



UNIT 14 SELF-BALANCING SYSTEM

Structure

- 14.0 Objectives
- 14.1 Introduction
- 14.2 Sub-division of Ledger
- 14.3 How Ledgers are made Self-balancing
 - 14.3.1 Self-balancing the Debtors Ledger
 - 14.3.2 Self-balancing the Creditors Ledger
 - 14.3.3 Self-balancing the General Ledger
- 14.4 Some Peculiar Points
- 14.5 Advantages of Self-balancing System
- 14.6 Sectional Balancing
- 14.7 Ruling of Subsidiary Books
- 14.8 Let Us Sum Up
- 14.9 Key Words
- 14.10 Some Useful Books
- 14.11 Answers to Check Your Progress
- 14.12 Terminal Questions/Exercises

14.0 OBJECTIVES

After studying this unit you should be able to:

- name the ledgers commonly used in business and explain the types of accounts contained in each ledger
- define self-balancing system
- describe how each ledger is self-balanced
- prepare various adjustment accounts
- explain sectional balancing and prepare the total debtors and total creditors accounts.

14.1 INTRODUCTION

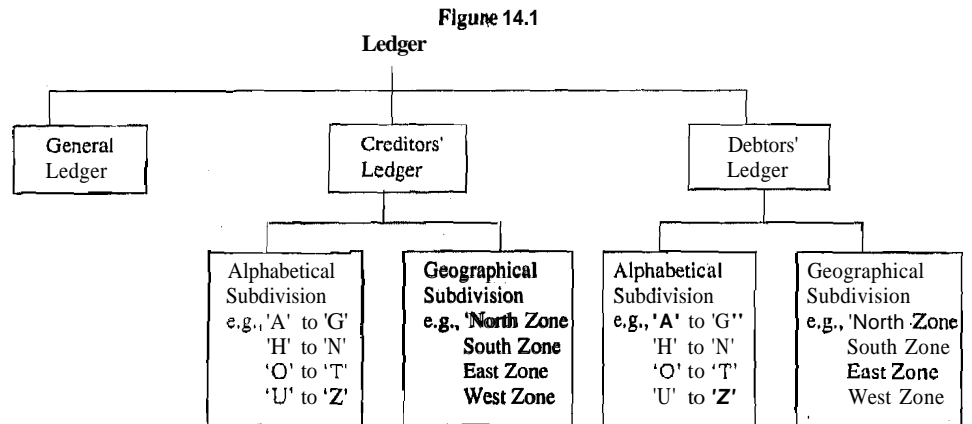
You have learnt that all business transactions are recorded first in journal or its sub-division and then posted into the concerned accounts in the ledger. A statement called Trial Balance is also prepared at the end of the accounting period primarily to check the arithmetical accuracy of the entries in the ledger. Normally the firms maintain one ledger for all the accounts involved. So long as the volume of transactions is small and the number of accounts is limited, this works fairly well. But, as the business expands and the number of accounts increases, especially those of the debtors and creditors, maintaining all accounts in a single ledger becomes impractical. The ledger becomes too bulky and location of errors involves more time. Hence many firms decide to introduce multiple ledger system whereby separate ledgers are kept for debtors and creditors and the entries are recorded in each ledger in such a way that a separate Trial Balance can be prepared for each ledger. This is called 'Self-balancing System'. Some times the firms, while maintaining more than one ledger, do not adopt the self-balancing system. In such a situation, though separate Trial Balance cannot be prepared for each ledger but the arithmetical accuracy can be duly verified by preparing certain control accounts. This is called 'Sectional Balancing'. In this unit you will learn about both the self-balancing and the sectional balancing systems: You will also study how they help in locating the errors more quickly and ensure the accuracy of postings into different ledgers.

14.2 SUB-DIVISION OF LEDGER

For the purpose of self-balancing and sectional balancing the ledger is usually divided into three parts. They are:

- 1 General Ledger: It contains all the real and nominal accounts as well as the personal accounts other than trade debtors and trade creditors. Thus accounts like furniture, machinery, goodwill, interest, salaries, capital, loan, salary outstanding etc. are maintained in this ledger.
- 2 Debtors Ledger: This is also known as 'Sales Ledger' or 'Sold Ledger'. It contains the accounts of trade debtors i.e., the customers to whom goods are sold on credit. The accounts of persons/firms who are not the buyers of goods from the business, are maintained in General Ledger.
- 3 Creditors Ledger: This is also known as 'Purchase Ledger' or 'Bought Ledger'. It contains the accounts of trade creditors only i.e., persons or firms who have supplied goods on credit to the business. The accounts of persons/firms who are not suppliers of goods or raw-materials are maintained in the General Ledger.

In case the number of trade debtors and trade creditors is fairly large, Debtors Ledger and Creditors Ledger can be further subdivided. For this, any suitable criteria may be adopted, Normally, the firms sub-divide them on alphabetical basis, say, A to F, G to K, L to P, and Q to Z or on geographical basis, say, district-wise, state-wise or nation-wise. Look at Figure 14.1 for sub-division of ledger.



