

Financial Statements Analysis and Reporting
Dr. Anil Kumar Sharma
Department of Management Studies
Indian Institute of Technology, Roorkee

Lecture - 08
Ledger- The Second book of Accounts

Welcome students, we were learning how to post the transactions recorded in the journal into the next book of accounts that is called as Ledger.

(Refer Slide Time: 00:40)

Purchase A/c							
Date	Particulars	JF	Am't (Rs)	Date	Particulars	JF	Am't (Rs)
Dec. 7	To Cash A/c		3000		By Balance b/d		3500
Dec. 12	To Vinod Kumar		500				
			<u>3500</u>				<u>3500</u>
Furniture A/c							
Dec. 3	To Cash A/c		500		By Balance b/d		500
			<u>500</u>				<u>500</u>
Sales A/c							
	To Balance b/d		2400		By Cash A/c		10,000
					By Nandish Kumar		8,000
					By Raja A/c		6,000
			<u>2400</u>				<u>2400</u>

So, in our previous lecture, we have started posting these transactions from journal to ledger, and we prepared a two accounts that is the cash account and capital account. So, we will prepare the remaining accounts now. So, you have to again prepare this statement like this and it is T format of the statement dividing into two equal halves. So, here I am again preparing this format.

So, we have to prepare this format again, and this is called as the format of ledger. So, here we take the date, here we take the particulars, here we take the JF - journal flow, and here we take the amount and this is called as debit - Dr. Here it is again we have to make a column for date. So, this is date, particulars, journal flow JF, and amount and this is called as credit Cr. So, debit balance will go to debit side credit balance will go to credit side and we will make use of this format. So, we are preparing ledger we are learning that how to prepare ledger.

So, now we have a in our previous lecture, we have completed the first transaction and the two accounts involved in the first transaction that is the cash and capital account we have already prepared. Now, the next transaction if you come here you see you have again two accounts, one is the purchase account and second one is the cash account. Cash account we have already taken to the ledger no need to now again put this, we have already put this cash, but we need to prepare the second account, and the second account is the purchase account, second account is the purchase account. We are preparing now the purchase account. So, here the date on which the purchases have done been done that is December 3, so we have done the purchases.

Now, the entry we pass here was purchases account debited to cash account. And when we are now preparing the purchase accounts, so we will take the second effect corresponding effect and that is the cash; cash is credited in the transaction, so we will debit it here. So, we write here December 3 to cash; and to cash means cash is say 30,000 rupees this is the cash. And then we have furniture no furniture is different, sold goods for cash, no sales are different, sold goods to Naresh Kumar different, goods purchased from Vinod Kumar, yes.

So, now this is again a second entry of the purchases, where we have again we have the two accounts; one is the purchase account second is the now it is a Vinod Kumar earlier it was the cash account. So, Vinod Kumar is a supplier, and he is supplying the goods to this company on credit. So, it means that is the purchase account to Vinod Kumar. So, in the purchase corresponding account is Vinod, Vinod is credited there we will be debiting it here that is December 12 to Vinod Kumar, and how much we are to Vinod Kumar account to cash account.

So, how much we are goods purchased from Vinod Kumar is 5,000 rupees. So, we are purchasing from Vinod Kumar for 5,000 rupees we have taken here. And then goods sold to Raja - no; cash received from Naresh Kumar - no, cash paid to Vinod Kumar – no, cash stationery is different, rent is different and goods returned to Vinod Kumar is different, we will take care of that in the Vinod Kumar's account.

So, here we have only two transactions relating to the purchases. And here now we will write here say we will total it up, this total is 35,000. And we will write here by balance c oblique d carried down and this balance is again 35,000. So now, we are closing this

account by putting a diagonal line and both the sides are equal 35,000 and this is the account. Now, this account is closed with 35,000 rupees. So, purchase account has a debit balance of the 35,000 rupees.

Now, we will be going for the next account or the next transactions. And in the next account or in the next transaction, we will see that what you have to do here or which is the next account we have to prepare. So, here in this transaction, here we prepare two accounts cash and capital here, we prepare two accounts purchase and cash. So, these two transactions are complete.

