

SELF-BALANCING LEDGERS

BASIC CONCEPTS

- Self Balancing Ledger System implies a system of ledger keeping which classifies ledgers as per nature of transactions.
- In this system, generally three ledgers, namely debtor ledger, creditor ledger and main ledger (containing remaining accounts) are prepared.
- In such a case "General Ledger Adjustment Account" is prepared in each of the subsidiary ledgers. The General ledger would have Bought Ledger Adjustment Account (in reality, Total Creditors Account) and Sales Ledger Adjustment Account (in reality, Total Debtors Account). These accounts are known as Control Accounts

Question 1

Self balancing ledgers.

(May, 1999 & May, 2002)

Answer

A self balancing ledger system implies a system of ledger keeping which classifies ledgers as per nature of transactions namely Sales Ledger, Bought Ledger, General Ledger etc. and also make them to balance independently. In order to make each ledger self-balancing, an extra account called General Ledger Adjustment Account is opened in each of the sales ledger and bought ledger. Normally, the accounts of individual debtors are maintained recording credit sales, cash collections, discount, bad debts etc, in Debtors Ledger or Sales Ledger. The General Ledger Adjustment account in the Sales Ledger gives a summary of all these transactions in a reverse manner. Similarly in Bought ledger, General Ledger Adjustment account gives a summary of all transactions of the Bought Ledger in a reverse manner. Against these ledger adjustment accounts, two other adjustment accounts are maintained in the General Ledger to complete the double entry.

These adjustment accounts are known as Control Accounts. The correctness of individual balances in each ledger would be verified by extracting its balances and agreeing them with the balance of the Control Account. The object of the system is to identify errors and to facilitate their quick detection with the minimum effort.

Question 2

Self and Sectional Balancing System.

(November, 2000)

Answer

A self balancing ledger system implies a system of ledger keeping which classifies ledgers as per nature of transactions namely, Sales Ledger, Bought Ledger, General Ledger etc. and also make them to balance independently.

In order to make each ledger self-balancing, an extra account called General Ledger Adjustment Account is opened in each of the sales ledger and bought ledger. Normally, the accounts of individual debtors are maintained recording credit sales, cash collections, discount, bad debts etc. in Debtors Ledger or Sales Ledger. The General Ledger Adjustment account in the Sales Ledger gives a summary of all these transactions in reverse manner. Similarly in Bought ledger, general ledger adjustment account gives a summary of all transactions of the Bought Ledger in a reverse manner. Against these ledger adjustment accounts, two other adjustment accounts are maintained in the General Ledger to complete the double entry.

- (a) Bought Ledger Adjustment Account.
- (b) Sales Ledger Adjustment Account.

These adjustment accounts are known as Control Accounts. The correctness of individual balances in each ledger would be verified by extracting its balances and agreeing them with the balance of the Control Account. The object of the system is to identify errors and to facilitate their quick detection with the minimum effort.

Under sectional balancing system, only two additional accounts (i) Total Debtors Account; and (ii) Total Creditors Account are kept in the General Ledger. Thus, only the totals account for each of the subsidiary ledgers is opened in the General Ledger and no Control Account/Adjustment Account is opened in the subsidiary ledger. It would mean that whereas accounts of individual customers would be maintained in the Sales Ledger; in the General Ledger, the Total Debtors Account would be posted by the (monthly) totals of various transactions with credit customers. The balance in the Total Debtors Account should be equal to the total of balances shown by the accounts of individual customers. A difference would show that there are some errors somewhere. In the same way, the accuracy of individual supplier's account may be checked by comparing the total of their balances with the balance of the Total Creditors Account. A trial balance can be prepared on the basis of General Ledger only, without using Debtors' Ledger and Creditors' Ledger since the double entry is completed in the General Ledger itself.

