9

BANK RECONCILIATION STATEMENT

You operate a bank account in which you deposit money and withdraw money from time to time. You maintain a record with yourself of these deposits and withdrawals. One day you get your pass-book (statement issued by the bank) updated but are surprised to find that the balance shown by the pass book was different from what it should have been as per your records. What will you do in this case? It is obvious that you will compare the two sets of records and find out items which are recorded in one but not in the other. Similar situation may arise in case of a business concern which operates a bank account. These business concerns maintain record of all of their banking transactions in their bank column of the cash book. On any particular date the bank balance shown by the bank column cash book and that shown by the pass book should be the same. But if there is difference between the two, the business concern will find out the reasons to reconcile the balance. In this lesson you will learn about reasons for difference and prepare the reconciliation statement called Bank Reconciliation Statement.

OBJECTIVES

After studying this lesson, you will be able to:

- state the meaning and need of Bank Reconciliation Statement;
- explain the reasons for difference between the balances of Cash Book and Pass Book;
- prepare the Bank Reconciliation Statement.

9.1 BANK RECONCILIATION STATEMENT - MEANING AND NEED

Business concern maintains the cash book for recording cash and bank transactions. The Cash book serves the purpose of both the cash account

and the bank account. It shows the balance of both at the end of a period. Bank also maintains an account for each customer in its book. All deposits by the customer are recorded on the credit side of his/her account and all withdrawals are recorded on the debit side of his/her account. A copy of this account is regularly sent to the customer by the bank. This is called 'Pass Book' or Bank statement. It is usual to tally the firm's bank transactions as recorded by the bank with the cash book. But sometimes the bank balances as shown by the cash book and that shown by the pass book/bank statement do not match. If the balance shown by the pass book is different from the balance shown by bank column of cash book, the business firm will identify the causes for such difference. It becomes necessary to reconcile them. To reconcile the balances of Cash Book and Pass Book a statement is prepared. This statement is called the 'Bank Reconciliation Statement. It can be said that :

> Bank Reconciliation Statement is a statement prepared to reconcile the difference between the balances as per the bank column of the cash book and pass book on any given date.

Need of preparing Bank Reconciliation Statement

It is neither compulsory to prepare Bank Reconciliation Statement nor a date is fixed on which it is to be prepared. It is prepared from time to time to check that all transactions relating to bank are properly recorded by the businessman in the bank column of the cash book and by the bank in its ledger account. Thus, it is prepared to reconcile the bank balances shown by the cash book and by the bank statement. It helps in detecting, if there is any error in recording the transactions and ascertaining the correct bank balance on a particular date.

INTEXT QUESTIONS 9.1

Fill in the blanks with suitable word/words :

1. The copy of customer's account with the Bank is called .....

2. The cheques deposited are entered on the ..... of the bank column of cash book.

3. Bank Reconciliation statement is prepared to ..... the bank balance as shown by the cash book and the bank statement.

4. Cheques issued are posted on the ..... side of the bank column of Cash Book.

5. The credit column of pass book should be equal to ..... column of cash book and debit column of pass book should equal to ..... column of cash book, if there are no differences.

9.2 REASONS FOR DIFFERENCE

When a businessman compares the Bank balance of its cash book with the balance shown by the bank pass book, there is often a difference. As the time period of posting the transactions in the bank column of cash book does not correspond with the time period of posting in the bank pass book of the firm, the difference arises. The reasons for difference in balance of the cash book and pass book are as under :

1. Cheques issued by the firm but not yet presented for payment

When cheques are issued by the firm, these are immediately entered on the credit side of the bank column of the cash book. Sometimes, receiving person may present these cheques to the bank for payment on some later date. The bank will debit the firm's account when these cheques are presented for payment. There is a time period between the issue of cheque and being presented in the bank for payment. This may cause difference to the balance of cash book and pass book.

2. Cheques deposited into bank but not yet collected

When cheques are deposited into bank, the firm immediately enters it on the debit side of the bank column of cash book. It increases the bank balance as per the cash book. But, the bank credits the firm's account after these cheques are actually realised. A few days are taken in clearing of local cheques and in case of outstation cheques few more days are taken. This may cause the difference between cash book and pass book balance.

3. Amount directly deposited in the bank account

Sometimes, the debtors or the customers deposit the money directly into firm's bank account, but the firm gets the information only when it receives the bank statement. In this case, the bank credits the firm's account with the amount received but the same amount is not recorded in the cash book. As a result the balance in the cash book will be less than the balance shown in the Pass book.

4. Bank Charges

The bank charge in the form of fees or commission is charged from time to time for various services provided from the customers' account without the intimation to the firm. The firm records these charges after receiving the bank intimation or statement. Example of such deductions is : Interest on overdraft balance, credit cards' fees, outstation cheques, collection charges, etc. As a result, the balance of the cash book will be more than the balance of the pass book.

5. Interest and dividend received by the bank

Sometimes, the interest on debentures or dividends on shares held by the account holder is directly deposited by the company through Electronic Clearing System (ECS). But the firm does not get the information till it receives the bank statement. As a consequence, the firm enters it in its cash book on a date later than the date it is recorded by the bank. As a result, the balance as per cash book and pass book will differ.

6. Direct payments made by the bank on behalf of the customers

Sometimes, bank makes certain payments on behalf of the customer as per standing instructions. Telephone bills, rent, insurance premium, taxes, etc are some of the expenses. These expenses are directly paid by the bank and debited to the firm's account immediately after their payment. but the firm will record the same on receiving information from the bank in the form of Pass Book or bank statement. As a result, the balance of the pass book is less than that of the balance shown in the bank column of the cash book.

