

Unit 4

LEDGER

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Points to recall

The following points are to be recalled before learning Ledger:

- Classification of accounts
- Golden rules of double entry system of book keeping
- Steps in journalising the transactions and passing journal entries



Learning Objectives

To enable the students to

- Understand the meaning of ledger account
- Understand the procedure for posting
- Post the journal entries to the ledger accounts and balance the ledger accounts

Key terms to know

- Ledger
- Ledger posting
- Balancing the ledger account
- Debit balance
- Credit balance

4.1 Introduction



Student activity

Think: A trader has been selling goods both on cash and credit bases. Most of the goods are sold on credit. The owner has lost track of ‘who has to pay how much?’ Is there any quick way to get this information?

Ledger account is a summary statement of all the transactions relating to a person, asset, liability, expense or income which has taken place during a given period of time and it shows their net effect. From the transactions recorded in the journal, the ledger account is prepared. Ledger is known as principal book of accounts. It is a book which contains all sets of accounts, namely, personal, real and nominal accounts. Accountwise balance can be determined from the ledger. The ledger accounts are prepared based on journal entries passed.

Transaction

Journal / Subsidiary books

Ledger

The balances in the ledger accounts show the net effect of transactions during a particular period in various accounts. The personal accounts give the net amount due to creditors and the net amount due from debtors, real accounts show the values of assets and nominal accounts show incomes and expenses. The financial statements can be prepared from the ledger balances.

Ledger may be maintained in the business enterprises in the form of a bound register or in the form of loose sheets with spiral binding. Normally one page or one sheet may be provided for one account. An index is provided in the beginning of the ledger giving details of the accounts contained in it such as specific code for each account, page number, etc. Where computerised accounting is followed, once the transactions are recorded in the journal, ledger accounts are automatically prepared.

4.2 Utilities of ledger

Following are the utilities of ledger:

(i) Quick information about a particular account

Ledger account helps to get all information about a particular account like sales, purchases, machinery, etc., at a glance. For example, where there are several transactions with a debtor, the net amount due from a debtor can be known from the ledger account.

(ii) Control over business transactions

From the ledger balances extracted, a thorough analysis of account balances can be made which helps to have control over the business transactions.

(iii) Trial balance can be prepared

With the balances of ledger accounts, trial balance can be prepared to check the arithmetical accuracy of entries made in the journal and ledger.

(iv) Helps to prepare financial statements

From the ledger balances extracted, financial statements can be prepared for ascertaining net profit or loss and the financial position.

4.3 Format of ledger account

The ledger account is prepared in T format. It is divided into two parts. Left side is debit side and right side is credit side. Each side contains four columns. The name or title of the account is placed at the top middle and the details are entered in the ledger. The format of ledger account is given below:

| Dr. | | | | Name of the ledger account | | | | Cr. | | | |
|------|-------------|------|----------|----------------------------|-------------|------|----------|-----|--|--|--|
| Date | Particulars | J.F. | Amount ₹ | Date | Particulars | J.F. | Amount ₹ | | | | |
| | | | | | | | | | | | |

Following are the details contained in the various columns in the ledger:

Date : Date of the transaction is recorded in this column.

Particulars : The account debited or credited is recorded in this column. On the debit side, the entries are made starting with 'To' and on the credit side, entries are made starting with 'By'.

Journal Folio (J.F.): In this column, the page number of the journal or subsidiary books from which the entry has been posted to the ledger is noted.

Amount : The amount of the transaction is recorded in this column.

4.4 Distinction between journal and ledger

Following are the differences between journal and ledger:

| Basis | Journal | Ledger |
|--|---|--|
| 1. Recording | As and when transactions take place entries are made in journal. | In ledger, entries may be posted either on the same day or at the end of a specified period such as weekly or fortnightly especially when subsidiary books are maintained. |
| 2. Stage of recording | Recording in the journal is the first stage | Recording in the ledger is the second stage, which is done on the basis of entries made in the journal. |
| 3. Order of recording | Entries are made in the chronological order, i.e., datewise in the order of occurrence. | Entries are made accountwise. |
| 4. Process | The process of recording in journal is called journalising | The process of recording in the ledger is called posting. |
| 5. Facilitating preparation of trial balance | Amount from the journal does not serve as the basis for preparing trial balance. | Ledger balances serve as the basis for preparing trial balance. |
| 6. Basis of entries | Entries in the journal are made on the basis of source documents. | Posting is done in ledger on the basis of journal entries. |
| 7. Net position | Net position of an account cannot be ascertained from journal. | Net position of an account can be ascertained from ledger account. |

4.5 Procedure for posting

The process of transferring the debit and credit items from the journal to the ledger accounts is called posting. The procedure of posting from journal to ledger is as follows:

- Locate the ledger account that is debited in the journal entry. Open the respective account in the ledger, if already not opened. Write the name of the account in the top middle. If already opened, locate the account from the ledger index. Now entries are to be made on the debit side of the account.
- Record the date of the transaction in the date column on the debit side of that account.
- Record the name of the account credited in the journal with the prefix 'To' in particulars column.
- Record the amount of the debit in the 'amount column'.
- Locate the ledger account that is credited in the journal entry. Open the respective account in the ledger, if already not opened. Write the name of the account in the top middle. If already opened, locate the account from the ledger index. Now entries are to be made on the credit side of the account. Record the date of the transaction in the date column. Record the name of the account debited in the journal entry in the particulars column with the prefix 'By' and write the amount in the amount column.

