

**Financial Accounting**  
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**Lecture – 34**  
**3.2 Process of Ledger Posting (Part 3)**

This is the continuation of the previous video. I am going to spend a little more time looking at the Ledger accounts that we have prepared, and try to explain to you some more intuitive points regarding these accounts.

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Date	Particulars	Debit Amount	Credit Amount
Trans 1	<del>Bank A/c</del> → Dr. ≥ → To <del>Own Capital A/c</del> Cr. ≥ (Being capital brought in by owners)	100	100
Trans 2	<del>Bank A/c</del> → Dr. ≥ To <del>Bank Loan A/c</del> Cr. ≥ (Being bank loan raised)	200	200
Trans 3	<del>Purchase A/c</del> → Dr. ≥ To <del>Bank A/c</del> Cr. ≥ (Being goods purchased for resale purpose)	50	50
Trans 4	<del>Purchase A/c</del> → Dr. ≥ To <del>AP &amp; Vat A/c</del> Cr. ≥ (Being goods purchased on credit)	50	50



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

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Date	Particulars	Debit Amount	Credit Amount
Trans 9	<del>Bank A/c</del> (Dr) $\geq$ To <del>Building A/c</del> (Cr) $\geq$ (Being building sold for cash)	30	30
Trans 10	<del>Bank A/c</del> (Dr) $\geq$ To <del>Interest Income A/c</del> (Cr) $\geq$ (Being interest on investment received)	10	10
Trans 11	<del>Depreciation A/c</del> (Dr) $\geq$ To <del>Building A/c</del> (Cr) $\geq$ (Being depreciation charged for the year)	10	10
Trans 12	<del>Bank A/c</del> (Dr) $\geq$ To <del>PGR A/c</del> (Cr) $\geq$ (Being loan received in lieu of Credit Sales)	40	40

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Date	Particulars	Debit Amount	Credit Amount
Tran 13	<del>Prod. Wages A/c</del> → Dr To <del>PQR A/c</del> → Cr (Being loss of debtors recorded)	10	10
Tran 14	<del>ABC Ltd A/c</del> → Dr To <del>Bank A/c</del> → Cr (Being cash paid in lieu of credit purchase)	50	50

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Bank Account					
Dr. <span style="font-size: small;">('Inflows')</span>			Cr. <span style="font-size: small;">('Outflows')</span>		
Date	Particulars	Amount	Date	Particular	Amount
Tran 1	To Balance b/fwd 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

$$\begin{array}{r} 430 \\ - 220 \\ \hline 210 \end{array}$$
 Balance in Bank A/c

So, we have posted all these transactions in all the accounts. Earlier, we discussed how the bank account on one side, shows you all the inflows and on the other side shows you all the outflows. It makes it easy for you to figure out the balance in the bank account at the end of these 14 transactions.

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

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

Let us look at the rest of the accounts as well to get an intuitive sense of what it means, what is on the debit side and what is on the credit side. So, as far as shareholders' capital account is concerned, you have only one journal entry which basically tells 100 came in as on this date and after that there is no more money that came in.

So, at the end of the 14 transactions, if you have to tell somebody the total amount invested by the shareholders; you go to this account and say 100. Because there is no other entry, you clearly see that 100 is the balance in this account. You go to bank loan account, what is the loan amount which is pending? How much loan do you have to pay? Well, 200 directly. Now, this is only one entry so, it seems very obvious; you could do it using the journal entries also. But if there are more transactions, you have paid some EMI's, some interest as well, then things become a little more complicated. For now, this is what bank account tells us.

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Dr			Cr		
Date	Particulars	Amount	Date	Particular	Amount
Trans 3	TO Bank A/c ✓	50			
Trans 4	TO ABC Ltd's A/c ✓	50			
		<u>100</u>			

Dr			Cr		
Date	Particulars	Amount	Date	Particular	Amount
Trans 4	TO Bank A/c ✓	50	Trans 4	By Purchase A/c ✓	50
		<u>50</u>			<u>50</u>

Now, purchase account. Purchase account tells us the total amount of purchases that you have done during the year from your vendors. Now, we have a total purchase of 100 during the year if we look at this column here. What are the modes of purchases? You purchased 50 percent in cash and 50 percent needs to be paid to this vendor. You could purchase from multiple vendors, you could do credit sales, cash sales all of that is going to be populated on the debit side and then, you can just look at the total of the debit side. Now, this you will not be able to do by just looking at the journal. Again, I am repeating this is a simulation, the transactions are very minimal just to give you a hint. Actually in business there will be many transactions and at that point of time, you will find it difficult to do it manually.

ABC Limited's account- who is ABC? ABC is our vendor if you recall. He is the vendor. Now, on the credit side, you have written that you have purchased from him goods worth 50 and then, on the debit side, you are saying you paid him 50. That means 50 were due to him and 50 have been paid: there is no balance. You do not have to pay him anymore. It is possible that you make multiple purchases from ABC, pay him some amount, not pay him some amount, he could also allow some discount as well; all of that is going to be clubbed here in one place in this account.

