

Revision Notes
Chapter-7
Ledger and Trial Balance

Learning Objectives

After studying this chapter Students should be able to tell:

- Meaning and Importance of Ledger.
- Format of Ledger.
- Posting from Journal.
- Postings from Cash Book and other Subsidiary Books.
- Closing and Balancing of Ledger Accounts.
- Trial Balance - Meaning, objectives and Preparation.

Ledger

Meaning: After recording the business transactions in the Journal or special purpose Subsidiary Books, the next step is to transfer the entries to the respective accounts in the Ledger. **Ledger is a book where all the transactions related to a particular account are collected at one place.**

Definition: The Ledger is the main or Principal book of accounts in which all the business transactions would ultimately find their place under various accounts in a duly classified form.

UTILITY OF LEDGER

To know the collective effect of all the transactions pertaining to one particular account.

By this classification/collective effect, we are able to know the following-

- It provides complete information about all accounts.
- It provides position of Assets and Liabilities.
- It facilitates the preparation of Trial Balance.

Important: Ledger is also called the Principal Book of Accounts.

Performa for Ledger

Each ledger account is divided into two equal parts.

Left Hand Side → Debit side (Dr.)

Right Hand Side → Credit side (Cr.)

Name of the Account

Dr.				Cr.			
Date	Particulars	J.F	Amount (Rs.)	Date	Particulars	J.F	Amount (Rs.)

Posting in the Ledger: This will be dealt separately from Journal Entries and each Subsidiary Book.

Case I : Posting from Journal Entries

- If an account is debited in the journal entry, the posting in the ledger should be made on the debit side of that particular account. In the particulars column the name of the other account (which has been credited in the Journal entry) should be written for reference.
- For the Accounts credited in the Journal entry, the posting in the ledger should be made on the credit side of that particular Account. In the particulars column, the name of the other account that has been debited (in the Journal entry) is written for reference.

Important

- 'To' is written before the A/cs which appear on the debit side of Ledger
- "By" is written before the A/cs appearing on the credit side Ledger.
- Use of these words 'To' and 'By' is optional.

Case II : Ledger postings from Cash Book

Important points

1. Cash Book itself serves as a cash A/c also, therefore when cash book is maintained, cash A/c is not opened in the ledger.
2. When Bank column is maintained in the Cash Book, Bank A/c is also not opened in the ledger. The Bank column itself serves the purpose of Bank A/c.
3. Opening and closing balances of Cash Book will not be entered in the ledger.
4. As Cash Book serves the purpose of Cash/Bank A/c, it means that, only the second A/c (other than Cash A/c or Bank A/c) is to be opened in the ledger and posting is to be made for each entry in the Cash Book.

Rules of posting

a. Posting from the Debit Side of Cash Book

Entries appearing on the debit side of Cash Book are to be posted to the Credit Side of respective accounts in the Ledger by writing the words.

‘By Cash A/c’ → if it is from the Cash Column

By Bank A/c → if it is from the Bank Column.

b. Posting from the Credit Side of Cash Book

‘By Cash A/c’ → if it is from the Cash Column

‘By Bank A/c’ → if it is from the Bank Column

c. All contra entries marked "C" are ignored while posting from the Cash Book to the Ledger because double aspect of such transactions is completed in the Cash Book itself.

Case III : Ledger posting from Purchases book

Journal Entry for Credit Purchases is

Purchases A/c Dr

To Supplier

Therefore the rules of posting from Purchases Book are.

1. **The total of the purchase Book** will be posted to the **Debit side of purchase A/c** and the words **“To Sundries as per purchase Book”** will be written in the particulars column.

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2. Each of the **Supplier's A/c** will be **Credited** and the words. "By Purchases A/c" will be written in the particulars column.

CASE IV: Ledger Posting from Sales Book

Journal Entry for Credit sales is

Customer Dr.

To Sales A/c

Hence rules for posting from sales Book are

1. Total of the **Sales book** will be posted to the **credit side** of **sales A/c** by writing the words "By sundries as per Sales Book".
2. Customer's personal A/cs are **debited** by writing the words "**To Sales A/c**"

Case V : Ledger Posting from Purchase Return Book

Journal Entry for purchase Return is

Personal A/c of Supplier Dr.

To Purchase Returns A/c

Hence the rules for posting are

1. Supplier's A/c (to whom the goods are returned) is debited by writing the words "To Purchase Return A/c")
2. The total of the Purchases return Book is credited to the Purchases Return A/c by writing the words "By Sundries as per Purchases Return Book".

Case VI : Ledger Postings of Sales Returns Book. Journal Entry for the sales Return is -

Sales Returns A/c Dr.