Tutorial note

The name of the account in the top never appears in the particulars column. In the particulars column the account entered is the other account in the journal entry.



Student activity

Think: What will happen if an account debited or credited is left out while posting from journal to ledger?

Illustration 1

Pass journal entries for the following transactions and post them in the ledger accounts.

2017

- June 1 Basu started business with cash ₹ 50,000
4 Purchased furniture by paying cash for ₹ 6,000
7 Purchased machinery on credit from Harish ₹ 10,000
10 Bought goods for cash ₹ 4,000
18 Paid insurance premium ₹ 100

Solution

In the books of Basu

Journal entries

| Date | Particulars | L.F. | Debit ₹ | Credit ₹ |
|--------|---|------|---------|----------|
| 2017 | Cash A/c Dr. | | 50,000 | |
| June 1 | To Basu's capital A/c (Started business with cash) | | | 50,000 |

| | | | | | |
|----|--|-----|--|--------|--------|
| 4 | Furniture A/c To Cash A/c (Furniture bought for cash) | Dr. | | 6,000 | 6,000 |
| 7 | Machinery A/c To Harish A/c (Machinery bought on credit from Harish) | Dr. | | 10,000 | 10,000 |
| 10 | Purchases A/c To Cash A/c (Goods bought for cash) | Dr. | | 4,000 | 4,000 |
| 18 | Insurance premium A/c To Cash A/c (Insurance premium paid) | Dr. | | 100 | 100 |

Ledger accounts

Dr. Cash account Cr.

| Date | Particulars | J.F. | ₹ | Date | Particulars | J.F. | ₹ |
|----------------|-----------------------|------|--------|----------------|--------------------------|------|-------|
| 2017 June 1 | To Basu's capital A/c | | 50,000 | 2017 June 4 | By Furniture A/c | | 6,000 |
| | | | | 10 | By Purchases A/c | | 4,000 |
| | | | | 18 | By Insurance premium A/c | | 100 |

Dr. Basu's Capital account Cr.

| Date | Particulars | J.F. | ₹ | Date | Particulars | J.F. | ₹ |
|------|-------------|------|---|----------------|-------------|------|--------|
| | | | | 2017 June 1 | By Cash A/c | | 50,000 |

Dr. Furniture account Cr.

| Date | Particulars | J.F. | ₹ | Date | Particulars | J.F. | ₹ |
|----------------|-------------|------|-------|------|-------------|------|---|
| 2017 June 4 | To Cash A/c | | 6,000 | | | | |

Dr. Machinery account Cr.

| Date | Particulars | J.F. | ₹ | Date | Particulars | J.F. | ₹ |
|----------------|---------------|------|--------|------|-------------|------|---|
| 2017 June 7 | To Harish A/c | | 10,000 | | | | |

Dr. Harish account Cr.

| Date | Particulars | J.F. | ₹ | Date | Particulars | J.F. | ₹ |
|------|-------------|------|---|----------------|------------------|------|--------|
| | | | | 2017 June 7 | By Machinery A/c | | 10,000 |

Dr. Purchases account Cr.

| Date | Particulars | J.F. | ₹ | Date | Particulars | J.F. | ₹ |
|-----------------|-------------|------|-------|------|-------------|------|---|
| 2017 June 10 | To Cash A/c | | 4,000 | | | | |

Dr. Insurance premium account Cr.

| Date | Particulars | J.F. | ₹ | Date | Particulars | J.F. | ₹ |
|---------|-------------|------|-----|------|-------------|------|---|
| 2017 | | | | | | | |
| June 18 | To Cash A/c | | 100 | | | | |

4.5.1 Posting of opening journal entry

In case of existing business enterprises, opening entry is made at the beginning of the accounting period to bring into account the balances of accounts which were not closed in the preceding accounting period. The accounts not closed are capital, liabilities and assets appearing in the balance sheet of the previous year. The entry passed is as follows:

| | | |
|-----------------------------------|---------|--|
| Assets A/c (individually) | Dr. xxx | |
| To Liabilities A/c (individually) | xxx | |
| To Capital A/c | xxx | |

While posting the opening entry in the individual ledgers, the term balance brought down (balance b/d) is used. The steps involved in posting the opening entry are as follows:

Step 1: The items debited in the opening entry are entered on the debit side of respective accounts. The words 'To Balance b/d' are written in the particulars column with respective amounts in the amount column, date being the first day of the accounting period.

