

Ledgers: Meaning and Importance

A ledger is a crucial accounting book that summarizes and categorizes all financial transactions recorded in journals or special purpose subsidiary books. The primary purpose of a ledger is to compile all transactions related to a specific account in one place, making it easier to understand the overall impact of these transactions on that account.

Definition

After transactions are initially recorded in journals or subsidiary books, they are subsequently transferred to their respective accounts in the ledger. This process ensures that all transactions pertaining to a particular account are gathered in one location, which facilitates the tracking and analysis of financial data.

Advantages of Ledgers

Centralization of Transactions: Each account is assigned to a separate page in the ledger. This method ensures that all transactions related to an account are collected in one place, allowing for a comprehensive view of that account's activities at any time.

Ease of Information Retrieval:

- **Customer Debts:** The ledger provides detailed information about the amounts owed by each customer.
- **Firm's Debts:** It also details the amounts the firm owes to each creditor.

Preparation of Trial Balance: The balances in the ledger accounts can be used to prepare a trial balance, which helps in verifying the arithmetic accuracy of the accounts.

Preparation of Financial Statements: The balances from the ledger accounts are essential for preparing the trading account, profit and loss account, and balance sheet.

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

Books of Original Entry (Journal/Subsidiary Books):

1. **Primary Recording:** Transactions are first recorded in these books, hence they are referred to as books of primary entry.
2. **Detail Inclusion:** They contain full details of each transaction, including narrations.

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3. Preparation of Final Accounts: Final accounts cannot be prepared directly from the books of original entry.
4. Ledger Folio: The ledger page number (L.F) where the transaction is posted is noted in these books.
5. Accuracy: The accuracy of these books cannot be directly tested.

Ledger:

1. Secondary Recording: Transactions are transferred from the journal or subsidiary books to the ledger, making it a book of final entry.
2. Summary Details: Full details of transactions are not recorded; instead, they are summarized.
3. Preparation of Final Accounts: Final accounts can be prepared using the balances in the ledger.
4. Journal Folio: The journal folio (J.F) indicating the original entry is noted in the ledger.
5. Accuracy Testing: The accuracy of ledger accounts is verified by preparing a trial balance.

Summary

Ledger: A comprehensive record that consolidates transactions related to specific accounts. It is indispensable for creating financial statements and understanding the financial position of a business.

Books of Original Entry: The initial record of all transactions, which provides detailed descriptions and facilitates the transfer of summarized information to the ledger.

Proforma of a Ledger Account

The proforma of a ledger account, often referred to as a "T" account due to its shape, is a fundamental tool in accounting. It helps in categorizing and summarizing financial transactions. Here's a detailed breakdown of the ledger account format:

Basic Structure of a Ledger Account (T-Account)

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Ledger Account Name

Date	Particulars	JF	Amount	Date	Particulars	JF	Amount
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)

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Proforma of Ledger Account
Each ledger account is divided into two equal parts:

- Left-hand side (Debit side)
- Right-hand side (Credit side)

Components

- Date: The date of the transaction.
- Particulars: Description of the transaction or the account to which the entry is related.
- Journal Folio (JF): Reference number or page number of the journal or subsidiary book where the transaction was originally recorded.
- Amount: The monetary value of the transaction.

Example of a T-Account Ledger

Cash Account

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|                               Cash Account                               |
-----
| Date       | Particulars      | JF | Amount | Date       | Particulars      | JF | Amount |
-----|-----|-----|-----|-----|-----|-----|-----|
| 2024-06-01 | Capital          | 01 | 50,000 | 2024-06-02 | Office Supplies  | 03 | 10,000 |
| 2024-06-03 | Sales Revenue    | 02 | 20,000 | 2024-06-05 | Equipment Purchase| 04 | 10,000 |
-----|-----|-----|-----|-----|-----|-----|

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Here's how a typical ledger account for Cash might look:

Explanation

Debit Side (Left-hand side):

- 2024-06-01: Capital introduced in the business, recorded as a debit (increase in assets).
- 2024-06-03: Revenue from sales, increasing cash.

Credit Side (Right-hand side):

- 2024-06-02: Payment for office supplies, decreasing cash.

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- 2024-06-05: Purchase of equipment, also decreasing cash.

Solved Example: Pass journal entries for the following transactions and post them into ledger.

1. May 1: Commenced business with cash Rs. 1,50,000 and bank balance Rs. 50,000.
2. May 2: Purchased machinery for Rs. 20,000 and paid by cheque.
3. May 4: Bought goods for cash Rs. 30,000.
4. May 6: Bought goods from Raj Traders Rs. 25,000.
5. May 8: Sold goods for cash Rs. 40,000.
6. May 10: Sold goods to Sohan for Rs. 10,000.
7. May 12: Returned goods to Raj Traders Rs. 5,000.