14.3 HOW LEDGERS ARE MADE SELF-BALANCING

When separate ledgers are maintained for trade debtors and trade creditors, the debit and credit aspects of certain transactions will not appear in the same ledger. For example, in case of credit sales, the credit aspect (Sales Account) will appear in General Ledger whereas the debit aspect (personal account of the debtor) will appear in Debtors Ledger. Take another example like cash discount allowed by a creditor. The credit aspect (Discount Received Account) will be recorded in General Ledger whereas the debit aspect (personal account of the creditor) will appear in Creditors Ledger. Thus, no ledger is self-balancing and it is not possible to prepare a separate Trial Balance for each ledger. Hence, in order to make each ledger self-balancing it is necessary that the corresponding debit and credit aspects are fully provided in each ledger. This is done by opening some additional accounts called 'Adjustment Accounts' in each ledger. The Adjustment Account helps in completing the double entry in each ledger and making it self-balancing. The Adjustment Accounts opened in various ledgers are:

- 1 General Ledger Adjustment Account (in Debtors Ledger): It is opened in Debtors Ledger to provide the corresponding debits and credits for all entries related to trade debtors which appear in the General Ledger. Examples of such entries are: credit sales, sales returns, discount allowed, cash received from debtors, bad debts, etc.
- 2 General Ledger Adjustment Account (in Creditors Ledger): It is opened in Creditors Ledger to provide the corresponding debits and credits for all entries related to trade creditors which appear in the General Ledger. Examples of such entries are: credit purchases, purchases returns, discount received, cash paid to creditors, etc.
- 3 Debtors Ledger Adjustment Account (in General Ledger): It is opened in the General Ledger to provide the corresponding debits and credits for entries related to trade debtors which appear in Debtors Ledger.
- 4 Creditors-Ledger Adjustment Account (in General Ledger): It is opened in the

General Ledger to provide the corresponding debits and credits for entries related to trade creditors which appear in Creditors Ledger.

Thus, the accounts which appear in three ledgers are as follows:

Debtors Ledger	Creditors Ledger	General Ledger
i) Personal accounts of all trade debtors	i) Personal accounts of all trade creditors	i) All personal accounts other than those of trade debtors and trade creditors
ii) General Ledger Adjustment Account for Sales Ledger	ii) General Ledger Adjustment Account for Purchases Ledger	ii) All real account
		iii) All nominal accounts
		iv) Debtors Ledger Adjustment Account
		v) Creditors Ledger Adjustment Account

14.3.1 Self-balancing the Debtors Ledger

You know the Debtors Ledger contains the personal accounts of trade debtors only. The General Ledger Adjustment Account is inserted at the end in Debtors Ledger for purposes of making it self-balancing by providing the necessary corresponding debits and credits for all entries related to trade debtors. Let us therefore identify first the items which usually appear on the debit and the credit sides of a trade debtor. They are as follows:

A Trade Debtor's Account

Dr.	Rs.	Cr.	Rs.
To Balance b/d		By Cash/Bank A/c (cash and cheques received)	
To Sales A/c (credit sales)		By Sales Returns A/c	
To Bank A/c (cheques dishonoured)		By Bills Receivable A/c (B/R received)	
To Bills Receivable A/c (B/R dishonoured)		By Discount Allowed A/c	
		By Bad debts A/c	
		By Allowances A/c	
		By Balance c/d	

For self-balancing, all items appearing on the debit side of the personal accounts of trade debtors should be recorded on the credit side of the General Ledger Adjustment Account in Debtors Ledger and those appearing on their credit side should be recorded on its debit side. For this purpose, we take only the totals of such items for the period as a whole and pass the necessary journal entries as follows:

- For total credit sales, cheques dishonoured and bills receivable dishonoured**
 Sales Ledger Adjustment A/c Dr.
 (in General Ledger)
 To General Ledger Adjustment A/c
 (in Debtors Ledger)
- For total cash and cheques received from debtors, sales returns, bills receivable received, discount allowed, other allowances and bad debts:**
 General Ledger Adjustment A/c Dr.
 (in Debtors Ledger)
 To Debtors Ledger Adjustment A/c
 (in General Ledger)

After passing the above two journal entries, the General Ledger Adjustment Account in Debtors Ledger will appear as given in Figure 14.2.

Figure 14.2
General Ledger Adjustment Account
(in Debtors Ledger)

Dr.	Rs.		Cr.
To Debtor's Ledger		By Balance b/d	
Adjustment A/c:		By Debtor's Ledger	
Cash Received		Adjustment A/c:	
(incl. cheques)		Credit Sales	
Sales Returns		Cheques Dishonoured	
B/R Received		B/R Dishonoured	
Discount Allowed			
Bad Debt			
Allowances			
To Balance c/d			

To total figures for various items can be extracted from the concerned subsidiary books. For example, 'credit sales' can be taken from the Sales Book, 'cash received from debtors' from the Cash Book, and so on. If necessary, additional columns can be provided in the subsidiary books for the purpose. This is explained later in sub-section 14.4.

Look at Illustration 1 and see how **General Ledger Adjustment Account** in Debtors Ledger is prepared.

Illustration 1

From the following particulars draw up a General Ledger Adjustment Account in the Debtors Ledger.

Opening balance	Rs. 1,220
Credit Sales	3,720
Cash received from Debtors	2,005
Sales returns	317
Discount allowed	130
Bad Debts written off	371
Allowances	42
Bill Receivable received	130
Bills Receivable dishonoured	50

Solution

General Ledger Adjustment Account
(in Debtors Ledger)

Dr.	Rs.		Cr.
To Debtors Ledger		By Balance b/d	1,220
Adjustment A/c :		By Debtors Ledger	
Cash Received	2,005	Adjustment A/c :	
Sales Returns	317	Credit Sales	3,720
Discount Allowed	130	B/R Dishonoured	50
Bad Debts	371		
Allowances	42		
B/R Received	130		
To Balance c/d	1,995		
	4,990		4,990

You will notice that the General Ledger Adjustment Account in Debtors Ledger has the necessary corresponding debits and credits for all entries related to trade debtors. This makes it self-balancing and now a Trial Balance can be prepared separately for the Debtors Ledger.

