Ledger and Trial Balance

Ledger is a book where all types of accounts are maintained and each account contains a summarized and classified record of all business transactions.

Why is the Ledger necessary in presence of Journal?

Journal provides the complete description and two-fold aspects of every transaction in chronological order, but it does not provide the summarized information about a particular head of account. Ledger contains all types of accounts and each account contains summarized and classified record of all relevant transactions. So it is easy to find the summarized record of any ledger account while the Journal does not facilitate it.

> For example;
>
> *Suppose, if a business entity wants to know the total cash balance for a particular month. To serve this purpose, an accountant will have to go through all those Journal entries in which cash is involved and this task may take lots of time and efforts due to hundreds/thousands of recorded cash transactions. To overcome this problem, all the debit and credit balances of cash are transferred to the cash account which makes easy to determine the balance of a particular account at a particular period.*

Posting is the process of transferring information of debit and credit from journal to ledger accounts.

Balance is the difference of *total of debit* and *total of credit* side of account.

Balancing is the process to equalize two sides of account.

Debit balance arises if total of debit amounts is greater than total of credit amounts. Debit balance is to be written in credit side of account for balancing or to ensure equality of two sides.

Credit balance arises if total of debit amounts is lessor than total of credit amounts. Credit balance is to be written in debit side of account for balancing or to ensure equality of two sides.

Normal balances of different types of accounts:

Assets and Expenses accounts: Debit balance

Capital, Liability and Revenue accounts: Credit balance

Balance C/D or Balance C/F: Balance C/D means balance carried down. Balance C/F means balance carried forward. Both represent the closing balance.

Balance B/D or Balance B/F: Balance B/D means balance brought down. Balance B/F means balance brought forward. Both represent the opening balance.

The closing balance of one accounting period will be the opening balance of the next accounting period.

Forms of Ledger Accounts:

There are two basic forms of ledger account.

1. Standard/Periodical Balance Form:
   - In this from, the page of the ledger is vertically divided into two halves, the left half is meant for recording debit entries and right half for credit entries.
   - It provides summarized detail of any account at the end of specific period.

2. Self-Balancing/ Running Balance Form:
   - In this from, the page of the ledger is not vertically divided into two halves i.e., debit and credit side. We add additional balance column with other particular columns. The additional balance column provides the balance at each stage of account so it is called Self-Balancing/ Running Balance form of ledger.

Standard Format of a Ledger Account:

Title of Account _____					A/C Code No. _____		
Debit							**Credit**
Date	**Particulars**	**J.R**	**Amount Rs.**	**Date**	**Particulars**	**J.R**	**Amount Rs.**

Format of Self-Balance/Running Balance Ledger Account

Title of Account _____   A/C Code No. _____

Date	Particulars	J.R	Debit Rs.	Credit Rs.	Balance	
					Debit Rs.	Credit Rs.

Explanation of the Formats:

- **Title of Account**: It represents name of particular account i.**e.,** Cash, Capital or Purchases account etc.

- **A/C Code No:** It represents the specific Code No. of particular account.

- **Date:** Date of a particular transaction

- **Particulars:** Here, name of opposite account used in journal for preparing a particular account is written as a reference

- **Amount:** Amount of a particular transaction is written either in debit or credit.

- **Journal Reference (J.R.):** In this column, page number of General Journal is to be mentioned from where a particular transaction is posted. In case of need J.R is very beneficial for detecting the entry from journal very quickly.

- **Balance:** It is the difference of debit amount and credit amount at each stage which represents balance either debit or credit at each particular period.

How to prepare standard form ledger account:

Let, on first February 2016, Mr. Ali started business with cash of Rs. 500,000. On 15th of February, he purchased goods amounting to Rs. 150,000 on cash basis. At first we record the journal entries in Journal then post them into particular ledger account. Journal contains three different accounts i.e. cash account, capital and purchases account. So cash account, capital account and purchases account are needed to be prepared. For your understanding Cash account is prepared. The procedure is same for other ledger accounts.

General Journal

Page # 01

Date	Description	L/F	Debit Rs.	Credit Rs.
2016 Feb 01	Cash A/c	1	500,000	
	To Capital A/c	2		500,000
	(Initial Investment made in business)			
"" 15	Purchases A/c	3	150,000	
	To Cash A/c	1		150,000
	(being the purchase of goods on cash)			
	Total		750,000	750,000

Standard Format Ledger Account:

Title of Account: **Cash account**   Account Code No. 1

Date	Particulars	J.R	Amount (Rs.)	Date	Particulars	J.R	Amount (Rs.)
2016				2016			
Feb 01	Capital A/c	1	500,000	Feb 15	Purchases A/c	1	150,000
				'' 29	Balance c/d		350,000
	Total		500,000		Total		500,000

