LEDGER ACCOUNTS

The book which contains accounts is known as the ledger. Since finding information pertaining to the financial position of a business emerges only from the accounts, the ledger is also called the Principal Book. As a result, all the necessary information relating to any account is available from the ledger. This is the most important book of the business and hence is rightly called the "King of All Books". Also Known as Book of Final Entry.

The specimen of a typical ledger account is given below:

D)r	Ledger-Account								
	Date	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Amount (₹)		

Ledger Posting

As and when the transaction takes place, it is recorded in the journal in the form of journal entry. This entry is posted again in the respective ledger accounts under double entry principle from the journal. This is called ledger posting.

The rules for writing up accounts of various types are as follows:

Assets: Increases on the left hand side or the debit side and decreases on the credit side or the

right hand side. Liabilities: Increases on the credit side and decreases on the debit side.

Capitals: The same as liabilities.

Expenses: Increases on the debit side and decreases on the credit side.

Increases on the credit side and decrease on the debit side.

To summarise

Dr.	Assets	Cr.
Increase		Decrease
Dr.	Expenses or Loses	Cr.
Dr. Increase	Expenses or Loses	Cr. Decrease

Dr.	Liabilities & Capital	Cr.	
Decrease		Increase	
		Cr.	
Dr.	Income or Gains	Cr.	
Dr . Decrease	Income or Gains	Cr. Increase	

The student should clearly understand the nature of debit and credit.

A debit denotes:

- (a) In the case of a person that he has received some benefit against which he has already rendered some service or will render service in future. When a person becomes liable to do something in favour of the firm, the fact is recorded by debiting that person's account: (relating to Personal Account)
- (b) In case of goods or properties, that the value and the stock of such goods or properties has increased, (relating to Real Accounts)
- In case of other accounts like losses or expenses, that the firm has incurred certain expenses or has lost money. (relating to Nominal Account)

A credit denotes:

- (a) In case of a person, that some benefit has been received from him, entitling him to claim from the firm a return benefit in the form of cash or goods or service. When a person becomes entitled to money or money's worth for any reason. The fact is recorded by crediting him (relating to Personal Account)
- (b) In the case of goods or properties, that the stock and value of such goods or properties has decreased. (relating to Real Accounts)
- (c) In case of other accounts like interest or dividend or commission received, or discount received, that the firm has made a gain (relating to Nominal Account)

At a glance:

Dr. (Debit side)	Cr. (Credit side)
DESTINATION Where the economic benefit reaches / is received.	SOURCE of each economic benefits
Receiver	Given
What comes in	What goes out
All expense and losses	All income and gains

Let us now understand the mechanism of posting transaction into the ledger account. Consider the transaction: Rent paid in cash for ₹ 10000. The journal entry for this transaction would be:

Jan 15 Rent A/c

Dr 10,000

To Cash A/c

10,000

We will open two ledger accounts namely Rent A/c and Cash A/c. Let us see how the posting is made

Dr.			Rent Account			Cr.		
Date	Particulars	J. F.	Amount (₹)	Date Particulars	J. F.	Amount (₹)		
Jan15	To Cash A/c		10,000					

Dr.			Cash A	account				
Date	Particulars	J. F.	J. F. Amount (₹)		Particulars	J. F.	Amount (₹)	
				Jan 15	By Rent A/c		10,000	

Please observe the following conventions while posting a transaction into ledger accounts. Note that both the effects of an entry must be recorded in the ledger accounts simultaneously.

 The posting in the account which is debited, is done on the debit side by writing the name of the account or accounts that are credited with the prefix 'To'.

The posting in the account which is credited, is done on the credit side by writing the name of the account or accounts that are debited with the prefix 'By'. 2)

Illustration 11.

Let us now see how we can create ledger account for the seven journal entries that we passed for Illustration 4.

Folio No. 1

Dr.			Cash Account							
Date		Particulars		Amount (₹)	Date	Particulars	J. F.	Amount (₹)		
Ì	1.4.2015	To Vikas's capital		500,000	10.4.2015	By Fumiture	niture 1			
[1.4.2015 To Vaibhavi's capital		1	250,000	11.4.2015	By Punjab National Bank	1	1,00,000		
					30.4.2015	By Balance c/d		6,25,000		
				750,000				7,50,000		
ſ	1.5.2015	To Balance b/d		625,000						

Folio No. 2 **Dr.** Mr. Vikas's Capital Account Cr.

Date	Particulars	J.F.	Amount (₹) Date Particulars		Particulars	J. F.	Amount (₹)	
30.4.2015	To Balance c/d		5,00,000	1.4.2015	By Cash	1	5,00,000	
			5,00,000				5,00,000	
				1.5.2015	By Balance b/d		5,00,000	

Folio No. 3

Dr.	Mrs. Vaibhavi's Capital Account							
Date	Particulars J. F		Amount (₹)	Date	Particulars	J. F.	Amount (₹)	
30.4.2015	To Balance c/d		2,50,000	1.4.2015	By Cash	1	2,50,000	
			2,50,000				2,50,000	
				1.5.2015	By Balance b/d		2,50,000	

Folio No. 4

Dr.			Furniture Account				
Date	ate Particulars J. F. 4.2015 To Cash		Amount (₹)	Date	Particulars	J. F.	Amount (₹)
10.04.2015			25,000	30.4.2015	By Balance c/d		25,000
			25,000				25,000
1.05.2015	To Balance b/d		25,000				

Folio No. 5

Punjab National Bank Account Cr.

