

Chapter 6

Ledger

LEARNING OBJECTIVES

- Features of Ledger
- Relation between Journal & Ledger
- Distinction between Ledger & Journal
- Specimen of a Ledger Account
- Ledger Posting
- Ledger Balancing

Ledger is the principal books of accounts where similar transactions relating to a particular account are recorded. The owner of a business is not interested to know the effect of individual transaction on the financial statements. What he wants is the accumulated result of a particular account at the end of a particular period. For example, if he wants to know the total purchases made during a particular period, it will be hectic and long process for him to find out the same out of the journal book. Therefore similar transactions are sorted out and consolidated at one book to ascertain their net effect. This book is the Ledger Book.

Features of Ledger

- It is the final book of entry.
- It contains record of transactions in a classified form.
- The information it contains is useful to draw conclusions regarding status of any account.
- Balances of ledger are transferred to Trading, Profit & Loss Account and Balance Sheet.

Relation between Journal and Ledger

Journal is the book of original entry and ledger is the book of final entry. When transactions take place, they are first recorded in the journal and subsequently they are transferred to ledger there from. Recording transactions directly in ledger is a hazardous task if there are numerous transactions. Thus there is a very close relationship between these two.

Distinction between ledger and Journal

| Ledger | Journal |
|--|--|
| ➤ It is the book of final entry. | ➤ It is the book of original entry. |
| ➤ It is the principal book of accounts. | ➤ It is a subsidiary book. |
| ➤ Journal is the basis of ledger posting. | ➤ Primary documents are the basis of journalizing. |
| ➤ Condensed and classified record of transactions. | ➤ Chronological record of transactions. |
| ➤ Can give complete and ready answer. | ➤ Can not give any complete and ready answer. |

Specimen of a Ledger Account

| Dr | | | | XXXX A/c | | | | Cr | | | |
|------|-------------------|----|---|----------|------------------|----|---|------|-------------|----|---|
| Date | Particulars | JF | ₹ | Date | Particulars | JF | ₹ | Date | Particulars | JF | ₹ |
| | To, Credit Aspect | | | | By, Debit Aspect | | | | | | |

This form is also known as "T" form of ledger. Mostly all the organisations are maintaining this form of ledger. J.F.: Ref to Journal Folio, which has been replaced by Voucher No. in Computer Accounts.

Ledger posting

After the transactions are recorded in Journal, the next step in the book-keeping process is to transfer the information from Journal to the respective accounts in Ledger. This process of transferring entries from Journal to Ledger is called Ledger Posting.

Rules of Posting

The rules of posting entries appearing in Journal to Ledger are as follows:

- Each debit entry in Journal is posted to the debit side of the respective account in Ledger. The amount to be entered in that particular account in Ledger is the same as appearing in the debit column against that entry in Journal.
- Each credit entry in Journal is posted to the credit side of the respective account in Ledger. The amount to be entered in that particular account in Ledger is the same as appearing in the credit column against that entry in Journal.

Ledger Balancing

At the end of a period, two sides of ledger are added up and if the totals of the two sides are not equal, then the difference is put on the side having lesser total. This will make both the sides equal. The amount of the difference inserted is known as 'balance' of the account. At the end of the accounting period, in case of an ongoing account (e.g. an asset account/liability account etc.) in particulars column, it is written as *Balance c/d* (carried down). In subsequent period it is shown as *Balance b/d* (brought down). If the total of the credit side of the account is less, the balance will be inserted on the credit side with the words "*By Balance c/d*". This balance is known as Debit Balance and after closing the account, it will be shown on the debit side with the word "*To Balance b/d*". Similarly if the total of debit side of the account is less, the balance will be inserted on the debit side with the words "*To Balance c/d*". This balance is known as Credit Balance and after closing the account, it will be shown on the credit side with the words "*By Balance b/d*".