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Journalize the following transactions in the books of Beta India Ltd. post them to ledger & prepare the trial balance.

Date	Particulars	Amount (Rs.)
2011, December 1	Started business with cash	50,000
December 3	Goods purchased for cash	30,000
December 3	Furniture purchased for cash	5,000
December 7	Sold goods for cash	10,000
December 9	Sold goods to Naresh Kumar	8,000
December 12	Goods purchased from Vinod Kumar	5,000
December 16	Goods sold to Raja and allowed him 10% trade discount	6,000
December 22	Cash received from Naresh Kumar in full settlement of his account	7,600
December 25	Cash paid to Vinod Kumar and he allowed discount of Rs. 100	1,900
December 28	Cash paid for purchase of Stationery	250
December 31	Paid office rent	800
December 31	Goods returned to Vinod Kumar	500

Third is purchase of furniture for cash. Again you have two accounts furniture and cash. Cash account is already prepared here. So, furniture account we have to prepare. So, we will write here now we will continue with the same format furniture account furniture account. And it is a furniture account then entry is furniture purchase, furniture for cash. So, it is furniture account to cash account. And you will write here what is the date here, date is the December 3, December 3. So, it is furniture to cash. So, it means the second corresponding effect is to cash account and amount is furniture we have purchase for 5,000 rupees. So, the balance of this is 5,000.

There is no other transaction relating to furniture. So, we are going to balance this account you write here by balance by balance carried down and it is 5,000. And the account is closed 5,000 and 5,000 it is closed, it is 5,000, and 5,000 and it is closed. So,

furniture account is also closed. And here when we are preparing these accounts you have to be careful that you have to now find out after these ledger accounts you have to find out the balances of these accounts.

So, I told you in the previous lecture also that you have to find out the balance and the balance is known by the side which is bigger. Here now for example, this in the purchase account the debit side is bigger than the credit side. So, the balance this balance is 35,000 rupees balance is known as a debit balance. To side which is bigger balance is known by that side and that balance will be taken to the trial balance, when we have to take these balances to trial balance, we should know it that what kind of the balance it is debit balance or credit balance. So, that when we take into the trial balance, we know it in advance and that debit or credit side that balance can be put and trial balance can be tallied.

So, here for example, purchase account, we have a debit balance and the furniture accounts again have a debit balance. So, you keep on noting it down that debit balance, debit balance, any account means the side which is bigger balance is known by their side. So, we have to keep in mind and we have to find out the balances which will be later taken onto the trial balance furniture account. So, furniture account is also over, cash is also. So, transaction number three is also over that is also posted to the ledger.

Now, we talk about the fourth one that is sold goods for cash. Again two accounts sales account and cash account cash account is already done. So, now, we will prepare the sales account. It is sales account. And in the sales account, you see that what is the transaction sold goods for cash. So, what is the journal entry, cash account to sales account, cash account debited to sales account? So, it means cash is in the sales account sales may never appear. So, corresponding effect is the cash account. So, cash account will come here, and you will write here by cash account and then this cash account is 10,000 rupees. So, you will put here 10,000 rupees.

And now, any other transaction relating to sales; sold goods to Naresh Kumar, yes this entry is also belonging to sales. So, you will pass another means you take another balance to this account. So, the entry for this we have passed is sold goods to Naresh Kumar, it means Naresh Kumar to sales account. So, it means by Naresh Kumar, by Naresh Kumar. And the amount is by Naresh Kumar Naresh Kumar's amount is 8,000

rupees, right any other transaction relating to sales, goods purchased from Vinod Kumar goods sold to Raja, yes. So, it is a Raja account to sales account. So, it means Raja has received the sales, so Raja account to sales account. So, it means next is by Raja, by Raja account and the Raja is 6,000.

Then cash received from Naresh Kumar - no; cash paid to Vinod Kumar - no; goods paid, cash paid for purchase of stationery - no; paid office rent - no; goods returned to Vinod Kumar - no. So, it means now this is the total of the sales account. So, it is how much it is 24,000; it is 24,000 nothing on this side. So, you put this entire amount to balance to balance carried down it is 24,000 and both the sides are equal. So, 24,000 means 24,000 and both this account is balanced by putting this balance on both the sides and this balance is 24,000. Now you see; what is the balance of this account this side is bigger than this side. So, the balance of the sales account is the credit balance, balance of the sales account is the credit balance.

