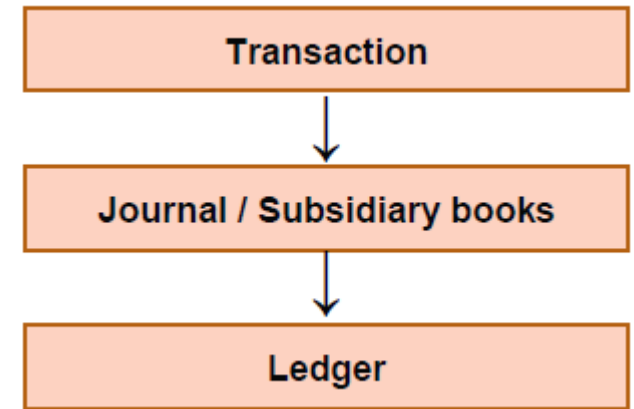


LEDGER

Ledger account is a summary statement of all the transactions relating to a person, asset, liability, expense or income which has taken place during a given period of time and it shows their net effect. From the transactions recorded in the journal, the ledger account is prepared. Ledger is known as principal book of accounts. It is a book which contains all sets of accounts, namely, personal, real and nominal accounts. Account wise balance can be determined from the ledger. The ledger accounts are prepared based on journal entries passed.



Utilities of ledger

Following are the utilities of ledger:

(i) Quick information about a particular account

Ledger account helps to get all information about a particular account like sales, purchases, machinery, etc., at a glance. For example, where there are several transactions with a debtor, the net amount due from a debtor can be known from the ledger account.

(ii) Control over business transactions

From the ledger balances extracted, a thorough analysis of account balances can be made which helps to have control over the business transactions.

(iii) Trial balance can be prepared

With the balances of ledger accounts, trial balance can be prepared to check the arithmetical accuracy of entries made in the journal and ledger.

4.4 Distinction between journal and ledger

Following are the differences between journal and ledger:

| Basis | Journal | Ledger |
|--|---|--|
| 1. Recording | As and when transactions take place entries are made in journal. | In ledger, entries may be posted either on the same day or at the end of a specified period such as weekly or fortnightly especially when subsidiary books are maintained. |
| 2. Stage of recording | Recording in the journal is the first stage | Recording in the ledger is the second stage, which is done on the basis of entries made in the journal. |
| 3. Order of recording | Entries are made in the chronological order, i.e., datewise in the order of occurrence. | Entries are made accountwise. |
| 4. Process | The process of recording in journal is called journalising | The process of recording in the ledger is called posting. |
| 5. Facilitating preparation of trial balance | Amount from the journal does not serve as the basis for preparing trial balance. | Ledger balances serve as the basis for preparing trial balance. |
| 6. Basis of entries | Entries in the journal are made on the basis of source documents. | Posting is done in ledger on the basis of journal entries. |
| 7. Net position | Net position of an account cannot be ascertained from journal. | Net position of an account can be ascertained from ledger account. |

Format of ledger account

The ledger account is prepared in T format. It is divided into two parts. Left side is debit side and right side is credit side. Each side contains four columns. The name or title of the account is placed at the top middle and the details are entered in the ledger. The format of ledger account is given below:

| Dr. | | Name of the ledger account | | | | Cr. | |
|------|-------------|----------------------------|----------|------|-------------|------|----------|
| Date | Particulars | J.F. | Amount ₹ | Date | Particulars | J.F. | Amount ₹ |
| | | | | | | | |

Following are the details contained in the various columns in the ledger:

Date : Date of the transaction is recorded in this column.

Particulars : The account debited or credited is recorded in this column. On the debit side, the entries are made starting with 'To' and on the credit side, entries are made starting with 'By'.

Journal Folio (J.F.): In this column, the page number of the journal or subsidiary books from which the entry has been posted to the ledger is noted.

Amount : The amount of the transaction is recorded in this column.

Procedure for posting

The process of transferring the debit and credit items from the journal to the ledger accounts is called posting. The procedure of posting from journal to ledger is as follows:

- (a) Locate the ledger account that is debited in the journal entry. Open the respective account in the ledger, if already not opened. Write the name of the account in the top middle. If already opened, locate the account from the ledger index. Now entries are to be made on the debit side of the account.
- (b) Record the date of the transaction in the date column on the debit side of that account.
- (c) Record the name of the account credited in the journal with the prefix 'To' in particulars column.
- (d) Record the amount of the debit in the 'amount column'.
- (e) Locate the ledger account that is credited in the journal entry. Open the respective account in the ledger, if already not opened. Write the name of the account in the top middle. If already opened, locate the account from the ledger index. Now entries are to be made on the credit side of the account. Record the date of the transaction in the date column. Record the name of the account debited in the journal entry in the particulars column with the prefix 'By' and write the amount in the amount column.

