

6. SELF BALANCING LEDGERS

MODEL WISE ANALYSIS OF PAST EXAM PAPERS OF IPCC

MODEL NO.	N-11	M-12	N-12	M-13	N-13	M-14	N-14	M-15	N-15	M-16	N-16
Model – 1	-	-	-	-	-	-	-	-	-	-	8
Model – 2	-	-	05	-	-	-	04	-	04	04	-
Model – 3	-	-	-	05	-	-	-	-	-	-	-
Model – 4	-	-	-	-	-	-	-	-	-	-	-

Model – 1 : Sections balancing

Model – 2 : Self balancing

Model – 3 : Rectification of Errors

Model – 4 : Theory

Introduction: When there are large number of accounts in a ledger and the trial balance does not agree, the accountant may have to face great difficulty in tracing the errors causing non-agreement of the trial balance. Therefore, in order to reduce the trouble and time involved in locating such errors there are two methods. They are:

1. Sectional Balancing Ledgers
2. Self-Balancing Ledgers

Sectional Balancing System: Under this system three ledgers are maintained. They are Debtors Ledger, Creditors Ledger and General Ledger.

Procedure:

- a) Under sectional balancing system, only two additional accounts
 - (i) Total Debtors Account; and
 - (ii) Total Creditors Account is kept in the General Ledger but no Control account / Adjustment account will be opened in the subsidiary ledger.
- b) The individual debtor and creditor accounts would be maintained in the Debtors and Creditors Ledger respectively.
- c) After recording all the transactions according to the entries given below, the balance in the Total Debtors Account and total creditors Account should be equal to the total of balances shown by the accounts of individual customers.

Conclusion: A difference would show that there is some error somewhere. Same is the case with Creditors Ledger. 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.

Accounting Treatment:

Transaction	Entries in the General Ledger	Entries in Debtors Ledger
Credit Sales	Total Debtors Account Dr To Sales Account (with total of Sales Book)	Debit Customers (individually)
Cash received from customers	Cash A/c Dr To Total Debtors Account (with total of special column in Cash Book)	Credit Customers (individually)
Discount allowed to customers	Discount Account Dr To Total Debtors Account (with total of discount column in Cash Book)	Credit Customers (individually)

Sales Returns from customers	Sales Returns Account Dr To Total Debtors Account (with total of Sales Returns Book)	Credit Customers (individually)
Bills receivable received from customers	Bills Receivable Account Dr To Total Debtors Account (with total of Bills Receivable Book)	Credit Customers (individually)
Bills receivable from customers dishonoured	Total Debtors Account Dr To bill receivable A/c (with total of special column in Bills Receivable Book)	Debit Customers (individually)
Bad debts	Bad Debts Account Dr To Total Debtors Account (with amount ascertained by analysis of special column in Journal)	Credit Customers (individually)

Scheme of entries to record transaction relating to trade creditors in the General Ledger and Creditors Ledger are as follows:

Transactions	In General Ledger	In Creditors Ledger
Credit Purchases	Purchases Account Dr To Total Creditors Account (with total of Purchases Book)	Credit Suppliers (individually)
Cash paid to suppliers	Total Creditors Account Dr To Cash (with total of special column on the credit side of cash Book) No Cash Account is prepared, Cash Book entries are made with individual amounts	Debit suppliers (individually)
Discount received from suppliers	Total Creditors Account Dr To Discount Account (with total of discount column on credit side of Cash book)	-do-
Bills payable issued to suppliers	Total Creditors Account Dr To Bills payable Account (with total of Bills payable Book)	-do-
Goods returned to Suppliers	Total Creditors Account Dr To Purchases Returns Account (with total of Purchases Returns Books)	-do-

Self Balancing Ledgers: Under self balancing system ledgers are broadly classified into Sales Ledger / Debtors Ledger, Bought Ledger / Creditors Ledger and General Ledger.

Procedure:

- Normally, the accounts of individual debtors are maintained recording credit sales, cash collections, discount, bad debts etc, in Debtors Ledgers 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 the 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.
 - Bought Ledger Adjustment Account / Creditors Ledger Adjustment Account
 - Sales Ledger Adjustment Account / Debtors Ledger Adjustment Account
- In this way, all the ledgers General Ledger, Sales Ledger and Bought Ledger are made self-balanced.

Conclusion: 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 system is to identify errors and to facilitate their quick detection with the minimum of effort.

