compiled to verify the arithmetic accuracy of journal entries and ledger postings in Tally ERP 9. Ledger balances on a particular date provide a snapshot of the financial position of various accounts, serving as the foundation for generating accurate financial statements and making informed business decisions. The classification of errors such as errors of omission, commission, principle, complete reversal, and duplication remains fundamental to maintaining reliable financial records, as these errors can significantly impact financial statements if left uncorrected. Tally ERP 9 provides robust tools for identifying discrepancies through trial balance reports, balance variance analyses, and detailed ledger examinations, while also offering mechanisms for correcting errors through journal vouchers and rectification entries.

1.1.1. Accounting Process:

The accounting process is a series of steps organizations follow to record, summarize, and report financial transactions. It ensures accurate financial information is available for decision-making, compliance, and stakeholder communication. Here's a breakdown of the key steps:

i. Identification of Transactions

The first step in the accounting process involves recognizing financial events that affect a business. These transactions include sales, purchases, payments, loans, or any other activity that impacts the company's finances. For example, when a company sells goods for ₹ 1,000 cash or buys equipment on credit, these events are identified as transactions that need to be recorded in the accounting system.

ii. Recording Transactions (Bookkeeping)

Once transactions are identified, they must be documented in a general journal using the double-entry bookkeeping system. This system requires that every transaction affects at least two accounts: one account is debited while another is credited. For instance, a cash sale of ₹ 500 would be recorded as a debit to the "Cash" account and a credit to the "Revenue" account. Source documents like invoices, receipts, and bank statements serve as proof of these transactions and are essential for accurate record-keeping.

iii. Classification

After recording transactions, they need to be classified into specific accounts within the general ledger. This organization helps in summarizing similar transactions and preparing financial statements. For example, all rent payments made by the company would be classified under the "Rent Expense" account, while customer payments would be categorized under "Accounts Receivable."

iv. Trial Balance

The trial balance is a list of all ledger account balances prepared to verify that debits equal credits. This step helps identify any mathematical errors or omissions in the recording process. If the totals don't balance, accountants must trace back through the records to find and correct any mistakes before proceeding to the next step.

v. Adjusting Entries

Adjusting entries are made to update accounts for items that haven't been recorded yet but affect the financial period. These adjustments ensure compliance with the accrual basis of accounting. Examples include recording depreciation on equipment, recognizing revenue that has been earned but not yet billed, or accounting for expenses that have been incurred but not yet paid.

vi. Financial Statements

Financial statements are prepared using the adjusted ledger data to provide a comprehensive view of the company's financial position. The income statement shows revenue, expenses, and profit or loss over a specific period. The balance sheet reports assets, liabilities, and equity at a particular point in time, while the cash flow statement tracks cash inflows and outflows. These statements are crucial for stakeholders to understand the company's financial health.

vii. Closing Entries

Temporary accounts like revenue and expense accounts are reset to zero through closing entries at the end of the accounting period. This prepares them for the next period's transactions. Permanent accounts such as assets, liabilities, and equity remain unchanged and carry forward their balances to the next period.

viii. Analysis and Reporting

The final step involves analyzing financial statements and preparing reports for various stakeholders. Managers, investors, and regulators use these reports to assess company performance, liquidity, and financial trends. Financial ratios like profit margin and debt-to-equity help in making informed decisions about the company's future direction and strategy.

1.1.2. Double entry:

Double-entry bookkeeping is a foundational accounting system where every financial transaction is recorded in two accounts: one as a **debit (Dr)** and another as a **credit (Cr)**. This ensures the accounting equation (**Assets = Liabilities + Equity**) remains balanced, as transactions impact at least two accounts simultaneously. The following are the principle explain as below:

i. Duality

The principle of duality in double-entry bookkeeping means that every financial transaction has two equal but opposite effects on the accounting equation (Assets = Liabilities + Equity). For each transaction, one account is debited while another account is credited for the same amount, ensuring the fundamental accounting equation remains balanced.

ii. Debits vs. Credits

In double-entry bookkeeping, debits and credits have specific effects on different types of accounts:

- **Debit entries** increase asset accounts (like Cash, Inventory, Equipment), expense accounts (like Salary Expense, Utilities Expense), and dividend accounts

- **Credit entries** increase liability accounts (like Accounts Payable, Loans Payable), equity accounts (like Capital, Retained Earnings), and revenue accounts (like Sales Revenue, Service Revenue)

- **Conversely:**
  - Debit entries decrease liability, equity, and revenue accounts
  - Credit entries decrease asset, expense, and dividend accounts

iii. Error Detection

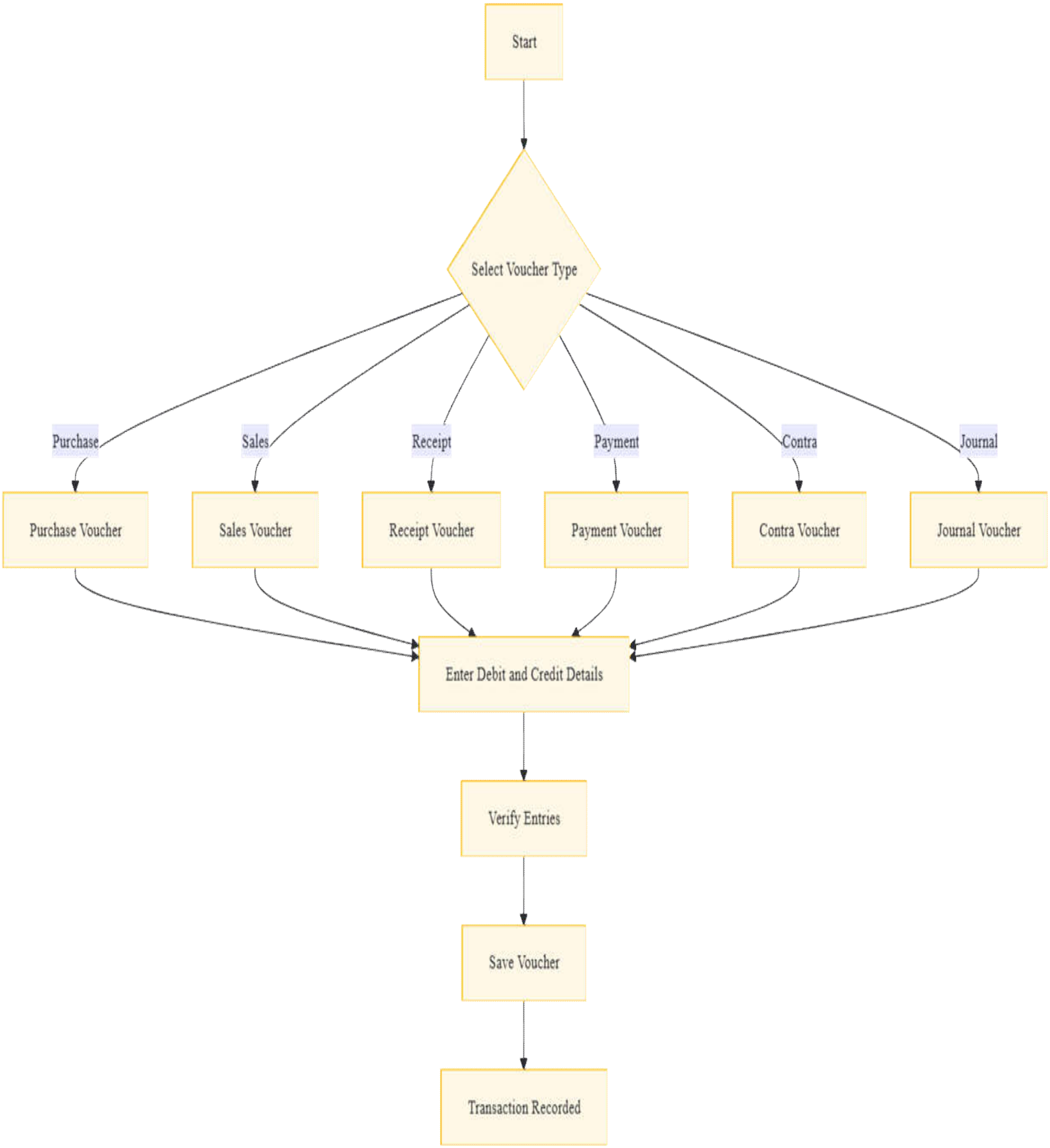
The trial balance is a crucial tool for detecting errors in the accounting process. It's a report that lists all ledger accounts and their balances (either debit or credit) at a specific point in time. By summing all debit balances and credit balances separately, accountants can verify if total debits equal total credits.

- **How it works**:
- If total debits = total credits, the trial balance is said to be "in balance"
- If there's a discrepancy (total debits ≠ total credits), it indicates potential recording errors that need investigation.

1.1.3. Steps to Record Transactions in Tally ERP 9: The following are the steps to be followed:

Step 1: Configure Tally for Double-Entry

- Open Tally ERP 9
- Go to **Gateway of Tally > F12: Configure**
- Select "No" for the Use Single Entry Mode for Payment, Receipt, or Contra.
- This enables full double-entry functionality



Step 2: Select the Appropriate Voucher Type

Tally uses different voucher types for different transaction types:

- **Purchase Voucher (F9)**: For purchasing goods/services
- **Sales Voucher (F8)**: For selling goods/services
- **Receipt Voucher (F6)**: When receiving cash/bank payments
- **Payment Voucher (F5)**: When making cash/bank payments
- **Contra Voucher (F4)**: Transfers between cash/bank accounts
- **Journal Voucher (F7)**: For miscellaneous entries

Step 3: Enter Transaction Details

- Select the appropriate voucher type
- Enter the transaction date
- Select the ledger accounts to be debited and credited
- Enter the amount for each entry

Step 4: Verify the Entries

- Ensure total debits equal total credits
- Check that the accounting equation remains balanced
- Review the voucher for accuracy before finalizing

Step 5: Finalize and Save

- Press **Enter** to save the voucher
- The transaction will now be recorded in the respective ledgers

1.2. VOUCHER, DAY BOOKS AND LEDGERS:

1.2.1 Vouchers: In accounting, a voucher serves as an official document that records a financial transaction and provides evidence of its occurrence. Within Tally ERP 9, vouchers function as the primary vehicle for entering financial data into the system. They form the backbone of all accounting records and are essential for generating accurate financial statements.

1.2.1.1. Types of Vouchers in Tally

Tally ERP 9 offers several predefined voucher types to accommodate various transaction scenarios:

1. **Purchase Voucher (F9)**: Records purchases of goods or services from suppliers.

2. **Sales Voucher (F8)**: Documents sales of goods or services to customers.

3. **Receipt Voucher (F6)**: Captures incoming payments from customers through cash or bank transactions.

4. **Payment Voucher (F5)**: Records outgoing payments to suppliers or creditors via cash or bank.

5. **Contra Voucher (F4)**: Facilitates transfers between cash and bank accounts.

6. **Journal Voucher (F7)**: Handles miscellaneous accounting entries that don't fit standard transaction types.

7. **Debit Note (F11)**: Issued for returns to suppliers or additional charges.

8. **Credit Note (F10)**: Created for returns from customers or discounts allowed.

1.2.1.2 Steps to Create and Process Vouchers

1. System Configuration
- Open Tally ERP 9 and navigate to **Gateway of Tally > F12: Configure**
- Ensure double-entry accounting mode is enabled
- Set up company-specific preferences and accounting periods

2. Create Necessary Ledger Accounts
- Navigate to Tally Gateway > Accounts Information > Ledgers > Create
- Establish accounts for suppliers, customers, expenses, assets, and other financial elements
- Categorize accounts properly for accurate reporting

3. Select Appropriate Voucher Type
- Choose the voucher type that best matches your transaction using shortcut keys (F4-F9)
- Consider the nature of the transaction and the accounts involved

4. Enter Transaction Details
- Input the transaction date accurately
- Select the relevant ledger accounts to be debited and credited
- Enter precise amounts for each account
- Add necessary narration, reference numbers, or additional details

5. Verify Entries
- Confirm that total debits equal total credits
- Make sure the accounting equation (Assets = Liabilities + Equity) always balanced
- Review all details for accuracy and completeness

6. Finalize and Save
- Press **Enter** to save the voucher
- The transaction will be recorded in the respective ledgers and available for reporting

7. Generate Financial Reports
- After recording vouchers, produce necessary financial statements
- Access reports through **Gateway of Tally > Display**
- Review Trial Balance, Profit & Loss Statement, and Balance Sheet regularly

1.2.2. Day Books:

1.2.2.1. Day Book

The Day Book in Tally ERP 9 is a comprehensive report that lists all financial transactions recorded on a particular day or over a specified period. It serves as a chronological record of all vouchers entered into the system, providing a complete overview of daily financial activities.

1.2.2.2. Key Features of Day Book in Tally ERP 9: The following are the key features explain below:

1. **Comprehensive Transaction Listing**: The Day Book includes all types of financial vouchers, reversing journals, memorandum journals, and inventory vouchers.

2. **Flexible Period Selection**: By default, it displays transactions for the current date (based on the last voucher entry date). However, users can specify a custom period using the F2: Period option.

3. **Voucher Type Filtering**: Users can filter the Day Book to display transactions of a specific voucher type (e.g., sales, purchases, receipts, payments) using the F4: Change Vouch option.

4. **Post-dated Transactions Report**: The Day Book also provides an option to view post-dated transactions for the specified period.

