

## Ledger

### LEARNING OBJECTIVES

*After studying this Chapter, you should be able to understand :*

- Meaning and Importance of Ledger
- Distinction between 'Books of Original Entry' and 'Ledger'
- Format of Ledger
- Posting from Journal
- Closing and Balancing of Accounts
- Posting from Cash Book
- Posting from Other Special Purpose Subsidiary Books

### Meaning and Definition

Business transactions are first entered in Journal or Special Purpose Subsidiary Books. The next step is to transfer the entries to respective accounts in Ledger. In other words, all entries recorded in Journal or Special Purpose Subsidiary Books are classified and in order to ascertain the position of a particular account, all transactions relating to that particular account are collected at one place in the Ledger. In short, a Ledger is a book which contains all accounts of the business enterprise whether Personal, Real or Nominal.

According to L.C. Cropper, "The book which contains a classified and permanent record of all the transactions of a business is called the Ledger."

According to J.R. Batliboi, "The Ledger is the chief book of accounts, and it is in this book that all the business transactions would ultimately find their place under their accounts in a duly classified form."

A Ledger may be kept in the form of a bound register, or cards or punched sheets in a loose leaf binder. Each account in the Ledger is opened preferably on a separate page or card.

### Need and Importance

The basic objective of accounting is to ascertain as to (I) how much amount is due from each customer or how much amount the firm has to pay to each supplier; (II) how much is the amount of purchase and sale during a particular period; (III) how much amount has been spent on each head of expenditure and how much amount has been

earned on account of each head of income. The Journal fails to provide us the above informations because it is only a chronological record of the daily transactions of a business. Transactions of the same nature are not recorded at one place in the Journal. For example, if we want to know on a particular date the amount due from Surender Mohan & Company, the various transactions pertaining to them will have to be sorted out from Journal or Subsidiary Books and will have to be collected at one place. From sales book the amount of sales made to them on each date will have to be ascertained, from sales return book the amount of goods returned by them will have to be ascertained, from cash book the amount received from them on different dates will have to be ascertained and even then some information may be omitted to be collected from various books. But in the Ledger all the transactions pertaining to Surender Mohan & Company will be posted at one place in an account opened in their name, which will provide a complete picture of all the transactions relating to them at a glance. As such, the Ledger is a very useful book and is of the utmost importance in any enterprise. Hence, the Ledger is called the 'Principal Book'. It is also called the book of final entry because the transactions which are first entered in Journal or Subsidiary Books are finally incorporated in the Ledger.

### **Advantages of Ledger**

(1) All accounts are opened on separate pages in this book. Hence, all the transactions pertaining to an account are collected at one place in the Ledger. As such, by looking at the balance of that account, one can understand the collective effect of all such transactions at any point of time.

(2) Any type of information relating to the business can be easily obtained from the Ledger, such as (I) how much amount each customer owes to the firm; (II) how much amount the firm owes to each creditor; (III) how much is the amount of purchase and sales during a particular period; (IV) how much amount has been paid or received on account of various items, and (V) what is the ultimate position of assets and capital.

(3) A trial balance can be prepared with the help of ledger balances which helps in ascertaining the arithmetical accuracy of the accounts.

(4) A trading and profit and loss account can only be prepared with the help of ledger balances.

(5) A balance sheet can also be prepared with the help of ledger balances which depicts the financial position of the business.

### **Distinction between 'Books of Original Entry' and 'Ledger'**

The books in which the business transactions are recorded first of all are termed as 'books of original entry' or Special Purpose subsidiary books. The Transactions from these books are then transferred into the ledger accounts. As such, the Ledger is called the 'Principal Book' because all transactions ultimately find their way into Ledger.

So far as cash book is concerned, it is also a book of original entry and a principal book as well. Because all the cash transactions are recorded for the first time in the cash book, it is therefore a book of original entry and it is also a principal book because when a cash book is maintained, a cash account is not prepared in the Ledger.