Example

Post the following journal entry into Ledger.

| Date | Particulars | L.F | Dr. Amount | Cr. Amount |
|--------------|---|------------|-------------|------------|
| 2009 Aug. | 11 Cash A/c Discount Allowed A/c To Ram A/c <i>(Being receipt of cash from Ram, discount allowed being ₹ 100)</i> | Dr. Dr. | 4900 100 | 5000 |

Solution

In the books of

| Dr. | | | | Cash Account | | | | Cr. | |
|----------|----------------|------|--------|--------------|----------------|------|--------|-----|--|
| Date | Particulars | J.F. | Amount | Date | Particulars | J.F. | Amount | | |
| 11.08.09 | To Ram A/c | | 4,900 | 31.08.09 | By Balance c/d | | 4,900 | | |
| | | | 4,900 | | | | 4,900 | | |
| 01.09.09 | To Balance b/d | | 4,900 | | | | | | |

| Dr. | | | | Discount Allowed Account | | | | Cr. | |
|----------|----------------|------|--------|--------------------------|----------------|------|--------|-----|--|
| Date | Particulars | J.F. | Amount | Date | Particulars | J.F. | Amount | | |
| 11.08.09 | To Ram A/c | | 100 | 31.08.09 | By Balance c/d | | 100 | | |
| | | | 100 | | | | 100 | | |
| 01.09.09 | To Balance b/d | | 100 | | | | | | |

| Dr. | | | | Cr. | | | |
|----------|----------------|------|--------|----------|-------------------------|------|--------|
| Ram A/c | | | | | | | |
| Date | Particulars | J.F. | Amount | Date | Particulars | J.F. | Amount |
| 31.08.09 | To Balance b/d | | 5,000 | 11.08.09 | By Cash A/c | | 4900 |
| | | | | | By Discount Allowed A/c | | 100 |
| | | | 5,000 | | | | 5000 |
| | | | | 01.09.09 | By Balance c/d | | 5000 |

Class Exercise

1. Journalize the following transactions and post them to the Ledger -

On 1.4.15, the following were the Ledger Balances of K.K.C & Co.

| | | |
|--------------|---|-------|
| Cash in hand | ₹ | 900 |
| Cash at Bank | ₹ | 10100 |
| Stock | ₹ | 2500 |
| Capital | ₹ | 15000 |
| Soni (Cr.) | ₹ | 5000 |
| Zahir (Dr.) | ₹ | 1500 |
| Sharma (Dr.) | ₹ | 5000 |

Transactions during the year:

| | |
|----|---|
| a) | Purchased Goods from Mr. Soni on credit - ₹ 12000 |
| b) | Sold goods on Cash - ₹ 50000 |
| c) | Sold goods to Zahir - ₹ 2500 |
| d) | Paid to Mr. Soni by cheque - ₹ 7500 |
| e) | Deposited Cash into Bank - ₹ 35000 |
| f) | Rent paid - ₹ 6500 |

2. Mr. Ravinder commenced business on 1.4.15. Following are the summary of transactions entered during April 2015.

| SL No. | Transactions |
|--------|---|
| a) | Borrowed ₹ 15000 from his father and paid the money into the business bank account. |
| b) | Made cash purchases totaling ₹ 9000 |
| c) | Made cash Sales of ₹ 15000 |
| d) | Paid Rent ₹ 350 |
| e) | Made credit purchases totaling ₹ 6000 and by the end of the month he paid all except ₹ 1500 of this amount. |
| f) | Made credit sale ₹ 11400 and received ₹ 10,000 by the end of the month. |
| g) | Paid electricity for the month, ₹ 350 |
| h) | Drew ₹ 2500 for his personal expense. |

You are required to:

- 1) Journalise the above transactions and
- 2) Write up the Ledger Accounts.



Chapter 13

Trial Balance

LEARNING OBJECTIVES

- Features of Trial Balance
- Objectives of drawing up a Trial Balance
- Is Trial Balance Indispensible

Since every transaction requires two entries in the books of account, one debit and another to the credit, it follows that the total of all debit entries in the books must be equal to total of all credit entries. At the end of the financial year or at any other time the balances of all the ledger accounts are extracted and a schedule is prepared to test whether in fact, the total debits equal the total credits. This schedule of balances is called a Trial Balance.

