

# Ledger Posting and Trial Balance

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## 4.1 INTRODUCTION

Meaning of Accounting has been already discussed. Accounting involves recording, classifying and summarizing financial transactions. Recording is done in the journal. Classification of the recorded transactions is done in the ledger.

## 4.2 LEDGER

Ledger is a book, which contains various accounts. It is necessary to gather all transactions of a period in one place relating to a particular subject – a person, an asset, a liability, a class of expense, an income etc. It enables to know the exact position of different account, individually.

**Ledger is a book with various accounts (Real, Personal and Nominal Accounts), each account on a separate page, that gives the details of the different transactions and its summary.**

The first few pages are devoted to make an alphabetical index of the accounts. Each account is opened in a separate page. All the transactions in a particular period are recorded in a separate account. So, each account gives the details of transactions in a particular period, total debits, credits and finally net balance in the concerned account, which can be debit or credit balance.

**Final information related to the financial position emerges only from the accounts. As the ledger contains all accounts, the ledger is also called as Principal Book.**

Journal is a book of original entry. Postings are made from the journal to the ledger. Purchase Book and Sales Book facilitate the preparation of accounts in the ledger. Hence, these books are known as subsidiary books.

**Cash Book is unique:** The Cash Book has a unique position. Entries related to cash and bank transactions are directly posted into the Cash Book. Cash Book is treated as part of the journal. So, Cash Book is called both as a book of original entry and a principal book. Cash Book serves the purpose of a ledger too as the final cash balance position, daily, is known from the Cash Book.

**Cash Book is a journal as well as a Ledger**

Dr.		Specimen of 'Account' in Ledger						Cr.	
Date	Particulars	Folio	Amount		Date	Particulars	Folio	Amount	
			Rs.	P.				Rs.	P.

## 4.3 POSTING

Posting is the process of transferring the transactions recorded in the journal. Debit and credit items recorded in the journal are transferred to the respective accounts in the ledger.

## 4.4 DIFFERENCE BETWEEN JOURNAL AND LEDGER

Journal and ledger are the most important books of double entry system of accounting. Following are the important differences:

Basis of difference	Journal	Ledger
<b>1. Nature of Book</b>	Book of original entry.	Book of second entry.
<b>2. Record</b>	Recorded in the chronological order, date wise.	Recorded account-wise, irrespective of the date. Importance is on analysis.
<b>3. Importance for legal evidence /reliability</b>	Journal is the book of source entry, hence has a greater weight for legal evidence.	Ledger is based on the journal, hence has a lesser weight.
<b>4. Classification of data</b>	Transaction is the basis for recording.	Account is the basis for recording.
<b>5. Process of recording</b>	The process of recording in the journal is called 'Journalizing'.	The process of recording in the ledger is called 'Posting'.
<b>6. Place</b>	Transactions are recorded date-wise, so transactions of one account are recorded at different places.	Transactions are recorded account-wise, so transactions of different dates are recorded at one place.
<b>7. Narration</b>	Narration is needed for every transaction.	Narration is not needed for every posting.
<b>8. Folio</b>	Folio of ledger is written.	Folio of journal is written.
<b>9. Final accounts</b>	Final accounts cannot be prepared from journal.	Final accounts can be prepared as ledger is the basis for preparing the trail balance.
<b>10. Accuracy</b>	Accuracy of journal cannot be tested.	Accuracy of ledger can be tested from trail balance.

#### 4.5 ADVANTAGES OF LEDGER

The importance of ledger is evident from the following advantages:

- (A) **Knowledge of accounts:** Information about each account is known immediately, which is not possible from the journal.
- (B) **Details of income and expenditure:** Separate accounts are opened for each head of income and expenditure. So, information is available about the expense and income, account-wise.
- (C) **Test of accuracy:** A trial balance is prepared, taking the summary of all accounts opened in the ledger and arithmetical accuracy is tested.
- (D) **Knowledge of assets and liabilities:** As separate account is opened for each asset as well as liability, position of each asset and liability is immediately known.
- (E) **Evidence in business disputes:** The ledger proves sufficient evidence in a court for business disputes.

