Chapter 2B

Accounting Process – Ledger

CHAPTER OVERVIEW

(1)
Ledger
1. Meaning of Ledger
2. Format of Ledger Accounts
3. Posting of Journal Entries to Ledger and Examples
4. Balancing of an Account
5. Debit Balance and Credit Balance Accounts

> *This Chapter discusses the Second Step in the Accounting Process – Ledger. The Ledger Book satisfies the accounting function of Classification and Grouping of related transactions under a single head.*

GLOSSARY OF SIGNIFICANT TERMS USED

Term	Meaning
Posting	Transferring the accounts in the Journal Entries to the relevant Ledger Accounts.
Casting	The process of totalling the amounts.

1.1 Meaning and Significance of Ledger

1. **Meaning:** Ledger is an Accounts Book which contains all Account Heads, which are opened in Journal / Subsidiary Books.

2. **Significance:**

   (a) Ledger helps to identify the list of transactions under a particular Account Head and also show the balances in each of the ledger accounts. This helps in ascertaining the status of that account.

   (b) **For Example,** Cash Account contains all transactions involving cash. Hence, by looking at the cash account, the reader can find out the sources from which cash is received and also the reasons for use of such cash. It also shows the cash balance in the business on a specified date.

3. **Other Names for Ledger:**

Other Names	Reasoning
(a) **Principal Book**	Debit and Credit aspect of each transaction is recorded here, and constitutes the basis for preparation of Trial Balance and Final Accounts.
(b) **Secondary Book of Entry**	It is the second stage in the Accounting Process.
(c) **Book of Final Entry**	The Ledger is the **Final Destination** of all transactions.

4. **Source of Ledger:**

   (a) The Entries in the **Journal / Subsidiary Books** form the basis for preparation of Ledger.

   (b) **Without Passing an Entry in the Journal / Subsidiary Books, an entry cannot appear in the ledger.**

   (c) Transactions in the ledger are recorded in an analytical order.

1.2 Format of Ledger Accounts

1. **Basic Process:**

   (a) **Posting:** After recording the transactions in the Journal, the debit and credit aspects of each of the journal entries are then transferred to the appropriate Account Head in the Ledger. **(This process is known as "Ledger Posting", or simply "Posting")**

   (b) The Journal Entries are classified and grouped appropriately, by preparation of Accounts, in the Ledger.

2. The format of the Ledger Account Book is as under – **(Note:** Ledger Accounts Books contains all the Ledger Accounts)

Model Format of a Ledger "Account"

Dr. ◄──► Left Side ◄──────► Account ◄──────► Right Side ◄──► Cr.

Date	Particulars	Journal Folio	Amount (₹)	Date	Particulars	Journal Folio	Amount (₹)
	Opening Balance		xxx				xxx
			xxx		By --- Transactions		xxx
	To --- Transactions		xxx				xxx
			xxx		Closing Balance		xxx
	Total		**xxxxx**		**Total**		**xxxxx**

3. **Description of the Format of the Ledger Account:**

   (a) **Separate Account** is opened in the Ledger Book for **each Account Type**, e.g. Capital, Loan, Machinery, Furniture, Sales, Purchases, Rent, Salary, Commission, Electricity, Discount received etc.

   (b) Every Ledger Account has **two sides** – (i) LHS = Debit Side, and (ii) RHS = Credit Side.

   (c) **Ledger Posting** is done based on the a/c to be debited and credited as per the Journal Entry.

   (d) Entries on the **left side** are prefixed by **"TO"**. Entries on the **right side** are **prefixed with "BY"**.

   (e) The Column **(Journal Folio)** is used to indicate the **Page Number in the Journal Book where the relevant Journal Entry is found.** This is used to track and trace the entry in the Journal Book. *[Note: The Reference Concepts of Ledger Folio or Journal Folio is relevant if Books of Accounts are maintained manually, i.e. by hand. In a Computerised Accounting Environment, the System posts these transactions and Folio No. is not considered.]*

   (f) **Opening Balance** will be on written on the Left Side for Debit Balance accounts. It will be on written on the Credit Side for Credit Balance Accounts.

The Ledger Accounts are broadly classified into – (a) Assets, (b) Liabilities, (c) Incomes and (d) Expenses.