1.2.2.3. How to Access the Day Book in Tally ERP 9:

1. Navigate to **Gateway of Tally > Display > Daybook**
2. Use the following options to customize the view:
   - **F2: Date** - Change the date for which transactions are displayed
   - **F4: Change Vouch** - Filter by specific voucher types
   - **T: Post-dated Rep** - View post-dated transactions report

1.2.2.4. Questions:

Illustriation 1: On 15th April 2023, ABC Company had the following transactions:

1. Purchased office supplies worth ₹ 15,000 from XYZ Suppliers, paid by cheque
2. Received ₹ 20,000 from customer PQR Traders as partial payment for outstanding dues
3. Paid ₹ 8,000 for electricity bill from bank account

Tasks:

a) Record these transactions in Tally ERP 9 using appropriate vouchers

b) Display the Day Book for 15th April 2023

c) Check the ledger balances for XYZ Suppliers, PQR Traders, and Electricity Expense

d) Identify and correct an error if the trial balance doesn't tally.

Solutions:

Transaction 1: Purchase of Office Supplies

1. Navigate to **Gateway of Tally > Accounting Vouchers > F9: Purchase**
2. Enter the date **15-04-2023**
3. Select **XYZ Suppliers** as the supplier
4. Enter the amount ₹ **15,000**
5. Save the voucher

Transaction 2: Receipt from Customer

1. Navigate to **Gateway of Tally > Accounting Vouchers > F6: Receipt**
2. Enter the date **15-04-2023**
3. Select your bank account as the receiving account
4. Enter the amount ₹ **20,000**
5. Select **PQR Traders** as the party
6. Save the voucher

Transaction 3: Payment of Electricity Bill

1. Navigate to Accounting Vouchers > Gateway of Tally > F5: Payment.
2. Enter the date **15-04-2023**

3. Select your bank account as the paying account
4. Enter the amount ₹ **8,000**
5. Select **Electricity Expense** as the particular
6. Save the voucher

Displaying Day Book

1. Navigate to **Gateway of Tally > Display > Daybook**
2. Press **F2: Period** and select **15-04-2023**
3. View all transactions recorded on that date

Checking Ledger Balances

XYZ Suppliers Ledger

1. Go to **Gateway of Tally > Display > Account Books > Ledger > Open Ledger**
2. Select **XYZ Suppliers**
3. View the balance (should show a credit balance increased by ₹ 15,000)

PQR Traders Ledger

1. Go to **Gateway of Tally > Display > Account Books > Ledger > Open Ledger**
2. Select **PQR Traders**
3. View the balance (should show a debit balance decreased by ₹ 20,000)

Electricity Expense Ledger

1. Go to **Gateway of Tally > Display > Account Books > Ledger > Open Ledger**
2. Select **Electricity Expense**
3. View the balance (should show a debit balance increased by ₹ 8,000)

Trial Balance and Error Correction

1. Generate Trial Balance: Navigate to **Gateway of Tally > Display > Trial Balance**
2. If discrepancies are found:

- Identify the error by checking vouchers and ledgers
- Create a rectification journal voucher (**F7: Journal**) to correct the error
- Recheck the trial balance to ensure it balances

Illustration 2:

M/s. ABC Traders has the following transactions for the month of April 2024:

Cash Transactions:

1. April 1: Cash in hand - ₹ 50,000
2. April 5: Received cash from Mr. X - ₹ 15,000
3. April 10: Paid to Mr. Y (cash purchase) - ₹ 8,000
4. April 15: Paid salaries - ₹ 12,000
5. April 20: Received cash from Mr. Z - ₹ 20,000
6. April 25: Paid rent - ₹ 5,000

Bank Transactions:

1. April 1: Bank balance - ₹ 100,000
2. April 3: Deposited cash into bank - ₹ 25,000
3. April 8: Paid Mr. A (cheque) - ₹ 15,000
4. April 12: Received cheque from Mr. B - ₹ 30,000
5. April 18: Withdrew cash from bank - ₹ 10,000
6. April 22: Paid Mr. C (cheque) - ₹ 20,000

Sales Transactions:

1. April 2: Sold goods to Mr. D for ₹ 25,000 (credit)
2. April 7: Sold goods to Mr. E for ₹ 18,000 (cash)
3. April 11: Sold goods to Mr. F for ₹ 32,000 (credit)
4. April 16: Sold goods to Mr. G for ₹ 15,000 (cash)
5. April 21: Sold goods to Mr. H for ₹ 22,000 (credit)
6. April 26: Sold goods to Mr. I for ₹ 19,000 (cash)

Purchase Transactions:

1. April 4: Purchased goods from Mr. J for ₹ 20,000 (credit)
2. April 9: Purchased goods from Mr. K for ₹ 16,000 (cash)
3. April 14: Purchased goods from Mr. L for ₹ 24,000 (credit)
4. April 19: Purchased goods from Mr. M for ₹ 14,000 (cash)
5. April 24: Purchased goods from Mr. N for ₹ 18,000 (credit)
6. April 29: Purchased goods from Mr. O for ₹ 12,000 (cash)

Required:

1. Record all transactions in Tally ERP 9
2. Prepare Cash Book
3. Prepare Bank Book
4. Prepare Sales Register
5. Prepare Purchase Register
6. Verify that the totals match

Solution Using Tally ERP 9

Step 1: Data Preparation

Organize the transactions by type (cash, bank, sales, purchases) and identify the appropriate voucher types for each transaction.

Step 2: Setting Up Tally

1. Open Tally ERP 9 and create a new company or select an existing one.
2. Set the financial year to 2023-2024.
3. Create necessary ledger accounts for all parties involved (Mr. X, Mr. Y, etc.), bank, cash, purchases, sales, etc.

Step 3: Entering Opening Balances

1. Click on "Gateway of Tally" > "Accounts Info" > "Ledgers" > "Alter"
2. Enter opening balances for Cash (₹ 50,000) and Bank (₹ 100,000)

Step 4: Recording Transactions

Cash Transactions:

1. April 5: Receipt from Mr. X
   - Voucher Type: Receipt
   - Debit: Mr. X (₹ 15,000)
   - Credit: Cash (₹ 15,000)
2. April 10: Payment to Mr. Y
   - Voucher Type: Payment
   - Debit: Purchases (₹ 8,000)
   - Credit: Mr. Y (₹ 8,000)
3. April 15: Payment of Salaries

- Voucher Type: Payment
- Debit: Salaries (₹ 12,000)
- Credit: Cash (₹ 12,000)

4. April 20: Receipt from Mr. Z

- Voucher Type: Receipt
- Debit: Mr. Z (₹ 20,000)
- Credit: Cash (₹ 20,000)

5. April 25: Payment of Rent

- Voucher Type: Payment
- Debit: Rent (₹ 5,000)
- Credit: Cash (₹ 5,000)

Bank Transactions:

1. April 3: Deposit cash into bank

- Voucher Type: Contra
- Debit: Bank (₹ 25,000)
- Credit: Cash (₹ 25,000)

2. April 8: Payment to Mr. A by cheque

- Voucher Type: Payment
- Debit: Purchases (₹ 15,000)
- Credit: Mr. A (₹ 15,000)

3. April 12: Receipt of cheque from Mr. B

- Voucher Type: Receipt
- Debit: Mr. B (₹ 30,000)
- Credit: Bank (₹ 30,000)

4. April 18: Withdrawal of cash from bank

- Voucher Type: Contra
- Debit: Cash (₹ 10,000)
- Credit: Bank (₹ 10,000)

5. April 22: Payment to Mr. C by cheque
   - Voucher Type: Payment
   - Debit: Purchases (₹ 20,000)
   - Credit: Mr. C (₹ 20,000)

Sales Transactions:

1. April 2: Sale to Mr. D (credit)
   - Voucher Type: Sales
   - Debit: Mr. D (₹ 25,000)
   - Credit: Sales (₹ 25,000)
2. April 7: Sale to Mr. E (cash)
   - Voucher Type: Sales
   - Debit: Cash (₹ 18,000)
   - Credit: Sales (₹ 18,000)
3. April 11: Sale to Mr. F (credit)
   - Voucher Type: Sales
   - Debit: Mr. F (₹ 32,000)
   - Credit: Sales (₹ 32,000)
4. April 16: Sale to Mr. G (cash)
   - Voucher Type: Sales
   - Debit: Cash (₹ 15,000)
   - Credit: Sales (₹ 15,000)
5. April 21: Sale to Mr. H (credit)
   - Voucher Type: Sales
   - Debit: Mr. H (₹ 22,000)
   - Credit: Sales (₹ 22,000)
6. April 26: Sale to Mr. I (cash)
   - Voucher Type: Sales
   - Debit: Cash (₹ 19,000)
   - Credit: Sales (₹ 19,000)

Purchase Transactions:

1. April 4: Purchase from Mr. J (credit)
   - Voucher Type: Purchase
   - Debit: Purchases (₹ 20,000)
   - Credit: Mr. J (₹ 20,000)
2. April 9: Purchase from Mr. K (cash)
   - Voucher Type: Purchase
   - Debit: Purchases (₹ 16,000)
   - Credit: Cash (₹ 16,000)
3. April 14: Purchase from Mr. L (credit)
   - Voucher Type: Purchase
   - Debit: Purchases (₹ 24,000)
   - Credit: Mr. L (₹ 24,000)
4. April 19: Purchase from Mr. M (cash)
   - Voucher Type: Purchase
   - Debit: Purchases (₹ 14,000)
   - Credit: Cash (₹ 14,000)
5. April 24: Purchase from Mr. N (credit)
   - Voucher Type: Purchase
   - Debit: Purchases (₹ 18,000)
   - Credit: Mr. N (₹ 18,000)
6. April 29: Purchase from Mr. O (cash)
   - Voucher Type: Purchase
   - Debit: Purchases (₹ 12,000)
   - Credit: Cash (₹ 12,000)

Step 5: Generating Reports

Cash Book:

1. Proceed to the Tally Gateway. > "Display" > "Account Books" > "Cash Book"
2. Select the period as April 2024

3. The Cash Book will show all cash transactions with running balances

Bank Book:

1. Proceed to the Tally Gateway > "Display" > "Account Books" > "Bank Book"
2. Select the period as April 2024
3. The Bank Book will show all bank transactions with running balances

Sales Register:

1. Navigate "Gateway of Tally" > "Display" > "Account Books" > "Sales Register"
2. Select the period as April 2024
3. The Sales Register will show all sales transactions with details

Purchase Register:

1. Navigate "Gateway of Tally" > "Display" > "Account Books" > "Purchase Register"
2. Select the period as April 2024
3. The Purchase Register will show all purchase transactions with details

Step 6: Verification

1. Check that the totals in each book match the respective ledger accounts
2. Ensure that all transactions have been properly recorded
3. Verify that the cash and bank balances at the end of the month are correct

This comprehensive approach ensures that all transactions are properly recorded in their respective books, and the solution provides a clear path to follow in Tally ERP 9.

1.2.3. **Ledger Balances:** Ledger balances represent the financial position of each account in your Tally ERP 9 accounting system. They track the cumulative effect of all transactions recorded for each ledger account over a specific period.

1.2.3.1. Viewing Ledger Balances

1. View Opening Balances:

- Go to Gateway of Tally > Accounts Info > Ledgers > Alter
- Select All Items from the List of Groups
- This displays opening balances of all ledgers in a single screen

2. View Party or Ledger Balance:

- Go to Display > Account Books > Ledger > Open Ledger
- Select the period if required
- The balance will be shown at the bottom of the screen
- Shortcut: Press DAL + Alt F2

3. Ledger Balance Variance Report:

- Go to Gateway of Tally > Analysis and Verification > Data Analysis > Verification of Balances
- Click V: Balance Variance or press Alt+V
- This report compares ledger closing balances between the analysis year and previous year

1.2.3.2. **Creating and Modifying Ledger Balances**

1. **Creating Ledgers with Opening Balances**:

- When creating a new ledger, enter the opening balance directly in the ledger creation screen
- Liabilities typically have credit balances, while assets have debit balances

2. **Modifying Ledger Balances**:

- Go to **Accounts Info > Ledgers > Alter**
- Select the ledger you want to modify
- Update the balance as needed

1.3. Classification of Error: Errors in accounting can be classified into several categories including errors of omission (failing to record a transaction), errors of commission (recording a transaction incorrectly), and errors of principle (violating accounting standards). The following are future explained in details as follow:

1.3.1. Common Types of Errors:

i. **Error of Omission:** This occurs when a transaction is completely left out of the accounting records. It means that both the debit and credit aspects of a transaction have not been recorded, leading to incomplete financial statements.

ii. **Error of Commission:** This happens when an entry is made incorrectly, such as posting the wrong amount or assigning it to the wrong account. The transaction is recorded but with some factual errors that affect the accuracy of the financial records.

iii. **Error of Principle:** This involves violating fundamental accounting principles, such as recording a personal expense as a business expense or failing to follow the matching principle. These errors affect the reliability of financial statements and can have serious implications for decision-making.

iv. **Error of Complete Reversal:** This occurs when the debit and credit entries are completely reversed. Instead of debiting the correct account, you credit it, and vice versa, which distorts the financial records and can lead to significant discrepancies.

v. **Error of Duplication:** This happens when a transaction is recorded twice, either in the same or different accounts. It results in overstated financial figures and can occur due to human error or system glitches.

1.3.2. Identifying and Classifying Errors

i. **Trial Balance Discrepancies**: Run a trial balance from the Display menu to check for unequal debits and credits. Discrepancies here indicate that some errors exist in the accounting records that need to be investigated and corrected.

ii. **Balance Sheet Errors**: After entering opening balances, check for the error message "Difference in Opening Balances". This message indicates that there are missing or incorrect balances in some accounts, which need to be identified and rectified to ensure accurate financial reporting.

iii. **Ledger Balance Variance**: Use the Ledger Balance Variance report to identify discrepancies between different periods. This report helps in spotting inconsistencies that may have occurred due to errors in recording transactions over time.

