

It has already been explained in an earlier chapter that accounting involves recording, classifying and summarising the financial transactions. Recording is done in the Journal. This has already been explained in the preceding chapter. Classifying of the recorded transactions is done in the Ledger. This is being explained in the present chapter.

LEDGER

Ledger is a book which contains various accounts. In other words, Ledger is a set of accounts. It contains all accounts of the business enterprise whether Real, Nominal or Personal. It may be kept in any of the following two forms:

- (i) Bound Ledger
- (ii) Loose-leaf Ledger.

It is common to keep the Ledger in the form of loose-leaf cards these days. This helps in posting transactions particularly when mechanised system of accounting is used.

POSTING

The term "Posting" means transferring the debit and credit items from the Journal to their respective accounts in the Ledger. It should be noted that the exact names of accounts used in the Journal should be carried to the Ledger. For example, if in the Journal, Expenses Account has been debited, it would not be correct to debit the Office Expenses Account in the Ledger. Though, in the Journal, it might have been indicated clearly in the narration that it is an item of office expenses the correct course would have been to record the amount to the Office Expenses Account in the Journal as well as in the Ledger.

Posting may be done at any time. However, it should be completed before the financial statements are prepared. It is advisable to keep the more active accounts posted to date. The examples of such accounts are the cash account, personal accounts of various parties etc.

The posting may be done by the book-keeper from the Journal to the Ledger by any of the following methods:

- (i) He may take a particular side first. For example, he may take the debits first and make the complete postings of all debits from the Journal to the Ledger.
- (ii) He may take a particular account and post all debits and credits relating to that account appearing on one particular page of the Journal. He may then take some other accounts and follow the same procedure.
- (iii) He may complete postings of each journal entry before proceeding to the next journal entry.

It is advisable to follow the last method. One should post each debit and credit item as it appears in the Journal.

The Ledger Folio (L.F.) column in the Journal is used at the time when debits and credits are posted to the Ledger. The page number of the Ledger on which the posting has been done is mentioned in the L.F. column of the Journal. Similarly, a folio column in the Ledger can also be kept where the page from which posting has been done from the Journal may be mentioned. Thus, there are cross references in both the Journal and the Ledger.

A proper index should be maintained in the Ledger giving the names of the accounts and the page numbers.

RELATIONSHIP BETWEEN JOURNAL AND LEDGER

Both Journal and Ledger are the most important books used under Double Entry System of book-keeping. Their relationship can be expressed as follows:

- (i) The transactions are recorded first of all in the Journal and then they are posted to the Ledger. Thus, the Journal is the book of first or original entry, while the Ledger is the book of second entry.
- (ii) Journal records transactions in a chronological order, while the Ledger records transactions in an analytical order.
- (iii) Journal is more reliable as compared to the Ledger since it is the book in which the entry is passed first of all.
- (iv) The process of recording transactions is termed as "Journalising" while the process of recording transactions in the Ledger is called as "Posting".

RULES REGARDING POSTING

The following rules should be observed while posting transactions in the Ledger from the Journal:

- (i) Separate accounts should be opened in the Ledger for posting transactions relating to different accounts recorded in the Journal. For example, separate accounts may be opened for sales, purchases, sales returns, purchases returns, salaries, rent, cash, etc.
- (ii) The concerned account which has been debited in the Journal should also be debited in the Ledger. However, a reference should be made of the other account which has been credited in the Journal. For example, for salaries paid, the salaries account should be debited in the Ledger, but reference should be given of the Cash Account which has been credited in the Journal.
- (iii) The concerned account, which has been credited in the Journal should also be credited in the Ledger, but reference should be given of the account, which has been debited in the Journal. For example, for salaries paid, Cash Account has been credited in the Journal. It will be credited in the Ledger also, but reference will be given of the Salaries Account in the Ledger.

Thus, it may be concluded that while making posting in the Ledger, the concerned account which has been debited or credited in the Journal should also be debited or credited in the Ledger, but reference has to be given of the other account which has been credited or debited in the Journal, as the case may be. This will be clear with the following example.

