

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:

Dr.				Ledger Account				Cr.			
Date	Particulars	JF	Amount ₹	Date	Particulars	JF	Amount ₹				

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**Complete Practical Question on Closing and Balancing of Various Accounts**

Ques: Give the Journal entries for the following transactions:

1. April 1 – Business started with cash ₹10,000
2. April 3 – Deposited in SBI ₹6,000
3. April 5 – Bought goods from Mahavir ₹1,500
4. April 9 – Sold goods to Gupta ₹650
5. April 12 – Paid cash to Mahavir ₹990, Discount received ₹10
6. April 15 – Cash received from Gupta ₹625, Discount allowed ₹25
7. April 20 – Furniture purchased ₹300
8. April 22 – Drew cash from bank for personal use ₹600
9. April 30 – Paid rent by cheque ₹200
10. April 30 – Salary due to clerk ₹300

Also prepare the necessary ledger accounts for the above.

**Solution:**

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
April 1	Cash A/c Dr.		10,000	
	To Capital A/c			10,000
	<i>(Being capital introduced by proprietor)</i>			
April 3	Bank (SBI) A/c Dr.		6,000	
	To Cash A/c			6,000
	<i>(Being cash deposited into bank)</i>			
April 5	Purchases A/c Dr.		1,500	
	To Mahavir A/c			1,500
	<i>(Being goods purchased on credit from Mahavir)</i>			
April 9	Gupta A/c Dr.		650	
	To Sales A/c			650
	<i>(Being goods sold on credit to Gupta)</i>			
April 12	Mahavir A/c Dr.		1,000	
	To Cash A/c			990
	To Discount Received A/c			10
	<i>(Being payment made to Mahavir and discount received)</i>			
April 15	Cash A/c Dr.		625	
	Discount Allowed A/c Dr.		25	

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Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	To Gupta A/c			650
	<i>(Being cash received from Gupta and discount allowed to him)</i>			
April 20	Furniture A/c Dr.		300	
	To Cash A/c			300
	<i>(Being purchase of furniture on cash)</i>			
April 22	Drawings A/c Dr.		600	
	To Bank A/c			600
	<i>(Being cash withdrawn from bank for personal use)</i>			
April 30	Rent A/c Dr.		200	
	To Bank A/c			200
	<i>(Being rent paid by cheque)</i>			
April 30	Salary A/c Dr.		300	
	To Outstanding Salary A/c			300
	<i>(Being salary of a clerk remains outstanding)</i>			

**Ledger Accounts**

**Capital Account**

Dr.				Capital Account				Cr.			
Date	Particulars	JF	Amount ₹	Date	Particulars	JF	Amount ₹				
				Apr 1	By Cash A/c		10,000				

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Cash Account

Dr.				Cr.			
Date	Particulars	JF	Amount ₹	Date	Particulars	JF	Amount ₹
Apr 1	To Capital A/c		10,000	Apr 3	By Bank A/c		6,000
Apr 15	To Gupta A/c		625	Apr 12	By Mahavir A/c		990
				Apr 20	By Furniture A/c		300

Bank Account

Dr.				Cr.			
Date	Particulars	JF	Amount ₹	Date	Particulars	JF	Amount ₹
Apr 3	To Cash A/c		6,000	Apr 22	By Drawings A/c		600
				Apr 30	By Rent A/c		200

Purchases Account

Dr.				Cr.			
Date	Particulars	JF	Amount ₹	Date	Particulars	JF	Amount ₹
Apr 5	To Mahavir A/c		1,500				

Mahavir Account

Dr.				Cr.			
Date	Particulars	JF	Amount ₹	Date	Particulars	JF	Amount ₹
Apr 12	To Cash A/c		990	Apr 5	By Purchases A/c		1,500
Apr 12	To Discount Received A/c		10				

Sales Account

Dr.				Cr.			
Date	Particulars	JF	Amount ₹	Date	Particulars	JF	Amount ₹
				Apr 9	By Gupta A/c		650

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**Gupta Account**

Dr.				Gupta Account				Cr.			
Date	Particulars	JF	Amount ₹	Date	Particulars	JF	Amount ₹				
Apr 15	To Sale A/c		650	Apr 9	By Cash A/c		625				
				Apr 15	By Discount Allowed A/c		25				

**Furniture Account**

Dr.				Furniture Account				Cr.			
Date	Particulars	JF	Amount (₹)	Date	Particulars	JF	Amount (₹)				
Apr 20	To Cash A/c		300								

**Discount Allowed Account**

Dr.				Discount Allowed Account				Cr.			
Date	Particulars	JF	Amount (₹)	Date	Particulars	JF	Amount (₹)				
Apr 15	To Gupta's A/c		25								

**Discount Received Account**

Dr.				Discount Received Account				Cr.			
Date	Particulars	JF	Amount (₹)	Date	Particulars	JF	Amount (₹)				
				Apr 12	By Mahavir's A/c		10				

**Drawings Account**

Dr.			Drawings Account			Cr.		
Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)			
Apr 22	To Bank A/c	600						

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Rent Account

Dr.			Cr.		
Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
Apr 30	To Bank A/c	200			

Salary Account

Dr.			Cr.		
Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
Apr 30	To O/S Salary A/c	300			

Outstanding Salary Account

Dr.			Cr.		
Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
			Apr 30	By Salary A/c	300

**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.

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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.

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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