

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

Lecture - 33
3.2 Process of Ledger Posting (Part 2)

(Refer Slide Time: 00:17)



This is a continuation of the previous video, wherein we learnt how the bank account is to be prepared. We posted journal entries into the bank account. In this video, we are going to post the rest of journal entries in other accounts.

(Refer Slide Time: 00:34)

Date	Particulars	Debit Amount	Credit Amount
Trans 1	Bank A/c → Dr. ≥ → To Owner's 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 → Cr. ≥ (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

So, let us get started. Now, we are going to look at the owner's capital account. Bank account is done. Let us start with the owner's capital account or shareholders' capital account; I am using these two interchangeably.

(Refer Slide Time: 00:51)

Owner's Shareholders' Capital Account					
Dr.			Cr.		
Date	Particulars	Amount	Date	Particular	Amount
			Trans 1	By Bank A/c	100

Bank Loan Account					
Dr.			Cr.		
Date	Particulars	Amount	Date	Particular	Amount
			Trans 2	By Bank A/c	200

I am going to click on this link and jump to shareholders' capital account. As the journal entry says owner's capital, please use this: I use these two terms interchangeably. Owner's capital account; ignore bank loan account for now, only focus on shareholders' capital account. Again, same format: you have a debit side, you have a credit side. There are three columns on debit

side, three columns on credit side. So, nothing changes as far as the format of this ledger account is concerned. Now, we have to look for journal entries which involve shareholders' capital account and then bring those journal entries to this ledger account. The first transaction involves the capital account and in this journal entry; we are crediting the capital account. Therefore, the rule is to go to the credit side of owner's capital account and write the name of the other account involved in this transaction which is the bank account. So, I go to the owner's capital account here, and am going to write transaction number 1, and the name of the other account involved, which is bank account. As per the convention we prefix a By to it. The amount is 100; so, I am going to write 100 here. That is it. That completes the posting of a journal entry into a relevant account. Now, let us look at the journal entries which may involve owner's capital account.

(Refer Slide Time: 02:43)

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



(Refer Slide Time: 02:46)

Date	Particulars	Debit Amount	Credit Amount
Trans 9	Bank A/c \rightarrow Dr \geq To Building A/c \rightarrow Cr \geq (Being Building sold for Cash)	30	30
Trans 10	Bank A/c \rightarrow Dr \geq To Interest Income A/c \rightarrow Cr \geq (Being interest on investment received)	10	10
Trans 11	Depreciation A/c \rightarrow Dr \geq To Building A/c \geq (Being depreciation charged for the year)	10	10
Trans 12	Bank A/c \rightarrow Dr \geq To P&L A/c \geq (Being sum received in lieu of <u>Debit Sales</u>)	40	40

(Refer Slide Time: 02:48)

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

Transaction 2, does not; 3, does not; 4, does not; transactions 5 to 8, no; transactions 9 to 12, none; transactions 13 and 14, none. So, there is no other transaction which involves the owner's capital account. When you go back and look at this account you will find that I intentionally kept a small space for this account because I knew there was only one transaction. This is just a simulation, so you do not have many transactions on capital. But in a real business, owners, shareholders can bring in money regularly. It could be every year the money is coming in. So, there can be more transactions. For now, posting into shareholders capital account is finished, there was only one transaction.

We go back to the list of journal entries and I am going to cross the first journal entry because I have now posted this journal entry in the bank account and also in the owner's capital account. So, from my side the full entry has been posted.

If you are wondering that we are doing duplication; by posting the same entry in the bank account and also in the owner's capital account, then it is not duplication. It is the double entry system that is the basis of the double entry system; that is the scientific process that is being used. Every transaction has two sides like there are two sides to the coin. One side is debit, the other is credit: both complement each other. That is how we are going to prepare this record.

As we move forward; we will get more sense or more evidence of why we are posting it in both the accounts. In the end assets are equal to liabilities, that is the double entry system; that means one transaction affects at least two items in such a way that the accounting equation holds, that is the double entry system.

