

Accounts Receivable Subsidiary Ledgers

by Sophia



WHAT'S COVERED

This lesson will cover the accounts receivable subsidiary ledger.

Our discussion breaks down as follows:

1. Subsidiary Ledgers: A Review

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 organization or business with computerized systems uses accounts payable subsidiary ledgers, so the customer information can be tracked and stored. Again, this will help them to understand the activity of their frequent customers.

2. Accounts Receivable Subsidiary Ledger

The accounts receivable subsidiary ledger is a type of subsidiary ledger used to track accounts receivable data. Accounts receivable is an account that contains the total dollar value of monies owed to the business. Another way to look at it is that it's a total dollar value of monies that a business receives from its sales.

The term "unique subsidiary ledgers" means that each customer has their own accounts receivable subsidiary ledger. For each unique customer, there will be a unique accounts receivable subsidiary ledger.

Now, only customers that are going to have an accounts receivable subsidiary ledger are those that make purchases on account, not cash transactions.

It's important to note that the total of all of our accounts receivable subsidiary ledgers equals our total accounts receivable. This is another check that we can make to verify the accuracy of our information, because all of our accounts receivable subsidiary ledgers, in aggregate, should equal the total balance that we're showing in our accounts receivable account.

It is not just sales to our customers that are recorded to an accounts receivable subsidiary ledger. There are other items that get recorded here as well:

- **Sales Allowance:** This is the seller's recording of a deduction given to a customer or business, when merchandise is flawed or inferior, and the purchaser chooses to keep the merchandise. So, if our customer purchases merchandise that is flawed or inferior, and they choose to keep it, we can give them an allowance in the form of a deduction. This allowance will be recorded in that customer's accounts receivable subsidiary ledger.
- **Sales Return:** This is the seller's recording of a 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. This means that if our customer purchases merchandise from us that is flawed or inferior, and they don't want to keep it, they bring it back to us, and it is a sales return. We would issue them a credit, if it was a credit sale, or a cash refund, if it was a cash sale.
- **Sales Discounts and Payments Made**

Again, if any of these items take place--sales allowance, sales returns, sales discount, or payments made--they are entered in their respective separate accounts, which are tracked separately. These items are also entered in the particular customer's accounts receivable subsidiary ledger.



TERMS TO KNOW

Sales Allowance

The seller's recording of a deduction given to a customer or business when merchandise is flawed or inferior and the purchaser chooses to keep the merchandise.

Sales Return

The seller's recording of a 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.



SUMMARY

Today we began with a **review of subsidiary ledgers**. We focused specifically on a type of subsidiary ledger known as the **accounts receivable subsidiary ledger**, which tracks money owed to the business from customers, for sales made on account. The important distinction is that it tracks information for each individual customer for *sales made on account*. The accounts receivable subsidiary ledger also tracks information about returns, allowances, discounts, and payments made.

Source: Adapted from Sophia instructor Evan McLaughlin.



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