**Journal or Books of Original Entry**

1. As the name indicates, all the transactions are first of all recorded in these books, i.e., journal or subsidiary books such as purchases book, sales book etc. As the transactions are entered for the first time in these books, they are also referred to as books of primary entry.
2. In these books, transactions are entered in a chronological order, as and when they take place. As such the position of an account at any point of time cannot be ascertained from these books.
3. Full details of a transaction (narrations) are recorded in these books.
4. Final Accounts (trading, profit and loss account and balance sheet) cannot be prepared with the help of books of original entry.
5. These books are considered as more authentic and reliable in comparison to the ledger, since these are the books in which the entry is recorded first of all.
6. The process of recording entries in the books of original entry is called 'journalising'.
7. Page number of the Ledger, i.e., Ledger Folio (L.F.) is written in these books.
8. Accuracy of these books cannot be tested.

**Ledger**

All the transactions entered in Journal or Subsidiary Books are later transferred to the Ledger. As such, the Ledger is also called a book of final entry.
In this book, transactions are recorded in analytical order, i.e., all the transactions pertaining to a particular account are contained at one place in the Ledger. Thus, position of an account can be easily ascertained at any point of time.
Full details of a transaction are not recorded in the Ledger.
Final accounts can be prepared with the help of Ledger balances.
Ledger is considered as less authentic and reliable in comparison to books of original entry, since entries are recorded in the Ledger at a later stage.
The process of recording entries in the Ledger is called 'posting'.
Page number of the Journal or subsidiary books, i.e., Journal Folio (J.F.) is written in Ledger.
Accuracy of the Ledger Accounts is tested by preparing a Trial Balance.

**Proforma of Ledger**

Each Ledger account is divided into two equal parts. The left-hand side is known as the debit side and the right-hand side as the credit side. As an account is in 'T' shape, therefore, sometimes it is called 'T' account. The format of an account is as shown below:—

Dr.	NAME OF ACCOUNT					Cr.		
	Date	Particulars	J. F.	Amount	Date	Particulars	J.F.	Amount
			₹				₹	

As shown above, there are four columns on each side of an account :—

(1) **Date** :— The date of the transaction is recorded in this column.

(2) **Particulars** :— Each transaction affects two accounts. The name of the other account which is affected by the transaction is written in this column.

(3) **Journal Folio or J.F.** :— In this column, the page number of the Journal or Subsidiary Book from which that particular entry is transferred, is entered.

(4) **Amount** :— The amount pertaining to this account is entered in this column.

### Rules of Posting

Posting is the process of transferring entries from Journal or Subsidiary Books to the Ledger. The following rules should be observed while posting entries in the Ledger :—

(1) All transactions relating to an account should be entered at one place. In other words, two separate accounts should not be opened for posting transactions relating to the same account. If there are two customers with similar names, their accounts should be distinguished by writing their address against their names, say the Account of Anil (of Karol Bagh) and the Account of Anil (of Chandni Chowk).

(2) The word 'To' is used before the accounts which appear on the debit side of an account. Similarly, the word 'By' is used before the accounts which appear on the credit side of an account.

(3) If an account has been debited in the Journal entry, the posting in the Ledger should also be made on the debit side of such account. In the Particulars column, the name of the other account which has been credited in the Journal entry should be written for reference.

(4) If an account has been credited in the Journal entry, the posting in the Ledger should also be made on the credit side of such account. In the particulars column, the name of the other account which has been debited in the Journal entry should be written for reference.

(5) Similar amount which has been posted on the debit side of an account should also be posted on the credit side of another account.

(6) It is not necessary to write the word 'A/c' after the personal accounts.

