Class-11 Accountancy

Chapter 4 – Preparation of Ledger Trial Balance and Bank Reconciliation Statement

INTRODUCTION (Ledger)

From memorandum books every transaction is recorded in the journal or subsidiary books. Journal is maintained only to facilitate the passing of entries (or posting) in ledger very entry made in the journal must be posting into ledger. Ledger is a book of final entry where all the accounts of a trader are maintained in a classified form so as to give readily the necessary information required by him from time to time.

Meaning of Ledger **:** The book which contains accounts is known as a ledger. It is defined as a "book or register which contains in a summarised and classified form, a permanent record of all transactions". It is the most important book of account since final position pertaining to the financial status of a business emerges only from them. Hence the ledger is called the principal book.

Utility of ledger: Ledger is the most important book of account. It is the principal book of account which contains the information regarding business. It is very difficult to prepare final account in the absence of ledger. Ledger provides necessary information regarding various accounts.

Nature and form of ledger **:** Ledger is generally a bound book or register containing a number of pages serially numbered. In ledger one page is alloted to it and the number of the fresh page is alloted to it and the number of the fresh page is indicated at the end of the old page.

SPECIMEN OF LEDGER ACCOUNT

Dr. Cr.

Date	Particulars	J.F	Amount	Date	Particulars	J.F	Amount

Posting of entries **:**

Basically, the journal tells us the amount to be debited and credited and also the amount involved. The amount is written on the left hand side of the account to be debited. In the Particulars column the name of the account which will be credited will be written, preceded by the word "To" the amount will be written on the right–hand side of the account to be credited, in the Particulars column.

Types of ledger **:** A small businessman whose business transactions are small in number, can keep all the accounts (i.e. personal, real and nominal) in one ledger. But in case the number of transactions is large, the ledger may be divided into following parts.

(i) Debtor's Ledger
(ii) Creditor's Ledger
(iii) General Ledger

SOURCES OF WRITING LEDGER : The sources from which we write the ledger are the books of original entry i.e. journal, subsidiary books like cash book, purchase book, sales book, return book, bill books etc.

ledger, specially open for that purpose on one page.

ADVANTAGES (NECESSITY) OF LEDGER

(i) Transaction relating to a Particulars person, item or heading of expenditure or income from grouped in the concerned account at one place.

(ii) When each account is periodically balanced it reflects the net position of that account.

(iii) Ledger is the stepping stone for preparing trial balance which tests the arithmetical accuracy of the accounting books.

(iv) Since the entries recorded in the journal are referred into ledger the possibility of errors defalcations are reduced to the minimum.

(v) Ledger is the destination of all entries made in journal or sub-journals.

(vi) Ledger is the 'store–house' of all information which subsequently is used for preparing ledger and financial statement.

SUMMARY OF RULES OF POSTING FROM SUBSIDIARY BOOKS

(1) Posting from the debit side of the cash book :
(2) Posting from the credit side of the cash book
(3) Posting from purchases book
(4) Posting from sales book
(5) Posting from purchases return book :
(6) Posting from sales return book

Other subsidiary books :

(a) Purchases Book

(b) Sales Book
(c) Purchase Return Book
(d) Sales return book
(e) Bills Receivable Book and
(f) Bill Payable Book

DIFFERENCE BETWEEN LEDGER AND JOURNAL

JOURNAL	LEDGER
It is the book of prime entry	It is the book of final entry
As soon as transactions originates, it is recorded in journal	Transactions are posted in ledger after the same have been recorded in journal
Transactions are recorded in order of occurrence i.e. strictly in order of dates	Transactions are classified according to the concerned accounts
Narration (brief description) is written for each entry	Narration is not required

Posting the opening entry : Opening entry (as we already know) is passed in the journal proper at the beginning of the new accounting period in order to bring forward the balances of real and personal accounts as at the end of the previous accounting period

Balancing the Ledger Account : After posting of the business transaction is over, we make total of the debit and credit sides of a ledger account and compare them to find out the difference between the two. The process of finding out the difference between the totals of the two sides of a ledger account is known as 'balancing' or "balancing a ledger account" and the amount of difference is known as "balance".

<u>Preparation of Journal , Ledger and Trial Balance</u>

After Preparing Ledger we prepare Trial Balance or after posting and balancing the accounts in the ledger, a statement showing Debit and Credit Balances is Prepared. This statement of Balances is called Trial Balance.

