

**Financial Accounting**  
**Dr. Puran Singh**  
**School of Humanities and Social Sciences**  
**Indian Institute of Technology, Mandi**

**Lecture – 31**  
**3.1 Introduction to Ledger**

In this video, I am going to introduce you to the second book of entry called Ledger. Let us start by understanding the need for this second book of entry.

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**2.6.2 Journalizing the transactions**

- Transaction 1: Shareholders invest INR 100 capital.
- Transaction 2: Borrowed from bank INR 200
- Transaction 3: Purchased goods for cash INR 50
- Transaction 4: Purchased good on credit worth INR 50 from ABC ltd.
- Transaction 5: Sold goods for Cash INR 50
- Transaction 6: Sold goods on credit to PQR Ltd Worth INR 50
- Transaction 7: Rent paid for office premises INR 20
- Transaction 8: Purchased building for business use INR 100
- Transaction 9: Sold part of Building for INR 30
- Transaction 10: Received interest income on investments 10
- Transaction 11: Depreciation on building charged 10
- Transaction 12: Received cash against credit sales INR 40 to PQR
- Transaction 13: PQR went insolvent. Could not payback the remaining amount of INR 10
- Transaction 14: You pay for credit purchase to ABC INR 50

In the previous section, we looked at 14 transactions. You learnt how to write these transactions in the book of the first entry, how to journalize these transactions.

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Date	Particulars	Debit Amount	Credit Amount
Trans 1	Bank A/c Dr To Owner Capital A/c (Being capital brought in by owners)	+100 ✓	100
Trans 2	Bank A/c Dr To Bank Loan A/c (Being bank loan raised)	+200 ✓	200
Trans 3	Purchase A/c Dr To Bank A/c (Being goods purchased for resale purpose)	50	- 50 ✓
Trans 4	Purchase A/c Dr TO ABC Ltd A/c (Being goods purchased on credit)	50	50

And then, as a result we prepared a journal which looked like this.

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Date	Particulars	Debit Amount	Credit Amount
Trans 5	Bank A/c Dr To Sales A/c (Being Cash Sales made)	50	50
Trans 6	PQR A/c Dr To Sales A/c (Being Credit Sales made)	50	50
Trans 7	Rent A/c Dr TO Bank A/c (Being Rent paid)	20	20
Trans 8	Building A/c Dr TO Bank A/c (Being building purchased for cash)	100	100

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Date	Particulars	Debit Amount	Credit Amount
Trans 9	Bank A/c Dr To Building A/c (Being building sold for cash)	30	30
Trans 10	Bank A/c Dr To Interest Income A/c (Being interest on investment received)	10	10
Trans 11	Depreciation A/c Dr To Building A/c (Being depreciation charged for the year)	10	10
Trans 12	A/c Dr To P&A A/c (Being sum received in lieu of credit sales)	40	40

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Date	Particulars	Debit Amount	Credit Amount
Trans 13	Bad Debts A/c Dr To P&A A/c (Being loss of debtors recorded)	10	10
Trans 14	ABC Ltd A/c Dr To Bank A/c (Being cash paid in lieu of credit purchase)	50	50

And, you had the 14 transactions written, in a visible manner, in a summary form you have it with you.

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**Follow up questions**

After these transactions, how do I know:

- what is the balance in my bank account?
- How much was total purchase during the period?
- How much was total sales?
- What is the book value of building?
- How much do I have to recover from customers?
- How much do I have to pay to vendors?

*Create a separate 'Passbook' for every Asset, liability, income, expense*

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Now, after the 14 transactions the questions you should really ask are as follows: you would want to know what is the balance in the bank account. There were 14 transactions and many of these transactions involved receiving money from people or paying through the bank account to some people, some parties. So, finally, what is the amount left in your bank account? You could argue that you could download your bank statement and look at what is the latest balance in the bank account and the question is answered. You could do that very well. However, what are you going to do for the second question? How much is the total purchase during the period of 14 transactions, let us say? Now, are you going to the bank and ask for a statement: where did I pay for purchases? Well, you cannot do that because bank does not record your purchases: it only gives you one consolidated statement. It is up to you now to segregate which ones were purchases, which one were sales and so on. Also, some sales and some purchases will be cash while others will be credit. In the bank statement, you will only see transactions done on a cash basis. So, it is not possible to answer this question through a bank statement either. Therefore, you need to have your own system, your own passbook for bank account and for purchase account as well.