**Example** : On 1st April 2012, sold goods for cash ₹20,000. Pass Journal entry and post it into Ledger.

**Solution** : Journal Entry :

2012	Cash A/c	Dr.	20,000
April 1	To Sales A/c (Cash sales)		20,000

The above entry will be posted into Ledger Accounts as follows :—

Dr.	CASH ACCOUNT						Cr.	
	Date	Particulars	J. F.	Amount	Date	Particulars	J.F.	Amount
2012			₹					₹
April 1	To Sales A/c			20,000				

SALES ACCOUNT							Cr.
Dr.	Particulars	J. F.	Amount	Date	Particulars	J.F.	Amount
Date			₹	2012 April 1	By Cash A/c		₹ 20,000

### Posting of Compound Journal Entries

When in a Journal entry, two or more accounts are debited and only one account is credited or *vice versa*, the entry is termed as compound journal entry. In case of posting of a compound journal entry, posting has to be made in all the accounts whether debited or credited in the entry. For example, if on 10th April 2012, cash received from Gopal & Co. is ₹14,800 and discount allowed to them is ₹200, the compound entry and the Ledger Accounts will be as follows :—

2012 April 10	Cash A/c	Dr.	14,800
	Discount Allowed A/c	Dr.	200
	To Gopal & Co.		15,000

(Cash received and discount allowed)

CASH ACCOUNT							Cr.
Dr.	Particulars	J. F.	Amount	Date	Particulars	J.F.	Amount
Date			₹				₹
2012 April 10	To Gopal & Co.		14,800				

DISCOUNT ALLOWED ACCOUNT							Cr.
Dr.	Particulars	J. F.	Amount	Date	Particulars	J.F.	Amount
Date			₹				₹
2012 April 10	To Gopal & Co.		200				

GOPAL & CO.							Cr.
Dr.	Particulars	J. F.	Amount	Date	Particulars	J.F.	Amount
Date			₹				₹
			₹	2012 April 10	By Cash A/c		14,800
			₹	April 10	By Discount Allowed A/c		200

### ILLUSTRATION 1.

Pass Journal Entries for the following transactions and post them into Ledger :—

2012			₹
April 1	Siya Ram commenced business with cash		2,00,000
3	Purchased office furniture for cash		20,000
5	Purchased goods for cash		50,000
8	Purchased goods — from Vishal Trading Co. from Mohan Garments		25,000 16,000
10	Returned goods to Vishal Trading Co.		5,000
14	Paid cash to Vishal Trading Co. in full settlement of their account, after deducting 5% cash discount		
15	Sold goods for cash		40,000
18	Sold goods to Hero Limited, less 10% Trade Discount		30,000
20	Siya Ram withdrew from business for his personal use —	Cash Goods	10,000 4,000

21	Paid to Mohan Garments Discount received	7,800 200
22	Received from Hero Limited Discount allowed	8,850 150
25	Sold goods to Hansraj Ltd. for cash	12,000
28	Purchased goods from Pawan Brothers	24,000
30	Paid for Rent ₹2,000 and Salaries ₹4,000.	

## **Closing and Balancing of Accounts**

At the end of the accounting period or whenever needed, a businessman will be interested in knowing the position of various accounts. For this purpose the accounts are balanced. Balancing of an account means that the debit and credit sides are totalled and the difference between the two sides is inserted on the side which is shorter so as to make their totals equal. If the debit side exceeds the credit, the balance is called a debit balance and on the other hand, if the credit side exceeds the debit, the balance is called a credit balance.

As discussed earlier, all the accounts are classified into three categories according to their nature, *i.e.*, (1) Personal Accounts, (2) Real Accounts and (3) Nominal Accounts. There are different methods for balancing of each of the three categories of accounts discussed as below :—

(1) **Closing of Personal Accounts** :— From the balancing of these accounts we can ascertain as to how much amount is owing from each individual customer and how much amount is owed to each individual creditor. If a personal account shows a debit balance, it indicates the amount owing from him. On the contrary, if a personal account shows a credit balance, it indicates the amount owing to him.

In case the total of the debit side is in excess of the credit side, the difference between the two is inserted on the credit side of the account in order to make their totals equal. The words ‘By Balance c/d’, *i.e.*, balance carried down are written against the amount of the difference. In the next accounting period, the balance is brought down on the debit side by writing the words ‘To Balance b/d’.