1.3.3. Steps to Correct Errors

i. **Error of Omission**: Create a journal voucher to record the missing transaction. This ensures that the omitted transaction is properly documented in the accounting system, bringing the records up to date.

ii. **Error of Commission**: Create a rectification voucher to correct the amount or account. Use the Journal Voucher type for these corrections to properly adjust the incorrect entries and maintain the integrity of the financial records.

iii. **Error of Principle**: Consult relevant accounting standards and correct the entry using appropriate voucher types. This may involve classifying transactions or adjusting accounts to comply with accepted accounting practices.

iv. **Error of Complete Reversal**: Create a reversing journal voucher to correct the entries. This involves creating a new voucher that reverses the incorrect debit and credit entries, then recording the transaction properly.

v. **Error of Duplication**: Identify the duplicate entry and delete or reverse it using a journal voucher. This ensures that transactions are not counted twice in the financial records, maintaining accurate financial statements.

1.3.4. Prevention of Errors

i. **Regular Reconciliation**: Compare Tally records with bank statements and physical inventory regularly. This helps in identifying discrepancies early and ensures that the accounting records match actual financial activities.

ii. **User Training**: Ensure all users understand proper voucher creation procedures. Well-trained users are less likely to make errors and more likely to follow correct accounting practices.

iii. **Data Backup**: Schedule regular backups to prevent data loss. This protects against potential system failures or human errors that could result in the loss of important financial data.

iv. **Audit Trails**: Maintain records of who created or modified each voucher. This helps in tracking down the source of errors and holds users accountable for their actions in the accounting system.

v. **Security Measures**: Implement user permissions to restrict voucher creation and modification. This prevents unauthorized changes to financial records and reduces the risk of intentional or accidental errors.

1.4. TRAIL BALANCE:

➢ To view the Trial Balance in Tally:

1. Navigate to Gateway of Tally > Display > Trial Balance
2. Alternatively, press Alt+G (Go To) > type or select Trial Balance > press Enter

➢ Configuration Options

Press F12 to configure the Trial Balance as needed:

- Show Opening Balances: Set to Yes/No to include or exclude opening balances
- Show Transactions: Set to Yes/No to display transaction figures
- Show Net Transactions only: Set to Yes/No to show net transactions or separate debit/credit columns

- Show Closing Balance: Set to Yes/No to include closing balances

Illustration:

Question: Record the following transactions in Tally ERP 9 for the month of April 2023 and prepare a trial balance as of April 30, 2023:

1. Commenced business with capital ₹ 50,000
2. Opened a bank account with ₹ 30,000 deposit
3. Purchased furniture for cash ₹ 15,000
4. Purchased goods from A Ltd. on credit ₹ 25,000
5. Sold goods to B Ltd. for cash ₹ 40,000
6. Paid rent by cheque ₹ 5,000
7. Purchased stationery on credit from C Store ₹ 3,000
8. Received cash from B Ltd. ₹ 10,000
9. Paid salaries through bank transfer ₹ 12,000
10. Sold goods to D Ltd. on credit ₹ 35,000
11. Paid electricity bill by cheque ₹ 2,500
12. Withdrew cash from bank for personal use ₹ 5,000

Solution:

Step 1: Create Company in Tally

1. Open Tally ERP 9
2. Navigate to Gateway of Tally > Company Info > Create Company
3. Enter company name: "XYZ Trading"
4. Select appropriate financial year starting date
5. Click "Yes" to accept

Step 2: Set Accounting Features

1. Navigate to Gateway of Tally > F11 Accounting Features
2. Set "Maintain accounts only" to Yes
3. Accept changes

Step 3: Create Ledger Accounts

Create the following ledger accounts under appropriate groups:

1. Capital Account - "Owner's Capital"
2. Bank Accounts - "Business Bank A/c"
3. Fixed Assets - "Furniture A/c"
4. Purchase Accounts - "Purchases A/c"
5. Sales Accounts - "Sales A/c"

6. Sundry Creditors - "A Ltd.", "C Store"
7. Sundry Debtors - "B Ltd.", "D Ltd."
8. Indirect Expenses - "Rent A/c", "Salaries A/c", "Electricity A/c"
9. Direct Expenses - "Stationery A/c"
10. Drawings - "Owner's Drawings"

Step 4: Enter Transactions

Transaction 1: Capital Introduction

1. Go to Gateway of Tally > Transactions > Accounting Vouchers
2. Press F6 for Receipt Voucher
3. Account: Cash
4. Particulars: Owner's Capital
5. Amount: ₹ 50,000
6. Narration: Capital introduced
7. Accept

Transaction 2: Bank Deposit

1. Press F4 for Contra Voucher
2. Account: Business Bank A/c
3. Particulars: Cash
4. Amount: ₹ 30,000
5. Narration: Bank account opened with initial deposit
6. Accept

Transaction 3: Furniture Purchase

1. Press F5 for Payment Voucher
2. Account: Cash
3. Particulars: Furniture A/c
4. Amount: ₹ 15,000
5. Narration: Furniture purchased for cash
6. Accept

Transaction 4: Credit Purchase

1. Press F9 for Purchase Voucher
2. Party A/c Name: A Ltd.
3. Particulars: Purchases A/c
4. Amount: ₹ 25,000
5. Narration: Goods purchased on credit
6. Accept

Transaction 5: Cash Sale

1. Press F8 for Sales Voucher
2. Account: Cash
3. Particulars: Sales A/c
4. Amount: ₹ 40,000
5. Narration: Cash sales made
6. Accept

Transaction 6: Rent Payment

1. Press F5 for Payment Voucher
2. Account: Business Bank A/c
3. Particulars: Rent A/c
4. Amount: ₹ 5,000
5. Narration: Rent paid by cheque
6. Accept

Transaction 7: Credit Purchase of Stationery

1. Press F7 for Journal Voucher
2. Debit: Stationery A/c ₹ 3,000
3. Credit: C Store ₹ 3,000
4. Narration: Stationery purchased on credit
5. Accept

Transaction 8: Cash Received from Debtor

1. Press F6 for Receipt Voucher
2. Account: Cash
3. Particulars: B Ltd.
4. Amount: ₹ 10,000
5. Narration: Cash received from B Ltd.
6. Accept

Transaction 9: Salaries Payment

1. Press F5 for Payment Voucher
2. Account: Business Bank A/c
3. Particulars: Salaries A/c
4. Amount: ₹ 12,000
5. Narration: Salaries paid through bank transfer
6. Accept

Transaction 10: Credit Sale

1. Press F8 for Sales Voucher
2. Party A/c Name: D Ltd.
3. Particulars: Sales A/c
4. Amount: ₹ 35,000
5. Narration: Goods sold on credit
6. Accept

Transaction 11: Electricity Bill Payment

1. Press F5 for Payment Voucher
2. Account: Business Bank A/c
3. Particulars: Electricity A/c
4. Amount: ₹ 2,500
5. Narration: Electricity bill paid by cheque
6. Accept

Transaction 12: Drawings

1. Press F5 for Payment Voucher
2. Account: Business Bank A/c
3. Particulars: Owner's Drawings
4. Amount: ₹ 5,000
5. Narration: Cash withdrawn for personal use
6. Accept

Step 5: Generate Trial Balance

1. Go to Gateway of Tally > Reports > Display > Trial Balance
2. Press Alt+F1 for detailed view
3. The trial balance will display all ledger balances as of April 30, 2023

The trial balance will show all the accounts with their respective debit and credit balances, ensuring that the total debits equal the total credits, thus verifying the arithmetical accuracy of the bookkeeping process.

1.5. CONCLUSION:

The unit provides a comprehensive overview of the accounting process, emphasizing the critical role of trial balance in ensuring the arithmetic accuracy of financial records and the importance of ledger balances in capturing the financial position of a business at any given time. By understanding the classification of errors and leveraging Tally ERP 9's robust tools for identifying and correcting discrepancies, accounting professionals can maintain reliable financial records that support informed decision-making and compliance with accounting standards. The step-by-step guidance on recording transactions, generating reports, and reconciling accounts in Tally ERP 9 equips users with practical skills to efficiently manage the accounting cycle, from initial transaction recording to the preparation of financial statements and beyond.

1.6. QUESTIONS:

1.6.1 MCQ

1. What is the primary purpose of a trial balance in the accounting cycle?

   a)To prepare financial statements b) To verify arithmetic accuracy of journal entries and ledger postings c) To record transactions d) To classify accounts

2. Which type of error occurs when a transaction is completely left out of the accounting records?

   a)Error of commission b) Error of omission c) Error of principle d) Error of duplication

3. What is the first step in the accounting process?

   a)Recording transactions b) Identification of transactions c) Classification d) Trial balance

4. Which voucher type in Tally ERP 9 is used for recording purchases of goods/services?

   a) Sales Voucher b) Receipt Voucher c) Purchase Voucher d) Contra Voucher

5. How can you view the opening balances of all ledgers in Tally ERP 9?

   a) Go to Display > Account Books > Ledger > Open Ledger
   b) Go to Gateway of Tally > Accounts Info > Ledgers > Alter and select All Items
   c) Go to Analysis and Verification > Data Analysis > Verification of Balances d) Go to Display > Trial Balance

Answer- b,b,b,c and b

1.6.2. Brief Questions

1. Explain the importance of trial balance in the accounting process

2. Describe the steps to record a transaction in Tally ERP 9.

3. What are the common types of errors in accounting, and how do they impact financial statements?

4. How does double-entry bookkeeping ensure the accuracy of financial records?

5. What measures can be taken to prevent errors in Tally ERP 9?

❖❖❖❖

2

PROFIT AND LOSS ACCOUNT & BALANCE SHEET

Unit Structure

2.1. INTRODUCTION:

The Trading Account, Profit & Loss Account (P&L), and Balance Sheet form the cornerstone of financial reporting for businesses worldwide. The Trading Account captures a company's core business activities, summarizing revenue generated from sales and the direct costs associated with producing goods or services, ultimately determining gross profit. The Profit & Loss Account expands on this by incorporating all operating expenses, interest, taxes, and other income streams to calculate the net profit or loss for the accounting period. Complementing these is the Balance Sheet, which provides a snapshot of a company's financial position at a specific point in time, displaying assets, liabilities, and equity. Together, these statements offer a comprehensive view of a company's financial health, performance, and position, enabling stakeholders to make informed decisions about the business's future.

2.1.1. **Purpose of Preparing Trading Account:** The following are the purpose of preparing trading account explained below:

i. Determine Gross Profit/Loss
The Trading Account calculates the profit or loss from a company's primary business activities of buying and selling goods. This helps businesses understand the profitability of their core operations before considering other expenses.

ii. Assess Efficiency
The Trading Account evaluates how effectively a company manages its purchasing, production, and sales processes. By analysing these activities, businesses can identify inefficiencies and implement improvements to enhance profitability.

iii. **Cost of Goods Sold (COGS)**
COGS tracks the direct costs associated with producing the goods sold, including raw materials and direct labour. This information is crucial for determining the gross profit and understanding production costs.

iv. **Inventory Management**
The Trading Account reconciles opening and closing stock to ensure accurate profit calculation. Proper inventory management helps prevent overstocking or stockouts and optimizes working capital.

v. **Segregate Direct Costs**
The Trading Account distinguishes between costs directly tied to production and indirect expenses. This segregation helps in better understanding the cost structure and identifying areas for cost reduction.

2.1.2. Purpose of Preparing Profit & Loss Account: The following are the purpose of preparing trading account explained below:

i. **Calculate Net Profit/Loss**
The Profit & Loss Account determines the final profitability of a business after accounting for all revenues and expenses, including indirect costs. This comprehensive view helps stakeholders understand the overall financial performance of the company.

ii. **Operational Performance**
The Profit & Loss Account analyzes profitability beyond just sales by incorporating administrative, financial, and other expenses. This provides a complete picture of how well the business is operating across all functions.

iii. **Compliance**
Preparing a Profit & Loss Account fulfills statutory requirements for financial reporting and tax filings. It ensures businesses meet their legal obligations and maintain transparency with regulatory authorities.

iv. **Decision-Making**
The Profit & Loss Account provides insights for management to adjust pricing strategies, cut unnecessary costs, or explore new revenue streams. These insights are essential for strategic planning and business growth.

v. **Compare Periods**
The Profit & Loss Account allows businesses to assess performance trends over time by comparing different periods. This helps identify growth patterns, seasonal variations, or declining performance.

vi. **Attract Investors/Lenders**
A well-prepared Profit & Loss Account demonstrates the financial health of a business to potential investors and lenders. Positive results can increase confidence and improve chances of securing funding.

vii. **Expense Analysis**
The Profit & Loss Account identifies areas of overspending, such as excessive marketing costs or high utility bills. This enables businesses to optimize their expenses and improve profitability.

viii. **Revenue Trends**
The Profit & Loss Account tracks various income sources, including sales, interest, and commissions. This helps businesses prioritize profitable activities and diversify their revenue streams.

ix. **Tax Calculation**
The Profit & Loss Account serves as a basis for computing taxable income and applicable taxes. Accurate financial reporting ensures proper tax calculations and compliance with tax regulations.

x. **Stakeholder Communication**
The Profit & Loss Account shares financial results with owners, shareholders, and regulators in a transparent manner. This fosters trust and provides stakeholders with the information they need to make informed decisions.

