**Module 3**

**LEDGER**

**Introduction**

Under theoretical or traditional system of accounting, after all the transactions are journalized, the entries in the journal are posted or transferred to the appropriate accounts in the Ledger to know the exact position of each account on any particular date.

**Meaning of Ledger**

The term ledger is derived from the Dutch word **‘Legger’,** which means to keep. Ledger therefore means a book where various accounts are kept. A ledger is a collection of all accounts debited or credited in the journal. It contains a summarised record of all the transactions of the period. In other words, it is the book where transactions of the same nature are classified and grouped together in one place in the form of an account, through a process called posting to know the position of an account.

“The book in which a trader’s all transactions are recorded in a classified permanent form is called the ledger” (L.C. Cropper)

**Features of Ledger**

1. It is an analytical record of transaction, as transactions are classified in the ledger.
2. It is a derived or secondary record, as the entries in the ledger are derived from the entries in the journal.
3. It is book of final entry.
4. It is rightly called the king of books of account. It is the principal book of account, because it is possible to obtain the final information relating to the profit and loss and the financial position of the business.
5. It is a permanent record of transactions.

**Objectives of ledger**

1. To provide an analytical record of business transactions i.e. to bring all transactions of the same nature together in one place in the form of account.
2. To provide a permanent record of all the transactions of the business.
3. To indicate the cumulative effect of all the transactions relating to a person, asset or expense or income on any particular date.
4. To help in the preparation of the Trial Balance.
5. To help in the preparation of final accounts(Trading, Profit and Loss Account and Balance Sheet)

**Advantages of Ledger**

1. It is a permanent record of all the transactions of a business.
2. It provides complete information about all accounts in one book.
3. It is a summarised and classified record of transactions of the same nature
4. It is helpful in preparing the trial balance.
5. It facilitates the preparation of final accounts.
6. It helps to ascertain the various items of revenues and various items of expenses.
7. It helps to ascertain the amounts of purchase and sales during a particular period.
8. It helps to ascertain the assets and liabilities of the business and their values.
9. It helps to ascertain amount due from and amount due to business.

**Differences between Journal and Ledger**

|  |  |
| --- | --- |
| **Journal** | **Ledger** |
| 1. It is a book of original entry, as all transactions are recorded first in the Journal. | 1. It is a book of final entry, s the transactions are recorded finally in the ledger. |
| 1. It is a subsidiary book, because it does not provide the final accounting information of the business. | 1. It is a principal book of accounts, because it is possible to obtain final information relating to a business concern. |
| 1. It is only an original record, but not a permanent record. | 1. It is permanent record of various transactions. |
| 1. Journal is a chronological record of transactions. | 1. The ledger is an analytical record of transactions. |
| 1. The journal is a daily record, as the transactions are entered daily. | 1. Posting from journal to ledger is done periodically i.e. weekly, monthly etc. |
| 1. It does not provide full information about a person, an asset, an expense or an income. | 1. It provides full information about a person, an asset, an expense, or an income. |
| 1. The unit of entries in the journal is a transaction. | 1. The unit of entries in the ledger is an account. |
| 1. Journal has a greater weight as legal evidence. | 1. A ledger does not have greater weight as legal evidence. |
| 1. Recording of transaction in the journal is known as journalising. | 1. Recording of transactions in the ledger is called posting. |
| 1. Each entry in the journal shows both the aspects of a transaction. | 1. Each entry in a ledger shows only one aspect of a transaction. |
| 1. Narration is written in the journal. | 1. No narration is written in the ledger. |
| 1. Source documents like vouchers, receipts, invoices, debit and credit notes help in the preparation of journal. | 1. Journal helps the recording of transactions in the ledger. |
| 1. Journal may be avoided by a business concern. | 1. Ledger is a must for every business concern. |
| 1. A journal is not balanced. | 1. A ledger is balanced. |
| 1. Journal has debit and credit columns but no debit and credit sides. | 1. A ledger has debit and credit sides. |
| 1. Trial Balance and Final accounts (trading, P/L A/C and Balance Sheet) cannot be prepared from the journal entries. | 1. Trial balance and final accounts can be prepared from the ledger account balances. |

**Posting**

The process of transferring entries from books of original entry to the ledger is called ‘Posting’. It is the bringing together all transactions in respect of one particular account at one place for further accounting process.

