

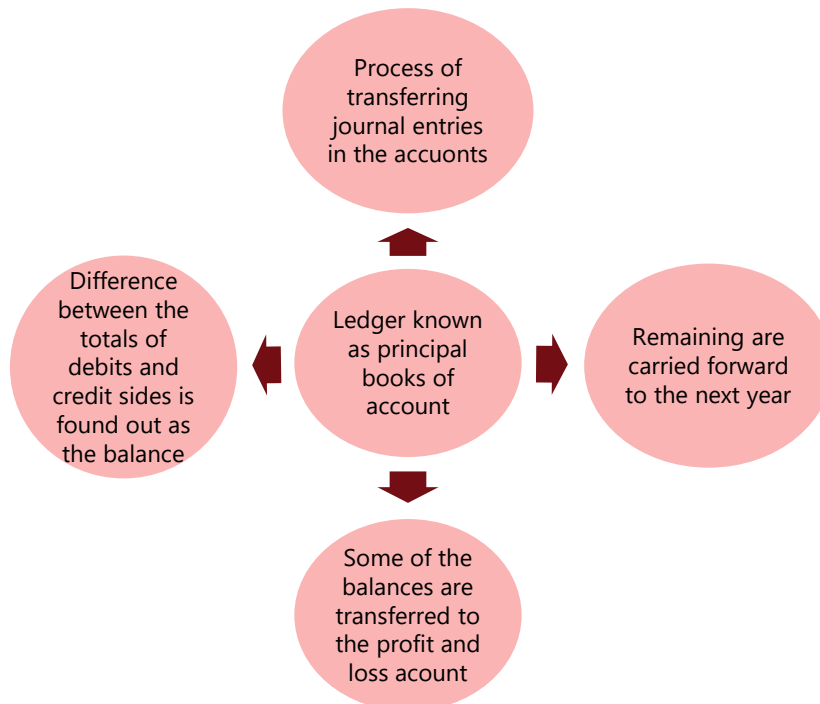
UNIT 2 : LEDGERS

LEARNING OUTCOMES

After studying this unit, you will be able to:

- ◆ Understand the concept of Ledgers.
- ◆ Learn the technique of ledger posting and how to balance an account.
- ◆ Learn the technique of opening accounts each year taking closing balances of the previous year. Note also the use of term 'balance c/d' and 'balance b/d'

UNIT OVERVIEW





2.1 INTRODUCTION

After recording the original transactions in the journal, recorded entries are classified and grouped into by preparation of accounts. The book which contains all set of accounts (viz. personal, real and nominal accounts), is known as Ledger. It is known as principal books of account in which account-wise balance of each account is determined.



2.2 SPECIMEN OF LEDGER ACCOUNTS

A ledger account has two sides-debit (left side of the account) and credit (right side of the account). Each of the debit and credit side has four columns. (i) Date (ii) Particulars (iii) Journal folio i.e. page from where the entries are taken for posting and (iv) Amount.

Dr.				Cr.			
Account							
Date	Particulars	J.F.	Amount (₹)	Date	Particulars	J.F.	Amount (₹)



2.3 POSTING

The process of transferring the debit and credit items from journal to classified accounts in the ledger is known as posting.

2.3.1 Rules regarding Posting of Entries in the Ledger

1. Separate account is opened in ledger book for each distinct account and entries from Journal are posted to respective account accordingly.
2. It is a practice to use words 'To' and 'By' while posting transactions in the ledger. The word 'To' is used in the particular column with the accounts written on the debit side while 'By' is used with the accounts written in the particular column of the credit side. These 'To' and 'By' do not have any meanings but are used to the account debited and credited.
3. The concerned account debited in the journal should also be debited in the ledger but reference should be of the respective credit account.