14.3.2 Self-balancing the Creditors Ledger

You know the Creditors Ledger contains the personal accounts of trade creditors only. As in case of Debtors Ledger, a General Ledger Adjustment Account is inserted in Creditors Ledger for purposes of making it self-balancing. This account provides the necessary corresponding debits and credits for all entries related to trade creditors. Let us now identify the items which usually appear on the debit and the credit sides of the trade creditor. They are as follows:

A Trade Creditor's Account

Dr.	Rs.	Rs.	Cr.
To Cash/Bank A/c (cash and cheques)		By Balance b/d	
To Purchases Returns A/c		By Purchases A/c (credit purchases)	
To Bills Payable A/c (bills accepted)		By Bank A/c (cheques dishonoured)	
To Discount Received A/c		By Dills Payable A/c (B/P dishonored)	
To Allowances A/c			
To Balance c/d			

For self-balancing, all items appearing on the debit side of the personal accounts of trade creditors should be recorded on the credit side of the General Ledger Adjustment in Creditors Ledger and those appearing on their credit side should be recorded on its debit side. For this purpose, taking the total figures of such items the following journal entries will be passed:

1 For total credit purchases, cheques dishonoured and the bills payable dishonoured:

General Ledger Adjustment Account Dr.
(in Creditors Ledger)
To Creditors Ledger Adjustment A/c
(in General Ledger)

2 For total cash and cheques paid to creditors, purchases returns, bill payable accepted, discount received, other allowances:

Creditors Ledger Adjustment A/c Dr.
(in General Ledger)
To General Ledger Adjustment A/c
(in Creditors Ledger)

After passing the above two journal entries the General Ledger Adjustment Account in Creditors Ledger will appear as given in Figure 14.3.

Figure 14.3

General Ledger Adjustment Account In Creditors Ledger

Dr.	Rs.	Rs.	Cr.
To Balance b/d		By Creditor's Ledger Adjustment A/c:	
To Creditor's Ledger Adjustment A/c:		Cash Paid (incl. cheques)	
Credit Purchases		Purchases Returns	
Cheques Dishonoured		Bills Accepted	
B/P Dishonoured		Discount Received	
		Allowances	
		By Balance c/d	

**Accounts born
Incomplete Records**

The figures for various items can be extracted from the concerned subsidiary books. For example, 'credit purchases' can be taken from the Purchase Book, cash paid to creditors from Cash Book, and so on. Look at Illustration 2 and see how General Ledger Adjustment in Creditors Ledger is prepared.

Illustration 2

From the following information prepare the General Ledger Adjustment Account in Creditors Ledger.

	Rs.
Opening Balance of Sundry Creditors	28,010
Credit Purchases	27,600
Payment to Creditors	26,500
Discount Allowed by Creditors	1,450
Returns Outwards	2,240
Bills Payable Accepted	5,300
Allowances	400
Bills Payable Dishonoured	500

Solution:

General Ledger Adjustment Account (in Creditors Ledger)			
Dr.	Rs.	Cr.	Rs.
To Balance b/d	28,010	By Creditors Ledger Adjustment A/c:	
To Creditors Ledger Adjustment A/c:		Cash Paid	26,500
Credit Purchases	27,600	Purchases Returns	2,240
B/P Dishonoured	500	Bills Accepted	5,300
		Discount Received	1,450
		Allowances	400
		By Balance c/d	20,220
	56,110		56,110

You will notice that the General Ledger Adjustment Account in Creditors Ledger has the necessary corresponding debits and credits for all the entries related to trade creditors, This makes it self-balancing and now a separate Trial Balance can be prepared also for the Creditors Ledger.

14.3.3 Self-balancing the General Ledger

You know the General Ledger contains all real and nominal accounts. In case of most of the transactions recorded in General Ledger both the debit and credit aspects would appear in this ledger itself. Take for example, depreciation on machinery. This involves Depreciation Account (a nominal account) and the Machinery Account (a real account), Both the accounts appear in the General Ledger and so both debit and credit aspects are recorded in this ledger itself. But, in case of transactions which involve the personal accounts of trade debtors or trade creditors, the situation is different. One aspect of such transactions appears in the General Ledger and the other in Debtors Ledger or Creditors Ledger. Hence, for Self-balancing the General Ledger it becomes necessary to provide the corresponding debits and credits for all entries related to trade debtors and trade creditors. For this purpose, we open the Debtors Ledger Adjustment Account and the Creditors Ledger Adjustment Account in the General Ledger. In fact these two accounts will automatically be opened when journal entries are passed for opening the General Ledger Adjustment Accounts in the Debtors and the Creditors Ledgers as stated in sub-sections 14.3.1 and 14.3.2. Thus, the Debtors Ledger Adjustment Account and the Creditors Ledger Adjustment Account in General Ledger will be just the reverse of the General Ledger Adjustment Account in Debtors Ledger and the General Ledger Adjustment Account in the Creditors Ledger respectively. Let us now prepare these two accounts from the information given in Illustrations 1 and 2.

Dr.	Rs.		Cr.
To Balance b/d	1,220	By General Ledger Adjustment A/c:	
To General Ledger Adjustment A/c:		Cash received	2,005
Sales	3,720	Sales Returns	317
B/R Dishonoured	50	Discount Allowed	130
		Bad Debts	371
		Allowances	42
		B/R Received	130
		By Balance c/d	1,995
	4,990		4,990

Creditors Ledger Adjustment Account (in General Ledger)

Dr.	Rs.		Cr.
To General Ledger Adjustment A/c:		By Balance b/d	28,010
Cash Paid	26,500	By General Ledger Adjustment A/c:	
Purchases Returns	2,240	Credit Purchases	27,600
Bills Accepted	5,300	B/P Dishonoured	500
Discount Received	1,450		
Allowances	400		
To Balance c/d	20,220		
	56,110		56,110

Now let us take a comprehensive illustration and prepare all Adjustment Accounts.

Illustration 3

A firm has three ledgers in use viz., Debtors Ledger, Creditors Ledger and General Ledger. These are all kept on the self-balancing system, From the following transaction, prepare the Adjustment Accounts as they would appear in each ledger.