On the contrary, if the total of the credit side is in excess of the debit side, the difference between the two is inserted on the debit side of the account in order to make

21	Paid to Mohan Garments Discount received	7,800 200
22	Received from Hero Limited Discount allowed	8,850 150
25	Sold goods to Hansraj Ltd. for cash	12,000
28	Purchased goods from Pawan Brothers	
30	Paid for Rent ₹2,000 and Salaries ₹4,000.	24,000

**SOLUTION :****JOURNAL OF SIYARAM**

Date	Particulars	L. F.	Amount	Amount
2012 April 1	Cash A/c To Capital A/c (Siya Ram started business with cash)	Dr.	₹ 2,00,000	₹ 2,00,000
3	Furniture A/c To Cash A/c (Furniture purchased for cash)	Dr.	20,000	20,000
5	Purchases A/c To Cash A/c (Goods purchased for cash)	Dr.	50,000	50,000
8	Purchases A/c To Vishal Trading Co. To Mohan Garments (Goods purchased on credit)	Dr.	41,000	25,000 16,000
10	Vishal Trading Co. To Purchases Returns A/c (Goods returned to Vishal Trading Co.)	Dr.	5,000	5,000
14	Vishal Trading Co. To Cash A/c To Discount Received A/c (Cash paid and discount received)	Dr.	20,000	19,000 1,000
15	Cash A/c To Sales A/c (Goods sold for cash)	Dr.	40,000	40,000
18	Hero Limited To Sales A/c (Goods worth ₹30,000 sold at a trade discount of 10%)	Dr.	27,000	27,000
20	Drawings A/c To Cash A/c To Purchases A/c (Cash and goods withdrew by proprietor for his personal use)	Dr.	14,000	10,000 4,000
21	Mohan Garments To Cash A/c To Discount Received A/c (Cash paid and discount received)	Dr.	8,000	7,800 200
		C/F	4,25,000	4,25,000

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		B/F		4,25,000	4,25,000
22	Cash A/c Discount Allowed A/c To Hero Limited (Cash received and discount allowed)	Dr. Dr.		8,850 150	9,000
25	Cash A/c To Sales A/c (Goods sold for cash)	Dr.		12,000	12,000
28	Purchases A/c To Pawan Brothers (Goods purchased on credit)	Dr.		24,000	24,000
30	Rent A/c Salaries A/c To Cash A/c (Expenses paid in cash)	Dr. Dr.		2,000 4,000	6,000
	Total			4,76,000	4,76,000

LEDGER OF SIYARAM  
CASH ACCOUNT

Dr.	Particulars	J. F.	Amount	Date	Particulars	J.F.	Amount	Cr.
Date	Particulars	J. F.	₹		Particulars	J.F.	₹	Cr.
2012 April 1	To Capital A/c		2,00,000	2012 April 3	By Furniture A/c		20,000	
15	To Sales A/c		40,000	5	By Purchases A/c		50,000	
22	To Hero Limited		8,850	14	By Vishal Trading Co.		19,000	
25	To Sales A/c		12,000	20	By Drawings A/c		10,000	
				21	By Mohan Garments		7,800	
				30	By Rent A/c		2,000	
				30	By Salaries A/c		4,000	

## CAPITAL ACCOUNT

Dr.	Particulars	J. F.	Amount	Date	Particulars	J.F.	Amount	Cr.
Date	Particulars	J. F.	₹		Particulars	J.F.	₹	Cr.
			₹	2012 April 1	By Cash A/c		2,00,000	

## FURNITURE ACCOUNT

Dr.	Particulars	J. F.	Amount	Date	Particulars	J.F.	Amount	Cr.
Date	Particulars	J. F.	₹		Particulars	J.F.	₹	Cr.
2012 April 3	To Cash A/c		₹ 20,000					

## PURCHASES ACCOUNT

Dr.	Particulars	J. F.	Amount	Date	Particulars	J.F.	Amount	Cr.
Date	Particulars	J. F.	₹		Particulars	J.F.	₹	Cr.
2012 April 5 8	To Cash A/c To Vishal Trading Co.		₹ 50,000 25,000	2012 April 20	By Drawings A/c		4,000	
8	To Mohan Garments		16,000					
28	To Pawan Brothers		24,000					

## VISHAL TRADING CO.

Dr.