2.4 BALANCING AN ACCOUNT

At the end of each month or year or any particular reporting period, it may be necessary to ascertain the balance in an account. Suppose a person has bought goods worth ₹1,000 and has paid only ₹ 850; he owes ₹150 and that is the balance in his account. To ascertain the

balance in any account, both the sides of the account is totalled and smaller amount is deducted from the bigger amount to ascertain the difference. If the credit side is bigger than the debit side, it is a credit balance and vice a versa. The credit balance is written on the debit side as, "To Balance c/d"; c/d means "carried down". By doing this, two sides will be equal. The totals are written on the two sides opposite one another.

Then the credit balance is written on the credit side as "By balance b/d (i.e., brought down)". This is the opening balance for the new period. The debit balance similarly is written on the credit side as "By Balance c/d", the totals then are written on the two sides as shown above and then the debit balance written on the debit side as, "To Balance b/d", as the opening balance of the new period.

It should be noted that nominal accounts are not balanced; the balance in the end are transferred to the profit and loss account. Only personal and real accounts balances are ultimately shown in the balance sheet at the end of the accounting period. The capital account is adjusted for profit or loss (i.e net of nominal accounts) at the end of accounting period.

ILLUSTRATION 1

Prepare the Stationery Account of a firm for the month of Jan. 20X1 duly balanced off, from the following details:

20X1		₹
Jan. 1	Inventory of stationery	480
Jan. 5	Purchase of stationery by cheque	800
Jan. 15	Purchase of stationery on credit from Five Star Stationery Mart	1,280

SOLUTION

Dr.		Stationery Account		Cr.	
Date	Particulars	₹	Date	Particulars	₹
1.1.20X1	To Balance b/d	480	31.1.20X1	By Balance c/d	2,560
5.1.20X1	To Bank A/c	800			
15.1.20X1	To Five Star Stationery Mart A/c	1,280			
		2,560			2,560
1.2.20X1	To Balance b/d	2,560			

ILLUSTRATION 2

Prepare the ledger accounts on the basis of following transactions in the books of a trader.

Debit Balances on January 1, 20X1:

Cash in Hand ₹ 8,000, Cash at Bank ₹ 25,000, inventory of Goods ₹ 20,000, Building ₹ 10,000.
Trade receivables: Vijay ₹ 2,000 and Madhu ₹ 2,000.

Credit Balances on January 1, 20X1:

Trade payables: Anand ₹ 5,000 and Kapil ₹ 7,000, Capital ₹ 55,000

Following were further transactions in the month of January, 20X1:

- Jan. 1 Purchased goods worth ₹ 5,000 (payable at later date) for cash less 20% trade discount and 5% cash discount.
- Jan. 4 Received ₹ 1,980 from Vijay and allowed him ₹ 20 as discount.
- Jan. 8 Purchased plant from Mukesh for ₹ 5,000 and paid ₹ 100 as cartage for bringing the plant to the factory and another ₹ 200 as installation charges.
- Jan. 12 Sold goods to Rahim on credit ₹ 600.
- Jan. 15 Rahim became insolvent and could pay only 50 paise in a rupee.
- Jan. 18 Sold goods to Ram for cash ₹ 1,000.

SOLUTION

Dr.				Cr.			
Cash Account							
Date 20X1	Particulars	J.F.	₹	Date 20X1	Particulars	J.F.	₹
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. 31	By Balance c/d		7,180
Jan. 18	To Sales A/c		1,000				
			11,280				11,280
Feb. 1	To Balance b/d		7,180				

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

Dr. **Inventory Account** Cr.

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
Jan. 1	To Balance b/d		20,000	Jan. 31	By Balance c/d		20,000
			20,000				20,000
Feb. 1	To Balance b/d		20,000				

Dr. **Building Account** Cr.

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
Jan. 1	To Balance b/d		10,000	Jan. 31	By Balance c/d		10,000
			10,000				10,000
Feb. 1	To Balance b/d		10,000				

Dr. **Vijay** Cr.

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

Dr. **Madhu** Cr.

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
Jan. 1	To Balance b/d		2,000	Jan. 31	By Balance c/d		2,000
			2,000				2,000
Feb. 1	To Balance b/d		2,000				

Dr. **Anand** Cr.