Step 2: The items credited in the opening entry are entered on the credit side of respective accounts. The words 'By Balance b/d' are written in the particulars column with respective amounts in the amount column, date being the first day of the accounting period.

Illustration 2

Prepare necessary ledger accounts in the books of Joy from the following opening entry:

**In the books of Joy
Journal entries**

| Date | Particulars | L.F. | Debit ₹ | Credit ₹ |
|-------|--|------|---------|----------|
| 2017 | | | | |
| Jan 1 | Cash A/c | Dr. | 45,000 | |
| | Stock A/c | Dr. | 50,000 | |
| | Sohan A/c | Dr. | 35,000 | |
| | Furniture A/c | Dr. | 50,000 | |
| | To Ram A/c | | | 20,000 |
| | To Joy's capital A/c | | | 1,60,000 |
| | (Balances of assets and liabilities brought forward) | | | |

Solution

Ledger accounts

Dr. Cash account Cr.

| Date | Particulars | J.F. | ₹ | Date | Particulars | J.F. | ₹ |
|-------|----------------|------|--------|------|-------------|------|---|
| 2017 | | | | | | | |
| Jan 1 | To Balance b/d | | 45,000 | | | | |

Dr. Stock account Cr.

| Date | Particulars | J.F. | ₹ | Date | Particulars | J.F. | ₹ |
|---------------|----------------|------|--------|------|-------------|------|---|
| 2017 Jan 1 | To Balance b/d | | 50,000 | | | | |

Dr. Sohan account Cr.

| Date | Particulars | J.F. | ₹ | Date | Particulars | J.F. | ₹ |
|---------------|----------------|------|--------|------|-------------|------|---|
| 2017 Jan 1 | To Balance b/d | | 35,000 | | | | |

Dr. Furniture account Cr.

| Date | Particulars | J.F. | ₹ | Date | Particulars | J.F. | ₹ |
|---------------|----------------|------|--------|------|-------------|------|---|
| 2017 Jan 1 | To Balance b/d | | 50,000 | | | | |

Dr. Ram account Cr.

| Date | Particulars | J.F. | ₹ | Date | Particulars | J.F. | ₹ |
|------|-------------|------|---|---------------|----------------|------|--------|
| | | | | 2017 Jan 1 | By Balance b/d | | 20,000 |

Dr. Joy's capital account Cr.

| Date | Particulars | J.F. | ₹ | Date | Particulars | J.F. | ₹ |
|------|-------------|------|---|---------------|----------------|------|----------|
| | | | | 2017 Jan 1 | By Balance b/d | | 1,60,000 |

4.5.2 Posting of compound journal entry

When a journal entry has more than one debit or more than one credit or both, it is called a compound entry. For items debited in the compound entry, entries are made on the debit side in the respective accounts with the respective amount debited. For items credited in the compound entry, entries are made on the credit side in the respective accounts with the respective amount credited. Posting of such entries to ledger accounts is explained in illustration 3.

Illustration 3

Journalise the following transactions and post them to ledger. On May 20, 2018, Ram paid salaries ₹ 15,000; Electricity charges ₹ 8,000 and wages ₹ 2,000.

Solution

In the books of Ram Journal entries

| Date | Particulars | L.F. | Debit ₹ | Credit ₹ |
|----------------|-------------------------|------|---------|----------|
| 2018 May 20 | Salaries A/c | Dr. | 15,000 | |
| | Electricity charges A/c | Dr. | 8,000 | |
| | Wages A/c | Dr. | 2,000 | |
| | To Cash A/c | | | 25,000 |
| | (Expenses paid) | | | |

Ledger accounts

Dr. **Salaries account** Cr.

| Date | Particulars | J.F. | ₹ | Date | Particulars | J.F. | ₹ |
|----------------|-------------|------|--------|------|-------------|------|---|
| 2018 May 20 | To Cash A/c | | 15,000 | | | | |

Dr. **Electricity charges account** Cr.

| Date | Particulars | J.F. | ₹ | Date | Particulars | J.F. | ₹ |
|----------------|-------------|------|-------|------|-------------|------|---|
| 2018 May 20 | To Cash A/c | | 8,000 | | | | |

Dr. **Wages account** Cr.

| Date | Particulars | J.F. | ₹ | Date | Particulars | J.F. | ₹ |
|----------------|-------------|------|-------|------|-------------|------|---|
| 2018 May 20 | To Cash A/c | | 2,000 | | | | |

Dr. **Cash account** Cr.

| Date | Particulars | J.F. | ₹ | Date | Particulars | J.F. | ₹ |
|------|-------------|------|---|----------------|----------------------------|------|--------|
| | | | | 2018 May 20 | By Salaries A/c | | 15,000 |
| | | | | | By Electricity charges A/c | | 8,000 |
| | | | | | By Wages A/c | | 2,000 |



Student activity

Think: What will happen to the ledger account postings? Do you think that it will continue for an indefinite period of time? Where will the accounting process stop?

