

A ledger is a book containing accounts in which the classified and summarized information from the journals is posted as [debits and credits](#). It is also called the second book of entry.

The [ledger](#) contains the information that is required to prepare financial statements. It includes accounts for assets, liabilities, owners' equity, revenues and expenses. This complete list of accounts is known as the chart of accounts. The ledger represents every active account on the list.

What this article covers:

- [What Is a Ledger Account?](#)
- [How Do You Write a Ledger?](#)
- [What's the Difference Between a Journal and a Ledger?](#)

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## What Is a Ledger Account?

The accounting ledger contains a listing of all general accounts in the accounting system's chart of accounts.

Here are the primary general ledger accounts:

- Asset accounts include fixed assets, prepaid expenses, accounts receivable and cash
- Liability accounts which include notes payable, lines of credit, accounts payable and debt
- Stockholders' equity accounts
- Revenue accounts
- Expense accounts

- Revenue and loss accounts such as interest, investment, disposal of an asset

These transactions are recorded throughout the year by debiting and crediting these accounts. The transactions are caused by normal business activities such as billing customers or through adjusting entries.

The ledger account may be in the form of a written record if accounting is done by hand or in the form of electronic records when accounting software packages are used.

## How Do You Write a Ledger?

Businesses that use the double-entry bookkeeping method of recording transactions make the accounting ledger. Each transaction is recorded into at least two ledger accounts. The entries have debit as well as credit transactions and are posted in two columns. The debit

A **general ledger** is used by businesses that employ the double-entry bookkeeping method, which means that each financial transaction affects at least two general ledger accounts and each entry has a debit and a credit transaction. Double-entry transactions are posted in two columns, with debit postings on the left and credit entries on the right, and the total of all debit and credit entries must balance.

Ledgers break up the financial information from the journals into specific accounts such as Cash, Accounts Receivable and Sales, on their own sheets. This allows you to see the details of all your transactions.

1. Make a ledger for each account. For example, a cash account ledger will contain all the cash transactions of your business. For unusual or odd expenses, make a general ledger account
2. Make columns on the far left of the page for the date, journal number and description
3. Make columns on the left side for debit, credit, and balance. Debit refers to the money you receive while credit refers to the money that you paid or owe. Balance is the difference between the debit and credit
4. Enter the information from the journals into related accounts. Place related debits and credits side by side. Calculate the balance you've earned or owe
5. Record and make changes to the transactions as they occur. If you've made a journal entry, post it to the ledger immediately
6. Combine the different accounts to make a full ledger. The front page includes the chart of accounts, listing each account in the ledger and its number

The next step in the accounting cycle is to create a trial balance. The information in the ledger accounts is summed up into account level totals in the trial balance report. The trial balance totals are matched and used to compile financial statements.

# What's the Difference Between a Journal and a Ledger?

The journal and ledger both play an important role in the accounting process. The business transactions are primarily recorded in the journal and thereafter posted into the ledger under respective heads. While many financial transactions are posted in both the journal and ledger, there are significant differences in the purpose and function of each of these accounting books.

## Meaning

The financial transactions are summarized and recorded as per the double entry system in a journal. It's also known as the primary book of accounting or the book of original entry.

The ledger, on the other hand, is known as the principal book of accounting. It records the information from the journal in the "T" format. It is used to create the trial balance which is also the source of the financial statements such as the income statement and the balance sheet

## Recording Transactions

The process of recording transactions in a journal is called journalizing while the process of transferring the entries from the journal to the ledger is known as posting.

The transactions in a journal are recorded in a chronological order making it easy to identify the transactions are associated with a given business day, week, or another billing period. By contrast, the arrangement of entries within a ledger has more to do with grouping like transactions together into specific accounts for purposes of assessing the data for internal financial and accounting purposes.

## Format

The format of a journal is simple. It includes the transaction date, particulars of the transaction, folio number, debit amount and credit amount. There is no scope for balancing

in a journal.

The format of a journal:

Date	Particulars	L.F.	Debit	Credit
Transaction date	Account title and details	Ledger folio number	Amt.	Amt.

The ledger uses the “T” format where the date, particulars, and amount is recorded in each side.