Date	Particulars	J. F.	Amount	Date	Particulars	J.F.	Amount
2012 April 10	To Purchases Returns A/c		₹ 5,000	2012 April 8	By Purchases A/c		₹ 25,000
14	To Cash A/c		19,000				
14	To Discount Received A/c		1,000				

Dr.

## MOHAN GARMENTS

Date	Particulars	J. F.	Amount	Date	Particulars	J.F.	Amount
2012 April 21	To Cash A/c		₹ 7,800	2012 April 8	By Purchases A/c		₹ 16,000
21	To Discount Received A/c		200				

Dr.

## PURCHASES RETURNS ACCOUNT

Date	Particulars	J. F.	Amount	Date	Particulars	J.F.	Amount
			₹	2012 April 10	By Vishal Trading Co.		₹ 5,000

Dr.

## DISCOUNT RECEIVED ACCOUNT

Date	Particulars	J. F.	Amount	Date	Particulars	J.F.	Amount
				2012 April 14	By Vishal Trading Co.		₹ 1,000
				21	By Mohan Garments		200

Dr.

## SALES ACCOUNT

Date	Particulars	J. F.	Amount	Date	Particulars	J.F.	Amount
			₹	2012 April 15	By Cash A/c		₹ 40,000
				18	By Hero Limited		27,000
				25	By Cash A/c		12,000

Dr.

## HERO LIMITED

Date	Particulars	J. F.	Amount	Date	Particulars	J.F.	Amount
2012 April 18	To Sales A/c		₹ 27,000	2012 April 22	By Cash A/c		₹ 8,850
				22	By Discount Allowed A/c		150

Dr.

## DRAWINGS ACCOUNT

Date	Particulars	J. F.	Amount	Date	Particulars	J.F.	Amount
2012 April 20	To Cash A/c		₹ 10,000				
20	To Purchases A/c		4,000				

DISCOUNT ALLOWED ACCOUNT							
Dr.	Particulars	J. F.	Amount	Date	Particulars	J.F.	Cr.
Date 2012 April 22	To Hero Limited		₹ 150				₹

PAWAN BROTHERS							
Dr.	Particulars	J. F.	Amount	Date	Particulars	J.F.	Cr.
			₹	2012 April 28	By Purchases A/c		₹ 24,000

RENT ACCOUNT							
Dr.	Particulars	J. F.	Amount	Date	Particulars	J.F.	Cr.
Date 2012 April 30	To Cash A/c		₹ 2,000				₹

SALARIES ACCOUNT							
Dr.	Particulars	J. F.	Amount	Date	Particulars	J.F.	Cr.
Date 2012 April 30	To Cash A/c		₹ 4,000				₹

**Note :** Two separate accounts for 'Discount Received A/c' and 'Discount Allowed A/c' have been opened to enable the management to know separately how much amount was gained or lost on discount.

### Closing and Balancing of Accounts

At the end of the accounting period or whenever needed, a businessman will be interested in knowing the position of various accounts. For this purpose the accounts are balanced. Balancing of an account means that the debit and credit sides are totalled and the difference between the two sides is inserted on the side which is shorter so as to make their totals equal. If the debit side exceeds the credit, the balance is called a debit balance and on the other hand, if the credit side exceeds the debit, the balance is called a credit balance.

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On the contrary, if the total of the credit side is in excess of the debit side, the difference between the two is inserted on the debit side of the account in order to make

their totals equal. The words 'To Balance c/d' are written against the amount of the difference. In the next accounting period, the balance is brought down on the credit side by writing the words 'By Balance b/d'.