Balances of Trade Debtors on 1-3-1988	28,500
Balances of Trade Creditors on 1-3-1988	47,800
Transactions during the month were:	
Credit Sales	43,800
Cash received from Trade Debtors	30,950
Discount allowed to Trade Debtors	2,600
Bills Receivable received from Debtors	5,000
Bad Debts Written off	200
Credit Purchases	68,800
Purchases Returns	2,000
Cash paid to Trade Creditors	59,000
Discount allowed now disallowed	100
Interest and Charges debited to Debtors.	200

Solution:

Debtors Ledger Adjustment Account (In General Ledger)

Dr.	Rs.		Cr.
To Balance b/d	28,500	By General Ledger Adjustment A/c:	
To General Ledger Adjustment A/c:		Cash received	30,950
Credit Sales	43,800	Discount Allowed	2,600
Discount Disallowed	100	Bills receivable	5,000
Interest and Charges	200	Bad Debts	200
		By Balance c/d	33,850
	72,600		72,600

Creditors Ledger Adjustment Account

Dr.		(in General Ledger)		Cr.	
	Rs.				Rs.
To General Ledger Adjustment A/c:		By Balance b/d			47,800
Cash Paid	59,000	By General Ledger Adjustment A/c:			
Purchases Returns	2,000	Credit Purchases			68,800
To Balance c/d	55,600				
	1,16,600				1,16,600

General Ledger Adjustment Account
(in Debtors Ledger)

Dr.		(in Debtors Ledger)		Cr.	
	Rs.				Rs.
To Sales Ledger Adjustment A/c:		By Balance b/d			28,500
Cash Received	30,950	By Sales Ledger Adjustment A/c:			
Discount Allowed	2,600	Credit Sales			43,800
Bills Receivable	5,000	Discount Disallowed			100
Bad debts	200	Interest and Charges			200
To Balance c/d	33,850				
	72,600				72,600

General Ledger Adjustment Account
(in Creditors Ledger)

Dr.		(in Creditors Ledger)		Cr.	
	Rs.				Rs.
To Balance b/d	47,800	By Bought Ledger Adjustment A/c:			
To Bought Ledger Adjustment A/c:		Cash Paid			59,000
Credit Purchases	68,800	Purchases Returns			2,000
		By Balance c/d			55,600
	1,16,600				1,16,600

- Note :
- 1 **Discount Disallowed** : Any amount of discount allowed to debtors, if disallowed later, is debited to the concerned debtor's personal account. Hence, it has been shown on the debit side of Debtors Ledger Adjustment Account in General Ledger and the credit side of the General Ledger Adjustment Account in Debtors Ledger.
 - 2 **Interest and Charges** debited to Debtors : It is an amount charged to debtors on account of late payment or some errors. It has also been shown on the debit side of Debtors Ledger Adjustment Account in General Ledger and the credit side of General Ledger Adjustment Account in Debtors Ledger.

14.4 SOME PECULIAR POINTS

Contra Balances : Normally the personal accounts of debtors show a debit balance and the personal accounts of creditors a credit balance. Sometimes, a debtor's account may show a credit balance and a creditor's account a debit balance. It usually happens on account of over-payments. In such a situation, both the debit and the credit balances are shown separately in the Adjustment Accounts. For example, the total of debit balances of various debtors is Rs. 60,000 and the total of credit balances Rs. 800. These will be shown in the respective Adjustment Accounts as follows:

Debtors Ledger Adjustment Account
(in General Ledger)

Self - Balancing System

Dr.	Rs.	Cr.	Rs.
To Balance b/d	60,000	By Balance b/d	800
General Ledger Adjustment Account (in Debtors Ledger)			
To Balance b/d	800	By Balance b/d	60,000

If the creditors accounts also show both types of balances, they will appear in the concerned **Adjustments Accounts** separately.

Transfers : Sometimes goods are bought from the person who is also a customer to the business. In such a situation, his personal account will appear in both the Debtors Ledger and the Creditors Ledger. The settlement of such accounts is made by paying or receiving the net amount. Hence, it becomes necessary to transfer his account from the ledger where it shows a lower balance to the other where his account shows a higher balance. For example, Ganesh's personal account in Debtors Ledger shows a debit balance of Rs. 10,800 and his personal account in Creditors Ledger shows a credit balance of Rs. 1,000. In such a situation, the credit balance of Rs. 1,000 in Ganesh's Account will be transferred from Creditors Ledger to his account in Debtors Ledger. Such transfer should also be recorded in the Adjustment Accounts. **Whether the transfer takes place from creditors Ledger to Debtors Ledger or from Debtors Ledger to Creditors Ledger, it shall be reflected in various Adjustment Accounts as follows :**

In Debtors Ledger Adjustment Account	Credit side
In Creditors Ledger Adjustment Account	Debit side
In General Ledger Adjustment Account in Debtors Ledger	Debit side
In General Ledger Adjustment Account in Creditors Ledger	Credit side

Provision for Bad Debts : Sometimes you may find an item of provision for bad debts in the information from which the Adjustment Accounts are to be prepared. You know that this provision does not appear anywhere in the personal accounts of debtors. Hence it will not be included in the Adjustment Accounts. You may simply ignore it. **The same thing is true of items like cash sales, bills discounted, old bad debts recovered, etc.**

Look at illustration 4 and see how the above items have been treated.