#### 4.6 RULES REGARDING POSTING

Following steps should be taken, while making posting:

- (A) **Opening of separate accounts:** Each transaction affects minimum two accounts. Separate account is to be opened in the ledger. Such account may be real, nominal and personal account. No account is to be opened, twice. All transactions relating to that account, debit as well as credit, are to be posted in the concerned account, so that net position of the account is known.
- (B) **Posting journal entry to concerned side:** If an account is debited in the journal, posting will be made on the debit side of the account in the ledger. Similarly, if an account is credited in the journal, that account would be credited in the ledger. To illustrate, if provision for salary has been made, salary account is debited in the journal while outstanding salary account is credited. So, we have to open 'Salary' account in the ledger and debit the account with the amount, appearing against the debit column in the journal. To the outstanding salary account, amount appearing on the credit side in the journal would be credited.
- (C) **Use of word "To" and "By":** While writing the debit side, commence with words "To" and write the name of the account, which is credited in the journal. Write the words "By" on the credit side before writing the name of the account that is debited in the journal. In other words, the name of the other account is to be written.
- (D) **Balance in account:** Side (Debit or credit) that is heavy is to be totaled, first. The same total is to be put on the total column of the other side in the account. Net position is arrived. If debit total is higher than the credit side, net position would be debit and vice versa.

#### 4.7 POSTING OF COMPOUND JOURNAL ENTRIES

In the case of a compound journal entry, more than one account is debited and only one account is credited or vice versa in a journal. In such a case, each account is to be opened, separately. The name of account should be the same as is shown in the journal. While posting on the debit side, the name of the account that has been credited is to be shown. If one account is debited and two accounts are credited, open the account that has been debited. In that account, post on the debit side and write the name of the two accounts that have been credited and enter the corresponding amounts. The same procedure is to be adopted when two accounts are credited and one account is debited. In other words, the name of the account on the other side is to be written.

The following illustrations would explain.

##### Illustration No.1

Pass the necessary journal entries for the following different transactions, open necessary accounts in the ledger and show how the entries are transferred into the ledger:

Date	Particulars	Amount (Rs.)
2 <sup>nd</sup> Jan. 2008	Sale of goods for cash	1,000
8 <sup>th</sup> Jan. 2008	Cash paid to Theer towards credit purchase Rs. 815 made earlier, after discount	800
	Discount allowed by Theer	15
10 <sup>th</sup> Jan. 2008	Goods purchased from Tarkh on credit	600

**Solution:**

Date	Journal Entry	L.F.	Dr. Rs.	Cr. Rs.
2008 Jan 2	Cash Account ...Dr. To Sales Account (Sale of goods for cash vide cash Memo No.....)		1,000	1,000
Jan 8	Theer & Co. ...Dr. To Cash Account To Discount Account (Cash paid to and discount allowed by Theer)		815	800 15
Jan 10	Purchases Account ...Dr. To Tarkh (Goods purchased from Tarkh on credit)		600	600

**LEDGER**

Dr.				Cash Account				Cr.			
Date	Particulars	Folio	Amount Rs. P.	Date	Particulars	Folio	Amount Rs. P.				
2008 Jan.	2 To Sales A/c		1,000 -	2008 Jan.	8 By Theer		800 -				

Dr.				Sales Account				Cr.			
				2008 Jan.	2 By Cash Account		1,000 -				

Dr.				Purchases Account				Cr.			
2008 Jan.	10 To Tarkh		600 -								

Dr.				Discount Account				Cr.			
				2008 May	8 By Theer		15 -				

Dr.				Theer A/c				Cr.			
2008 Jan.	8 To Sundries Cash 800 Discount 15		815 -								

Dr.				Tarkh A/c				Cr.			
				2008 Jan.	10 By Purchases Account		600 -				

**Illustration No. 2**

Give journal entries in the books of Radhi & Co.:

2008

- Jan. 1 Started business with cash Rs. 3,000 and stock Rs. 2,000.  
 Jan. 5 Purchased goods from Sandhya Rs. 2,000 under 10% trade discount.  
 Jan. 10 Cheque Rs. 1,500 received from Dheera for the earlier credit sales Rs. 1,520, after allowing a discount in full statement of her a/c.  
 Jan. 20 Drawn for personal use – Goods Rs. 100, Cash Rs. 200, and by cheque from Bank Rs. 200.