Question 3

State with reasons, whether the following statements are true or false:

- (a) *Under the self balancing system the general ledger adjustment account is always opened in the general ledger.*
- (b) *Purchase Ledger Adjustment Account under sectional balancing system is also known as Creditors Ledger Control Account.*

- (c) *In self balancing system, whenever a balance is transferred from an account in one ledger to that in another, only one entry is recorded through the respective ledger.*

(November, 2001 & November, 2002)

Answer

- (a) **False-** Under the self balancing system, general ledger adjustment account is opened in each of the sales ledger and purchases ledger. In general ledger, two adjustment accounts namely sales ledger adjustment account and purchases ledger adjustment accounts are maintained.
- (b) **True-** Purchase ledger adjustment account is in reality, total creditors account, hence also known as creditors ledger control account under sectional balancing system.
- (c) **False-** Whenever a balance is transferred from one account in one ledger to that in another, the entry is recorded through the journal. Also an additional entry is made in the control accounts for recording the corresponding effect.

Question 4

Prepare the General Ledger Adjustment Account as will appear in the Debtors' and Creditors' Ledger from the information given below:

	Dr.	Cr.
	Rs.	Rs.
<i>Balances on 1.4.2010</i>		
Debtors' Ledger	47,200	240
Creditors' Ledger	280	26,300
<i>Transactions for the year ended 31.3.2011:</i>		
Total sales	1,20,000	
Cash sales	8,100	
Total purchases	89,500	
Credit purchases	67,000	
Creditors paid off (in full settlement of Rs. 40,000)	39,500	
Received from debtors (in full settlement of Rs. 59,000)	58,200	
Returns from debtors	2,600	
Returns to creditors	1,800	
Bills accepted for creditors	5,500	
Bills payable matured	8,000	
Bills accepted by customers	20,100	
Bills receivables dishonoured	1,500	

<i>Bills receivable discounted</i>	5,000
<i>Bills receivable endorsed to creditors</i>	4,000
<i>Endorsed bills dishonoured</i>	1,000
<i>Bad debts written off (after deducting bad debts recovered Rs. 300)</i>	2,200
<i>Provision for doubtful debts</i>	550
<i>Transfer from debtors' ledger to creditors' ledger</i>	1,100
<i>Transfer from creditors' ledger to debtors' ledger</i>	1,900
<i>Balances on 31.3.2011</i>	
<i>Debtors' ledger (Cr.)</i>	380
<i>Creditors' ledger (Dr.)</i>	420

(May, 1999)

Answer

**In Debtors' Ledger
General Ledger Adjustment Account**

		Rs.		Rs.		
1.4.2010	To Balance b/d	240	1.4.2010	By Balance b/d	47,200	
	To Debtor's ledger adjustment account:			By Debtors ledger adjustment account:		
	Bank	58,200		Sales (on credit)	1,12,000	
	Discount	800		Bills receivable dishonoured	1,500	
	Returns	2,600		Endorsed bills receivable		
	Bills receivable	20,100		dishonoured	<u>1,000</u>	
	Bad debts Written off	<u>2,500</u>	84,200	31.3.2011	By Balance c/d	380
	To Debtors ledger adjustment account:					
	Transfer from debtors ledger to creditor's ledger	1,100				
	Transfer from creditor's ledger to debtor's ledger	<u>1,900</u>	3,000			

31.3.2011	To Balance c/d (balancing figure)	<u>74,640</u>	
		<u>1,62,080</u>	<u>1,62,080</u>

**Creditor's Ledger
General Ledger Adjustment Account**

		Rs.			Rs.
1.4.2010	To Balance b/d	26,300	1.4.2010	By Balance b/d	280
	To Creditors' ledger adjustment A/c:			By Creditors' ledger adjustment A/c:	
	Purchases	67,000		Bank	39,500
	Endorsed bills receivable dishonoured	<u>1,000</u> 68,000		Discount received	
				Returns	500
					1,800
31.3.2011	To Balance b/d	420		Bills payable	5,500
				Bills receivable endorsed	<u>4,000</u> 51,300
				By Creditors' ledger adjustment A/c:	
				Transfer from debtors' ledger to creditors' ledger	1,100
				Transfer from creditors' ledger to debtors' ledger	<u>1,900</u> 3,000
			31.3.2011	By Balance c/d (balancing figure)	<u>40,140</u>
		<u>94,720</u>			<u>94,720</u>