Accounting Treatment:

	Entries are made on regular basis	Entries are to be made periodically
Transaction	Entry to record transaction	Adjustment Entry (in total)
Credit sales	Individual Customers (DL) Dr To Sales A/c (GL)	Debtors Ledger Adj. A/c (GL) Dr To General Ledger Adj. A/c (in DL)
Sales returns	Sales Returns A/c (GL) Dr To Individual Customer (DL)	General Ledger Adj. A/c (DL) Dr To Debtors Ledger Adj. A/c (GL)
Cash received from customers	Cash A/c (GL) Dr To Individual Customers (DL)	- do -
Discount allowed to customers	Discount A/c (GL) Dr To Individual Customers (DL)	- do -
Bad debts	Bad Debts A/c (GL) Dr To Individual Customers (DL)	- do -
B/R received from customers	Bills Receivable A/c (GL) Dr To Individual Customers (DL)	- do -
B/R Dishonoured	Individual Customers (DL) Dr To Bills Receivable A/c (GL)	Debtors Ledger Adj. A/c (GL) Dr To General Ledger Adj. A/c (DL)
Credit purchases	Purchases A/c (GL) Dr To Individual Suppliers (CL)	General Ledger Adj. A/c (CL) Dr To Creditors Ledger Adj. A/c (GL)
Cash paid to suppliers	Individual Suppliers (CL) Dr To Cash (GL)	Creditors Ledger Adj. A/c (GL) Dr To General Ledger Adj. A/c (CL)
Discount allowed by suppliers	Individual Suppliers (CL) Dr To Discount A/c (GL)	- do -
Returns to suppliers	Individual Suppliers (CL) Dr To P/ R A/c (GL)	- do -
Bills payable issued to Suppliers	Individual Suppliers (CL) Dr To Bills Payable A/c (GL)	- do -
Cash received from Supplies for returns After settlement etc.	Cash A/c (GL) Dr To Individual Suppliers (CL)	General Ledger Adj. A/c (CL) Dr To Creditors Ledger Adj. A/c (GL)

PROBLEMS FOR CLASSROOM DISCUSSION

Problem 1: (PRINTED SOLUTION AVAILABLE) Preparation of Debtors A/c in general ledger: From the following information prepare a Total Debtors Account as appearing in the General ledgers in the Books of M/s Shukla and Company.

Debit balance as on 1.7.2014, Rs.87,200; Credit balance as on 1.7.2014 in Debtors Account Rs.600.

Transactions during 6 months ended on 31.12.2014:

Total sales were Rs.94,000 including cash sales of Rs.4,000. Debtors whose balances were in credit were paid off Rs.600. Payments received by cheques from Debtors Rs.60,000. Payments received by cash from Debtors Rs.48,000. Payment received by bills receivable Rs.26,000.

Bills receivable received from Debtors were dishonored for Rs.6,000 and noting charges of Rs.60 were paid. Cheques received from customers were dishonoured for Rs.800.

Out of bills receivable received and included in Rs.26,000 above, bills of Rs.5,000 were endorsed to suppliers.

Bad debts written-off during the period were Rs.1,000. Discount allowed for prompt payment were Rs.700 and bad debts written off in 2013 and now recovered from debtors amounted to Rs.900.

Interest debited for delay in payments were Rs.1,250. On 31.12.2014 provision for doubtful debts was created for Rs.2,100. M/s Trial & Co.'s account appeared in Debtors Ledger and also in Creditors Ledger. The balance in Creditors Ledger was Rs.900 and the same was transferred to Debtors Ledger. Goods of Rs.2,760 were rejected by the customers. (SM)

(Solve problem no 1 of assignment problems as rework)

(Ans.: Closing Balance Rs.45,950)

Note: _____

Problem 2: (PRINTED SOLUTION AVAILABLE) Prepare the Debtors A/C & Creditors A/C: The following particulars are obtained from books of a Self Ltd. for the year ended 31st March, 2015:

Particulars	Rs.	Particulars	Rs.
Cash Sales	25,000	Bills Receivable dishonoured	2,500
Credit Purchases	2,80,000	Return Inward	8,500
Collection from Debtors	4,25,000	Payments to creditors	1,62,000
Bills Receivable drawn	20,000	Discount allowed	3,000
Discount Received	2,500	Debtors cheque returned dishonoured	7,500
Cash Purchases	12,000	Credit Sales	4,90,000
Bills Payable paid	6,500	Bills Receivables collected	10,000
Recovery of Bad Debts	1,500	Return outward	3,700
Bills Receivable discounted with Bank	8,000	Bills Receivable endorsed to Creditors	7,900
Interest charged on overdue Customer's Accounts	1,200	Overpayments refunded by Suppliers	600
Endorsed Bills Receivable dishonoured (noting charges Rs.75)	5,500	Bad Debts	1000
Bills Payable accepted	16,000	Opening Balances:	
		Sundry Debtors	78,000
		Sundry Creditors	85,000

You are required to prepare the Total Debtors Account and Total Creditors Account.