The format of a ledger:

Date	Particulars	Folio Number	Amount	Date	Particulars	Folio Number	Amount
Transaction date	Account name		Transaction amount	Transaction date	Account name		Transaction amount

Unlike a journal, some ledger accounts start with an opening balance that is the closing balance of the previous year. Also, in the end, the ledger amounts should be balanced.

Preparing a ledger is important as it serves as a master document for all your financial transactions. Since it reports revenue and expenses in real time, it can help you stay on top of your spending. The general ledger also helps you compile a trial balance, spot unusual transactions and aids in the creation of financial statements.

### Journal

Date	Particulars	L.F.	Debit ₹	Credit ₹
(1)	(2)	(3)	(4)	(5)

- **Date:** Date of the transaction is entered in the first column. This date is entered only once unless and until there is change in the date of transaction. It should be entered in a proper sequence.
- **Particulars:** Each business transaction has two accounts- debit and credit. In the first line of the particular column, name of the debit account is written along with word “Dr.” at the end. In the second line, start with the word “To” and after some space from the margin, the name of the credit account is written.
- **Narration:** Explanation of the transaction is provided within the brackets after each journal entry is called narration.
- **Ledger Folio:** All journal entries are posted later into the ledger accounts. The page number or folio number of the ledger is recorded in the L.F. column of the journal. Till then, the column remains blank.
- **Debit:** The amount of the account being debited is written in this column.
- **Credit:** The amount of the account being credited is written in this column.
- **Limitations:**
  - As the numbers of transactions in a business are large, journal becomes bulky and voluminous and therefore is not suitable in case of such large volume of transactions.
  - It is considered as a difficult process as recording of journal entries requires proper identification of accounts and correct compliance of the accounting concepts and conventions.
  - Cash transactions are usually recorded in a separate book called ‘cash book’. Those transactions are not recorded in journal.
  - After recording journal entries, separate ledger account is required to be prepared for individual account balances. Therefore, a Journal can never be used as a substitute to ledger.

## Important Considerations in Journalising Transactions

### Understanding the steps in Journalising, Casting, Carry Forward and some Important Considerations:

- **Steps in Journalising:** The process of analysing all the business transactions of debit and credit and recording them in the journal is called Journalising. Following are the steps to be followed in Journalising the transactions:

- i. Determine the two accounts involved in the transaction.
- ii. Classify the accounts into assets, liabilities, capital, expenses and incomes.
- iii. Apply the rules of debit and credit for the above two accounts and identify which account is to be debited and credited.
- iv. Record the date of transaction, particulars of transaction and mention the respective debit and credit amounts against each item.
- v. Write a brief description of the transaction recorded within brackets in the next line in the particulars column. Such description is termed as narration.
- vi. Draw a line across the particulars column to divide one journal entry from the other.

- **Casting (Totalling) and Carry Forward:**

- The process of totaling the amounts in the debit and credit columns on each page of a journal is termed as Casting or Totalling.
- This is required when the transactions of a business are voluminous and requires a number of pages of Journal.
- After totalling the amounts on each page, in the particulars column, against the total, the words 'Total c/f' (carried forward) are written. This shows the amount that has been carried forward to the next page. On the next page, in the particulars column, against the amount brought forward, the words 'Total b/f' (brought forward) are written. This shows the amount that has been brought forward from the previous page.

- **Points to determine Cash and Credit Transactions:**

- If the name of the seller or purchaser is mentioned in a transaction stating that cash is transacted, then it is accounted as a cash transaction.
- If the name of the seller or purchaser is mentioned in a transaction without stating that cash is transacted, it is accounted as a credit transaction.
- If the transaction relates to sales or purchases and the name of the seller or purchaser is not given, it is accounted as a cash transaction.
- In case of expenses, even if the name of the party receiving or making payment is given, it is accounted as expense incurred in cash and personal account of the person receiving the amount is not debited.
- Any amount introduced as capital in the business by the proprietor is credited to his/her Capital Account whereas withdrawal of cash or goods for his/her personal use is debited to Drawings Account.

