

Financial Accounting
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Lecture – 32
3.2 Process of Ledger Posting (Part 1)

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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



In this video, we are going to get started with the process of ledger posting. We will take the 14 transactions and the journal entries that we wrote for these transactions and bring these transactions, classify these transactions into their specific accounts. Alright, let us get started. So, these are the transactions from the previous section, we have already done this same number, same journal entries.

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

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Date	Particulars	Debit Amount	Credit Amount
Trans 9	Bank A/c Dr \geq To Building A/c \geq (Being building sold for Cash)	30	30
Trans 10	Bank A/c → Dr \geq To Interest Income A/c \geq (Being interest on investment received)	10	10
Trans 11	Depreciation A/c Dr \geq To Building A/c \geq (Being Depreciation charged for the year)	10	10
Trans 12	Bank A/c → Dr \geq To PQR A/c \geq (Being Cash received in lieu of Credit Sales)	40	40

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

So, these are the 14 transactions. I have done some preparation before we go to ledger posting.

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Summarizing the transactions	
• Bank Account	\geq
• Shareholders Capital Account	\geq
• Bank Loan Account	\geq
• Purchase Account	\geq
• ABC Ltd's Account	\geq
• Sales Account	\geq
• PQR Ltd's Account	\geq
• Building Account	\geq
• Depreciation Account	\geq
• Rent Account	\geq
• Interest Income Account	\geq
• Bad Debts Account	\geq

I have listed down all the accounts which are involved in these 14 transactions. I have written this list here and then I have created a blank account for all these possible items which exist in the 14 transactions. So, if I click on this link here, I go to a page where I see a bank account.

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The screenshot shows a T-account titled "Bank Account". The left side (Debit) is labeled "Inflows" and the right side (Credit) is labeled "Outflows". The table contains the following entries:

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	30 ✓	Tran 14	By ABC Ltd's A/c	50 ✓
Tran 10	To Interest Income A/c	10 ✓			
Tran 12	To PQR's A/c	40 ✓			
		430			220

Handwritten calculations at the bottom right of the table:

$$\begin{array}{r} 430 \\ - 220 \\ \hline 210 \end{array}$$

Balance in Bank A/c

The presenter's video feed is visible in the bottom right corner.

Now, this is the same format as we discussed in the previous video; there is a debit side, there is a credit side, there are three columns on the debit side and there are three columns on the credit side.

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The screenshot shows two blank T-accounts. The first is titled "Shareholders' Capital Account" and the second is titled "Bank Loan Account". Both have the same structure as the Bank Account T-account, with Debit (Dr.) and Credit (Cr.) sides and columns for Date, Particulars, and Amount.

The presenter's video feed is visible in the bottom right corner.

Likewise we have the formats, we have blank accounts, pass books, for all the different types of items involved in the 14 transactions.

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Purchase Account

Dr.			Cr.		
Date	Particulars	Amount	Date	Particular	Amount

ABC Ltd's Account

Dr.			Cr.		
Date	Particulars	Amount	Date	Particular	Amount

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Sales Account

Dr.			Cr.		
Date	Particulars	Amount	Date	Particular	Amount

PQR Ltd's Account

Dr.			Cr.		
Date	Particulars	Amount	Date	Particular	Amount

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So, you have shareholders' capital account, bank loan account, purchase account, ABC, and sales account.

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Building Account					
Dr.			Cr.		
Date	Particulars	Amount	Date	Particular	Amount

Depreciation Account					
Dr.			Cr.		
Date	Particulars	Amount	Date	Particular	Amount

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I have created the account format for all the possible accounts which were debited or credited.

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Rent Account					
Dr.			Cr.		
Date	Particulars	Amount	Date	Particular	Amount

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

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Building Account					
Dr.			Cr.		
Date	Particulars	Amount	Date	Particular	Amount

Depreciation Account					
Dr.			Cr.		
Date	Particulars	Amount	Date	Particular	Amount

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Sales Account					
Dr.			Cr.		
Date	Particulars	Amount	Date	Particular	Amount

PQR Ltd's Account					
Dr.			Cr.		
Date	Particulars	Amount	Date	Particular	Amount

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The screenshot displays two T-accounts on a software interface. The top T-account is titled "Purchase Account" and is significantly larger than the one below it. It has columns for "Date", "Particulars", and "Amount" on the debit (Dr.) side, and "Date", "Particular", and "Amount" on the credit (Cr.) side. The bottom T-account is titled "ABC Ltd's Account" and is smaller. It has the same column structure. In the bottom right corner, a man with a beard and glasses, wearing a white turban, is visible. In the top right corner, there are logos for "Indian Institute of Technology Madras" and "NPTEL". At the bottom center, there is a blue "<Back" button.

