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Chapter 13

Ledger

MEANING OF LEDGER

Business transactions are first entered in Journal or Special purpose Subsidiary Books. The next step is to transfer the entries to respective accounts in Ledgers. In short, a ledger is a book which contains all account of a business enterprise whether Personal, Real and Nominal.

DEFINITION OF LEDGER

According to J.R. Batliboi, "The ledger is the chief book of accounts and it is in this book that all the business transactions would ultimately find their place under their accounts in a duly classified form."

UTILITY AND IMPORTANCE OF LEDGER

A ledger is very useful and is of utmost importance in the organisation. The net result of all transactions in respect of a particular account on a given date can be ascertained only from the ledger. Hence, the Ledger is called the 'Principal Book'. It is also called the book of final entry because the transactions which are first entered in Journal or Subsidiary Books are finally incorporated in the Ledger.

ADVANTAGES OF LEDGER

(1) In ledger all the transactions pertaining to an account are collected at one place. As such, by looking at the balance of that account, one can understand the collective effect of all such transactions at any point of time.

(2) Any type of information relating to the business can be easily obtained from the Ledger.

(3) A trial balance can be prepared with the help of ledger balances which helps in ascertaining the arithmetical accuracy of the accounts.

(4) A trading and profit and loss account can only be prepared with the help of ledger balances.

(5) A balance sheet can also be prepared with the help of ledger balances which depicts the financial position of the business.

Distinction between 'Books of Original Entry' and 'Ledger' or Distinction between Journal and Ledger

1. The Journal is the book of first entry (original entry); the ledger is the book of second entry.

2. The Journal is the book for chronological record; the ledger is the book for analytical record.

3. The Journal, gets greater importance as legal evidence than the ledger.

4. Transaction is the basis of classification of data within the Journal; Account is the basis of classification of data within the ledger.

5. Process of recording in the Journal is called Journalising; the process of recording in the ledger is known as Posting.

CLASSIFICATION OF LEDGER ACCOUNTS

All ledger accounts are put into five categories namely, assets, liabilities, capital, revenues/gains and expense losses. All these accounts may further be put into two groups, i.e. permanent accounts and temporary accounts. All permanent accounts are balanced and carried forward to the next accounting period. The temporary accounts are closed at the end of the accounting period by transferring them to the trading and profit and loss account. All permanent accounts appears in the balance sheet. Thus, all assets, liabilities and capital accounts are permanent accounts and all revenue and expense accounts are temporary accounts.

FORMAT OF LEDGER

Dr Cr.

Date	Particulars	J.F	Amount	Date	Particulars	J.F	Amount

Rules of Posting

Posting is the process of transferring entries from Journal or Subsidiary Books to the Ledger. The following rules should be observed while posting entries in the Ledger:-

(1) All transactions relating to an account should be entered at one place.

(2) The word 'To' is used before the accounts which appear on the debit side of an account. Similarly, the word 'By' is used before the accounts which appear on the credit side of an account.

(3) If an account has been debited in the Journal entry, the posting in the Ledger should also be made on the debit side of such account. In the Particulars column, the name of the other account which has been credited in the Journal entry should be written for reference.

(4) If an account has been credited in the Journal entry, the posting in the Ledger should also be made on the credit side of such account. In the particulars column, the name of the other account which has been debited in the Journal entry should be written for reference.

(5) Similar amount which has been posted on the debit side of an account should also be posted on the credit side of another account.

(6) It is not necessary to write the word 'A/c' after the personal accounts.

Closing and Balancing of Accounts

At the end of the accounting period or whenever needed, a businessman will be interested in knowing the position of various accounts. For this purpose the accounts are balanced. Balancing of an account means that the debit and credit sides are totalled and the difference between the two sides is inserted on the side which is shorter so as to make their totals equal. If the debit side exceeds the credit, the balance is called a debit balance and on the other hand, if the credit side exceeds the debit, the balance is called a credit balance.

(1) Closing of Personal Accounts: If a personal account shows a debit balance, it indicates the amount owing from him. On the contrary, if a personal account shows a credit balance, it indicates the amount owing to him.

If the total of the debit side is in excess of the credit side, the difference between the two is inserted on the credit side of the account in order to make their totals equal. The words 'By Balance c/d', i.e., balance carried down are written against the amount of the difference. In the next accounting period, the balance is brought down on the debit side by writing the words "To Balance b/d' and vice versa.

(2) Closing of Real Accounts: - Method of closing the Cash A/c and the accounts of all other assets is the same as that of personal accounts. When balanced, these will always show debit balances.

(3) Closing of Nominal Accounts: - Nominal accounts include the accounts relating to the expenses and incomes of the firm. These accounts do not require balancing.
Accounts relating to 'Goods' such as Purchases A/c, Sales A/c, Purchases Return A/c, Sales Return A/c and Stock A/c are not balanced. These accounts are closed by transferring them to Trading Account at the end of the year.