

LEDGER

The cash book

This is a special ledger which is used to record cash and cheque transactions.

It contains only the cash in hand and cash at bank (i.e. cash and bank) accounts

i) Nominal ledger

This ledger is used to record business expenses and incomes (gains). It contains all the nominal accounts.

ii) Private ledger

This ledger is used in recording private accounts i.e. confidential and valuable fixed assets and the personal accounts of the proprietors such as capital accounts and drawing accounts.

iii) The general ledger

The general ledger contains all other accounts that are not kept in any other ledger e.g. buildings, furniture and stock accounts.

-Personal accounts of debtors or creditors who do not arise out of sale or purchase of goods on credit are found in the general ledger e.g. debtors as a result of sale of fixed asset on credit and expense creditors.

C) Private accounts

These are accounts that the business considers to be confidential and are not availed to everybody except the management and the owners.

-These accounts may be personal or impersonal.

-They include capital account, drawings accounts, trading, profit and loss accounts.

Types of ledgers

The following are the main types of ledgers that are used to keep the various accounts

i. *The sales ledger (Debtors ledger)*

This is the ledger in which accounts of individual debtors are kept.

-It is used to record the value of goods sold on credit and the customers to whom the credit sales are made, hence contains the personal names of the debtors.

-It is called a sales ledger because the accounts of debtors kept here in are as a result of sale of goods on credit. An account is kept for each customer to which is debited the value of credit sale. Payment made by the debtor are credited to the account and debited in the cash book.

ii. *Purchases ledger (creditors ledger)*

The purchases ledger contains accounts of creditors i.e. contains the records of the value of goods bought on credit and the suppliers of such goods.

It is a record of the debts payable by the business due to credit purchases.

An account is kept for each creditor to the credit side of which is posted the value of.

b) Impersonal accounts

This category of ledger accounts includes all other accounts that are not personal in nature e.g. buildings, purchases, rent, sales and discounts received.

Impersonal accounts fall into two types

- 1) Real accounts
- 2) Nominal accounts

- 1) Real accounts; These are accounts of tangible assets or property e.g. buildings, land, furniture, fittings, machinery, stock, cash (at bank and in hand) e.t.c. These accounts are also used to draw up the balance sheet.
- 2) Nominal accounts; These are accounts of items that relate to gains and losses and whose balances at the end of the accounting period.
 - All expenses, revenues, sales and purchases are hence nominal accounts.
 - The main business expenses include purchases, sales, returns, insurance, stationary, repairs, depreciation, heating, discount allowed, lighting interests, printing, wages, rent, rates and advertising. The value of losses is included in the same side as the expenses when drawing up the final accounts though it is not an expense.
 - The income (revenues) include sales, returns, claims out, interest receivable, dividends receivable and commission receivable. Profit is usually categorised together with these incomes when drawing up the final accounts.

Classification of ledger accounts

Many businesses handle few transactions, hence they have few records to keep. Their accounts can thus be kept in a single ledger referred to as the *general ledger*. As a business grows the volume of transactions increases. This single ledger, therefore, becomes very bulky with accounts and it becomes difficult to make reference to it.

In order to simplify the recording of transactions and facilitate reference to the accounts, ledger accounts are usually classified and each category kept in a special ledger.

NOTE (i) Since many transactions are cash transactions which are normally recorded in the bank and cash accounts a need arises to remove them from the main/general ledger to a separate ledger called the cash book.

(ii) The number of ledgers kept depends on the size of the business.

Classes of accounts

All accounts can be classified into either personal or impersonal accounts.

a) Personal accounts

- These are account of persons
- They relate to personal, companies or associations.

-They are mainly accounts of debtors and creditors.

NOTE: capital account is the proprietors personal account, showing the net worth of the business hence it is a personal account.

-The account balances of these accounts are used to draw up the balance sheet.

-In the ledger, the trial balance total is not affected.

Purpose of a trial balance

The purpose of a trial balance include;

- a) *Checking the accuracy in the ledger accounts as to whether;*
 - i-The rule of double entry has been adhered to or observed/ complied with.
 - ii-There are arithmetical errors in the ledger accounts
- b) Gives a summary of the ledger i.e. summary of the transactions which have taken place during a given period
- c) Provide information (account balances) for preparing final accounts such as the trading account, profit and loss account and the balance sheet.
- d) Test whether the ledger account balances have been posted to the right side of the trial balance.

Limitations of a trial balance

Even when the trial balance totals are equal, it does not mean that there are no errors made in the ledgers. This is because there are some errors that do not affect the trial balance.

A trial balance only assures the book keeper that the total of debit entries is equal to total credit entries. The errors that do not affect the trial balances are;

- i. Error of total omission; This occurs when a transaction takes place and nothing about it is recorded in the books of accounts i.e. it is completely omitted such that neither a credit nor a debit entry is made in the ledgers.
- ii. Error of original entry; this occurs where both the debit and credit entries are made using similar but erroneous figures. As the wrong amount is recorded in the two accounts.
- iii. *Error of commission;* This occurs where double entry is completed but in the wrong persons accounts especially due to a confusion in names e.g. a debit entry of shs.2000 was made in Otieno's account instead of Atieno's account.
- iv. *Compensating errors;* These are errors whose effects cancel out e.g. over debiting debtors account by sh.300 and under debiting cash account by sh.300.
- v. *Complete reversal of entries;* This occurs where the account to be debited is credited and the account to be credited is debited e.g. the sale of goods to Lydia on credit may be recorded as follows;

Dr.sales a/c

Cr.Lydius a/c instead of

Dr.Lydius a/c
Cr.sales a/c

- iv) *Error of principle*; This is where a transaction is recorded in the wrong account of a different class from the correct one e.g. repairs of machinery was debited in the machinery instead of debiting the repairs account.

TRIAL BALANCE

-A trial balance is a statement prepared at a particular date showing all the debit balances on one column and all the credit balances on another column.

NOTE: A trial balance is not an account but merely a list of assets, expenses and losses on the left and capital liabilities and incomes (including profits) on the right.

-The totals of a trial balance should agree if the double entry has been carried out correctly and there are no arithmetic errors both in the ledger as well as in the trial balance itself.

-If the two sides of a trial balance are not equal, it means there is an error or errors either in the trial balance or in the ledger accounts or in both.

Errors that may cause a trial balance not to balance

- i. *Partial omission*; A transaction was recorded on only one account i.e. a debit or a credit entry might have been omitted in one of the affected accounts.
- ii. *Transferring (posting)*; a wrong balance to a trial balance.
- iii. Different amounts for the same transaction might have been entered in the accounts(Amount Dr.different from amount cr)
- iv. Failure to post a balance to the trial balance (omission of a balance from the trial balance.
- v. Posting a balance to the wrong side of the trial balance
- vi. Recording a transaction on the same side of the affected accounts(partial reversal entry)
- vii. Arithmetic mistakes might have been made when balancing the ledger accounts
- viii. Arithmetic errors in balancing the trial balance

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