

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

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



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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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