To Customer

Hence the Rules for Posting are

1. Individual Customer's A/cs by whom the goods are returned are Credited by writing the word "By Sales Return A/c."
2. The total of the Sales Returns Book is posted to the Debit of Sales Returns A/c by writing the words. "To Sundries as per Sales Returns Book".

CLOSING AND BALANCING OF ACCOUNT

Normally after every month or whenever a businessman is interested in knowing the position of various A/cs, the accounts are balanced. Various steps for these purposes are:

1. Debit and Credit sides of each A/c are totaled.
2. The difference between the two sides is inserted on the side which is shorter so as to make their totals equal.
3. The words 'Balance c/d' i.e., the balance carried down and written against the amount of difference.
4. In the next period, the balance is brought down on the other side by writing the words 'Balance b/d'.
5. If the Debit side exceeds the Credit Sides the difference is a Debit Balance whereas.
6. If the Credit side exceeds the Debit side the difference is a Credit Balance.

Important

1. **Debit Balance** of a Personal A/c means the person is a Debtor of the firm whereas Credit Balance of a Personal A/c indicates that the person is a Creditor of the firm.
2. **Real A/cs** (which include Cash and all other Assets A/cs) will usually show Debit Balances.
3. **Nominal A/cs** (A/cs of Income and Expenses) are transferred to Trading and profit and Loss A/c of the firm at the end of the Accounting Period.
4. **Debit Balance of any A/c** means an Asset or an Expense whereas Credit Balance means a liability, Capital or revenue.

TRIAL BALANCE

- I. **Meaning** : When posting of all the transactions into the Ledger is completed and accounts are balanced off, then the balance of each account is put on a list called Trial Balance.
- II. **Definition** : Trial Balance is the list of debit and credit balances taken out from ledger. "It also includes the balances of Cash and bank taken from the Cash Book".
- III. **Preparation** : Steps (Only Balance Method)
 1. Ledger A/cs which shows a debit balance is put on the Debit side of the trial balance.
 2. The A/c Showing credit balance is put on the Credit side of Trial Balance.
 3. Accounts which shows no balance i.e. whose Debit and Credit totals are equal are not entered in Trial Balance.
 4. Then the two sides of the Trial Balance are totalled. If they are equal it is assumed that

there is no arithmetical error in the posting and balancing of Ledger A/cs.

Objectives or Functions of Trial Balance

- It helps in ascertaining the arithmetic accuracy of ledger accounts.
- Helps in locating errors.
- Provides the summary of Ledger A/cs.
- Helps in the preparation of Final A/cs.

Posting of opening Entries:

1. First of all opening Journal Entr is done in the Journal proper.
2. All Assets Acs are Debited and Liabilities Acs are Credited.

Difference between the totals of the two sides is the Capital.

Important : Besides opening Journal entries, any transaction which is not covered under any of the Subsidiar Book is recorded in Journal proper.

Suspense Account :

When Trial Balance Does not agree, then first of all we try to locate the errors. Sometimes, in spite of the best efforts, all the errors are not located and the Trial Balance does not tally. Then in order to avoid delay in the preparation of final accounts, a new account is opened which is known as “Suspense Account” Difference in Trial Balance is posted to this Account.

1.	If there is Excess Debit in the Trial Baal	→	Difference is posted to the Credit side of Suspense A/c
2.	If there is Excess Credit in the Trial Balance	→	Difference is posted to the Debit side of Suspense A/c

Example:

Trial Balance

S .No.	Trial Dr. Total (Rs.)	Balance (Cr. Total) (Rs.)	Difference (Rs.)	Posted to Suspense A/c
1.	2,25,000	2,16,500	8,500 (Excess	Credit Side of Suspense

			Debit)	A/c
2.	2,16,500	2,25,000	8,500 (Excess Debit)	Debit Side of Suspense A/c

Closing of Suspense A/c

- The errors which led to the difference still remains to have to be located.
- These errors will be rectified through Suspense Ae (One sided errors) which will be explained in the topic Rectification of Errors.
- When all the errors are rectified, this Account closes down automatically. If the difference in Trial Balance persist, it is shown in the Balance Sheet.
 - a. Debit Balance of Suspense Account is shown in the Asset Side of the Balance Sheet.
 - b. Credit Balance of Suspense Account is shown in the Liability Side of the Balance Sheet.

Revision Notes

Rectification of Errors

Introduction

Trial balance is a statement prepared with debit and credit totals or balances extracted from the ledger to verify the arithmetic accuracy of accounts. The objectives of Trial balance are :

- i. To ascertain the arithmetic accuracy of accounts.
- ii. To help in locating errors.
- iii. To help in preparation of single account.