7. Dishonour of Cheques/Bill discounted

If a cheque deposited by the firm or bill receivable discounted with the bank is dishonoured , the same is debited to firm's account by the bank. But the firm records the same when it receives the information from the bank. As a result, the balance as per cash book and that of pass book will differ.

8. Errors committed in recording transactions by the firm

There may be certain errors from firm's side, e.g., omission or wrong recording of transactions relating to cheques deposited, cheques issued and wrong balancing etc. In this case, there would be a difference between the balances as per Cash Book and as per Pass Book.

9. Errors committed in recording transactions by the Bank

Sometimes, bank may also commit errors, e.g., omission or wrong recording of transactions relating to cheques deposited etc. As a result, the balance of the bank pass book and cash book will not agree.

INTEXT QUESTIONS 9.2

Given below are statements. Some of these statements are true statements and some of these are false statements. Write 'T' for True and 'F' for false statements.

1. Bank credits firm's account as soon as it receives cheques from the firm.
2. Bank charges are never entered in the Cash Book.
3. Banks make certain payments on behalf of the customer under his standing instructions.
4. In case of cheques issued but not encashed, the balance of pass book will be less than the balance of Cash Book.
5. Direct deposits in the bank by a customer would increase the balance shown by the Pass Book.

9.3 PREPARATION OF BANK RECONCILIATION STATEMENT

To reconcile the bank balance as shown in the pass book with the balance shown by the cash book, Bank Reconciliation Statement is prepared. After identifying the reasons of difference, the Bank Reconciliation statement is prepared without making change in the cash book balance.

We may have the following different situations with regard to balances while preparing the Bank Reconciliation statement. These are:

1. Favourable balances

(a) Debit balance as per cash book is given and the balance as per pass book is to be ascertained.

(b) Credit balance as per pass book is given and the balance as per cash book is to be ascertained.

2. Unfavourable balance/overdraft balance

(a) Credit balance as per cash book (i.e. overdraft) is given and the balance as per pass book is to be ascertained.

(b) Debit balance as per pass book (i.e. overdraft) is given and the balance as per cash book is to be ascertained.

The following steps are taken to prepare the bank reconciliation statement:

(i) **Favourable balances :** When debit balance as per cash book or credit balance as per pass book is given :

(a) Take balance as a starting point say Balance as per Cash Book.

(b) Add all transactions that have resulted in increasing the balance of the pass book.

(c) Deduct all transactions that have resulted in decreasing the balance of pass book.

(d) Extract the net balance shown by the statement which should be the same as shown in the pass book.

In case balance as per pass book is taken as starting point all transactions that have resulted in increasing the balance of the Cash book will be added and all transactions that have resulted in decreasing the balance of Cash book will be deducted. Now extract the net balance shown by the statement which should be the same as per the Cash book..

The following illustration helps to understand dealing with the favourable balance as per cash book or pass book.

Illustration 1

From the following particulars of M/s Ananaya Industries, prepare bank reconciliation statement as on December 31, 2006

1. Bank balance as per cash book Rs.32,500
2. Cheques deposited into bank but not credited upto December 31, 2006 Rs.8,900.
3. Cheques issued but not presented for payment Rs. 12,500.
4. Bank credited Rs.5,000 for receiving dividend through Electronic Clearing System.
5. Bank charges debited by Bank Rs.400.

Solution

Bank Reconciliation statement of M/s Ananaya Industries
As on December 31, 2006

Particulars	(Plus) Amount (Rs.)	(Minus) Amount (Rs.)
1. Balance as per cash book	32,500	
2. Cheques deposited but not credited by the bank		8,900
3. Cheques issued but not presented for payment	12,500	
4. Dividend received through ECS	5,000	
5. Bank charges debited by bank		400
Balance as per pass book		40,700
	50,000	**50,000**

Illustration 2

Take the figures given in illustration number 1. prepare bank reconciliation statement taking balance as per pass book i.e. Rs.40,700 as the starting point,

Solution

Bank Reconciliation statement of M/s Ananava Industries
as on December 31, 2006

Particulars	(Plus) Amount (Rs.)	(Minus) Amount (Rs.)
1. Balance as per pass book	40,700	
2. Cheques deposited but not credited by the bank	8,900	
3. Cheques issued but not presented for payment		12,500
4. Dividend received through ECS		5,000
5. Bank charges debited by bank	400	
Balance as per Cash book		32,500
	50,000	**50,000**

Illustration 3

From the following particulars of Reema Traders, prepare a bank reconciliation statement on June 30,2006

1. Balance as per the cash book Rs.35,750
2. Rs.250 charges for Credit card fee is debited by bank, which is not recorded in cash book.
3. Cheques for Rs.7,550 are deposited in the bank but not yet collected by the Bank.
4. There was also a debit in the pass book of Rs.3,500 in respect of a discounted bill dishonoured.

Solution

Bank Reconciliation statement of M/s Reema Traders
As on June 30, 2006

Particulars	(Plus) Amount (Rs.)	(Minus) Amount (Rs.)
1. Balance as per Cash book	35,750	
2. Cheques deposited but not credited by the bank		7,550
3. Credit card fee charges debited by the bank		250
4. Discounted bill dishonoured recorded only in Pass book		3,500
Balance as per Pass book		24,450
	35,750	**35,750**

Illustration 4

Bank Pass book of M/s. Brham Industries showed a credit balance of Rs.27,350 on July 31,2006. The following differences were found on that date between the cash book and the pass book:

1. Cheques issued before July 31,2006, amounting to Rs.19,000 had not been presented for payment.
2. Two cheques of Rs.5,000 and Rs.3,500 were deposited into bank on July 31, but the bank gives credit for the same in August.
3. Insurance premium directly paid by bank Rs.5,000.
4. Rs.2,000 wrongly debited to the firm account by the bank.