Let us move forward to the transaction. In transaction 2 we have already posted the journal entry in the bank account. So, my bank loan account is remaining. Bank loan account is being credited so I will go to the credit side of the bank loan account and write By Bank A/c. Let us just go to the bank loan account here. I am going to the credit side and I will write Bank A/c 200 and as per the convention I will write a *By* and I have to write transaction number, in place of date, and done. You have posted the journal entry relating to the bank loan account into the bank loan account. Now, transaction 2 is done from my side. Just to be safe, I do not want any confusion later when I come back and look at these transactions again, I am crossing this off. I am going to look at other transactions to see if there is any transaction which involves a bank loan account. 5 through 8- no bank loan account; 9 through 12, there is no bank loan; no other transaction in the bank loan account. Therefore, bank loan account is also been taken care off.

Let us go to the next transaction. In transaction 3 we have already taken care of the bank account. We have to look at the purchase account. Purchase account being debited means we will go to the debit side of the purchase account and we are going to write To Bank A/c 50.

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Purchase Account					
Dr.			Cr.		
Date	Particulars	Amount	Date	Particular	Amount
Trans 3	TO Bank A/c	50			
Trans 4	TO ABC Ltd's A/c	50			

ABC Ltd's Account					
Dr.			Cr.		
Date	Particulars	Amount	Date	Particular	Amount
Trans 4	TO Bank A/c	50	Trans 4	By Purchase A/c	50

So, let us go to the purchase account and write To Bank A/c 50. So, transaction 3 I go to the purchase account and done. You go to the debit side; you write the name of the other account involved and the transaction is posted. You have posted this transaction into a bank account and also in the purchase account. Again, I am just going to cross it off, to make sure the things are visible to me; I know I have done this transaction.

Let us go to transaction 4 now. It involves a purchase account again and it involves ABC account. So, I am going to the purchase account again. I am going to the debit side of the purchase account and write transaction 4 and write the name of the other account involved which is ABC Limited account, 50 Rupees. To ABC Limited's A/c 50 and this is transaction 4, done. Now, I go back and I have written this; I have posted this transaction in the purchase account, so I am done with the purchase account here. The other account involved in this transaction is ABC Limited's account which is being credited. So, we go to ABC Limited's account because this is a double entry system, we have to prepare records for every account which is involved. In ABC Limited's account; on the credit side, we write Purchase A/c 50, transaction 4. ABC's account is here; we go to the credit side and we write transaction 4 and we write By Purchase A/c 50. And if you remember, this is the other side of the coin; you have ABC Limited in the purchase account and in ABC Limited's account, you have written purchase. All of this is going to come together very soon; just hold on.

Now, transaction 4 has been posted to both the accounts; purchase account and ABC account. This is done. I move forward to transaction 5. Transaction 5 has been posted in the bank account already, but not in the sales account. Sales account is being credited here; I am going to the credit side of the sales account and write transaction 5, I will write a bank account; 50.

(Refer Slide Time: 09:42)