**Solution:**

**JOURNAL OF RADHI & CO.**

Date	Particulars		L.F.	Amount Dr.	Amount Cr.
2008				Rs.	Rs.
Jan. 1	Cash a/c	Dr.		3,000	
	Stock a/c	Dr.		2,000	
	To Capital a/c				5,000
	(Business started with cash & stock)				
Jan. 5	Purchase a/c *	Dr.		1,800	
	To Bank a/c				1,800
	(Purchased goods for cash)				
Jan. 10	Bank a/c	Dr.		1,500	
	Discount a/c	Dr.		20	
	To Sales a/c				1,520
	(Cash received in full settlement of earlier credit sale)				
Jan. 20	Drawing a/c	Dr.		500	
	To Purchases a/c				100
	To Cash a/c				200
	To Bank a/c				200
	(Goods & cash withdrawn)				

\* Trade discount does not appear in Books of Accounts.

## 4.8 BALANCING AN ACCOUNT

When posting is complete in each account, balancing is to be done. To do balancing, first total the heavier side of the account and put the same total on the other side and arrive at the balance. Such balance is called balance c/d.

**The difference of the total of two sides of an account is called Balance, which can be debit or credit balance.**

Balance in the account has to be brought down. Such balance is called balance b/d. The balance that is brought down appears in the trial balance. If the brought down balance is debit, the amount appears under the debit column in the trial balance. Similarly, if the balance brought down is credit, the balance appears under the credit column in the trial balance. Both debits and credits should be equal in the trial balance. If both debit and credit are equal, it is an indication that there is arithmetical accuracy. In other words, for every debit, a corresponding credit has been made, while recording the transactions in books of accounts. However, it does not give the guarantee that the accounts are debited and credited, correctly. There is a possibility that one account may be debited/credited, wrongly, instead of the correct account. In such a situation, the trial balance may agree but the accounts appearing in the trial balance may not be showing the correct picture. In such an event, rectification of entries has to be made, as and when the errors are found out.

Balance b/d is the closing balance of the account for the year concerned. The same amount would become the opening balance for the next year.

**Cash Account:** Cash Account and Bank Account are not opened, separately, in the ledger. Cash Book shows Cash Account as well as Bank Account. Cash transactions like cash receipts and payments are, directly, entered in the cash column in Cash Book. Similarly, transactions relating to bank, receipts and payments by cheques/demand drafts etc, are, directly, entered in the bank column of Cash Book.

**Cash Account and Bank Account, directly, appear in Cash Book. Hence, they do not appear, again, in ledger.**

Cash Book is a journal and ledger too. It is a journal as cash/bank transactions are recorded, originally, directly in that book. Cash Book is also a ledger as it shows cash and bank balances, at the end of any date.

**4.9 OPENING OF ACCOUNTS IN LEDGER, WITHOUT JOURNALIZING**

In examinations, it is not necessary to write the journal entry, unless specifically asked. From the transactions, the student has to develop the ability of posting in the concerned accounts, to arrive at the balance of each account for preparation of trial balance.

The following illustration would illustrate preparation of accounts, without journal entries, for preparation of trial balance.

**Illustration No. 3**

Post the following transactions into ledger and extract the balances of ledger Accounts and prepare the Trial Balance of Tarkh & Co. as on 1.3.2008.

2008		Rs.
Feb. 5	Started Business with Capital	20,000
Feb. 7	Purchased Plant & Machinery	2,000
Feb. 10	Paid sundry expenses	100
Feb. 15	Purchased goods for cash and received 5% trade discount	5,000

Feb. 18	Bought goods from Theer & Co. on credit	5,000
Feb. 20	Returned goods to Theer & Co.	500
Feb. 25	Sold goods to Kishore & Co. on credit	4,000
Feb. 27	Received from Kishore & Co. and balance being allowed as discount	3,750
Feb. 28	Paid Rent	40
	Salary	100
	Electricity charges	200

**Solution:****Journal**

Date	Journal Entry	L.F.	Dr.	Cr.
Feb. 18	Purchases Account .....Dr. To Theer & Co. (Being goods purchased on credit from Theer & Co.)		5,000	5,000
Feb. 20	Theer & Co. ....Dr. To Purchase Returns Account (Being goods returned to Theer & Co., purchased on credit)		500	500
Feb. 25	Kishore & Co. ....Dr. To Sales Account (Being goods sold on credit to Kishore & Co.)		4,000	4,000
Feb. 27	Discount Account .....Dr. To Kishore Account (Being discount allowed to Kishore)		250	250
	Grand Total		9,750	9,750

**Note:** Journal has been prepared for understanding to the students. As per the requirements of the problem, journal is not required. Postings can be made direct into the respective accounts.