Illustration 4

From the following details prepare General Ledger Adjustment Accounts and the Debtors Ledger and Creditors Ledger Adjustment Accounts as on 31 December 1988 :

	Rs.		Rs.
Debtors (1-1-1988)	Dr. 17,425	Discount Allowed to Debtors but disallowed later	100
Debtors -do-	Cr. 320	Cash received from Debtors	8,700
Creditors -do-	Cr. 27,408	Cash paid to Debtors	25
Creditors -do-	Dr. 204	Transfer from Debtors to Creditors Ledger	1,242
Purchases	25,200	Cash Purchases	4,320
Sales	28,209	Cash Sales	7,400
Sales Returns	208	Bad Debts written off	215
Purchases Returns	714	Discount allowed to Debtors	215
Cash paid to Creditors	12,700		
Bills received from Debtors	9,300		
Bills dishonoured	200		
Bills accepted	7,400		
Discount allowed by Creditors	1,020		

Creditors Ledger **Adjustment Account**
(In General Ledger)

Dr.	Rs.		Cr.
To Balance b/d	204	By Balance b/d	27,408
To General Ledger Adjustment A/c (in Creditors Ledger)		By General Ledger Adjustment A/c (in Purchases Ledger):	
Cash Paid	12,700	Purchases	25,200
Purchases Returns	714		
Bills Accepted	7,400		
Discount	1,020		
Transfer	1,242		
To Balance c/d	29,328		
	52,608		52,608

Debtors Ledger Adjustment Account
(In General Ledger)

	Rs.		Rs.
To Balance b/d	17,425	By Balance b/d	320
To General Ledger Adjustment A/c (in Debtors Ledger):		By General Ledger Adjustment A/c (in Debtors Ledger):	
Sales	28,209	Cash Received	8,700
Cash Paid	25	Sales Returns	208
B/R Dishonoured	200	Discount Allowed	215
Discount Disallowed	100	B/R Received	9,300
		Bad Debts	215
		Transfers	1,242
		By Balance c/d	25,759
	45,959		45,959

General Ledger **Adjustment Account**
(In Creditors Ledger)

	Rs.		Rs.
To Balance b/d	27,408	By Balance b/d	204
To Creditors Ledger Adjustment A/c:		By Creditors Ledger Adjustment A/c:	
Purchases	25,200	Cash Paid	12,700
		Purchases Return	714
		Bills Accepted	7,400
		Discount Received	1,020
		Transfers	1,242
		By Balance c/d	29,328
	52,608		52,608

General Ledger **Adjustment Account**
(In Debtors Ledger)

	Rs.		Rs.
To Balance b/d	320	By Balance b/d	17,425
To Debtors Ledger Adjustment A/c:		By Debtors Ledger Adjustment A/c:	
Cash Received	8,700	Sales	28,209
Sales Returns	208	Cash Paid	25
Discount Allowed	215	B/R Dishonoured	200
B/R Received	9,300	Discount Disallowed	100
Bad Debts	215		
Transfers	1,242		
By Balance c/d	25,759		
	45,959		45,959

Illustration 5

From the following information prepare Debtors Ledger Adjustment Account in General Ledger.

	Rs.
Opening Credit balance of Sundry Debtors	2,000
Opening Balance of Sundry Debtors	20,000
Cash and Cheques received	80,000
Credit Sales	1,00,000
Discounts Allowed	3,000
Returns Inwards	2,000
Bad Debts	1,500
Bills Receivable received	10,000
Bills Receivable Discounted	4,000
Provision for Bad Debts	1,000
Bad Debts Recovered	500
Closing Credit Balance in Sundry Debtors	3,000

Rs. 500 is to be transferred from Debtors Ledger to Creditors Ledger. Similarly, Rs. 600 is to be transferred from Creditors Ledger to Debtors Ledger..

**Debtors' Ledger Adjustment Account
(in General Ledger)**

Dr.	Rs.		Cr.
To Balance b/d	20,000	By Balance b/d	2,000
To General Ledger Adjustment Account (in Debtors Ledger):		By General Ledger Adjustment Account (in Debtors Ledger):	
Credit sales	1,00,000	Cash Received	80,000
		Returns Inwards	2,000
		Discount Allowed	3,000
		Bad Debts	1,500
		B/R Received	10,000
		Transfers :	
		From Debtors Ledger to Creditors Ledger	500
		From Creditors Ledger to Debtors Ledger	600
To Balance c/d	3,000	By Balance c/d	23,400
	1,23,000		1,23,000

Notes: Provision for Bad Debt, Bad Debts Recovered and Bills Receivable Discounted do not appear in the personal accounts of Debtors. Hence no entry need be made in the Adjustment Accounts.

Check Your Progress A

1 What is a self-balancing system?

.....

2 Name the three ledgers usually kept under Multiple Ledger System,

.....

3 Fill in the blanks

- i) Debtors Ledger Adjustment Account is opened in
 ledger.
- ii) Creditors Ledger Adjustment Account is opened in
 Ledger.

- iii) The Adjustment Account opened in Debtors Ledger is termed as Account.
 - iv) General Ledger contains all real and accounts.
 - v) Creditors Ledger contains personal accounts of all
 - vi) Adjustment Accounts help to complete in each ledger to make them self-balancing.
- 4 Indicate the Adjustment Account given in General Ledger in which each of the following items usually appears and write within brackets whether it will be on the debit or the credit side of that account.
- i) B/P Dishonoured
 - ii) Bad Debts
 - iii) Transfers
 - iv) Cash Sales
 - v) Interest debited to a customer
 - vi) Refunds received from a creditor
 - vii) Discount disallowed
 - viii) Provision for Bad Debts

14.5 ADVANTAGES OF SELF-BALANCING SYSTEM

The main advantages of self-balancing system are as follows:

- 1 It is easy to locate the errors because we prepare separate Trial Balance for each ledger. If the Trial Balance of a particular ledger agrees, it implies that there are no errors in that ledger. The detection work is confined only to the accounts in a ledger whose Trial Balance does not agree. For instance, if an error is committed in the personal account of a customer neither the General Ledger nor the Creditors Ledger is affected. It is only the Debtors Ledger which is affected and its Trial Balance will not agree. Hence you will look for the errors in Debtors Ledger only. Similarly, if the Trial Balance of General Ledger does not agree you will check entries in the nominal and real accounts only. This narrows down the area of detection work and the errors can be quickly detected.
- 2 The maintenance of ledgers can be divided amongst many persons. This helps in quick posting and fixation of responsibility in case of errors and frauds.
- 3 The main ledger becomes less bulky because the personal accounts of customers and suppliers are excluded. The system is very useful when the number of customers and suppliers is large.
- 4 It is easy to check the accuracy of each ledger independently with the help of Adjustment Accounts.
- 5 It facilitates the preparation of interim accounts whenever required by including the figure of total debtors and total creditors. There is no need to go through the Debtors and Creditors Ledgers.