Notes: No entries will be made for the following transactions as they do not affect general ledger adjustment accounts:

- (i) Cash sales
- (ii) Bills payable matured
- (iii) Bills receivable discounted

- (iv) Bad debts recovered and
 (v) Provision for doubtful debts.

Question 5

From the following information available from the books of a trader from 1.1.2011 to 31.3.2011, you are required to draw up the Debtors Ledger Adjustment Account in the General Ledger:

- (a) Total sales amounted to Rs. 1,80,000 including the sale of old zerox machine for Rs. 4,800 (book value Rs. 8,000). The total cash sales were 80% less than the total credit sales.
- (b) Cash collections from debtors amounted to 70% of the aggregate of the opening debtors and credit sales for the period. Debtors were allowed a cash discount of Rs. 20,000.
- (c) Bills receivable drawn during the three months totalled Rs. 30,000 of which bills amounting to Rs. 10,000 were endorsed in favour of suppliers. Out of the endorsed bills, one bill for Rs. 6,000 was dishonoured for non-payment as the party became insolvent, his estate realized nothing.
- (d) Cheque received from customers Rs. 8,000 were dishonoured, a sum of Rs. 2,000 was irrecoverable; Bad debts written off in the earlier years realised Rs. 11,000.
- (e) Sundry debtors as on 1.1.2011 stood at Rs. 50,000. **(May, 2000)**

Answer

In General Ledger					
Debtors Ledger Adjustment Account					
Dr.	Rs.	2011	Cr.		
2011			Rs.		
Jan. 1	To Balance b/d	50,000	Mar.31	By General ledger	
Mar. 31	To General ledger adjustment account:			adjustment account:	
	Sales	1,46,000		Collection-cash and bank(70 % of the Rs. 1,96,000)	1,37,200
	[(100/120) x (1,80,000- 4,800)]				
	Creditors-bill				
	receivable dishonoured	6,000		Discount	20,000
	Bank-cheques dishonoured	8,000		Bills receivable	30,000
				Bad debts	8,000
				(6,000+2,000)	
		_____		By Balance c/d	<u>14,800</u>
		<u>2,10,000</u>			<u>2,10,000</u>

Question 6

The following information is extracted from the books of Shri Hari for the year ended 31st March, 2011.

	Rs.
Sales	3,80,800
Purchases	3,26,000
Return outwards	14,000
Cash received from debtors	1,78,200
Bills payable accepted	1,22,000
Returns inward	17,600
Cash paid to creditors	1,86,000
Bills receivable received	1,36,000
Discount received	4,000
Bad debit written off	24,000
Reserve for discount to debtors.	2,000
Discount allowed	1,800
Transfers from purchases ledger	26,600

The total of the sales ledger balance on 1st April, 2010 was Rs. 90,600 and that of the purchases ledger balance on the same date was Rs. 78,600.

Prepare sales ledger and purchases ledger adjustment accounts from the above information.

(November, 2001)

Answer

Sales Ledger Adjustment Account

		Rs.			Rs.
1.4.2010	To Balance b/d	90,600	1.4.2010	By General ledger	
1.4.2010	To General ledger			to	
	to adjustment A/c:		31.3.2011	Cash	1,78,200
31.3.2011	Sales	3,80,800		Return inwards	17,600
				Bills receivable	1,36,000
				Bad debts written off	24,000
				Discount allowed	1,800
				Transfer from	26,600
				purchases ledger	
			31.3.2011	By Balance c/d	<u>87,200</u>
		<u>4,71,400</u>			<u>4,71,400</u>