Debit — Credit

Page number of journal from where information is taken

Total

Debit closing balance (difference of all debit amounts and all credit amounts i.e., 500,000 − 150,000 =
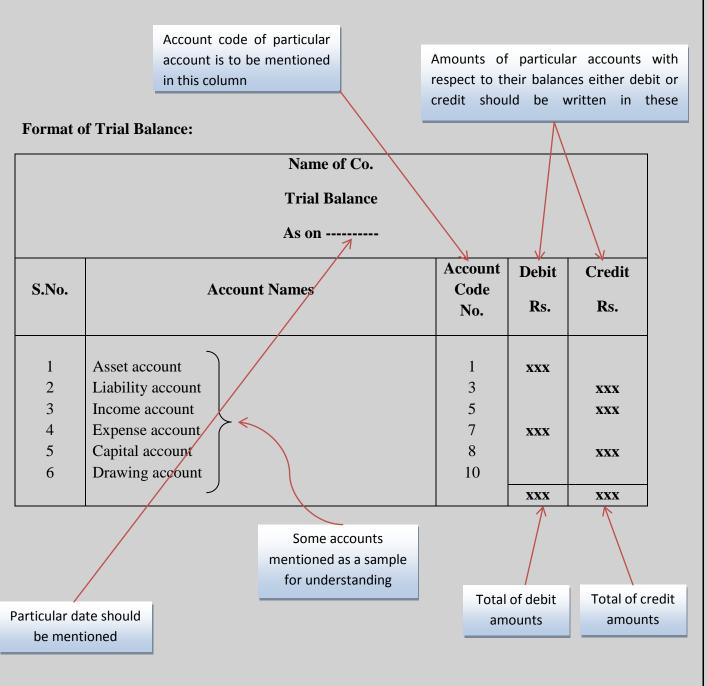
How to prepare self-balancing form ledger account:

We have taken the same example used to explain the standard form ledger account for explaining the self-balancing form ledger account.

General Journal

Page # 01

Date	Description	L/F	Debit Rs.	Credit Rs.
2016 Feb 01	Cash A/c	1	500,000	
	To Capital A/c	2		500,000
	(Initial Investment made in business)			
"" 15	Purchases A/c	3	150,000	
	To Cash A/c	1		150,000
	Total		750,000	750,000

Self-balancing Format Ledger Account:

Title of Account <u>Cash Account</u>   Account Code No. 1

Date	Particulars	J.R	Debit Rs.	Credit Rs.	Balance Debit Rs.	Credit Rs.
2016 Feb 01	Capital A/c	1	500,000		500,000	
"" 15	Purchases A/c	1		150,000	350,000	

Page number of journal from where information is taken

Debit balance on Feb 01, 2016

500,000 – 150,000 = 350,000 it is a debit balance on Feb 15 2016.

Trial Balance:

When we have prepared all ledger accounts then the balances of these ledger accounts are to be transferred to trial balance. If the total of debit column and credit column is equal then we may assume that there is no mistake in previous books of accounts. Otherwise there is mistake somewhere and need to be rectified before go ahead for final accounts. It should be noted that the if the trial balance is in agreement, it does not mean that previous books of accounts are 100 % correct from all aspects because some errors like "Errors of omission" and "Compensating errors" etc. cannot be detected by trial balance. However, trial balance ensures the arithmetic accuracy of books of accounts and it provides the help to prepare the financial statements.

Account code of particular account is to be mentioned in this column

Amounts of particular accounts with respect to their balances either debit or credit should be written in these

Format of Trial Balance:

Name of Co.

Trial Balance

As on ----------

S.No.	Account Names	Account Code No.	Debit Rs.	Credit Rs.
1	Asset account	1	xxx	
2	Liability account	3		xxx
3	Income account	5		xxx
4	Expense account	7	xxx	
5	Capital account	8		xxx
6	Drawing account	10		
			xxx	xxx

Some accounts mentioned as a sample for understanding

Total of debit amounts

Total of credit amounts

Particular date should be mentioned

Date	Transactions	Rs.
2016		
Feb 01	Mr. Akram started his business with:	
	Cash	500,000
	Machinery	900,000
'' 02	Purchased goods on cash	100,000
'' 10	Goods bought on account	80,000
'' 12	Machinery sold for cash	500,000
'' 14	Goods sold on cash	200,000
'' 18	Sold goods on account	150,000
'' 20	Goods returned from customers	15,000
'' 26	Additional machinery purchased	300,000
'' 29	Paid salaries for the month	10,000

Required:

Record the above transactions in journal and post them into ledger with standard format as well as with self-balancing ledger format.