**Format of an Account in the Ledger**

**Dr. Name of Account Cr.**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Date** | **Particular** | **JF** | **Amount** | **Date** | **Particulars** | **JF** | **Amount** |
|  |  |  |  |  |  |  |  |
|  |  |

**Balancing of ledger Accounts**

Balancing of ledger account means the process of ascertaining the difference between the total of debit side and credit side of an account and inserting the difference on the side where the amount is less in order to make the totals of the account equal. If the debit side is more than credit side, the account is said to have debit balance. Similarly, if credit side is more than debit side, it is said to be credit balance.

Debit balance means debit side is more than credit side.

Credit balance means credit side is more than debit side.

**Steps in Balancing of account:**

1. Total up two sides (debit side and credit side) of the account and write the highest total on both the sides.
2. Determine the difference between two sides and put the difference on the shorter side.
3. If the credit side total is more than the debit side total, that difference should be written on the debit side as ‘**Balance c/d’ (Balance carried down).** Similarly if the debit side total is more than credit side total, the difference is written on the credit side as ‘**Balance c/d**’ **(Balance carried down).**
4. The balance should be brought down **(Balance b/d)** or carried forward **(Balance C/F)** to the next period.

**Examples**

1. Give journal entries and ledger accounts of Mr. Rajan in respect of the transactions below:

2011 March 1: Started business with ` 50,000

March 3: purchased goods for ` 12,000

March 4: purchased goods on credit from Gomas ` 8,000

March 8: Sold goods to Arun `6,000

March12: paid to Gomas ` 5,000

March15: received from Arun `4,000

March18: sold goods for `9,000

**Solution**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Date** | **Particulars** | **LF** | **Dr.** | **Cr.** |
| 2011  March 1 | Cash A/C Dr.  Rajan’s Capital A/C  (Started business with cash) |  | 50,000 | 50,000 |
| March 3 | Purchases A/C Dr.  Cash A/C  (Cash Purchases) |  | 12,000 | 12,000 |
| March 4 | Purchases A/C Dr.  Gomas A/C  (Credit Purchases) |  | 8,000 | 8,000 |
| March 8 | Arun A/C Dr.  Sales A/C  (Credit Sales) |  | 6,000 | 6,000 |
| March 12 | Gomas A/C Dr.  Cash A/C  (paid to Gomas) |  | 5,000 | 5,000 |
| March 15 | Cash A/C Dr.  Arun A/C  (Received from Arun) |  | 4,000 | 4,000 |
| March 18 | Cash A/C Dr.  Sales A/C  (Cash Sales) |  | 9,000 | 9,000 |

**Dr. Cash Account Cr.**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Date** | **Particulars** | **JF** | **Amount** | **Date** | **Particulars** | **JF** | **Amount** |
| **2011**  **Mar.1**  **Mar.15**  **Mar.18**  **Apr.1** | **Capital**  **Arun**  **Sales**  **Balance b/d** |  | **50,000**  **4,000**  **9,000** | **2011**  **Mar. 3**  **Mar. 12**  **Mar. 31** | **Purchases**  **Gomas**  **Balance C/d** |  | **12,000**  **5,000**  **46,000** |
| **63,000** | **63,000** |
| **46,000** |  |

**Dr. Capital Account Cr.**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Date** | **Particulars** | **JF** | **Amount** | **Date** | **Particulars** | **JF** | **Amount** |
| **2011**  **Mar. 31** | **Balance C/d** |  | **50,000** | **2011**  **Mar.1**  **Apr.1** | **Cash**  **Balance b/d** |  | **50,000** |
| **50,000** | **50,000** |
|  | **50,000** |

**Dr. Purchases Account Cr.**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Date** | **Particulars** | **JF** | **Amount** | **Date** | **Particulars** | **JF** | **Amount** |
| **2011**  **Mar.3**  **Mar.4** | **Cash**  **Gomas** |  | **12,000**  **8,000** |  |  |  |  |
| **20,000** |
|  |

