

LEDGER

You have learnt that business transactions are recorded in various special purpose books and journal proper. The accounting process does not stop here. The transactions are recorded in number of books in chronological order. Such recording of business transactions serves little purpose of accounting. Items of same title in different books of accounts need to be brought at one place under one head called an account. There are numerous account titles of items/persons or accounts. All the accounts, if brought in one account book, will be more informative and useful. The account book so maintained is called Ledger.

In this lesson, you will learn about Ledger and posting of items entered in various books of accounts to ledger.



OBJECTIVES

After studying this lesson, you will be able to:

- state the meaning, features and importance of ledger;
- enumerate the various types of ledger;
- state the meaning of posting and explain the steps of posting journal into ledger;
- calculate the balance of the account in the ledger.

6.1 LEDGER : MEANING, IMPORTANCE AND TYPES

You have already learnt about accounts. Each transaction affects two accounts. In each account transactions related to that account are recorded. For example, sale of goods taking place number of times in a year will be put under one Account i.e. Sales Account.

All the accounts identified on the basis of transactions recorded in different journals/books such as Cash Book, Purchase Book, Sales Book etc. will be opened and maintained in a separate book called Ledger. So a ledger is a book of account; in which all types of accounts relating to assets, liabilities, capital, expenses and revenues are maintained. It is a complete set of accounts of a business enterprise.

Ledger is bound book with pages consecutively numbered. It may also be a bundle of sheets.

Thus, from the various journals/Books of a business enterprise, all transactions recorded throughout the accounting year are placed in relevant accounts in the ledger through the process of posting of transactions in the ledger. Thus, posting is the process of transfer of entries from Journal/Special Journal Books to ledger.

Features of ledger

- Ledger is an account book that contains various accounts to which various business transactions of a business enterprise are posted.
- It is a book of final entry because the transactions that are first entered in the journal or special purpose Books are finally posted in the ledger. It is also called the Principal Book of Accounts.
- In the ledger all types of accounts relating to assets, liabilities, capital, revenue and expenses are maintained.
- It is a permanent record of business transactions classified into relevant accounts.
- It is the 'reference book of accounting system and is used to classify and summarise transactions to facilitate the preparation of financial statements.

Format of a ledger sheet

The format of a ledger sheet is as follows :

Title of an Account

Dr.							Cr.	
Date	Particulars	JF	Amount Rs.		Date	Particular	JF	Amount Rs.

You must have noticed that the format of a ledger sheet is similar to that of the format of an Account about which you have already learnt. A full

sheet page may be allotted to one account or two or more accounts may be opened on one sheet. It depends upon the number of items related to that account to be posted.

Importance of Ledger

Ledger is an important book of Account. It contains all the accounts in which all the business transactions of a business enterprise are classified. At the end of the accounting period, each account will contain the entire information of all the transactions relating to it. Following are the advantages of ledger.

- **Knowledge of Business results**

Ledger provides detailed information about revenues and expenses at one place. While finding out business results the revenue and expenses are matched with each other.

- **Knowledge of book value of assets**

Ledger records every asset separately. Hence, you can get the information about the Book value of any asset whenever you need.

- **Useful for management**

The information given in different ledger accounts will help the management in preparing budgets. It also helps the management in keeping the check on the performance of business it is managing.

- **Knowledge of Financial Position**

Ledger provides information about assets and liabilities of the business. From this we can judge the financial position and health of the business.

- **Instant Information**

The business always need to know what it owes to others and what the others owe to it. The ledger accounts provide this information at a glance through the account receivables and payables.

Types of Ledger

In large scale business organisations, the number of accounts may run into hundreds. It is not always possible for a businessman to accommodate all these accounts in one ledger. They, therefore, maintain more than one ledger.

6.2 POSTING OF JOURNAL PROPER INTO LEDGER

You know that the purpose of opening an account in the ledger is to bring all related items of this account which might have been recorded in different books of accounts on different dates at one place. The process involved in this exercise is called posting in the ledger. This procedure is adopted for each account.

To take the items from the journal to the relevant account in the ledger is called posting of journal. Following procedure is followed for posting of journal to ledger :

1. Identify both the accounts 'debit' and credit of the journal entry. Open the two accounts in the ledger.
2. Post the item in the first account by writing date in the date column, name of the account to be credited in the particulars column and the amount in the amount column of the 'debit' side of the account.
3. Write the page number of the journal from which the item is taken to the ledger in Folio column and write the page number of the ledger from which account is written in L.F. column of the journal.
4. Now take the second Account and give the similar treatment. Write the date in the 'date' column, name of the account in the 'amount' column of the account on its credit side in the ledger.
5. Write page number of journal in the 'folio' column of the ledger and page number of the ledger in the 'LF' of column of the journal.

Illustration 1

Journalise the following transactions and post them in the ledger

2006

January 1	Commenced business with cash	50000
January 3	Paid into bank	25000