Dr.		Cash Account		Cr.	
Date	Particulars	Amount	Date	Particulars	Amount
<b>2008</b>		<b>Rs.</b>	<b>2008</b>		<b>Rs.</b>
Feb. 5	To Capital A/c	20,000	Feb. 7	By Plant & Mach.	2,000
Feb. 27	To Kishore & Co.	3,750	Feb. 10	By Sundry Expenses	100
			Feb. 15	By Purchases A/c	4,750
			Feb. 28	By Rent A/c	40
			Feb. 28	By Salary A/c	100
			Feb. 28	By Elec. Charges	200
			Feb. 28	By Balance c/d	16,560
		<u>23,750</u>			<u>23,750</u>
Mar. 1	To Balance b/d	16,560			

Dr.		Capital Account		Cr.	
Date	Particulars	Amount	Date	Particulars	Amount
2008		Rs.	2008		Rs.
Feb. 28	To Balance c/d	<u>20,000</u>	Feb. 5	By Cash A/c	<u>20,000</u>
			Mar 1	By Balance b/d	20,000

Dr.		Sundry Expenses Account		Cr.	
Date	Particulars	Amount	Date	Particulars	Amount
2008		Rs.	2008		Rs.
Feb. 10	To Cash A/c	<u>100</u>	Feb. 28	By Balance c/d	<u>100</u>
Mar. 1	To Balance b/d	100			

Dr.		Purchases Account		Cr.	
Date	Particulars	Amount	Date	Particulars	Amount
2008		Rs.	2008		Rs.
Feb. 15	To Cash A/c	4,750			
Feb. 18	To Theer & Co.	5,000	Feb. 28	By Balance c/d	9,750
		<u>9,750</u>			<u>9,750</u>
Mar. 1	To Balance b/d	9,750			

Dr.		Plant & Machinery Account		Cr.	
Date	Particulars	Amount	Date	Particulars	Amount
2008		Rs.	2008		Rs.
Feb. 7	To Cash A/c	<u>2,000</u>	Feb. 28	By Balance c/d	<u>2,000</u>
Mar. 1	To Balance b/d	2,000			

Dr.		Theer & Co. Account		Cr.	
Date	Particulars	Amount	Date	Particulars	Amount
2008		Rs.	2008		Rs.
Feb. 20	To Purchase Return A/c	500	Feb. 18	By Purchases A/c	5,000
„ 28	To Balance c/d	4,500			
		<u>5,000</u>			<u>5,000</u>
			Mar. 1	By Balance b/d	4,500

Dr.		Purchase Returns Account		Cr.	
Date	Particulars	Amount	Date	Particulars	Amount
2008		Rs.	2008		Rs.
Feb. 28	To Balance c/d	<u>500</u>	Feb. 20	By Theer & Co.	<u>500</u>
			Mar. 1	By Balance b/d	500

Dr.		Kishore & Co. Account				Cr.	
Date	Particulars	Amount	Date	Particulars	Amount		
2008 Feb. 25	To Sales A/c	Rs. 4,000	2008 Feb. 27 Feb. 27	By Cash A/c By Discount A/c	Rs. 3,750 250		
		<u>4,000</u>			<u>4,000</u>		

Dr.		Discount Account				Cr.	
Date	Particulars	Amount	Date	Particulars	Amount		
2008 Feb. 27	To Kishore A/c	Rs. <u>250</u>	2008 Feb. 28	By Balance c/d	Rs. <u>250</u>		
Mar. 1	To Balance b/d	250					

Dr.		Rent Account				Cr.	
Date	Particulars	Amount	Date	Particulars	Amount		
2008 Feb. 28	To Cash A/c	Rs. <u>40</u>	2008 Feb. 28	By Balance c/d	Rs. <u>40</u>		
Mar. 1	To Balance b/d	40					

Dr.		Salary Account				Cr.	
Date	Particulars	Amount	Date	Particulars	Amount		
2008 Feb. 28	To Cash A/c	Rs. <u>100</u>	2008 Feb. 28	By Balance c/d	Rs. <u>100</u>		
Mar. 1	To Balance b/d	100					

