

# THEME: THE GENERAL LEDGER

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## **ACCOUNTING TERM: General Ledger**

A ledger is a page that is divided down the middle by a line. Depending on the type of transaction, an entry will be recorded either on the left or right side of the ledger page line. A set of financial statements consists of a Balance Sheet and a Statement of Revenue & Expense (Profit & Loss Statement). There are five primary sections within those financial statements: Assets, Liabilities, Equity, Revenue, and Expense. Each of these sections contains various related individual ledger accounts upon which all the business transactions of the company are recorded. All of the individual ledger accounts, when combined, are called the General Ledger.

## **FEATURE ARTICLE: The Detail Of The General Ledger Report: Your Most Valuable Analytic Tool.**

How in the world could anyone working in accounting get along without a Detail of the General Ledger report? That would be like working with your hands tied and your eyes blindfolded. Without this report you would have a very difficult time determining how a final balance in a particular account was derived. Here is why:

Picture this: Back in the not-to-distant past (before computers really caught on) we accountants recorded each transaction of the business manually into a great big hard-bound, three-leaf binder book with yellow pre-printed ledger pages. Obviously, this was a very time-consuming, tedious process. Each page not only recorded the numbers associated with the transaction, it also recorded where the numbers came from, the date, and, when appropriate, a very brief note to the side describing additional detail. Here is an example of a general ledger account page:

### **Account 1010 – Cash-in-Bank**

<b><u>Date</u></b>	<b><u>Source</u></b>	<b><u>Debit</u></b>	<b><u>Credit</u></b>	<b><u>Balance</u></b>
12/31	Balance Forward			3,450.21
01/05	General Journal pg 2	54.00		3,504.21
01/17	General Journal pg 4		27.00	3,477.21
01/31	Cash Receipts pg1	8,025.34		11,502.55
01/31	Cash Disbursements pg 4		7,945.87	3,556.68

Transactions may come from a variety of journals, but they all pyramid into the General Ledger. I use the word “pyramid” because it is helpful to visualize the shape of a pyramid with all the source documents spread out at the base. The information is being summarized from each document and “migrates” upward to the General Ledger and eventually to the financial statements, which are at the top of the pyramid:

Fin State  
Trial Balance  
General Ledger  
Gen Jour, Cash Rec, Cash Disb, Acct Rec, Acct Pay  
Sales Invoices, Purchase Invoices, Bank Rec, Check Register

If I wanted to find out how a particular balance came to be, all I had to do was look at the detail on the general ledger page. That detail would then tell me which source documents contained the numbers that contributed to the final balance. I did not have search all over kingdom come to find what I was looking for.

Nowadays, your computer accounting software should give you a report of the detail in your General Ledger that is laid out as cleanly and clearly as presented above. Just like you would find in a manual general ledger. The report should not be encumbered with all kinds of other information that makes it hard to decipher. Some software programs don't call this report a Detail of the General Ledger, they call it a transaction report or something similar.

Furthermore, you should be able to print a report for any period your heart desires, for instance: a year-to-date report; from February to July; for just one month; or whatever. You need that flexibility. If you need to see all twelve months of activity for a particular account, then you need to see all twelve months. You should not have to print out each month separately and then manually piece them together. And, if you only need to look at one month, you don't want to have to print out the entire year.

A good report will enable you to use it as an analytic tool to find mistakes. Let's assume that after printing your financial statements you looked at the Cash-in-Bank account and it said the balance was \$3,556.38. Being the good accountant that you are, you verified that balance with the bank reconciliation balance and found that it said the balance should be \$3,583.38. The difference between the two totals is \$27.00. Your first step should be to run a Detail of the General Ledger report for the month, which you do and it is our example above. The first thing you notice is a \$27.00 credit entry. This is suspicious and worth investigating. You can see that this entry came from the General Journal so you turn to page 4. Let's hypothesize and assume that you really meant for this

credit entry to go to Employee Advance, which is 1110. You simply wrote the wrong GL Account number.

We used to call this procedure “smoking out the error”. Sometimes the errors are easy to find, sometimes not so easy. The process consists of verifying the final balances that are on the financial statements. What is in the General Ledger should be what is on the financial statements. Therefore, you must use another document as a means of verifying the account balance. In our example above, we used the Bank Reconciliation. Other documents used to verify balances could be the Accounts Payable Ledger, Accounts Receivable Ledger, Sales Tax Report, Payroll History Report, Inventory Control Report, Notes Payable Amortization Schedule, and so on.

Just like a carpenter who uses a level before nailing up a board, you will want to verify your balances with these other control reports before accepting the financial statements as being correct. If the board isn’t level, the carpenter must figure out why. If an account balance is different than the balance found on the control document, then use your analytical tool called the Detail of the General Ledger Report to discover why.

### **QUESTION: What Is The Difference Between The General Ledger and The Trial Balance?**

There are four reports to think about here:

**Chart of Accounts**  
**General Ledger**  
**Trial Balance**  
**Financial Statements**

The **Chart of Accounts** is exactly what it says. It is simply a list of all the names of the accounts found in the General Ledger whether there is an account balance or not.

The **General Ledger** consists of all the accounts including some that may have a zero balance. As said earlier, all transactions are summarized into these accounts. A detail listing of every entry is recorded in the General Ledger.

The **Trial Balance** consists of a list of each General Ledger account that has a final balance in it. The purpose of the report is to make sure that the debit numbers equal the credit numbers. In the olden days, the Trial Balance was used to verify the balances before preparing the financial statements. In today’s world, this report is basically redundant in that the computer immediately indicates whether the General Ledger is out of balance. Simply running a financial statement and reviewing the account balances from there is often sufficient, eliminating the need for the Trial Balance.

The **Financial Statements** of course, are a listing of all the final balances in the General Ledger, but reformatted into financial statement form giving summary totals and net profit or loss information.

**TIP: Check Your Balances.**

I have been very surprised on occasion to find that my Balance Sheet is not in balance even when my General Ledger indicates the debits equal the credits. How can that be? As it has turned out, I would find that when formatting a group of accounts for the financial statements, I inadvertently left out an account. It depends on the type of accounting software you are using, but it's always a good idea to check to see that your financial reports are in balance. It's a little embarrassing to submit your financial statements to the boss or board of directors, only to find that someone spots that they don't balance. Invariably, the next question is, "What else is wrong with these reports".

Also, make sure that the Net Profit or Loss number on the Statement of Revenue and Expense is the same number listed in the Equity section of your Balance Sheet under Net Profit or Loss. Sometimes little quirks can happen in formatting. Better you find it first.

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