2.1.3. Analysis of Profit and Loss Account

Analyzing the Profit and Loss Account involves a thorough examination of various components to evaluate the company's financial performance and operational efficiency. This analysis helps stakeholders understand how well the business is generating profit and managing its expenses over time.

i. **Revenue Trends**
Examining changes in revenue over time to identify growth patterns, seasonal variations, or potential declines in sales. Analyzing revenue trends helps businesses forecast future sales and identify periods of strong or weak performance.

ii. **Expense Patterns**
Reviewing different types of expenses to understand their behavior and impact on profitability. This includes both fixed and variable costs, allowing companies to identify cost-saving opportunities and optimize their spending.

iii. **Gross Profit Margins**
Calculating the difference between revenue and direct costs to determine the profitability of the company's core products or services before considering indirect expenses. Gross profit margins indicate how efficiently a company produces and sells its products or services.

iv. Operating Expenses

Analyzing indirect costs such as administrative expenses, selling expenses, and general overhead to assess operational efficiency. This analysis helps identify areas where operational improvements can enhance profitability.

v. Net Profit Margins

Determining the company's overall profitability after accounting for all expenses, including taxes and interest. Net profit margins show the percentage of revenue that remains as profit after all costs have been paid.

vi. Benefits of Comprehensive Analysis

This comprehensive analysis helps management make informed decisions regarding cost control, pricing strategies, and operational improvements. It also assists investors and creditors in evaluating the company's financial stability and growth potential, providing valuable insights that guide strategic business decisions.

2.1.4. Difference between Direct and Indirect Cost:

Aspect	Direct Costs	Indirect Costs
Traceability	Can be directly linked to a specific product, service, or department.	cannot be connected to a particular item or service directly.
Nature	Usually change with production volume (variable).	Typically stay the same regardless of production levels (fixed).
Allocation	Easily assigned to specific products or departments.	Require complex methods to allocate across different products or departments.
Examples	Raw materials, direct labor, packaging.	Rent, utilities, administrative salaries, marketing expenses.
Cost Behavior	Increase or decrease with production levels.	Generally, remain fixed or change indirectly with production levels.
Financial Impact	Directly affect the cost of goods sold (COGS).	Indirectly affect COGS through overhead allocations.
Management Focus	Managed at the product or department level.	Managed at the organizational level.
Reporting Treatment	Shown separately in financial statements.	Typically grouped under operating expenses or overhead.

2.2. STEPS TO DISPLAY TRADING AND P&L ACCOUNT IN TALLY

2.2.1. Displaying the Profit & Loss Account

1. **Open Tally Software**: Launch Tally ERP 9 or Tally Prime and select the company for which you want to view the accounts.
2. **Navigate to Profit & Loss Account**:
   - Navigate **Gateway of Tally > Display > Profit & Loss A/c**.
   - Alternatively, press **Alt+G** (Navigate), type "Profit & Loss A/c", and press **Enter**.
3. **View the Report**:
   - By default, the Profit & Loss Account is displayed from the opening date to the last entry date.
   - Press **Alt + F2** to change the period if you need to view a specific timeframe.
4. **Detailed View**:
   - Press **Alt+F5** to see a detailed breakdown of each income and expense account.
   - Double-click on any account for further transaction details.

2.2.2Configuring the Display Format

1. **Access Configuration Options**:
   - While viewing the Profit & Loss Account, press **F12** to open configuration settings.
2. **Choose Display Format**:
   - **Horizontal Format (Default)**: Shows income on the left and expenses on the right.
   - **Vertical Format**: Select "Yes" for "Show Vertical Profit & Loss" to display the Trading Account and Income Statement separately.
3. **Additional Configuration**:
   - **Show with Gross Profit**: Set to "Yes" to see the Trading Account separately.
   - **Show Percentage**: Choose "Yes" to display percentage figures based on total sales.
   - **Appearance of Name**: Select how you want account names to appear (e.g., "Names only").

2.2.3. Viewing the Trading Account Separately

1. **Ensure Proper Configuration**:
    - Make sure the Profit & Loss Account is configured to show in vertical format with gross profit.
2. **Access the Trading Account**:
    - The Trading Account will appear at the top of the vertical Profit & Loss statement, showing details like:
        - Sales
        - Direct Income
        - Purchases
        - Direct Expenses
        - Gross Profit/Loss

2.2.4. Analyzing and Comparing

1. **Comparative Analysis**:
    - Press **Alt+N** (Auto Column) to compare financial information across different periods or valuation methods.
2. **Trend Analysis**:
    - Use **F5** (Compare with) to select a specific period for comparison and identify trends in your financial performance.
3. **Drill Down Analysis**:
    - Expand sub-groups within account groups to analyze specific expense categories and understand cost drivers.

2.2.5. Exporting or Printing

1. **Export Options**:
    - Use the export feature to save the report in formats like Excel or PDF for further analysis or sharing.
2. **Print the Report**:
    - Select the print option to generate a physical copy of the Trading and P&L accounts.

By following these steps, you can effectively display, configure, and analyze the Trading and Profit & Loss accounts in Tally to gain insights into your business's financial performance.

2.2.6. Format of Trading and P& L

ARTH

GALA NO. 10, DADAR MANISH MARKET CHS LTD, SENAPATI BAPAT MARG, DADAR (W), MUMBAI

Profit & Loss A/c

1-Apr-23 to 31-Mar-24

Particulars	1-Apr-23 to 31-Mar-24
Trading Account	
Sales Accounts	17,00,15,403.20
Direct Incomes	**17,00,15,403.20**
Cost of Sales :	**14,82,72,568.77**
Opening Stock	*1,95,42,600.00*
Add: Purchase Accounts	*13,86,87,448.77*
	99,57,480.00
Less: Closing Stock	
Direct Expenses	*14,82,72,568.77*

Gross Profit :		**2,17,42,834.43**
Income Statement:		
Indirect Incomes DISCOUNT RECEIVED	2,00,121.00	**2,25,864.00**
INTEREST ON FIXED DEPOSITE	6,693.00	
INTEREST ON INCOME TAX REFUND	19,050.00	
		2,19,68,698.43
Indirect Expenses RENT	18,00,000.00	**1,94,70,426.44**
BANK CHARGES	28,272.36	
COMMISSION ON SALES	11,18,085.43	
ELECTRICITY EXPENSES	2,24,580.00	
PRINTING & STATIONER YEXPENSES	1,85,871.15	
SALAR YPAID	26,52,825.00	
TRAVELLING EXPENSES	3,61,008.26	

BAD DEBTS	1,01,539.00	
CONVEYANC EEXPENSES	1,37,508.00	
COURIER CHARGES-GST18%	5,30,214.89	
COURIER CHARGES-IGST18%	34,230.60	
DEPRECIATION	1,25,388.00	
DESIGNER CHARGES PAID	19,80,000.00	
DISCOUNT ALLOWED	7,31,920.02	
DIWALI BONUS	1,10,000.00	
EVENT MANAGEMENT CHARGES	7,40,358.00	
GARMENTS FAIR PARICIPATION FEES	8,10,500.00	
HOTEL EXPENSES	14,448.00	
INTEREST ON LOAN PAID	13,12,605.00	
		continue

INTEREST ON PARTNERS' CAPITAL	*14,32,835.00*
INTERNET EXPENSES	*5,000.00*
LEGAL FEES	*1,500.00*
PACKING EXPENSES - 18%	*2,36,899.94*
PHOTO SHOOT EXPENSES	*2,54,100.00*
PROFESSIONAL FEES	*2,75,000.00*
REMUNERATION TO PARTNERS	*39,72,408.00*
ROUNDED OFF - IE	*0.75*
SHOP INSURANCE	*23,018.00*
SOCIETY MAINTENANCE EXPENSES	*1,180.00*
SOFTWARE EXPENSES	*5,500.00*
STAFF WELFARE	*1,68,811.00*
SUNDRY EXPENSES	*39,213.00*
SUNDRY EXPENSES - 18%	*27,320.00*
TELEPHOINE EXPENSES	*26,677.04*
WATER EXPENSES	*1,610.00*
Nett Profit:	**24,98,271.99**

2.3. BALANCE SHEET:

A balance sheet is a financial statement that provides a snapshot of a company's financial position at a specific point in time. It lists **assets** (what the company owns), **liabilities** (what it owes), and **equity** (owners' stake), adhering to the accounting equation:
Assets = Liabilities + Equity.

2.3.1. **Balance Sheet Key Features:** The Key feature of Balance sheet is explained below:

i. **Snapshot in Time**
The balance sheet provides a financial photograph of a company at a specific moment, such as December 31, 2023, rather than covering a period like a month or quarter. This single-date perspective allows stakeholders to see the company's exact financial position at that particular moment, making it possible to compare with previous dates to analyze changes over time.

ii. **Core Components**
Every balance sheet consists of three fundamental sections: assets, liabilities, and equity. These components work together to show what the company owns (assets), what it owes (liabilities), and the owners' stake in the business (equity). The relationship between these components is expressed through the accounting equation: Assets = Liabilities + Equity.

iii. **Assets**
Assets represent resources controlled by the company that are expected to bring future economic benefits. Current assets include cash, marketable securities, accounts receivable, and inventory—items that can be converted to cash within one year. Non-current assets consist of long-term resources like property, plant, equipment, and intangible assets that provide value beyond the next twelve months.

iv. **Liabilities**
Liabilities represent the company's obligations to transfer resources to other entities. Current liabilities include accounts payable, short-term debt, and accrued expenses that must be settled within one year. Non-current liabilities encompass longer-term obligations such as mortgages, bonds payable, and pension liabilities that extend beyond the next twelve months.

v. **Equity**
Equity represents the owners' residual claim on the company's assets after all liabilities have been paid. It includes capital contributed by shareholders (paid-in capital), retained earnings (accumulated profits not distributed as dividends), and various

reserves set aside for specific purposes like legal requirements or dividend restrictions.

vi. Balance

The balance sheet must always maintain the fundamental accounting equation: Assets = Liabilities + Equity. This balance ensures the financial statement is mathematically correct and provides a check against errors in recording transactions. If the equation doesn't hold, it indicates a mistake in the accounting process that needs to be identified and corrected.

vii. Periodic Preparation

Balance sheets are typically prepared at regular intervals, most commonly quarterly or annually, to show the company's financial position over time. This periodic preparation allows management, investors, and regulators to track changes in the company's financial health, identify trends, and make informed decisions based on up-to-date information.

viii. Standardized

Balance sheets follow standardized accounting frameworks like GAAP (Generally Accepted Accounting Principles) in the US or IFRS (International Financial Reporting Standards) internationally. These frameworks ensure consistency in how financial information is presented, making it possible to compare financial statements across different companies and industries while maintaining transparency and reliability for stakeholders.

2.3.2. Purpose: The Purpose of the balance sheet is been explained below:

i. **Financial Position Assessment**: To provide a snapshot of a company's financial position at a specific point in time, showing what it owns (assets), what it owes (liabilities), and the owners' equity.

ii. **Regulatory Compliance**: To fulfill legal and regulatory requirements for financial reporting, ensuring transparency and accountability to stakeholders, including government agencies and tax authorities.

iii. **Decision Support**: To assist management, investors, and creditors in making informed decisions by providing critical financial information about the company's resources and obligations.

iv. **Performance Comparison**: To enable comparison of the company's financial position over different periods, helping to identify trends, growth patterns, and potential areas of concern.

v. **Creditworthiness Evaluation**: To demonstrate a company's ability to meet its financial obligations, which is essential when seeking loans or credit from financial institutions.

2.3.3. **Importance of Preparing a Balance Sheet:** The following point explains in detail the important of preparing balance sheet:

i. **olvency Assessment**
The balance sheet reveals whether a company has sufficient assets to cover its long-term liabilities, indicating its ability to remain operational indefinitely. This assessment helps management and stakeholders understand the company's financial durability and risk of insolvency.

ii. **Liquidity Analysis**
By examining current assets relative to current liabilities, the balance sheet shows if a company can meet its short-term obligations as they come due. This analysis is crucial for maintaining smooth day-to-day operations and avoiding cash flow crises.

iii. **Investor Confidence**
Transparent financial reporting through balance sheets builds trust with investors by showing the company's true financial position. This transparency is essential for attracting new investment and retaining existing shareholders who rely on accurate information.

iv. **Strategic Planning**
The balance sheet provides data on asset utilization efficiency and capital structure, helping management make informed decisions about future investments. This information supports strategic choices about expansion, divestment, or financial restructuring.

v. **Credit Decisions**
Lenders use the balance sheet to evaluate a company's debt capacity and repayment ability before approving loans. This assessment helps banks and financial institutions determine appropriate interest rates and loan terms based on perceived risk.

vi. **Regulatory Compliance**
Preparing balance sheets according to established accounting standards ensures businesses meet legal requirements for financial reporting. This compliance protects companies from legal penalties and maintains their reputation with regulatory bodies.

vii. **Tax Purposes**
The balance sheet serves as a foundation for calculating various taxes, including property taxes and types of income taxes. It also helps companies maintain accurate records for tax audits and disputes.

viii. **Business Valuation**
During mergers, acquisitions, or sales, the balance sheet provides critical information about a company's net worth. This information

helps determine fair market value and negotiate appropriate purchase prices.

2.3.4. Steps to Display Balance Sheet in Tally

➢ **Accessing the Balance Sheet**

i. **Using Keyboard Shortcut**:
   - Press Alt+G to open the "Navigate" menu.
   - Type "Balance Sheet" and press Enter.

ii. **Through the Main Menu**:
   - Navigate to the "Gateway of Tally" which is the main dashboard.
   - Select on "Balance Sheet" from the list of options.

➢ **Viewing the Balance Sheet**

i. **Default Horizontal View**:
   - By default, the Balance Sheet displays horizontally with liabilities on the left and assets on the right.

ii. **Switching to Vertical View**:
   - Press Ctrl+H to change the view.
   - Select "Vertical" to see the Balance Sheet in a format showing Sources and Application of Funds.

➢ **Detailed Analysis**

i. **Detailed Breakdown**:
   - Press Alt+F1 to view a more detailed breakdown of each account.
   - Double-click on any account to drill down into its transaction details.

ii. **Comparative Analysis**:
   - Press F5 to compare the current Balance Sheet with previous periods or other companies.
   - Use F12 to customize the display, including adding columns, changing date ranges, or filtering data.