Dr.		Electricity Charges Account				Cr.	
Date	Particulars	Amount	Date	Particulars	Amount		
2008 Feb. 28	To Cash A/c	Rs. <u>200</u>	2008 Feb. 28	By Balance c/d	Rs. <u>200</u>		
Mar. 1	To Balance b/d	200					

Dr.		Sales Account				Cr.	
Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
2008 Feb., 28	To Balance c/d		Rs. <u>4,000</u>	2008 Feb. 25	By Kishore A/c		Rs. <u>4,000</u>
				Mar. 1	To Balance b/d		4,000

**Trial Balance on 1<sup>st</sup> March, 2008**

<b>Name of Account</b>	<b>Dr.</b>	<b>Cr.</b>
Cash Account	16,560	
Capital Account		20,000
Sundry Expenses Account	100	
Purchases Account	9,750	
Plant & Machinery Account	2,000	
Theer & Co. Account		4,500
Purchase Returns Account		500
Discount Account	250	
Rent Account	40	
Salary Account	100	
Electricity Charges Account	200	
Sales Account		4,000
<b>Total</b>	<b>29,000</b>	<b>29,000</b>

**4.10 TRIAL BALANCE**

Final balances (balance b/d) appearing in different accounts in the ledger should appear in the trial balance. The total debits of different accounts should be equal to the total credits.

When total debits are equal to total credits, it is said that the trial balance is balanced. Balanced trial balance is only an indication that there is arithmetical accuracy of accounts. There is no guarantee that there are no errors, once trial balance is tallied. Even if a wrong account is debited or credited, instead of the correct account, still trial balance would tally.

**A tallied trial balance does not mean that the accounts are totally free from errors.**

**Objective:** It is a must for every business to prepare 'final accounts' with the specific objective to find out the profitability of the transactions made and ascertain the true and fair financial position of the firm.

The trial balance is a list of accounts prepared from the Ledger, which contains different accounts. It contains the Debit and Credit balances of all Ledger accounts. Trial balance is essential for preparation of final accounts.

**Trial Balance may be simply defined as a statement prepared by putting all accounts, debits on one side and with credits on the other side to check the arithmetical accuracy of the Ledger accounts. It is a link between the Ledger accounts and final accounts.**

**Characteristics of Trial Balance:**

- It is a statement or a list.
- It is a summary of all accounts, with debit and credit balances.
- The total of debit balances and credit balances must be equal.
- It is the only base for preparation of final accounts.
- It can be prepared at any time.

**Advantages:**

- Preparation of final accounts becomes easy.
- One can rely on the results derived out of trial balance, when the total of debits is equal to the total of credits.
- Some accounting flaws in respect of postings can, easily, be detected by preparing trial balance.
- The work of an accountant becomes easy for ascertaining the profitability and financial position with the preparation of trial balance.

**Accounts in Trial Balance**

The following accounts always appear with debit balance in Trial Balance:

**Asset accounts:** Land account, building account, machinery account, and furniture account, debtors account, stock account, bills receivable etc.

**Accounts relating to expenses and losses:** Salaries account, wages account, rent account, carriage account, discount account, bad debts account, depreciation account, purchases account, return inward account (sales return account) etc.

The following accounts always appear with credit balances in Trial Balance:

**Liabilities accounts:** Creditors account, loan account, mortgage account, bills payable account, bank overdraft account, all types of reserves and funds accounts.

**Income and gain accounts:** Interest realized account, rent collected account, discount received account, sales account, return outward account (purchase return account) etc.

**Illustration No. 4**

Post the following transactions in the books of Theer & Co. during the year 2008.

- Mr. Kalyan has to pay Rs. 15,000 but could pay 45 paisa in a rupee.
- Outstanding wages (wages not paid during the last year) were Rs. 200. They are paid now.
- Books of accounts show the typewriter at Rs. 3,000, which has been taken by the owner of the business for personal use at home.
- Old furniture Rs. 800 has been sold for Rs. 600 in cash.
- A debt previously written off as bad, recovered this year Rs. 350.
- Goods of Rs. 200 sold to Kishore returned by him.

