

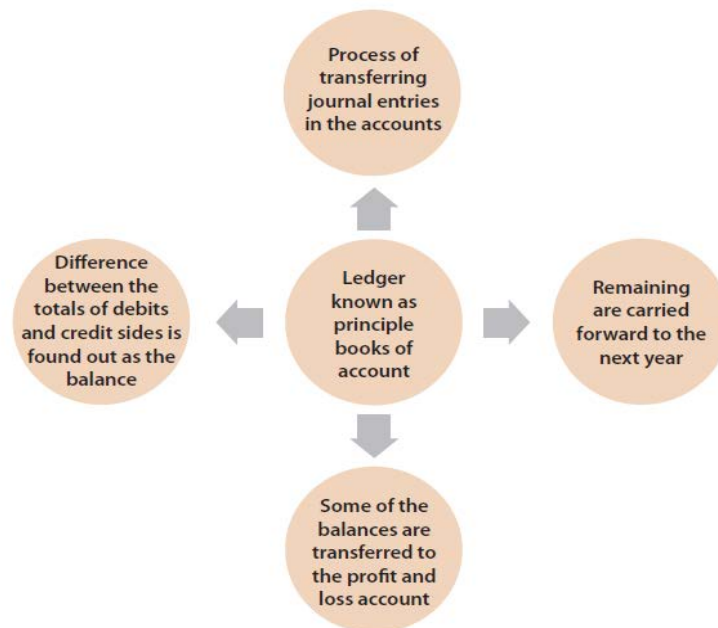
## UNIT 2 : LEDGERS

### LEARNING OUTCOMES

After studying this unit, you would be able to:

- ◆ Understand the concept of Ledgers.
- ◆ Learn the technique of ledger posting and how to balance an account.
- ◆ Learn the technique of opening accounts each year taking closing balances of the previous year. Note also the use of 'balance c/d' and 'balance b/d'

### UNIT OVERVIEW



### 2.1 INTRODUCTION

After recording the transactions in the journal, recorded entries are classified and grouped into by preparation of accounts. The book which contains all set of accounts (viz. personal, real and nominal accounts), is known as Ledger. It is known as principal books of account in which account-wise balance of each account is determined.

### 2.2 SPECIMEN OF LEDGER ACCOUNTS

A ledger account has two sides-debit (left part of the account) and credit (right part of the account). Each of the debit and credit side has four columns. (i) Date (ii) Particulars (iii) Journal folio i.e. page from where the entries are taken for posting and (iv) Amount.

Dr.				Account				Cr.			
Date	Particulars	J.F.	Amount (₹)	Date	Particulars	J.F.	Amount (₹)	Date	Particulars	J.F.	Amount (₹)

## 2.3 POSTING

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

### 2.3.1 RULES REGARDING POSTING OF ENTRIES IN THE LEDGER

1. Separate account is opened in ledger book for each account and entries from ledger posted to respective account accordingly.
2. 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.
3. The concerned account debited in the journal should also be debited in the ledger but reference should be of the respective credit account.

## 2.4 BALANCING AN ACCOUNT

At the end of the each month or year or any particular day it may be necessary to ascertain the balance in an account. This is not a too difficult thing to do; suppose a person has bought goods worth ₹1,000 and has paid only ₹ 850; he owes ₹150 and that is balance in his account. To ascertain the balance in any account, what is done is to total the sides and ascertain the difference; the difference is the balance. If the credit side is bigger than the debit side, it is a credit balance. In the other case it is a debit balance. The credit balance is written on the debit side as, "To Balance c/d"; c/d means "carried down". By doing this, two sides will be equal. The totals are written on the two sides opposite one another.

Then the credit balance is written on the credit side as "By balance b/d (i.e., brought down)". This is the opening balance for the new period. The debit balance similarly is written on the credit side as "By Balance c/d", the totals then are written on the two sides as shown above as then the debit balance written on the debit side as, "To Balance b/d", as the opening balance of the new period.

It should be noted that nominal accounts are not balanced; the balance in the end are transferred to the profit and loss account. Only personal and real accounts ultimately show balances. In the illustrations given, you will have notice that the capital account, the purchases account, sales account, the discount account, the rent account

and the salary account have not been balanced. The capital account will have to be adjusted for profit or loss and that is why it has not been balanced yet.