Prepare Bank Reconciliation Statement as on July 31,2006.

Solution:

Bank Reconciliation statement of M/s Brahm Industries as on July 31, 2006

Particulars	(Plus) Amount (Rs.)	(Minus) Amount (Rs.)
1. Balance as per pass book	27,350	
2. Cheques issued but not presented for payment		19,000
3. Cheques deposited but credited by the bank in August	8,500	
4. Insurance premium directly paid by bank	5,000	
5. Wrongly debited by the bank.	2,000	
Balance as per Cash book		23,850
	42,850	**42,850**

INTEXT QUESTIONS 9.3

You are given the balance as per Pass Book as the starting point and balance as per Cash Book is to be ascertained by you. Out of the following transactions, write 'A' against those amounts which will be added to the balance of Pass Book and 'R' against those by which balance of Pass Book will be reduced :

1. Interest allowed by Bank
2. Cheques deposited with bank and dishonoured
3. Cheques issued but not encashed
4. Bank charges
5. Insurance premium paid by bank
6. Dividends on share collected by bank.

9.4 UNFAVOURABLE BALANCE/OVERDRAFT BALANCE

Sometimes a businessman withdraws excess amount from the bank account and the closing bank balance of a month is a debit balance. This balance amount is called 'overdraft balance' as per Pass Book. This is shown in the cash book as a credit balance.

Credit balance as per cash book/Debit balance as per Pass Book.

Overdraft balance is to be shown in the minus column of statement as the starting point. The other steps shall remain same.

The following illustration helps to understand dealing with the unfavourable balance as per cash book and pass book.

Illustration 5

On December 31, 2006, the cash book of the M/s. Mona Plastics shows the credit balance Rs.6,500. Cheques amounting to Rs.3,500 deposited into bank but were not collected by the bank. Firm issued cheques of Rs. 1,000 which were not presented for payment. There was a debit in the pass book of Rs.200 for interest and Rs.400 for bank charges. Prepare Bank Reconciliation Statement.

Solution:

Bank Reconciliation statement of M/s Mona Plastics as on December 31,2006

Particulars	(Plus) Amount (Rs.)	(Minus) Amount (Rs.)
1. Overdraft as per cash book		6,500
2. Cheques issued but not presented for payment	1,000	
3. Cheques deposited but not credited by the bank		3,500
4. Bank charges and interest charged		600
Overdraft balance as per Bank Pass book	9,600	
	10,600	**10,600**

Illustration 6

Prepare Bank Reconciliation Statement of M/s Ashima Travels, from the following informations:

Bank overdraft as per Cash Book on 31st July, 2006 Rs.45,000

Cheques issued but not presented for payment Rs.17,500

Cheques deposited but not yet collected by the bank Rs.9,600

Interest on investment collected by the bank Rs.2,300

Bank charges Rs.350 debited by the bank not yet entered in the cash book.

Solution:

Bank Reconciliation statement of M/s Ashima Travels as on July 2006

Particulars	(Plus) Amount (Rs.)	(Minus) Amount (Rs.)
1. Overdraft as per cash book		45,000
2. Cheques issued but not presented for payment	17,500	
3. Cheques deposited but not credited by the bank		9,600
4. Interest on investment collected by the bank		2,300
5. Bank charges	350	
Overdraft balance as per Bank Pass book	39,050	
	56,900	**56,900**

Illustration 7

From the following particulars of Neha and Co. prepare Bank Reconciliation Statement on March 31,2006

	Rs.
Overdraft as per pass book	16,500
Interest on overdraft	1,600
Insurance premium paid by the bank	800
Cheques deposited but not yet credited	5,500
Cheques issued but not present for payment	6,000
Wrongly credit to firm account by the bank	1,000

Solution:

Bank Reconciliation Statement of M/s Neha & Co as on March 31, 2006

Particulars	(Plus) Amount (Rs.)	(Minus) Amount (Rs.)
1. Overdraft as per pass book		16,500
2. Interest on overdraft	1,600	
3. Insurance premium paid by bank	800	
4. Cheques deposited but not credited by the bank	5,500	
5. Cheques issued but not presented for payment		6,000
6. Wrongly credited by the bank		1,000
Overdraft balance as per cash book	15,600	
	23,500	**23,500**

INTEXT QUESTIONS 9.4

Fill in the blanks choosing correct word from the words given in brackets:

1. Overdraft means ..... balance. [Favourable/unfavourable].
2. The balance of cash book is ..... in case of overdraft. [debit/ credit].
3. Bank charges will ..... in case of overdraft as per Cash Book [increase/decrease].
4. Cheques issued but not encashed will ..... in case of the overdraft as per Pass Book. [increase/decrease]
5. Interest allowed by bank ..... in case of the favourable balance of cash book. [adds to/reduces]

WHAT YOU HAVE LEARNT

- Bank Reconciliation Statement is a statement prepared to reconcile the difference between the balances as per the bank column of the cash book and pass book on any given date.
- There are certain reasons due to which a difference in the balance of Pass Book and Cash Book take place. These are as follows:
  - (a) Cheques issued by the firm but not yet presented for payment.
  - (b) Cheques deposited into bank but not yet collected.
  - (c) Amount directly deposited in the bank account.
  - (d) Bank Charges
  - (e) Interest and dividend received by the bank.
  - (f) Direct payments made by the bank on behalf of the customer.
  - (g) Cheques/discounted bills dishonoured.
  - (h) Errors committed in recording transactions by the firm.
  - (i) Errors committed in recording transactions by the Bank

- Different situations for preparing the Bank Reconciliation statement. These are:

Favourable balances

(a) Debit balance as per cash book is given and the balance as per pass book is to be ascertained.