General Journal

Date	Description	L/F	Debit Rs.	Credit Rs.
2016				
Feb 01	Cash A/c	1	500,000	
	Machinery A/c	2	900,000	
	To Capital A/c	3		1,400,000
	(being the initial Investment made in business)			
'' 02	Purchases A/c	4	100,000	
	To Cash A/c	1		100,000
	(being the purchases of goods on cash basis)			
'' 10	Purchases A/c	4	80,000	
	To Accounts Payable	5		80,000
	(Being the purchase of goods on credit basis)			
'' 12	Cash A/c	1	500,000	
	To Machinery A/c	2		500,000
	(Being the sale of machinery on cash basis)			
'' 14	Cash A/c	1	200,000	
	To Sales A/c	6		200,000
	(Being the sale of goods on cash basis)			
'' 18	Accounts receivable A/c	7	150,000	
	To Sales A/c	6		150,000
	(Being the sale of goods on credit basis)			
	Total C/F		2,430,000	2,430,000

Date	Description	L/F	Debit Rs.	Credit Rs.
	Total B/F		2,430,000	2,430,000
'' 20	Return inwards A/c	8	15,000	
	To Accounts Receivable	7		15,000
	(Being the goods returned from customers)			
'' 26	Machinery A/c	2	300,000	
	To Cash A/c	1		300,000
	(purchase of machinery on cash)			
'' 29	Salaries A/c	9	10,000	
	To Cash A/c	1		10,000
	(Being the payment of salaries)			
	Grand Total		2,755 ,000	2,755 ,000

STANDARD FORM LEDGER ACCOUNTS

Title of Account <u>Cash Account</u>   **A/C Code No. 1**

Debit   **Credit**

Date	Particulars	J.R	Amount (Rs.)	Date	Particulars	J.R	Amount (Rs.)
2016				2016			
Feb 01	Capital A/c	1	500,000	Feb 02	Purchases A/c	1	100,000
'' 12	Machinery A/c	1	500,000	'' 26	Machinery A/c	2	300,000
'' 14	Sales A/c	1	200,000	'' 29	Salaries A/c	2	10,000
				'' 29	Balance c/d		790,000
			1,200,000				1,200,000

Title of Account <u>Machinery Account</u>   **A/C Code No. 2**

Debit   **Credit**

Date	Particulars	J.R	Amount (Rs.)	Date	Particulars	J.R	Amount (Rs.)
2016				2016			
Feb 01	Capital A/c	1	900,000	Feb 12	Cash A/c	1	500,000
'' 26	Cash A/c	2	300,000	'' 29	Balance c/d		700,000
			1,200,000				1,200,000

Title of Account <u>Capital Account</u>　　　　　　　　　　　　　　　　　　　　　**A/C Code No. <u>3</u>**

Debit							Credit
Date	**Particulars**	**J.R**	**Amount (Rs.)**	**Date**	**Particulars**	**J.R**	**Amount (Rs.)**
2016				2016			
				Feb 01	Cash A/c	1	500,000
				'' 01	Machinery A/c	1	900,000
Feb 29	Balance c/d		1,400,000				
			1,400,000				1,400,000

Title of Account <u>Purchases Account</u>　　　　　　　　　　　　　　　　　　　**A/C Code No. <u>4</u>**

Debit							Credit
Date	**Particulars**	**J.R**	**Amount (Rs.)**	**Date**	**Particulars**	**J.R**	**Amount (Rs.)**
2016				2016			
Feb 02	Cash A/c	1	100,000				
'' 10	Accounts Payable A/c	1	80,000				
				Feb 29	Balance c/d		180,000
			180,000				180,000

Title of Account Accounts Payable Account   A/C Code No. **5**

Debit					Credit			
Date	**Particulars**	**J.R**	**Amount (Rs.)**		**Date**	**Particulars**	**J.R**	**Amount (Rs.)**
2016					2016			
					Feb 10	Purchases A/c	1	80,000
Feb 29	Balance c/d		80,000					
			80,000					80,000

Title of Account Sales Account   A/C Code No. **6**

Debit					Credit			
Date	**Particulars**	**J.R**	**Amount (Rs.)**		**Date**	**Particulars**	**J.R**	**Amount (Rs.)**
2016					2016			
					Feb 14	Cash A/c	1	200,000
					'' 18	Accounts Receivable A/c	1	150,000
Feb 29	Balance c/d		350,000					
			350,000					350,000

Title of Account <u>Accounts Receivable Account</u>   A/C Code No. <u>7</u>

Debit				Credit			
Date	**Particulars**	**J.R**	**Amount (Rs.)**	**Date**	**Particulars**	**J.R**	**Amount (Rs.)**
2016 Feb 18	Sales A/c	1	150,000	2016 Feb 20	Return Inwards A/c	2	15,000
				'' 29	Balance c/d		135,000
			150,000				150,000