Now, we will prepare the other accounts and take the other things to the other means other ledger accounts. So, we will have to redo the means we will have to move forward and then to post the other transactions in the ledger and prepare the other accounts. So, we have completed so far many accounts and remaining will be done after that we will learn about that how to prepare the trial balance. So, once the trial balance tallies, it means it is a indication that whatever the transactions have been recorded in the books of accounts, and whatever the transaction have been posted with what amount whatever amount they are correctly done. But that is only the proof of arithmetical accuracy, not the proof of the total accuracy or all kind of I told you in the previous lecture that then still even the trial balance tallies still there can be some mistakes and these errors as I told you that is the error of commission error of commission error of principle.

So, now we will prepare the remaining accounts. And again let us redo this format where it is committed. So, here we have to make the lines again, and then we have to post the remaining transactions from the journal to ledger. So, here now we come to the next part and that is the next transaction was sales we have done cash we have done.

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Naresh Kumar A/c							
Date	Particulars	F	Am't (Rs)	Date	Particulars	F	Am't (Rs)
Dec. 9	To Sales A/c		8000	Dec. 29	By Cash		7600
					By Dis		400
			8000				8000
Dec. 25	To Cash A/c		1900		By Purchase A/c		5000
	To Discount A/c		100				
Dec. 31	To Purchase Return A/c		500				
	To Balance C/d		2500				5000
			5000				5000
			Raja A/c				
	To Sales A/c		6000		By Balance C/d		6000
			6000				6000

Now, we just prepare the Naresh Kumar account, Naresh Kumar account. So, it is Naresh Kumar's account. If you look at now the transactions given here say where is Naresh Kumar here, if you talk about Naresh Kumar then Naresh Kumar is here that sold goods to Naresh Kumar. So, now you assume that what accounting entry we will pass here. So, the accounting entry will be Naresh Kumar to sales account. So, when we are passing the journal entry Naresh Kumar to sales account and we are preparing the Naresh Kumar's account then we will take the corresponding effect and the corresponding effect is given the credit effect here. So, we will put it on the debit side. So, the date is December 9 and it is the sold goods to Naresh Kumar for 8,000 rupees. So, the journal entry is Naresh Kumar to sales. So, it will come here as to sales and the amount is 8,000 rupees.

After this we will see that anything else is there relating to Naresh Kumar then we have goods purchased from Vinod Kumar then sold to Raja then cash received from Naresh Kumar, yes. Now, this is the second effect of this is the means in sequence the next transaction that is cash received from Naresh Kumar in full settlement of his account. It means the goods sold to Naresh Kumar were worth rupees 8,000, and he has paid 7,600 rupees to this firm to this Beta India limited, and Beta India limited has relieved him of the total say liability of the or the total payment he had to make that is 8,000 rupees. So, it means what there the 400 rupees has gone too that 400 rupees is given as a discount.

So, what journal entry we will pass in this case it means one is cash account to be debited because cash is coming in. So, cash account is to be debited and 400 rupees is the discount and discount is the loss to the firm to the Beta India. So, in the books of Naresh Kumar in the Beta India limited account Beta India limited account. So, the journal entry will be cash account debited discount account debited to Naresh Kumar account. So, it means now the cash account and discount account is given the debit effect here.

So, we will take that not Naresh Kumar for the corresponding affect that is the credit effect here. so that will be by cash account, and by discount account on which date are we going to receive the amount the amount is received on 22nd December. So, it is December 22nd the amount is received. So, amount is that is 7,600 and discount given is 400 rupees. So, total is that total sales were made to Naresh Kumar were for 8,000 rupees and here it is 7,600 is received as cash and 400 is given as a discount. So, total of this side is also 8,000 rupees. So, both the sides are equal both the sides are balanced.