Pass journal entries for the following transactions and post them in the ledger accounts.

2017

- June 1 Basu started business with cash ₹ 50,000
4 Purchased furniture by paying cash for ₹ 6,000
7 Purchased machinery on credit from Harish ₹ 10,000
10 Bought goods for cash ₹ 4,000
18 Paid insurance premium ₹ 100

Solution

In the books of Basu

Journal entries

| Date | Particulars | L.F. | Debit ₹ | Credit ₹ |
|--------|---|------|---------|----------|
| 2017 | Cash A/c Dr. | | 50,000 | |
| June 1 | To Basu's capital A/c (Started business with cash) | | | 50,000 |

| | | | | | |
|----|--|-----|--|--------|--------|
| 4 | Furniture A/c To Cash A/c (Furniture bought for cash) | Dr. | | 6,000 | 6,000 |
| 7 | Machinery A/c To Harish A/c (Machinery bought on credit from Harish) | Dr. | | 10,000 | 10,000 |
| 10 | Purchases A/c To Cash A/c (Goods bought for cash) | Dr. | | 4,000 | 4,000 |
| 18 | Insurance premium A/c To Cash A/c (Insurance premium paid) | Dr. | | 100 | 100 |

Ledger accounts

Dr. Cr.
Cash account

| Date | Particulars | J.F. | ₹ | Date | Particulars | J.F. | ₹ |
|--------|-----------------------|------|--------|--------|--------------------------|------|-------|
| 2017 | | | | 2017 | | | |
| June 1 | To Basu's capital A/c | | 50,000 | June 4 | By Furniture A/c | | 6,000 |
| | | | | 10 | By Purchases A/c | | 4,000 |
| | | | | 18 | By Insurance premium A/c | | 100 |

Dr. Cr.
Basu's Capital account

| Date | Particulars | J.F. | ₹ | Date | Particulars | J.F. | ₹ |
|------|-------------|------|---|--------|-------------|------|--------|
| | | | | 2017 | | | |
| | | | | June 1 | By Cash A/c | | 50,000 |

Dr. Cr.
Furniture account

| Date | Particulars | J.F. | ₹ | Date | Particulars | J.F. | ₹ |
|--------|-------------|------|-------|------|-------------|------|---|
| 2017 | | | | | | | |
| June 4 | To Cash A/c | | 6,000 | | | | |

Dr. Cr.
Machinery account

| Date | Particulars | J.F. | ₹ | Date | Particulars | J.F. | ₹ |
|--------|---------------|------|--------|------|-------------|------|---|
| 2017 | | | | | | | |
| June 7 | To Harish A/c | | 10,000 | | | | |

Dr. Harish account Cr.

| Date | Particulars | J.F. | ₹ | Date | Particulars | J.F. | ₹ |
|------|-------------|------|---|----------------|------------------|------|--------|
| | | | | 2017 June 7 | By Machinery A/c | | 10,000 |

Dr. Purchases account Cr.

| Date | Particulars | J.F. | ₹ | Date | Particulars | J.F. | ₹ |
|-----------------|-------------|------|-------|------|-------------|------|---|
| 2017 June 10 | To Cash A/c | | 4,000 | | | | |

Dr. Insurance premium account Cr.

| Date | Particulars | J.F. | ₹ | Date | Particulars | J.F. | ₹ |
|-----------------|-------------|------|-----|------|-------------|------|---|
| 2017 June 18 | To Cash A/c | | 100 | | | | |

Prepare cash account from the following transactions for the month of January 2018.

Jan 1 Commenced business with cash ₹ 62,000

3 Goods purchased for cash ₹ 12,000

10 Goods sold for cash ₹ 10,000

12 Wages paid ₹ 4,000

25 Furniture purchased for cash ₹ 6,000

Solution

| Dr. | | | | Cr. | | | |
|--------------|----------------|------|--------|-------|------------------|------|--------|
| Cash account | | | | | | | |
| Date | Particulars | J.F. | ₹ | Date | Particulars | J.F. | ₹ |
| 2018 | | | | 2018 | | | |
| Jan 1 | To Capital A/c | | 62,000 | Jan 3 | By Purchases A/c | | 12,000 |
| 10 | To Sales A/c | | 10,000 | 12 | By Wages A/c | | 4,000 |
| | | | | 25 | By Furniture A/c | | 6,000 |
| | | | | 31 | By Balance c/d | | 50,000 |
| | | | 72,000 | | | | 72,000 |
| Feb 1 | To Balance b/d | | 50,000 | | | | |

Journalise the following transactions, post them in the ledger and balance the accounts in the books of Mr. Rajesh.