(b) Credit balance as per pass book is given and the balance as per cash book is to be ascertained.

Unfavourable balance/overdraft balance

(a) Credit balance as per cash book (i.e. overdraft) is given and the balance as per pass book is to be ascertained.

(b) Debit balance as per pass book (i.e. overdraft) is given and the balance as per cash book is to be ascertained.

TERMINAL QUESTIONS

1. What is a Bank Reconciliation statement?
2. What is the need of preparing Bank Reconciliation statement?
3. Enumerate the causes of difference in the balance of cash book and pass book.
4. From the following particulars, prepare Bank Reconciliation statement as on December 31, 2006.

   (i) Balance as per Cash Book Rs.4,200

   (ii) Cheques issued but not presented for payment Rs.2,000

   (iii) Cheques deposited but not collected Rs.3,000

   (iv) Bank charges debited by the bank Rs.250.
5. Prepare Bank Reconciliation statement as on March 31, 2006. On this date the passbook of M/s Noopur Industries showed a balance of Rs.27,500.

   (a) Cheques of Rs.14,000 directly deposited by a customer.

   (b) Cheques for Rs.13,500 were issued during the month of March but of these cheques for Rs.1,500 were not presented by the end of March.

(c) The bank collected Rs.2,500 as dividend on shares.

(d) Cheques of Rs.17500 were paid into bank but of Rs 8500 were realised in the month of April.

6. On April 1, 2006, Rohan had an overdraft of Rs.16,000 as shown by the cash book. Cheques amounting to Rs.6,000 had been paid by him but not collected by the bank till date. He issued cheques of Rs.8,000 which were not presented to the bank for payment. There was a debit in his passbook of Rs.500 for interest and Rs.200 for bank charges and a cheque of Rs.5000 was paid into bank but the same was debited twice in the cash book. Prepare Bank Reconciliation Statement.

7. Overdraft shown by the passbook of M/s.Mohit trader is Rs.40,000. Prepare Bank Reconciliation statement on December 31,2006.

   (a) Bank charges debited as per pass book Rs.1,000

   (b) Received a payment directly from customer Rs.7,000

   (c) Cheques wrongly recorded in debit side of cash book Rs.4,000

   (d) Cheques issued but not presented for payment Rs.9,800

   (e) Cheques deposited with the bank but not collected Rs. 12,500

   (f) Insurance premium paid by the bank Rs.3,500

ANSWERS TO INTEXT QUESTIONS

Intext Questions 9.1

1. pass Book	2. Debit side	3. reconcile
4. credit	5. Debit, credit	

Intext Questions 9.2

1. F	2. F	3. T
4. F	5. T	

Intext Questions 9.3

1. R	2. A	3. R
4. A	5. A	6. R

Intext Questions 9.4

1. Unfavourable 2. Credit 3. Increase
4. Decrease 5. Adds to

Answers to Terminal Questions

4. Balance as per pass Book Rs.2,950
5. Balance as per Cash Book Rs. 9,500
6. Overdraft as per pass Book Rs. 23,200
7. Overdraft as per cash book Rs.40,800

Activity

You know that businessman generally visit their banks to get updated position regarding their bank account. Visit any bank and enquire from the bank officer what discrepencies generally they notice in the items. They have recorded or not recorded the items or not recorded by their customers. Make a list of the discrepencies and show the effect on the bank balance.

S.No.	Reason of discrepency/actual difference in the bank balance and the balance expected by the customer	Effect on account	
		Plus	Minus
1.			
2.			
3.			
4.			
5.			
6.			
7.			

6

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.

These ledgers may be as follows :

Types of Ledger

1. **Assets Ledger :** It contains accounts relating to assets only e.g. Machinery account, Building account, Furniture account, etc.
2. **Liabilities Ledger :** It contains the accounts of various liabilities e.g. Capital (Owner or partner), Loan' account, Bank overdraft, etc.
3. **Revenue Ledger :** It contains the revenue accounts e.g.. Sales account, Commission earned account, Rent received account, interest received account, etc.
4. **Expenses Ledger :** It contains the various accounts of expenses incurred, e.g. Wages account, Rent paid account, Electricity charges account, etc.
5. **Debtors Ledger :** It contains the accounts of the individual trade debtors of the business. Individuals, firms and institutions to whom goods and services are sold on credit by business become the 'trade debtors' of the business.
6. **Creditors Ledger :** It contains the accounts of the individual trade Creditors of the business. Individuals, firms and institutions from whom a business purchases goods and services on credit are called 'trade creditors' of the business.
7. **General Ledger :** It contains all those accounts which are not covered under any of the above types of ledger. For example Landlord A/c, Prepaid insurance A/c etc.

INTEXT QUESTIONS 6.1

I. Fill in the blanks with a suitable word or words :

(i) Ledger contains various ..... in it.

(ii) The process of transfer of entries from Journal and special purpose books to ledger is called .....

(iii) Ledger is also called .....

(iv) Ledger is a ..... book of accounting system.