Date	Particulars	J. F.	Amount (₹)	Date	Particulars	J.F.	Amount (₹)
11.4.2015	To Cash	1	1,00,000	15.4.2015	By Rent	1	15,000
25.4.2015	To Consultancy Fees	1	2,50,000	20.4.2015 By Motor Car			1 50,000
					By Balance c/d		2,85,000
			3,50,000				3,50,000
1.05.2015	To Balance b/d		2,85,000				

Dr.			Rent Accoun	Cr.			
Date	Particulars	J.F.	Amount (₹)	Date	Particulars	J. F.	Amount (₹)
15.4.2015	To Punjab National Bank	1	15,000				

Folio No. 7 Dr.		м	otor Car Acco	unt			Cr.	
	Date	Particulars	J.F.	Amount (₹)	Date	Particulars	J. F.	Amount (₹)
	20.4.2015 To Punjab National Bank			1 50,000				
	" To Loan from HDFC Bank		1	4,00,000				

Folio No. 8

Dr.		Loar	n from HDFC Bank A	ccount			Cr.
Date	Particulars	J.F.	Amount (₹)	Date	Particulars	J. F.	Amount (₹)
20.4.2015	By Motor Car	1	4.00.000				

Folio No. 9

Dr.		Avoi	n Pharmaceutico	als Accour	nt		Cr.
Date	Particulars	J. F.	Amount (₹)	Date	Particulars	J.F.	Amount (₹)
25.4.2015	To Consultancy Fees	1	7,50,000				

Folio No. 10 **Dr.**

Dr.		Consu	Consultancy Fees Account					
Date	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Amount (₹)	
25.4.2015	25.4.2015 By Punjab National Bank		2,50,000					
25.4.2015	By Avon Pharma	1	7,50,000					

Folio No. 11

Dr.		Sc	alary Account		Cr.			
	Date	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Amount (₹)
	30.4.2015	To Salary payable	1	15,000				

Folio No. 12

Dr.			Salary Payat	le Account	Cr.		
Date	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Amount (₹)
				30.4.2015	By Salary	1	15,000

Please carefully observe the posting of journal entries into various ledger accounts. Do you see some further calculation in the Cash A/c and Mr. Vikas's Capital A/c? What is done is that after posting all transactions to these accounts, the difference between the debit and credit sides is calculated. This difference is put on the side with smaller amount in order to tally grand totals of both sides. The convention is to write "To Balance c/d" or "By balance c/d" as the case may be. This procedure is normally done at the end of an accounting period. This process is called as "balancing of ledger accounts'.

Once the ledgers are balanced for one accounting period, the balance needs to be carried forward to the next accounting period as a running balance. This is done by writing "To Balance b/d" or "By balance b/d" as the case may be after the grand totals. This is also shown in the Cash A/c and Mr.Vikas's Capital Account.

Could you now attempt to balance the other ledger accounts and carry the balances to the next accounting period?

Important note: Please remember the balances of personal and real accounts only are carried down to the next accounting period as they represent resources and obligations of the business which will continue to be used and settled respectively in future. Balances of nominal accounts (which represent incomes or gains and expenses or losses) are not carried down to the next period. These balances are taken to the Profit and Loss account (or Income statement) prepared for the period. The net result of the P & L Account will show either net income or net loss which will increase or decrease the owner's equity.

In the above example, please note that the balances of Rent Account, Consultancy Fees Account and Salary Account will not be carried down to the next period, but to the P & L Account of that period. As illustration, we have shown it for Rent Account.

Posting to Ledger Accounts from Subsidiary books

In the above section, we explained posting to ledger accounts directly on the basis of journal entries.

In practice, however, we know that use of subsidiary books is in vogue. Let us see how the posting to ledger accounts is done based on these records.

For each of the subsidiary books, there is a ledger account e.g. for purchase book, there is Purchase Account, for sales book there's Sales A/c, for cash book there will be Cash A/c as well as Bank A/c and so on.

Illustration 12.

Let us continue with illustration seen in the section Illustrations 8 9 and 10 above and post the totals into respective ledger accounts.

Solution:

Dr.			Cr.				
Date	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Amount(₹)
1st Jan	To Balance b/d		3,800		By Sundries as per cash book		1,500
	To Miscellaneous Receipts		2,500		By Balance c/d		4,800
			6.300				6.300

Dr.		Cr.					
Date	Particulars	J.F.	Amount (₹)	Date	Particulars	J. F.	Amount (₹)
	To Sundries as per purchase book		19,000		By Transfer to P & L A/c		19,000

Dr.		Sales Account						
Date	Particulars	Amount (₹)	Date	Particulars	J. F.	Amount (₹)		
	To Transfer to P&L A/c		1,72,500		By Sundries as per sales book		1,72,500	