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General Ledger

The general ledger is the core of your company's financial records. These constitute the central "books" of your system, and every transaction flows through the general ledger. These records remain as a permanent track of the history of all financial transactions since day one of the life of your company.

Subledgers and the General Ledger
Your accounting system will have a number of subsidiary ledgers (called subledgers) for items such as cash, accounts receivable, and accounts payable. All the entries that are entered (called posted) to these subledgers will transact through the general ledger account. For example, when a credit sale posted in the account receivable subledger turns into cash due to a payment, the transaction will be posted to the general ledger and the two (cash and accounts receivable) subledgers as well.

There are times when items will go directly to the general ledger without any subledger posting. These are primarily capital financial transactions that have no operational subledgers. These may include items such as capital contributions, loan proceeds, loan repayments (principal), and proceeds from sale of assets. These items will be linked to your balance sheet but not to your profit and loss statement.

Setting up the General Ledger
There are two main issues to understand when setting up the general ledger. One is their linkage to your financial reports, and the other is the establishment of opening balances.

The two primary financial documents of any company are their balance sheet and the profit and loss statement, and both of these are drawn directly from the company's general ledger. The order of how the numerical balances appear is determined by the chart of accounts , but all entries that are entered will appear. The general ledger accrues the balances that make up the line items on these reports, and the changes are reflected in the profit and loss statement as well.

The opening balances that are established on your general ledgers may not always be zero as you might assume. On the asset side, you will have all tangible assets (the value of all machinery, equipment, and inventory) that is available as well as any cash that has been invested as working capital. On the liability side, you will have any bank (or stockholder) loans that were used, as well as trade credit or lease payments that you may have secured in order to start the company. You will also increase your stockholder equity in the amount you have invested, but not loaned to, the business.

The General Ledger Creates an Audit Trail
Don't let the word audit strike fear in your heart; I am not talking about a tax audit. Although, if you are called to respond to an outside audit for any reason, a well-maintained general ledger is essential.

But you will also want an internal trail of transaction so that you can trace any discrepancy (such as double billing or an unrecorded payment) through your own system. You must be able to find the origin of any transaction in order to verify its

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accuracy, and the general ledger is where you will do this.

*** Source [Streetwise finance & Accounting]**