II. Match the column A with column B :

A	B
(i) Book containing accounts	(a) Ledger
(ii) Pages number of the ledger	(b) Liabilities ledger
(iii) Machinery account, Building account, furniture Accounts, etc.	(c) Revenue ledger

(iv)	Loan's account, Bank overdraft account, etc.	(d)	Expenses ledger
(v)	Rent paid, wages paid, electricity charges	(e)	Folio
(vi)	Sales account, commission account, interest received account etc.	(f)	Assets 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

January 5	Purchased furniture for cash	5000
January 8	Purchased goods and paid by cheque	15000
January 8	Paid for carriage	500
January 14	Purchased Goods from K. Murthy	35000
January 18	Cash Sales	32000
January 20	Sold Goods to Ashok on credit	28000
January 25	Paid cash to K. Murthy in full settlement	34200
January 28	Cash received from Ashok	20000
January 31	Paid Rent for the month	2000
January 31	Withdrew from bank for private use	2500

Solution :

Journal

Date	Particulars	LF	Dr. Amount Rs.	Cr Amount Rs.
2007				
Jan 1	Cash A/c Dr.		50,000	
	To Capital A/c			50,000
	(Commenced business with cash)			
Jan 3	Bank A/c Dr		25,000	
	To cash A/c			25,000
	(Cash paid in the Bank)			
Jan 5	Furniture A/c Dr		5000	
	To Cash A/c			5000
	(Purchased furniture for cash)			
Jan 8	Purchases A/c Dr		15000	
	To Bank A/c			15,000
	(Purchased goods and paid by cheque)			
Jan 8	Carriage A/c Dr		500	
	To Cash A/c			500
	(Cash paid for carriage charges)			

Jan 14	Purchases A/c To K. Murthy (Goods purchased on credit)	Dr		35000	 35,000
Jan 18	Cash A/c To Sales A/c (Goods sold for cash)	Dr		32000	 32000
Jan 20	Ashok To Sales A/c (Goods sold to Ashok credit)	Dr		28000	 28000
Jan 25	K Murthy To Cash A/c To Discount A/c (Cash paid to K. Murthi a discount allowed by them)	Dr		35000	 34200 800
Jan 28	Cash A/c To Ashok (Cash received from Ashok on Account)	Dr		20000	 20000
Jan 31	Rent A/c To Cash A/c (Cash paid for rent)	Dr		2000	 2000
jan 31	Drawings A/c To Bank A/c (Cash withdrawn from bank for domestic use)	Dr		2500	 2500

Ledger

Cash A/c

Dr. Cr.

Date	Particulars	JF	Amount Rs.	Date	Particular	JF	Amount Rs.
2006				2006			
Jan 1	Capital A/c		50000	Jan 3	Bank A/c		25000
” 18	Sales A/c		32000	Jan 5	Furniture		5000
” 28	Ashok		20000	Jan 8	Carriage		500
				Jan 25	K. Murthy		34200
				Jan 31	Rent A/c		2000

Capital A/c

Dr. Cr.

Date	Particulars	JF	Amount Rs	2006	Particulars	JF	Amount Rs
				Jan 1	Cash A/c		50000

Bank A/c

Dr. Cr.

Date	Particulars	JF	Amount Rs	2006	Particulars	JF	Amount Rs
2006				2006			
Jan 2	Cash A/c		25000	Jan 31	Drawings A/c		2500
				Jan 8	Purchases A/c		15000

Furniture A/c

Dr. Cr.

Date	Particulars	JF	Amount Rs.	Date	Particulars	JF	Amount Rs.
2006							
Jan 2	Cash A/c		5000				

Purchases A/c

Dr. Cr.

Date	Particulars	JF	Amount Rs.	Date	Particulars	JF	Amount Rs.
2006							
Jan 8	Bank A/c		15000				
Jan 14	K. Murthy		35000				

Carriage A/c

Dr. Cr.

Date	Particulars	JF	Amount Rs.	Date	Particulars	JF	Amount Rs.
2006							
Jan 8	Cash A/c		500				

K. Murthy A/c

Dr. Cr.

Date	Particulars	JF	Amount Rs.	Date	Particulars	JF	Amount Rs.
2006				2006			
Jan 25	Cash A/c		34000	Jan 14	Purchases A/c		35000
Jan 25	Discount A/c		800				

Sales A/c

Dr. Cr.

Date	Particulars	JF	Amount Rs.	Date	Particulars	JF	Amount Rs.
				2006			
				Jan 18	Cash A/c		32000
				Jan 20	Ashok		28000

Ashok A/c

Dr. Cr.

Date	Particulars	JF	Amount Rs.	Date	Particulars	JF	Amount Rs.
2006				2006			
Jan 20	Sales A/c		28000	Jan 28	Cash A/c		20000

Rent A/c

Dr. Cr.

Date	Particulars	JF	Amount Rs.	Date	Particulars	JF	Amount Rs.
2006							
Jan 3	Cash A/c		2000				

