

POSTING IN LEDGERS AND BALANCING THE LEDGERS

In most business entities each class of transaction and their associated assets and liabilities are given their own account. For example, there will be separate accounts for sales, purchases, rent, liabilities to pay suppliers (payables), amounts due from customers (receivables) etc. There is no rule as to how many accounts an entity should have but the system should facilitate effective and efficient accounting and control. Each account in the system is referred to as a 'ledger.'

In simple terms the ledger accounts are where the double entry records of all transactions and events are made. They are the principal books or files for recording and totalling monetary transactions by account. An entity's financial statements are generated from summary totals in the ledgers.

The term 'nominal ledger' or 'general ledger' is used to refer to the overall system of ledger accounts used within an entity. It houses all the separate ledgers required to produce a complete trial balance and, consequently, set of financial statements.

As stated above, each class of transaction, asset, liability and item of equity will have its own ledger account. The summary of these ledger balances will eventually be transferred to the trial balance.

A ledger is represented by a "T" account. Separate T accounts (or ledgers) are prepared for each and every account maintained by the company. For example we may have T accounts for cash, Mr. B.& company, Rent

Ledger Posting

After preparing a separate ledger for each account, one has to refer to the journal entries. After locating any transaction affecting the given account in the journal, that journal entry (along with its date, amount, and credit/debit effect) is to be posted in the ledger. This process of transferring a transaction from a journal to the respective ledger account is called posting.

The entry to be posted in the ledger contains all information such as Date, Amount (Dr.) or Amount (Cr.), Journal Folio no., and the name of the corresponding account to be written in the "particulars" column.

While transferring the journal entry into the ledger, it is to be remembered that the account (ledger) which is credited in the journal, is written in the debit side of the ledger which is debited in the journal entry and vice-versa. Similarly, the names of accounts which appear on the debit side of any ledger always contain a prefix "To" whereas the names of accounts which appear on the credit side of any ledger always contain a prefix "By".

Rules of posting:

1. Debit the account in ledger that has been debited in journal.
2. Credit the account in ledger that has been credited in journal.
3. Use the name of the other account for referencing.
4. Use 'To' on the debit side and 'By' on the credit side.

Balancing a Ledger

The steps for balancing a given ledger are as follows:

- First the total of both (debit and credit) sides of the ledger account are done.
- If the debit side is greater than credit side by say Rs. 100, then the "difference amount i.e Rs.100" is put into the credit side by passing an entry "By balance c/d" Rs.100. By doing so, both the sides of the account become equal. The last step is to transfer the amount written in "by balance c/d" to other side of the account (below the total line) by writing "to balance b/d". This becomes the opening entry for the next accounting period.
- If the credit side is greater than debit side, then the "difference amount" is put into the debit side by passing an entry "To balance c/d". By doing so, both the sides of the account become equal. The last step is to transfer the amount written in "To balance c/d" to other side of the account (below the total line) by writing "By balance b/d". This becomes the opening entry for the next accounting period.
- Note: only real and personal accounts are to be balanced. Nominal accounts are generally not balanced rather at the end of the accounting period; their totals are transferred to Profit and loss account.

Consider the following transactions and pass journal entries for them and then post them into appropriate ledgers of "Wise Traders and Co."

March

1. Started business with Rs.1,00,000 in Bank, Rs. 20,000 cash

1. Bought shop fittings Rs. 20,000 and a scooter Rs. 30,000, both by cheque.

2. Paid rent by cheque – Rs. 2500
3. Bought goods for Re sale on credit from “K. K. and Co.,” Rs. 25,000
4. Cash sales worth Rs. 2500
8. Paid wages of worker – Rs. 500 in cash.
10. Paid insurance by cheque – Rs. 250.
12. Cash sales – Rs. 4,000/-
15. Paid wages of worker – Rs. 500/-.
- Goods returned to KK & Co. worth Rs. 3000/.
17. Paid to ‘K K and Co.,’ Rs. 15000 by cheque.
19. Bought goods for resale from “RC and Co” on credit – Rs. 12,500
19. Cash Sale - 3500
22. Paid wages to worker in cash Rs. 500
24. Bought stationary Rs. 250 by cash.
25. Cash sales Rs. 7500
27. Paid “RC and Co.” Rs. 7000 by cheque
29. Paid wages to worker Rs. 500.
31. Deposited Rs. 10,000 into bank.

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Date	Particulars	L.F. No.	Amount (Dr.)	Amount (Cr.)
March 1	Bank a/c Dr.		1,00,000	
	Cash a/c Dr.		20,000	
	To capital a/c			1,20,000
	(Being the business started with given capital)			
2	Furniture and Fittings a/c Dr.		20,000	
	Scooter a/c Dr.		30,000	
	To bank a/c			50,000
	(Being the purchase of fittings and scooter by cheque)			
2	Rent a/c Dr.		2500	
	To bank a/c			2500
	(Being the payment of Rent by cheque)			
3	Goods a/c Dr.		25,000	
	To “K K and Co.” a/c			25,000
	(Being the goods bought on credit)			
4	Cash a/c Dr.		2500	

