

LEDGER

The Journal is just a chronological record of all business transactions. It does not provide all information regarding a particular item at one place. This makes it difficult to know the net effect of various transactions affecting a particular item. For example, if you want to know the amount due to a particular supplier or the amount due from a particular customer, you will have to go through the whole journal. To overcome this difficulty, we maintain another book called 'Ledger'. In this book we open separate accounts for each item and all transactions related to a particular item as recorded in journal are posted in the concerned account. For example, all transactions related to a particular supplier, say Mohan, are posted to Mohan's Account. Similarly, all cash payments and cash receipts can be posted to Cash Account. Thus, you will have no problem in knowing the amount due to Mohan or the balance in Cash Account, and so on.

Thus, ledger is a book where all accounts relating to different items are maintained and into which all journal entries must be posted. In fact, ledger is the principal book of entry which provides complete information about various transactions relating to all parties and all items of asset, incomes and expenses. Some persons have even suggested that we should record all transactions directly into ledger and do away with Journal. But, it is not advisable because in that case we will not have any date-wise record of the transactions and the details thereof. Such record is considered necessary for future reference.

PERFORMA OF A LEDGER ACCOUNT:

Name of the Account

| Date | Particulars | Dr | Cr | Balance | Dr | Cr | Amount |
|------|-------------|----|----|---------|----|----|--------|
| | | | | | | | |
| | | | | | | | |
| | | | | | | | |
| | | | | | | | |
| | | | | | | | |
| | | | | | | | |

Posting into Ledger

The journal entries form the basis for recording in the ledger accounts, and the process of entering transaction in the ledger is called 'Posting'. When a journal entry has to be posted in the concerned ledger accounts, the following procedure is adopted.

1. Every Journal entry will have to be posted into all those accounts which have been debited and credited in the journal entry. For example, for cash sales, Cash Account is debited and Sales Account is credited in the journal. When this entry is posted in the ledger, it must be posted in Cash Account as well as in Sales Account.
2. Posting will be made on the debit side of the account which has been debited in the journal, and the credit side of the account which has been crediting the journal. In case of the above example of cash sales, posting will be made on the debit side of Cash Account, as it has been debited in journal and the credit side of Sales Account, as it had been credited in the journal.
3. Whether the posting is made on the debit side or the credit side, first of all the date of the transaction (as given in the journal) will be entered in the date column. The method of recording the date in the ledger account is the same as in the journal.
4. While posting on the debit side of an account in the particulars column, we shall write the name of the account which had been credited in the journal and add the word 'To' before the name. Similarly, while posting on the credit side of an account, we shall write the name of the account which **has** been debited in the journal and add the word 'By' before the name. In case of the above example, we shall write 'To Sales A/c' in the particulars column on the debit side of Cash Account, and 'By Cash A/c' in the Particulars Column on the credit side of the Sales Account.
5. The journal entries contain 'narration'. But it is not required in the ledger accounts. Similarly, there is no need to draw a line between the two entries in an account as is done in the journal. Note that posting in the ledger account is considered complete only when both the debit and the credit aspects of all journal entries have been posted.
6. In the folio column, we shall mention the page number of the journal where concerned journal entry appears. At the same time, the page number of the ledger accounts will be entered in the 'L, F.' column in the journal so as to complete the cross reference.
7. The amount involved in the journal entry shall be entered in amount columns of both the accounts.

Balancing Ledger Accounts

Whenever one wants to know the net effect of various transactions in a particular account, we have to work out its balance, Balance is the difference between the totals of the debit and the credit side of an account. The process of finding out the balance is known as balancing. The procedure for balancing is as follows:

i) Total the two sides of an account.

ii) Find out the difference between the totals of the two sides.

iii) Put the difference in the amount column of the side showing less total.

iv) If the difference is entered on the debit side, write against it in the particulars column 'To Balance c/d' (c/d stands for carried down). In case the difference is entered on the credit side, write against it in the particulars column 'By Balance c/d'.

v) Now, total both the sides and you will find that both the totals are equal,

vi) The closing balance (balance c/d) is going to be the opening balance for the subsequent period, The opening balance is shown on the next date in the account by writing 'To Balance b/d' (b/d stands for brought down) or 'By Balance b/d' as the case may be.