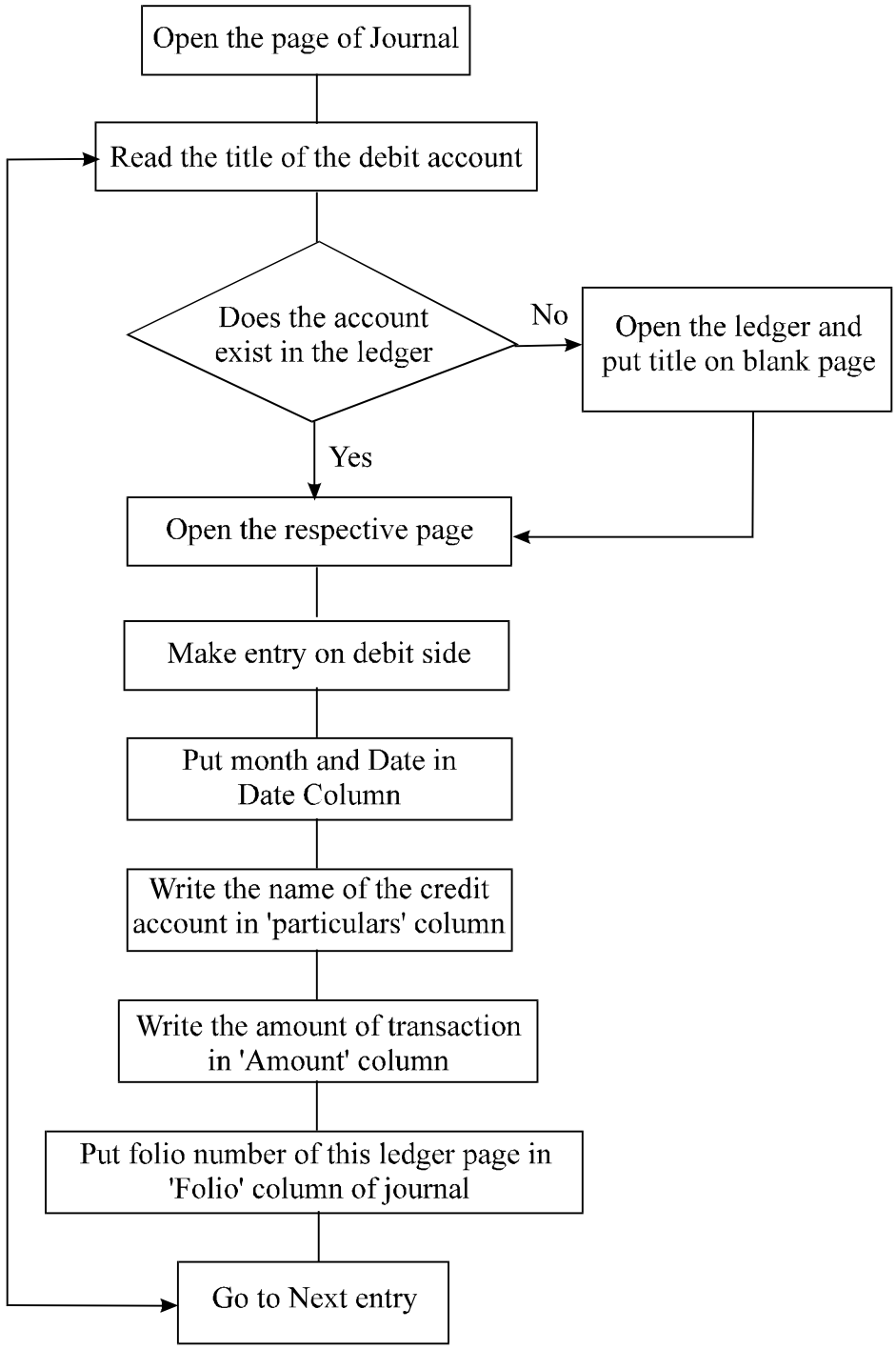
Drawings A/c

Dr. Cr.

Date	Particulars	JF	Amount Rs.	Date	Particulars	JF	Amount Rs.
2006							
Jan 18	Bank A/c		2500				