Learning Objectives

After studying this lesson you should be able to:

- Differentiate different types of errors and their examples.
- Rectify the Error: Two sided errors i.e. Error not affecting Trial Balance and One sided i.e. errors which affect Trial Balance.
- To understand meaning and Utility of Suspense A/c.
- Maintain the suspense A/c.

Important : The errors whether affecting the Trial Balance or not must be detected and rectified.

Need of Rectification

1. For the preparation of correct Accounting Records.
2. Preparation of P&L A/c with corrected figures to ascertain correct Profit or Loss.
3. To find out the true financial position of the firm by preparing Balance Sheet with corrected figures.

Classification of Errors

(On the basis on Nature)

Type of Error with Meaning	Sub-Types with Examples
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1. Error of Omission (When a transaction is completely or partially omitted to be recorded in the books)	a) Error of complete Omission Good-sold to X on credit but not recorded in Sales Book.
	b) Partial Commission Purchase machinery Rs. 5,000 in cash recorded in cash Book but not recorded in Machinery A/c.
2. Error of Commission (These errors are caused due to wrong recording of transaction, wrong totalling of subsidiary books of Ledger A/c, Wrong posting and wrong carry forward)	a) Error of Recording in the Book of Original Entry Goods purchased from Ravi for Rs. 450, but Goods recorded as Rs. 540, in the Purchases Book.
	b) Wrong Totalling of Subsidiary Book Example: Purchase Books has been undercast (short totalled) by Rs. 100.
	c) Error in Totalling or Balancing of Ledger A/cs* Example: Creditors A/c has been balanced short by Rs. 500.
	d) Error of Posting
	i) Posting to the wrong side but correct account Goods sold to X for Rs. 550, entered to the credit of Rs. X's A/c instead of posting to the debit side of his account.
	ii) Posting with wrong amount.
	iii) Posting twice in an A/c.
	iv) Errors in posting to the wrong A/c but correct side don't affect Trial Balance.
	e) Error in carrying forward Total of purchases book Rs. 2,500 is carried forward as Rs. 2050.

3. Errors of Principal (These error are caused due to the violation of accounting principal i.e. allocation between Capital and Revenue items)	a) Treating capital items as revenue item example: Wages paid for the installation of a new machinery charged to Wages A/c instead of machinery A/c.
	b) Treating revenue items as Capital item Example: Rs. 200 paid for the repairs of an old Machinery but debited to Machinery A/c instead of Repairs A/c.
4. Compensating Errors (Two or more errors committed in such a way that the net effect of these errors in nil).	Example: Cash paid to Ram Rs. 5,000 but debited-him as Rs. 500 and paid Mohan Rs. 500 but debited him as Rs. 5,000 so, net effect will be nil.

TYPES OF ERRORS FROM RECTIFICATION POINT OF VIEW

From Rectification point of view errors are classified into the following two categories only:

Case I : Errors which don't affect the Trial Balance OR Two Sided Errors

Case II : Errors which affect the Trial Balance OR one Sided Errors.

Errors don't Affecting Trial Balance

1. Errors of complete commission.
2. Wrong recording in the books of original entry.
3. Complete commission from posting.
4. Errors of posting to the wrong A/c but on the correct side.
5. Compensating errors.
6. Errors of principle.

Errors Affecting Trial Balance

1. Error in totalling of subsidiary books as undercast and overcast.
2. Error in the balancing of ledger accounts.
3. Error in posting to the correct Account but wrong amount.
4. Error of partial ommission.

Rectification of Errors

When the errors are detected, these have to be rectified in the books of accounts.
Rectification of errors depends upon.

- The Type of error and
- The time of depiction of an error

Time of Depiction of an error means.

- i. Errors detected before the preparation of Trial Balance.
- ii. Errors detected after preparing Trial Balance but before preparing final accounts.
- iii. Errors detected after preparing Final Accounts.

RECTIFICATION OF TWO SIDED ERRORS

Two sided errors are those errors which affect two sides of Accounts.

These errors don't affect trial Balance as discussed earlier.

These errors are rectified by passing a journal entry irrespective of the time of depiction. In other words their rectifying entry will be same whether (a) the error is depicted before Trial Balance or (b) after the preparation of Trial Balance but before the Final A/cs are prepared.

Steps for Rectification

1. Locate the effect of Error on Different Accounts.
2. The Account showing excess Credit should be Debited.
3. The Account showing excess Debit should be Credited.
4. The Account showing short Debit should be Debited.
5. The Account showing short Credit should be Credited.