Purchases Ledger Adjustment Account

		Rs.			Rs.
1.4.2010	To General ledger		1.4.2010	By Balance b/d	78,600
	to adjustment account:		1.4.2010	By General ledger	
				to adjustment account:	
32.3.2011	Cash	1,86,000	31.3.2011	Purchases	3,26,000
	Return outwards	14,000			
	Bills payable	1,22,000			
	Discount received	4,000			
	Transfer to sales ledger	26,600			
31.3.2011	To Balance c/d	<u>52,000</u>			<u> </u>
		<u>4,04,600</u>			<u>4,04,600</u>

Question 7

Prepare the Sales Ledger Control Account in General Ledger from the following particulars:

	Rs.
<i>Debit balance as on 1.10.2010</i>	3,75,000
<i>Credit balance as on 1.10.2010</i>	500
<i>Credit sales</i>	10,00,000
<i>Cheques received</i>	11,25,000
<i>Bills receivable received</i>	1,25,000
<i>Discounts allowed</i>	12,500
<i>Sales returns</i>	25,000
<i>Transfer from purchases to sales ledger</i>	25,000
<i>Bad debts</i>	5,000
<i>Bad debts previously written off now recovered</i>	10,000
<i>Reserve for discounts</i>	25,200
<i>Bills receivable dishonoured</i>	12,500
<i>Debit balance as on 31.3.2011</i>	75,000
<i>Credit balance as on 31.3.2011</i>	?

(November, 2002)

Answer

General Ledger

Sales Ledger

		Rs.			Rs.
1-10-2010	To Balance b/d	3,75,000	1-10-2010	By Balance b/d	500
1-10-2010	To General ledger		1-10-2010	By General ledger	
	to control A/c:			to control A/c:	
31-3-2011	Sales	10,00,000	31-3-2011	Bank	11,25,000
	Bills receivable			Bills receivable	1,25,000
	(dishonoured)	12,500		Discount	12,500
31-3-2011	To Balance c/d (balancing figure)	5,500		Sales return	25,000
				Bad debts	5,000
				Transfer	25,000
		<u> </u>	31.3.2011	By Balance c/d (given)	<u>75,000</u>
		<u>13,93,000</u>			<u>13,93,000</u>

Note: Reserve for discounts and bad debts previously written off now recovered do not appear in debtors account and hence this will not figure in the sales ledger control account.

Question 8

From the following information, prepare Sales Ledger Adjustment A/c in the General Ledger:

	Rs.
On 1.4.2010: Balance in sales ledger	1,41,880
	(Dr.)
	(Cr.)
	2,240
On 31.3.2011:	
Total sales	7,68,000
Cash sales	40,000
Sales return	10,000
Cash received from customers	6,24,000
Discount allowed	11,200
Cash paid to supplier	4,80,000
Transfer from sales to bought ledger	20,800
Discount received	7,200

<i>B/R received</i>	40,000
<i>Reserve for doubtful debts</i>	9,160
<i>Cash paid to customer</i>	1,840
<i>Bills received dishonoured</i>	6,000
<i>Sales ledger balance (Dr.)</i>	1,83,200
<i>Sales ledger balance (Cr.)</i>	13,720
	(November, 2003)

Answer

**In General Ledger
Sales Ledger Adjustment Account**

		Rs.			Rs.
01.04.2010	To Balance b/d	1,41,880	1.4.2010	By Balance b/d	2,240
31.3.2011	To General ledger adjustment A/c in sales ledger:		31.3.2011	By General ledger adjustment A/c in sales ledger:	
	Credit sales	7,28,000		Cash	6,24,000
	Cash paid	1,840		Discount allowed	11,200
	Bills receivable dishonoured	<u>6,000</u> 7,35,840		Transfers	20,800
	To Balance c/d	13,720		Bills receivable received	40,000
		_____		Sales return	<u>10,000</u> 7,06,000
		<u>8,91,440</u>		By Balance c/d	<u>1,83,200</u>
					<u>8,91,440</u>

Question 9

From the following information prepare the necessary adjustment accounts as they would appear in the general ledger of Vatika Ltd.