If the totals agree, it provides a reasonably reliable check and proves the arithmetical accuracy of the book-keeping entries. On the other hand, if the totals do not agree then it shows that there are definitely some mistakes or error in the books of accounts.

Features of Trial Balance

- It is prepared on a particular date, not for a period.
- It is just a statement, not an account.
- It does not form the part of double entry system.
- A trial balance can be prepared at any time, at the end of every month, every quarter, every half-year or every year.
- It is prepared to test the arithmetical accuracy of the book of accounts.

Objects of drawing up a Trial Balance

- It ensures that all transactions have been recorded and the balance of each account has been computed correctly.
- It facilitates the preparation of Trading, Profit & Loss Account and balance Sheet.
- Some of the errors in the books of account can be detected by the Trial balance and can be rectified before preparation of final accounts.

Is Trial Balance Indispensible?

Preparation of Trial balance is of great help to the accountant although it is neither an account nor the part of double entry system. It is merely a statement prepared by the accountant for his convenience. If it agrees, he may be satisfied that arithmetical accuracy has been done although there may be some errors. But Trial Balance helps us to prepare the final accounts of the firm.

Example

From the following particulars, prepare a Trial Balance as on 31.3.2015:

Capital ₹ 40,000, Purchases ₹ 36,000, Discount allowed ₹ 1,200, Carriage inwards ₹ 8,700, Carriage outwards ₹ 2,300, Sales ₹ 60,000, Return inwards ₹ 300, Return outwards ₹ 700, Rent and Taxes ₹ 1,200, Plant and Machinery ₹ 10,700, Opening Stock ₹ 15,500, Debtors ₹ 20,200, Creditors ₹ 12,000, Investments ₹ 3,600, Commission received ₹ 1,800, cash in hand ₹ 100, cash at bank ₹ 10,100, Motor Car ₹ 4,600, Closing Stock ₹ 18,300.

Solution

Trial balance of As on 31st March, 2015

| Name of Accounts | L.F. | Dr. ₹ | Cr. ₹ |
|---------------------|------|----------|----------|
| Capital | | | 40,000 |
| Purchases | | 36,000 | |
| Discount Allowed | | 1,200 | |
| Carriage inward | | 8,700 | |
| Carriage outward | | 2,300 | |
| Sales | | | 60,000 |
| Returns inward | | 300 | |
| Returns outward | | | 700 |
| Rent and Taxes | | 1,200 | |
| Plant & Machinery | | 10,700 | |
| Opening Stock | | 15,500 | |
| Debtors | | 20,200 | |
| Creditors | | | 12,000 |
| Investments | | 3,600 | |
| Commission received | | | 1,800 |
| Cash in hand | | 100 | |
| Cash at bank | | 10,100 | |
| Motor Car | | 4,600 | |
| | | 1,14,500 | 1,14,500 |

Class Exercise

1. From the following particulars, prepare the trial balance as at 31st Dec. 2015.

| Particulars | Amt (₹) | Particulars | Amt (₹) |
|---------------------|---------|-------------------------|---------|
| Capital | 28,900 | Wages & Salaries | 8,606 |
| Purchases | 46,500 | Discount allowed | 1,061 |
| Sales | 60,900 | Discount received | 814 |
| Returns Outward | 5,700 | Rent Received | 300 |
| Repairs to Building | 848 | Drawings | 2,400 |
| Carriage inward | 2,500 | Rates & Insurances | 248 |
| Returns Inward | 4,800 | Bad Debts | 359 |
| Motor car | 950 | Provision for bad debts | 140 |
| Car Expenses | 318 | Opening Stock | 6,300 |
| Carriage Outward | 960 | Trade Debtors | 5,213 |
| Free Hold premises | 10,000 | Trade creditors | 4,035 |
| Bank Overdraft | 560 | Investments | 4,000 |
| Furniture | 1,460 | General Expenses | 1,586 |
| Loan On mortgage | 5,000 | Cash In hand | 240 |
| Goodwill | 8,000 | Closing Stock | 7,600 |