4.6 Balancing of ledger accounts

After posting the transactions, the business person is interested to know the position of various accounts. For this purpose, the accounts are balanced at the end of the accounting period or after a certain period to ascertain the net balance in each account. Balancing means that the debit side and credit side amounts are totalled and the difference between the total of the two sides is placed in the amount column as 'Balance c/d' on the side having lesser total, so that the total of both debit and credit columns are equal.

When the total of the debit side is more than the total of credit side the difference is debit balance and is placed on the credit side as 'By Balance c/d'. If the credit side total is more than the total of debit side, the difference is credit balance and is placed on the debit side as 'To Balance c/d'.

4.6.1 Procedure for balancing an account

Following is the procedure for balancing an account:

- (i) The debit and credit columns of an account are to be totalled separately.
- (ii) The difference between the two totals is to be ascertained.

- (iii) The difference is to be placed in the amount column of the side having lesser total. 'Balance c/d' is to be entered in the particulars column against the difference and in the date column the last day of the accounting period is entered.
- (iv) Now both the debit and credit columns are to be totalled and the totals will be equal. The totals of both sides are to be recorded in the same line horizontally. The total is to be distinguished from other figures by drawing lines above and below the amount.
- (v) The difference has to be brought down to the opposite side below the total. 'Balance b/d' is to be entered in the particulars column against the difference brought down and in the date column, the first day of the next accounting period is entered.
- (vi) If the total on the debit side of an account is higher, the balancing figure is debit balance and if the credit side of an account has higher total, the balancing figure is credit balance. If the two sides are equal, that account will show nil balance.

The rules for determining the balance is as follows:

| | | | | |
|-----------------|---|-----------------|---|--|
| Total of debit | > | Total of credit | = | Debit balance (By balance c/d and To balance b/d) |
| Total of credit | > | Total of debit | = | Credit balance (To balance c/d and By balance b/d) |
| Total of debit | = | Total of credit | = | Nil balance |

It may be noted that totalling of a ledger account is known as casting. At the time of balancing an account, debit balance is the balancing figure on the credit side and credit balance is the balancing figure on the debit side. This balance is known as closing balance. The closing balance of an accounting period is the opening balance of the next accounting period.

Tutorial note

- (i) Cash account cannot have a credit balance
- (ii) Balances in real accounts and personal accounts are carried forward to the next accounting year.
- (iii) Balances in the nominal accounts are not carried forward to next accounting year. They are closed by transferring to trading and profit and loss account.
- (iv) Instead of the abbreviations c/d and b/d the abbreviations c/o and b/o (carried over and brought over) may be recorded if the balance is taken to the next successive page. If the balance is taken to a different non-successive page the abbreviation c/f and b/f (carried forward and brought forward) may be used.

Illustration 4

Thmizhanban started book selling business on 1st January, 2018. Following are the transactions took place in his business for the month of January, 2018. Pass journal entries and prepare ledger accounts.

2018

- Jan. 1 Started business with cash ₹ 3,00,000
- 2 Opened bank account by depositing ₹ 2,00,000
- 5 Goods bought from Tamilnadu Textbook Corporation for cash ₹ 10,000
- 15 Sold goods to MM Traders for cash ₹ 5,000
- 22 Purchased goods from X and Co. for ₹ 15,000 and the payment is made through net banking.
- 25 Sold goods to Y and Co. for ₹ 30,000 and the payment is received through NEFT

Solution

In the books of Thamizhanban Journal entries

| Date | Particulars | L.F. | Debit ₹ | Credit ₹ |
|----------------|--|------|------------|-------------|
| 2018 Jan. 1 | Cash A/c To Thamizhanban's capital A/c (Started business with cash) | Dr. | 3,00,000 | 3,00,000 |
| 2 | Bank A/c To Cash A/c (Cash deposited with the bank) | Dr. | 2,00,000 | 2,00,000 |
| 5 | Purchases A/c To Cash A/c (Goods purchased for cash) | Dr. | 10,000 | 10,000 |
| 15 | Cash A/c To Sales A/c (Goods sold for cash) | Dr. | 5,000 | 5,000 |
| 22 | Purchases A/c To Bank A/c (Goods purchased and payment made through net banking) | Dr. | 15,000 | 15,000 |
| 25 | Bank A/c To Sales A/c (Goods sold and the payment is received through NEFT) | Dr. | 30,000 | 30,000 |