➢ **Additional Features**

i. **Exporting and Sharing**:
   - Export the Balance Sheet to Excel or PDF for further analysis or sharing purposes.

ii. **Printing**:

- Click the P:Print button to access printing options.
- Configure printing settings similarly to how you would configure the display view.

iii. **Schedule VI**:

- Click the S: Schedule VI button to view the Balance Sheet in the format required by the Companies Act in India.

iv. **Working Capital View**:

- Enable the "Show Working Capital figures" option in the configuration settings to display working capital calculations.

These steps will help you effectively display, analyze, and utilize the Balance Sheet in Tally for financial reporting and decision-making purposes.

2.3.4. Format of Balance Sheet:

ARTH
GALA NO. 10, DADAR MANISH MARKET CHS LTD, SENAPATI BAPAT MARG,
DADAR (W), MUMBAI
Balance Sheet
1-Apr-23 to 31-Mar-24

			as at 31-Mar-24
Sources of Funds:			
		Capital Account	**1,38,67,607.07**
PARTNER'S CAPITAL ACCOUNT	*1,38,67,607.07*		
Loans (Liability)	**1,80,30,477.00**		
Unsecured Loans	*1,80,30,477.00*		
Current Liabilities	**4,24,86,648.64**		
Duties & Taxes	*2,60,756.00*		
Provisions	*2,90,466.64*		
Sundry Creditors	*4,19,35,426.00*		
Profit & Loss A/c			
Opening Balance			
Current Period		*24,98,271.99*	
Less: Transferred		*24,98,271.99*	
T o t a l			**7,43,84,732.71**

Applicationof Funds:		
Fixed Assets		**8,32,215.97**
BLOCK - 10%	*4,54,270.00*	
BLOCK - 15%	*3,45,103.25*	
BLOCK - 40%	*32,842.72*	
Current Assets		**7,35,52,516.74**
Closing Stock	*99,57,480.00*	
Deposits (Asset)	*2,10,703.00*	
Sundry Debtors	*5,93,74,880.01*	
Cash-in-hand	*7,59,786.00*	
Bank Accounts	*31,63,754.23*	
GST CREDIT	*85,913.50*	
Misc. Expenses (ASSET)		
		Total 7,43,84,732.71

2.4. ILLUSTRATION:

You are the accountant for "Green Leaf Traders", a small trading company. The company has completed its first year of operations on 31st March 2024. The following transactions have been recorded during the year:

Mr. Ramesh started the business with capital of ₹5,00,000

Cash Purchased furniture for office use for ₹45,000

Cash Deposited ₹2,00,000 in State Bank of India

Purchased goods from Sun Enterprises for ₹1,50,000 on credit

Sold goods to Moon Traders for ₹2,00,000 On Credit

Paid salary to employees ₹`60,000 by cheque

Received goods from Star Suppliers worth ₹80,000 (credit)

Sold goods to Venus Traders for ₹`1,20,000 on credit

Paid electricity bill ₹`15,000 by cash

Withdrew ₹30,000 cash for personal use

Purchased computer equipment for ₹75,000 by cheque

Paid rent for premises ₹40,000 by cheque

Received payment from Moon Traders for earlier sale ₹2,00,000

Paid to Sun Enterprises for earlier purchase ₹`1,50,000 by cheque

Incurred advertising expenses ₹25,000 by cheque

Prepare the Trial Balance, Trading Account & Profit and Loss Account and Balance Sheet as of 31st March 2024 using Tally software.

Note:

Assume opening stock of ₹50,000

Closing stock is valued at ₹30,000

Opening Sundry Creditors Of ₹.50000

Consider all necessary adjustments for depreciation (if any), outstanding expenses, and accrued incomes

Green Leaf Traders

Profit & Loss A/c

1-Apr-23 to 31-Mar-24

Particulars	1-Apr-23 to 31-Mar-24		Particulars	1-Apr-23 to 31-Mar-24	
Opening Stock		**50,000.00**	**Sales Accounts**		**3,20,000.00**
Stock In Hand	*50,000.00*		*Sales Account*	*3,20,000.00*	
Purchase Accounts		**2,30,000.00**	Closing Stock		**50,000.00**
Purchase Account	*2,30,000.00*		*Stock In Hand*	*50,000.00*	
Gross Profit c/o		***90,000.00***			
		3,70,000.00			**3,70,000.00**
Indirect Expenses		**1,40,000.00**	Gross Profit b/f		***90,000.00***
Advertisement Expenses	*25,000.00*				
Electricity Expenses	*15,000.00*		Nett Loss		***50,000.00***
Rent Expenses	*40,000.00*				
Salary Expenses	*60,000.00*				
Total		**1,40,000.00**	**Total**		**1,40,000.00**

Green Leaf Traders

Trial Balance

1-Apr-23 to 31-Mar-24

Page 1

	Closing Balance	
	Debit	Credit
Capital Account	**30,000.00**	**4,50,000.00**
Drawings	*30,000.00*	
Ramesh Capital A/c		*4,50,000.00*
Current Liabilities		**1,30,000.00**
Sundry Creditors		1,30,000.00
Fixed Assets	**1,20,000.00**	
Computer	*75,000.00*	
Furniture	*45,000.00*	
Current Assets	**4,30,000.00**	
Opening Stock	50,000.00	
Sundry Debtors	1,20,000.00	
Cash-in-Hand	2,10,000.00	
Bank Accounts	50,000.00	
Sales Accounts		**3,20,000.00**
Sales Account		*3,20,000.00*
Purchase Accounts	**2,30,000.00**	
Purchase Account	*2,30,000.00*	
Indirect Expenses	**1,40,000.00**	
Advertisement Expenses	*25,000.00*	
Electricity Expenses	*15,000.00*	
Rent Expenses	*40,000.00*	
Salary Expenses	*60,000.00*	
Profit & Loss A/c		50,000.00
Grand Total	**9,50,000.00**	**9,50,000.00**

Green Leaf Traders

Balance Sheet

1-Apr-23 to 31-Mar-24

Liabilities		as at 31-Mar-24	Assets		as at 31-Mar-24
Capital Account		**4,20,000.00**	**Fixed Assets**		**1,20,000.00**
Drawings	*(-)30,000.00*		*Computer*	*75,000.00*	
Ramesh Capital A/c	*4,50,000.00*		*Furniture*	*45,000.00*	
Loans (Liability)			**Current Assets**		**4,30,000.00**
			Closing Stock	*50,000.00*	
Current Liabilities		**1,30,000.00**	Sundry Debtors	*1,20,000.00*	
Sundry Creditors	*1,30,000.00*		Cash-in-Hand	*2,10,000.00*	
			Bank Accounts	*50,000.00*	
			Profit & Loss A/c		
			Opening Balance		
			Current Period	*50,000.00*	
			Less: Transferred	*(-)50,000.00*	
Total		**5,50,000.00**	**Total**		**5,50,000.00**

2.5. CONCLUSION

The Trading Account, Profit & Loss Account, and Balance Sheet are essential financial statements that collectively provide a comprehensive view of a company's financial health. The Trading Account focuses on core business activities to determine gross profit, while the Profit & Loss Account expands on this to calculate net profit by incorporating all expenses and income streams. The Balance Sheet complements these by offering a snapshot of the company's financial position at a specific point in time, displaying assets, liabilities, and equity. Together, these statements enable stakeholders to make informed decisions about the business's future.

2.6. QUESTIONS:

2.6.1 Multiple Choice Questions

1. What is the primary purpose of the Trading Account?

   a) To calculate net profit b) To determine gross profit from core business activities c) To track cash flow d) To record capital transactions

2. Which statement provides a snapshot of a company's financial position at a specific point in time?

   a) Trading Account b) Profit & Loss Account c) Balance Sheet d) Cash Flow Statement

3. What is the main difference between direct and indirect costs?

   a) Direct costs are fixed, while indirect costs are variable b) Direct costs can be traced to specific products, while indirect costs cannot c) Direct costs are recorded in the Balance Sheet, while indirect costs are in the Profit & Loss Account d) Direct costs are always larger in amount than indirect costs

4. Which account would you examine to understand a company's overall profitability after all expenses?

   a) Trading Account b) Balance Sheet c) Profit & Loss Account d) Cash Book

5. What does the accounting equation represent?

   a) Assets = Liabilities + Equity b) Revenue - Expenses = Profit c) Gross Profit = Sales - COGS d) Current Assets = Current Liabilities

   Answer: b,c,b,c,a

2.6.2. Brief Questions

1. What are the key components of the Trading Account and how do they contribute to determining gross profit?
2. Explain the relationship between the Trading Account and the Profit & Loss Account.
3. How does the Balance Sheet complement the other financial statements in providing a complete picture of a company's financial health?
4. What is the significance of distinguishing between direct and indirect costs in financial reporting?
5. Describe how the accounting equation (Assets = Liabilities + Equity) is maintained throughout the financial statements.

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3

GOODS AND SERVICES TAX (GST)

Unit Structure

3.1. INTRODUCTION

GST stands for Goods and Services Tax, is a comprehensive, multi-stage, destination-based tax levied on the supply of goods and services. Implemented in India on July 1, 2017, it replaced a multitude of indirect taxes with a unified tax structure, aiming to simplify the tax system and eliminate the cascading effect of taxes. GST is levied at every stage of the supply chain, from production to consumption, with the final consumer bearing the tax burden. It operates under a dual structure comprising Central GST (CGST), State GST (SGST), and Integrated GST (IGST) for interstate transactions. The GST Council, a constitutional body, oversees the implementation and makes recommendations on GST rates, exemptions, and other critical matters.

3.1.1. Historical Development of Goods and Service Tax (GST)

The Goods and Services Tax (GST) represents a significant milestone in India's tax reform history. Its development spans several decades and involved multiple governments, committees, and legislative efforts. Here's a detailed look at the historical evolution of GST in India:

Early Proposals and Discussions

- **2000**: The concept of GST was first introduced by the Atal Bihari Vajpayee government as a unified tax system to replace multiple indirect taxes. A task force was formed to explore the feasibility and design of this comprehensive tax reform.

- **2002**: The Kelkar Task Force on Indirect Taxes recommended a comprehensive GST based on the Value Added Tax (VAT) principle, suggesting it would eliminate the cascading effect of taxes and create a more efficient tax system.

- **2004**: The Empowered Committee of State Finance Ministers was established to develop the GST model. This committee played a crucial role in preparing the groundwork for GST implementation by facilitating discussions between central and state governments.

Legislative and Administrative Milestones

- **2006**: Finance Minister P. Chidambaram set an ambitious target date for GST implementation, aiming to launch the new tax system by April 1, 2010. This announcement marked a significant step toward actualizing the long-discussed tax reform.

- **2009**: The First Discussion Paper on GST was released by the Empowered Committee, outlining the proposed GST regime in detail. This document served as a foundation for further legislative development and stakeholder consultations.

- **2010**: The government initiated a mission-mode project to lay the foundation for GST implementation. This project focused on developing the necessary technological infrastructure and administrative frameworks to support the new tax system.

Constitutional Amendments and Political Challenges

- **2011**: The 115th Constitutional Amendment Bill was introduced in Parliament to enable the implementation of GST. However, the Bill later lapsed due to political differences between the central government and some state governments.

- **2014**: The 122nd Constitutional Amendment Bill was reintroduced and passed by the Lok Sabha. This revised Bill addressed some of the concerns raised by states and paved the way for further legislative progress.

- **2016**: After extensive deliberations and negotiations, the Bill was passed by the Rajya Sabha and received Presidential assent, becoming the 101st Constitutional Amendment Act. This landmark legislation enabled the creation of a dual GST structure in India.

Implementation and Post-Implementation Developments

- **2016**: The GST Council was formed as a constitutional body to finalize GST rates, regulations, and exemptions. The Council's composition included representatives from both central and state governments, ensuring collaborative decision-making.

- **2017**: GST was officially implemented on July 1, 2017, replacing multiple indirect taxes such as Central Excise, Service Tax, and various state-level taxes with a unified tax system. This historic implementation marked a major milestone in India's tax reform journey.

- **2018-2021**: The implementation of the E-way bill system and other regulatory changes continued to refine the GST framework. These post-implementation developments aimed to address initial challenges and improve the efficiency and effectiveness of the tax system.

3.1.2. GST Registration Process

The Goods and Services Tax (GST) registration process in India is designed to formalize businesses under the GST regime. Here's a comprehensive breakdown of the process:

1. Determining Eligibility

Businesses must first determine if they're required to register for GST. Registration is mandatory if:

i. Annual Turnover Threshold: Businesses must register for GST if their annual turnover exceeds ₹ 40 lakh (or ₹ 20 lakh for special category states likes Puducherry, Meghalaya, Mizoram & Tripura, Manipur, Sikkim, Nagaland, Arunachal Pradesh & Uttarakhand). This threshold ensures that businesses of significant economic size are brought under the GST regime.

ii. Inter-State Supplies: Any business involved in inter-state supplies of goods or services must register for GST. This requirement facilitates a unified tax system across India and ensures proper taxation of cross-border transactions.

iii. Casual Taxpayer Status: Businesses registered as casual taxpayers must register for GST. This category typically applies to businesses that occasionally make taxable supplies without a permanent establishment.

iv. Taxable Supplies: Businesses supplying taxable goods or services must register for GST regardless of their turnover. This ensures that all providers of taxable products and services are accountable under the GST system.