(Nov 16) (SM)

(Ans: Balance of total debtors Account 1,27,275, Balance of total creditor Account 1,79,075.)

(Solve problem no 2 of assignment problems as rework)

Note: _____

Problem 3: Preparation of Ledger Accounts in their respective ledgers: Show the relevant adjustment accounts after passing the necessary journal entries on the basis of following relating to the books of a firm which maintains self-balancing ledgers:

Particulars	Rs.
Total balances of Trade Debtors as on 1 st January, 2015	18,700
Total balances of Trade Creditors as on 1 st January, 2015	23,560

Transactions during January, 2015:	
Credit Sales	19,700
Cash received from Trade Debtors	9,800
Discount Allowed to Trade debtors	200
Bills Receivable received from Trade Debtors	12,000
Bills Receivable received from Trade Debtors dishonoured	1,000
Credit Purchases	25,560
Cash Paid to Trade Creditors	28,800
Discount received from Trade Creditors	1,200

(Ans.: Total of General ledger adjustment a/c is Rs.39,400)

Note: _____

Problem 4: (Printed Solution Available) Preparation of GLA A/c in Debtors ledger: A business concern maintains self-balancing ledgers. On the basis of following information, prepare General Ledger Adjustment Account in Debtors Ledger for the month of April, 2012:

Particulars	Rs.
Debit balances in Debtors Ledger on 01-04-2012	3,58,200
Credit balances in Debtors Ledger on 01-04-2012	9,400
Transactions during the month of April, 2012 are:	
Total Sales (including Cash Sales, Rs. 1,00,000)	20,95,400
Sales Returns	33,100
Cash received from credit debtors	17,25,700
Bills Receivable received from debtors	95,000
Bills Receivable dishonoured	7,500
Cash paid to debtors for returns	6,000
Transfers to Creditors Ledger	16,000
Credit balances in Debtors Ledger on 30-04-2012	9,800

(PM) (Ans: Balance of general ledger adjustment a/c Rs.4,97,700)

(Solve problem no 3 of assignment problems as rework)

Note: _____

Problem 5: Preparation of GLA in DL and CL: Prepare the General Ledger Adjustment Accounts as will appear in the Debtors and Creditors Ledger from the information given below:

Particulars	Dr.	Cr.
Balances as on 1-4-2010 Debtor's Ledger	47,200	240
Creditor's Ledger	280	26,300
Transaction for the year ended 31.3.11		
Total Sales		1,20,000
Cash Sales		8,000
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
Bills Receivables Discounted		5,000

Bills Receivables Endorsed to Creditors		4,000
Endorsed Bills Dishonoured		1,000
Bad Debts Written off (After deducting bad debts recovered Rs.300)		2,200
Provision for Doubtful Debts		550
Transfer from Debtors Ledger to Creditors Ledger		1,100
Transfer from Creditors Ledger to Debtors Ledger		1,900
Balances on 31.3.11:		
Debtors Ledger (Cr.)		380
Creditors Ledger (Dr.)	420	

(May-1999,PM) (Solve problem no 4 of assignment problems as rework)

(Ans.: In Debtors Ledger – GLA Balance Rs.1,61,980; In Creditors Ledger – GLA Balance Rs.40,140)

Note: _____

Problem 6: (PRINTED SOLUTION AVAILABLE) Preparation of DLA A/c: 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:

- Total sales amounted to Rs.1,80,000 including the sale of old Xerox machine for Rs.4,800 (book value Rs.8,000). The total cash sales were 80% less than the total credit sales.
- 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.
- 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.
- 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.
- Sundry debtors as on 1.1.2011 stood at Rs.50,000.

(PM)(May-2000)

(Ans.: Balance of debtor ledger adjustment Account 14,800)

(Solve problem no 5 of assignment problems as rework)

Note: _____

Problem 7: (Printed Solution Available) Preparation of relevant adjustment when information given date-wise: From the following particulars, prepare the Creditors' Ledger Adjustment Account as would, appear in the General Ledger of Mr. Sathish for the month of March 2014.