Dr. Cash account Cr.

| Date | Particulars | J.F. | ₹ | Date | Particulars | J.F. | ₹ |
|----------------|----------------------------------|------|----------|----------------|------------------|------|----------|
| 2018 Jan. 1 | To Thamizhanban's capital A/c | | 3,00,000 | 2018 Jan. 2 | By Bank A/c | | 2,00,000 |
| 15 | To Sales A/c | | 5,000 | 5 | By Purchases A/c | | 10,000 |
| Feb. 1 | To Balance b/d | | 95,000 | 31 | By Balance c/d | | 95,000 |
| | | | 3,05,000 | | | | 3,05,000 |

Dr. Thamizhanban's capital account Cr.

| Date | Particulars | J.F. | ₹ | Date | Particulars | J.F. | ₹ |
|-----------------|----------------|------|----------|----------------|----------------|------|----------|
| 2018 Jan. 31 | To Balance c/d | | 3,00,000 | 2018 Jan. 1 | By Cash A/c | | 3,00,000 |
| | | | 3,00,000 | Feb. 1 | By Balance b/d | | 3,00,000 |

| Dr. | | | | Bank account | | | | Cr. | | | |
|--------|----------------|------|----------|--------------|------------------|------|-----------------|-----|--|--|--|
| Date | Particulars | J.F. | ₹ | Date | Particulars | J.F. | ₹ | | | | |
| 2018 | | | | 2018 | | | | | | | |
| Jan. 2 | To Cash A/c | | 2,00,000 | Jan. 22 | By Purchases A/c | | 15,000 | | | | |
| 25 | To Sales A/c | | 30,000 | 31 | By Balance c/d | | 2,15,000 | | | | |
| | | | 2,30,000 | | | | 2,30,000 | | | | |
| Feb. 1 | To Balance b/d | | 2,15,000 | | | | | | | | |

| Dr. | | | | Purchases account | | | | Cr. | | | |
|--------|----------------|------|--------|-------------------|----------------|------|---------------|-----|--|--|--|
| Date | Particulars | J.F. | ₹ | Date | Particulars | J.F. | ₹ | | | | |
| 2018 | | | | 2018 | | | | | | | |
| Jan. 5 | To Cash A/c | | 10,000 | Jan. 31 | By Balance c/d | | 25,000 | | | | |
| 22 | To Bank A/c | | 15,000 | | | | 25,000 | | | | |
| | | | 25,000 | | | | | | | | |
| Feb. 1 | To Balance b/d | | 25,000 | | | | | | | | |

| Dr. | | | | Sales account | | | | Cr. | | | |
|---------|----------------|------|---------------|---------------|----------------|------|--------|-----|--|--|--|
| Date | Particulars | J.F. | ₹ | Date | Particulars | J.F. | ₹ | | | | |
| 2018 | | | | 2018 | | | | | | | |
| Jan. 31 | To Balance c/d | | 35,000 | Jan. 15 | By Cash A/c | | 5,000 | | | | |
| | | | 35,000 | 25 | By Bank A/c | | 30,000 | | | | |
| | | | | | | | 35,000 | | | | |
| | | | | Feb. 1 | By Balance b/d | | 35,000 | | | | |

4.6.2 Direct ledger posting

Illustration 5

Prepare cash account from the following transactions for the month of January 2018.

- Jan 1 Commenced business with cash ₹ 62,000
 3 Goods purchased for cash ₹ 12,000
 10 Goods sold for cash ₹ 10,000
 12 Wages paid ₹ 4,000
 25 Furniture purchased for cash ₹ 6,000

Solution

| Dr. | | | | Cash account | | | | Cr. | | | |
|-------|----------------|------|--------|--------------|------------------|------|---------------|-----|--|--|--|
| Date | Particulars | J.F. | ₹ | Date | Particulars | J.F. | ₹ | | | | |
| 2018 | | | | 2018 | | | | | | | |
| Jan 1 | To Capital A/c | | 62,000 | Jan 3 | By Purchases A/c | | 12,000 | | | | |
| 10 | To Sales A/c | | 10,000 | 12 | By Wages A/c | | 4,000 | | | | |
| | | | | 25 | By Furniture A/c | | 6,000 | | | | |
| | | | | 31 | By Balance c/d | | 50,000 | | | | |
| | | | 72,000 | | | | 72,000 | | | | |
| Feb 1 | To Balance b/d | | 50,000 | | | | | | | | |

Illustration 6

The following are the transactions of Kumaran, dealing in stationery items. Prepare ledger accounts.
2017

