FINANCIAL ACCOUNTING - LEDGER

Now let us try to understand how a journal works. With the help of journal entries, we book each and every financial transaction of the organization chronically without considering how many times the same type of entry has been repeated in that particular accounting year or period.

Journal entries in any organization may vary from hundreds to millions depending upon the size and structure of the organization. With the help of a journal, each of the transactions might be recorded; however, we can conclude nothing from a journal. Let us consider the following cases. Suppose we want to know:

- the total sale value or purchase value

- the total of any particular income or expenses

- the total of amount payable to any particular creditor or receivable from a debtor

In such cases, it might be a tedious job for any bookkeeper or accountant. Hence, the next step is ledger accounts.

The ledger helps us in summarizing journal entries of same nature at single place. For example, if we pass 100 times a journal entry for sale, we can create a sales account only once and post all the sales transaction in that ledger account date-wise. Hence, an unlimited number of journal entries can be summarized in a few ledger accounts. Transferring journal entries into a ledger account is called **'posting'**.

Ruling of Account in Ledger Account

Let us see various formats of ledger accounts:

Format-1

In the books of M/s. ABC Company

Ledger account of M/s XYZ LTD.

Dr.				Cr.			
Date	Particulars	F	Amount	Date	Particulars	F	Amount
xxxx	To Balance b/d		xxx	Xxxx	By Balance b/d		xxx
xxxx	To Name of the debit account		xxx	Xxxx	By Name of Credit account		xxx
xxxx	To Balance c/d		xx	xxxx	By Balance c/d		xx
	Total		**xxxx**		**Total**		**xxxx**

Format-2

Nowadays, the handwritten books are being replaced by computerized accounts. The companies majorly use a six-column format to maintain ledger accounts of their customers. It looks as follows:

In the books of M/s. ABC Bank Ltd.

Ledger account of M/s XYZ Ltd.

| Date | Particulars | LF | Amount | | Balance | |
			Debit	Credit	Dr. / Cr.	Amount

Format-1 is used for academic purpose. Hence, this format is useful to learn the basics and principles of accounting.

Format-2 is used by banking and financial organization as well as well as by most of the business organizations.

Important Points Regarding Ledger

- Each side of a journal entry is posted in the same side of the ledger. It means the debit entry of a journal is posted in the debit side and vice-a-versa.

- Balance c/d refers to the balance carried down and balance b/d refers to the balance brought down.

- After posting in ledger, balancing of ledger is done. In the column named Total, the figure comes on the basis of **'whichever is higher'**. Means, if the total of debit side is Rs 10,000 and the total of credit is Rs 5,000, we write Rs 10,000 in the column named Total of both, the debit and the credit side.

- The difference of both sides *in this case, it is Rs* 5, 000 is written in the last row of the credit side as **'balance c/d'**. This balance is called the debit balance of account or vice-a-versa.

- All expenses and assets represent debit balance.

- All the income and liabilities represent credit balance including capital account.

- Debit balance of personal account represents **'Amount Receivable'**. This comes under the category of assets. For example debtors.

- Credit balance of personal accounts signifies **'Amount Payable'**. This comes under liabilities side and represents that we need to pay this amount which is credited due to goods, service, loan, or advance received.

- Debit side of real account means stock in hand or any kind of assets. Credit balance of Real account is not possible.

- Debit balance of nominal account means expenses of organization.

- Credit balance of nominal accounts means income earned.

- Debit balance of cash book means cash in hand.

- Debit side of Bank book means balance at bank.

- Credit balance of Bank book indicates **'Bank Overdraft'**.

- Debit and credit balances of nominal account (Expenses and income will be nil, because these balances get transferred to trading, and profit & loss account to arrive at profit and loss of the company.

- Balances of real and personal account appear in balance sheet of the company and to be carried forward to next accounting years.

Illustration

Journalize the following transactions and post them in to ledger account:

S.No.	Transactions	Amount

1	Commenced business and introduced cash	400,000.00	
2	Goods purchased for cash	50,000.00	
3	Goods purchased from Mr.Abdul	135,000.00	
4	Freight charges paid on purchases	1,500.00	
5	Computer purchased-cash	35,000.00	
6	Freight charges paid on purchases of computer	500.00	
7	Sale made to Mr.Ram	200,000.00	
8	Rent paid	12,000.00	
9	Salary paid	15,000.00	
10	Cash received from Mr.Ram	150,000.00	
11	Cash deposited in bank	75,000.00	
12	Office Expenses paid	25,000.00	

Journal Entries

S.No.	Particulars	L.F.	Amount	
			Debit	**Credit**
1	Cash A/c Dr.	**	4,00,000	
	To Capital A/c			4,00,000
	Beingcapitalintroduced			
2	Purchase A/c Dr.	**	5,00,000	
	To Cash A/c			5,00,000
	Beingcashpurchasemade			
3	Purchase A/c Dr.	**	135,000	
	To Abdhul A/c			1,35,000
	BeinggoodspurchasefromAbdhul			
4	Inward Freight Charges A/c Dr.	**	1,500	
	To Cash A/c			1,500
	BeingfreightchargesPaid			
5	Computer A/c Dr.	**	35,000	
	To Cash A/c			35,000

Being computer purchased on cash

6	Computer A/c Dr.	**	500	
	To Cash A/c			500

Being freight charges on computer paid

7	Ram A/c Dr.	**	2,00,000	
	To Sale A/c			2,00,000

Being sold to Mr. Ram

8	Rent A/c Dr.	**	12,000	
	To Cash A/c			12,000

Being rent paid

9	Salary A/c Dr.	**	15,000	
	To Cash A/c			15,000

Being salary paid

10	Cash A/c Dr.	**	1,50,000	
	To Ram A/c			1,50,000

Being cash Received from Mr. Ram

11	Bank A/c Dr.	**	75,000	
	To Cash A/c			75,000

Being cash deposited in Bank

12	Office Expenses A/c Dr.	**	25,000	
	To Cash A/c			25,000

Being office expenses paid

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