Date	Particulars
1	Purchase from Mr. Akash Rs. 7,500
3	Paid Rs. 3000 after adjusting the initial advance in full to Mr. Akash
10	Paid Rs. 2,500 to Mr. Dev towards the purchases made in February in full.
12	Paid advance to Mr. Giridhar Rs. 6,000
14	Purchase goods from Mr. Akash Rs. 6,200
20	Returned goods worth Rs. 1,000 to Mr. Akash
24	Settled the balance due to Mr. Akash at a discount of 5%.
26	Goods purchased from Mr. Giridhar against the advance paid already
29	Purchased from Mr. Nathan Rs. 3,500
30	Goods returned to Mr. Prem 1,200. The goods were originally purchased for cash in the month of February 2014.

(PM) (Ans: Balance in creditors ledger Rs.3,500)

(Solve problem no 6 of assignment problems as rework)

Note: _____

Problem 8: Rectification Entries in Self Balancing Ledger: Show rectifying journal entries for the following errors when (a) Sectional Ledgers and (b) Self-balancing Ledgers are maintained.

1. A credit purchase of Rs.1,000 is entered in Sales Book, the suppliers of goods being Goodluck Co. Ltd.
2. Sales Book is found undercast by Rs.100.
3. Cash Received from a customer Mahendra Rs.1,870 is debited to Mohinder a supplier in Creditors Ledger. Entry in the Cash Book is correct.
4. A discount of Rs.125 received from a supplier has not been recorded in the Cash Book although the account of the supplier has been debited with Cash paid as well as discount received.
5. Rs.220, the amount of wages spent on installation of a new machinery has been debited to Wages A/c.

(May - 2013 Similar problem)

(Solve problem no 7 of assignment problems as rework)

Note: _____

ASSIGNMENT PROBLEMS

Problem 1: Preparation of debtors A/c in general ledger: On 1st October 2011, the debit balances of debtors account is Rs.77,500 in the books of M/s Zee limited. Transactions during the 6months ended on 31st March 2012 were as follows:

Particulars	Rs.
Total sales (including cash sale Rs.14,000)	84,000
Payment received from debtors in cash	38,000
Bills receivable received	26,000
Discount allowed to customers for prompt payment	1,000
Goods rejected and returned back by the customer	2,550
Bad debts recovered (written off in 2010)	900
Interest debited for delay in payment	1,250

Out of the bills received, bills of Rs.8,500 were dishonoured on due dates and noting charges paid Rs.250. Bills of Rs.5,000 were endorsed to the suppliers.

You are required to prepare a Debtors Ledger adjustment account for the period ending 31st March in the General ledger of M/s Zee Ltd. (PM) (Ans: Balance in DLA A/C Rs.89,950)

Problem 2: Prepare the Total Debtors A/C & Total creditors A/C: The following particulars are obtained from books of Z Ltd. for the year ended 31st March, 2015:

Particulars	Rs.	Particulars	Rs.
Cash Sales	75,000	Bills Receivable dishonoured	2,500
Credit Purchases	2,80,000	Returns Inward	10,500
Collection from Debtors	5,00,000	Payment to creditors	2,62,000
Bills Receivable drawn	20,000	Discount allowed by creditors	3,000
Discount Received	5,000	Debtors' cheque returned dishonoured	7,000
Cash Purchases	72,000	Credit Sales	5,25,000
Bills Payable paid	6,500	Bills Receivables collected	10,000
Recovery of Bad Debts	1,500	Returns outward	3,700
Bills Receivable discounted with Bank	8,000	Bills Receivable endorsed to Creditors	7,900

Interest charged on overdue Customer's Accounts	1,200	Overpayments refunded by Suppliers	600
Endorsed Bills Receivable dishonoured	5,500	Bad Debts	1,000
Bills Payable accepted	16,000	Opening Balances: Sundry Debtors Sundry Creditors	78,000 85,000

You are required to prepare the Total Debtors Account and Total Creditors Account.

(SM) (Ans: Balance in Total debtors a/c Rs.87,700 & Balance in Total creditors A/c Rs.73,500)

Problem 3: Preparation of GLA in DL: Gupta Traders keep their ledgers on the self balancing system. They provide you the following information for the year ended 31st March, 2010:

Particulars	Amount
Debtors Ledger balance on 1 st April, 2009	1,37,250
Credit sales	68,100
Returns inward	1,200
Returns outward	1,800
Cash received from debtors	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.