**Dr. Gomas Account Cr.**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Date** | **Particulars** | **JF** | **Amount** | **Date** | **Particulars** | **JF** | **Amount** |
| **2011**  **Mar.12**  **Mar.31** | **Cash**  **Balance c/d** |  | **5,000**  **3,000** | **2011**  **Mar.4**  **Apr. 1** | **Purchases**  **Balance b/d** |  | **8,000** |
| **8,000** | **8,000** |
|  | **3,000** |

**Dr. Arun Account Cr.**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Date** | **Particulars** | **JF** | **Amount** | **Date** | **Particulars** | **JF** | **Amount** |
| **2011**  **Mar.8**  **Apr. 1** | **Sales**  **Balance b/d** |  | **6,000** | **2011**  **Mar.15**  **Mar. 31** | **Cash**  **Balance c/d** |  | **4,000**  **2,000** |
| **6,000** | **6,000** |
| **2,000** |  |

**Dr. Sales Account Cr.**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Date** | **Particulars** | **JF** | **Amount** | **Date** | **Particulars** | **JF** | **Amount** |
|  |  |  |  | **2011**  **Mar.8**  **Mar.18** | **Arun**  **Cash** |  | **6,000**  **9,000** |
| **15,000** |
|  |

**SUB DIVISION OF JOURNAL (SUBSIDIARY BOOKS)**

Small organisations having few numbers of transactions maintain only one journal for recordings its transactions for the first time. Whereas in case of large concerns having numerous transactions, maintaining only one journal is highly inconvenient. Therefore, they have introduced the system of subsidiary books or special journals.

In this case, instead of recording all kinds of transactions in one journal, it is found efficient to maintain separate journal for each kind of transactions that occurs frequently. Transactions which cannot be recorded in the special journals are recorded in the ordinary journal or general journal or journal proper.

**Types of Special Journals**

1. **Cash Book:** all cash receipts and cash payments are entered in the book.
2. **Purchases day book/purchases journal:** all purchases of goods on credit are entered in the purchases journal. It must be noted that only credit purchases of goods are entered here.
3. **Sales day book/sales journal:** all sales of goods on credit are recorded in the sales journal.
4. **Purchases returns book:** all returns of goods to the suppliers are recorded in this book. This is also called returns outward book.
5. **Sales returns book:** all returns of goods from the customers are recorded in this book. This is also called returns inwards book.
6. **Bills receivable book:**  all bills receivables are entered in the book.
7. **Bills Payable book:** all bills payables are entered in this book.
8. **Journal Proper/ordinary journal/general journal:** miscellaneous transactions which cannot be recorded in the special journal are entered in the journal proper. For example: purchase and sale of fixed assets, opening entries, closing entries, adjusting entries, transfer entries, correcting entries.
9. **CASH BOOK**

In any business concern, there will be number of transactions relating to cash. Therefore it is necessary to maintain a separate cash book for recording all cash transactions i.e. all receipts and payments of cash. It is the most important subsidiary book used to record cash transactions. A cash book has two sides, a receipt side or debit side and a payment side or credit side. Thus, all cash receipts are entered on the debit side and all payments are entered on the credit side. It serves the purpose of both a journal and a ledger account.

**Definition**

“Cash book is used for recording the receipts and payments of money whether in coins, notes, cheques, bank drafts etc”

(Andrew Munro)

**TYPES OF CASH BOOKS**

Different types of cash books are used by different concerns to suit their requirements. But the most important types are as follows:

1. Single Column Cash book/simple cash book.
2. Double Column Cash book/cash book with cash and bank columns.
3. Three column Cash book/triple column cash book/cash book with cash, bank and discount columns.
4. Cash books with cash and discount columns.
5. Cash book with bank and discount column.
6. Petty Cash book.

**Single Column Cash book/simple cash book**

The cash book which contains only one amount column on each side (Debit and Credit) is called single column or simple cash book. All cash receipts are entered on the debit side and all cash payments are entered on the credit side. Transactions by cheque are also entered in it as they are cash transactions. The form of this type of cash book is almost like a ledger account.