2. Collecting Required Documentation

Businesses need to gather several documents before applying for GST registration:

- PAN card of the business
- Business constitution proof (e.g., partnership deed, articles of association)
- Address proof of the business location
- Bank account details

- Details of authorized signatories
- Details of directors/partners
- Rent agreement if operating from a rented premises
- Import/export code (if applicable)

3. Applying Online through the GST Portal

The GST portal must be used to submit the registration application online (https://www.gst.gov.in/). The process involves:

i. **Creating an Account on the GST Portal**
Businesses must visit the official GST website (https://www.gst.gov.in/) and create an account by providing basic information including a valid email address and mobile number. This account serves as the business's gateway to all GST-related activities and allows secure access to registration, filing, and compliance functions.

ii. **Filling out Form GST REG-01 with Business Details**
Form GST REG-01 requires comprehensive information about the business including its legal name, constitution, principal place of business, nature of activities, and details of owners or partners. Accurate completion of this form is crucial as it forms the basis of the business's registration profile and determines applicable tax rates and compliance requirements.

iii. **Uploading Supporting Documents**
Businesses must upload digital copies of supporting documents including PAN card, proof of business constitution, address proof, bank account details, and authorization letters. These documents verify the authenticity of the information provided in the application and must be in acceptable formats and resolutions for successful processing.

iv. **Verifying Mobile Number and Email ID**
The GST portal sends verification codes (OTP) to the registered mobile number and email address to confirm the business's contact information. This verification step ensures that tax authorities can communicate effectively with the business throughout the registration process and during ongoing compliance activities.

v. **Submitting the Application**
After completing all previous steps, businesses formally submit their GST registration application through the portal. Submission triggers an automated acknowledgment and allows the business to track application status. Once submitted, the application enters the review process where tax authorities may request additional information or clarification.

4. Verifying Business Details

i. **Physical Verification of Business Premises**
The GST department may conduct a physical verification of the business location to confirm that the business operates from the address provided in the application. This step ensures the business's physical presence and legitimacy, and while not required for every application, it helps prevent fraudulent registrations. The verification may involve a tax official visiting the premises to confirm business operations.

ii. **Checking Authenticity of Submitted Documents**
Tax authorities will verify the genuineness of all documents submitted with the GST application, including PAN cards, business constitution proofs, and address proofs. This process may involve cross-referencing with government databases or contacting issuing authorities directly. Ensuring document authenticity is crucial for maintaining the integrity of the tax system and preventing fraudulent registrations.

iii. **Verifying Business Activities Mentioned in the Application**
The department will review the nature of business activities declared in the application to ensure they align with actual operations and tax classifications. This verification helps determine the correct GST rates applicable to the business and ensures proper tax collection. The authorities may request additional information or documentation to confirm that the business activities are accurately represented.

5. Receiving GSTIN

Upon successful verification:

i. Unique 15-Digit GST Identification Number (GSTIN)

Upon successful verification, the business receives a unique 15-digit GSTIN that serves as its identifier in the GST system. This number follows a specific format that includes information about the state, business entity, and check digit, ensuring uniqueness across India.

Structure of GSTIN

The 15-digit GSTIN follows a specific format that encodes important information about the business:

- **State Code (2 digits)**: Represents the state or union territory where the business is registered. For example, Maharashtra is coded as 27, Delhi as 07.
- **PAN-Based Portion (10 digits)**: The next 10 digits are derived from the business's Permanent Account Number (PAN), ensuring

linkage between GST registration and the business's tax identification.

- **Entity Number (1 digit)**: Indicates whether the registration is for the primary place of business (typically 1) or additional establishments.
- **Checksum Digit (1 digit)**: The final digit is a computer-generated checksum that helps validate the authenticity of the GSTIN.

Example of GSTIN

A sample GSTIN might look like: 27ABCDE1234F1Z5

- 27: Maharashtra state code
- ABCDE1234F: PAN-based portion
- 1: Entity number (primary establishment)
- Z: Checksum digit

ii. Electronic Certificate of Registration

The GST department issues an electronic registration certificate that contains all relevant business details and GSTIN. This certificate serves as proof of GST registration and must be kept safely as it may be required for audits, business transactions, and tax filings.

iii. Ability to File GST Returns and Pay Taxes Through the Portal

With the GSTIN, businesses gain full access to the GST portal's compliance features, including filing various GST returns (GSTR-1, GSTR-3B, etc.) and making tax payments. The portal provides a centralized platform for all GST-related activities, ensuring streamlined compliance with tax obligations.

6. Post-Registration Requirements for GST

i. Display the GSTIN on all business communications and invoices

Businesses must prominently display their 15-digit GSTIN on all official documents, websites, and business correspondence. This requirement ensures transparency and allows business partners and tax authorities to easily identify the business in the GST system.

ii. File regular GST returns (monthly/quarterly)

Businesses must submit GST returns either monthly or quarterly, depending on their registration type and turnover. These returns provide details of supplies made, taxes collected, and taxes paid, enabling tax authorities to track compliance and revenue collection.

iii. Pay GST dues on time

Timely payment of GST ensures proper cash flow for the government and prevents accumulation of tax liabilities. Businesses can pay taxes through the GST portal using various payment methods, and must ensure payments are made before the due dates to avoid penalties.

iv. Maintain proper records of sales, purchases, and tax payments

Accurate record-keeping is essential for GST compliance, audit purposes, and claiming input tax credits. Records must be maintained digitally or physically for at least 6 years and should include all financial transactions related to GST.

v. Issue tax invoices in the prescribed format

Standardized tax invoices facilitate proper documentation of transactions and enable businesses to claim input tax credits. The prescribed format includes specific details such as GSTIN, date, value of supply, and tax rates, ensuring consistency across all business transactions.

The GST registration process is designed to be transparent and digital, allowing businesses to complete the entire process online. The GST portal provides comprehensive guidance and support throughout the registration journey.

3.2. GST CONCEPT:

The concept of GST is explained as below with the help of example:

i. Value-Added Tax Mechanism

GST is structured as a value-added tax (VAT), meaning it applies only to the value created at each stage of production and distribution rather than the full value of goods or services. This prevents taxation of the same value multiple times as products move through the supply chain. For example, if a manufacturer adds ₹ 100 of value to raw materials costing ₹ 500 to produce goods worth ₹ 600, GST is only applied to the ₹ 100 value addition, not the entire ₹ 600.

ii. Business Collection and Input Tax Credits

Businesses act as tax collectors for the government by charging GST to their customers. They can then claim input tax credits (ITC) for the GST they've paid on business inputs, ensuring they don't bear the tax burden themselves. For instance, if a retailer pays ₹ 50 GST on goods purchased from a wholesaler and collects ₹ 80 GST from customers, they remit only ₹ 30 to the government (₹ 80 collected - ₹ 50 paid) while claiming the ₹ 50 as ITC.

iii. Efficiency and Transparency Benefits

This system eliminates double taxation and creates a transparent audit trail of transactions. Businesses benefit from reduced compliance costs and administrative simplicity. For example, a company can easily track GST paid on raw materials and claim credits through the digital GST portal, reducing paperwork and potential errors in tax calculation.

iv. CGST, SGST, and IGST

The three types of GST ensure proper revenue distribution between central and state governments:

- CGST: Central government collects this tax on intrastate transactions. For example, when a business in Maharashtra sells goods within the state, CGST is levied alongside SGST.
- SGST: State governments collect this portion on intrastate transactions. Using the same Maharashtra example, the state government receives its share through SGST.
- IGST: Central government collects this tax on interstate transactions but shares revenue with the destination state. If a business in Maharashtra sells goods to a customer in Gujarat, IGST is applied, and the central government later transfers the appropriate portion to Gujarat.

3.3 NEED FOR GST

1. Eliminating Cascading Effect

The previous tax system in India had a cascading effect where taxes were levied on taxes at various stages of production and distribution, increasing the final price of goods and services. GST eliminates this by taxing only the value added at each stage of the supply chain.

Example: Before GST, a manufacturer might have paid excise duty on raw materials, then a wholesaler would pay VAT on the products they purchased from the manufacturer, and finally a retailer would pay additional taxes when selling to consumers. This led to taxes being paid on taxes at each stage. Under GST, each business can claim input tax credit for the taxes they've already paid, so they only pay tax on the value they've added to the product.

2. Simplifying Tax Structure

The previous system had multiple indirect taxes like Central Excise, Service Tax, VAT, CST, Octroi, etc., which created complexity for businesses. GST replaced these multiple taxes with a single tax, making compliance easier and reducing administrative burdens.

Example: A business previously had to deal with different tax rates and regulations for Central Excise, Service Tax, and VAT in each state. Under

GST, they now deal with a single tax regime with uniform rates across the country, reducing the need for multiple tax registrations and filings.

3. Promoting a Unified Market

The previous system created barriers to interstate trade due to different tax rates and regulations in each state. GST created a uniform tax rate across India, allowing goods and services to move freely between states without facing additional tax barriers.

Example: A Company manufacturing goods in Maharashtra previously faced additional taxes and paperwork when selling to customers in Tamil Nadu. Under GST, they can sell across state borders with a single tax regime, making interstate trade more efficient and cost-effective.

4. Enhancing Tax Compliance

The previous system had many opportunities for tax evasion due to complex regulations and multiple points of compliance. The online GST portal and digital records under GST have improved transparency and made it easier for businesses to comply with tax requirements.

Example: Previously, businesses might have underreported sales to avoid paying multiple taxes. The GST system requires businesses to file monthly and quarterly returns through a centralized portal, with input tax credits dependent on matching supplier invoices, reducing opportunities for evasion.

3.4. BENEFITS OF GST:

The Goods and Services Tax (GST) has transformed India's indirect tax regime by replacing multiple central and state taxes with a unified system. Here's a breakdown of its benefits across three key areas:

- **Economic Growth**

  i. **Simplified Tax Structure**: The GST replaced over 17 different taxes like VAT, CST, and excise duty with a single tax system. This reduction in complexity lowers compliance costs for businesses and makes tax collection more efficient for the government.

  ii. **Unified National Market**: By eliminating inter-state trade barriers, GST has created a seamless marketplace across India. This reduces logistics costs and allows businesses to operate more efficiently across state boundaries.

  iii. **Increased Tax Compliance**: The input credit mechanism requires businesses to maintain accurate records to claim tax credits. This transparency reduces tax evasion and expands the tax base as more businesses come into the formal system.

iv. **Higher GDP Growth**: Streamlined tax processes and reduced transaction costs make businesses more productive. This efficiency attracts both domestic and foreign investment, contributing to long-term economic growth.

v. **Export Competitiveness**: GST's destination-based principle means exports are not taxed, making Indian goods and services more price-competitive in global markets.

- **Benefits for Consumers**

i. **Lower Prices**: The elimination of the cascading effect (taxes on taxes) directly reduces the final price consumers pay for goods and services.

ii. **Transparency**: Clear GST rate slabs (5%, 12%, 18%, 28%) make tax calculations straightforward for businesses and consumers alike, preventing hidden taxes and charges.

iii. **Improved Product Quality**: With reduced compliance burdens, businesses can allocate more resources to improving product quality and innovation rather than tax management.

iv. **Uniform Pricing**: GST eliminates price variations between states, ensuring consumers pay consistent prices for goods and services across the entire country.

- **Ease of Doing Business**

i. **Simplified Compliance**: The single online portal for GST registration, return filing, and tax payment significantly reduces paperwork and the time required for tax compliance.

ii. **Input Tax Credits (ITC)**: Businesses can claim credits for taxes paid on inputs, which improves cash flow and reduces overall business costs.

iii. **Reduced Litigation**: Standardized rules and clear dispute resolution mechanisms minimize legal conflicts between businesses and tax authorities.

iv. **Formalization of Economy**: Informal businesses are incentivized to join the formal sector to avail GST benefits, increasing economic transparency and formal sector growth.

v. **Startup-Friendly**: Simplified tax processes and lower compliance costs make it easier for startups to operate, encouraging entrepreneurship and innovation.

3.7 CONCLUSION:

The Goods and Services Tax (GST) is a comprehensive, multi-stage, destination-based indirect tax system implemented to unify and streamline the fragmented tax structure in India. Conceptually, GST integrates various indirect taxes like VAT, excise duty, and service tax into a single tax, levied on the supply of goods and services at every stage of production or distribution, with credits available for input taxes paid at preceding stages. The need for GST arose from the inefficiencies of the pre-existing multi-layered tax regime, which led to cascading effects (tax-on-tax), complex compliance, and inter-state trade barriers. By replacing multiple central and state taxes, GST has fostered a unified national market, enhanced economic integration and reduced compliance costs for businesses. Key benefits include improved tax transparency, elimination of cascading taxes, increased tax base through better compliance, and higher revenue potential for the government. GST has also simplified cross-border trade within India, boosting ease of doing business and attracting foreign investment. Despite transitional challenges, GST represents a landmark reform that aligns India's tax system with global best practices, promoting economic growth and fiscal efficiency.

