



Ref. No.:

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CORE CONCEPT OF
FINANCIAL ACCOUNTING

Illustration 1

From the following transactions, pass journal entries prepare ledger accounts

1. Anil started business with Rs8,000
2. Purchased furniture Rs 1,000
3. Purchased goods Rs6,000
4. Sold goods Rs 7,000
5. Purchased from Raja Rs 4,000

Journal of Anil Business

Date	Particulars	J.F	Debit	Credit
1	Cash A/c To Capital		8000	8000
2	Furniture A/c To Cash		1000	1000
3	Purchase A/c To Cash		6000	6000
4	Cash A/c To Sales		7000	7000
5	Purchase goods To Raja		4000	4000

Ledger

The mechanics of collecting, assembling and summarizing all transactions of similar nature at one place can better be served by a book known as 'ledger' i.e. a classified head of accounts.

Ledger is a principal book of accounts of the enterprise. It is rightly called as the 'King of Books'. Ledger is a set of accounts. Ledger contains the various personal, real and nominal accounts in which all business transactions of the entity are recorded. The main function of the ledger is to classify and summarise all the items appearing in Journal and



other books of original entry under appropriate head/set of accounts so that at the end of the accounting period, each account contains the complete information of all transaction relating to it. A ledger therefore is a collection of accounts and may be defined as a summary statement of all the transactions relating to a person, asset, expense or income which have taken place during a given period of time and shows their net effect.

Date	Particular	Amount (Dr)	Date	Particular	Amount (Cr)

Cash Account (Illustration 1)

Date	Particular	Amount (Dr)	Date	Particular	Amount (Cr)
	To Capital	8000		By Furniture	1000
	To Sales	7000		By Purchase	6000
				By Balance c/d	8000
		15000			15000
	To balance b/d	8000			

Distinguish between Journal and Ledger

Journal and Ledger are the most useful books kept by a business entity. The points of distinction between the two are given below:

1. The journal is a book of original entry where as the ledger is the main book of account.
2. In the journal business transactions are recorded as and when they occur i.e. date-wise. However posting from the journal is done periodically, may be weekly, fortnightly as per the convenience of the business.
3. The journal does not disclose the complete position of an account. On the other hand, the ledger indicates the position of each account debit wise or credit wise, as the case may be. In this way, the net position of each account is known immediately.
4. The record of transactions in the journal is in the form of journal entries whereas the record in the ledger is in the form of an account.