Solution:

**LEDGER**

Dr.		Cash Account				Cr.	
Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
<b>2008</b>			<b>Rs.</b>	<b>2008</b>			<b>Rs.</b>
(a)	To Mr. Kalyan		6,750	(d)	By Typewriter A/c		160
(d)	To Furniture A/c		600	(b)	By Outstanding wages		200
(e)	To Bad Debts Recovered A/c		350		By Balance c/d		7,340
			<u>7,700</u>				<u>7,700</u>
	To Balance b/d		7,340				

Dr.		Bad Debts Account				Cr.	
Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
<b>2008</b>			<b>Rs.</b>	<b>2008</b>			<b>Rs.</b>
(a)	To Mr. Kalyan		<u>8,250</u>		By Balance c/d		<u>8,250</u>
	To Balance b/d		8,250				

Dr.		Mr. Kalyan Account				Cr.	
Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
<b>2008</b>			<b>Rs.</b>	<b>2008</b>			<b>Rs.</b>
(a)	To Balance b/d		15,000	(a)	By Cash A/c		6,750
			<u>15,000</u>	(a)	By Bad Debts A/c		8,250
							<u>15,000</u>

Dr.		Outstanding wages Account				Cr.	
Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
<b>2008</b>			<b>Rs.</b>	<b>2008</b>			<b>Rs.</b>
(b)	To Cash A/c		200		By Opening Balance		200
			<u>200</u>				<u>200</u>

Dr.		Drawing Accounts				Cr.	
Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
2008			Rs.	2008			Rs.
(c)	To Typewriter A/c		<u>3,000</u>		By Balance c/d		<u>3,000</u>
	To Balance b/d		3,000				

Dr.		Typewriter Account				Cr.	
Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
2008			Rs.	2008			Rs.
	To Opening Balance		3,000	(c)	By Drawings A/c		3,000
			<u>3,000</u>				<u>3,000</u>

Dr.		Furniture Account				Cr.	
Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
2008			Rs.	2008			Rs.
	To Opening Balance		800	(d)	By Cash A/c		600
			<u>800</u>	(d)	By Loss on sale of furniture A/c		200
							<u>800</u>

Dr.		Loss on Sale of Furniture Account				Cr.	
Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
2008			Rs.	2008			Rs.
(d)	To Furniture A/c		<u>200</u>		By balance c/d		<u>200</u>
	To Balance b/d		200				

Dr.		Bad Debts Recovered Account				Cr.	
Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
2008			Rs.	2008			Rs.
	To Balance c/d		<u>350</u>	(e)	By Cash A/c		<u>350</u>
					By Balance b/d		350

Dr.				Sales Returns (Returns Inward) Account				Cr.			
Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount				
2008			Rs.	2008			Rs.				
(f)	To Kishore		<u>200</u>		By Balance c/d		<u>200</u>				
	To Balance b/d		200								

Dr.				Kishore Account				Cr.			
Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount				
2008			Rs.	2008			Rs.				
	To Balance c/d		<u>200</u>	(f)	By Sales Returns A/c		200				
					By Balance b/d		<u>200</u>				

**Illustration No. 5**

Prepare the Trial Balance of M/s. Radhi & Co. for the year ended on 30<sup>th</sup> June, 2007 from the following figures:

Capital Rs. 46,000, Cash Rs, 2,400, Commission (Dr.) Rs. 500, Purchases Rs. 23,800, Bank Rs. 5,100, Drawings Rs. 1,240, Discount (Dr.) Rs. 250, Salaries Rs. 3,710, Furniture Rs. 2,200, Wages Rs. 9,270, Sales Rs. 40,960, Rent Rs. 2,520, Debtors Rs. 27,040, Sundry expenses Rs. 4,120, Creditors Rs. 8,840, Machinery Rs. 6,600, Advertisements Rs. 600, Opening stock Rs. 6,000.

**Solution:**

**Trial Balance as on 30-6-2007**

Ledger Accounts	L. F.	Dr. Amt. Rs.	Cr. Amt. Rs.
Capital			46,000
Cash		2,400	
Commission		500	
Purchases		23,800	
Bank		5,100	
Drawings		1,240	
Discount		250	
Salary		3,710	
Furniture		2,200	
Wages		9,720	
Sales			40,960
Rent		2,520	

Debtors		27,040	
Sundry expenses		4,120	
Creditors			8,840
Machinery		6,600	
Advertisement		600	
Opening Stock		6,000	
Grand Total		95,800	95,800

**Illustration No. 6**

The following Trial Balance is prepared from the books of M/s. Kalyan & Kishore Co. for the year ended 31-12-2007.