3.8. QUESTIONS

3.8.1. Multiple Choice Questions (MCQs)

1. What does GST stand for?
A) Government Sales Tax
B) Goods and Services Tax
C) General Sales Tax
D) Global Service Tax

Answer: B) Goods and Services Tax

2. Which of the following is NOT a key objective of GST?
A) To eliminate cascading taxes
B) To increase tax evasion
C) To unify indirect tax systems
D) To simplify tax compliance

Answer: B) To increase tax evasion

3. How many tax slabs were initially introduced under GST in India?
A) 2
B) 3
C) 4
D) 5

Answer: D) 5 (0%, 5%, 12%, 18%, 28%)

4. Which tax was NOT subsumed under GST?
A) Central Excise Duty
B) Service Tax
C) Customs Duty
D) State VAT

Answer: C) Customs Duty

5. What does "dual GST" mean?
A) GST applies only to goods
B) GST is levied by both the Central and State governments
C) GST applies only to services
D) GST is collected by private entities

Answer: B) GST is levied by both the Central and State governments

6. Which body formulates GST policies in India?
A) GST Council
B) Finance Ministry
C) RBI
D) Income Tax Department

Answer: A) GST Council

7. What is the main benefit of GST for businesses?
A) Reduced paperwork and compliance costs
B) Higher tax rates
C) Complex tax filing
D) Separate taxes for goods and services

Answer: A) Reduced paperwork and compliance costs

8. Which sector benefits most from GST due to seamless credit mechanisms?
A) Agriculture
B) Manufacturing
C) Education
D) Real Estate

Answer: B) Manufacturing

9. What is the threshold limit for GST registration under the composition scheme?
A) ₹10 lakh
B) ₹1.5 crore
C) ₹40 lakh
D) ₹20 lakh

Answer: B) ₹ 1.5 crore (for manufacturers)

10. Which of these is NOT a type of GST in India?
A) CGST
B) SGST
C) UGST
D) IGST

Answer: C) UGST (Union Territory GST is called UTGST)

3.8.2. Brief Questions:

a. Explain the concept of GST in simple terms.
b. Why was GST introduced in India?
c. What are the types of GST in India?
d. How does GST benefit consumers?
e. What is the "destination-based" principle of GST?
f. How does GST improve tax compliance?
g. What role does the GST Council play?
h. How has GST impacted small businesses?

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4

GST TAXES AND INVOICES

Unit Structure

4.1. INTRODUCTION

Goods and Services Tax (GST) is a comprehensive indirect tax regime in India that streamlines taxation through centralized (CGST), state (SGST), and integrated (IGST) components. Understanding GST rates, their application, and accurate invoicing is crucial for compliance, including proper computation of tax liabilities. Businesses must adhere to regulations for printing tax invoices and maintain records of CGST, SGST, and IGST transactions. In accounting software like Tally, activating GST masters, setting up GST rates, updating vendor GSTINs, and configuring service ledgers ensures seamless compliance. This process automates GST calculations, reduces errors, and facilitates efficient tax reporting, aligning business practices with statutory requirements.

4.1.1 Current GST Rate in India: The Goods and Services Tax (GST) in India for 2025 is categorized into five slabs: 0%, 5%, 12%, 18%, and 28%, designed to ensure a fair and equitable tax structure based on the nature of goods and services.

- **GST Slab Rates and Examples**

i. 0% GST Rate

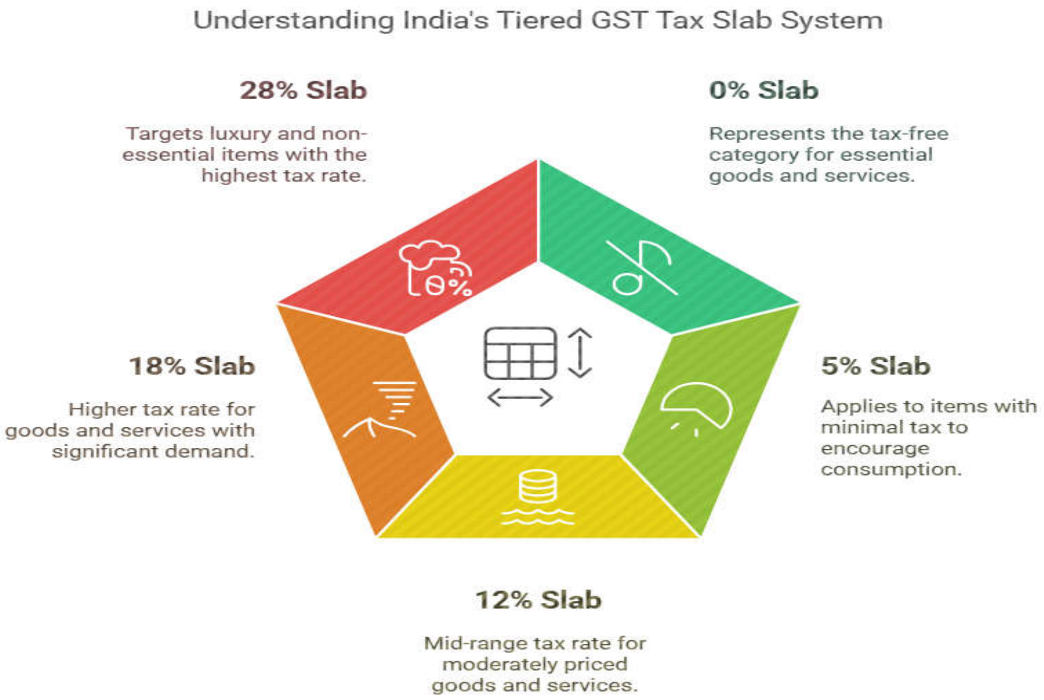
The 0% GST rate applies to essential goods and services to ensure they remain affordable for consumers. These include basic food items like fresh milk, eggs, and unpackaged grains, as well as essential services such as education provided by charitable trusts and healthcare services. Non-AC public transportation is also exempt from GST under this slab to make commuting accessible for all income groups.

ii. 5% GST Rate

The 5% GST rate targets basic necessities and essential commodities that are widely consumed by the general population. This includes essential food items like edible oils, sugar, tea, and coffee, as well as coal which is crucial for energy production. Services in this slab include railway transport and economy class air travel, ensuring affordable transportation options for everyday commuters.

iii. 12% GST Rate

The 12% GST rate covers goods and services that are considered standard-rated, balancing government revenue needs with consumer affordability. This includes processed food items like butter and ghee, as well as technology products such as computers and mobile phones. Services in this category include business class



air travel and mid-range hotel accommodations, providing a middle ground between essential and luxury services.

iv. 18% GST Rate

The 18% GST rate applies to a broad range of goods and services that are neither essential nor luxury items. This includes personal care products like hair oil, toothpaste, and soaps, as well as various industrial intermediaries used in manufacturing processes. Services in this slab include air-conditioned restaurants, IT services, and telecom services, reflecting common business and consumer expenditures.

v. 28% GST Rate

The highest GST rate of 28% is imposed on luxury goods and sin goods to generate significant tax revenue while discouraging their consumption. This includes luxury vehicles like high-end cars and motorcycles, as well as tobacco products. Services in this category include premium hotel stays, entertainment events, and amusement parks, targeting discretionary spending by higher-income consumers.

4.2. ACTIVATING GST FOR REGULAR DEALERS IN TALLY

To activate GST for Regular Dealers in Tally, follow these steps:

1. **Open the Company**: Launch Tally and open the specific company for which you need to activate GST.
2. **Access Features Menu**: Press **F11** to open the Features menu, then press **F3** to access the Statutory & Taxation settings.
3. **Enable GST**: Set **Enable Goods and Services Tax (GST)** to **Yes**. If this option isn't visible, enable **Show more features** and **Show all features** first.
4. **Set GST Details**:
   - **State**: Verify the state selected matches your company's registration state.
   - **Registration Type**: Select **Regular** from the options.
   - **Assessee of Other Territory**: Set to **Yes** only if your business is located in the Exclusive Economic Zone.
   - **GSTIN/UIN**: Enter your 15-digit GSTIN. For learning purposes, you can enter a valid format even if it's not your actual number.
   - **Applicable From Date**: Enter the date from which GST should apply to your transactions.
   - **Periodicity of GSTR-1**: Choose **Monthly** or **Quarterly** based on your business turnover.

- **E-Way Bill Applicability**: Set to **Yes** if applicable, and enter the threshold limit and other relevant details.

5. **Configure Additional Settings**:
   - **Tax Liability for Advance Receipt**: Set to **Yes** if tax liability applies to advance payments.
   - **Reverse Charge Applicability**: Enable if purchases from unregistered dealers require reverse charge calculations.
   - **GST Rate Details**: Activate **Set/alter GST rate details** to enter GST rates at the company level.
   - **GST Classification**: Enable this option to create and use classifications in GST details.
6. **Save and Proceed**: Press **Ctrl+A** to save your settings. You're now ready to record transactions with GST details and generate GST-compliant invoices.

After completing these steps, your Tally setup will be GST-compliant for Regular Dealers, allowing you to manage GST transactions, generate reports, and file returns efficiently.

4.3. GST RATE SET-UP:

GST rate setup in Tally is essential for accurate tax calculations and compliance with Indian tax regulations. To set up GST rates, navigate to the GST menu in Tally, create or modify rate records with appropriate CGST, SGST, and IGST percentages, and specify the effective date and applicability. Finally, assign these GST rates to relevant product categories or services in their respective ledgers to ensure correct tax calculations on invoices and financial reports.

Step-by-Step Procedure is exemplified as below:

1. Open the Company in Tally

- Launch Tally and select the appropriate company from the list of existing companies.

2. Access the GST Rate Setup Menu

- Press **Alt + G** to open the Gateway of Tally.
- Navigate to **Gateway of Tally > Display > Statutory Reports > GST > GST Summary > GST Rates**.

3. Create or Modify GST Rates

- To create a new GST rate:
  - Press **Alt + N** to create a new GST rate record.
  - Enter the following details:

    - **Nature of Supply**: Choose between B2B (Business to Business) or B2C (Business to Consumer).
    - **Supply At**: Select whether the supply is "Place of Supply" or "Place of Business".
    - **Reverse Charge**: Mark as "Yes" if applicable.
    - **Applicable From**: Enter the date from which this rate applies.
    - **CGST Rate**: Enter the Central GST percentage (e.g., 9% for 18% GST).
    - **SGST Rate**: Enter the State GST percentage (e.g., 9% for 18% GST).
    - **IGST Rate**: Enter the Integrated GST percentage for inter-state transactions.
    - **Cess Rate**: Enter any applicable cess percentage.
  - Press **Enter** to save.
- To modify an existing GST rate:
  - Select the existing GST rate from the list.
  - Make the necessary changes to the rates or other details.
  - Press **Enter** to save the modifications.

4. Assign GST Rates to Product Categories or Services

- Navigate to the relevant product or service ledger in Tally.
- Press **Alt + A** to modify the ledger.
- Go to the "Duties & Taxes" section.
- Select the appropriate GST rate that you have created or modified.
- Press **Enter** to save the assignment.

5. Verify and Apply Changes

- Review all GST rate setups to ensure accuracy.
- Test by creating a sample invoice to confirm the GST calculations are correct.
- Make any necessary adjustments before finalizing.

4.4. UPDATING STOCK ITEMS AND STOCK GROUPS

Updating stock items and stock groups in Tally is essential for maintaining accurate inventory records and ensuring GST compliance. This process allows businesses to reflect current tax rates, classify items appropriately, and generate accurate financial reports. Properly configured stock items and groups help in streamlining inventory management, tracking stock levels, and facilitating efficient reporting for accounting and tax purposes.

Steps to Update Stock Items

1. **Access Stock Item Master**:
   - Go to **Gateway of Tally > Inventory Info > Stock Items > Alter** or press **Alt + G** then select **Alter Master > Stock Item** .
2. **Select Stock Item**:
   - Choose the specific stock item from the **List of Stock Items** that needs updating.
3. **Update GST Details**:
   - Set **Set/Alter GST Details** to **Yes** to access the GST Details screen.
   - Specify the **Taxability** (Taxable, Exempt, or Nil Rated) based on GST regulations.
   - Enter the applicable **Integrated Tax Rate** (IGST), which will automatically calculate CGST and SGST rates.
   - Select the appropriate **Type of Supply** (B2B or B2C) for the item .
4. **Save Changes**:
   - Press **Ctrl + A** to save the updated details for the stock item.

Steps to Update Stock Groups

1. **Access Stock Group Master**:
   - Navigate to **Gateway of Tally > Inventory Info > Stock Groups > Alter** or press **Alt + G** then select **Alter Master > Stock Group** .
2. **Select Stock Group**:
   - Choose the specific stock group from the **List of Stock Groups** that needs updating.
3. **Update GST Details for Group**:
   - Set **Set/Alter GST Details** to **Yes** to access the GST Details screen.
   - Specify the **Taxability** (Taxable, Exempt, or Nil Rated) for the group.

- Enter the applicable **Integrated Tax Rate** (IGST), which will automatically calculate CGST and SGST rates.
- Save the changes using **Ctrl + A**

4.5. UPDATING STOCK ITEMS AND STOCK GROUPS

Updating stock items and stock groups in Tally is essential for maintaining accurate inventory records and ensuring GST compliance. This process allows businesses to reflect current tax rates, classify items appropriately, and generate accurate financial reports. Properly configured stock items and groups help in streamlining inventory management, tracking stock levels, and facilitating efficient reporting for accounting and tax purposes.

Steps to Update Stock Items

1. **Access Stock Item Master**:
   - Go to **Gateway of Tally > Inventory Info > Stock Items > Alter** or press **Alt + G** then select **Alter Master > Stock Item** .
2. **Select Stock Item**:
   - Choose the specific stock item from the **List of Stock Items** that needs updating.
3. **Update GST Details**:
   - Set **Set/Alter GST Details** to **Yes** to access the GST Details screen.
   - Specify the **Taxability** (Taxable, Exempt, or Nil Rated) based on GST regulations.
   - Enter the applicable **Integrated Tax Rate** (IGST), which will automatically calculate CGST and SGST rates.
   - Select the appropriate **Type of Supply** (B2B or B2C) for the item .
4. **Save Changes**:
   - Press **Ctrl + A** to save the updated details for the stock item.

Steps to Update Stock Groups

1. **Access Stock Group Master**:
   - Navigate to **Gateway of Tally > Inventory Info > Stock Groups > Alter** or press **Alt + G** then select **Alter Master > Stock Group**
2. **Select Stock Group**:
   - Choose the specific stock group from the **List of Stock Groups** that needs updating.