Note that if the closing balance was on the debit side, the opening balance would be shown on the credit side and if the closing balance was shown on the credit side, the opening balance would be shown on the debit side. In fact, an account is said to have a debit balance if its debit side total is bigger and a credit balance if its credit side total is bigger. Thus, the opening balance is shown according to the nature of the balance i.e.,

the debit balance on the debit side and the credit balance on the credit side.

vii) Sometimes the totals of the debit side and the credit side of an account are equal. It implies that the account has nil balance. In such a situation the account is said to have closed having no closing and opening balances.

Advantages/ Uses of Ledger

Or

Why Ledger is Prepared

The ledgers are prepared to know the following :

1. Preparation of Trial Balance:

It is not possible to prepare a Trial Balance without ledgers. Because, a Trial Balance is prepared by taking up the ledger accounts balance. Moreover, arithmetical accuracy is not possible.

2. Presenting Final Position:

We know that final account can only be prepared from a Trial Balance (i.e., Trading Account, Profit and Loss Account and Balance Sheet). Thus, if we do not get the ledger accounts balance from a Trial Balance, it is impossible for us to prepare final accounts.

3. Application of Double Entry System:

Double Entry System is completed only when we post the journals to different ledger accounts.

2. . Determining Results of Each Account:

The results of each account can be obtained from the ledger on the basis of Double Entry principles.

3. Maintaining Classified Accounts Indirect Advantages:

The particulars of classified accounts may be revealed after recording in ledger account properly.

4. . Presenting Statistical Information:

The ledger accounts with their respective balances are the sources of statistical information which are used by the management while decision-making.

5. Collecting Information:

The ledger may be called the collection or storeroom of various transactions.

6. Present Financial Position:

The financial position of an enterprise (i.e., after preparing final account) can only be known if we maintain ledger account properly.

Example :

Journalise the following transactions of M/s Mallika Fashion House and post the entries to the Ledger:

| <i>Date</i> | <i>Details</i> | <i>Amount</i> |
|-------------|---|---------------|
| <i>2014</i> | | <i>Rs.</i> |
| June 05 | Business started with cash | 2,00,000 |
| June 08 | Opened a bank account with Syndicate Bank | 80,000 |
| June 12 | Goods purchased on credit from M/s Gulmohar Fashion House | 30,000 |
| June 12 | Purchase office machines, paid by cheque | 20,000 |
| June 18 | Rent paid by cheque | 5,000 |
| June 20 | Sale of goods on credit to M/s Mohit Bros | 10,000 |
| June 22 | Cash sales | 15,000 |
| June 25 | Cash paid to M/s Gulmohar Fashion House | 30,000 |
| June 28 | Received a cheque from M/s Mohit Bros | 10,000 |
| June 30 | Salary paid in cash | 6,000 |

Solution

(i) *Recording the transactions*

**Books of Mallika Fashion House
Journal**

| <i>Date</i> | <i>Particulars</i> | <i>L.F.</i> | <i>Debit Amount</i> <i>Rs.</i> | <i>Credit Amount</i> <i>Rs.</i> |
|-------------|---|-------------|-----------------------------------|------------------------------------|
| <i>2014</i> | | | | |
| June 05 | Cash A/c Dr. To Capital A/c (Business started with cash) | | 2,00,000 | 2,00,000 |
| June 08 | Bank A/c Dr. To Cash A/c (Opened a current account with syndicate bank) | | 80,000 | 80,000 |
| June 12 | Purchases A/c Dr. To Gulmohar Fashion House A/c (Goods purchased on credit) | | 30,000 | 30,000 |
| June 12 | Office Machines A/c Dr. To Bank A/c (Office machine purchased) | | 20,000 | 20,000 |
| June 18 | Rent A/c Dr. To Bank A/c (Rent paid) | | 5,000 | 5,000 |
| June 20 | Mohit Bros A/c Dr. To Sales A/c (Goods sold on credit) | | 10,000 | 10,000 |
| | Total c/f | | 3,45,000 | 3,45,000 |

| | | | | | |
|---------|--|-----|--|----------|----------|
| | Total b/f | | | 3,45,000 | 3,45,000 |
| June 22 | Cash A/c | Dr. | | 15,000 | 15,000 |
| | To Sales A/c (Goods sold for cash) | | | | |
| June 25 | Gulmohar Fashion House A/c | Dr. | | 30,000 | 30,000 |
| | To Cash A/c (Cash paid to Gulmohar Fashion House) | | | | |
| June 28 | Bank A/c | Dr. | | 10,000 | 10,000 |
| | To Mohit Bros A/c (Payment received in full and final settlement) | | | | |
| June 30 | Salary A/c | Dr. | | 6,000 | 6,000 |
| | To Cash A/c (Monthly salary paid) | | | | |
| | Total | | | 4,06,000 | 4,06,000 |