- June 5 Started business with cash ₹ 2,00,000
8 Opened bank account by depositing ₹ 80,000
12 Bought goods on credit from Sri Ram for ₹ 30,000
15 Sold goods on credit to Selva for ₹ 10,000
22 Goods sold for cash ₹ 15,000
25 Paid Sri Ram ₹ 30,000 through NEFT
28 Received a cheque from Selva and deposited the same in bank ₹ 10,000

Solution

Ledger accounts

| Dr. | | | | Cash account | | | | Cr. |
|--------|--------------------------|------|----------|--------------|----------------|------|----------|-----|
| Date | Particulars | J.F. | ₹ | Date | Particulars | J.F. | Amount ₹ | |
| 2017 | | | | 2017 | | | | |
| June 5 | To Kumaran's capital A/c | | 2,00,000 | June 8 | By Bank A/c | | 80,000 | |
| 22 | To Sales A/c | | 15,000 | 25 | By Balance c/d | | 1,35,000 | |
| | | | 2,15,000 | | | | 2,15,000 | |
| July 1 | To Balance b/d | | 1,35,000 | | | | | |

| Dr. | | | | Kumaran's capital account | | | | Cr. |
|---------|----------------|------|----------|---------------------------|----------------|------|----------|-----|
| Date | Particulars | J.F. | ₹ | Date | Particulars | J.F. | ₹ | |
| 2017 | | | | 2017 | | | | |
| June 30 | To Balance c/d | | 2,00,000 | June 5 | By Cash A/c | | 2,00,000 | |
| | | | 2,00,000 | July 1 | By Balance b/d | | 2,00,000 | |

| Dr. | | | | Bank account | | | | Cr. |
|--------|----------------|------|--------|--------------|----------------|------|--------|-----|
| Date | Particulars | J.F. | ₹ | Date | Particulars | J.F. | ₹ | |
| 2017 | | | | 2017 | | | | |
| June 8 | To Cash A/c | | 80,000 | June 25 | By Sri Ram A/c | | 30,000 | |
| 28 | To Selva A/c | | 10,000 | 30 | By Balance c/d | | 60,000 | |
| | | | 90,000 | | | | 90,000 | |
| July 1 | To Balance b/d | | 60,000 | | | | | |

| Dr. | | | | Purchases account | | | | Cr. |
|---------|----------------|------|--------|-------------------|----------------|------|--------|-----|
| Date | Particulars | J.F. | ₹ | Date | Particulars | J.F. | ₹ | |
| 2017 | | | | 2017 | | | | |
| June 12 | To Sri Ram A/c | | 30,000 | June 30 | By Balance c/d | | 30,000 | |
| | | | 30,000 | | | | 30,000 | |
| July 1 | To Balance b/d | | 30,000 | | | | | |

| Dr. Sri Ram account | | | | Cr. | | | |
|---------------------|-------------|------|--------|---------|------------------|------|--------|
| Date | Particulars | J.F. | ₹ | Date | Particulars | J.F. | ₹ |
| 2017 | | | | 2017 | | | |
| June 25 | To Bank A/c | | 30,000 | June 12 | By Purchases A/c | | 30,000 |
| | | | 30,000 | | | | 30,000 |

| Dr. Selva account | | | | Cr. | | | |
|-------------------|--------------|------|--------|---------|-------------|------|--------|
| Date | Particulars | J.F. | ₹ | Date | Particulars | J.F. | ₹ |
| 2017 | | | | 2017 | | | |
| June 15 | To Sales A/c | | 10,000 | June 28 | By Bank A/c | | 10,000 |
| | | | 10,000 | | | | 10,000 |

| Dr. Sales account | | | | Cr. | | | |
|-------------------|----------------|------|--------|---------|----------------|------|--------|
| Date | Particulars | J.F. | ₹ | Date | Particulars | J.F. | ₹ |
| 2017 | | | | 2017 | | | |
| June 30 | To Balance c/d | | 25,000 | June 15 | By Selva A/c | | 10,000 |
| | | | 25,000 | 22 | By Cash A/c | | 15,000 |
| | | | | | | | 25,000 |
| | | | | July 1 | By Balance b/d | | 25,000 |

After posting the journal entries to ledger accounts and extracting the balance of ledger accounts, the trial balance is prepared. Trial balance is a statement which shows debit and credit balances of all accounts in the ledger. It helps to test the arithmetical accuracy of entries made in the journal and ledger.



The three accounting concepts – business entity, duality and money measurement – associated with double-entry book keeping are applied in ledger.

Points to remember

- Left side of the ledger account is Debit [Dr.]
- Right side of the ledger account is Credit [Cr.]
- For each type of asset, liability, expense and income, separate ledger accounts are prepared.
- If the total on the debit side exceeds the total on the credit side, it results in debit balance.
- If the total on the credit side exceeds the total on the debit side, it results in credit balance.
- Closing balance of the current year in the ledger account is the opening balance of the next year.