### ILLUSTRATION 1

Prepare the Stationery Account of a firm for the year ended 31.12.2020 duly balanced off, from the following details:

2020		₹
Jan. 1	Inventory of stationery	480
April 5	Purchase of stationery by cheque	800
Nov. 15	Purchase of stationery on credit from Five Star Stationery Mart	1,280

### SOLUTION

Dr.		Stationery Account		Cr.	
Date	Particulars	₹	Date	Particulars	₹
1.1.2020	To Balance b/d	480	31.12.2020	By Balance c/d	2,560
5.4.2020	To Bank A/c	800			
15.11.2020	To Five Star Stationery Mart A/c	1,280			
		2,560			2,560
1.1.2021	To Balance b/d	2,560			

### ILLUSTRATION 2

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

Debit Balances on January 1, 2020:

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, 2020:

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

Following were further transactions in the month of January, 2020:

- 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.

 SOLUTION

Dr. **Cash Account** Cr.

Date 2020	Particulars	L.F.	₹	Date 2020	Particulars	L.F.	₹
Jan. 1	To Balance b/d		8,000	Jan. 1	By Purchases A/c		3,800
Jan. 4	To Vijay		1,980	Jan. 8	By Plant A/c		300
Jan. 15	To Rahim		300	Jan. 31	By Balance c/d		7,180
Jan. 18	To Sales A/c		1,000				
			11,280				11,280
Feb. 1	To Balance b/d		7,180				

Dr. **Bank Account** Cr.

Date	Particulars	L.F.	₹	Date	Particulars	L.F.	₹
Jan. 1	To Balance b/d		25,000	Jan. 31	By Balance c/d		25,000
			25,000				25,000
Feb. 1	To Balance b/d		25,000				

Dr. **Inventory Account** Cr.

Date	Particulars	L.F.	₹	Date	Particulars	L.F.	₹
Jan. 1	To Balance b/d		20,000	Jan. 31	By Balance c/d		20,000
			20,000				20,000
Feb. 1	To Balance b/d		20,000				

Dr. **Building Account** Cr.

Date	Particulars	L.F.	₹	Date	Particulars	L.F.	₹
Jan. 1	To Balance b/d		10,000	Jan. 31	By Balance c/d		10,000
			10,000				10,000
Feb. 1	To Balance b/d		10,000				

Dr. **Vijay** Cr.

Date	Particulars	L.F.	₹	Date	Particulars	L.F.	₹
Jan. 1	To Balance b/d		2,000	Jan. 4	By Cash A/c		1,980
			2,000		By Discount A/c		20
							2,000

Dr. **Madhu** Cr.

Date	Particulars	L.F.	₹	Date	Particulars	L.F.	₹
Jan. 1	To Balance b/d		2,000	Jan. 31	By Balance c/d		2,000
			2,000				2,000
Feb. 1	To Balance b/d		2,000				

Dr. **Anand** Cr.

Date	Particulars	L.F.	₹	Date	Particulars	L.F.	₹
Jan. 31	To Balance c/d		5,000	Jan. 1	By Balance b/d		5,000
			5,000				5,000
				Feb. 1	By Balance b/d		5,000

Dr. **Capital Account** Cr.

Date	Particulars	L.F.	₹	Date	Particulars	L.F.	₹
Jan. 31	To Balance c/d		55,000	Jan. 1	By Balance b/d		55,000
			55,000				55,000
				Feb. 1	By Balance b/d		55,000

Dr. **Purchases Account** Cr.

Date	Particulars	L.F.	₹	Date	Particulars	L.F.	₹
Jan. 1	To Cash		3,800				
Jan. 1	To Cash Discount		200	Jan. 31	By Balance c/d		4,000
			4,000				4,000
Feb. 1	To Balance b/d		4,000				

Dr. **Discount Account** Cr.

Date	Particulars	L.F.	₹	Date	Particulars	L.F.	₹
Jan. 4	To Vijay		20	Jan. 1	By Purchases A/c		200
Jan.31	To Balance c/d		180				200
			200				
				Feb. 1	By Balance b/d		180

Dr. **Plant Account** Cr.

Date	Particulars	L.F.	₹	Date	Particulars	L.F.	₹
Jan. 8	To Mukesh		5,000	Jan. 31	By Balance c/d		5,300
Jan. 8	To Cash A/c		300				5,300
			5,300				
Feb. 1	To Balance b/d		5,300				

Dr. **Mukesh** Cr.