Personal Accounts as shown 'Opened' in Illustration 1 will be closed in the following manner :—

Dr.

## CAPITAL ACCOUNT

Cr.

Date	Particulars	J. F.	Amount	Date	Particulars	J.F.	Amount
2012 April 30	To Balance c/d		₹ 2,00,000 <u>                </u>	2012 April 1	By Cash A/c		₹ 2,00,000 <u>                </u>
				May 1	By Balance b/d		₹ 2,00,000 <u>                </u>

Dr.

## VISHAL TRADING CO.

Cr.

Date	Particulars	J. F.	Amount	Date	Particulars	J.F.	Amount
2012 April 10	To Purchases		₹ 5,000	2012 April 8	By Purchases A/c		₹ 25,000
	Returns A/c		19,000				
14	To Cash A/c		1,000				
14	To Discount Received A/c		25,000 <u>                </u>				

Dr.

## MOHAN GARMENTS

Cr.

Date	Particulars	J. F.	Amount	Date	Particulars	J.F.	Amount
2012 April 21	To Cash A/c		₹ 7,800	2012 April 8	By Purchases A/c		₹ 16,000
21	To Discount Received A/c		200				
30	To Balance c/d		8,000 <u>                </u>				
			16,000 <u>                </u>	May 1	By Balance b/d		8,000 <u>                </u>

Dr.

## HERO LIMITED

Cr.

Date	Particulars	J. F.	Amount	Date	Particulars	J.F.	Amount
2012 April 18	To Sales A/c		₹ 27,000	2012 April 22	By Cash A/c		₹ 8,850
				22	By Discount Allowed A/c		150
				30	By Balance c/d		18,000 <u>                </u>
May 1	To Balance b/d		18,000 <u>                </u>				27,000 <u>                </u>

Dr.

## DRAWINGS ACCOUNT

Cr.

Date	Particulars	J. F.	Amount	Date	Particulars	J.F.	Amount
2012 April 20	To Cash A/c		₹ 10,000	2012 April 30	By Balance c/d		₹ 14,000 <u>                </u>

20	To Purchases A/c		4,000				
			14,000				
May 1	To Balance b/d		14,000				14,000

PAWAN BROTHERS							
Dr.	Particulars	J.F.	Amount	Date	Particulars	J.F.	Cr.
2012			₹ 24,000	2012 April 28	By Purchases A/c		₹ 24,000
April 30	To Balance c/d			May 1	By Balance b/d		24,000

(2) **Closing of Real Accounts** :— Real accounts include the accounts of cash in hand and the accounts of all other assets such as Land, Building, Furniture, Investments etc. Method of closing the Cash A/c and the accounts of all other assets is the same as that of personal accounts. When balanced, these will always show debit balances.

Real Accounts as shown opened in Illustration 1 will be closed in the following manner :

CASH ACCOUNT							
Dr.	Particulars	J.F.	Amount	Date	Particulars	J.F.	Cr.
2012			₹ 2,00,000	2012 April 3	By Furniture A/c		₹ 20,000
April 1	To Capital A/c			5	By Purchases A/c		50,000
15	To Sales A/c		40,000	14	By Vishal		
22	To Hero Limited		8,850	14	Trading Co.		19,000
25	To Sales A/c		12,000	20	By Drawings A/c		10,000
				21	By Mohan		7,800
				30	Garments		
				30	By Rent A/c		2,000
				30	By Salaries A/c		4,000
				30	By Balance c/d		1,48,050
			2,60,850				2,60,850
May 1	To Balance b/d		1,48,050				

FURNITURE ACCOUNT							
Dr.	Particulars	J.F.	Amount	Date	Particulars	J.F.	Cr.
2012			₹ 20,000	2012 April 30	By Balance c/d		₹ 20,000
April 3	To Cash A/c						
May 1	To Balance b/d		20,000				

(3) **Closing of Nominal Accounts** :— Nominal accounts include the accounts relating to the expenses and incomes of the firm. These accounts do not require balancing. As the main purpose of opening the nominal accounts is to ascertain the net profit or loss of the firm, all such accounts are transferred to the trading and profit and loss account of the firm at the end of the financial period. (For details refer to chapter on Financial Statements).