And the after this if we look at nothing is left relating to the Naresh Kumar means they have taken into account both the transactions first is the on 9th December the sales made to him and then is the cash received from him that is 7,600 rupees and 400 rupees given as a discount to him. So, we have taken that into account. So, we have assumed that what is the journal entry we passed and what is the say second effect of that. So, by preparing the Naresh Kumar's account, we put one is the sales that is 8,000 rupees on the credit side cash and discount 8,000 rupees. So, both the sides are balanced and this account is balanced this account is closed.

Next account we will prepare is the Vinod Kumar account. So, we will prepare this account here. So, it is goods purchased from Vinod Kumar. So, the entry is purchases account to Vinod Kumar's account. So, it is by purchases, by purchases account by purchases account and this how much purchase we are made from Vinod Kumar that is 5,000 rupees, worth rupees 5,000 we have purchased from Vinod Kumar. Now, where else the Vinod Kumar is there, here in this transaction no Vinod Kumar. So, forget it Naresh Kumar no, cash paid to Vinod Kumar and he allowed discount of 100 rupees it means how much we paid to Vinod Kumar 1,900 rupees, he gave a discount of 100 rupees. So, it means this form is relieved by Vinod Kumar to the extent of 2,000 rupees.

Now, what happens to the balance of that amount we will see? So, it means here it is Naresh Kumar to cash to discount. So, you write here that is on December 25. Here, it is to cash account to discount account to discount account, and there is a next transaction also last transaction goods returned to Vinod Kumar. So, the entry we have passed here is Vinod Kumar to purchase return. So it will; next thing is to purchase return it is on December 31st to purchase return, to purchase return account. So, it is how much we are paid in cash 1,900 rupees how much discount he has given 100 rupees how much goods are returned 500 rupees. So, it means now this side's balance is how much it is 5,000 rupees, you close it the two lines.

Here, also now you have to put you make it equal to 5,000 rupees. So, it is 5,000 rupees and then here it is to balance to balance carried down and that balance will be 1,900 paid, 100 discount, 2,000 over; 500 goods are returned back to him. So, now, we have to pay him later on 2,500 rupees. So, balance of this account is you call it as the balance of this account is this side is bigger. So, credit side, so credit balance of this side is the 2,500 rupees.

Now, we prepare the other account, and that other account will be another account will be taking it to the ledger will be Vinod Kumar is done, purchases also done, now let us prepare the Raja account, Raja's account. So, when you are preparing Raja's account here you have the one transaction which is goods sold to Raja and allowed him 10 percent trade discount. So, it means Raja account to sales account. So, it means to sales account and how much goods we have sold to Raja, it is 6,000 rupees worth of the goods are sold to him 6,000 no other transaction. So, your balancing it by balance by balance carried down it is 6,000 rupees. So, it means its automatically balanced account 6,000 and it is 6,000. And the balance of this account is the debit balance Raja's accounts balance is the debit balance.

So, now we will we have prepared now if this transaction is done, we have already prepared the Naresh Kumar's account, and we have calculated the balance. So, it means we have done this balancing or we have already prepared the Naresh Kumar's account. So, no need to worry about it. So, and we have seen that this account is already balanced account. So, no balance is there, Vinod Kumar we have done. So, Vinod Kumar is done, Raja's account is done, Naresh Kumar's account is already done. So, it means Vinod Kumar's account is already done. So, most of the accounts are done.

(Refer Slide Time: 22:08)

Discount A/c					
Date	Particulars	Dr	Cr	Date	Particulars
Dec-22	To N. Kumar A/c	400			By Vinod Kumar A/c
					By Balance C/d
		400			
Dec-28	To Cash A/c	950			By Balance C/d
		950			
	To Cash A/c	800			By Balance C/d
		800			
	To Balance C/d	500			By Vinod Kumar A/c
		500			

Now, we will prepare the discount account. This is the discount account. So, now, while preparing the discount account, you have to look that where the discount is given or earned. Here we have trade discount has no meaning, it is only for the sake of saying, but we have already adjusted in this 6,000 rupees. Here we are talking with here the discount is here cash received from Naresh Kumar in full settlement of his account that is 7,600 rupees. So, what entry we have made here that is the cash account debited, discount account debited to Naresh Kumar account. So, you can write here that discount given him is on December 22nd, and this is to Naresh Kumar's account discount account is to Naresh Kumar account. And in this case when you talk about the Naresh Kumar account, here we have to write here like say that discount account when we are preparing in this discount account you have to write that what is the balance of this account and how to take care of it.