	Rs.
<i>Closing debtors balance (as per general ledger adjustment account)</i>	60,000(Cr.)
<i>Credit sales</i>	40,000
<i>Credit purchases</i>	15,000
<i>Paid to creditors</i>	7,500

<i>Discount allowed</i>	1,500
<i>Bills payable accepted</i>	5,000
<i>Discount received</i>	500
<i>Received from debtors</i>	20,000
<i>Bad debts</i>	5,000
<i>Closing creditors balance (as per general ledger adjustment account)</i>	30,000(Dr.)
<i>Bills accepted by customers</i>	3,000

Discount allowed to debtors Rs. 500 was recorded as discount received from creditors.

(November, 2004)

Answer

In General Ledger

Debtors' Ledger Adjustment Account

	Rs.			Rs.
To Balance b/d (bal.fig.)	49,500	By General ledger adjustment account:		
To General ledger adjustment account:		Cash from debtors		20,000
Credit sale	40,000	Bills receivable		3,000
		Bad debts		5,000
		Discount allowed (1,500+500)		2,000
	_____	By Balance c/d (60,000-500)		<u>59,500</u>
	<u>89,500</u>			<u>89,500</u>

Creditors' Ledger Adjustment Account

	Rs.			Rs.
To General ledger adjustment A/c:		By Balance b/d (bal. fig.)		28,000
Cash paid to creditors	7,500	By General ledger adjustment A/c:		
Bills payable	5,000	Credit purchases		15,000
To Balance c/d (30,000+500)	<u>30,500</u>			_____
	<u>43,000</u>			<u>43,000</u>

Question 10

Gupta Traders keep their ledgers on the self balancing system. They provide you the following information for the year ended 31st March, 2010:

	₹
Debtors balance on 1 st April, 2009	1,37,250
Credit sales	68,100
Returns inward	1,200
Returns outward	1,800
Cash received from customers	76,800
Discount received	2,010
Acceptances received	25,500
Bills receivable dishonoured	3,600
Bad debts written off	7,500

You are required to prepare General Ledger Adjustment A/c in Sales Ledger of Gupta Traders.

(November, 2010)

Answer

In the books of Gupta Traders

General Ledger Adjustment A/c in the Sales Ledger

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
1 April, 2009 to 31 st March, 2010	To Sales Ledger Adjustment A/c (in General Ledger):		1 April, 09	By Balance b/d	1,37,250
	Returns inward	1,200	1 April, 2009 to 31 st March, 2010	By Sales Ledger Adjustment Account (in General Ledger):	
	Cash (received from customers)	76,800		Sales	68,100
	Bills receivables	25,500		B/R dishonoured	3,600
	Bad debts	7,500			
31 st March 2010	To Balance c/d	97,950			
		<u>2,08,950</u>			<u>2,08,950</u>

Note : Returns outward and discount received would be shown in the General Ledger Adjustment Account of Purchases Ledger.

EXERCISES

1. Prepare the Sales ledger control account and Purchases ledger control account from the following particulars:-

	Sales Ledger	Purchases Ledger
Debit balance as on 1.1.2011	1,50,000	1,000
Credit balance as on 1.1.2011	200	1,25,000
Credit sales and purchases	4,00,000	3,80,000
Cheque received and paid	4,50,000	3,50,000
Advance paid to creditors	-	2,000
B/R received and B/P accepted	50,000	50,000
Discounts allowed and received	5,000	3,000
Returns	10,000	5,000
Transfer from purchases to sales ledger	10,000	10,000
Bad debts	2,000	-
Reserve for discounts	10,000	5,000
B/R and B/P dishonoured	5,000	5,000
Debit Balances as on 30.6.2011	30,000	-
Credit Balances as on 31.6.2011	?	72,000

