

# LEDGER

Definition: When all the transactions for a given period have been journalised, the next thing is to classify them according to the accounts affected. All similar transactions must be brought together. For instance, all transactions relating to cash must be put in one place. Similarly, all transactions with a customer or a supplier must also be assembled at one place. The book in which this classification is done is called the Ledger.

The Ledger is a book which contains a condensed and classified record of all the pecuniary transactions of the business generally brought, transferred or posted from the books of original entry.

The Ledger is called the king of all books of account because all the entries from the books of original entry must be posted to the various accounts in the ledger. It should be noted that Journal contains a chronological record while Ledger contains a classified record of all transactions.

Features : The following are the features of Ledger :

1. It has two identical sides — left-hand side and right-hand side. The left-hand side is called Debit and the right-hand side is called Credit.
2. Debit aspect of all the concerned transactions is recorded on Debit side, while credit aspect on Credit side according to date.
3. The difference of the totals of the two sides represents balance. The excess of Debit side over Credit side indicates debit balance, while excess of Credit side over Debit side indicates credit balance. If the total of the two sides is equal, there will be no balance.
4. Usually balance is drawn at the year end and recorded on the deficit side to make the two sides equal. This balance is known as closing balance.
5. The closing balance of the current year will be the opening balance of the next year.

X Advantages : The following are the advantages derived from Ledger :

- remedy  
approach  
of Double  
entry  
system
1. It is the Ledger through which successful application of Double Entry system is ensured. Each and every transaction is divided into two parts—Receiver and Giver — and recorded in the two concerned accounts in Ledger.
  2. Transactions relating to different persons or concerns are recorded in the account of each person or concern separately. As a result, complete and reliable information is available in respect of each and every account
  3. Different types of incomes and expenses are recorded in different accounts separately. So, it is possible to ascertain the amount of income and expenditure under each head and the overall result at the year end through Trading and Profit & Loss A/c.
  4. Separate account is opened for each item of assets and liabilities. It is, therefore, possible to ascertain the value of different assets and liabilities and the true financial position at the year end through Balance Sheet.
  5. Transactions being recorded primarily in Journal and thereafter finally in Ledger, the possibility of errors and defalcations is remote.
  6. Valuable information and statistics are collected from Ledger and supplied to the management to enable them to run the concern efficiently.

✓ Distinction between Ledger and the Journal : The journal and the ledger are the most important books of the double entry system of accounting. Following are the points of distinction between these two types of books :—

1. The journal is the book of first entry (original entry); the ledger is the book of second entry. It is the goal where all the entries in the journals find their ultimate destination.
2. The journal is the book for chronological record; the ledger is the book for the analytical record.
3. The journal, as a book of source entry, ordinarily has greater weight as legal evidence than the ledger.
4. The unit of classification of data within the journal is the transaction; the unit of classification of data within the ledger is the account.
5. The process of recording in the journal is called journalising; the process of recording in the ledger is called posting.

**Form of Ledger :** One account usually occupies one page in the ledger. But if the account is big one it may extend to two or more pages. The pages of the Ledger are vertically divided into two equal halves. The left hand half or side is known as the Debit (Dr.) side and the right hand half or side is the Credit (Cr.) side. The abbreviations "Dr" and "Cr." are put on the top left and right hand corners. Each half part is further sub divided into four sections — (1) Date, (2) Particulars, (3) Folio, (4) Amount, as follows :—

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

**Method of Posting :** The act of separately transferring each entry from Journal to the respective account in the Ledger is called Posting. Posting consists of :

1. Recording the relevant amount on the left hand side of the account which according to the journal is to be debited.
2. Recording the amount on the right hand side of the account which, according to the journal, is to be credited.
3. In the Ledger account, the first entry on the debit side is preceded by the word "To" and the first entry on the credit side is preceded by the word "By." The sign of ditto is placed before the subsequent entries.

**Folioing:** Folio means folded page of (account books). Account Books are usually made of sheers of paper folded at the middle and vertically divided into two pages, each of which is called a Folio. For ready reference the pages of our books should be numbered in numerical order. When we post the various entries from the journal into the Ledger, we should write the ledger page in the "Ledger Folio Column" of the Journal and the page of the Journal in the "Journal Folio Column" of the Ledger. This is known as "Folioing".