In the passbook for purchase account, you are going to write all the transactions relating to purchase only. If you can do that, then you can answer the question as to what is the total purchase during the period or during these 14 transactions. Likewise, the next question; what is the total sales? What is the book value of a building? How much do you need to recover from

the customers or you need to pay to the vendors? You create a separate passbook for each of these.

This is the process that we are going to follow, creating a separate passbook for each account. I use the word passbook, just to provide an analogy to the bank passbook. A passbook for every asset, liability, income and expense. Now, understand that there can be 10 types of assets, 20 types of liabilities; income and expenses. So, you will need to maintain as many passbooks as the accounts. But that is going to come handy; as we move forward, you will realize that.

Right now in the 14 transactions; if I have to answer the first question here; I could, of course, go to the bank. But I could also look at my transactions. And, if I look at the transactions, I would say which journal entries involve payment through bank or receipts in the bank. So, I have this 100 which is coming in; plus 100, then plus 200, then this is a minus 50 and so on. I could go through 14 transactions; it is not difficult, I could just do it manually; this is 300, minus 50; 250 and so on. I could give you a number in a few seconds, that is possible. But imagine an actual business; this is just a simulation. In an actual business, depending upon what size of business you are running, how geographically spread you are in terms of a business; the transactions could run into thousands and transactions. It could run into thousands per hour as well. Under those circumstances; how are you going to manually do this? These records may be spread across geographies as well, they will need to be brought into one place and then look thoroughly. It is not you do not want to do that manual process; therefore, you want to have a pass book for every type of account. When I say passbook, I mean one dedicated fair homework book. Going back to the earlier example, where we said a journal was a rough notebook in which you wrote the class work that you did throughout the day for different subjects, for different courses. When you go home you have one notebook dedicated to one subject; mathematics and you write answers to all practice problems in that notebook. So, when the exams come and you have to prepare for the exam, you do not have to look through a rough notebook and flip pages back and forth. We have one notebook where all the math is available for you to study and revise and prepare for the exam. Likewise, we are going to bring all the transactions relating to one account at one place so that things become easier for us.

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**Ledger**

Dr. Side      Rent Purchase Bank      Credit Side

Dr. Side			Credit Side		
Date	Particulars	Amount	Date	Particulars	Amount

Now, how do we do it? In order to do that, we have this format; this is the passbook, this is the fair notebook the homework book that you have with you, in which you are going to write transactions relating to one type of account. And, this could be an asset account, liability account, expense account, or income account. At the top you see *account* written. You could prefix any name to it: it could be a bank account, it could be a purchase account, it could be a rent account, you could name it anything. So, any account can be prepared. Now, the format of the account is that it has two sides, you have these two sides. This side is called the debit side, so let me write it here, this is the debit side and this is the credit side. And the convention is that you always have the debit side on the left and credit side on the right-hand side. So, this is how it is always going to be presented, no matter where you look- in the textbooks or online resources. So, in this account on one side you have the column for date, particulars, which means details and then an amount to be written and the same three columns repeated on the other side. You will see in the textbooks that there is another column here which is kind of a reference number, a ledger folio which is given to refer to the place this transaction was written in the journal.

Again, I do not intend to make you an accountant. I am going through very simple transactions. I want you to go through the process of accounting cycle in a minimum viable way so that you learn this process and then you have an understanding of how these numbers are arrived at. If this course was meant for accountants/people who want to become finance experts in handling the books or writing the books of accounts, then it will have more depth. That is what chartered

accountants do or people who do, masters in accounting they do. But, the idea in this course is to take you through a very lean sort of process of accounting cycle so that you are at least familiar with the process. In that spirit, I am not including that one more column here.

So, you have three columns; the same three columns on both sides and you are going to write the journal entries in this pass book. And, this is going to maintain this ledger account or this account is going to be maintained for every item of asset, liability, income, and expense. Alright, so that is what a ledger account looks like. In the following videos, we go through the process of posting these transactions in the ledger. I will see you in the next video.