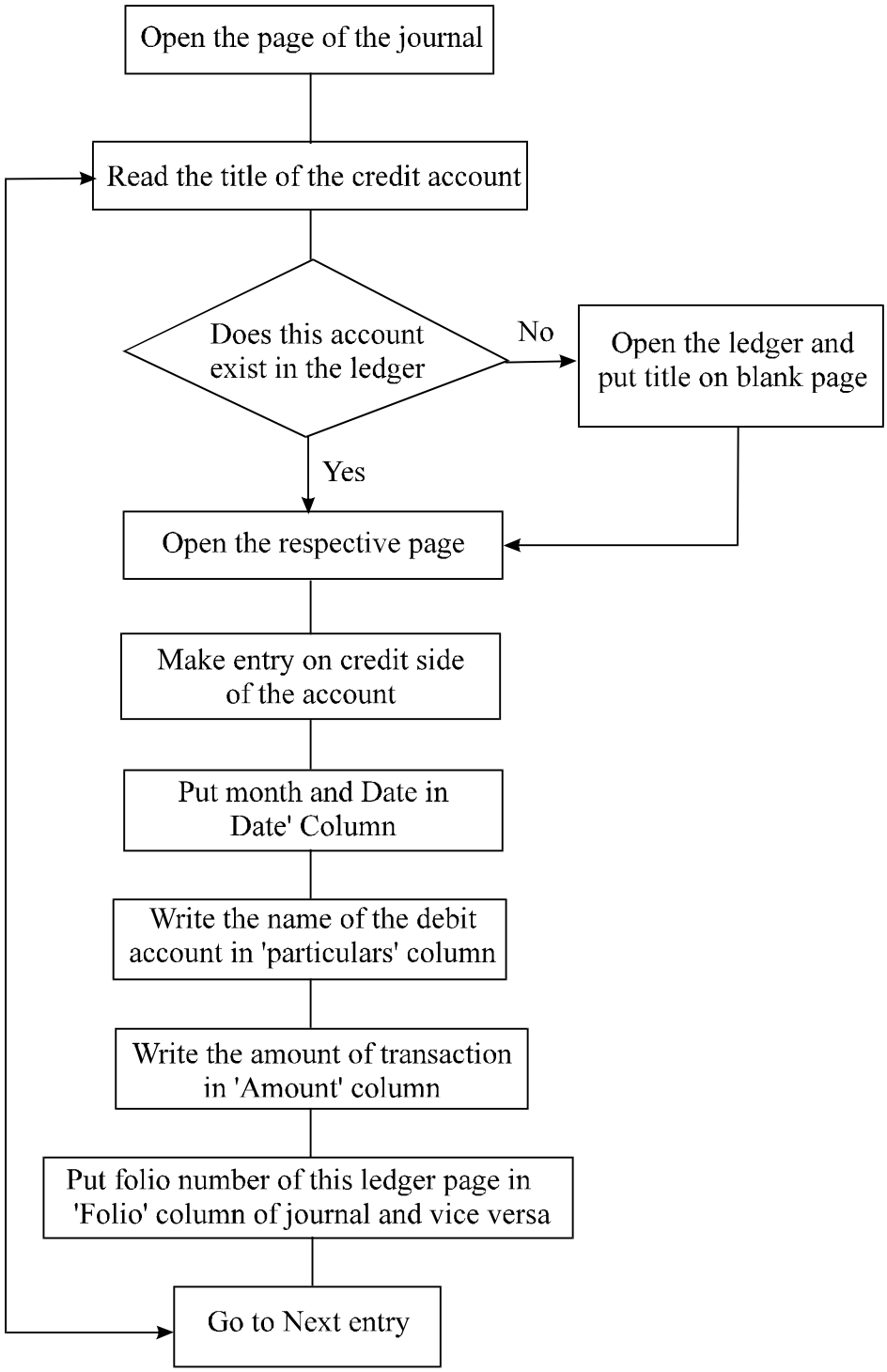
Posting Scheme

Posting from the journal to the ledger-Debit account



Posting Scheme

Posting from the Journal to the ledger-Credit Account



INTEXT QUESTIONS 6.2

1. State the meaning of ledger posting

   .....

   .....

2. Following are the steps of posting of journal to ledger but are not in proper order. Write them in correct order :

   (a) Write the page number of journal in the JF column of ledger and that of ledger on which account has been taken from journal.

   (b) Identify the two affected accounts in the journal and open these accounts in the ledger

   (c) Take date and amount of the debit account, and name of the credit account from journal to ledger in their respective columns.

   (d) While posting the credit account from journal in the ledger write page number of the journal from which item is taken to ledger in JF column of ledger and page number of ledger on which item is taken on the LF column of the journal.

6.3 BALANCING OF AN ACCOUNT

Balancing of an account is the difference between the total of debits and total of credits of an account. If debit side total is more than the credit side, the account shows a debit balance. Similarly, the balance will be credit if the credit side total of an account is more than the debit side total. This process of ascertaining and writing the balance of each account in the ledger is called balancing of an account. An account has two sides : debit and credit. Items by which this account is debited are entered on its debit side with their amounts and items by which this account is credited are entered on its credit side with their amounts so all items related to an account are shown at one place in the ledger. But then you would like to know the net effect of this account i.e. the balance between its debit amount and credit amount. The following steps are to be followed in Balancing the Ledger Account :

- Total up the two sides of an Account on a rough sheet.
- Determine the difference between the two sides. If the credit side is more than the debit side, the balance calculated is a credit balance.

- Put the difference on the 'Shorter side' of the account such that the totals of the two sides of the account are equal.
- If the difference amount is written on debit side (i.e., if credit. side is bigger) then write as "Balance c/d" (c/d stands for carried down). If difference is written on the credit side (i.e., if debit side is bigger) then write it as "Balance c/d.
- Finally at the end of the year all the ledger accounts are closed by taking out the balance of each account.

The Balance then should be brought down or carried forward to the next period. If the difference was put on credit side as "Balance c/d" it should now be written on the debit side of the account as "Balance b/d" (b/d stands for brought down) and vice-a-versa. Thus debit balance will automatically be brought down on the debit side and a credit balance on the credit side.

Balancing of different types of Accounts

Assets : All asset accounts are balanced. These accounts always have a debit balance.

Liabilities : All Liability accounts are balanced. All these accounts have a credit balance.

Capital : This account is always balanced and usually has a credit balance.

Expense and Revenue : These Accounts are not balanced but are simply totalled up. The debit total of Expense/Loss will show the expense/Loss. In the same manner, credit total of Revenue/ Income will show increase in income. At the time of preparing the Trial Balance, the totals of these are taken to the Trial Balance.

The Balance of Assets, Liabilities and Capital Accounts will be shown in Balance Sheet whereas total of Expense/Loss and Revenue/Income will be taken to the Trading and Profit and Loss Account. These Accounts are, thus, closed.

If two sides of an Account (usually Assets, Liabilities and Capital) are equal there will be no balance. The Account is then simply closed by totalling up of the two sides of the account.

Illustration 2

Take ledger accounts of illustration 1

Solution.

Ledger

Cash A/c

Dr. Cr.

Date	Particulars	JF	Amount Rs.	Date	Particulars	JF	Amount Rs.
2006							
Jan 1	Capital A/c		50000	Jan 3	Bank A/c		25000
" 18	Sales A/c		32000	Jan 5	Furniture		5000
" 28	Ashok		20000	Jan 8	Carriage		500
				Jan 25	K. Murthi		34200
				Jan 31	Rent A/c		2000
				Jan 31	Balance c/d		35300
			102000				102000
Feb 1	Balance b/d		35300				

Capital A/c

2006				2006			
Jan 31	Balance c/d		50000	Jan 1	Cash A/c		50000
					Feb 1 Balance b/d		50000

Bank A/c

2006							
Jan 2	Cash A/c		25000	Jan 8	Purchases A/c		15000
				Jan 31	Drawings A/c		2500
				Jan 31	Balance c/d		7500
			25000				25000
Feb 1	Balance b/d		7500				

Furniture A/c

Dr. Cr.

Date	Particulars	JF	Amount Rs.	Date	Particulars	JF	Amount Rs.
2006				2006			
Jan 1	Cash A/c		5000	Jan 31	Balance c/d		5000
Feb 1	Balance b/d		5000				

Purchase A/c

Dr. Cr.

Date	Particulars	JF	Amount Rs.	Date	Particulars	JF	Amount Rs.
2006							
Jan 8	Bank		15000		Trading A/c		50000
Jan 14	K. Murthy		35000				
			50000				50000

Carriage A/c

Dr. Cr.

