**Notes: Recording of Transactions**

The Ledger

The ledger is the principal book of accounting system. It contains different accounts where transactions relating to that account are recorded. A ledger is the collection of all the accounts, debited or credited, in the journal proper and various special journal (about which you will learn in chapter 4). A ledger may be in the form of bound register, or cards, or separate sheets may be maintained in a loose leaf binder. In the ledger, each account is opened preferably on separate page or card. Utility A ledger is very useful and is of utmost importance in the organisation.

The net result of all transactions in respect of a particular account on a given date can be ascertained only from the ledger. For example, the management on a particular date wants to know the amount due from a certain customer or the amount the firm has to pay to a particular supplier, such information can be found only in the ledger. Such information is very difficult to ascertain from the journal because the transactions are recorded in the chronological order and defies classification.

For easy posting and location, accounts are opened in the ledger in some definite order. For example, they may be opened in the same order as they appear in the profit and loss account and in balance sheet. In the beginning, an index is also provided. For easy identification, in big organisations, each account is also allotted a code number.

The Journal and the Ledger are the most important books of the double entry mechanism of accounting and are indispensable for an accounting system.

Following points of comparison are worth noting :

1. The Journal is the book of first entry (original entry); the ledger is the book of second entry.

2. The Journal is the book for chronological record; the ledger is the book for analytical record.

3. The Journal, as a book of source entry, gets greater importance as legal evidence than the ledger.

4. Transaction is the basis of classification of data within the Journal; Account is the basis of classification of data within the ledger.

5. Process of recording in the Journal is called Journalising; the process of recording in the ledger is known as Posting

1. Meaning of source documents : Various business documents such as invoice, bills, cash memos, vouchers, which form the basis and evidence of a business transaction recorded in the books of account, are called source documents.
2. Meaning of accounting equation : A statement of equality between debits and credits signifying that the assets of a business are always equal to the total liabilities and capital
3. Rules of debit and credit : An account is divided into two sides. The left side of an account is known as debit and the credit. The rules of debit and credit depend on the nature of an account. Debit and Credit both represent either increase or decrease, depending on the nature of an account. These rules are summarised as follows : Name of an account Debit Credit Assets Increase Decrease Liabilities Decrease Increase Capital Decrease Increase Revenues Decrease Increase Expenses increase Decrease
4. Books of Original entry : The transactions are first recorded in these books in a chronological order. Journal is one of the books of original entry. The process of recording entries in the journal is called journalising.
5. Ledger : A book containing all accounts to which entries are transferred from the books of original entry. Posting is process of transferring entries from books of original entry to the ledger.