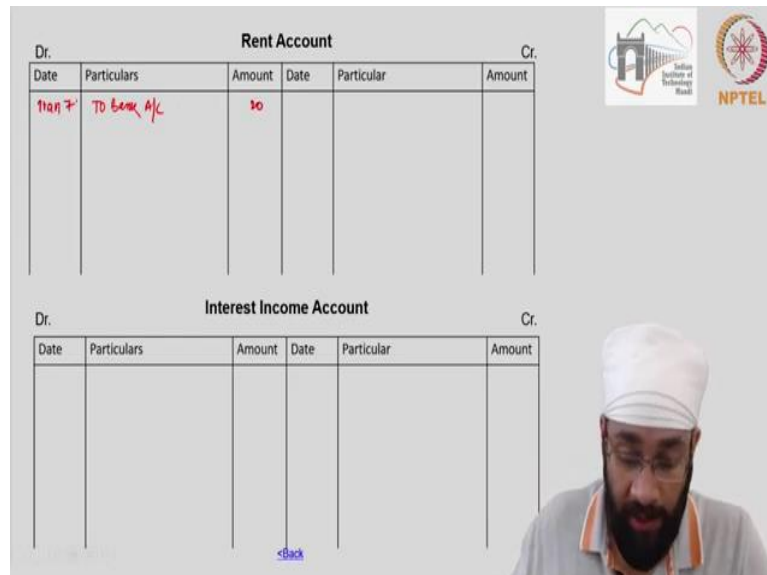
The image shows two T-accounts with handwritten entries in red ink. The top T-account is titled 'Sales Account' and has a 'Dr.' side and a 'Cr.' side. The 'Cr.' side has two entries: 'Trans 5 By Bank A/c' with an amount of 50, and 'Trans 6 By PQR's A/c' with an amount of 50. The bottom T-account is titled 'PQR Ltd's Account' and also has 'Dr.' and 'Cr.' sides. The 'Dr.' side has one entry: 'Trans 6 To Sales A/c' with an amount of 50. The 'Cr.' side has two entries: 'Trans 2 By Bank A/c' with an amount of 40, and 'Trans 3 By Royal Dishes A/c' with an amount of 10. In the top right corner, there are logos for 'Indian Institute of Technology Kharagpur' and 'NPTEL'. At the bottom center, there is a '<Back' button. A presenter wearing a white turban and glasses is visible in the bottom right corner of the frame.

So, I will go to sales, on the credit side I will write By Bank A/c 50; this is transaction 5. Transaction 5 has now been posted into the sales account. So, you need to cross it off. Both sides of the journal entry are posted to both the accounts. I am going to cross it off; transaction 5 ledger posting completed.

In transaction 6, you have PQR Limited's account being debited. So, I am going to the debit side of PQR's account and write To Sales A/c, transaction 6, 50. So, PQR's account is here, I go to the debit side and I write transaction 6 and Sales A/c 50; done. Let me go back and cross it off because I have posted this entry in PQR's account. The other account involved in this transaction is a sales account. Sales account is being credited here. I am going to the credit side of the sale account and write By PQR, 50; transaction 6. So, let us go to the sales account and write By PQR's account 50 and this is transaction 6. Again, the two sides of the coin are visible here; in PQR Limited's account you have written To sales and in sales account you have written By PQR- opposite sides of the two accounts. That is how debits and credits are going to come together. Transaction 6 posted in both the accounts; I am done with transaction 6. Let us go to

transaction 7, the rent account. Rent account debit so I go to the debit side of the rent account and write To bank 20.

(Refer Slide Time: 11:51)



Rent Account					
Dr.			Cr.		
Date	Particulars	Amount	Date	Particular	Amount
11/07/21	TO Bank A/c	20			

Interest Income Account					
Dr.			Cr.		
Date	Particulars	Amount	Date	Particular	Amount

Here is my rent account; To Bank A/c, 20 and this is transaction 7 and we are done. Transaction 7, rent account; debit to bank; so, posting has been done in the rent account and in the bank account we have already done posting. You saw that in the previous video, so transaction 7 is also complete.

Let us go to transaction 8. In transaction 8, we have a building account. So, we create a building account and we go to the debit side of the building account.

(Refer Slide Time: 12:31)

Building Account

Dr.			Cr.		
Date	Particulars	Amount	Date	Particular	Amount
Tran 8	To Bank A/c	100	Tran 9	By Bank A/c	80
			Tran 11	By Depreciation A/c	10

Depreciation Account

Dr.			Cr.		
Date	Particulars	Amount	Date	Particular	Amount
Tran 11	To Building A/c	10			

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I have created a format for building account; debit side, you are going to write To bank A/c; this is transaction 8 and the amount is 100. So, the building account amount is 100 and we are done, posting this transaction in the building account.