- **Understanding Purchase and Sale of Goods:**

- It is important to understand the meaning of goods before understanding the purchase and sale of goods. Goods are those items that are purchased for manufacture or for the purposes of resale and not for the purpose of using it in the business. The items that are purchased to use in the various business activities for a longer period of time are assets and not goods.
- It is necessary to have an idea of the accounts associated with purchase and sale of goods as follows:
  - i. Purchase Account: This account is debited when the goods are purchased by following rule for Expenses Account i.e., Increase in expense is debited and decrease in expense is credited'.
  - ii. Sales Account: This account is credited when the goods are sold by following rule for Revenue Account i.e., Increase in revenue is credited and decrease is debited.

- iii. **Purchases Return Account:** It is credited when the goods purchased are returned by the firm. In the event of finalising the accounts, such purchase return account is deducted from the Purchase Account to show the purchases at net amount.
- iv. **Sales Return Account:** It is debited when the goods sold are returned to the firm. In the event of finalising the accounts, such Sales Return Account is deducted from the Sales Account to show the sales at net amount.
- v. **Closing Stock Account:** It shows the value of the unsold stock. It is the net balance of Opening Stock + Net Purchases – Net Sales which is valued at Cost or Net Realisable Value (Market Value), whichever is less.

## Understanding Discount and Rebate

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### Meaning, Advantages and Accounting for Discount and Rebate:

- **Discount:** It is the amount of reduction in the price of goods and/or services or a reduction in the total amount payable for such goods or services. Such discount is further classified as Trade Discount and Cash Discount:
  - **Trade Discount:**
    - **Meaning:** It is a reduction in the prices of the goods allowed by the seller to the buyer for buying goods of certain quantity or value (*bulk purchase discount*). When such discount is allowed, Purchases and Sales are recorded in the books at their net value i.e., Purchases – Trade Discount and Sales – Trade Discount respectively. Such trade discount is allowed on sale of goods, therefore, it is allowed on both cash and credit sales. GST is applied at the net value of sale.
    - **Advantages:**
      - i. It improves sales by encouraging the purchaser to buy larger quantities.
      - ii. It reduces the purchase cost of the purchaser and therefore, can be used as a tool to face competition.
      - iii. It increases the profit margin for the retailers and helps them earn more profits by making sales at list price.
      - iv. Differential pricing may be followed by reseller as it enables them to sell at different prices without even reprinting the catalogues or changing the price given in the articles.
  - **Cash Discount:**
    - **Meaning:** It is allowed for timely payment of the amount. Such amount is recorded in the books for which it is treated as an expense by the party allowing such discount and income for the party receiving such discount.
    - **Advantages:**
      - i. It helps the seller of the goods realise the payment promptly as it encourages the debtors to make the payment within a specified period.
      - ii. It reduces the bad debts and improves cash inflow of the business.
      - iii. It enables sale of goods at lower prices by way of better cash discount.

- **Accounting:** Following journal entries are required to be passed for cash discount:

- i. **On receiving cash discount:**

Creditor's A/c            ...Dr.  
     To Cash or Bank A/c  
     To Discount Received A/c

- ii. **On allowing cash discount:**

Cash or Bank A/c            ...Dr.  
     Discount Allowed A/c    ...Dr.  
         To Debtors' A/c

- **Rebate:**

- **Meaning:** It is a reduction in the price of the goods after the goods have been sold for reasons other than that for allowing trade discounts (goods sold when delivered turned to be of lower quality). It is offered and allowed on sales completed in the past.
- **Accounting:**
  - At the time of purchase of goods, Input GST is debited. Therefore, at the time of receipt of rebate on such purchase of goods, Input GST earlier debited will be reversed by crediting the respective GST Account.
  - At the time of sale of goods, Output GST is credited. Therefore, at the time of allowance of rebate on such sale of goods, Output GST earlier credited will be reversed by debiting the respective GST Account.

## Entries for some Specific Transactions

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### 1. Bad Debts:

The amount that was receivable but could not be realized (partially or fully), such amount that is not recovered is a loss to the business and recorded as **Bad Debt**.

