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	Ledger
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.	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.
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.	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.
3. Full details of a transaction (narrations) are recorded in these books.	Full details of a transaction are not recorded in the Ledger.
4. Final Accounts (trading, profit and loss account and balance sheet) cannot be prepared with the help of books of original entry.	Final accounts can be prepared with the help of Ledger balances.
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.	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.
6. The process of recording entries in the books of original entry is called 'journalising'.	The process of recording entries in the Ledger is called 'posting'.
7. Page number of the Ledger, *i.e.*, Ledger Folio (L.F.) is written in these books.	Page number of the Journal or subsidiary books, i.e., Journal Folio (J.F.) is written in Ledger.
8. Accuracy of these books cannot be tested.	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			20,000
	(Cash sales)			

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

Dr. Cr.

Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
			₹	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

Dr. Cr.

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

DISCOUNT ALLOWED ACCOUNT

Dr. Cr.

Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
2012			₹				₹
April 10	To Gopal & Co.		200				

GOPAL & CO.

Dr. Cr.

Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
			₹	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.		25,000
	from Mohan Garments		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	10,000
		Goods	4,000

21	Paid to Mohan Garments	7,800
	Discount received	200
22	Received from Hero Limited	8,850
	Discount allowed	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.	

SOLUTION : JOURNAL OF SIYARAM

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

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

LEDGER OF SIYARAM

CASH ACCOUNT

Dr. Cr.

Date	Particulars	J. F.	Amount	Date	Particulars	J.F.	Amount
2012			₹	2012			₹
April 1	To Capital A/c		2,00,000	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

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

FURNITURE ACCOUNT

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

PURCHASES ACCOUNT

Date	Particulars	J. F.	Amount	Date	Particulars	J.F.	Amount
2012			₹	2012			₹
April 5	To Cash A/c		50,000	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				

VISHAL TRADING CO.

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

MOHAN GARMENTS

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

PURCHASES RETURNS ACCOUNT

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

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

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

HERO LIMITED

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

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

Date	Particulars	J. F.	Amount	Date	Particulars	J.F.	Amount
			₹				₹
2012 April 22	To Hero Limited		150				

PAWAN BROTHERS

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

RENT ACCOUNT

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

SALARIES ACCOUNT

Date	Particulars	J. F.	Amount	Date	Particulars	J.F.	Amount
			₹				₹
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.

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 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			₹	2012			₹
April 30	To Balance c/d		2,00,000	April 1	By Cash A/c		2,00,000
				May 1	By Balance b/d		2,00,000

VISHAL TRADING CO.

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

MOHAN GARMENTS

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

HERO LIMITED

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

DRAWINGS ACCOUNT

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

Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
20	To Purchases A/c		4,000				
			14,000				14,000
May 1	To Balance b/d		14,000				

PAWAN BROTHERS

Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
2012			₹	2012			₹
April 30	To Balance c/d		24,000	April 28	By Purchases A/c		24,000
				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. Cr.

Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
2012			₹	2012			₹
April 1	To Capital A/c		2,00,000	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
				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

Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
2012			₹	2012			₹
April 3	To Cash A/c		20,000	April 30	By Balance c/d		20,000
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 :

PURCHASES ACCOUNT

Date	Particulars	J. F.	Amount	Date	Particulars	J.F.	Amount
			₹				₹
2012				2012			
April 5	To Cash A/c		50,000	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				

PURCHASES RETURN ACCOUNT

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

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

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
							79,000

DISCOUNT ALLOWED ACCOUNT

Date	Particulars	J. F.	Amount	Date	Particulars	J.F.	Amount
2012			₹				₹
April 22	To Hero Limited		150				

RENT ACCOUNT

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

SALARIES ACCOUNT

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