	To sales a/c			2500
	(Being the cash sales)			
8	Wages a/c Dr.		500	
	To cash a/c			500
	(Being the wages paid in cash)			
10	Insurance a/c		250	
	To bank a/c			250
	(Being the insurance paid by cheque)			
12	Cash a/c Dr.		4000	
	To sales a/c			4000
	(Being cash sales)			
15	Wages a/c		500	
	To cash a/c			500
	(Being wages paid by cash)			
15	"K K and Co.," a/c Dr.		3000	
	To returns outward a/c			3000
	(Being goods returned)			
17	"KK and Co" a/c Dr.		15000	
	To bank a/c			15000
	(Being paid to "K K and Co" by cheque)			
19	Goods a/c Dr		12500	
	To RC and Co a/c			12500
	(Being goods brought on credit)			
19	Cash a/c Dr		3500	
	To Sales a/c			3500
	(Being cash sales)			
22	Wages a/c Dr		500	
	To Cash a/c			500
	(Being wages paid in cash)			
24	Stationary a/c Dr		250	
	To Cash a/c			250
	(Being stationery bough by cash)			
25	Cash a/c Dr		7500	
	To Sales a/c			7500
	(Being cash sales)			
27	RC and Co' a/c Dr		7000	
	To Bank a/c			7000
	(Being paid to 'RC and Co by cheque)			
29	Wages a/c Dr		500	
	To Cash a/c			500
	(Being wages paid in cash)			
31	Bank a/c Dr		10000	
	To Cash a/c			10000
	(Being Cash deposited in to bank)			

Consider the data given in illustration and prepare the individual ledger Account from the journal entries.

Cash A/c

Dr				Cr			
Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
1	To Capital A/c		20000	8	By wages A/c		500
4	To Sales A/c		2500	15	By wages A/c		500
12	To Sales A/c		4000	22	By wages A/c		500
19	To Sales A/c		3500	24	By Stationary A/c		250
25	To Sales A/c		7500	29	By wages A/c		500
				31	By Bank A/c		10000
				31	By Balance C/d		25250
			37500				37500
1.04	To Balance B/d		25250				

Capital A/c

Dr				Cr			
Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
31	To Balance C/d		120000	1	By Bank A/c		100000
				1	By Cash A/c		20000
			120000				120000
				1.04	By Balance B/d		120000

Bank A/c

Dr				Cr			
Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
1	To Capital A/c		100000	2.03	By furniture and fitting A/c		20000
31	To Cash A/c		10000	2.03	By Scooter A/c		30000
				2.03	By rent A/c		2500
				10	By insurance A/c		250
				17	By KK and Co A/c		15000
				31	By Balance C/d		35250
			110000				110000
1.04	To Balance B/d		35250				

Furniture and Fittings A/c

Dr				Cr			
Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
2	To Bank A/c		20000	31	By Balance C/d		20000
			20000				20000
1.04	To Balance B/d		20000				

Two Wheeler A/c

Dr				Cr			
Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
2	To Bank A/c		30000	31	By Balance C/d		30000
			30000				30000
1.04	To Balance B/d		30000				

Rent A/c

Dr							Cr
Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
2	To Bank A/c		2500				

Goods A/c

Dr							Cr
Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
3.03	To KK and Co A/c		25000				
19.03	To RC and Co A/c		12500				
			37500				

KK and Co A/c

Dr							Cr
Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
15.03	To Returns Outward A/c		3000	3.03	By Goods A/c		25000
17.03	To Bank A/c		15000				
31.03	To Balance C/d		7000				
			25000				25000
				1.04	By Balance B/d		7000

Sales A/c

Dr							Cr
Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
				4.03	By Cash A/c		2500
				12.3	By Cash		4000

					A/c		
				19.3	By Cash A/c		3500
				25.3	By Cash A/c		7500
							17500

Wages A/c

Dr							Cr
Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
8.03	To Cash A/c		500				
15.03	To Cash A/c		500				
22.03	To Cash A/c		500				
29.03	To Cash A/c		500				
			2000				

Insurance A/c

Dr							Cr
Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
10.03	To Bank A/c		250				

Returns Outward A/c

Dr							Cr
Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
				15.03	By KK and Co A/c		3000

Stationery A/c

Dr							Cr
Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
29	To cash a/c		250	31	By Balance		250

					c/d		
			250				250
1.04	To Balance b/d		250				

Trial Balance

After preparing the individual ledger Accounts from the journal entries in the above manner, and balancing or closing the Accounts, the next step is to prepare a trial balance. A trial balance is a statement that is prepared in order to check the accuracy of journalising and posting of transactions. It is prepared by listing various debit balance Account in one column and all the credit balance Account in another column and checking the total of both the columns. If the total in both – the debit column and credit column is same, then we can say that the trial balance agrees and there does not seem to be any arithmetical error in the Accounts. Such a trial balance prepared after balancing the individual ledgers (i.e after ascertaining the net debit or credit balance in a ledger) is called a trial balance by Net Balance method.

Trial Balance (Net Balance Method)

Sr. No.	Name of Account	Debit Balance	Credit Balance
1	Cash A/c	25250	
2	Capital A/c		120000
3	Bank A/c	35250	
4	Furniture and Fitting A/c	20000	
5	Scooter (Two Wheeler A/c)	30000	
6	Rent A/c	2500	

7	Goods A/c	37500	
8	ZK and Co A/c		7000
9	Sales A/c		17500
10	Wages A/c	2000	
11	Insurance A/c	250	
12	Returns Outward A/c		3000
13	RC and Co A/c		5500
14	Stationary A/c	250	
	Total	153000	153000

For preparing trial balance, totals method can also be adopted where in instead of taking balances of the accounts we take debit and credit totals of each account and put them in the trial balance. Once it is done, all the debit totals and credit totals are added and they should be equal by which it can be argued that the trial balance agrees.

For the concept of opening entry in journal kindly refer to the link below:

<https://www.youtube.com/watch?v=UQRk1s9pdyo>

For any query regarding preparation of ledger and trial balance, refer to the link below:

https://www.youtube.com/watch?v=z_KO49Pk3DM