And, you see that some are smaller accounts, some have more space on the page. This is based upon your number of transactions that they are involved in; because I know all of them. I know how many transactions there are for a specific type of account, I have created, adjusted the space accordingly. The first thing to do in the ledger posting is to find out, is to identify how many accounts need to be prepared and then get those formats ready with you. What is the next step? The next step is to look at the transactions one by one and then move these transactions from journal to ledger, alright. Let us do that process now.

The first transaction says bank account debit to owner's capital account. Now, what do you do? You are preparing a bank account, first of all. We are going to prepare every account, let us start with a bank account. We are preparing a bank account and we are going to go to the bank account and when I click on this link here, I have automated this process, I go directly to the bank account and I can quickly come back to this page as well. In this transaction we are debiting the bank account, we are giving a debit to the bank account. Therefore, we will go to the bank account and look at the debit side. In the journal entry, the bank account is being debited; so, you go to the bank account and then you move to the debit side, that is the first step. The next step is to write the date of the transaction; in this case we have transaction numbers rather than the date of transaction. So, I am just going to write the transaction number here, and then I am going to go back. We have already decided that we are going to write something on the debit side, because the bank account is being debited. So, this tells us to go to the debit side of the bank account and then on the debit side, we are going to write this, the

other account involved in this journal entry, the owner's capital account. So, on the debit side, I am going to write To Owner's Capital A/c or this is also shareholders' account. So, one and the same thing; do not get confused there. So, the owner's capital account is written and the amount is 100, so I am going to write the amount 100. This completes one small step in ledger posting. We looked at the bank account, we looked at the first transaction and now we have posted the first transaction in the bank account. We are done with posting this transaction in the bank account, this process is called ledger posting, you have posted one journal entry in one account.

Going further, we will look at all the transactions, identify the transactions which involve the bank and then post these transactions in the bank account. Let us do that. Transaction 2 has a bank account as well, it says bank account debit. Therefore, it tells us to go to the debit side of the bank account and write To Bank Loan A/c; write the name of the other account which is written in the journal entry. We are going to the bank account again, on the debit side we are going to write transaction 2 or if we have the date we will write that, and we are going to write to bank loan account. Why did we write it? Because in the transaction, the other account involved is a bank loan account. I am repeating the process of posting as follows; decide which account you are posting into, so the decision is that we are going to post into a bank account. Now, this bank account is being debited here; so, the entry is telling us to go to the debit side of the bank account, we do that. And then, we write the transaction number or the date and then we write the name of the other account which is To Bank Loan, amount is 200. This completes the second posting, we have posted transaction number 2 into our bank account.

Let us look at more transactions with a bank account. Transaction 3 also involves a bank account. However, in this case bank account is being credited, we are not debiting it. So, this transaction is telling us to go to the credit side of the bank account. We go to the credit side of the bank account and write transaction 3, so credit side transaction 3. Now, just like we did for the debit side, we are going to write the name of the other account involved. So, what is the other account involved? Purchase account is the other account involved. So, here we are going to write purchase account and the amount of purchase is 50, so we are going to write 50.

And, there is another new convention that I am going to tell you. On the debit side we wrote to the owner's capital, to bank loan. On the other side, on the credit side there is a convention of writing by; B Y, by. This does not necessarily mean anything scientific here, this is just a

convention. We use the word *By* on the credit side for all the accounts; no logical explanation available for this.

Let us go back to the transaction; so, we complete another ledger posting. We are done with transaction 3. It has been posted into bank account. Let us go to the next transaction. Transaction 4, purchase account debit, ABC account credit. Now, in this transaction bank account is not involved at all, bank is not affected. Goods are being purchased on credit; so, bank account is not involved. So, you will not post this journal entry into the bank account; just ignore it for the purpose of the bank account.

Let us go to transaction 5. Transaction 5 involves a bank account, we are debiting the bank account. So, we are going to go to the debit side of the bank account and write transaction 5. Again, I click on this and I go to my bank account, I write transaction 5 and I am going to write the name of the other account involved which is sales. So, I will write To Sales A/c 50. We are done. Transaction 5 is posted into a bank account.