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
Jan. 31	To Balance c/d		5,000	Jan. 1	By Balance b/d		5,000
			5,000				5,000
				Feb. 1	By Balance b/d		5,000

Dr. **Kapil** Cr.

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
Jan. 31	To Balance c/d		7,000	Jan. 1	By Balance b/d		7,000
			7,000				7,000
				Feb. 1	By Balance b/d		7,000

Dr. **Capital Account** Cr.

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
Jan. 31	To Balance c/d		55,000	Jan. 1	By Balance b/d		55,000
			55,000				55,000
				Feb. 1	By Balance b/d		55,000

Dr. **Purchases Account** Cr.

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
Jan. 1	To Cash		3,800				
Jan. 1	To Cash Discount		200	Jan. 31	By Balance c/d		4,000
			4,000				4,000
Feb. 1	To Balance b/d		4,000				

Dr. **Discount Account** Cr.

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
Jan. 4	To Vijay		20	Jan. 1	By Purchases A/c		200
Jan. 31	To Balance c/d		180				
			200				200
				Feb. 1	By Balance b/d		180

Dr. **Plant Account** Cr.

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

Dr. **Mukesh** Cr.

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

Dr. **Sales Account** Cr.

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
Jan. 31	To Balance c/d		1,600	Jan. 12	By Rahim		600
				Jan. 18	By Cash A/c		1,000
			1,600				1,600
				Feb. 1	By Balance b/d		1,600

Dr. **Rahim** Cr.

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
Jan. 12	To Sales A/c		600	Jan. 15	By Cash A/c		300
				Jan. 15	By Bad Debts A/c		300
			600				600

Dr. **Bad Debts Account** Cr.

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
Jan. 15	To Rahim		300	Jan. 31	By Balance c/d		300
			300				300
Feb. 1	To Balance b/d		300				

ILLUSTRATION 3

The following data is given by Mr. S, the owner, with a request to compile only the two personal accounts of Mr. H and Mr. R, in his ledger, for the month of April, 20X1.

April, 1 Mr. S owes Mr. R ₹ 15,000; Mr. H owes Mr. S ₹ 20,000.

April, 4 Mr. R sold goods worth ₹ 60,000 @ 10% trade discount to Mr. S.

April, 5 Mr. S sold to Mr. H goods prices at ₹ 30,000.

April, 17 Record a purchase of ₹ 25,000 net from R, which were sold to H at a profit of ₹ 15,000.

April, 18 Mr. S rejected 10% of Mr. R's goods of 4th April.

April, 19 Mr. S issued a cash memo for ₹ 10,000 to Mr. H who came personally for this consignment of goods, urgently needed by him.

April, 22 Mr. H cleared half his total dues to Mr. S, enjoying a ½% cash discount (of the payment received, ₹ 20,000 was by cheque).

- April, 26 R's total dues (less ₹10,000 held back) were cleared by cheque, enjoying a cash discount of ₹1,000 on the payment made.
- April, 29 Close H's Account to record the fact that all except ₹5,000 was cleared by him, by a cheque, because he was declared bankrupt.
- April, 30 Balance R's Account.

SOLUTION**In the books of Mr. S**

Dr.			Mr. H Account			Cr.		
Date	Particulars	₹	Date	Particulars	₹			
1.4.20X1	To Balance b/d	20,000	22.4.20X1	By Bank A/c	20,000			
5.4.20X1	To Sales A/c	30,000	22.4.20X1	By Cash A/c (Note 2)	24,775			
17.4.20X1	To Sales A/c	40,000	29.4.20X1	By Discount Allowed A/c	225			
			29.4.20X1	By Bank A/c	40,000			
			29.4.20X1	By Bad Debts A/c	5,000			
		90,000			90,000			

Dr.			Mr. R Account			Cr.		
Date	Particulars	₹	Date	Particulars	₹			
18.4.20X1	To Purchase Returns A/c	5,400	1.4.20X1	By Balance b/d	15,000			
			4.4.20X1	By Purchases A/c	54,000			
26.4.20X1	To Bank A/c	77,600	17.4.20X1	By Purchases A/c	25,000			
26.4.20X1	To Discount Received A/c	1,000						
30.4.20X1	To Balance c/d	10,000						
		94,000			94,000			
			1.5.20X1	By Balance b/d	10,000			