(Refer Slide Time: 13:05)

Bank Account

Dr. (Inflows)			Cr. (Outflows)		
Date	Particulars	Amount	Date	Particular	Amount
Tran 1	To Balance Capital A/c	100	Tran 3	By Purchase A/c	50
Tran 2	To Bank Loan A/c	200	Tran 7	By Rent A/c	20
Tran 5	To Sales A/c	50	Tran 8	By Building A/c	100
Tran 9	To Building A/c	20	Tran 14	By ABC Ltd's A/c	50
Tran 10	To Interest Income A/c	10			
Tran 12	To PQR's A/c	90			
		430			220

430
220
210 Balance in Bank A/c

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The other account involved is bank account; we have already posted all the transactions in the bank account. I still have it here just to show you. This is the bank account and here the building

is already posted. So, we do not have to worry about this anymore. Thus, transaction 8 is also posted, so crossing it off.

Let us go to transaction 9. Bank account debit, To building account. Here, the bank account is already taken care of. Building account is credit. I am going to the credit side of building account and write By Bank 30. So, By Bank 30, this is transaction 9 and we have posted this entry; transaction 9; 30 done. So, building account, the entry has been posted and in the bank account, the entry was already posted. Transaction 9 is crossed off.

Next step is transaction 10: bank account which is already taken care of, To interest income. Interest income accounts are being credited. I am going to the credit side of the interest income account and write By bank 10. So, here is interest income account; credit side we are going to write By bank account 10 and this is transaction 10 as well. Go back and you have transaction 10, done, posted in both the accounts.

Transaction 11; depreciation, new account. Let us create an account for depreciation. Go to its debit side and write To Building. So, depreciation here debit side; we are going to write the name of the other account involved which is building, To Building A/c. Depreciation was transaction 11 and the amount is 10. So, amount is 10 and transaction 11, done. Let us go back. In transaction 11, the entry is posted into depreciation account. The building account is credited. So we will go to the credit side and we will write By Depreciation; 10. So, building account, By Depreciation A/c; 10 and this is transaction 11. Again, two sides of the same entry; you have a building account, 10 and depreciation account; 10. So, in the building account; you are writing depreciation on the credit side and in the depreciation account you are writing building on the debit side. Again, all of this will start to make sense, once we finish this process and see what happens. So, depreciation account debit; transaction 11 is done, we have posted in both the accounts.

Transaction 12, bank account debit; taken care of, To PQR A/c which is being credited. We go to the credit side of PQR and we write By Bank 40. So, go to PQR and write By Bank A/c 40. This is transaction 12 and we are done. We have posted this entry in PQR account; bank account was already done, crossing it off, transaction 12 is done. Two more to go.

You have bad debt account debit. Open a new bad debt account and go to the debit side and write To PQR 10.

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Dr. Bad Debts Account Cr.					
Date	Particulars	Amount	Date	Particular	Amount
Trans 13	TO PQR'S A/c	10			
Dr. Cr.					
Date	Particulars	Amount	Date	Particular	Amount

So, I have bad debts account here. I am going to write To PQR's A/c 10 and the transaction number is 13. Let us go back and look at transaction 13. Bad debts- the posting has been done, PQR's account is being credited, I will go to the credit side and I will write the name of the other account which is bad debt. So, PQR's account here; I am going to write By Bad Debts A/c, this is 10 and this is transaction 13 and we are done posting this transaction. So, PQR's account, the entry has been posted to that account as well; transaction 13 crossed off, we are done.

Last transaction; transaction 14, ABC Limited's account is being debited; we will go to the debit side and write To Bank. So, we go to the debit side and write To Bank A/c and we write 50; this is transaction 14. And there you go, the other account involved in transaction 14 was a bank account that is already posted to the bank account.

This is the process of ledger posting, this is how the transactions are taken to their respective accounts. In the beginning, we said this process is about classifying the transactions. See how the transactions are being classified; all bank transactions are here, all the shareholder capital transactions are here, all the bank loan transactions are here, all the purchases related transactions are here, all the transactions with ABC Limited are here and so on, for all the rest of the accounts which are involved here.

So, let me stop here and I am going to continue this in the next video with more discussions on these accounts.