✓ **Illustration 5.1:** Journalise the following transactions and post them to the ledger accounts concerned :

1991			Rs.
Jan. 1	Purchased goods for cash		2,000
- 3	Sold goods to Karim		500
- 10	Received from Karim		500
- 15	Purchased Machinery for cash		1,000
- 20	Cash Sales		300
- 25	Sold goods to Rahim & Sons		600
- 28	Received from Rahim & Sons		500
	Discount allowed		10

Jan. 30 Paid Rent  
 31 Paid Salaries

Rs  
 50  
 100

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Solution		L.F.	Debit	Credit
Date	Particulars		Rs.	Rs.
Jan. 1	Purchase Account To Cash Account Goods purchased for cash	12	<del>2,000</del>	
		13		2,000
" 3	Karim To Sales Account Goods sold on credit.	14	500	
		15		500
" 10	Cash Account To Karim Cash received	13	500	
		14		500
" 15	Machinery Account To Cash Account Machinery purchased	16	1,000	
		13		1,000
" 20	Cash Account To Sales Account Goods sold for cash.	13	300	
		15		300
" 25	Rahim & Sons To Sales Account Goods sold on credit.	17	600	
		15		600
" 28	Cash Account Discount Account To Rahim & Sons Cash received, discount allowed.	13	590	
		18	10	
		17		600
" 30	Rent Account To Cash Account Rent paid.	19	50	
		13		50
" 31	Salaries Account To Cash Account Salaries paid	20	100	
		13		100
Total			5,650	5,650

Total

✓ LEDGER ACCOUNT

Purchases Account

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Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
1991 Jan 1	To Cash Account	30	Rs. 2,000				

Cash Account

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Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
1991 Jan 10	To Karim	30	Rs. 500	1991 Jan. 1	By Purchases a/c	30	Rs. 2,000
" 20	To Sales a/c	30	300	" 15	By Machinery a/c	30	1,000
" 28	To Rahim & Sons	30	590	" 30	By Rent a/c	30	50
				" 31	By Salaries a/c	30	100

Karim Account

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Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
1991 Jan 2	To Sales a/c	30	Rs. 500	1991 Jan 10	By Cash a/c	30	Rs. 500

Sales Account

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Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
				1991 Jan. 3	By Karim	30	Rs. 500
				" 20	By Cash a/c	30	300
				" 25	By Rahim & Sons	30	600

Machinery Account

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Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
1991 Jan 15	To Cash a/c	30	Rs. 1,000				

Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
1991 Jan. 25	To Sales a/c	30	Rs. 600	1991 Jan. 28	By Cash a/c	30	Rs. 590
					By Discount a/c	30	10

Discount Account

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Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
1991 Jan. 28	To Rahim & Sons	30	Rs. 10				

Rent Account

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Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
1991 Jan. 30	To Cash a/c	30	Rs. 50				

Salaries Account

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Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
1991 Jan. 31	To Cash a/c	30	Rs. 100				

**Accuracy of Ledger: Trial Balance.** Having posted all the transactions into the ledger, it is necessary to check the correctness of the work done before proceeding further. In order to test the arithmetical accuracy of our Ledger we should prepare a statement called the Trial Balance.

A Trial Balance is a statement prepared by taking out the debit and credit balances of all accounts appearing in the ledger.

**Objectives of Preparing Trial Balance :** The following are the main objectives of preparing a trial balance :—

1. Trial balance helps in knowing the arithmetical accuracy of the accounting entries. 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 accounts are arithmetically accurate.

2. Trial balance forms the basis for preparing financial statements such as Income Statement/Trading & Profit and Loss Account and Balance Sheet. In case, the trial balance is not prepared, it will be almost impossible to prepare the financial statements.
3. The entire ledger is summarised in the form of a trial balance. Thus the position of a particular account can be judged simply by looking at the trial balance.

**Proof of Accuracy:** If the debit and credit totals of the Trial Balance are equal and also correspond with the total of Journal, we may be satisfied that the postings have been properly made and are arithmetically accurate.

**How to prepare a Trial Balance:** The Trial Balance is usually prepared on a loose sheet of paper. The ruling of a Trial Balance is similar to that of a Journal. We may prepare a Trial Balance in one of the following forms:-

- (1) Total Trial Balance.
- (2) Balance Trial Balance.

