

CHAPTER VIII

BOOKS OF ACCOUNTS

Having decided what forms to use as documents and books of record, the next step is to determine the books of accounts to be designed for use of the business. There need not be much emphasis on this subject. The books of accounts used in almost every kind of business are almost similar. Their functions too are quite identical with one another.

I. Classes of Ledgers

Ledgers may ordinarily be classified into two categories. They are as follows:

- a. The general ledger
- b. The subsidiary ledger

General Ledger

The general ledger is a book of final entry wherein the journal entries from all books of record are posted in classified and in chronological order. They are classified into debits and credits. It is the condensed record of the affairs of the business up to a certain date. It is the book that supplies the facts and figures to be used in the financial statements.

Subsidiary Ledger

The subsidiary ledger is a book of final entry wherein the details of certain data are posted chronologically and classified into debits and credits. It gives the details of the composition of the controlling accounts in the general ledger. It is the book that supplies the facts and figures contained in the schedules that may be appended to the financial statements.

2. Contrast Between General Ledger and Subsidiary Ledgers

The general ledger must always exist in all accounting systems. The subsidiary ledger may or may not be needed at all depending upon the circumstances. The number of subsidiary ledgers in a system depends upon the number of controlling accounts maintained in the general ledger. The general ledger contains the totals while the subsidiary ledger contains the details supporting those totals appearing in the general ledger.

3. Kinds of Subsidiary Ledgers

The subsidiary ledgers kept in a business depend upon the nature, kind, volume, and complexity of the business.

By and large, the common subsidiary ledgers kept by a corporate form of organization are as follows:

1. Customers' Ledger
2. Creditors' Ledger
3. Notes Receivable Ledger
4. Notes Payable Ledger
5. Property and Equipment Ledger
6. Cost Ledger
7. Finished Goods Ledger
8. Stores Ledger
9. Operating Ledger

Customers' Ledger

The accounts receivable account in the general ledger controls a subsidiary ledger known as the customers' ledger. Individual accounts are maintained in this subsidiary ledger for all customers on the credit sales basis. The sales invoice, cashier's official receipt, debit and credit memoranda, if any, provide the posting media. Whenever a customer has settled or paid all his accounts, his ledger may then be ruled off and removed from the customers' ledger.

Creditors' Ledger

The accounts payable account in the general

ledger controls a subsidiary ledger known as the creditors' ledger. Individual accounts for creditors are maintained in the subsidiary ledger. The purchase order, the vendor's invoice, cash disbursement vouchers, debit and credit memorandum, if any, provide the posting media. Whenever the creditor is fully paid, this ledger account may be ruled and removed from the creditors' ledger.

Notes Receivable Ledger

The notes receivable account in the general ledger controls a subsidiary ledger known as the notes receivable ledger. Individual ledger sheet is maintained for each person who has executed a promissory note in favor of the firm. The promissory note, the cashier's official receipt, the debit and credit memoranda, if any, provide the posting media. Whenever the notes are fully paid, the ledger accounts may be ruled and removed from the notes receivable ledger.

Notes Payable Ledger

The notes payable account in the general ledger controls a subsidiary ledger known as the notes payable ledger. Individual ledger sheets are maintained for creditors to whom the firm has executed a promissory note. The promissory note, cash disbursement voucher, debit and credit memoranda, if any, provide the posting

media. Whenever the notes are fully paid by the firm, the corresponding ledger sheets may be ruled and removed from the notes payable ledger.

Property & Equipment Ledger

Each account under fixed assets in the general ledger should ordinarily control a subsidiary ledger for each class of property and equipment. Individual ledger sheet is maintained for each kind of property and equipment held by the company for use in operation. The purchase order, cash disbursement voucher, journal voucher, debit and credit memoranda, if any, provide the posting media. Obsolete properties should be written off. Whenever the property and equipment have been sold or otherwise disposed off, the corresponding ledger sheet may be ruled and removed from the property and equipment ledger.

The purpose and use of property ledger cannot be underemphasized. It can supply a history and full description of every important fixed property, to determine the depreciation and support the maintenance charges. Moreover, it provides records of property accountability and also assists in analysis for fixed charges. The property ledger provides not only detailed record of repairs and

maintenance of individual items but also assist in the replacement and in purchase of new equipments.

Cost Ledger

The goods in process account in the general ledger controls a subsidiary ledger known as the cost ledger. Accounts are maintained in the subsidiary ledger with such order passing through the factory. The material requisitions and time tickets provide the posting media. Whenever a job is completed, corresponding overhead charges are added to the account at pre-determined rates. By maintaining a record of costs in this manner, cost figures for jobs produced are available immediately upon completion of the job.

Once the job is finished and transferred to stock, the corresponding cost ledger sheet can be ruled and removed from the cost ledger.

Finished Goods Ledger

The finished goods account in the general ledger controls a subsidiary ledger known as the finished goods ledger. An account is maintained in the subsidiary ledger for each kind of product. Finished goods is debited for the amount of finished goods being transferred from the factory to stock.

Whenever units are sold or otherwise disposed off, the accounts are credited for their corresponding cost. The balance of the account in the general ledger at the end of the accounting period must agree with the sum of the balance of the subsidiary ledger accounts.

Stores Ledger

The stores ledger carries stocks of merchandise, material, supplies, and even furniture and equipment not yet in use.

It is desirable to make frequent checks of goods on hand against stores ledger balances. However, so that discrepancies can be traced and accounted for. Possibilities of discrepancies can be summed up as follows:

1. Errors in charging ledger cards.
2. Mistakes in recording credits.
3. Breakage and spoilage.
4. Misplacement
5. Theft
6. Change in weight due to lapse of time.

The practice being done by some companies is to verify stores balances by physical count when the ordering point is reached. The reason being that at

that particular time, few units will have to be counted.

Operating Ledger

For each expense and cost account in the general ledger a subsidiary ledger may be maintained. This subsidiary ledger is known as the operating ledger. The current postings are made from the cash disbursement voucher, petty cash voucher and journal vouchers. The balance at the end of the period for each expense account in the general ledger must agree with the sum of the balances of the subsidiary ledger.

4. General Remarks on Subsidiary Ledgers

The number of subsidiary ledgers to be designed in a given accounting system depends upon the volume, size and nature, and complexity of the business. There may be as many subsidiary ledgers as there are controlling accounts in the general ledger. However, by generally accepted accounting practice, we may state that the subsidiary ledger must only provide the details of important accounts which are fairly numerous and which need control and analysis either for managerial guide or for fixing responsibility.