Date	Particulars	L.F.	₹	Date	Particulars	L.F.	₹
Jan. 31	To Balance c/d		5,000	Jan. 8	By Plant A/c		5,000
			5,000				5,000
				Feb. 1	By Balance b/d		5,000

Dr. **Sales Account** Cr.

Date	Particulars	L.F.	₹	Date	Particulars	L.F.	₹
Jan. 31	To Balance c/d		1,600	Jan. 12	By Rahim		600
			1,600	Jan. 18	By Cash A/c		1,000
				Feb. 1	By Balance b/d		1,600

Dr. **Rahim** Cr.

Date	Particulars	L.F.	₹	Date	Particulars	L.F.	₹
Jan. 12	To Sales A/c		600	Jan. 15	By Cash A/c		300
			600	Jan. 15	By Bad Debts A/c		300
							600

Dr. **Bad Debts Account** Cr.

Date	Particulars	L.F.	₹	Date	Particulars	L.F.	₹
Jan. 15	To Rahim		300	Jan. 31	By Balance c/d		300
			300				300
Feb. 1	To Balance b/d		300				

### ILLUSTRATION 3

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, 2020.

- 1 Mr. S owes Mr. R ₹ 15,000; Mr. H owes Mr. S ₹ 20,000.
- 4 Mr. R sold goods worth ₹ 60,000 @ 10% trade discount to Mr. S.
- 5 Mr. S sold to Mr. H goods prices at ₹ 30,000.
- 17 Record a purchase of ₹ 25,000 net from R, which were sold to H at a profit of ₹ 15,000.
- 18 Mr. S rejected 10% of Mr. R's goods of 4th 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.
- 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).

- 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.
- 29 Close H's Account to record the fact that all but ₹ 5,000 was cleared by him, by a cheque, because he was declared bankrupt.
- 30 Balance R's Account.

**SOLUTION****In the books of Mr. S**

Dr.			Cr.		
<b>Mr. H Account</b>					
Date	Particulars	₹	Date	Particulars	₹
1.4.2020	To Balance b/d	20,000	22.4.2020	By Bank A/c	20,000
5.4.2020	To Sales A/c	30,000	22.4.2020	By Cash A/c (Note 2)	24,775
17.4.2020	To Sales A/c	40,000	29.4.2020	By Discount Allowed A/c	225
			29.4.2020	By Bank A/c	40,000
			29.4.2020	By Bad Debts A/c	5,000
		90,000			90,000

Dr.			Cr.		
<b>Mr. R Account</b>					
Date	Particulars	₹	Date	Particulars	₹
18.4.2020	To Purchase	5,400	1.4.2020	By Balance b/d	15,000
	To Returns A/c		4.4.2020	By Purchases A/c	54,000
26.4.2020	To Bank A/c	77,600	17.4.2020	By Purchases A/c	25,000
26.4.2020	To Discount Received A/c	1,000			
30.4.2020	To Balance c/d	10,000			
		94,000			94,000
			1.5.2020	By Balance b/d	10,000

**Working Notes:**

- (1) Sale of ₹10,000 on 19th April is a cash sales, therefore, it will not be recorded in the Personal Account of Mr. H; and (2) On 22nd April, Mr. H owes Mr. S ₹ 90,000, amount paid by Mr. H  $\frac{1}{2}$  of ₹ 90,000 less  $\frac{1}{2}$ % discount i.e., ₹ 45,000 – ₹ 225 = ₹ 44,775. Out of this amount, ₹ 20,000 paid by cheque and the balance of ₹ 24,775 in cash.

Note: The balance of all nominal accounts are transferred to Profit and Loss account at the time of preparation of financial statements as the nominal Accounts are in the nature of revenue/incomes/gains or expenses/losses. Thus, the net result of all nominal accounts are reflected in profit and loss Account for an accounting period which is transferred to Capital Account. The balance of all the accounts relating to assets and liabilities (personal or

impersonal) are reflected in the Balance Sheet at the end of accounting period.

## SUMMARY

- ◆ Process of transferring journal entries in the accounts opened in Ledger is called posting.
- ◆ Ledger is known as principal books of accounts and it provides full information regarding all the transactions pertaining to any individual account.
- ◆ The difference between the totals of debits and credit sides is found out as the balance. Some of these balances are transferred to the profit and loss account and some are carried forward to the next year i.e., shown in the balance sheet, depending upon the nature of the account.