2015 `

Jan. 1 Started business with cash 2,00,000

Jan. 3 Purchased goods for cash 60,000

Jan. 5 Sold goods to Shyam 60,000

Jan. 6 Sold goods for cash 20,000

Jan. 9 Received cash from Shyam 40,000

Jan. 13 Goods purchased from Ram 40,000

Jan. 20 Cash paid to Ram 20,000

Jan. 25 Paid office rent 4,000

Jan. 31 Paid salaries to staff 20,000

Jan. 31 Returned goods by Shyam 10,000

Solution:

In the Books of Mr. Rajesh
Journal Entries

| <i>Date</i> | <i>Particulars</i> | <i>L.F.</i> | <i>Debit (₹)</i> | <i>Credit (₹)</i> |
|-------------|---|-------------|------------------|-------------------|
| 2015 | | | | |
| Jan. 1 | Cash A/c Dr. To Capital A/c (Being capital introduced by the proprietor in cash) | | 2,00,000 | 2,00,000 |
| Jan., 3 | Purchases A/c Dr. To Cash A/c (Being goods purchased for cash) | | 60,000 | 60,000 |
| " 5 | Shyam Dr. To Sales A/c (Being goods sold on credit to Shyam) | | 60,000 | 60,000 |
| " 6 | Cash A/c Dr. To Sales A/c (Being goods sold for cash) | | 20,000 | 20,000 |
| " 9 | Cash A/c Dr. To Shyam (Being the cash received from Shyam) | | 40,000 | 40,000 |
| " 13 | Purchases A/c Dr. To Ram (Being goods purchased on credit from Ram) | | 40,000 | 40,000 |
| " 20 | Ram Dr. To Cash A/c (Being cash paid to Ram) | | 20,000 | 20,000 |
| " 25 | Rent A/c Dr. To Cash A/c (Being office rent paid in cash) | | 4,000 | 4,000 |

| | | | | |
|------|----------------------------------|-----|--------|--------|
| " 25 | Rent A/c | Dr. | 4,000 | |
| | To Cash A/c | | | 4,000 |
| | (Being office rent paid in cash) | | | |
| " 31 | Salaries A/c | Dr. | 20,000 | |
| | To Cash A/c | | | 20,000 |
| | (Being salaries paid to staff) | | | |
| " 31 | Sales Returns A/c | Dr. | 10,000 | |
| | To Shyam | | | 10,000 |
| | (Being goods returned by Shyam) | | | |

Ledger Accounts

| Dr. | | | | Cash Account | | | | Cr. | | | |
|--------|----------------|------|-----------------|--------------|------------------|------|-----------------|-----|--|--|--|
| Date | Particulars | J.F. | ₹ | Date | Particulars | J.F. | ₹ | | | | |
| 2015 | | | | 2015 | | | | | | | |
| Jan. 1 | To Capital A/c | | 2,00,000 | Jan. 3 | By Purchases A/c | | 60,000 | | | | |
| " 6 | To Sales A/c | | 20,000 | " 20 | By Ram | | 20,000 | | | | |
| " 9 | To Shyam | | 40,000 | " 25 | By Rent A/c | | 4,000 | | | | |
| | | | | " 31 | By Salaries A/c | | 20,000 | | | | |
| | | | | " 31 | By Balance c/d | | 1,56,000 | | | | |
| | | | <u>2,60,000</u> | | | | <u>2,60,000</u> | | | | |
| Feb. 1 | To Balance b/d | | 1,56,000 | | | | | | | | |

| Dr. | | | | Capital Account | | | | Cr. | | | |
|---------|----------------|------|-----------------|-----------------|----------------|------|-----------------|-----|--|--|--|
| Date | Particulars | J.F. | ₹ | Date | Particulars | J.F. | ₹ | | | | |
| 2015 | | | | 2015 | | | | | | | |
| Jan. 31 | To Balance c/d | | <u>2,00,000</u> | Jan. 1 | By Cash A/c | | <u>2,00,000</u> | | | | |
| | | | <u>2,00,000</u> | | | | <u>2,00,000</u> | | | | |
| | | | | Feb. 1 | By Balance b/d | | 2,00,000 | | | | |

| Dr. | | | | Purchases Account | | | | Cr. | | | |
|--------|----------------|------|-----------------|-------------------|----------------|------|-----------------|-----|--|--|--|
| Date | Particulars | J.F. | ₹ | Date | Particulars | J.F. | ₹ | | | | |
| 2015 | | | | 2015 | | | | | | | |
| Jan. 3 | To Cash A/c | | 60,000 | Jan. 31 | By Balance c/d | | 1,00,000 | | | | |
| " 13 | To Ram | | 40,000 | | | | | | | | |
| | | | <u>1,00,000</u> | | | | <u>1,00,000</u> | | | | |
| Feb. 1 | To Balance c/d | | 1,00,000 | | | | | | | | |