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<u>Objectives of Preparing Trial Balance :</u>

1. To check the arithmetical or mathematical accuracy
2. Helpful in Preparing the Final Accounts

3. Comparative study of each account
4. To follow the double entry system
5. Helpful in detection of errors
6. Helpful for the auditors

Methods of Preparing Trial Balance

1. Total Method
2. Balance Method
3. Total and Balance Method

Preparation of Trial Balance from a List of Balances: Sometimes Trial balance is prepared from the list of accounts instead of preparing it through the ledger balances directly. Under this method all items are classified into debits and credits. After classifying the debit and credit all items are arranged in the trial balance properly.

Limitations of Trial Balance:

- Error of original entry
- Error of omission
- Error of commission
- Error of principle
- Compensating errors

Meaning : Bank Reconciliation Statement

A statement is prepared to reconcile the difference between the balances of Bank column of cash book and pass book on any given date is known as Bank Reconciliation Statement.

Definition: Bank reconciliation statement is a statement prepared mainly to reconcile the difference between 'bank balance' shown by cash book and bank pass book'. **---- Patil**

Features of Bank Reconciliation Statement

(i) Bank Reconciliation Statement is prepared for the reconciliation of cash book balance with pass book balance.

(ii) It is prepared by the customer having an account with the bank.

(iii) It is prepared on a particular date.

(iv) It is prepared on the basis of Bank Statement supplied by the bank.

(v) The purpose of preparing this statement is the reconciliation of the balances of the two books as well as the detection of any errors committed by bank authorities.

Need & Importance or Advantagesof bank reconciliation statement

- ✓ BRS helps in detection of errors in cash book and pass book
- ✓ BRS helps in Checking of inevitable delays in the cheque system
- ✓ BRS Act as a Moral check on the cashier

Reason of Difference Between Cash book and Pass Book Balances

1. Difference Because of Timing
2. Difference Because of transactions recorded By the Bank only
3. Difference Because of errors may be committed by business or Bank

Causes of difference in cash book and the pass book balance

- ✓ Cheques issued but not get presented for payment in the bank
- ✓ Cheque paid into the bank for collection but not get credited
- ✓ Cheques paid into the bank for collection but dishonored
- ✓ Interest allowed by the bank
- ✓ Interest charged by the bank on overdraft
- ✓ Bank charges and commission charged by the bank
- ✓ Direct deposit by customers into the bank
- ✓ Interest and dividend collected by the bank
- ✓ Direct payment made by the bank on behalf of customers
- ✓ Any wrong entry made by the bank in pass book
- ✓ Any wrong entry made by the customer in cash book

Preparation of bank reconciliation statement

A bank reconciliation statement can be started from any of the balance mentioned below:-

A. Dr. balance as per cash book.
B. Cr. Balance as per cash book.
C. Dr. balance as per cash book.
D. Cr. Balance as per pass book.

Preperation of amended cash book

Sometimes, in the examination, a student is required to complete the cash book first and then prepare a bank reconciliation statement on the basis of the balance of amended cash book. This is another method for preparing bank reconciliation statement.

Preparation Bank Reconciliation Statement

A reconciliation statement is prepared when an account holder gets the duly completed pass book from the bank immediately on receiving the pass book, He tallies the bank balance shown by the cash book with the balance shown by pass book and in cash of any difference, items appearing in the pass book are checked and ticked with the items appearing in the cash book. Unticked items in both the books will be the points of difference these will be noted on a piece of paper and then with the help of these causes of difference, a statement of reconciliation will be prepared.

A bank reconciliation statement can be prepared by taking the balance either as per cash book or as per pass book as a starting point if the statement it started with the balance as per bank column of the cash book, the answer arrived at in the end will be the balance as per pass book. Alternatively, if the statement is started with the balance as per pass book, the answer arrived at in the end will be the balance as per cash book.

The balance as per cash book may be either debit or credit and similarly the balance as per pass book may also be either debit or credit

1. a) Dr. Balance as per cash book indicates that the trades has so much balance of deposit at the bank.

   b) Cr. Balance as per cash book indicates the amount which has been withdrawn in errors of the deposits credit balance as per cash book is also called 'overdraft balance as per cash book'.

2. a) Cr. Balance as per pass book indicates that the trader has so much balance of deposit at the bank.

   b) Dr. Balance as per pass book indicates the amount which has been withdrawn in excess of deposits debit balance as per pass book is also called 'overdraft as per pass book'.