1.3 Posting of Journal Entries to Ledger Accounts – Guidelines

The following steps are involved in the posting of Journal Entries to Ledger Accounts:

Step I	Identify the Accounts debited and Credited in the Journal Entry.
Step II	(a) **If an Account is debited in the Journal Entry** – This implies that under the ledger account which is specifically opened for that item, the accountant has to write on the **debit side of that ledger account** as **"To .... A/c"** (which is the **other aspect credited** in the Journal Entry) (b) **For the other Account which is credited in that Journal Entry** – Write on the Credit Side of that relevant ledger account in the ledger as **"By ...... A/c"** (Which is the **aspect debited** in the Journal entry)
Step III	All the Journal Entries are **periodically posted to the ledger** account from the journal book. Thus a ledger account may consist of entries on both sides of that account.

Note: Where an Account is already present in the ledger, the journal entry should be updated in that ledger account itself. If it does not exist, then a fresh account to be opened in the ledger book.

Note: Examples of the above process are given below

Examples for the Posting Process

Illustration 1: Mr.A introduced a cash of Rs.1,00,000 into business as capital on 12.01.2018

Books of A & Co. (Journal)   Page No in Journal Book: 105

Date	Particulars	Ledger Folio (LF)	Debit Amt (₹)	Credit Amt (₹)
(1)	**(2)**	**(3)**	**(4)**	**(5)**
12.01.18	Cash A/c Dr.	175	1,00,000	
	To Capital A/c	225		1,00,000
	(Being cash invested by A as capital)		Page no. in Ledger – filled while posting	

> **Write on Dr. Side of Cash A/c**

Note: The above transaction is recorded immediately on the introduction of capital into the business. At the end of the Month / Week, the above journal entry is posted to the ledger. The Process is as follows:

Steps for Posting in the Ledger Book

(a) **Step I:** The Two Accounts involved in the above Journal Entry are: (a) Cash Account (b) Capital Account.

(b) **Step II:** So, in the Ledger Book, the ledger accounts have to be opened for the above two items as follows:

LEDGER OF A& CO. (Page No.175)

Dr.   **Cash Account**   Cr.

Date	Particulars	Journal Folio	Amount (₹)	Date	Particulars	Journal Folio	Amount (₹)
12.01.2018	To Capital A/c	105	1,00,000				
	Total		**xxxxx**		Total		**xxxxx**

Note: So, on Debit Side of an Account, write as "TO the name of account CREDITED in that journal entry"

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> Write on Cr. Side of Capital A/c

Dr.   **Capital Account**   Cr.

Date	Particulars	Journal Folio	Amount (₹)	Date	Particulars	Journal Folio	Amount (₹)
				12.01.2018	By Cash A/c	105	1,00,000
	Total		**xxxxx**		Total		**xxxxx**

Note: So, on Credit Side of an Account, write as "BY the name of account DEBITED in that journal entry"
Note: Refer at the end of this Chapter for another Illustration

1.4 Balancing of Ledger Accounts

1. **Meaning:**

   (a) A Ledger has two sides viz. Debit and Credit. Balancing is the process by which, we find out which side is **higher**.

   (b) To ascertain the balance in any Account, we obtain the amount total of each side and ascertain the difference. That difference is called the **Ledger Account Balance.**

2. **Significance:** After all transactions are posted from Journal to Ledger, the two side totals are compared and difference is found out. This helps to know the status of each of the ledger accounts.

3. **Nature of Balances** (at the end of the period): *(Balance at the end of the period is called as Closing Balance)*

Situation	Nature of Balance	Written in Ledger A/c as	Written on –
Dr.Total > Cr.Total	Debit Balance	**By balance c/d**	**Credit Side (RHS)**
Cr.Total > Dr.Total	Credit Balance	**To balance c/d**	**Debit Side (LHS)**

Note: The Closing Balance is ascertained and is written on the side whose total is lower

4. **Closing Balances = Opening Balances:** Closing Balances at the end of one period become the Opening Balances for the next period. **Hence, the closing balances in ledger are Brought Forward to the next period as follows:**

If Cl. Bal. = Opg Bal. is	Written in Ledger as	Written on –	Points to be noted
Debit Balance	**To balance b/d**	**Debit Side (LHS)**	**Real Accounts / Asset Accounts** (e.g. Furniture, Stock, etc.) **have Dr. Balance.**
Credit Balance	**By balance b/d**	**Credit Side (RHS)**	**Liability Accounts** (Capital, Loan, Debentures, etc.) **have Cr. Balance.**

Note: "b/d" = "brought down / brought forward".   "c/d" = "carried down / carried forward".