Let us go back and look at the next transaction. Transaction 6, PQR debit to sales. There is a credit sale which is happening. Notice that, there is credit sale, no cash is being received, no bank balance is being increased here. So, we have to ignore this transaction as far as the bank account is concerned.

Let us go to transaction 7 now. Rent A/c (Dr.), To bank. You are making a payment through the bank. So, the bank account is being credited here. We will go to the credit side of the bank account and write rent account 20. So, we go to bank account and we write here Rent A/c. The amount is 20, this is transaction 7. As the convention is, we are just going to prefix *By* here; for no specific meaning, you could just remove *BYs* as well, but in text books you will see to and by on both sides. So, do not get confused there, they do not have any logical scientific meaning. In a sense, they are just a convention. So, there you go, transaction 7 has been posted into the bank account, the ledger for the bank account.

Let us go to transaction 8. Building is being purchased; the bank is being credited again. We go to the credit side of the bank account and we write Building's account 100. So, we go to the bank account and write building account 100. This is transaction 8 and as the convention is we write a *By* here and done. Transaction 8 has been posted into bank account.

Let us move on to transaction 9. We have a bank account involved again, and the building is being sold. We go to the debit side of the bank account and write the name of the other account, transaction 9 To building 30. So, transaction 9 To Building A/c 30. I should have written account here as well; there you go transaction 9 has been posted to bank account.

Transaction 10, bank account is going up again, we go to debit side of bank account and we are going to write To interest income. Transaction 10, amount is also 10 and transaction 10 is done. Let us go to transaction 11, depreciation debit to building. No bank account involved, ignore this transaction. Transaction 12: in this bank account is actually missing.

Bank account debit to PQR and the transaction is that you are receiving cash in lieu of credit sale. So, you go to the debit side of the bank account and you write To PQR A/c 40. This is transaction number 12. Again we go back; transaction 12 is done.

Transition 13 does not involve any bank account. Transaction 14 involves a bank account we are paying to our vendor, the bank account is being credited. We go to the credit side of the bank account and we are going to write By ABC Limited 50. So, we go to bank account and we write By ABC Limited's account 40 and this is transaction 14, let me just double check the amount – it is 50. So, we made a mistake there- this should be 50 and we are done.

We have gone through 14 transactions and out of the 14 transactions you have 10 transactions that involved a bank account. So, you have brought all the transactions which affect bank account to one place. Everything is here. You can just look at this bank account and then come to a conclusion as to how did the bank account go up and how did the bank account go down; what were the receipts of the bank account; and what were the payments of the bank account? How do you do that? You look at the debit side, on the debit side, it is written as the owner's capital. Now, what happened was owner's brought in capital, shareholder's brought in capital to the business; so, 100 were deposited in the bank account. Then, bank loan was taken, another 200 were received in the bank account. You did some sales, 50 were received. You sold the building for 30 again, some money was received, interest income, and then PQR paid to your customer, paid to you. If you notice on the debit side, you have all the inflows of cash, inflows into the bank account. On the other hand, you have purchases; when you purchase, you paid 50; you paid rent; you purchased the building; so, you paid for it and then you paid to your supplier. So, on the credit side, you have all the outflows. You have all the outflows from the bank account and you know the reasons for it as well. Another way of reading this would be:

the bank account went down or you made payments. Bank account decreases due to purchases, due to rent paid, due to building, due to ABC limited. On the other side, you would say we received cash from various sources. These sources include owner's capital, bank loan, sales, sale of building, income from interest and amount received from the customers. Now that you know the inflows and outflows, you can easily figure out what is the remaining amount. So, all we have to do is just sum this up. So, you have got 300, 53, 83, 90 and you have got 430 as the total amount on this side. On the other hand, you have 150, 70, 220; so, 220 is the total, on the credit side. All you have to do is, 430 minus 220 and you have got 210, which is the balance in your bank account.

Now, you could have gotten this balance from the bank statement as well, but as I said it is not only for bank account, there are other accounts which you know, for which you will not be able to figure out balances, if you did not prepare your own passbook in a way.

Let me now stop here. This process of ledger posting, I hope made sense and you have the basic understanding of how the journal entries are going to be posted into ledger. I will see you in the next video where we are going to transfer the other journal entries into the rest of ledger accounts. I will see you in the next video.