- i. **If amount is not recoverable:**

Bad Debts A/c            ...Dr. (amount not received)  
     To Debtor's Personal A/c  
     (Being the amount not recoverable written off as bad debt)

- ii. **If some part of debt is not recoverable:**

Cash or Bank A/c            ...Dr. (amount received)  
     Bad Debts A/c            ...Dr. (amount not recovered)  
         To Debtor's Personal A/c (total amount of debtor)  
     (Being the amount received and balance written off as bad debts not recoverable)

**Bad Debts Recovered:** The amount of bad debts recovered is a gain for the business because the amount was earlier written off as a loss (i.e., bad debts). Such amount of bad debts recovered is firstly credited to Bad Debts Recovered Account and later transferred to Profit and Loss Account.

Cash or Bank A/c            ...Dr.  
     To Bad Debts Recovered A/c  
     (Being the amount earlier written off as bad debt, now recovered)

### 2. Cash for Personal Use: Such amount is termed as Drawing by the proprietor.

Drawings A/c            ...Dr.  
     To Cash A/c  
     (Being cash withdrawn for personal use)



- 3. Goods for Personal Use:** Such goods for personal use are also termed as Drawing by the proprietor. Since GST (input GST) was paid at the time of purchase of such goods, it is now to be reversed as it is not available to set off against the output GST.

Drawings A/c ...Dr.

To Purchases A/c (cost of goods)  
To Input CGST A/c (CGST on goods)  
To Input SGST A/c (SGST on goods) or  
To Input IGST A/c (IGST on goods)

(Being the goods withdrawn for personal use and GST thereon reversed)

- 4. Goods given as charity:** It reduces the purchases as the goods are not sold.

Charity/Donation A/c ...Dr. (purchase cost + GST Paid)

To Purchases A/c (purchase cost)  
To Input CGST A/c (CGST on goods)  
To Input SGST A/c (SGST on goods)  
To Input IGST A/c (IGST on goods)

- 5. Goods given as free Samples:** Such distribution of goods encourages sales but is not the actual sales and therefore debited to the Advertisement Account. Also, since such distribution reduces the stock of goods, it is reduced from the purchases along with the input GST thereon.

Advertisement A/c ...Dr.

To Purchases A/c (purchase cost)  
To Input CGST A/c (CGST on goods)  
To Input SGST A/c (SGST on goods)  
To Input IGST A/c (IGST on goods)

- 6. Loss of Stock by theft or damage or fire:** This is a loss to the business which increases the expenses and therefore debited in the books:

Loss of Stock by theft or damage or fire A/c ...Dr.

To Purchases A/c (purchase cost)  
To Input CGST A/c (CGST on goods)  
To Input SGST A/c (SGST on goods)  
To Input IGST A/c (IGST on goods)

**If the goods/stock is insured entry passed is as follows:**

Insurance Co. ...Dr.

To Purchases A/c  
To Input CGST A/c (CGST on goods)  
To Input SGST A/c (SGST on goods)  
To Input IGST A/c (IGST on goods)

**If full amount of claim is received from the Insurance Company:**

Bank A/c ...Dr.

To Insurance Co.

**If Insurance Company does not pay full claim amount:**

Bank A/c ...Dr. (Claim amount received)

Loss of Stock by theft or damage or fire A/c (claim not admitted recorded as loss in books)

To Insurance Co. (Total Claim)

## 7. Purchase and Sale of fixed assets:

### Purchase of fixed asset:

Fixed Asset A/c                    ...Dr. (purchase cost)  
Input CGST A/c                    ...Dr. (CGST on asset)  
Input SGST A/c                    ...Dr. (SGST on asset)  
Input IGST A/c                    ...Dr. (IGST on asset)  
    To Cash/Bank A/c                (if purchased by making immediate payment)  
    To Supplier's A/c                (if purchased on credit)

### Sale of fixed asset:

Cash/Bank A/c                    ...Dr. (If sold for cash/cheque)  
Purchaser's A/c                    ...Dr. (if sold on credit)  
Loss on Sale of Asset    ...Dr. (Book Value – Sale Value)  
    To Fixed Asset A/c                (Book Value)  
    To Gain on Sale of Asset (Sale Value – Book Value)  
    To Output CGST A/c                (CGST on sale)  
    To Output SGST A/c                (SGST on sale)  
    To Output IGST A/c                (IGST on sale)

## 8. Outstanding Expenses: It is that expense which related to current year but have not been paid till the end of the year.