Date	Particulars	JF	Amount Rs.	Date	Particulars	JF	Amount Rs.
2006							
Jan 8	Cash		500		Trading A/c		500
			500				500

K. Murthy A/c

Dr. Cr.

Date	Particulars	JF	Amount Rs.	Date	Particulars	JF	Amount Rs.
2006				2006			
Jan 25	Cash		34200	Jan 14	Purchases		35000
Jan 25	Discount		800				
			35000				35000

Sales A/c

Dr. Cr.

Date	Particulars	JF	Amount Rs.	Date	Particulars	JF	Amount Rs.
2006				2006			
Jan 1	Trading A/c		60000	Jan 18	Cash		32000
				Jan 20	Ashok		28000
			60000				60000

Ashok A/c

Dr. Cr.

Date	Particulars	JF	Amount Rs.	Date	Particulars	JF	Amount Rs.
2006				2006			
Jan 20	Sales A/c		28000	Jan 28	Cash		20000
				Jan 31	Balance c/d		8000
			28000				28000
Feb 1	Balance b/d		8000				

Rent A/c

Dr. Cr.

Date	Particulars	JF	Amount Rs.	Date	Particulars	JF	Amount Rs.
2006	Cash A/c		2000	2006	Profit and Loss A/c		2000
			2000				2000

Drawing A/c

Dr. Cr.

Date	Particulars	JF	Amount Rs.	Date	Particulars	JF	Amount Rs.
2006				2006			
Jan 10	Bank		2500	Jan 31	Balance c/d		2500
			2500				2500
Feb 1	Balance b/d		2500				

INTEXT QUESTIONS 6.3

I. Fill in the blanks with suitable word/words :

(i) The debit accounts from the journal are entered on the ..... side of respective account in the ledger.

(ii) The ..... of the account in the ledger should be the same as that is used in the Journal.

(iii) The page number of the journal is entered in the ..... column in the ledger account.

(v) The Figures appearing in the amount column of the ..... and the amount column of the respective ..... in the ledger must be the same.

II. Fill in the blanks with suitable word or words :

(i) The balance of asset accounts are ..... balance.

(ii) The balance of liability accounts are always ..... balance.

(iii) The capital Account generally has ..... balance.

(iv) The Revenue and expense accounts are closed by taking the balances to .....

WHAT YOU HAVE LEARNT

- Ledger is a register with pages ruled in account form to enable the preparation of accounts.
- Ledger is a permanent record of business transactions which are classified according to various accounts to which they pertain.
- Ledger may be Assets Ledger, Liabilities Ledger, Revenue ledger, Expense ledger, Debtors' ledger, Creditors' ledger and General ledger.
- The debit item of journal is posted to the credit side of the relevant account in the ledger.
- The credit item of journal is posted to the Debit Side of the relevant account in the ledger.
- Name of the account in the journal is entered in 'Particulars' column of the relevant account in the ledger.
- The page No. of journal from where entries are being posted is entered in folio column of the various relevant accounts.
- In the ledger Book, the balances of Assets, Liabilities and Capital are carried forward to the next period. Revenue and Expense accounts are closed by transferring their totals to Trading and Profit and Loss A/c.
- The balance of an account is written on the side having lower total, so that its total becomes equal to the total of the other side.

TERMINAL QUESTIONS

1. What is ledger? Why is ledger prepared?
2. Why is ledger known as the primary book or the principal -book of accounts? Can profit of the business and its financial position be known without maintaining ledger?
3. Enumerate the various types of ledgers which may be maintained by a business.
4. What is the rule for posting the debit account from the journal into the ledger account?

5. What is rule for positing the credit item of the journal into the ledger accounts?
6. What are the advantages of maintaining a ledger?
7. What is meant by balancing of an account? Explain the various steps taken while balanceing accounts.
8. How do we balance the following types of accounts?

   (a) Assets (b) expense (c) capital (d) Revenue

9. Following are the transactions of Dhani Ram and Sons for the month of July 2006. Make journal entries, post them into ledger and balance the account.

2006

July 1	Commenced business with cash	60,000
” 2	Paid into bank	40,000
” 5	Purchased furniture for cash	5000
” 7	Purchased Goods and paid for them by cheque	20000
” 10	Sold Goods to Lata Gupta for cash	12000
” 12	Sold Goods to Mahavir on credit	24000
” 18	Purchased Goods from Harish	30000
” 19	Withdrew cash for domestic use	2500
” 20	Received a cheque from Mahavir on account	18900
	Allowed him discount	100
” 27	Paid to Harish cash on account	16800
	Discount allowed by him	200
” 31	Paid salary by cheque	1800
	Paid cash for telephone bill	600

ANSWER TO INTEXT QUESTIONS

Intext Questions 6.1

I. (i) accounts (ii) posting

(iii) Principal Book of Account (iv) reference book

II. (i) (a) (ii) (e) (iii) (f) (iv) (b)
(v) (d) (vi) (c)

Intext Questions 6.2

I. Taking the items from the journal to the relevant account in the ledger is called ledger posting

II. Correct order b, c, a, d

Intext Questions 6.3

I. (i) credit (ii) ledger
(iii) JF (iv) journal, account

II. (i) debit (ii) credit
(iii) credit (iv) Trading and Profit and Loss A/c

Answer to Terminal Questions

9. Total of journal Rs 2,25,400

Activity

Contact someone who may be your friend's father or a relative who is in business. He operates his account. He collects computerised statements received from the banks. You compare their format with the ledger accounts which you have learnt in your school or the businessman in question are maintaining and find the difference with regard to :

	Traditional A/c	Computerised A/c
1. Format of the account		
2. How the account are debited/credited		
3. Balancing of accounts		
4. Additional information		