Suppose, salaries of ₹10,000 have been paid in cash; the following entry will be passed in the Journal:

Salaries Account	(i)	Dr.	10,000
To Cash Account	(ii)		10,000

In the Ledger two accounts will be opened, (i) Salaries Account, and (ii) Cash Account. Since Salaries Account has been debited in the Journal, it will also be debited in the Ledger. Similarly, Cash Account has been credited in the Journal and, therefore, it will also be credited in the Ledger, but reference will be given of the other account involved. Thus, the accounts will appear as follows in the Ledger:

Dr.		Salaries Account		Cr.	
Particulars	₹	Particulars	₹		
Cash A/c (ii)	10,000				

Dr.	Cash Account		Cr.
Particulars	₹	Particulars	₹
		Salaries A/c (i)	10,000

Use of the words "To" and "By"

It is customary to use words 'To' and 'By' while making posting in the Ledger. The word 'To' is used with the accounts which appear on the debit side of a Ledger Account. For example, in the Salaries Account, instead of writing only "Cash" as shown above, the words "To Cash" will appear on the debit side of the account. Similarly, the word "By" is used with accounts which appear on the credit side of a Ledger Account. For example, in the above case, the words "By Salaries A/c" will appear on the credit side of the Cash Account instead of only "Salaries A/c". The words 'To' and 'By' do not have any specific meanings. Modern accountants are, therefore, ignoring the use of these words.

The procedure of posting from the Journal to the Ledger will be clear with the help of the illustrations given in the following pages.

ILLUSTRATION 5.1. Journalize the following transactions and post them into the Ledger:

1. Ram started business with a capital of ₹10,000.
2. He purchased furniture for cash ₹4,000.
3. He purchased goods from Mohan on credit ₹2,000.
4. He paid cash to Mohan ₹1,000.

SOLUTION:

Journal

Date	Particulars	L.F.	Debit ₹	Credit ₹
1 →	Cash Account Dr. To Capital Account		10,000	10,000 ← 5
2 →	Furniture Account Dr. To Cash Account		4,000	4,000 ← 6
3 →	Purchases Account Dr. To Mohan		2,000	2,000 ← 7
4 →	Mohan Dr. To Cash Account		1,000	1,000 ← 8

**Ledger
Cash Account**

1 →	To Capital A/c	10,000	By Furniture A/c	4,000 ← 6
			By Mohan	1,000 ← 8
Capital Account				
			By Cash A/c	10,000 ← 5
Furniture Account				
2 →	To Cash A/c	4,000		
Purchases Account				
3 →	To Mohan	2,000		
Mohan				
4 →	To Cash A/c	1,000	By Purchases A/c	2,000 ← 7

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CHAPTER FIVE

Balancing of an Account

In business, there may be several transactions relating to one particular account. In Journal, these transactions appear on different pages in a chronological order while they appear in a classified form under that particular account in the Ledger. At the end of a period (say, a month, a quarter or a year), the businessman will be interested in knowing the position of a particular account. This means, he should total the debits and credits of the account separately and find out the net balance. This technique of finding out the net balance of an account, after considering the totals of both debits and credits appearing in the account is known as 'Balancing the Account'. The balance is put on the side of the account which is smaller and a reference is given that it has been carried forward or carried down (c/for c/d) to the next period. On the other hand, in the next period, a reference is given that the opening has been brought forward or brought down (b/for b/d) from the previous period. This will be clear with the help of the following illustration.

ILLUSTRATION 5.2. Journalize the following transactions, post them in the Ledger and balance the accounts on 31st January.

1. Ram started business with a capital of ₹10,000.
2. He purchased goods from Mohan on credit ₹2,000.
3. He Paid cash to Mohan ₹1,000.
4. He sold goods to Suresh ₹2,000.
5. He received cash from Suresh ₹3,000.
6. He further purchased goods from Mohan ₹2,000.
7. He paid cash to Mohan ₹1,000.
8. He further sold goods to Suresh ₹2,000.
9. He received cash from Suresh ₹1,000.

SOLUTION:

Journal

Particulars	L.F.	Debit ₹	Credit ₹
Cash Account To Capital Account <i>(Being commencement of business)</i>	Dr.	10,000	10,000
Purchases Account To Mohan <i>(Being purchase of goods on credit)</i>	Dr.	2,000	2,000
Mohan To Cash <i>(Being payment of cash to Mohan)</i>	Dr.	1,000	1,000
Suresh To Sales <i>(Being goods sold to Suresh)</i>	Dr.	2,000	2,000
Cash Account To Mohan <i>(Being cash received from Suresh)</i>	Dr.	3,000	3,000

(Contd...)