14.6 SECTIONAL BALANCING

The sectional balancing refers to a system under which only a section of the group of ledgers is self-balanced. If a firm which uses three ledgers viz., Debtors Ledger, Creditors Ledger and General Ledger, makes only one ledger self-balancing (normally the General Ledger) it will be called 'Sectional Balancing System'. Under this system only two Adjustment Accounts viz., Debtors Ledger Adjustment Account and Creditors Ledger Adjustment Account are prepared. They are termed as **Total Debtors Account** and **Total Creditors Account** respectively. They are also known as control accounts.

Most of the firms do not follow the self-balancing system. They simply prepare the **Total Debtors** and **Total Creditors Accounts** to check the accuracy of Debtors and Creditors Ledgers. These two accounts do not, in fact, form part of any ledger. Hence, no journal entries are passed for opening the accounts. They are prepared by extracting relevant figures from various subsidiary books. Like Debtors Ledger Adjustment Account, the **Total**

Debtors Account includes the total amounts of all those items which have been debited or credited to the personal accounts of the trade debtors. Similarly, the Total Creditors Account, like the Creditors Ledger Adjustment Account, includes the total amounts of all those items which have been debited or credited to the personal accounts of the trade creditors. Look at Figures 14.4 and 14.5 and note the sources of various items to be debited and credited in these control accounts.

Figure 14.4
Sources of Items for Total Debtors Account

Dr.		Cr.	
Item	Source	Item	Source
1. Opening balance of Debtors	Opening Entry	1. Opening Credit balance of Debtors	Opening Entry
2. Credit Sales	Sales Book	2. Cash Received from Debtors	Cash Book
3. B/R Dishonoured	Journal	3. Discount Allowed	Cash Book
4. Interest and expenses charged to Debtors	Journal	4. B/R Received	Bills Receivable Book
5. Refund to Debtors	Cash Book	5. Sales Returns	Returns Inwards Book
		6. Bad debts	Journal
		7. Transfers	Journal
		8. Closing balance of Debtors	

Figure 14.5
Sources of Items for Total Creditors Account

Dr.		Cr.	
Item	Source	Item	Source
1. Opening Debit balance of Creditors	Opening Entry	1. Opening balance of Creditor	Opening Entry
2. Payment to Creditors	Cash Bmk	2. Credit Purchases	Purchases Book
3. Discount Received	Cash Book	3. B/P Dishonoured	Journal
4. Bills Accepted	Bills Payable Book	4. Interest and expenses	Journal
5. Purchases Returns	Purchases Returns Book	5. Refund from Creditors	Cash Book
6. Transfers	Journal		
7. Closing Balance of Creditors	—		

Look at illustration 6 and see how Total Debtors and Total Creditors Accounts are prepared.

Illustration 6

The following figures are extracted from the books of a company for the year ended March 31, 1988: Opening Balance as per Debtors Ledger was Rs. 70,420 and as per Creditors Ledger Rs. 51,360. Transactions during the year ending March 31, 1988 were as follows:

	Rs.		Rs.
Sales	4,86,430	Cash paid to Debtors	8,320
Purchases	2,92,125	Cash paid to Creditors	2,57,750
Sales Returns	23,960	Bills Receivable	19,565
Purchases Returns	15,970	B/R Dishonoured	1,200
Discount Received	5,300	Bad debts	765
Discount Allowed	3,335	Bills Payable	2,390
Cash Received from Debtors	4,49,700		

Additional information :

- i) Amount of Rs. 1,945 standing to the credit of a Supplier's Account was set off against an account for goods sold to that supplier.

- ii) A balance of Rs. 450 outstanding from a debtor was adjusted against a claim from him for third party liability arising from accident.
- iii) As on March 31, 1988 the balance as per Debtors and Creditors ledger amounted to Rs. 60,650 and 60,130 respectively.

You are required to prepare the Total Accounts to prove the accuracy of entries in the Debtors and Creditors Ledger.

Solution :

Total Debtors Account					
Dr.		Rs.	1988		Cr. Rs.
1987					
April 1	To Balance b/d	70,420	Mar. 31	By Sales Returns	23,960
Mar. 31, 88	To Sales	4,86,430		By Discount Allowed	9,335
	To Cash	8,320		By Cash	4,49,700
	To B/R	1,200		By Bills Receivable	19,565
				By Bad Debts	765
				By Allowances	450
				By Transfer	1,945
				By Balance c/d	60,650
		5,66,370			5,66,370

Total Creditors Account					
		Rs.	1988		Cr. Rs.
March 31, 1988	To Cash	2,57,750	April 1, 87	By Balance b/d	51,360
	To Purchases Returns	15,970	March 31, 1988	By Purchases	2,92,125
	To Discount Received	5,300			
	To Bills Payable	2,390			
	To Transfer	1,945			
	To Balance c/d	60,130			
		3,43,485			3,43,485

Check Your Progress B

1 What is the main purpose of Sectional Balancing?

.....

2 Name the two control accounts opened under Sectional Balancing System.

.....