Self-examination questions

I Multiple choice questions

Choose the correct answer

1. Main objective of preparing ledger account is to
 - (a) Ascertain the financial position
 - (b) Ascertain the profit or loss
 - (c) Ascertain the profit or loss and the financial position
 - (d) Know the balance of each ledger account



2. The process of transferring the debit and credit items from journal to ledger accounts is called
 - (a) Casting (b) Posting
 - (c) Journalising (d) Balancing

3. J.F means
 - (a) Ledger page number (b) Journal page number
 - (c) Voucher number (d) Order number

4. The process of finding the net amount from the totals of debit and credit columns in a ledger is known as
 - (a) Casting (b) Posting
 - (c) Journalising (d) Balancing

5. If the total of the debit side of an account exceeds the total of its credit side, it means
 - (a) Credit balance (b) Debit balance
 - (c) Nil balance (d) Debit and credit balance

6. The amount brought into the business by the proprietor should be credited to
 - (a) Cash account (b) Drawings account
 - (c) Capital account (d) Suspense account

Answer

| | | | | | |
|-------|-------|-------|-------|-------|-------|
| 1 (d) | 2 (b) | 3 (b) | 4 (d) | 5 (b) | 6 (c) |
|-------|-------|-------|-------|-------|-------|

II Very short answer questions

1. What is a ledger?
2. What is meant by posting?
3. What is debit balance?
4. What is credit balance?
5. What is balancing of an account?

III Short answer questions

1. Distinguish between journal and ledger.
2. What is ledger? Explain its utilities.
3. How is posting made from the journal to the ledger?
4. Explain the procedure for balancing a ledger account.

IV Exercises

1. Journalise the following transactions and post them to ledger.

| 2016 | ₹ |
|-------------------------------------|--------|
| Jan 1 Started business with cash | 10,000 |
| 5 Paid into bank | 5,000 |
| 7 Purchased goods from Ram for cash | 1,000 |

(Answer: Cash A/c ₹ 4,000 Dr.; Bank A/c ₹ 5,000 Dr.;
Capital A/c ₹ 10,000 Cr.; Purchases A/c ₹ 1,000 Dr.)



2. Pass journal entries for the following transactions and post them to ledger.

| 2017 | | ₹ |
|--------|-----------------------------------|--------|
| Aug. 1 | Dharma started business with cash | 70,000 |
| 6 | Cash received from Ganesan | 10,000 |
| 10 | Rent paid | 3000 |
| 20 | Received commission from Anand | 5000 |

(Answer: Cash A/c ₹ 82,000 Dr.; Capital A/c ₹ 70,000 Cr.; Ganesan A/c ₹ 10,000 Cr.;
Rent A/c ₹ 3,000 Dr.; Commission received A/c ₹ 5,000 Cr.)

3. The following balances appeared in the books of Vinoth on Jan 1, 2018

Assets: Cash ₹ 40,000; Stock ₹ 50,000; Amount due from Ram ₹ 20,000;
Machinery ₹ 40,000 Liabilities: Amount due to Vijay ₹ 10,000

Pass the opening journal entry and post them to Vinoth's Capital account.

(Answer: Vinoth's Capital A/c ₹ 1,40,000 Cr.)

4. Prepare Furniture A/c from the following transactions

| 2016 | | ₹ |
|-------|------------------------------|-------|
| Jan 1 | Furniture in hand | 2,000 |
| 1 | Purchased furniture for cash | 4,000 |
| 30 | Sold furniture | 400 |

(Answer: Furniture A/c ₹ 5,600 Dr.)

5. The following balances appeared in the books of Kumaran on April 1, 2017.

Assets: Cash ₹ 1,00,000; Stock ₹ 40,000; Amount due from Rohit ₹ 10,000;
Furniture ₹ 10,000; **Liabilities:** Amount due to Anush ₹ 40,000;

Kumaran's capital ₹ 1,20,000

Find the capital and show the ledger posting for the above opening balances.

(Answer: Cash A/c ₹ 1,00,000 Dr.; Stock A/c ₹ 40,000 Dr.; Rohit A/c ₹ 10,000 Dr.;
Furniture A/c ₹ 10,000 Dr.; Anush A/c ₹ 40,000 Cr.; Kumaran's capital ₹ 1,20,000 Cr.)

6. Give journal entries and post them to cash account.

| 2016 | | ₹ |
|--------|-------------------------------|----------|
| June 1 | Commenced business with cash | 1,10,000 |
| 10 | Introduced additional capital | 50,000 |
| 28 | Withdrawn for personal use | 20,000 |

(Answer: Cash A/c ₹ 1,40,000 Dr.)