Cr.

	₹
	10,000

he Ledger. The word Ledger Account. For as shown above, the ilarly, the word "By" account. For example, edit side of the Cash not have any specific these words.

e clear with the help

edger:

bit	Credit ₹
000	10,000 ← 5
000	4,000 ← 6
000	2,000 ← 7
000	1,000 ← 8

4,000 ← 6
1,000 ← 8
10,000 ← 5
2,000 ← 7

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<i>Particulars</i>	<i>L.F.</i>	<i>Debit ₹</i>	<i>Credit ₹</i>
Purchases Account To Mohan (Being purchase of goods from Mohan)	Dr.	2,000	2,000
Mohan To Cash Account (Being payment of cash to Mohan)	Dr.	1,000	1,000
Suresh To Sales Account (Being goods sold to Suresh)	Dr.	2,000	2,000
Cash Account To Suresh (Being cash received from Suresh)	Dr.	1,000	1,000
TOTAL		<u>24,000</u>	<u>24,000</u>

Ledger

Dr.			Cash Account			Cr.		
Date	Particulars	₹	Date	Particulars	₹			
	To Capital A/c	10,000		By Mohan	1,000			
	To Suresh	3,000		By Mohan	1,000			
	To Suresh	1,000	Jan. 31	By Balance c/d	12,000			
		<u>14,000</u>			<u>14,000</u>			
Feb. 1	To Balance b/d	12,000						

Dr.			Capital Account			Cr.		
Date	Particulars	₹	Date	Particulars	₹			
Jan. 31	To Balance c/d	10,000		By Cash A/c	10,000			
		<u>10,000</u>			<u>10,000</u>			
			Feb. 1	By Balance b/d	10,000			

Dr.			Purchases Account		Cr.
Date	Particulars	₹	Date	Particulars	₹
	To Mohan	2,000	Jan. 31	By Balance c/d	4,000
	To Mohan	2,000			
		<u>4,000</u>			<u>4,000</u>
Feb. 1	To Balance b/d	4,000			

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Debit ₹	Credit ₹
2,000	2,000
1,000	1,000
2,000	2,000
1,000	1,000
<u>24,000</u>	<u>24,000</u>

Dr.	Cr.
₹	₹
1,000	1,000
1,000	1,000
12,000	12,000
<u>14,000</u>	<u>14,000</u>

Dr.	Cr.
₹	₹
10,000	10,000
10,000	10,000
<u>10,000</u>	<u>10,000</u>

Dr.	Cr.
₹	₹
4,000	4,000
<u>4,000</u>	<u>4,000</u>

Mohan

Date	Particulars	₹	Date	Particulars	₹
	To Cash	1,000		By Purchases	2,000
	To Cash	1,000		By Purchases	2,000
	To Balance c/d	2,000			<u>4,000</u>
		<u>4,000</u>	Feb. 1	By Balance b/d	2,000

Suresh

Date	Particulars	₹	Date	Particulars	₹
	To Sales	2,000		By Cash A/c	3,000
	To Sales	2,000		By Cash A/c	1,000
		<u>4,000</u>			<u>4,000</u>

Sales Account

Date	Particulars	₹	Date	Particulars	₹
Jan. 31	To Balance c/d	4,000		By Suresh	2,000
		<u>4,000</u>		By Suresh	2,000
			Feb. 1	By Balance b/d	4,000

It is to be noted that the balance of an account is always known by the side which is greater. For example, in the above illustration, the debit side of the Cash Account is greater than the credit side by ₹12,000. It will be, therefore, said that Cash Account is showing a debit balance of ₹12,000. Similarly, the credit side of the Capital Account is greater than debit side by ₹10,000. It will be, therefore, said that the Capital Account is showing a credit balance of ₹10,000.