3 Name the source of relevant data in case of each of the following items.

- i) Credit Sales
- ii) Discount Allowed
- iii) Interest Charged by a creditor
- iv) Payment to creditors
- v) Bill Accepted
- vi) B/R Dishonoured
- vii) Refund to a debtor
- viii) Purchases Returns

14.7 RULING OF SUBSIDIARY BOOKS

You have learnt that for the preparation of Adjustment Accounts or Control Accounts you have to extract relevant figures from various subsidiary books. For this purpose some adjustment in the rulings of subsidiary books becomes necessary. For example, if there is only one Debtors' Ledger and one Creditors Ledger you may add one extra column on the debit side of the Cash Book to record receipts from trade debtors and another column on the credit side to record payments to trade creditors. These columns will readily provide the figures of total amounts received from trade debtors and total payments to trade creditors at the end of the accounting period. No change will, however, be required in other subsidiary books. But if there are several Debtors and Creditors Ledgers maintained on alphabetical or regional basis, many additional columns will have to be provided in almost all the subsidiary books. These additional columns will analyse all transactions to provide the total Figures for each Debtors Ledger and each Creditors Ledger separately. Look at figure 14.6 and study how rulings in Sales Book will be arranged to provide the relevant periodic totals.

Figure 14.6
Sales Book

Date	Particulars (Names of Customer)	Inv. No.	L.F.	Total Amount	Debtors Ledgers		
					A-G	G-K	L-P

14.8 LET US SUM UP

It is a common practice with firms having a large number of customers and supplier to adopt multiple ledger system. Under this system the ledger is usually divided in General Ledger, Debtors Ledgers and Creditors Ledger.

When ledgers are maintained in such a way that a separate Trial Balance can be prepared for each ledger, it is called **self-balancing** system. Under this system each ledger contains certain Adjustment Accounts to provide the corresponding debits and credits. These accounts are opened through proper journal entries.

Most of the firms do not follow self-balancing system. They sub-divide the ledger but do not prepare separate Trial Balance for each ledger. However, in order to check the accuracy of Debtors and Creditors ledger they simply prepare two control accounts known as Total Debtors Account and Total Creditors Account. This system is known as sectional balancing and it is equally helpful in preparing the interim final accounts as and when required.

14.9 KEY WORDS

Adjustment Account: An account which helps to complete the double entry in each ledger and make it self-balancing.

Creditors Ledger: A ledger containing the personal accounts of all trade creditors.

Debtors Ledger: A ledger containing the personal accounts of all trade debtors.

General Ledger: A ledger containing all accounts other than the personal accounts of trade debtors and trade creditors.

Multiple Ledger System: A system of maintaining more than one ledger.

Sectional-Balancing System: A system of checking the accuracy of Debtors and Creditors Ledgers by comparing the Total Debtors and Total Creditors Accounts.

Self-Balancing System: A system whereby each ledger can be self-balanced i.e., a separate Trial Balance can be prepared for each ledger.

Total Creditors Account: An account reflecting the total debits and credits for all entries related to trade creditors.

Total Debtor Account: An account reflecting the total debits and credits for all entries related to trade debtors.

Transfers: Transfer of the lower balance in a particular personal account in one ledger to his personal account showing a higher balance in another ledger.

14.10 SOME USEFUL BOOKS

Maheshwari, S.N., 1986. *Introduction to Accounting*, Vikas Publishing House: New Delhi. (Chapter 18).

Patil, V.A. and J.S. Korlahalli, 1986. *Principles and Practice of Accounting*, R. Chand & Co.: New Delhi. (Chapter 20 Part 11).

William Pickles, 1982. *Accountancy*, E.L.B.S. and Pitman, London. (Chapter 10).

Gupta, R.L. and M. Radhaswamy. 1986. *Advanced Accountancy*, Sultan Chand & Sons: New Delhi. (Part Six).

Shukla, M.C and T.S. Grewal, 1987. *Advanced Account*, Chand & Co. (Pvt.) Ltd.: New Delhi. (Chapter 5).

14.11 ANSWERS TO CHECK YOUR PROGRESS

- A 3 i) General Ledger ii) **General Ledger** iii) General Ledger Adjustment Account (in Debtors Ledger) iv) nominal v) trade creditors vi) double entry
- 4 i) Creditors Ledger Adjustment Account (credit)
ii) Debtors Ledger Adjustment Account (credit)
iii) Debtors Ledger Adjustment Account (credit) and Creditors Ledger Adjustment Account (debit)
iv) **None**
v) Debtors Ledger Adjustment Account (debit)
vi) Creditors Ledger Adjustment Account (credit)
vii) Debtors Ledger Adjustment Account (debit)
viii) None
- B 3 i) Sales **Book** ii) Cash Book iii) Journal Proper
iv) **Cash Book** v) Bills Payable **Book** vi) Journal Proper vii) Cash Book
viii) **Returns Outwards Book**

14.12 TERMINAL QUESTIONS/EXERCISES

Questions

- 1 What do you understand by Self-Balancing System? State its advantages.
- 2 Explain briefly how Debtors Ledger is made Self-balancing. How do you deal with a transfer entry from one personal ledger to another?
- 3 What are Adjustment Accounts? Give journal entries necessary for self-balancing the General Ledger.
- 4 What is Sectional Balancing? How does it differ from Self-balancing? Give proforma of a Total Debtors Account.

Exercises

- 1 A firm has three ledgers in use viz., Debtors Ledger, Creditors Ledger, and General Ledger. They are all kept on the self-balancing system. From the following

transactions prepare the necessary Adjustment Accounts as they would appear in each of the ledgers.

Self - Balancing System

1988		Rs.
Jan. 1	Balance of Sundry Debtors	16,000
	Balance of Sundry Creditors	18,500
Jan. 31	Credit Purchases	4,500
	Credit Sales	9,800
	Paid to Creditors	9,875
	Discount allowed by them	325
	Received cash from Debtors	7,800
	Allowed them discount	200
	Accepted Bills Payable	1,500
	Received Bills Receivable	3,000
	Returns Inwards	875
	Returns Outwards	600
	Allowances to Debtors	275
	Allowances from Creditors	150
	Bad Debts	450
	Bills Receivable Dishonoured	375

(Answers Sales ledger Adjustment Account Rs. 13,575;
Creditors Ledger Adjustment Account Rs. 10,550)

2 From the following particulars as extracted from the books of Bordia & Co., who keep Debtors Ledger, Creditors' Ledger and General Ledger on the self-balancing system, show how the Debtor's Ledger and Creditors' Ledger Adjustment Accounts will appear in the General Ledger for the year 1988.