## TEST YOUR KNOWLEDGE

### True and False

1. A ledger is also known as the principal book of accounts.
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.
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.
7. Ledger accounts of assets will always be debited when they are increased.

### 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.

### Theory Questions

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

### Practical Questions

1. Journalize the following transactions, post them in the Ledger and balance the accounts on 31<sup>st</sup> December.
  1. X started business with a capital of ₹ 20,000
  2. He purchased goods from Y on credit ₹ 4,000
  3. He paid cash to Y ₹ 2,000
  4. He sold goods to Z ₹ 4,000
  5. He received cash from Z ₹ 6,000
  6. He further purchased goods from Y ₹ 4,000
  7. He paid cash to Y ₹ 2,000
  8. He further sold goods to Z ₹ 4,000
  9. He received cash form Z ₹ 2,000

### ANSWERS/HINTS

#### True and False

1. True: Since it classifies all the amounts related to a particular account and then it is used as the base for preparing the Trial balance, a ledger is also known as principal books 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 the accounting year, all the nominal accounts of the ledger book are totaled and transferred to P&L A/c.
5. False: Ledger records the transactions in analytical order. But journal records the transactions in a chronological order.
6. False: If the total of 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.

### Multiple Choice Questions

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

### Theoretical Questions

1. Ledger is known as principal books of accounts and it provides full information regarding all the transactions pertaining to any individual account. Ledger contains all set of accounts (viz. personal, real and nominal accounts).
2. Rules regarding posting of entries in the ledger:
  - a. Separate account is opened in ledger book for each account and entries from ledger posted to respective account accordingly.
  - b. 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.
  - c. The concerned account debited in the journal should also be debited in the ledger but reference should be of the respective credit account.

### Practical Questions

#### Answer 1

#### Journal

Particulars		L.F.	Debit ₹	Credit ₹
Cash Account To Capital Account (Being commencement of business)	Dr.		20,000	20,000
Purchase Account To Y (Being purchase of goods on credit)	Dr.		4,000	4,000
Y To Cash	Dr.		2,000	2,000

(Being payment of cash to Y)				
Z To Sales (Being goods sold to Z)	Dr.		4,000	4,000
Cash Account To Z (Being cash received form Z)	Dr.		6,000	6,000
Purchase Account To Y (Being payment of goods from Y)	Dr.		4,000	4,000
Y To Cash Account (Being payment of cash to Y)	Dr.		2,000	2,000
Z To Sales Account (Being goods sold to Z)	Dr.		4,000	4,000
Cash Account To Z (Being cash received from Z)	Dr.		2,000	2,000
TOTAL			48,000	48,000

Dr. **Cash Account** Cr.

Date	Particulars	₹	Date	Particulars	₹
	To Capital A/c	20,000		By Y	2,000
	To Z	6,000		By Y	2,000
	To Z	2,000		By Balance c/d	24,000
		28,000			28,000
Feb. 1	To Balance b/d	24,000			

Dr. **Capital Account** Cr.

Date	Particulars	₹	Date	Particulars	₹
Jan. 31	To Balance c/d	20,000		By Cash A/c	20,000
		20,000			20,000
			Feb. 1	By Balance b/d	20,000

Dr. **Purchase Account** Cr.

Date	Particulars	₹	Date	Particulars	₹
	To Y	4,000	Jan 31.	By Balance c/d	8,000
	To Y	4,000			

Feb.1	To Balance b/d	8,000			8,000
		8,000			

Dr. **Y's Account** Cr.

Date	Particulars	₹	Date	Particulars	₹	
Jan. 31	To Cash	2,000		By Purchases	4,000	
	To Cash	2,000		By Purchases	4,000	
	To Balance c/d	4,000				
		8,000				8,000
				By Balance b/d	4,000	

Dr. **Z's Account** Cr.

Date	Particulars	₹	Date	Particulars	₹
	To Sales	4,000		By Cash A/c	6,000
	To Sales	4,000		By Cash A/c	2,000
		8,000			

Dr. **Sales Account** Cr.

Date	Particulars	₹	Date	Particulars	₹
Jan. 31	To Balance c/d	8,000		By Z	4,000
				By Z	4,000
		8,000			8,000
			Feb. 1	By Balance b/d	8,000