		Rs.	
Ledger Accounts	L. F.	Dr. Amt.	Cr. Amt.
Capital		25,000	
Sales		40,000	
Cash in hand			3,600
Purchases			30,330
Machinery			20,600
Drawings			1,200
Debtors			9,600
Purchases Returns			500
Sales Returns		600	
Opening Stock		8,000	
Discount Allowed		800	
Creditors			11,330
Trade Expenses		2,100	
Grand Total		76,830	76,830

The total of this Trial Balance is correct, but the Trial Balance is not correct. Prepare correct Trial Balance.

**Solution:****Correct Trial Balance as on 31<sup>st</sup> Dec. 2007**

Ledger Accounts	L. F.	Dr. Amt. Rs.	Cr. Amt. Rs.
Capital			25,000
Sales			40,000
Cash in hand		3,600	
Purchases		30,330	

Machinery		20,600	
Drawings		1,200	
Debtors		9,600	
Purchases Returns			500
Sales Returns		600	
Opening Stock		8,000	
Discount Allowed		800	
Creditors			11,330
Trade Expenses		2,100	
Grand Total		76,830	76,830

**Pick up the most Appropriate Answer**

- The process of recording in the ledger is called:
  - Journalizing
  - Posting
  - Narrating
  - None
- Cash Book is a
  - book of original entry
  - Subsidiary book
  - both (a) and (b)
  - none
- Trial Balance is
  - statement
  - account
  - both (a) and (b)
  - none
- If debits and credits are equal in a trial balance,
  - arithmetical accuracy in accounts is established
  - still errors may be there, undetected in accounts
  - guarantee that there are no errors in accounts
  - a & b
  - a & c
- Prepaid Rent was Rs.4,900 at the beginning of the year, and Rs. 6,100 at the end of the year. Rent Expense was Rs. 30,000. What amount of cash was paid for rent during the year?
  - 36,100
  - 31,200
  - 30,000
  - 28,800

**Answers**

1. (b) 2. (c) 3. (a) 4. (d) 5. (b) An extra amount of Rs. 1,200 has been paid, in addition to the actual rent of Rs. 30,000. So Rs. 31,200 has been paid by cash.

**Interview Questions**

**Q.1.** What is the purpose of a ledger?

**Ans.** Ledger contains all the accounts maintained for the purpose of business or profession. It shows the details of expenses as well as incomes under different heads, amount to be received and paid, individually. This information is useful for the purpose of control.

**Q.2.** Explain 'Posting'?

**Ans.** The process of recording transactions from the journal and subsidiary books (including cash book) to the ledger is called 'Posting'.

**Q.3.** Which book is a journal as well as a Ledger?

**Ans.** Cash Book is a journal as well as a Ledger. Cash and bank transactions are directly entered into the cash book. So, cash book serves the purpose of a journal, book of original entry. The function of a ledger is to show the balance of an account. From cash book, cash and bank balance, at the end of any day, is known, serving the purpose of a ledger too. Cash Book has a unique position, serving the purposes of a journal as well as a ledger.

**Q.4.** What is a 'Trial Balance'?

**Ans.** Trial balance is a statement or list showing details of all the accounts, along with their corresponding balance (debit or credit) as shown in the ledger. It is a summary of all the accounts, contained in the ledger.

**Q.5.** What benefit one could get, if one reads the trial balance, at a glance?

**Ans.** A trial balance, at a glance, gives the overall position of the accounts contained in the ledger.

**Q.6.** What is the need of a 'Trial Balance'?

**Ans.** Preparation of trial balance ensures arithmetical accuracy of books of accounts. If the debits are equal to credits, it is an indication that the books of accounts, arithmetically, are correct. Trial balance is essential for preparation of financial statements.

**Q.7.** If trial balance is tallied, does it guarantee that the books of accounts are correct in all respects?

**Ans.** No, there is no guarantee that the books of accounts are correct in all respects. Even, if a wrong account is debited, still trial balance would agree. Agreement of trial balance conveys arithmetical accuracy of accounts only.

**Q.8.** What is the objective in preparing a trial balance?

**Ans.** Trial balance facilitates preparation of financial statements like profit and loss account and balance sheet. Without preparing the trial balance, it is not possible to prepare the financial statements.