(Hints: Total of Sales Ledger Control Account = Rs. 5,57,200; and Purchases Ledger Control Account = Rs. 5,11,000)

2. From the following information prepare Sales Ledger Adjustment Account and Bought Ledger Adjustment Account in the General Ledger:

On 1.4.2010 balance in bought ledger (Dr.) Rs. 10,000, (Cr.) Rs. 96,000, balance in sales ledger (Dr.) Rs. 1,41,880 (Cr.) Rs. 2,240:

31.3.2011	Rs.	31.3.2011	Rs.
Purchases	5,40,000	Discount received	7,200
Purchases return	20,000	Bills receivable received	40,000
Total sales	7,68,000	Bills payable issued	22,400
Cash sales	40,000	Reserve for doubtful debts	9,160
Sales return	10,000	Cash paid to customers	1,840
Cash received from customers	6,24,000	Bills receivable dishonoured	6,000
Discount allowed	11,200	Bought ledger balance	10,400
Cash paid to suppliers	4,80,000	Sales ledger balanced	1,83,200
Transfer from sales to bought ledger	20,800		

(Hints: Total of Sales Ledger Adjustment Account = Rs. 8,91,440; and Bought Ledger Adjustment Account = Rs.6,46,400)

3. The following information is extracted from a set of books for the half-year ended 30th June, 2011

	Rs.
Sales	5,63,000
Purchases	3,22,000
Returns outward	7,600
Cash received from debtors	1,84,200
Bills payable accepted	1,20,000
Returns inward	16,800
Cash paid to creditors	1,80,200
Bills receivable received	1,60,000
Discounts received	4,200
Bad debts written off	12,000
Discount allowed	10,800
Transfers from purchases ledger	6,800

The total of the sales ledger balances on 1st Jan, 2011 was Rs. 3,20,800 and that of the purchases ledger balances on the same date was Rs. 1,86,400.

Prepare Sales Ledger and Purchases Ledger Adjustment Accounts from the foregoing information.

(Hints: Total of Sales Ledger Adjustment Account = Rs. 8,83,800; and Purchases Ledger Adjustment Account = Rs. 5,08,400)

4. From the following particulars prepare customers control account in general ledger:

	Rs.
Opening balance in customers ledger (Dr.)	2,35,000
Opening balance in customers ledger (Cr.)	3,500
Goods sold during the year	7,65,000
Returns inwards	15,000
Cash/cheques received	5,90,000
Bills received	1,10,000
Discount allowed	9,000
Cheque received dishonoured	5,000
Bills received dishonoured	7,000
Bad debts	9,000

A debit of Rs. 1,500 is to be transferred from customers ledger to suppliers ledger. Similarly a credit entry Rs. 1,600 is to be transferred from suppliers ledger to customers ledger. Closing credit balance in customers ledger is Rs. 3,000.

(Hints: Total of Customers Control Account = Rs. 10,15,000)

5. The following transactions have been extracted from the books of Mr. X. You are required to prepare the Sales Ledger Adjustment Account as on 31.3.2011:

	Rs.
<i>Debtors balance on 1.3.2011</i>	50,000
<i>Transactions during the period were:</i>	
<i>Sales (including cash sales of Rs. 20,000)</i>	1,28,000
<i>Cash received from debtors</i>	90,000
<i>Discount allowed to debtors</i>	500
<i>Acceptances received from debtors</i>	8,000
<i>Returns from debtors</i>	6,000
<i>Bills receivable dishonoured</i>	1,500
<i>Bad debts written off (after deducting bad debts recovered Rs.1,000)</i>	4,000
<i>Sundry charges debited to customers</i>	600
<i>Transfers to bought ledger</i>	300

(Hints: Total of Sales Ledger Adjustment Account = Rs. 1,60,100)