7. Give Journal entries for the following transactions and post them to Cash a/c and Sales A/c.

| 2017 | | ₹ |
|--------|--|--------|
| Aug 10 | Sold goods and cheque received but not deposited | 30,000 |
| 14 | Sold goods on credit to Gopi | 12,000 |
| 20 | Received cash from Gopi | 12,000 |

(Answer: Sales A/c ₹ 42,000 Cr.; Cash A/c ₹ 42,000 Dr.)





8. Enter the following transactions in the books of Ganesan and post them into ledger.

| 2017 | | ₹ |
|-------|---|--------|
| Oct 1 | Started business with cash | 25,000 |
| 5 | Deposited into bank | 12,500 |
| 10 | Purchased furniture and payment by cheque | 2,000 |
| 15 | Goods purchased for cash | 5,000 |
| 19 | Sold goods to Vasu on credit | 4,000 |
| 22 | Goods worth ₹ 500 taken for personal use | |

(Answer: Cash A/c ₹ 7,500Dr.; Capital A/c ₹ 25,000Cr.; Bank A/c ₹ 10,500 Dr.;
Furniture A/c ₹ 2,000 Dr.; Purchases A/c ₹ 4,500 Dr.; Sales A/c ₹ 4,000 Cr.;
Vasu A/c ₹ 4,000 Dr.; Drawings A/c ₹ 500 Dr.)

9. Journalise the following transactions in the books of Vasu and post them to ledger accounts.

| | |
|------------|---|
| 2017 Nov 1 | Cash in hand ₹ 1,00,000; Cash at bank: ₹ 30,000 |
| 2 | Vasu sold goods to Jothi for ₹ 25,000 against a cheque and deposited the same in the bank |
| 4 | Received as commission ₹ 5,000 |
| 8 | Bank paid ₹ 15,000 directly for insurance premium of Vasu. |
| 15 | Cash deposited into bank ₹ 30,000 |
| 20 | Cash withdrawn from bank for personal use ₹ 45,000. |

(Answer: Bank A/c ₹ 25,000 Dr.; Commission received A/c ₹ 5,000 Cr.;
Capital A/c ₹ 1,30,000 Cr.; Cash A/c ₹ 75,000 Dr.;
Drawings A/c ₹ 60,000 Dr.; Sales A/c ₹ 25,000 Cr.)

10. Prepare Anand's account from the following details.

| 2017 | | ₹ |
|--------|--------------------------------------|-------|
| July 1 | Credit balance of Anand's A/c | 4,000 |
| 15 | Amount paid to Anand | 2,000 |
| 18 | Goods purchased from Anand on credit | 8,000 |
| 20 | Paid to Anand | 3,960 |
| | Discount allowed by him | 40 |
| 25 | Goods purchased from Anand | 5,000 |

(Answer: Anand A/c ₹ 11,000 Cr.)

11. Show the direct ledger postings for the following transactions:

| 2017 | |
|--------|--|
| June 1 | Raja commenced business with cash ₹ 50,000, |
| 6 | Sold goods for cash ₹ 8,000 |
| 8 | Sold goods to Devi on credit ₹ 9,000 |
| 15 | Goods purchased for cash ₹ 4,000 |
| 20 | Goods purchased from Shanthi on credit ₹ 5,000 |

(Answer: Cash A/c ₹ 54,000 Dr.; Capital A/c ₹ 50,000 Cr.; Sales A/c ₹ 17,000 Cr.;
Devi A/c ₹ 9,000 Dr. Purchases A/c ₹ 9,000 Dr.; Shanthi A/c ₹ 5,000 Cr.)



CASE STUDY

Imagine you have been called for an interview with an auditor. The auditor shows you the following ledger account of Mr. Raheem, a dealer in food products.

| Dr. | | | | Sita A/c | | | | Cr. |
|----------|----------------|------|-------------|----------|----------------------|------|---------------|-----|
| Date | Particulars | J.F. | Amount ₹ | Date | Particulars | J.F. | Amount ₹ | |
| 2017 | | | | 2017 | | | | |
| April 1 | To Balance b/d | | 7,000 | April 12 | By Bank A/c | | 5,000 | |
| Sept. 25 | To Sales A/c | | 10,000 | May 2 | By Cash A/c | | 2,000 | |
| Dec. 29 | To Sales A/c | | 10,000 | Oct. 3 | By Sales returns A/c | | 1,000 | |
| | | | | Nov. 17 | By Cash A/c | | 3,000 | |
| | | | | Dec. 21 | By Bank A/c | | 4,000 | |
| | | | | 2018 | | | | |
| | | | | Mar. 31 | By Balance c/d | | 12,000 | |
| | | | 27,000 | | | | 27,000 | |
| 2018 | | | | | | | | |
| Apr 1 | To Balance b/d | | 12,000 | | | | | |

The auditor wants you to explain each posting in the above account and also to state where will the double entry for each posting be found.

To explore further

‘Accounts of debtors will always have debit balance’. - Do you agree?

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