	Rs.
Debtors' Balance as on 1.1.88	45,750
Creditors' Balance as on 1.1.88	54,900
Transactions during the year:	
Credit Purchases	20,500
Credit Sales	22,700
Returns Inwards	400
Returns Outwards	600
Cash received from Customers	25,500
Discount allowed to Customers	450
Cash paid to Creditors	30,700
Discount received from Creditors	670
Acceptances received from Debtors	8,500
Creditors Bills accepted	12,000
Bills receivable returned dishonoured	1,200
Bills payable dishonoured	3,000
Bad Debts written off	2,500
Miscellaneous Expenses wrongly debited to Customers' Account	345
Allowances from Creditors	275

(Answer: Closing Balances of Debtors Ledger Adj. A/c Rs. 31,955 and of Creditors Ledger Adj. A/c Rs. 34,155)

3 From the following particulars extracted from the books of M/s. Balance Minded Ltd., which keeps accounts on self-balancing system, prepare the General Ledger Adjustment Account in the Sales Ledger and the Bought Ledger respectively

	Rs.		Rs.
Debtors as on January 1, 1988	4,575	Cash paid to Supplier	3,070
Creditors as on January 1, 1988	5,490	Discount received	67
Transactions for the year:		Acceptances received from Debtors	850
Credit Purchases	2,050	Accbpfances given to Creditors	1,200
Credit Sales	2,270	B/R dishonoured	120
Returns Inwards	40	B/P dishonoured	300
Returns Outwards	60	Bad Debts written off	250
Cash received from Customers	2,550	Sundry Charges debited to Customers	35
Discount allowed	45	Allowances from Creditors	28

(Answer: Closing balances of General Ledger Adjustment Account in the Sales Ledger and Bought Ledger Rs. 3,265 and Rs. 3,415 respectively),

4 From the following details prepare General Ledger Adjustment Accounts and the Debtors and Creditors Ledger Adjustment Accounts as on December 31, 1988.

**Accounts from
Incomplete Records**

Debtors (January 1, 1988)	Dr.	17,425
Debtors (- do -)	Cr.	320
Creditors (- do -)	Cr.	27,408
Creditors (- do -)	Dr.	204
Purchases		25,200
Sales		28,209
Sales Returns		208
Purchases Returns		714
Cash paid to Creditors		12,700
Bills received from Debtors		9,300
Bills dishonoured		200
Bills accepted for Creditors		7,400
Discount allowed to Debtors		215
Discount allowed to Debtors but later on disallowed		100
Cash received from Debtors		8,700
Discount allowed by Creditors		1,020
Cash paid to Debtors		25
Transfer from Debtors to Creditors Ledger		1,242
Cash Purchases		4,320
Cash Sales		7,400
Bad Debts written off		215

(Answer: Creditors Ledger Adjustment Account Rs. 29,328; Debtors Ledger Adjustment Account Rs. 25,759).

- 5 From the following balances extracted from the books of Jackson and Co., prepare the Total Creditors Account.

Jan. 1, 1988	Creditors-Credit Balance	1,59,260
	Balance of Debtors-Credit Balance	13,820
Dec. 31, 1988	Sales	15,86,980
	Purchases	10,47,713
	Cash paid to Creditors	9,87,280
	Discount Allowed by Creditors	7,980
	Purchase Returns	6,300
	Creditors-Debit Balance (closing)	185

(Answer: Balance Rs. 2,05,590)

- 6 From the following details extracted from the books of Y Ltd. for the year ended 31.3.1988 prepare a Debtors Ledger Adjustment Account as it would appear in the General Ledger.

Opening Balance on 1.4.1987: Sales Ledger Dr. 45,256, Cr. 156, Provision for Bad and Doubtful Debts 5,000
 Sales during the period: Cash 15,200, Credit 1,25,656
 Amount received from Customers Rs. 1,56,215
 Bills accepted by the Customers Rs. 1,250
 Cheques dishonoured Rs. 1,270: Bad Debts written off Rs. 256, Interest on overdue account Rs. 82
 Cash discount allowed Rs. 1,527
 Bad debts previously written off recovered Rs. 456
 Returns from customers 726

(Answer: Sales Ledger Adjustment Account Rs. 12,134).

- 7 Prepare Total Debtors Account and Total Creditors Account for the year ended December 31, 1988 from the following figures:

Debtors on January 1, 1988	36,400
Creditors on January 1, 1988	26,900
Sales (including cash sales Rs. 18,500)	3,01,600
Sales Returns	2,100
Purchases	2,19,000
Purchases Returns	5,000
Cash received from Debtors (including Rs. 2,000 against a debt previously written off).	2,49,500
Discount allowed to Debtors	4,050
B/R received from Debtors	42,000
Bad Debts	2,500
Cash paid to Creditors	1,44,600
Transfer from Bought Ledger to Sales Ledger	3,200
Discount received from Creditors	8,500

Bills Receivable endorsed to Creditors	25,000
Bills Payable given to Creditors	48,000
Endorsed bills dishonoured	5,000
Credit balance in Sales Ledger December 31, 1988	2,100
Debit balance in Bought Ledger, December 31, 1988	1,600

Self - Balancing System

(Answer: Total Debtors Account debit balance Rs. 25,250; Total Creditors Account credit balance Rs. 18,700)

Note: These questions will help you to understand the unit better. Try to write answers for them. But do not submit your answers to the University. These are for your practice only.