

Accounts Payable Subsidiary Ledgers

by Sophia



WHAT'S COVERED

This tutorial will cover the accounts payable subsidiary ledger.

Our discussion breaks down as follows:

1. Subsidiary Ledgers: A Review

Recall that subsidiary ledgers are groups of accounts with similar characteristics, such as sales or purchases, that track the transaction detail and account balances of each individual customer or vendor. In other words, it's a tool to track and collect vendor or supplier data.

Subsidiary ledgers are used by a business for the following reasons:

- *Purchasing habits.* Understanding its purchasing habits from its frequent vendors and suppliers
- *Error detection.* Easier to spot errors if we have detailed information about individual accounts
- *Streamline information.* Keep unnecessary details out of its general ledger

Any business that has computerized systems uses subsidiary ledgers so the supplier information can be tracked and stored.

2. Accounts Payable Subsidiary Ledger

The accounts payable subsidiary ledger is a type of subsidiary ledger used to track accounts payable data. Accounts payable is an account that contains the total dollar value of monies owed to suppliers for credit purchases.

Now, the term "unique subsidiary ledger" means that each supplier has their own accounts payable subsidiary ledger. As a business, we're going to have a different accounts payable subsidiary ledger for *each* supplier.

Again, we use the accounts payable subsidiary ledger for purchases made on account, not cash transactions. It's only going to track all the purchases that were made on account.

It's important to note that the total of all of our accounts payable subsidiary ledgers equals our total accounts

payable.

It is not just purchases that are recorded to an accounts payable subsidiary ledger. There are other items that get recorded here as well:

- **Purchase Returns:** This is credit, if credit sale, or cash refund, if cash sale, given to a customer or business when merchandise purchased is flawed or inferior and the customer or business chooses not to keep the merchandise. As a business, a purchase return is when we don't keep the flawed or inferior merchandise and we receive either a credit or a cash refund. This purchase return is contained within the accounts payable subsidiary ledger.
- **Purchase Allowance:** This is a deduction given to a customer or business when merchandise purchased is flawed or inferior and the customer or business chooses to keep the merchandise. So, as a business, if we keep the flawed or inferior merchandise, we'll be given an allowance, which is a deduction received from our supplier. This purchase allowance is tracked in our accounts payable subsidiary ledger.
- **Purchase Discounts and Payments Made**

If any of these items take place, they are entered in their respective separate accounts, and they are also entered in the particular customer's accounts payable subsidiary ledger.



TERMS TO KNOW

Purchase Return

Credit, if credit sale, or cash refund, if cash sale, given to a customer or business when merchandise purchased is flawed or inferior and the customer or business chooses to not keep the merchandise.

Purchase Allowance

A deduction given to a customer or business when merchandise is flawed or inferior and the purchaser chooses to keep the merchandise.



SUMMARY

Today we started with a **review of subsidiary ledgers**. Then, we learned about the **accounts payable subsidiary ledger**, which tracks money owed to individual suppliers for purchases made on account. Keep in mind the important phrase in that definition: *purchases made on account*. Any purchase made on account is going to be tracked in an accounts payable subsidiary ledger for that specific supplier. The accounts payable subsidiary ledger also tracks returns, allowances, discounts, and payments made.

Source: Adapted from Sophia instructor Evan McLaughlin.



TERMS TO KNOW

Purchase Allowance

A deduction given to a customer or business when merchandise is flawed or inferior and the purchaser chooses to keep the merchandise.

Purchase Return

Credit, if credit sale, or cash refund, if cash sale, given to a customer or business when merchandise purchased is flawed or inferior and the customer or business chooses to not keep the merchandise.