Important Note in Balancing

1. However, **during the accounting period,** the above method of balancing is applicable for all types of accounts.
2. **At the end of the accounting period**
   (a) The balances in Real and Personal Accounts are **shown in Balance Sheet.**
   (b) **Nominal Accounts are not balanced in the above manner.** The total of the Nominal Account (i.e. Income / Gain or Expense / Loss) is transferred to Trading or Profit & Loss Account.
3. Hence, Opening Balances for the next accounting period **will arise only for Assets and Liabilities**

Process of Balancing (For Example – Refer Cash A/c below)

Step	Description
I	Find out the total of both sides separately. Identify the higher total.
II	Write the total of the higher side on **BOTH sides.**
III	Find out the difference between the totals of both sides. Write this difference on the side whose total is lower.
IV	If the Debit Side Total is lower, write the difference on Dr. Side as "To balance c/d"; – This is called Debit Balance
IV	If the Credit Side Total is lower, write the difference on Cr. Side as "By Balance c/d"; – This is called Credit Balance
V	The above balance is written on the opposite side at the beginning of the next period.

Examples for Balancing of Ledger Accounts

A & Co. had the following transactions during January –

Mr.A introduced cash into business	₹ 1,00,000	Cash paid to Mr.X	₹ 10,000
Cash Purchases made	₹ 10,000	Credit Sales to Mr.L	₹ 25,000
Credit Purchases from Mr.X	₹ 15,000	Cash received from Mr.L	₹ 12,000
Cash Sales made	₹ 25,000	Rent paid in Cash (Out of total, ₹ 3,000 is Advance Rent)	₹ 15,000

BOOKS OF A & CO. – JOURNAL

Date (1)	Particulars (2)		LF (3)	Debit (₹) (4)	Credit (₹) (5)
1	Cash A/c 　　To A's Capital A/c (Being Cash introduced by way of Capital)	Dr.		1,00,000	1,00,000
2	Purchases A/c 　　To Cash A/c (Being goods purchased on Cash)	Dr.		10,000	10,000
3	Purchases A/c 　　To X's A/c (Being Credit Purchases from Mr.X)	Dr.		15,000	15,000
4	Cash A/c 　　To Sales A/c (Being Cash received on sales made)	Dr.		25,000	25,000
5	X A/c 　　To Cash A/c (Being cash paid to X as part settlement of dues to him)	Dr.		10,000	10,000
6	L's A/c (Sundry Debtors) 　　To Sales A/c (Being Sales made on credit to L)	Dr.		25,000	25,000

Date	Particulars		LF	Debit (₹)	Credit (₹)
7	Cash A/c	Dr.		12,000	
	To L's A/c (Sundry Debtors)				12,000
	(Being part payment received from Raghu Ltd)				
8	Rent A/c	Dr.		15,000	
	To Cash A/c				15,000
	(Being rent paid in cash)				
9	Prepaid Rent A/c	Dr.		3,000	
	To Rent A/c				3,000
	(Being prepaid rent reduced from total rent and treated as asset)				

LEDGER BOOKS OF A and Co.

Dr.   Cash A/c   **Cr.**

Particulars	₹	Particulars	₹
To A's Capital A/c (1)	1,00,000	By Purchases (2)	10,000
To Sales A/c (4)	25,000	By X's A/c (5)	10,000
To L's A/c (7)	12,000	By Rent A/c (8)	15,000
		By Balance c/d (bal. figure)	1,02,000
Total	**1,37,000**	**Total**	**1,37,000**
To Balance b/d	**1,02,000**		

Description of the process of balancing:

Step	Description
I	Debit Side Total = ₹ 1,37,000; Credit Side Total = ₹ 35,000; Higher Total is ₹ 1,37,000
II	Debit Side Total of ₹ 1,37,000 is written on both sides
III	The difference in totals is ₹ 1,02,000 (1,37,000–35,000); This is to be written on Credit Side (as its total is lower)
IV	Hence, on credit side, it is be written "By Balance c/d – ₹ 1,02,000 – **Closing Debit Balance**
V	The above balance is brought on the opposite side i.e. Debit Side as **Opening Balance**

Dr.   A's Capital A/c   **Cr.**

Particulars	₹	Particulars	₹
		By Cash A/c (1)	1,00,000
To balance c/d	1,00,000		
Total	**1,00,000**	**Total**	**1,00,000**
		By Balance b/d	**1,00,000**

Dr.   Purchases A/c   **Cr.**

Particulars	₹	Particulars	₹
To Cash A/c (2)	10,000		
To X's A/c (3)	15,000	By balance c/d	25,000
Total	**25,000**	**Total**	**25,000**
To Balance b/d	**25,000**		

Dr.   X's A/c   **Cr.**

Particulars	₹	Particulars	₹
To Cash A/c (5)	10,000	By Purchases A/c (3)	15,000
To balance c/d	5,000		
Total	**15,000**	**Total**	**15,000**
		By Balance b/d	**5,000**

Dr. Sales A/c **Cr.**

Particulars	₹	Particulars	₹
		By Cash A/c (4)	25,000
To balance c/d	50,000	By L's A/c (6)	25,000
Total	**50,000**	**Total**	**50,000**
		By Balance b/d	**50,000**

Dr. L's A/c **Cr.**

Particulars	₹	Particulars	₹
To Sales A/c (6)	25,000	By Cash A/c (7)	12,000
		By Balance c/d	**13,000**
Total	**25,000**	**Total**	**25,000**
To Balance b/d	**13,000**		

Dr. Rent A/c **Cr.**

Particulars	₹	Particulars	₹
To Cash A/c (8)	15,000	By Prepaid Rent A/c (9)	3,000
		By Balance c/d	**12,000**
Total	**1,05,000**	**Total**	
To Balance b/d	**12,000**		

Note: *The above balancing shall be done only when it is during the accounting period. At the end of accounting period, the above kind of balancing shall not be done. The balance of ₹ 12,000 will be transferred to Trading A/c or Profit & Loss A/c.*

Dr. Prepaid Rent A/c **Cr.**

Particulars	₹	Particulars	₹
To Rent A/c (9)	3,000	By Balance c/d	3,000
Total	**1,05,000**	**Total**	
To Balance b/d	**3,000**		

Note: *Date columns are not mentioned in the above MODEL ledger accounts. However, as a strict practice, date columns should be present in a ledger account.*

Illustration 2: Mr.A purchased goods worth ₹ 10,000 for his business by paying cash on 05.01.2018

Books of A & Co. (Journal)   Page No in Journal Book: 106

Date	Particulars	Ledger Folio (LF)	Debit Amt (₹)	Credit Amt (₹)
(1)	(2)	(3)	(4)	(5)
05.01.18	Purchases A/c Dr.	250	10,000	
	To Cash A/c	175		10,000
	(Being Cash Purchases for xxx Qty)		Page no. in Ledger – filled while posting	

Steps for Posting in the Ledger Book

(a) **Step I:** The Two Accounts involved in the above Journal Entry are: (a) Cash Account (b) Capital Account.

(b) **Step II:** So, in the Ledger Book, the ledger accounts have to be opened for the above two items as follows:

Write on Dr. Side of Purchase A/c

LEDGER OF A& CO.

Dr. Purchases Account (Page No.250) **Cr.**

Date	Particulars	Journal Folio	Amount (₹)	Date	Particulars	Journal Folio	Amount (₹)
05.01.2018	To Cash A/c	106	10,000				
	Total		**xxxxx**		**Total**		**xxxxx**

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Update on Cr. Side of Existing Cash A/c

Dr. Cash Account **Cr.**

Date	Particulars	Journal Folio	Amount (₹)	Date	Particulars	Journal Folio	Amount (₹)
12.01.2018	To Capital A/c	105	1,00,000	05.01.2018	By Cash A/c	106	10,000
	Total		**xxxxx**		**Total**		**xxxxx**