TRIAL BALANCE

In case the various debit balances and the credit balances of the different accounts are taken down in a statement, the statement so prepared is termed as a Trial Balance. In other words, Trial Balance is a statement containing the various ledger balances on a particular date. For example, with the balances of the ledger accounts prepared in Illustration 5.2, the Trial Balance can be prepared as follows:

Trial Balance

as on 31st January

Particulars	Debit ₹	Credit ₹
Cash Account	12,000	
Capital Account		10,000
Purchases Account	4,000	
Mohan		2,000
Sales Account		4,000
	<u>16,000</u>	<u>16,000</u>

Thus, the two sides of the Trial Balance tally. It means the books of accounts are arithmetically accurate.

Objects of Preparing a Trial Balance

1. *Checking of the arithmetical accuracy of the accounting entries* As indicated above, Trial Balance helps in knowing the arithmetical accuracy of the accounting entries. This is because according to the dual aspect concept for every debit, there must be an equivalent credit. Trial Balance represents a summary of all ledger balances and, therefore, if the two sides of the Trial Balance tally, it is an indication of this fact that the books of account are arithmetically accurate. Of course, there may be certain errors in the books of account in spite of an agreed Trial Balance. For example, if a transaction has been completely omitted from the books of account, the two sides of the Trial Balance will tally, in spite of the books of account being wrong. This has been discussed in detail later in a separate chapter.
2. *Basis for financial statements* Trial Balance forms the basis for preparing financial statements such as the Income Statement and the Balance Sheet. The Trial Balance represents all transactions relating to different accounts in a summarised form for a particular period. In case the Trial Balance is not prepared, it will be almost impossible to prepare the financial statements as stated above to know the profit or loss made by the business during a particular period or its financial position on a particular date.
3. *Summarised ledger* It has already been stated that a Trial Balance contains the ledger balances on a particular date. Thus, the entire ledger is summarised in the form of a Trial Balance. The position of a particular account can be judged simply by looking at the Trial Balance. The Ledger may be seen only when details regarding the accounts are required.

Methods of Preparation of a Trial Balance

A Trial Balance may be prepared according to any of the two methods:

1. **Total Method** In case of this method after totaling each side of the ledger account, the respective debit and credit totals of the ledger accounts are transferred to the respective sides of the trial balance. Thus, in case of this method, the trial balance can be prepared soon after totaling various accounts and the time taken in balancing the account is saved to that extent. This method is not generally followed since it does not help in preparation of financial statements.
2. **Balance Method** According to this method, every ledger account is balanced and only the balance of the ledger account is carried forward to the trial balance. This method is generally used since it helps the preparation of the financial statements where only balances are to be taken.
3. **Total and Balance Method** This method combines the first two methods explained above. In case of this method, the trial balance contains both the totals of both sides of the respective accounts as well as their final balances. This method has the advantage that it helps in immediate location of a mistake incurred, if any in the balancing the account. However, it has disadvantage of increasing the workload of the staff.

ILLUSTRATION 5.3. Prepare (a) ledger accounts and (b) the trial balance according to (i) Total method (ii) Balance method and (iii) Total and balance method on the basis of transactions given in Illustration 4.7.

SOLUTION:

(a) Preparation of Ledger Accounts

Cash Account					
Dr.			Cr.		
Date	Particulars	₹	Date	Particulars	₹
2011			2011		
Jan. 1	To Balance b/d	8,000	Jan. 1	By Purchases A/c	3,800
Jan. 4	To Vijay	1,980	Jan. 8	By Plant A/c	300
Jan. 15	To Rahim	300	Jan. 20	By Salary A/c	2,000
Jan. 18	To Sales A/c	1,000	Jan. 21	By Anand	4,800
Jan. 26	To Interest A/c	200	Jan. 28	By Interest on Loan A/c	500
Jan. 31	To Sales A/c	500	Jan. 31	By Balance c/d	580
		<u>11,980</u>			<u>11,980</u>
Feb. 1	To Balance b/d	580			

Interest Account					
Dr.			Cr.		
Date	Particulars	₹	Date	Particulars	₹
Jan. 31	To Balance c/d	<u>200</u>	Jan. 26	By Cash A/c	<u>200</u>
		<u>200</u>	Feb. 1	By Balance b/d	<u>200</u>