3. **Update GST Details for Group**:
   - Set **Set/Alter GST Details** to **Yes** to access the GST Details screen.
   - Specify the **Taxability** (Taxable, Exempt, or Nil Rated) for the group.
   - Enter the applicable **Integrated Tax Rate** (IGST), which will automatically calculate CGST and SGST rates.
   - Save the changes using **Ctrl + A**

4.6. UPDATE PARTY GSTIN/UIN:

Updating party GSTIN/UIN in Tally is crucial for maintaining accurate GST compliance and ensuring proper tax calculations. This process allows businesses to maintain up-to-date records of their customers' and suppliers' GST identification numbers, which is essential for generating correct invoices, filing GST returns, and claiming input tax credits.

Steps to Update Party GSTIN/UIN

Method 1: Updating Individual Ledger Information

1. **Access Ledger Creation/Alteration**:
   - If the party ledger doesn't exist, navigate to **Gateway of Tally > Create > Ledger**.
   - If the party ledger already exists, locate it within the Chart of Accounts and double-click to open for alteration.
2. **Update GSTIN/UIN**:
   - Locate the **GST Details** section within the ledger creation or alteration screen.
   - Enter the new or updated GSTIN/UIN in the designated field.
3. **Save Changes**:
   - Press **Ctrl + A** or click **Accept** to save the changes and update the party's GST information.

Method 2: Updating GSTIN/UIN for Multiple Ledgers (Group-wise)

1. **Access Update Party GSTIN/UIN Report**:
   - Go to **Gateway of Tally > Display More Reports > Statutory Reports > GST Reports > Update Party GSTIN/UIN**.
   - Alternatively, press **Alt + G** (Go To), choose **Display > Statutory Reports > GST Reports > Update Party GSTIN/UIN**.

2. **Select Ledger Group**:
   - In the **Select Group** screen, choose the group containing the party ledgers you want to update (e.g., "Sundry Debtors" for customers or "Sundry Creditors" for suppliers).
3. **Update GSTIN/UIN**:
   - The report will display a list of ledgers within the selected group. You can directly update the GSTIN/UIN information within this list for individual ledgers.
   - For bulk updates, you can use the **Import Party GSTIN** add-on to import GSTIN details from an Excel file.
4. **Save Changes**:
   - Press **Ctrl + A** or click **Accept** to save the changes for the selected group.

Method 3: Importing GSTIN/UIN via Excel or XML

1. **Prepare File**:
   - Create an Excel or XML file with columns for **Party Name**, **GSTIN**, **State**, and **Type of Registration**.
2. **Import File into Tally**:
   - Go to **Gateway of Tally > Import Data > Masters**.
   - Select **Excel or CSV File** or **XML File** as the source.
   - Locate the prepared file and import it.
3. **Verify Imported Data**:
   - Check individual party ledgers to ensure the GSTIN details are correctly updated.

4.7. CREATING GST LEDGERS

Creating GST ledgers in Tally is essential for accurate tax accounting and compliance with India's Goods and Services Tax regulations. Properly configured GST ledgers ensure that your business can accurately track, calculate, and report GST liabilities and credits across different tax components (CGST, SGST, IGST, etc.). This setup facilitates seamless generation of GST-compliant invoices and financial statements, while also simplifying tax reconciliation and return filing processes.

Steps to Create GST Ledgers in Tally

Step 1: Enable GST for Your Company

1. Open your company in Tally.
2. Press **F11** to access Features.
3. Set **Enable Goods and Services Tax (GST)** to **Yes**.
4. Configure additional GST settings as needed (registration type, periodicity, etc.).

Step 2: Create GST Registration Details

1. Navigate to **Gateway of Tally > Create Master > GST Registration**.
2. Enter your company's GSTIN, state of registration, and other relevant details.
3. Save the details by pressing **Ctrl + A**.

Step 3: Create GST Ledgers

1. Navigate to **Gateway of Tally > Create > Ledger**.
2. In the **Under** field, select **Duties & Taxes**.
3. Set **Type of duty/tax** to **GST**.
4. Choose the appropriate **Tax type** from the options:
   - **Central Tax (CGST)**: For intra-state transactions where central tax applies.
   - **State Tax (SGST)**: For intra-state transactions where state tax applies.
   - **Integrated Tax (IGST)**: For inter-state transactions.
   - **Union Territory Tax (UTGST)**: For transactions within union territories.
   - **Cess**: For applicable cess taxes.
5. Enter a descriptive **Ledger Name** (e.g., "CGST 9%", "IGST 18%").
6. Set any opening balances if necessary.
7. Press **Ctrl + A** to save each ledger.

Step 4: Assign GST Rates and HSN/SAC Codes

1. Navigate to **Gateway of Tally > Display > Statutory Reports > GST > GST Rate Setup**.
2. Select the relevant stock items or groups.
3. Press **Alt + S** to set applicable GST rates.
4. Assign appropriate HSN (for goods) or SAC (for services) codes to each item.

Step 5: Link GST Ledgers to Relevant Accounts

1. Open the ledger you want to associate with GST (e.g., sales or purchase ledger).
2. Press **Ctrl + I** to access more details.
3. Select the appropriate GST ledger (CGST, SGST, IGST) for the transaction type.
4. Save the changes by pressing **Ctrl + A**.

4.8. UPDATE A SERVICE LEDGER FOR GST COMPLIANCE:

Updating a service ledger in Tally for GST compliance ensures accurate tax calculations and reporting for services your business provides. Proper configuration helps maintain correct financial records, streamlines tax filing processes, and ensures your business adheres to GST regulations.

Steps to Update a Service Ledger for GST Compliance

i. **Access the Ledger**:
   - Go to **Gateway of Tally > Accounts Info > Ledgers > Alter**.
   - Select the service ledger you want to update.

ii. **Enable GST Applicability**:
   - Set **Is GST Applicable** to **Applicable**.

iii. **Configure GST Details**:
   - Press **Ctrl+I** or click **More Details**.
   - Select **Set/alter GST Details**.
   - Choose the appropriate **Nature of Transaction** (e.g., Sales Taxable or Purchase Taxable).
   - Select **Taxability** (Taxable, Exempt, or Nil Rated) based on your service.

- Enter the applicable **Integrated Tax Rate** (GST rate).
- Provide the relevant **HSN/SAC Code** for the service.

iv. **Specify Additional Details**:

- Define the **Place of Supply** if different from your company location.
- Enable **Reverse Charge Mechanism** if applicable for specific transactions.

v. **Save the Ledger**:

- Press **Ctrl+A** to save the updated service ledger.

vi. **Verification**:

- Open the ledger again to review the **GST Details** section.
- Ensure all information is accurate and complete.

4.9. RECORD TAXABLE SALES WITH GST

Recording taxable sales with GST in Tally is essential for maintaining accurate financial records and ensuring GST compliance. This process involves capturing all necessary transaction details, including GST components, to facilitate proper tax calculations, reporting, and filing of GST returns. By following standardized procedures, businesses can maintain organized financial documentation and meet their tax obligations efficiently.

Steps to Record Taxable Sales with GST

Step 1: Create or Update the Sales Ledger

1. Navigate to **Gateway of Tally > Accounts Info > Ledgers > Create**.
2. Enter the ledger name (e.g., "Sales-GST 18%") and select the appropriate group (e.g., "Sales Accounts").
3. Set **Is GST Applicable** to **Applicable**.
4. In the GST Details section, specify the GST rate, type of supply (Goods/Services), and taxability (Taxable).
5. Save the ledger by pressing **Ctrl + A**.

Step 2: Create or Update Customer Ledger

1. Navigate to **Gateway of Tally > Accounts Info > Ledgers > Create**.
2. Enter the customer's name and select "Sundry Debtors" as the group.
3. Enter the customer's GSTIN (Goods and Services Tax Identification Number) in the ledger details.
4. Save the customer ledger.

Step 3: Create or Update Stock Items with GST Details

1. Navigate to **Gateway of Tally > Inventory Info > Stock Items > Create**.
2. Enter the item name, HSN/SAC code, and other relevant details.
3. In the GST Details section, specify the GST rate and taxability for the item.
4. Save the stock item details.

Step 4: Create a Sales Voucher

1. Navigate to **Gateway of Tally > Accounting Vouchers > F8: Sales**.
2. Enter the date of the transaction.
3. Select the customer's ledger from the "Party A/c Name" field.
4. Choose the appropriate sales ledger created earlier.

Step 5: Enter Transaction Details

1. In the "Name of Items" field, select the stock items sold.
2. Enter the quantity, rate, and amount for each item.
3. Add any additional charges or discounts if applicable.

Step 6: Set Tax Details

1. Press **Enter** to access the tax details section.
2. Enable **Enable Tax Details**.
3. Select the appropriate nature of transaction (e.g., "Sales Taxable").
4. Specify the place of supply if it's an interstate transaction.
5. Verify that Tally automatically calculates the applicable CGST, SGST/UTGST, or IGST based on your settings.

Step 7: Save and Print the Invoice

1. Review all details for accuracy.
2. Press **Ctrl + A** to save the sales voucher.
3. To print the invoice, go to **Gateway of Tally > Display > Vouchers > Sales Register**.
4. Select the saved voucher and press **Alt + P** to print.

4.10. RECORD PURCHASES UNDER GST:

Accurate recording of purchases under GST in Tally is essential for maintaining compliance with Indian tax regulations and ensuring proper financial reporting. Tally provides a systematic approach to record both local and interstate purchases, automatically calculating applicable taxes (CGST, SGST, or IGST) based on the nature of the transaction and the location of the supplier and buyer. Proper documentation of these transactions helps in accurate input tax credit claims and simplifies the process of filing GST returns.

Steps to Record Purchases Under GST in Tally

Step 1: Ensure GST is Activated in Tally

- Open your company in Tally.
- Press **F11** to access Features, then select **Statutory & Taxation**.
- Verify that **Enable Goods and Services Tax (GST)** is set to **Yes**.
- Confirm your company's GSTIN and other GST details are correctly entered.

Step 2: Create or Update Supplier Ledgers

- Go to **Gateway of Tally > Accounts Info > Ledgers > Create** (or Alter for existing suppliers).
- Enter the supplier's details including their GSTIN.
- Under **Additional Details**, set up GST applicability and classification for the supplier.
- Save the ledger.

Step 3: Record Local Purchases

1. Navigate to **Gateway of Tally > Accounting Vouchers > F9: Purchase**.
2. Select **Item Invoice** mode for goods or **Accounting Invoice** for services.
3. Enter the supplier's invoice number and date.
4. Select the appropriate local purchase ledger.
5. Enter stock item details, quantities, and rates.

6. Tally will automatically calculate CGST and SGST based on predefined rates.
7. Review the tax analysis by pressing **Ctrl+O** and selecting **GST Tax Analysis**.
8. Save the voucher with **Ctrl+A**.

Step 4: Record Interstate Purchases

1. Follow steps 1-3 from local purchases.
2. Select the appropriate interstate purchase ledger.
3. Enter stock item details, quantities, and rates.
4. Tally will automatically calculate IGST based on predefined rates.
5. Review the tax analysis as before.
6. Save the voucher.

Step 5: Handle Special Purchase Scenarios

- **SEZ Purchases**: For purchases from Special Economic Zones, configure the supplier ledger as SEZ and follow specific GST rules for these transactions.
- **Fixed Asset Purchases**: Use the fixed asset ledger and ensure the nature of transaction is set correctly for capital goods.
- **Service Purchases**: Use Accounting Invoice mode and select the appropriate service ledger with correct GST classification.

Step 6: Review and Reconcile

- Regularly review purchase vouchers to ensure accuracy.
- Reconcile GST calculations with supplier invoices.
- Generate GST reports to verify input tax credit eligibility and tax liability calculations.

4.11 CONCLUSION:

This comprehensive guide on GST implementation in Tally covers essential processes including activating GST for regular dealers, setting up GST rates, updating party GSTINs, creating GST ledgers, and recording taxable transactions. By following these structured steps, businesses can ensure accurate tax calculations, maintain proper financial records, and achieve full compliance with India's GST regulations. The automation features in Tally significantly reduce manual errors while streamlining tax reporting and return filing processes. Proper implementation of these GST procedures in Tally helps businesses efficiently manage their tax obligations while maintaining transparency in financial transactions.

4.12. QUESTIONS

i. 4.12.1 What is the highest GST rate applicable in India for 2025? a) 18% b) 28% c) 12% d) 5%

ii. Which of the following is NOT a step in activating GST for Regular Dealers in Tally? a) Press F11 to access Features b) Set Enable Goods and Services Tax (GST) to Yes c) Enter your company's PAN number d) Configure additional GST settings

iii. What does IGST stand for in the context of GST in India? a) Integrated Goods and Services Tax b) Inter-state Goods and Services Tax c) Indian Goods and Services Tax d) International Goods and Services Tax

iv. Which of the following is a correct example of a 0% GST rate item? a) Luxury cars b) Fresh milk c) Tobacco products d) Mobile phones

v. What is the primary purpose of updating party GSTIN/UIN in Tally? a) To maintain accurate GST compliance b) To change the party's contact information c) To update the party's business address d) To modify the party's payment terms.

Answer

i. b) 28%

ii. c) Enter your company's PAN number

iii. a) Integrated Goods and Services Tax

iv. b) Fresh milk

v. a) To maintain accurate GST compliance

4.12.1. Brief Questions

1. 4.12.2. Explain the significance of setting up correct GST rates in Tally for businesses in India.
2. What are the key differences between CGST, SGST, and IGST, and when are they applied?
3. Describe the process of updating GST details for stock items in Tally.
4. Why is it important to regularly review and reconcile GST calculations in Tally?
5. How does Tally automate GST compliance for businesses, and what are the benefits of this automation?

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