Accounts relating to 'Goods' such as Purchases A/c, Sales A/c, Purchases Return A/c, Sales Return A/c and Stock A/c are not balanced. These accounts are closed by

transferring them to Trading Account at the end of the year. (For details refer to chapter on Financial Statements).

Nominal Accounts as shown opened in Illustration 1 will appear as follows :

Dr.	PURCHASES ACCOUNT				Cr.		
Date	Particulars	J. F.	Amount	Date	Particulars	J.F.	Amount
2012 April 5	To Cash A/c		₹ 50,000	2012 April 20	By Drawings A/c		₹ 4,000
8	To Vishal Trading Co.		25,000				
8	To Mohan Garments		16,000				
28	To Pawan Brothers		24,000				
			1,15,000				

Dr.	PURCHASES RETURN ACCOUNT				Cr.		
Date	Particulars	J. F.	Amount	Date	Particulars	J.F.	Amount
			₹	2012 April 10	By Vishal Trading Co.		₹ 5,000

Dr.	DISCOUNT RECEIVED ACCOUNT				Cr.		
Date	Particulars	J. F.	Amount	Date	Particulars	J.F.	Amount
			₹	2012 April 14	By Vishal Trading Co.		₹ 1,000
				21	By Mohan Garments		200

Dr.	SALES ACCOUNT				Cr.		
Date	Particulars	J. F.	Amount	Date	Particulars	J.F.	Amount
			₹	2012 April 15	By Cash A/c		₹ 40,000
				18	By Hero Limited		27,000
				25	By Cash A/c		12,000
							79,000

Dr.	DISCOUNT ALLOWED ACCOUNT				Cr.		
Date	Particulars	J. F.	Amount	Date	Particulars	J.F.	Amount
2012 April 22	To Hero Limited		₹ 150				₹

Dr.	RENT ACCOUNT				Cr.		
Date	Particulars	J. F.	Amount	Date	Particulars	J.F.	Amount
2012 April 30	To Cash A/c		₹ 2,000				₹

Dr.	SALARIES ACCOUNT				Cr.		
Date	Particulars	J. F.	Amount	Date	Particulars	J.F.	Amount
2012 April 30	To Cash A/c		₹ 4,000				₹

### Trial Balance

When posting of all the transactions into the Ledger is completed and the accounts are balanced off, it becomes necessary to check the arithmetical accuracy of the accounting work. For this purpose, the balance of each and every account in the Ledger is put on a list. The list so prepared is called a trial balance.

Ledger account which shows a debit balance is put on the debit side of the trial balance and the account which shows a credit balance is put on the credit side of the trial balance. Account which shows no balance, i.e., whose debit and credit totals are equal, is not entered in the trial balance. If the total of the debit side of trial balance equals to that of its credit side, it is proved that books are atleast arithmetically correct and there are no errors in the posting and balancing the ledger accounts. (Trial Balance will be discussed in a subsequent chapter in detail.)

If a trial balance is prepared for Illustration 1, with the help of the above prepared ledger accounts, it will appear as follows :—

**TRIAL BALANCE OF SIYA RAM**  
*as at 30th April 2012*

Name of Accounts	L.F.	Dr. Balances	Cr. Balances
Capital A/c		₹ 2,00,000	
Mohan Garments		8,000	
Hero Limited		18,000	
Drawings A/c		14,000	
Pawan Brothers			24,000
Cash A/c		1,48,050	
Furniture A/c		20,000	
Purchases A/c		1,11,000	
Purchases Return A/c			5,000
Sales A/c			79,000
Discount Received A/c			1,200
Discount Allowed A/c			150
Rent A/c			2,000
Salaries A/c			4,000
Total		3,17,200	3,17,200

### Significance of Various Balances Relating to Accounts

(1) Debit balance of a Personal Account indicates the amount which is owing to the firm by a person. In other words, he is the debtor of the firm.

