LESSON-6
LEDGER

SUMMARY

All the accounts, if brought in one account book, will be more informative and useful. The account book so maintained is called Ledger.

LEDGER: MEANING, IMPORTANCE AND TYPES

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.

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.

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.
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.

POSTING OF JOURNAL PROPER INTO LEDGER

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.

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.

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.
- ⌘ 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.