Examples (With Explanation)

i) When an account has wrongly been debited in place of another A/c.

Rectification will be done by debiting the correct account and Crediting the A/c which was wrongly debited.

Example : Machinery purchased for Rs. 10,000 has been debited to Purchases A/c.

- Machinery A/c is not debited hence its debit side is short by A/c 10,000 whereas purchases A/c debited by mistake. Purchases A/c debit side is in excess by Rs. 10, 000.
- While rectifying this mistake Machinery A/c will be debited by Rs. 10,000 because it was not debited earlier and Purchases A/c will be credited because it was wrongly

debited.

Rectifying Entry is

Date	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
	Machinery A/c Dr.		10,000	
	To Purchases A/c			10,000
	(For Purchases of machinery wrongly debited to Purchases A/c)			

ii) When an account has wrongly been Credited in place of another account.

Example : Rs. 5,000 received from the sale of old furniture has been Credited to Sale A/c.

Solution : This error also affects the two A/c

- Furniture A/c is not Credited hence its credit side is short by 5,000.
- Sales A/c is credited by mistake its credit side is excess of 5,000.
- Therefore for rectifying this mistake Sales A/c will be debited because it was wrongly Credited and Furniture A/c which was not Credited earlier will now be credited by 5,000.

Hence Rectifying Entry is

Date	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
	Sales A/c Dr.		5,000	
	To Furniture A/c			5,000
	(Sales of old Furniture wrongly Credited to Sales A/c)			

iii) When there is a short debit in one A/c and a short Credit another A/c.

Example : Goods sold to Seema for 540 was entered in the Sales Book as 450.

Solution :

- Here Seema's A/c is debited by 90 short and Sales A/c is credited by 90 short.
- Therefore rectification will be done by Debiting Seema's A/c Crediting Sales A/c. Hence

Rectifying entry is:

Date	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
	Seema A/c Dr.		90	
	To Sales A/c			90
	(For goods sold to Seema for 540 wrongly entered 450.)			

IV) When there is an Excess Debit in on A/c and Excess Credit in an-other A/c.

Example : Goods Purchases from Mohan is Debited and credited by 3,000 instead of 300 i.e. 2,700 more.

- Here Purchases A/c is Debited by 3,000 instead of 300, i.e. 2,700 more.
- Mohan's Ac is also Credited by Rs. 2,700 more.
- Rectification will be done by debiting Mohans' A/c & Crediting Purchases A/c by Rs. 2,700 i.e. the entry in the reverse direction.

Rectifying Entry

Date	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
	Mohan Dr.		2,700	
	To Purchases A/c			2,700
	(For purchases of goods from Mohan for 300 wrongly entered Rs. 3000)			

RECTIFICATION OF ONE SIDED ERRORS

These errors affect only one side of an Account either debit or credit.

Therefore these errors effect the Trial Balance.

Rectification of these errors is done differently in these two cases i.e.

- Before preparing the Trial Balance.
- After preparing the Trial Balance.

Case I : Rectification of one sided errors before preparing Trial Balance.

When these errors are rectified before preparing Trial Balance i.e. transferring the difference in the Trial Balance to the Suspense Account. (Which will be explained late on), then it is done directly by debiting or crediting the concerned ledger account.

For Short Debit → Concerned A/c is Debited.

For Excess Credit → Concerned A/c is Debited.

For Short Credit → Concerned A/c is Credited.

For Excess Debit → Concerned A/c is Credited.

Cash II : Rectification of one Sided Error after preparing Trial Balance.

When the errors are detected after the preparation of Trial Balance then ever single sided error is rectified by passing a Journal entry through Suspense Account.

- Short debit in one Account → Debit that Account and Credit the Suspense A/c.
- Excess Credit in one Account → Credit that A/c and Debit the Suspense A/c.
- Short Credit in one Account → Credit that A/c and Debit the Suspense A/c.
- Excess Debit in one Account → Credit that A/c and Debit the Suspense A/c.

Suspense Account and its Disposal

In the chapter of Trial Balance we have learnt about the Suspense A/c.

Important

- When inspite of all the efforts the Trial Balance does not tally the difference is put to a newly opened account named Suspense A/c.
- Suspense A/c is an imaginary account, opened temporarily for the purpose of reconciling a Trial Balance.
- Later on when the errors affecting the Trial Balance are located, rectification entries are passed through the Suspense A/c.
- When all the errors are located and rectified, the Suspense A/c will be Automatically closed i.e., it will show zero balance.
- But if suspense A/c still shows a balance it will indicated that some error are still to be discovered and rectified.