Working Notes:

- (1) Sale of ₹ 10,000 on 19th April is a cash sales, therefore, it will not be recorded in the Personal Account of Mr. H; and
- (2) On 22nd April, Mr. H owes Mr. S ₹ 90,000, amount paid by Mr. H $\frac{1}{2}$ of ₹ 90,000 less $\frac{1}{2}\%$ discount i.e., ₹ 45,000 – ₹ 225 = ₹ 44,775. Out of this amount, ₹ 20,000 paid by cheque and the balance of ₹ 24,775 in cash.

Note: The balance of all nominal accounts is transferred to Profit and Loss account at the time of preparation of financial statements as the nominal Accounts are in the nature of revenue/incomes/gains or expenses/losses. Thus, the net result of all nominal accounts is reflected in profit and loss Account for an accounting period which is transferred to Capital Account. The balance of all the accounts relating to assets and liabilities (personal and real) are reflected in the Balance Sheet at the end of accounting period.

SUMMARY

- ♦ Process of transferring journal entries in the accounts opened in Ledger is called posting.
- ♦ Ledger is known as principal books of accounts and it provides full information regarding all the financial transactions pertaining to any individual account.
- ♦ The difference between the totals of debits and credit sides is found out as the balance. Some of these balances (i.e nominal accounts) are transferred to the profit and loss account and some are carried forward to the next period/year i.e., shown in the balance sheet, depending upon the nature of the account.

TEST YOUR KNOWLEDGE

True and False

1. *A ledger is also known as the principal book of accounts.*
2. *Cash account has a debit balance.*
3. *Posting is the process of transferring the accounts from ledger to journal.*
4. *At the end of the accounting year, all the nominal accounts of the ledger book are balanced.*
5. *Ledger records the transactions in a chronological order.*
6. *If the total debit side is greater than the total of credit side, we get a credit balance as opening balance.*
7. *Ledger accounts of assets will always be debited when they are increased.*

Multiple Choice Questions

1. *The process of transferring the debit and credit items from a Journal to their respective accounts in the ledger is termed as*
 - (a) *Posting*
 - (b) *Purchase*
 - (c) *Balancing of an account*
 - (d) *Casting*
2. *The technique of finding the net balance of an account after considering the totals of both debits and credits appearing in the account is known as*
 - (a) *Posting*
 - (b) *Purchase*
 - (c) *Balancing of an account*
 - (d) *Journalising*
3. *Journal and ledger records transactions in*
 - (a) *A chronological order and analytical order respectively.*
 - (b) *An analytical order and chronological order respectively.*
 - (c) *A chronological order only*
 - (d) *An analytical order only*
4. *Ledger book is popularly known as*
 - (a) *Secondary book of accounts*
 - (b) *Principal book of accounts*
 - (c) *Subsidiary book of accounts*
 - (d) *Memorandum book*
5. *At the end of the accounting year all the nominal accounts of the ledger book are*
 - (a) *Balanced but not transferred to profit and loss account*
 - (b) *Not balanced and also the balance is not transferred to the profit and loss account*
 - (c) *Not balanced and their balance is transferred to the profit and loss account*
 - (d) *Balanced and their balances are carried forward to the next accounting year.*

Theoretical Questions

- 1 *What do you mean by principal books of accounts?*
- 2 *What are the rules of posting of journal entries into the Ledger?*

Practical Questions

1. *Journalize the following transactions, post them in the Ledger and balance the accounts on 31st December.*
 1. *X started business with a capital of ₹ 20,000*
 2. *He purchased goods from Y on credit ₹ 4,000*
 3. *He paid cash to Y ₹ 2,000*
 4. *He sold goods to Z ₹ 4,000*
 5. *He received cash from Z ₹ 6,000*
 6. *He further purchased goods from Y ₹ 4,000*
 7. *He paid cash to Y ₹ 2,000*
 8. *He further sold goods to Z ₹ 4,000*
 9. *He received cash form Z ₹ 2,000*