(PM) (Ans: Balance in general ledger adjustment A/c Rs.97,950)

Problem 4: Preparation of sales ledger adjustment A/c: From the following information, prepare Sales Ledger Adjustment A/c in the General Ledger:

Particulars	Amount
On 1.4.2010: Balance in sales ledger (Dr.)	1,41,880
(Cr.)	2,240
On 31.3.2011:	
Total sales	7,68,000
Cash sales	40,000
Sales return	10,000
Cash received from debtors	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
B/R received	40,000
Reserve for doubtful debts	9,160
Cash paid to customer	1,840
Bills received dishonoured	6,000
Sales ledger balance (Dr.)	1,83,200
Sales ledger balance (Cr.)	13,720

(PM) (Ans: Total of Sales ledger Adjustment A/c Rs.8,91,440)

Problem 5: Preparation of DLA A/c : The following information is available from the book of a trader from January 1 to March 31, 2013:

- Total sales amounted to Rs.60,000 including the sale of old furniture for Rs.1,200 (book value Rs.3,500). The total cash sales were 80% less than the total credit sales.
- Cash collection from debtors amounted to 60% of the aggregate of the opening debtors and credit sales for the period. Debtors were allowed cash discount for Rs.2,600.

3. Bills Receivable drawn during three months totalled Rs.6,000 of which bills amounting to Rs.3,000 were endorsed in favour of suppliers. Out of these endorsed B/R, a B/R for Rs.600 was dishonoured for non-payment, as the party became insolvent, his estate realising nothing.
4. Purchases totalled Rs.16,000 of which 10% was for cash.
5. A cheque received from a customer for Rs.6,000 was dishonoured; a sum of Rs.500 is irrecoverable: Bad Debts written off in the earlier years realised Rs.2,500.
6. Sundry debtors, as on 1st January, 2013 stood at Rs.40,000

You are required to show the Debtors' Ledger Adjustment Account in the General Ledger.

(Nov-2010 Similar Problem, SM)

(Ans.: Balance of Debtor Ledger adjustment a/c (General Ledger) Rs.32,500)

Problem 6: Preparation of relevant adjustment when information given date-wise: From the following particulars, prepare the relevant adjustment account as would appear in the General Ledger of Mr. Vasu for the month of March, 2015: (SM)

1	Purchase from Mr. X Rs.2,000
2	Paid Rs.1,600 after adjusting the initial advance in full to Mr. X.
13	Paid Rs.1,000 to Mr. R towards the purchases made in February in full.
13	Paid advance to Mr. Y Rs.3,000
14	Purchased goods from Mr. A Rs.4,000
25	Returned goods worth Rs.500 to Mr. A.
26	Settled the balance due to A at a discount of 10 per cent.
27	Goods purchased from Mr. Y Rs.2,500 against advance paid on 13 th .
28	Received back the advance from Mr. P paid on 28 February, 2015, Rs.2,000.
29	Purchased from B Rs.2,000.
30	Goods returned to Q Rs.750. The goods were originally purchased for cash in Feb.

(Ans.: Balance of Creditor Ledger Adjustment A/c (General Ledger) Rs.12,750(Dr) Rs.2000 (Cr))

Problem 7: M/s. Big Systematic Ltd. maintains self-balancing ledgers preparing control accounts at the end of each calendar month.

On 3rd January, 2013 the accountant of the company located the following errors in the books of account:

- i) An amount of Rs. 8,700 received from customer Mehra was credited to Mehta, another customer.
- ii) The sales book for December, 2012 was undercast by Rs. 1,000.
- iii) Goods invoiced at Rs. 15,600 were returned to supplier, M/s Mega Ltd., but no entry was made in the books for this return made on 28th December, 2012.

Pass the necessary Journal Entries to rectify the above mentioned errors.

(PM)

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To **MASTER MINDS**, Guntur

THEORY QUESTIONS

1. Briefly explain the differences between the Self and Sectional Balancing System.
(M99, 06)
2. What do you mean by Self-Balancing ledgers? What are its advantages?
(PM) (M04, 05, 06, N07)
3. State with reasons whether the following statements are true or false:-
 - (a) Purchase Ledger Adjustment Account under sectional balancing system is also known as Creditors ledger Control Account (2000 Nov)
 - (b) Under the self-balancing system the general ledger adjustment account is always opened in the general ledger. (M02)
 - (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. (N02)
 - (d) Sectional balancing ledger system makes the ledgers to balance independently. (2006 Nov)

ABC ANALYSIS

	A Category	B Category	C Category
Class Room Problems	1,2,5,6	3,4	7,8
Assignment Problems	2,4,5	1,3	6,7

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 To **MASTER MINDS**, Guntur

Verified by: Mahesh Sir, G.S.R.Sir
 Executed by: Sai Ram Sir

THE END