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Sales Account					
Dr.			Cr.		
Date	Particulars	Amount	Date	Particular	Amount
			Trans 5	By Bank A/c	50 ✓
			Trans 6	By PQR's A/c	50 ✓
					<u>100</u>

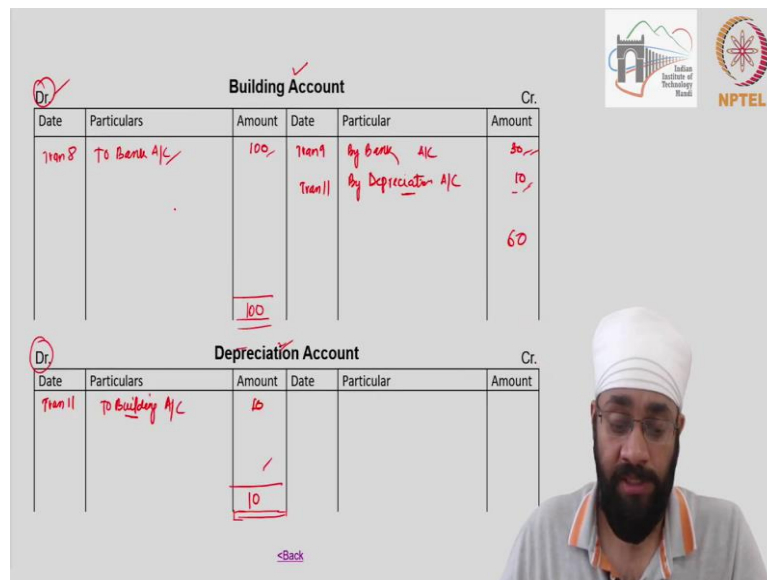
  

PQR Ltd's Account					
Dr.			Cr.		
Date	Particulars	Amount	Date	Particular	Amount
Trans 6	To Sales A/c	50	Trans 1	By Bank A/c	40 ✓
			Trans 13	By Bad Debt A/c	10 ✓

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Let us go to the sales account. What are the total sales that you did during the year? 100. Half of the sales in cash and half of the sales on credit. Who did you sell to on credit? I sold to PQR limited on credit. So, there you have all the sales in one place. PQR is the customer, who has received the goods from us, and not paid back 50. On the debit side, you have written we have sold to him goods worth 50 and on the credit side of PQR's account, you are saying he has paid to us 40 but 10 are bad debts. There you go. In summary, you have classified all the transactions into different accounts. So, all PQR transactions have been classified here at one place, brought into this account and now, you can just have a quick glance at it and come to some understanding, some conclusions.

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The screenshot displays two T-accounts side-by-side. The top account is titled 'Building Account' and the bottom is 'Depreciation Account'. Both have 'Dr.' on the left and 'Cr.' on the right. The Building Account shows a debit of 100 (Trans 8) and credits of 50 (Trans 9) and 10 (Trans 11), with a final balance of 60. The Depreciation Account shows a credit of 10 (Trans 11) and a final balance of 10. Logos for IIT Bombay and NPTEL are visible in the top right, and a presenter's video feed is in the bottom right.

Building Account					
Dr.			Cr.		
Date	Particulars	Amount	Date	Particular	Amount
Trans 8	To Bank A/c	100	Trans 9	By Bank A/c	50
			Trans 11	By Depreciation A/c	10
					60
		<u>100</u>			

Depreciation Account					
Dr.			Cr.		
Date	Particulars	Amount	Date	Particular	Amount
Trans 11	To Building A/c	10			
		<u>10</u>			

Building account: on the debit side you have a payment that you made and you purchased a building worth 100 and then, you sold the building and there was some depreciation as well. So, you have 100 as the total building purchased, but some building has been sold and the value of the building has gone down due to depreciation. So, the balance left in the building account is about 60. The book value of the building is 60 at the end of the 14 transactions. In a business, you would have multiple properties, multiple buildings, you could sell-buy and so on. So, everything will be collected at one place. Depreciation account tells us that total depreciation which has been charged during the year is 10. When I say charged, I mean this is the expense. You do not pay this to anybody, but you just charge it to your incomes. You have to deduct this out of the income in order to calculate profit. More on that will be clarified as we move forward. Right now, if we have to prepare the income statement and you have to say, what are my depreciation expenses? You go to this account and say 10 and you are done. There can be multiple types of assets but depreciation could be clubbed under one account.



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Rent Account					
Dr.			Cr.		
Date	Particulars	Amount	Date	Particular	Amount
	Transferred to Bank A/c ✓	20			
		<u>20</u>			

Interest Income Account ✓					
Dr.			Cr.		
Date	Particulars	Amount	Date	Particular	Amount
				Transferred by Bank A/c	10
					<u>10</u>

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Then, you have a rent account. You have to figure out what is the total rent paid during the year? You look at this account, you have 20. Again, only one transaction, but you could have multiple transactions, monthly transactions and rent could also increase during the year. With this ledger account you could figure out what the rent is. The calculations may not be as straightforward as one would imagine.

Interest income account: what is the total interest that you received during the year? Well, 10. On the credit side, there is only one item, you got this money in the bank account. So, 10 is the total interest income.





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Bad Debts Account					
Dr.			Cr.		
Date	Particulars	Amount	Date	Particular	Amount
	Transf	10			
	TO PQR'S A/C				
		10			

Dr.					
Date	Particulars	Amount	Date	Particular	Amount

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Bad debts, what is the amount of money lost because the customers decided not to pay or they could not pay you? Well, 10. 10 is the amount. So, all bad debts can be listed here.

So, this is how you read the postings that you have done into these ledger accounts. You bring all the entries into one place. That is the process of ledger posting and how transactions recorded in the journal are classified in this step which is called ledger.

Let me stop here, and this completes the discussion on the process of ledger posting.