Journal Entries

Date	Particulars	Debit (Rs)	Credit (Rs)
1994-05-01	Cash A/c	1,50,000	
	Bank A/c	50,000	
	To Capital A/c		2,00,000
	(Commenced business with cash and bank)		
1994-05-02	Machinery A/c	20,000	
	To Bank A/c		20,000
	(Purchased machinery paid by cheque)		
1994-05-04	Purchases A/c	30,000	
	To Cash A/c		30,000
	(Bought goods for cash)		
1994-05-06	Purchases A/c	25,000	
	To Raj Traders		25,000
	(Bought goods from Raj Traders)		
1994-05-08	Cash A/c	40,000	
	To Sales A/c		40,000
	(Sold goods for cash)		
1994-05-10	Sohan	10,000	
	To Sales A/c		10,000
	(Sold goods to Sohan)		
1994-05-12	Raj Traders	5,000	
	To Purchases Return A/c		5,000
	(Returned goods to Raj Traders) ↓		

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Posting to Ledger

Cash Account

Date	Particulars	JF	Amount (Rs)	Date	Particulars	JF	Amount (Rs)
1994-05-01	Capital A/c		1,50,000	1994-05-04	Purchases A/c		30,000
1994-05-08	Sales A/c		40,000				
-----	-----	---	-----	-----	-----	---	-----
--	-----	-	-	--	-----	-	-
	Balance c/d				Balance c/d		
-----	-----	---	-----	-----	-----	---	-----
--	-----	-	-	--	-----	-	-

Bank Account

Date	Particulars	JF	Amount (Rs)	Date	Particulars	JF	Amount (Rs)
1994-05-01	Capital A/c		50,000	1994-05-02	Machinery A/c		20,000
-----	-----	---	-----	-----	-----	---	-----
--	-----	-	-	--	-----	-	-
	Balance c/d				Balance c/d		
-----	-----	---	-----	-----	-----	---	-----
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Purchases Account

Date	Particulars	JF	Amount (Rs)	Date	Particulars	JF	Amount (Rs)
1994-05-04	Cash A/c		30,000	1994-05-12	Raj Traders		5,000
1994-05-06	Raj Traders		25,000				
-----	-----	---	-----	-----	-----	---	-----
--	-----	-	-	--	-----	-	-
	Balance c/d				Balance c/d		
-----	-----	---	-----	-----	-----	---	-----
--	-----	-	-	--	-----	-	-

Raj Traders Account

Date	Particulars	JF	Amount (Rs)	Date	Particulars	JF	Amount (Rs)
1994-05-06	Purchases A/c		25,000	1994-05-12	Purchases Return A/c		5,000
-----	-----	---	-----	-----	-----	---	-----
--	-----	-	-	--	-----	-	-
	Balance c/d				Balance c/d		
-----	-----	---	-----	-----	-----	---	-----
--	-----	-	-	--	-----	-	-

Sales Account

Date	Particulars	JF	Amount (Rs)	Date	Particulars	JF	Amount (Rs)
1994-05-08	Cash A/c		40,000				
1994-05-10	Sohan		10,000				
-----	-----	---	-----	-----	-----	---	-----
--	-----	-	-	--	-----	-	-



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Assignment: Pass journal entries for the following transactions and post them into ledger.

Ques 1: Transactions:

- June 1: Commenced business with cash Rs. 2,00,000.
- June 3: Purchased office equipment for Rs. 30,000 and paid by cheque.
- June 5: Bought goods for cash Rs. 70,000.
- June 7: Bought goods from Anil Traders Rs. 35,000.
- June 10: Sold goods for cash Rs. 60,000.
- June 12: Sold goods to Ravi for Rs. 20,000.
- June 15: Returned goods to Anil Traders Rs. 5,000.

Ques 2: Transactions:

- July 1: Commenced business with cash Rs. 2,50,000.
- July 3: Purchased office equipment for Rs. 40,000 and paid by cheque.
- July 5: Bought goods for cash Rs. 60,000.
- July 7: Bought goods from Amit Traders Rs. 30,000.
- July 10: Sold goods for cash Rs. 70,000.
- July 12: Sold goods to Ravi for Rs. 15,000.
- July 15: Returned goods to Amit Traders Rs. 4,000.

Ques 3: Transactions:

- August 1: Commenced business with cash Rs. 1,80,000 and bank balance Rs. 70,000.
- August 3: Purchased machinery for Rs. 50,000 and paid by cheque.
- August 5: Bought goods for cash Rs. 40,000.
- August 7: Bought goods from Vijay Traders Rs. 45,000.
- August 10: Sold goods for cash Rs. 50,000.
- August 12: Sold goods to Ajay for Rs. 20,000.
- August 15: Returned goods to Vijay Traders Rs. 7,000.

Ques 4: Transactions:

- September 1: Commenced business with cash Rs. 3,00,000.
- September 3: Purchased office furniture for Rs. 35,000 and paid by cheque.
- September 5: Bought goods for cash Rs. 80,000.
- September 7: Bought goods from Rakesh Traders Rs. 55,000.
- September 10: Sold goods for cash Rs. 90,000.
- September 12: Sold goods to Karan for Rs. 25,000.
- September 15: Returned goods to Rakesh Traders Rs. 10,000.

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Ques 5: Transactions:

October 1: Commenced business with cash Rs. 2,00,000 and bank balance Rs. 1,00,000.

October 3: Purchased machinery for Rs. 30,000 and paid by cheque.

October 5: Bought goods for cash Rs. 50,000.

October 7: Bought goods from Anil Traders Rs. 40,000.

October 10: Sold goods for cash Rs. 60,000.

October 12: Sold goods to Rohit for Rs. 18,000.

October 15: Returned goods to Anil Traders Rs. 6,000.

Ques 6: Transactions:

November 1: Commenced business with cash Rs. 2,20,000.

November 3: Purchased office equipment for Rs. 45,000 and paid by cheque.

November 5: Bought goods for cash Rs. 70,000.

November 7: Bought goods from Manoj Traders Rs. 50,000.

November 10: Sold goods for cash Rs. 80,000.

November 12: Sold goods to Suresh for Rs. 22,000.

November 15: Returned goods to Manoj Traders Rs. 8,000.



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