ANSWERS/HINTS

True and False

1. *True: Since it classifies all the amounts related to a particular account and then it is used as the base for preparing the Trial balance, a ledger is also known as principal books of accounts.*
2. *True: Being an asset under the modern equation approach, cash account has a debit balance.*
3. *False: Posting is the process of transferring the balances from journal to ledger.*
4. *False: At the end of the accounting year, all the nominal accounts of the ledger book are totaled and transferred to P&L A/c.*
5. *False: Ledger records the transactions in analytical order. But journal records the transactions in a chronological order.*

6. *False: If the total of debit side is greater than the total of credit side, we get a debit balance as the opening balance.*
7. *True: The increase to an asset shall be debited since the original balance is also debit.*

Multiple Choice Questions

1.	(a)	2.	(c)	3.	(a)	4.	(b)	5.	(c)		
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Theoretical Questions

- Ledger is known as principal books of accounts and it provides full information regarding all the transactions pertaining to any individual account. Ledger contains all set of accounts (viz. personal, real and nominal accounts).*
- Rules regarding posting of entries in the ledger:*
 - Separate account is opened in ledger book for each account and entries from the Journal are posted to respective accounts accordingly.*
 - It is a practice to use words 'To' and 'By' while posting transactions in the ledger. The word 'To' is used in the particular column with the accounts written on the debit side while 'By' is used with the accounts written in the particular column of the credit side. These 'To' and 'By' do not have any meanings but are used to the account debited and credited.*
 - The concerned account debited in the journal should also be debited in the ledger but reference should be of the respective credit account.*

Practical Questions

1. **Journal**

Particulars	L.F.	Debit ₹	Credit ₹
Cash A/c Dr. To Capital A/c (Being commencement of business)		20,000	20,000
Purchase A/c Dr. To Y (Being purchase of goods on credit)		4,000	4,000
Y Dr. To Cash (Being amount paid to Y)		2,000	2,000

Z	Dr.	4,000	4,000
To Sales A/c (Being goods sold to Z)			
Bank A/c	Dr.	6,000	6,000
To Z (Being amount received from Z)			
Purchase A/c	Dr.	4,000	4,000
To Y (Being purchase of goods on credit from Y)			
Y	Dr.	2,000	2,000
To Cash A/c (Being amount paid to Y)			
Z	Dr.	4,000	4,000
To Sales A/c (Being goods sold to Z)			
Cash A/c	Dr.	2,000	2,000
To Z (Being cash received from Z)			
TOTAL		48,000	48,000

Dr.

Cash Account

Cr.

Date	Particulars	₹	Date	Particulars	₹
	To Capital A/c	20,000		By Y	2,000
	To Z	6,000		By Y	2,000
	To Z	2000		By Balance c/d	24,000
		28,000			28,000
Feb. 1	To Balance b/d	24,000			

Dr.

Capital Account

Cr.

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

Dr. **Purchase Account** Cr.

Date	Particulars	₹	Date	Particulars	₹
	To Y	4,000	Jan 31.	By Balance c/d	8,000
	To Y	4,000			
		8,000			8,000
Feb.1	To Balance b/d	8,000			

Dr. **Y's Account** Cr.

Date	Particulars	₹	Date	Particulars	₹
	To Cash	2,000		By Purchases	4,000
	To Cash	2,000		By Purchases	4,000
Jan. 31	To Balance c/d	4,000			
		8,000			8,000
				By Balance b/d	4,000

Dr. **Z's Account** Cr.

Date	Particulars	₹	Date	Particulars	₹
	To Sales	4,000		By Cash A/c	6,000
	To Sales	4,000		By Cash A/c	2,000
		8,000			8,000

Dr. **Sales Account** Cr.

Date	Particulars	₹	Date	Particulars	₹
Jan. 31	To Balance c/d	8,000		By Z	4,000
				By Z	4,000
		8,000			8,000
			Feb. 1	By Balance b/d	8,000