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6

LEDGER

You have learnt that business transactions are recorded in various special purpose books and journal proper. The accounting process does not stop here. The transactions are recorded in number of books in chronological order. Such recording of business transactions serves little purpose of accounting. Items of same title in different books of accounts need to be brought at one place under one head called an account. There are numerous account titles of items/persons or accounts. All the accounts, if brought in one account book, will be more informative and useful. The account book so maintained is called Ledger.

In this lesson, you will learn about Ledger and posting of items entered in various books of accounts to ledger.

OBJECTIVES

After studying this lesson, you will be able to:

- state the meaning, features and importance of ledger;

- enumerate the various types of ledger;

- state the meaning of posting and explain the steps of posting journal into ledger;

- calculate the balance of the account in the ledger.

6.1 LEDGER : MEANING, IMPORTANCE AND TYPES

You have already learnt about accounts. Each transaction affects two accounts. In each account transactions related to that account are recorded. For example, sale of goods taking place number of times in a year will be put under one Account i.e. Sales Account.

All the accounts identified on the basis of transactions recorded in different journals/ books such as Cash Book, Purchase Book, Sales Book etc. will be opened and maintained in a separate book called Ledger. So a ledger is a book of account; in which all types of accounts relating to assets, liabilities, capital, expenses and revenues are maintained. It is a complete set of accounts of a business enterprise.

> Ledger is bound book with pages consecutively numbered. It may also be a bundle of sheets.

Thus, from the various journals/Books of a business enterprise, all transactions recorded throughout the accounting year are placed in relevant accounts in the ledger through the process of posting of transactions in the ledger. Thus, posting is the process of transfer of entries from Journal/Special Journal Books to ledger.

Features of Ledger

● Ledger is an account book that contains various accounts to which various business transactions of a business enterprise are posted.

● It is a book of final entry because the transactions that are first entered in the journal or special purpose Books are finally posted in the ledger. It is also called the Principal Book of Accounts.

● In the ledger all types of accounts relating to assets, liabilities, capital, revenue and expenses are maintained.

● It is a permanent record of business transactions classified into relevant accounts.

● It is the 'reference book of accounting system and is used to classify and summarise transactions to facilitate the preparation of financial statements.

Format of a Ledger Sheet

The format of a ledger sheet is as follows :

<div align="center">

Title of An Account

</div>

Dr.   Cr.

Date	*Particulars*	*JF*	*Amount* ₹	*Date*	*Particulars*	*JF*	*Amount* ₹

Ledger

You must have noticed that the format of a ledger sheet is similar to that of the format of an Account about which you have already learnt. A full sheet page may be allotted to one account or two or more accounts may be opened on one sheet. It depends upon the number of items related to that account to be posted.

Importance of Ledger/Utility of Ledger

Ledger is an important book of Account. It contains all the accounts in which all the transactions of a business enterprise are classified. At the end of the accounting period, each account will contain the entire information of all the transactions relating to it. Following are the advantages of ledger.

● **Knowledge of Business Results :** Ledger provides detailed information about revenues and expenses at one place. While finding out business results the revenue and expenses are matched with each other.

● **Knowledge of Book Value of Assets :** Ledger records every asset separately. Hence, you can get the information about the Book value of any asset whenever you need.

● **Useful for Management :** The information given in different ledger accounts will help the management in preparing budgets. It also helps the management in keeping the check on the performance of business it is managing.

● **Knowledge of Financial Position :** Ledger provides information about assets and liabilities of the business. From this we can judge the financial position and health of the business.

● **Instant Information :** The business always need to know what it owes to others and what the others owe to it. The ledger accounts provide this information at a glance through the account receivables and payables.

Types of Ledger

In large scale business organisations, the number of accounts may run into hundreds. It is not always possible for a businessman to accommodate all these accounts in one ledger. They, therefore, maintain more than one ledger.

These ledgers may be as follows :

1. **Assets Ledger :** It contains accounts relating to assets only e.g. Machinery account, Building account, Furniture account, etc.

2. **Liabilities Ledger :** It contains the accounts of various liabilities e.g. Capital (Owner or partner), Loan account, Bank overdraft, etc.

3. **Revenue Ledger :** It contains the revenue accounts e.g.. Sales account, Commission earned account, Rent received account, interest received account, etc.

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4. **Expenses Ledger :** It contains the various accounts of expenses incurred, e.g. Wages account, Rent paid account, Electricity charges account, etc.

5. **Debtors Ledger :** It contains the accounts of the individual trade debtors of the business. Individuals, firms and institutions to whom goods and services are sold on credit by business become the 'trade debtors' of the business.

6. **Creditors Ledger :** It contains the accounts of the individual trade Creditors of the business. Individuals, firms and institutions from whom a business purchases goods and services on credit are called 'trade creditors' of the business.

7. **General Ledger :** It contains all those accounts which are not covered under any of the above types of ledger. For example Landlord A/c, Prepaid insurance A/c etc.

INTEXT QUESTIONS 6.1

I. Fill in the blanks with a suitable word or words :

i. Ledger contains various .... in it.

ii. The process of transfer of entries from Journal and special purpose books to ledger is called ....

iii. Ledger is also called ....

iv. Ledger is a .... book of accounting system.

II. Match the column A with column B :

A		B	
i.	Book containing accounts	(a)	Ledger
ii.	Pages number of the ledger	(b)	Liabilities ledger
iii.	Machinery account, Building account, furniture Accounts, etc.	(c)	Revenue ledger
iv.	Loan's account, Bank overdraft account, etc.	(d)	Expenses ledger
v.	Rent paid, wages paid, electricity charges	(e)	Folio
vi.	Sales account, commission account, interest received account etc.	(f)	Assets ledger

6.2 POSTING OF JOURNAL PROPER INTO LEDGER

You know that the purpose of opening an account in the ledger is to bring all related items of this account which might have been recorded in different books of accounts on different dates at one place. The process involved in this exercise is called posting in the ledger. This procedure is adopted for each account.

To take the items from the journal to the relevant account in the ledger is called posting of journal. Following procedure is followed for posting of journal to ledger :

1. Identify both the accounts 'debit' and 'credit' of the journal entry. Open the two accounts in the ledger.

2. Post the item in the first account by writing date in the date column, name of the account to be credited in the particulars column and the amount in the amount column of the 'debit' side of the account.

3. Write the page number of the journal from which the item is taken to the ledger in Folio column and write the page number of the ledger from which account is written in L.F. column of the journal.

4. Now take the second Account and give the similar treatment. Write the date in the 'date' column, name of the account to be debited in the particulars column and the amount in the 'particulars' column of the account on its credit side in the ledger.

5. Write page number of journal in the 'folio' column of the ledger and page number of the ledger in the 'LF' of column of the journal.

Illustration 1

Journalise the following transactions.

2014		₹
January 1	Commenced business with cash	50,000
January 3	Paid into bank	25,000
January 5	Purchased furniture for cash	5,000
January 8	Purchased goods and paid by cheque	15,000
January 8	Paid for carriage	500
January 14	Purchased Goods from K. Murthy	35,000
January 18	Cash Sales	32,000
January 20	Sold Goods to Ashok on credit	28,000

January 25	Paid cash to K. Murthy in full settlement	34,200
January 28	Cash received from Ashok	20,000
January 31	Paid Rent for the month	2,000
January 31	Withdrew from bank for private use	2,500

Solution :

Journal

Date	Particulars		LF	Dr. Amount ₹	Cr. Amount ₹
2014					
Jan 1	Cash A/c	Dr.		50,000	
	To Capital A/c				50,000
	(Commenced business with cash)				
Jan 3	Bank A/c	Dr		25,000	
	To cash A/c				25,000
	(Cash paid into the Bank)				
Jan 5	Furniture A/c	Dr		5,000	
	To Cash A/c				5,000
	(Purchased furniture for cash)				
Jan 8	Purchases A/c	Dr		15,000	
	To Bank A/c				15,000
	(Purchased goods and paid by cheque)				
Jan 8	Carriage A/c	Dr		500	
	To Cash A/c				500
	(Cash paid for carriage charges)				
Jan 14	Purchases A/c	Dr		35,000	
	To K. Murthy				35,000
	(Goods purchased on credit)				
Jan 18	Cash A/c	Dr		32,000	
	To Sales A/c				32,000
	(Goods sold for cash)				

Notes

Jan 20	Ashok	Dr	28,000	
	To Sales A/c			28,000
	(Goods sold to Ashok credit)			
Jan 25	K Murthy	Dr	35,000	
	To Cash A/c			34,200
	To Discount A/c			800
	(Cash paid to K. Murthi and discount allowed by them)			
Jan 28	Cash A/c	Dr	20,000	
	To Ashok			20,000
	(Cash received from Ashok on Account)			
Jan 31	Rent A/c	Dr	2,000	
	To Cash A/c			2,000
	(Cash paid for rent)			
Jan 31	Drawings A/c	Dr	2,500	
	To Bank A/c			2,500
	(Cash withdrawn from bank for domestic use)			
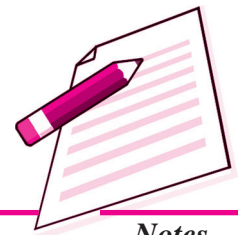
INTEXT QUESTIONS 6.2

I. *State the meaning of ledger posting :*

_____
_____

II. *Following are the steps of posting of journal to ledger but are not in proper order. Write them in correct order :*

i.   Write the page number of journal in the JF column of ledger and that of ledger on which account has been taken from journal.

ii. Identify the two affected accounts in the journal and open these accounts in the ledger

iii. Take date and amount of the debit account, and name of the credit account from journal to ledger in their respective columns.

iv. While posting the credit account from journal in the ledger write page number of the journal from which item is taken to ledger in JF column of ledger and page number of ledger on which item is taken on the LF column of the journal.

Posting Scheme

Posting from the Journal to the ledger-Dedit Account

```
                    ┌─────────────────────────────┐
                    │   Open the page of Journal   │
                    └─────────────────────────────┘
                                   │
                    ┌─────────────────────────────┐
                    │ Read the title of the debit account │
                    └─────────────────────────────┘
                                   │
                            ◇ Does the account ◇     No    ┌──────────────────────┐
                            ◇ exist in the ledger ◇ ─────→ │ Open the ledger and  │
                                   │                        │ put title on blank page │
                                  Yes                       └──────────────────────┘
                    ┌─────────────────────────────┐                │
                    │   Open the respective page   │ ←──────────────┘
                    └─────────────────────────────┘
                                   │
                    ┌─────────────────────────────┐
                    │    Make entry on debit side   │
                    └─────────────────────────────┘
                                   │
                    ┌─────────────────────────────┐
                    │  Put month and Date in       │
                    │     Date Column              │
                    └─────────────────────────────┘
                                   │
                    ┌─────────────────────────────┐
                    │  Write the name of the credit │
                    │ account in 'particulars' column │
                    └─────────────────────────────┘
                                   │
                    ┌─────────────────────────────┐
                    │ Write the amount of transaction │
                    │    in 'Amount' column         │
                    └─────────────────────────────┘
                                   │
                    ┌─────────────────────────────┐
                    │ Put folio number of this ledger page in │
                    │   'Folio' column of journal   │
                    └─────────────────────────────┘
                                   │
                    ┌─────────────────────────────┐
                    │       Go to Next entry        │
                    └─────────────────────────────┘
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Posting Scheme

Posting from the Journal to the ledger-Credit Account

```
                    ┌─────────────────────────────┐
                    │  Open the page of the journal │
                    └─────────────────────────────┘
                                  │
                    ┌─────────────────────────────┐
              ┌────▶│ Read the title of the credit account │
              │     └─────────────────────────────┘
              │                   │
              │              ╱────────────╲         No    ┌──────────────────────┐
              │            ╱  Does this account ╲ ───────▶│ Open the ledger and   │
              │            ╲  exist in the ledger ╱       │ put title on blank page │
              │              ╲────────────╱               └──────────────────────┘
              │                   │                                  │
              │                  Yes                                 │
              │     ┌─────────────────────────────┐                 │
              │     │    Open the respective page   │◀───────────────┘
              │     └─────────────────────────────┘
              │                   │
              │     ┌─────────────────────────────┐
              │     │   Make entry on credit side   │
              │     │       of the account          │
              │     └─────────────────────────────┘
              │                   │
              │     ┌─────────────────────────────┐
              │     │    Put month and Date in      │
              │     │        Date' Column           │
              │     └─────────────────────────────┘
              │                   │
              │     ┌─────────────────────────────┐
              │     │  Write the name of the debit  │
              │     │  account in 'particulars' column │
              │     └─────────────────────────────┘
              │                   │
              │     ┌─────────────────────────────┐
              │     │ Write the amount of transaction │
              │     │      in 'Amount' column        │
              │     └─────────────────────────────┘
              │                   │
              │     ┌─────────────────────────────────┐
              │     │ Put folio number of this ledger page in │
              │     │ 'Folio' column of journal and vice versa │
              │     └─────────────────────────────────┘
              │                   │
              │     ┌─────────────────────────────┐
              └─────│       Go to Next entry        │
                    └─────────────────────────────┘
```

Notes

Notes

6.3 BALANCING OF AN ACCOUNT

Balancing of an account is the process of finding out the difference between the total of debits and total of credits of an account. If debit side total is more than the credit side, the account shows a debit balance. Similarly, the balance will be credit balance if the credit side total of an account is more than the debit side total. This process of ascertaining and writing the balance of each account in the ledger is called balancing of an account. An account has two sides : debit and credit. Items by which this account is debited are entered on its debit side with their amounts and items by which this account is credited are entered on its credit side with their amounts so all items related to an account are shown at one place in the ledger. But then you would like to know the net effect of this account i.e. the balance between its debit amount and credit amount. The following steps are followed in Balancing the Ledger Account :

● Total the two sides of an Account on a rough sheet.

● Determine the difference between the two sides. If the credit side is more than the debit side, the balance calculated is a credit balance.

● Put the difference on the 'Shorter side' of the account such that the totals of the two sides of the account are equal.

● If the difference amount is written on debit side (i.e., if credit. side is bigger) then write as "Balance c/d" (c/d stands for carried down). If difference is written on the credit side (i.e., if debit side is bigger) then write it as "Balance c/d.

● Finally at the end of the year all the ledger accounts are closed by taking out the balance of each account.

● The Balance then should be brought down or carried forward to the next period. If the difference was put on credit side as "Balance c/d" it should now be written on the debit side of the account as "Balance b/d" (b/d stands for brought down) and vice-a-versa. Thus, debit balance will automatically be brought down on the debit side and a credit balance on the credit side.

Balancing of Different Types of Accounts

Assets : All asset accounts are balanced. These accounts always have a debit balance.

Liabilities : All Liability accounts are balanced. All these accounts have a credit balance.

Capital : This account is always balanced and usually has a credit balance.

Expense and Revenue	:	These Accounts are not balanced but are simply totalled up. The debit total of Expense/Loss will show the expense/Loss. In the same manner, credit total of Revenue/Income will show increase in income. At the time of preparing the Trial Balance, the totals of these are taken to the Trial Balance.

The Balance of Assets, Liabilities and Capital Accounts will be shown in Balance Sheet whereas total of Expense/Loss and Revenue/Income will be taken to the Trading and Profit and Loss Account. These Accounts are, thus, closed.

If two sides of an Account (usually Assets, Liabilities and Capital) are equal there will be no balance. The Account is then simply closed by totalling up of the two sides of the account.

Illustration 2 : Taking ledger accounts of illustration 1, ledger posting and balancing is as follows :

Solution

Ledger : Cash A/c

Dr.   Cr.

Date	Particulars	JF	Amount ₹	Date	Particulars	JF	Amount ₹
2014				2014			
Jan 1	Capital A/c		50,000	Jan 3	Bank A/c		25,000
" 18	Sales A/c		32,000	Jan 5	Furniture		5,000
" 28	Ashok		20,000	Jan 8	Carriage		500
				Jan 25	K. Murthi		34,200
				Jan 31	Rent A/c		2,000
				Jan 31	Balance c/d		35,300
			1,02,000				1,02,000
Feb 1	Balance b/d		35,300				

Capital A/c

Dr.   Cr.

Date	Particulars	JF	Amount ₹	Date	Particulars	JF	Amount ₹
2014				2014			
Jan 31	Balance c/d		50000	Jan 1	Cash A/c		50000
			50000				50000
				Feb 1	Balance b/d		50000

Bank A/c

2014				2014			
Jan 2	Cash A/c		25000	Jan 8	Purchases A/c		15000
				Jan 31	Drawings A/c		2500
				Jan 31	Balance c/d		7500
			25000				25000
Feb 1	Balance b/d		7500				

Furniture A/c

Dr.   Cr.

Date	Particulars	JF	Amount ₹	Date	Particulars	JF	Amount ₹
2014	Cash A/c		5000	2014	Balance c/d		5000
Jan 1			5000	Jan 31			5000
Feb 1	Balance b/d		5000				

Purchase A/c

Dr.   Cr.

Date	Particulars	JF	Amount ₹	Date	Particulars	JF	Amount ₹
2014				2014			
Jan 8	Bank		15,000		Trading A/c		50,000
Jan 14	K. Murthy		35,000				
			50,000				50,000

Carriage A/c

Dr.   Cr.

Date	Particulars	JF	Amount ₹	Date	Particulars	JF	Amount ₹
2014				2014			
Jan 8	Cash		500		Trading A/c		500
			500				500

K. Murthy A/c

Dr.   Cr.

Date	Particulars	JF	Amount ₹	Date	Particulars	JF	Amount ₹
2014				2014			
Jan 25	Cash		34,200	Jan 14	Purchases		35,000
Jan 25	Discount		800				
			35,000				35,000

Notes

Sales A/c

Dr.   Cr.

Date	Particulars	JF	Amount ₹	Date	Particulars	JF	Amount ₹
2014				2014			
Jan 1	Trading A/c		60,000	Jan 18	Cash		32,000
				Jan 20	Ashok		28,000
			60,000				60,000

Ashok A/c

Dr.   Cr.

Date	Particulars	JF	Amount ₹	Date	Particulars	JF	Amount ₹
2014				2014			
Jan 20	Sales A/c		28,000	Jan 28	Cash		20,000
				Jan 31	Balance c/d		8,000
			28,000				28,000
Feb 1	Balance b/d		8,000				

Rent A/c

Dr.   Cr.

Date	Particulars	JF	Amount ₹	Date	Particulars	JF	Amount ₹
2014				2014			
	Cash A/c		2,000		Profit and Loss A/c		2,000
			2,000				2,000

Notes

Drawing A/c

Dr.   Cr.

Date	Particulars	JF	Amount ₹	Date	Particulars	JF	Amount ₹
2014				2014			
Jan 10	Bank		2,500	Jan 31	Balance c/d		2,500
			2,500				2,500
Feb 1	Balance b/d		2,500				

INTEXT QUESTIONS 6.3

I. Fill in the blanks with suitable word/words :

   i.   The debit accounts from the journal are entered on the _____ side of respective account in the ledger.

   ii. The _____ of the account in the ledger should be the same as that is used in the Journal.

   iii. The page number of the journal is entered in the _____ column in the ledger account.

   iv. The Figures appearing in the amount column of the _____ and the amount column of the respective _____ in the ledger must be the same.

II. Fill in the blanks with suitable word or words :

   i.   The balance of asset accounts are .... balance.

   ii. The balance of liability accounts are always .... balance.

   iii. The capital Account generally has .... balance.

   iv. The Revenue and expense accounts are closed by taking the balances to ....

WHAT YOU HAVE LEARNT

● Ledger is a register with pages ruled in account form to enable the preparation of accounts.

Ledger

- Ledger is a permanent record of business transactions which are classified according to various accounts to which they pertain.

- Ledger may be Assets Ledger, Liabilities Ledger, Revenue ledger, Expense ledger, Debtors' ledger, Creditors' ledger and General ledger.

- The debit item of journal is posted to the credit side of the relevant account in the ledger.

- The credit item of journal is posted to the Debit Side of the relevant account in the ledger.

- Name of the account in the journal is entered in 'Particulars' column of the relevant account in the ledger.

- The page No. of journal from where entries are being posted is entered in folio column of the various relevant accounts.

- In the ledger Book, the balances of Assets, Liabilities and Capital are carried forward to the next period. Revenue and Expense accounts are closed by transferring their totals to Trading and Profit and Loss A/c.

- The balance of an account is written on the side having lower total, so that its total becomes equal to the total of the other side.

Notes

TERMINAL EXERCISE

1. What is meant by ledger? Why is ledger prepared?

2. Why is ledger known as the primary book or the principal -book of accounts? Can profit of the business and its financial position be known without maintaining ledger?

3. Enumerate the various types of ledgers which may be maintained by a business.

4. What is the rule for posting the debit account from the journal into the ledger account?

5. What is rule for posting the credit items of the journal into the ledger accounts?

6. What are the advantages of maintaining a ledger?

7. What is meant by balancing of an account? Explain the various steps taken while balancing accounts.

8. How do we balance the following types of accounts?

   (a) Assets   (b) expense   (c) capital   (d) Revenue

9. Following are the transactions of Dhani Ram and Sons for the month of July 2014. Make journal entries, post them into ledger and balance the account.

2014		₹
July 1	Commenced business with cash	60,000
July 2	Paid into bank	40,000
July 5	Purchased furniture for cash	5000
July 7	Purchased Goods and paid for them by cheque	20000
July 10	Sold Goods to Lata Gupta for cash	12000
July 12	Sold Goods to Mahavir on credit	24000
July 18	Purchased Goods from Harish	30000
July 19	Withdrew cash for domestic use	2500
July 20	Received a cheque from Mahavir on account	18900
	Allowed him discount	100
July 27	Paid to Harish cash on account	16800
	Discount allowed by him	200
July 31	Paid salary by cheque	1800
	Paid cash for telephone bill	600

ANSWERS TO INTEXT QUESTIONS

6.1 I. (i) accounts (ii) posting (iii) Principal Book of Account (iv) reference book

II. (i) a   (ii) e   (iii) f   (iv) b   (v) d   (vi) c

6.2 I. Taking the items from the journal to the relevant account in the ledger is called ledger posting

II. Correct order b, c, a, d

6.3 I. (i) credit   (ii) ledger   (iii) JF   (iv) journal, account

II. (i) debit   (ii) credit   (iii) credit   (iv) Trading and Profit and Loss A/c

ANSWERS TO TERMINAL EXERCISE

9. Total of journal ₹ 2,25,400

ACTIVITY

Contact someone who may be your friend's father or a relative who is in business. He operates his accounts and he collects computerised statements received from the banks. You compare their format with the ledger accounts which you have learnt in your school or the businessman in question are maintaining and find the difference with regards to :
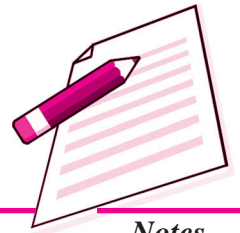
Notes

	Traditional A/c	*Computerised A/c*
1. Format of the account		
2. How the accounts are debited/credited		
3. Balancing of accounts		
4. Additional information		