According to Total Trial Balance method two sides of each Ledger account *i.e.*, debit side and credit side are added up and the debit and credit totals so obtained are placed in the debit and credit columns of Trial Balance respectively.

Thus we may draw the following Trial Balance by taking out the debit side total and the credit side total of each account in the ledger.

**Trial Balance**

Ledger Account	J. F.	Total Debits	Total Credits
		Rs.	Rs.
Cash Account		12,453	8,436
Sundry Debtors Account		43,675	34,453
Sundry Creditors Account		23,654	31,298
Discount Account		430	550
Purchases Account		26,670	—
Sales Account		—	32,145
Machinery Account		10,000	—
Building Account		20,000	—
Capital Account		—	35,000
Rent Account		3,400	—
Wages Account		600	—
Salaries Account		1,000	—
Rs		1,141,882	1,41,882

One clear defect of this method is that mistakes may be committed more often while preparing the Trial Balance, because large number of figures would be required to be enlisted. Thus the process becomes unwieldy and cumbersome.

The task of preparing a Trial Balance under the Balance — Trial Balance method is much simplified. There is well known axiom that if equals are subtracted from equals the remainders are equal. On this assumption, in place of writing against each account the debit as well as the credit total the balance alone is written. The difference between the two sides of an account is called the balance. If the debit side of an account is greater than the credit the balance falls on the debit side and is known as "debit balance." If the credit side of an account is greater than the debit, the balance is on the credit side and is called as "credit balance."

Rules for Balancing Accounts : Rules for balancing each account of the ledger may be as follows :—

1. Add up both sides of the account.
2. Find out the difference in a separate slip.
3. Put the difference on the lighter side.
4. Add up both sides again.
5. Rule off.

The Trial Balance prepared above, if prepared with the balance of accounts will appear as under :—

Trial Balance

Ledger Account	J. F.	Dr. Balance	Cr. Balance
		Rs.	Rs.
Cash Account		4,017	
Sundry Debtors Accounts		9,222	
Sundry Creditors Accounts		—	7,64
Discount Account		—	12
Purchase Account		26,670	
Sales Account		—	32,14
Machinery Account		10,000	
Building Account		20,000	
Capital Account		—	35,000
Rent Account		3,400	
Wages Account		600	
Salaries Account		1,000	
			74,909
		Rs. 74,909	



The second method has the added advantages and is the one that is generally used. There are comparatively less chances of committing errors. As the magnitude of figures is smaller the process is not cumbersome. It does not appear to be unwieldy. Moreover, in a Trial Balance, the exact position of any account on the date of Trial Balance can be determined at a glance.

## QUESTIONS

### Theoretical :

1. Define Ledger and state its utility.
2. What is ledger? Why it is considered to be the most important book?
3. What do you understand by balancing an account : Explain the terms Debit Balance and Credit Balance.
4. Distinguish between Ledger and Journal.
5. "A Trial Balance is not a complete guarantee of the accuracy of the books of accounts," Then why to prepare a Trial Balance;
6. What is a Trial Balance? Why is it prepared? What are the two ways of preparing it, and which of them is a better one and why?
7. What do you mean by a Trial Balance? Discuss the main objects of preparing a trial balance.

### Objective :

1. Fill in the blanks by choosing the appropriate words from those written in parentheses :—
  - (a) Cash sales to X will be posted to \_\_\_\_\_ side of \_\_\_\_\_ account.  
(Debit, credit, X, sales)
  - (b) Salary paid in cash to Rahim will be posted to \_\_\_\_\_ account on the \_\_\_\_\_ side.  
(Rahim, credit, debit, cash)
  - (c) Building purchased for cash will be posted to \_\_\_\_\_ account on the \_\_\_\_\_ side.  
(Building, credit, debit, cash)
  - (d) Cash purchases from Karim will be posted to \_\_\_\_\_ account on the \_\_\_\_\_ side.  
(Karim, cash, purchases, debit, credit)

Answers : (a) credit, sales; (b) salary, debit, (c) building, debit,  
(d) purchases, debit.

2. Fill up the gaps with one of the given words :
  - (i) Excess of Debit side over credit side is called..... balance.  
(Debit/Credit).
  - (ii) ..... Folio is recorded in Ledger (Journal/Ledger).
  - (iii) The process of recording a transaction in Ledger is called .....  
(Entry/Posting).