

Unit 2: LEDGERS

The 4 Look- Look Back and get experience, Look Forward and see hope!, Look Around and find reality!, Look Within and find confidence!"

MEANING

Meaning:

It is an Account Book which contains all Account Heads, which are opened in Journal/ Subsidiary Books

Significance:

Ledger helps to identify the list of transactions under a particular Account Head & also show the Balances in each of ledger accounts. This helps in ascertaining the status of that Account. **For example:** Cash Account contains all transactions involving cash. Hence, by looking at the cash account, the reader can find out the sources from which cash is received and also the reasons for use of such cash. It also shows cash balance in the business on a specified date.

Other Names for Ledger:

Principal Book	Debit and Credit aspect of each transaction is recorded here and constitute basis for preparation of Trial Balance & Final Accounts.
Secondary Book of Entry	It is the second stage in the Accounting Process.
Book of Final Entry	The Ledger is the Final Destination of all transactions.

Source of Ledger:

- The Entries in the Journal/ Subsidiary Books forms the basis for preparation of ledger.
- Without passing an entry in the Journal/Subsidiary Books, an entry cannot appear in ledger.
- Transactions in the ledger are recorded in an analytical order.

POSTING

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

Rules Regarding Posting of Entries in Ledger (RTP Nov 2019/Nov 2023)

- Separate account is opened in ledger book for each account and entries from journal posted to respective account 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.

Model Format of a Ledger "Account"

Dr.				Cr.			
Date	Particulars	Journal Folio	Amount (₹)	Date	Particulars	Journal Folio	Amount (₹)
	Opening Balance		XXX		By-Transactions		XXX
	To-Transactions		XXX				XXX
			XXX				XXX
			XXX		Closing Balance		XXX
	Total		XXXX		Total		XXXX

Description of the format of Ledger Account:

- Separate Account is opened in the ledger Book for each Account Type, e.g. Capital, Machinery, Furniture, Loan, Sales, Purchases, Rent, Salary, Commission, Electricity, Discount received etc.
- Every Ledger Account has two sides- (i) LHS = Debit Side, and (ii) RHS= Credit side.
- Ledger Posting is done based on the A/c to be debited & credited as per the Journal Entry.
- Entries on the left side are prefixed by "TO". Entries on the right side are prefixed with "BY".
- The Colum (Journal Folio) is used to indicate the Page number in the Journal Book where the relevant journal entry is found. This is used to track & trace the entry in Journal Book.
- Opening Balance will be on written on the left side for debit balance accounts. It will be on written on the credit side for credit balance accounts.

Ledger Accounts are broadly classified into (a) Assets (b) Liabilities (c) Incomes (d) Expenses

BALANCING OF LEDGER ACCOUNT

Meaning:

A Ledger has two sides viz. Debit and Credit. Balancing is the process by which, we find out which side is higher.

To ascertain the balance in any Account, we obtain the amount total of each side and ascertain the difference. That difference is called the Ledger Account Balance

Significance:

After all transactions are posted from Journal to Ledger, the two side totals are compared and difference is found out. This helps to know the status of each of the ledger accounts.

Nature of Balances (at the end of the period):

(Balance at the end of the period is called as Closing Balance)

Situation	Nature of Balance	Written in Ledger A/c as	Written on-
Dr. Total > Cr. Total	Debit Balance	By balance c/d	Credit Side (RHS)
Cr. Total > Dr. Total	Credit Balance	To balance c/d	Debit Side (LHS)
Note: The Closing Balance is ascertained and is written on the side whose total is lower			

Closing Balances = Opening Balances: Closing Balances at the end of one period become the opening Balances for the next period. Hence, the closing balances in ledger are Brought Forward to the next period as follows:

If Cl. Bal. = Op. Bal. is	Written in Ledger as	Written on	Points to be noted
Debit Balance	To Balance b/d	Debit Side (LHS)	Assets Accounts (e.g. Furniture, Stock, etc.) have Dr. Balance
Credit Balance	By Balance b/d	Credit Side (RHS)	Liability Accounts (e.g. Capital, loan, Debentures, etc.) have Cr. Balance

Note: "b/d" = "brought down/brought forward". "c/d" = "carried down/carried forward".

Important Note in Balancing

- However, during the accounting period, the above method of balancing is applicable for all types of accounts.
- At the end of the accounting period the balances in Real and Personal Accounts are shown in Balance sheet.
- Nominal Accounts are not balanced in the above manner; the total of the Nominal Account (i.e. Income/Gain or Expenses/Loss) is transferred to Trading or Profit & Loss Account.
- Hence, Opening Balances for the next accounting period will arise only for Assets and Liabilities.

ASSIGNMENT QUESTIONS

Question 1 ***(ICAI Study Material)*** _____ Pg no. _____

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, 2023.

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 4 th 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.

PRACTICE QUESTIONS

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
- 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
- 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
- 4) Ledger book is popularly known as
 - a) Secondary book of accounts
 - b) Principal book of accounts
 - c) Subsidiary book of accounts
- 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.

ANSWERS MCQs

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

TRUE / FALSE

State with reasons whether the following statement is true or false:

- 1) Ledger is also known as the principal book of accounts. *(Jan 2025)*
- 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. *(June 2022)*
- 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.
- 8) The Balance of an account is always known by the side which is shorter.
- 9) Ledger is also known as book of primary entry.
- 10) Nominal Accounts are balanced at the end of the accounting year. *(Sep 2024)*

Solution

- 1) **True:** Since it classifies all the amounts related to a particular account & then it is used as the base for preparing the Trial Balance, a ledger is also known as the principal book 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 accounting year, all the nominal accounts of the ledger book are totalled and transferred to Trading/P&L Account
- 5) **False:** Ledger records the transactions in Analytical order, but journal records the transactions in a chronological order.
- 6) **False:** If the total 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.
- 8) **False:** - The balance of an account is known by the side which is larger/higher.
- 9) **False:** Ledger is also known as book of secondary entry.
- 10) **False:** - The balances of Nominal Accounts are transferred to Trading/ Profit & Loss A/c. They are not balanced.

HOMEWORK QUESTIONS

Question 1 **(ICAI Study Material)** _____ Pg no. _____

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

Debit Balances on January 1, 2023:

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, 2023:

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

Following were further transactions in the month of January, 2023:

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.

Question 2 **(ICAI Study Material)** _____ Pg no. _____

Journalize the following transactions, post them in the Ledger and balance the accounts on 31st December.

- X started business with a capital of ₹ 20,000
- He purchased goods from Y on credit ₹ 4,000
- He paid cash to Y ₹ 2,000
- He sold goods to Z ₹ 4,000
- He received cash from Z ₹ 6,000
- He further purchased goods from Y ₹ 4,000
- He paid cash to Y ₹ 2,000
- He further sold goods to Z ₹ 4,000
- He received cash from Z ₹ 2,000

Question 3 **(ICAI Study Material)** _____ Pg no. _____

Prepare the Stationary Account for the month of Jan 2023 duly balanced off from the following details:

2023		Amount
Jan. 1	Inventory of Stationary	480
Jan 5	Purchase of Stationary by cheque	800
Jan 15	Purchase of Stationary on credit from Five star stationary mart	1,280

Question 4 **(CA Foundation Dec 2021) (5 Marks)** _____ Pg no. _____

Discuss the following:

- What do you mean by principal books of accounts?
- What are the rules of posting of journal entries into the Leger?