(ii) Posting in the Ledger Book

Cash Account

| Dr. | | | | Cr. | | | |
|----------------|-------------|------|---------------|----------------|---------------------------|------|---------------|
| Date | Particulars | J.F. | Amount Rs. | Date | Particulars | J.F. | Amount Rs. |
| 2014 June 5 | Capital | | 2,00,000 | 2014 June 8 | Bank | | 80,000 |
| June 22 | Sales | | 15,000 | June 25 | Gulmohar Fashion House | | 30,000 |
| | | | | June 30 | Salary | | 6,000 |

Capital Account

| Dr. | | | | Cr. | | | |
|------|-------------|------|---------------|----------------|-------------|------|---------------|
| Date | Particulars | J.F. | Amount Rs. | Date | Particulars | J.F. | Amount Rs. |
| | | | | 2014 June 5 | Cash | | 2,00,000 |

Bank Account

| Dr. | | | | Cr. | | | |
|-----------------|-------------|------|---------------|-----------------|-----------------|------|---------------|
| Date | Particulars | J.F. | Amount Rs. | Date | Particulars | J.F. | Amount Rs. |
| 2014 June 08 | Cash | | 80,000 | 2014 June 12 | Office Machines | | 30,000 |
| June 28 | Mohit Bros. | | 10,000 | June 18 | Rent | | 5,000 |

Purchases Account

| Dr. | | | | Cr. | | | |
|-----------------|---------------------------|------|---------------|------|-------------|------|---------------|
| Date | Particulars | J.F. | Amount Rs. | Date | Particulars | J.F. | Amount Rs. |
| 2014 June 12 | Gulmohar Fashion House | | 30,000 | | | | |

Gulmohar Fashion House Account

| Dr. | | | | Cr. | | | |
|-----------------|-------------|------|---------------|-----------------|-------------|------|---------------|
| Date | Particulars | J.F. | Amount Rs. | Date | Particulars | J.F. | Amount Rs. |
| 2014 June 25 | Cash | | 30,000 | 2014 June 12 | Purchases | | 30,000 |

Office Machines Account

| Dr. | | | | Cr. | | | |
|-----------------|-------------|------|---------------|------|-------------|------|---------------|
| Date | Particulars | J.F. | Amount Rs. | Date | Particulars | J.F. | Amount Rs. |
| 2014 June 12 | Bank | | 20,000 | | | | |

Rent Account

| Dr. | | | | Cr. | | | |
|-----------------|-------------|------|---------------|------|-------------|------|---------------|
| Date | Particulars | J.F. | Amount Rs. | Date | Particulars | J.F. | Amount Rs. |
| 2014 June 18 | Bank | | 5,000 | | | | |

Mohit Bros. Account

| Dr. | | | | Cr. | | | |
|-----------------|-------------|------|---------------|-----------------|-------------|------|---------------|
| Date | Particulars | J.F. | Amount Rs. | Date | Particulars | J.F. | Amount Rs. |
| 2014 June 20 | Sales | | 10,000 | 2014 June 28 | Cash | | 10,000 |

Sales Account

| Dr. | | | | Cr. | | | |
|-----------------|-------------|------|---------------|-----------------|-------------|------|---------------|
| Date | Particulars | J.F. | Amount Rs. | Date | Particulars | J.F. | Amount Rs. |
| 2014 June 20 | | | | 2014 June 20 | Mohit Bros. | | 10,000 |
| | | | | 2014 June 22 | Cash | | 15,000 |

Salary Account

| Dr. | | | | Cr. | | | |
|-----------------|-------------|------|---------------|------|-------------|------|---------------|
| Date | Particulars | J.F. | Amount Rs. | Date | Particulars | J.F. | Amount Rs. |
| 2014 June 30 | Cash | | 6,000 | | | | |