**Format of Single Column or Simple Cash Book**

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Date | particulars | RN | LF | Amount | Date | Particulars | VN | LF | Amount |
|  | (Receipts) | **Receipts NO.** | **Ledger Folio** |  |  | (Payments) | **Voucher NO.** | **Ledger Folio** |  |
|  |  |

The following are the points to be kept in mind while preparing cash book.

1. The opening balance of cash will always be entered on the debit side as Balance b/d
2. All cash receipts are entered in the debit side
3. All cash payments are entered in the credit side.
4. The cash book is balanced in the same manner as an account is balanced in the ledger.
5. The difference between the debit side and credit side totals will be written on the credit side as balance c/d and it will be brought forward on the debit side as opening balance of the next period.

**Double Column Cash Book**

The cash book having two amount columns on each side is called Double column cash book. There will be (i) one column for cash and another column for bank (ii)one column for cash and another column for discount (iii) one column for Bank and another column for discount on each side of the cash book.

**Contra entry-** there is certain transactions which come both on the debit side and credit side of the cash book. This is so because one aspect of the transaction affects the cash balance and other aspect affects the bank balance. The entries that affect the debit side and credit sides of the cash book are called contra entries. Transactions that lead to contra entries are deposit of cash and cheque in to the bank and withdrawal of cash from bank for business use. The letter ‘**C’** is written in the LF column on both sides against these entries.

**Format of Double column Cash book**

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Date | particulars | RN | LF | Cash | Bank | Date | Particulars | VN | LF | Cash | Bank |
|  | Contra  entry | **Receipts NO.** | **C** |  |  |  | Contra entry | **Voucher NO.** | C |  |  |
|  |  |  |  |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Date | particulars | RN | LF | Dcnt | Cash | Date | Particulars | VN | LF | Dscnt | cash |
|  |  | **Receipts NO.** |  |  |  |  |  | **Voucher NO.** |  |  |  |
|  |  |  |  |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Date | particulars | RN | LF | Dsnt | Bank | Date | Particulars | VN | LF | Dsnt | Bank |
|  |  | **Receipts NO.** |  |  |  |  |  | **Voucher NO.** |  |  |  |
|  |  |  |  |

**Triple Column Cash Book**

This is the cash book with three amount columns on each side. This type of cash book contains the following three columns on both debit and credit sides (One column for discount, one column for cash and another column for bank). The discount column on the debit side represents the discount allowed to debtor and discount column on the credit side represents the discount earned on payment to creditors.

**Format of Three Column or triple column Cash Book**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Date | prtlrs | RN | LF | Dcnt | Cash | Bank | Date | Partlrs | VN | LF | Dscnt | cash | Bank |
|  |  | **Receipts NO.** |  |  |  |  |  |  | **Voucher NO.** |  |  |  |  |
|  |  |  |  |  |  |

**Petty Cash Book**

In any business concern, there may be large number of payments small payments of repetitive nature. Such small payments may usually be for stationery, postage, travelling, carriage etc. If all these patty payments are handled by the main cashier will consume a lot of his valuable time. It will, therefore, be convenient, if a petty cashier is entrusted with the duty of making such petty payments. **The book maintained by the petty cashier to record petty payments made by him during a particular period is called Petty Cash Book.**

The petty cashier works under the supervision and control of the main cashier who advances certain amount to the petty cashier in the beginning of the period. The petty cashier is permitted to make payments only below a particular limit.

**Imprest System**

The petty cash book is usually maintained under Imprest System. Under this system, a fixed amount is advanced to the petty cashier at the beginning of the period by the chief cashier. At the end of the period the petty cashier submit a statement showing the amount he has spent during the period. Thus, in the beginning of each period, the petty cashier has a fixed amount of cash balance to begin with. The sum with which a petty cashier has to begin is called **Imprest or Cash Float** and the system in its operation is called the Imprest System.

**Format of Petty cash Book**

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Amount Received | | date | Particulars | VN | Total payments | | \*\* | \*\* | \*\* | Misc | Remarks |
| **`** | **PS** |  |  |  | **`** | **PS** |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |