LEDGER

The Journal is just a chronological record of all business transactions. It does not provide all information regarding a particular item at one place. This makes it difficult to know the net effect of various transactions affecting a particular item. For example, if you want to know the amount due to a particular supplier or the amount due from a particular customer, you will have to go through the whole journal. To overcome this difficulty, we maintain another book called 'Ledger'. In this book we open separate accounts for each item and all transactions related to a particular item as recorded in journal are posted in the concerned account. For example, all transactions related to a particular supplier, say Mohan, are posted to Mohan's Account. Similarly, all cash payments and cash receipts can be posted to Cash Account. Thus, you will have no problem in knowing the amount due to Mohan or the balance in Cash Account, and so on. ,

Thus, ledger is a book where all accounts relating to different items are maintained and into which all journal entries must be posted. In fact, ledger is the principal book of entry which provides complete information about various transactions relating to all parties and all items of asset, incomes and expenses. Some persons have even suggested that we should record all transactions directly into ledger and do away with Journal. But, it is not advisable because in that case we will not have any date-wise record of the transactions and the details thereof. Such record is considered necessary for future reference.

Posting into Ledger

The journal entries form the basis for recording in the ledger accounts, and the process of entering transaction in the ledger is called 'Posting'. When a journal entry has to be posted in the concerned ledger accounts, the following procedure is adopted.

1. Every Journal entry will have to be posted into all those accounts which have been debited and credited in the journal entry. For example, for cash sales, Cash Account is debited and Sales Account is credited in the journal. When this entry is posted in the ledger, it must be posted in Cash Account as well as in Sales Account.

2. Posting will be made on the debit side of the account which has been debited in the journal, and the credit side of the account which has been crediting the journal. In case of the above example of cash sales, posting will be made on the debit side of Cash Account, as it has been debited in journal and the credit side of Sales Account, as it had been credited in the journal.

3. Whether the posting is made on the debit side or the credit side, first of all the date of the transaction (as given in the journal) will be entered in the date column. The method of recording the date in the ledger account is the same as in the journal.

4. While posting on the debit side of an account in the particulars column, we shall write the name of the account which had been credited in the journal and add the word 'To' before the name. Similarly, while posting on the credit side of an account, we shall write the name of the account which **has** been debited in the journal and add the word 'By' before the name. In case of the above example, we shall write 'To Sales A/c' in the particulars column on the debit side of Cash Account, and 'By Cash A/c' in the Particulars Column on the credit side of the Sales Account.

5. The journal entries contain 'narration'. But it is not required in the ledger accounts. Similarly, there is no need to draw a line between the two entries in an account as is done in the journal. Note that posting in the ledger account is considered complete only when both the debit and the credit aspects of all journal entries have been posted.

6. In the folio column, we shall mention the page number of the journal where concerned journal entry appears. At the same time, the page number of the ledger accounts will be entered in the 'L, F.' column in the journal so as to complete the cross reference.

7. The amount involved in the journal entry shall be entered in amount columns of both the accounts.

Balancing Ledger Accounts

Whenever one wants to know the net effect of various transactions in a particular account, we have to work out its balance, Balance is the difference between the totals of the debit and the credit side of an account. The process of finding out the balance is known as balancing. The procedure for balancing is as follows:

i) Total the two sides of an account.

 ii) Find out the difference between the totals of the,two sides.

iii) Put the difference in the amount column of the side showing less total.

iv) If the difference is entered on the debit side, write against it in the particulars column 'To Balance c/d' (c/d stands for carried down). In case the difference is entered on the credit side, write against it in the particulars column 'By Balance c/d'.

v) Now, total both the sides and you will find that both the totals are equal,

vi) The closing balance (balance c/d) is going to be the opening balance for the subsequent period, The opening balance is shown on the next date in the account by writing 'To Balance b/d' (b/d stands for brought down) or 'By Balance b/d' as the case may be.

Note that if the closing balance was on the debit sides, the opening balance would be shown **on** the credit side and if the closing balance was shown on the credit side, the opening balance would be shown on the debit side. In fact, an account is said to have a debit balance if its debit side total is bigger and a credit balance if its credit side total is bigger. Thus, the opening balance is shown according to the nature of the balance i.e.,

the debit balance on the debit side and the credit balance on the credit side.

vii) Sometimes the totals of the debit side and the credit side of an account are equal. It implies that the account has nil balance. In such a situation the account is said to have closed having no closing and opening balances.

Advantages/ Uses of Ledger
             Or
Why Ledger is Prepared

The ledgers are prepared to know the following :

1. Preparation of Trial Balance:

It is not possible to prepare a Trial Balance without ledgers. Because, a Trial Balance is

prepared by taking up the ledger accounts balance. Moreover, arithmetical accuracy is not

possible.

2. Presenting Final Position:

We know that final account can only be prepared from a Trial Balance (i.e., Trading Account, Profit and Loss Account and Balance Sheet). Thus, if we do not get the ledger accounts balance from a Trial Balance, it is impossible for us to prepare final accounts.

3.Application of Double Entry System:

Double Entry System is completed only when we post the journals to different ledger accounts.

2.   . Determining Results of Each Account:

The results of each account can be obtained from the ledger on the basis of Double Entry principles.

3.   Maintaining Classified Accounts Indirect Advantages:

The particulars of classified accounts may be revealed after recording in ledger account properly.

4.   . Presenting Statistical Information:

The ledger accounts with their respective balances are the sources of statistical information which are used by the management while decision-making.

5.   Collecting Information:

The ledger may be called the collection or storeroom of various transactions.

6.   Present Financial Position:

The financial position of an enterprise (i.e., after preparing final account) can only be known if we maintain ledger account properly.

Example :

Journalise the following transactions of M/s Mallika Fashion House and post the entries to the Ledger:

Date 2014	Details	Amount Rs.
June 05	Business started with cash	2,00,000
June 08	Opened a bank account with Syndicate Bank	80,000
June 12	Goods purchased on credit from M/s Gulmohar Fashion House	30,000
June 12	Purchase office machines, paid by cheque	20,000
June 18	Rent paid by cheque	5,000
June 20	Sale of goods on credit to M/s Mohit Bros	10,000
June 22	Cash sales	15,000
June 25	Cash paid to M/s Gulmohar Fashion House	30,000
June 28	Received a cheque from M/s Mohit Bros	10,000
June 30	Salary paid in cash	6,000

Solution

(i) Recording the transactions

Books of Mallika Fashion House
Journal

Date	Particulars		L.F.	Debit Amount Rs.	Credit Amount Rs.
2014 June 05	Cash A/c To Capital A/c (Business started with cash)	Dr.		2,00,000	2,00,000
June 08	Bank A/c To Cash A/c (Opened a current account with syndicate bank)	Dr.		80,000	80,000
June 12	Purchases A/c To Gulmohar Fashion House A/c (Goods purchased on credit)	Dr.		30,000	30,000
June 12	Office Machines A/c To Bank A/c (Office machine purchased)	Dr.		20,000	20,000
June 18	Rent A/c To Bank A/c (Rent paid)	Dr.		5,000	5,000
June 20	Mohit Bros A/c To Sales A/c (Goods sold on credit)	Dr.		10,000	10,000
	Total c/f			3,45,000	3,45,000

	Total b/f		3,45,000	3,45,000
June 22	Cash A/c Dr.		15,000	
	To Sales A/c			15,000
	(Goods sold for cash)			
June 25	Gulmohar Fashion House A/c Dr.		30,000	
	To Cash A/c			30,000
	(Cash paid to Gulmohar Fashion House)			
June 28	Bank A/c Dr.		10,000	
	To Mohit Bros A/c			10,000
	(Payment received in full and final settlement)			
June 30	Salary A/c Dr.		6,000	
	To Cash A/c			6,000
	(Monthly salary paid)			
	Total		4,06,000	4,06,000

(ii)   *Posting in the Ledger Book*

Cash Account

Dr.   Cr.

Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
2014				2014			
June 5	Capital		2,00,000	June 8	Bank		80,000
June 22	Sales		15,000	June 25	Gulmohar Fashion House		30,000
				June 30	Salary		6,000

Capital Account

Dr.   Cr.

Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
				2014			
				June 5	Cash		2,00,000

Bank Account

Dr.   Cr.

Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
2014				2014			
June 08	Cash		80,000	June 12	Office Machines		30,000
June 28	Mohit Bros.		10,000	June 18	Rent		5,000

Purchases Account

Dr.							Cr.
Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
2014 June 12	Gulmohar Fashion House		30,000	2014			

Gulmohar Fashion House Account

Dr.							Cr.
Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
2014 June 25	Cash		30,000	2014 June 12	Purchases		30,000

Office Machines Account

Dr.							Cr.
Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
2014 June 12	Bank		20,000				

Rent Account

Dr.							Cr.
Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
2014 June 18	Bank		5,000				

Mohit Bros. Account

Dr.							Cr.
Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
2014 June 20	Sales		10,000	2014 June 28	Cash		10,000

Sales Account

Dr.							Cr.
Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
2014 June 20				2014 June 20 June 22	Mohit Bros. Cash		10,000 15,000

Salary Account

Dr.							Cr.
Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
2014 June 30	Cash		6,000				