(2) Credit balance of a Personal Account indicates the amount which is owing to the person concerned. In other words, he is the creditor of the firm.

(3) Bank Account is a personal account and not a real account because bank account is the account of some banking company which is an artificial person. If the bank account shows a debit balance it would indicate the balance of Cash at bank. On the other hand, if it shows a credit balance, it would indicate an overdraft balance.

(4) Debit balance of a Real Account shows the value of an asset in the books of the firm.

- (5) Usually real accounts do not show credit balances.
- (6) Debit balance of a Nominal Account indicates loss or expense.
- (7) Credit balance of a Nominal Account indicates gain or income.

In brief, it can be said that :

- (I) A debit balance is either an asset or an expense.
- (II) A credit balance shows liability, capital or the income earned.

### **Posting of Opening Entry**

We have seen that the first entry in each year's Journal is to record the opening balances of various assets and liabilities at the beginning of the new year. It is termed as the 'Opening entry'.

As the accounts of all the assets will be debited in an opening entry, an account for each asset will be opened in the Ledger and the posting will be made on the debit side by writing the words 'To Balance b/d'.

Similarly, as the accounts of the liabilities will be credited in an opening entry, an account for each liability will be opened in the Ledger and the posting will be made on the credit side by writing the words 'By Balance b/d'.

Thus, by posting the opening entry completely, all the accounts pertaining to assets and liabilities in the beginning will be opened in the Ledger.

### **ILLUSTRATION 2.**

The following balances appeared in the Ledger of M/s Marble Traders on 1st April 2006 :

	₹	₹	₹		
Cash in hand	6,000;	Cash at Bank	12,000;	Bills Receivable	7,000;
Ramesh (Cr.)	3,000;	Stock (Goods)	5,400;	Bills Payable	2,000;
Rahul (Dr.)	9,700;	Himanshu (Dr.)	10,000.		

Transactions during the month were :

	₹
<b>April</b>	
1 Goods sold to Manish	3,000
2 Purchased goods from Ramesh	8,000
3 Received cash from Rahul in full settlement	9,200
5 Cash received from Himanshu on account	4,000
6 Paid to Ramesh by cheque	6,000
8 Rent paid by cheque	1,200
10 Cash received from Manish	3,000
12 Cash sales	6,000
14 Goods returned to Ramesh	1,000
15 Cash paid to Ramesh in full settlement (Discount received ₹300)	3,700
18 Goods sold to Kushal	10,000
20 Paid trade expenses	200
21 Drew for personal use	1,000
22 Goods returned from Kushal	1,200
24 Cash received from Kushal	6,000
26 Paid for stationery	100
27 Postage charges	60

28	Salary Paid	2,500
29	Goods purchased from Sheetal Traders	7,000
30	Sold goods to Kirit	6,000
30	Goods purchased from Handa Traders	5,000

Journalise the above transactions, post them to the Ledger, balance the accounts and prepare a Trial Balance.

### ILLUSTRATION 3.

Prepare Journal entries of the following posting in the Ledger accounts :—

(I)

Dr.

#### CASH ACCOUNT

Cr.

To Sales

₹

5,000

₹

(II)

Dr.

#### FURNITURE ACCOUNT

Cr.

To Cash

₹

8,000

₹

12.22

LEDGER

(III)

Dr.

PURCHASES ACCOUNT

To Govind

₹  
10,000

Cr.  
₹

(IV)

Dr.

MURARI

By Purchases A/c

Cr.  
₹  
12,000

(V)

Dr.

SALES ACCOUNT

By Mohan

Cr.  
₹  
15,000

(VI)

Dr.

INTEREST ACCOUNT

By Cash A/c

Cr.  
₹  
500