Bank Account					
Dr.			Cr.		
Date	Particulars	₹	Date	Particulars	₹
Jan. 1	To Balance b/d	<u>25,000</u>	Jan. 31	By Balance c/d	<u>25,000</u>
		<u>25,000</u>			<u>25,000</u>
Feb. 1	To Balance b/d	25,000			

Stock Account					
Dr.			Cr.		
Date	Particulars	₹	Date	Particulars	₹
Jan. 1	To Balance b/d	<u>20,000</u>	Jan. 31	By Balance c/d	<u>20,000</u>
		<u>20,000</u>			<u>20,000</u>
Feb. 1	To Balance b/d	20,000			

Furniture Account					
Dr.			Cr.		
Date	Particulars	₹	Date	Particulars	₹
Jan. 1	To Balance b/d	<u>2,000</u>	Jan. 31	By Balance c/d	<u>2,000</u>
		<u>2,000</u>			<u>2,000</u>
Feb. 1	To Balance b/d	2,000			

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Dr. **Building Account** Cr.

Date	Particulars	₹	Date	Particulars	₹
Jan. 1	To Balance b/d	10,000	Jan. 31	By Balance c/d	10,000
		<u>10,000</u>			<u>10,000</u>
Feb. 1	To Balance b/d	10,000			

Dr. **Vijay** Cr.

Date	Particulars	₹	Date	Particulars	₹
Jan. 1	To Balance b/d	2,000	Jan. 4	By Cash A/c	1,980
		<u>2,000</u>		By Discount A/c	20
					<u>2,000</u>

Dr. **Anil** Cr.

Date	Particulars	₹	Date	Particulars	₹
Jan. 1	To Balance b/d	1,000	Jan. 31	By Balance c/d	1,000
		<u>1,000</u>			<u>1,000</u>
Feb. 1	To Balance b/d	1,000			

Dr. **Madhu** Cr.

Date	Particulars	₹	Date	Particulars	₹
Jan. 1	To Balance b/d	2,000	Jan. 31	By Balance c/d	2,000
		<u>2,000</u>			<u>2,000</u>
Feb. 1	To Balance b/d	2,000			

Dr. **Anand** Cr.

Date	Particulars	₹	Date	Particulars	₹
Jan. 21	To Cash A/c	4,800	Jan. 1	By Balance b/d	5,000
Jan. 21	To Discount A/c	200			<u>5,000</u>
		<u>5,000</u>			

Dr. **Capital Account** Cr.

Date	Particulars	₹	Date	Particulars	₹
Jan. 31	To Balance c/d	55,000	Jan. 1	By Balance b/d	55,000
		<u>55,000</u>			<u>55,000</u>
			Feb. 1	By Balance b/d	55,000

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Cr.

₹
10,000
<u>10,000</u>

Cr.

₹
1,980
20
<u>2,000</u>

Cr.

₹
1,000
<u>1,000</u>

Cr.

₹
2,000
<u>2,000</u>

Cr.

₹
5,000
<u>5,000</u>

Cr.

₹
55,000
<u>55,000</u>
55,000

Babu's Loan Account

Cr.

Dr.

Date	Particulars	₹	Date	Particulars	₹
Jan. 31	To Balance c/d	10,000	Jan. 1	By Balance b/d	10,000
		<u>10,000</u>			<u>10,000</u>
			Feb. 1	By Balance b/d	10,000

Purchases Account

Cr.

Dr.

Date	Particulars	₹	Date	Particulars	₹
Jan. 1	To Cash A/c	3,800	Jan. 31	By Drawings A/c	200
Jan. 1	To Discount A/c	200	Jan. 31	By Balance c/d	8,800
Jan. 6	To Bharat	5,000			<u>9,000</u>
		<u>9,000</u>			
Feb. 1	To Balance b/d	8,800			

Discount Account

Cr.

Dr.

Date	Particulars	₹	Date	Particulars	₹
Jan. 4	To Vijay	20	Jan. 1	By Purchases A/c	200
Jan. 31	To Balance A/c	380	Jan. 31	By Anand	200
		<u>400</u>			<u>400</u>
			Feb. 1	By Balance b/d	380

Bharat

Cr.

Dr.

Date	Particulars	₹	Date	Particulars	₹
Jan. 31	To Balance c/d	5,000	Jan. 6	By Purchases A/c	5,000
		<u>5,000</u>			<u>5,000</u>
			Feb. 1	By Balance b/d	5,000

Plant Account

Cr.