So, it is to Naresh Kumar account, and how much discount is given to him is 400 rupees. Then is the cash received from Naresh Kumar 400 rupees discount is given. Cash paid to Vinod Kumar and he allowed a discount of 100 rupees. So, what is the entry here Naresh Kumar account debited for 2,000 to cash to discount. So, it means by sorry Vinod Kumar. So, it is by Vinod Kumar. So, when you talk about here this account, so it is means by Vinod Kumar by Vinod Kumar's account, how much discount he has given to this firm 100 rupees. So, it means this is the 400 rupees, and there is no other discount. So, when we talk about this discount part. So, it means there is nothing else. So, we have

to balance this account it is 400 rupees, this is 400 rupees, and it is by balance by balance carried down is 300 rupees and this account is also balanced for the 400 rupees. So, this is the balance of 300 rupees that is again a debit balance. So, discount given is more than the discount received by this firm.

After this we have discount is also done. So, now, we prepare the next account and that account is the stationery account. Next account is the stationery account and in the stationery account, there is only one transaction stationery account to cash account. So, you write here to cash account date is on which date we have purchased the stationery December 28. So, it is to cash and stationery amount is 250 rupees, 250 rupees. And now we have to balance it. So, by balance by balance c oblique d, it is 250 rupees. So, the account is balanced 250 rupees. So, account is balanced for 250 rupees right stationery account is also balanced, and then we talk about the office rent account.

So, when we talk about the office rent account, same only one transaction and it is also in cash. So, it is to cash account, and we have paid the office rent worth of 8000 rupees again you write here by balance by balance carried down it is again 800 rupees. So, this account is also balanced for 800, and it is again 800 this account is also done. Now, we have the one account purchase return account, that is called as purchase return account and your transaction is Vinod Kumar account to purchase return account. So, by Vinod Kumar, by Vinod Kumar's account that is how much 500 rupees that is 500 rupees, it is 500 rupees. And it is to balance carried down it is 500 rupees; it is 500 rupees to balance carried down, it is 500 rupees. So, this account is also balanced.

So, we have balanced almost all the accounts. We have taken all the accounts from here from the journal to the ledger. And in ledger, we have categorized all the accounts discount account is here, stationery account, office rent account, purchase return account all these accounts are here and we have put the amount in the right side and calculated the balances. So, you have to now identify the balances by the side, the side of the account, the side which is bigger balance is known by that side. So, for example, when we are talking about the discount account, debit side is bigger than the credit side. So, it is said this balance is called as a debit balance. We will go to the debit side of the trial balance. Similarly, the stationery debit side is bigger than the credit side. So, this will go to the debit balance column of the trial balance.

Similarly, office rent has a debit balance again the debit balance column of the trial balance. And then we have the purchase return, it is a credit side it is bigger than the debit side, so credit balance will go the credit side of the trial balance. So, all these balances we have balanced here, we have put here we have balanced; that means, we have posted them all the transactions are posted to the ledger. And now the ledger is ready with us. And now you can take this all these balances to the trial balance, and then we can prepare the trial balance.

And if both the sides of the trial balance debit balance and the credit balance sides are equal, in that case we can say that yes our transactions are correctly recorded means as far as the arithmetical corrections are concerned, and they are correctly posted to the ledger. And finally, there is no mistake as far as the numerical values are concerned, they are equally debited and credited there is no problem in that.

However, there can be some other kind of the problems the other kind of the mistakes that can take place that can we have talked to you many times they can be there. But as far as the arithmetical accuracy is concerned that is there in the journal also that is there in the ledger also and the transactions have been correctly recorded in the journal posted into the ledger. And these are the first two books of accounts which is the part of the total accounting process where which will end normally by preparing the balance sheet.

So, we will stop here today in this lecture. And in the next lecture, I will discuss with you how to prepare the trial balance from the ledger accounts.

Thank you very much.