Expense A/c    ...Dr.  
    To Outstanding Expense A/c

## 9. Prepaid Expenses: It is that expense which is paid during the current year but relate to the following accounting year.

Prepaid Expense A/c    ...Dr.  
    To Expense A/c

## 10. Sundry Expenses: These are the petty expenses that involve small amounts and therefore, are not material in nature. All such petty amounts are together recorded as Sundry Expenses:

Sundry or Miscellaneous Expenses A/c    ...Dr.  
    To Cash A/c

## 11. Accrued Income: It is the income which has been earned but has not been received or has not become due.

Accrued Income A/c    ...Dr.  
    To Income A/c

## 12. Advance Income: It is the income received but not earned.

Income A/c    ...Dr.  
    To Income received in Advance A/c

## 13. Depreciation: It is the fall in the value of fixed assets which decreases the asset value in the books every year.

Depreciation A/c    ...Dr.  
    To Assets A/c

#### 14. Banking Transactions:

- i. **Cash Deposited for opening an account:**  
Bank A/c     ...Dr.  
    To Cash A/c
- ii. **Withdrawn of cash for office use:**  
Cash A/c     ...Dr.  
    To Bank A/c
- iii. **Withdrawal of cash for personal use:**  
Drawings A/c     ...Dr.  
    To Bank A/c
- iv. **Cheque payment to a creditor:**  
Creditor's A/c     ...Dr.  
    To Bank A/c
- v. **Cheque issued dishonoured:**  
Bank A/c     ...Dr.  
    To Creditor's A/c
- vi. **Cheque received from Debtor and deposited on the same day:**  
Bank A/c     ...Dr.  
    To Debtor's A/c
- vii. **Cheque received from Debtor and not deposited on the same day:**  
Cheque-in-hand A/c     ...Dr.  
    To Debtor's A/c,  
  
    Later at the time of deposit,  
Bank A/c     .... Dr.  
    To Cheque-in-hand A/c
- viii. **Cheque deposited dishonoured:**  
Debtor's A/c     ...Dr.  
    To Bank A/c
- ix. **Payment to creditor by draft:**  
Creditor's A/c     ...Dr.  
Bank Charges A/c     ...Dr.  
    To Bank A/c
- x. **Payment of expenses:**  
Expenses A/c     ...Dr.  
    To Bank A/c
- xi. **Bank charges paid:**  
Bank Charges A/c     ...Dr.  
    To Bank A/c

- xii. **Bank interest charged:**  
Interest A/c      ...Dr.  
    To Bank A/c
- xiii. **Bank interest allowed:**  
Bank A/c      ...Dr.  
    To Interest Received A/c
- xiv. **Payment (insurance premium) made by bank on firm's behalf:**  
Insurance Premium A/c      ...Dr.  
    To Bank A/c
- xv. **Collection (dividend) by bank on firm's behalf:**  
Bank A/c      ...Dr.  
    To Dividend A/c
- xvi. **Bank loan repaid in cash:**  
Bank Loan A/c      ...Dr.  
    To Cash A/c
- xvii. **Bank loan repaid in cheque:**  
Bank Loan A/c      ...Dr.  
    To Bank A/c
- xviii. **Transfer of funds from one bank to another bank:**  
One Bank A/c      ...Dr.  
    To Another Bank A/c

## 15. Opening Entry:

- i. All the enterprises close their books of accounts on at the end of every year.
- ii. In this process, all the nominal accounts are closed by transferring them to the Profit and Loss Account and all personal and real account balances are carried to the next year known as closing balances of the respective accounts.
- iii. Such closing balances become the opening balances for the next year and therefore, an opening journal entry is passed at the beginning of the year.
- iv. At the time of passing an opening entry, all Assets are debited individually whereas Capital and Liabilities are individually credited as shown below:

Assets A/c (individually)      ...Dr.  
    To Liabilities (individually) A/c  
    To Capital A/c

(Being balances of assets, liabilities and capital brought forward)

In order to compute the amount of Capital, following equation can also be used:

$$\text{Capital} = \text{Assets} - \text{Liabilities}$$