Dr.

Date	Particulars	₹	Date	Particulars	₹
Jan. 8	To Mukesh	5,000	Jan. 31	By Balance c/d	5,300
Jan. 8	To Cash A/c	300			<u>5,300</u>
		<u>5,300</u>			
Feb. 1	To Balance b/d	5,300			

Interest on Loan Account

Cr.

Dr.

Date	Particulars	₹	Date	Particulars	₹
Jan. 28	To Cash A/c	500	Jan. 31	By Balance c/d	500
		<u>500</u>			<u>500</u>
Feb. 1	To Balance b/d	500			

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member:

Dr.

Mukesh

Cr.

Date	Particulars	₹	Date	Particulars	₹
Jan. 31	To Balance c/d	5,000	Jan. 8	By Plant A/c	5,000
		<u>5,000</u>			<u>5,000</u>
			Feb. 1	By Balance b/d	5,000

Dr.

Sales Account

Cr.

Date	Particulars	₹	Date	Particulars	₹
Jan. 31	To Balance c/d	2,100	Jan. 21	By Rahim	600
			Jan. 18	By Cash A/c	1,000
			Jan. 31	By Cash A/c	500
		<u>2,100</u>			<u>2,100</u>
			Feb. 1	By Balance b/d	2,100

Dr.

Rahim

Cr.

Date	Particulars	₹	Date	Particulars	₹
Jan. 12	To Sales A/c	600	Jan. 15	By Cash A/c	300
			Jan. 15	By Bad Debts A/c	300
		<u>600</u>			<u>600</u>

Dr.

Bad Debts Account

Cr.

Date	Particulars	₹	Date	Particulars	₹
Jan. 15	To Rahim	300	Jan. 31	By Balance c/d	300
		<u>300</u>			<u>300</u>
Feb. 1	To Balance b/d	300			

Dr.

Salary Account

Cr.

Date	Particulars	₹	Date	Particulars	₹
Jan. 20	To Cash A/c	2,000	Jan. 31	By Balance c/d	2,000
		<u>2,000</u>			<u>2,000</u>
Feb. 1	To Balance b/d	2,000			

Dr.

Drawings Account

Cr.

Date	Particulars	₹	Date	Particulars	₹
Jan. 31	To Purchases A/c	200	Jan. 31	By Balance c/d	200
		<u>200</u>			<u>200</u>
Feb. 1	To Balance b/d	200			

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CHAPTER FIVE

Cr.

rs	₹
	5,000
	<u>5,000</u>
	5,000

Cr.

rs	₹
	600
	1,000
	500
	<u>2,100</u>
	2,100

Cr.

s	₹
	300
	300
	<u>600</u>

Cr.

	₹
	300
	<u>300</u>

Cr.

	₹
	2,000
	<u>2,000</u>

Cr.

	₹
	200
	<u>200</u>

(b) (i) Total Method

Trial Balance

(as on 31st January 2011)

Particulars	Debit ₹	Credit ₹
Cash Account	11,980	11,400
Interest Account	25,000	200
Bank Account	20,000	
Stock Account	2,000	
Furniture Account	10,000	
Building Account	2,000	2,000
Vijay	1,000	
Anil	2,000	
Madhu	5,000	5,000
Anand		55,000
Capital Account		10,000
Babu's Loan Account	9,000	200
Purchases Account	20	400
Discount Account		5,000
Bharat	5,300	
Plant Account	500	
Interest on Loan Account		5,000
Mukesh		2,100
Sales Account	600	600
Rahim	300	
Bad Debts Account	2,000	
Salary Account	200	
Drawings Account		
Total	<u>96,900</u>	<u>96,900</u>

(ii) Balance Method

Trial Balance

(as on 31st January 2011)

Particulars	Debit ₹	Credit ₹
Cash Account	580	200
Interest	25,000	
Bank Account	20,000	
Stock Account	2,000	
Furniture Account	10,000	
Building Account	1,000	
Anil	2,000	
Madhu		55,000
Capital Account		10,000
Babu's Loan Account	8,800	
Purchases Account		380
Discount Account		5,000
Bharat		

(Contd...)