Title of Account <u>Returns Inwards Account</u>   A/C Code No. <u>8</u>

Debit				Credit			
Date	**Particulars**	**J.R**	**Amount (Rs.)**	**Date**	**Particulars**	**J.R**	**Amount (Rs.)**
2016 Feb 20	Accounts Receivable A/c	2	15,000	2016 Feb 29	Balance c/d		15,000
			15,000				15,000

Title of Account <u>Salaries Account</u>   A/C Code No. <u>9</u>

Debit				Credit			
Date	**Particulars**	**J.R**	**Amount (Rs.)**	**Date**	**Particulars**	**J.R**	**Amount (Rs.)**
2016 Feb 29	Cash A/c	2	10,000	2016 Feb 29	Balance c/d		10,000
			10,000				10,000

SELF-BALANCING/RUNNING BALANCE LEDGER ACCOUNTS

Title of Account <u>Cash Account</u>   **A/C Code No. <u>1</u>**

Date	Particulars	J.R	Debit Rs.	Credit Rs.	Balance Debit Rs.	Credit Rs.
2016						
Feb 01	Capital A/c	1	500,000		500,000	
'' 02	Purchases A/c	1		100,000	400,000	
'' 12	Machinery A/c	1	500,000		900,000	
'' 14	Sales A/c	1	200,000		1,100,000	
'' 26	Machinery A/c	2		300,000	800,000	
'' 29	Salaries A/c	2		10,000	790,000	

Title of Account <u>Machinery Account</u>   **A/C Code No. <u>2</u>**

Date	Particulars	J.R	Debit Rs.	Credit Rs.	Balance Debit Rs.	Credit Rs.
2016						
Feb 01	Capital A/c	1	900,000		900,000	
'' 12	Cash A/c	1		500,000	400,000	
'' 26	Cash A/c	2	300,000		700,000	

Title of Account <u>Capital Account</u>　　　　　　　　　　　　　　A/C Code No. <u>3</u>

Date	Particulars	J.R	Debit Rs.	Credit Rs.	Balance	
					Debit Rs.	Credit Rs.
2016						
Feb 01	Cash A/c	1		500,000		500,000
'' 01	Machinery A/c	1		900,000		1,400,000

Title of Account <u>Purchases Account</u>　　　　　　　　　　　　A/C Code No. <u>4</u>

Date	Particulars	J.R	Debit Rs.	Credit Rs.	Balance	
					Debit Rs.	Credit Rs.
2016						
Feb 02	Cash A/c	1	100,000		100,000	
'' 10	Accounts Payable A/c	1	80,000		180,000	

Title of Account <u>Accounts Payable Account</u>　　　　　　　A/C Code No. <u>5</u>

Date	Particulars	J.R	Debit Rs.	Credit Rs.	Balance	
					Debit Rs.	Credit Rs.
2016						
Feb 10	Purchases A/c	1		80,000		80,000

Title of Account <u>Sales Account</u>   A/C Code No. <u>6</u>

Date	Particulars	J.R	Debit Rs.	Credit Rs.	Balance Debit Rs.	Credit Rs.
2016						
Feb 14	Cash A/c	1		200,000		200,000
'' 18	Accounts Receivable A/c	1		150,000		350,000

Title of Account <u>Accounts Receivable Account</u>   A/C Code No. <u>7</u>

Date	Particulars	J.R	Debit Rs.	Credit Rs.	Balance Debit Rs.	Credit Rs.
2016						
Feb 18	Sales A/c	1	150,000		150,000	
'' 20	Return Inwards A/c	2		15,000	135,000	

Title of Account <u>Returns Inwards Account</u>   A/C Code No. <u>8</u>

Date	Particulars	J.R	Debit Rs.	Credit Rs.	Balance Debit Rs.	Credit Rs.
2016						
Feb 20	Accounts Receivable A/c	2	15,000		15,000	

Title of Account <u>Salaries Account</u>   A/C Code No. **9**

Date	Particulars	J.R	Debit Rs.	Credit Rs.	Balance Debit Rs.	Credit Rs.
2016 Feb 29	Cash A/c	2	10,000		10,000	

Mr. Akram

Trial Balance

As on Feb. 29, 2016

S. No.	Account Names	Account Code No.	Debit Rs.	Credit Rs.
1	Cash account	1	790,000	
2	Machinery account	2	700,000	
3	Capital account	3		1,400,000
4	Purchases account	4	180,000	
5	Accounts Payable account	5		80,000
6	Sales account	6		350,000
7	Accounts Receivable A/c	7	135,000	
8	Returns Inwards A/c	8	15,000	
9	Salaries A/c	9	10,000	
			1,830,000	1,830,000

Note: Please consult recommended books mentioned in "books" Tab of VU-LMS for more practice.