

Sales & Purchases Subsidiary Ledger

by Sophia



WHAT'S COVERED

This tutorial will cover subsidiary ledgers for sales and purchases.

Our discussion breaks down as follows:

1. Subsidiary Ledgers

Subsidiary ledgers are groups of accounts with similar characteristics, such as sales or purchases, that track the transaction detail and account balances for each individual customer or vendor. It's a tool to track and collect customer data, as well as vendor data.

So, why do we use subsidiary ledgers? Well, it helps us to understand our own purchasing habits as a business, as well as the spending habits of our customers. This is for our frequent vendors, meaning the places that we purchase goods from the most, as well as for our frequent customers.

Subsidiary ledgers can also help with error detection. If we have this detailed information about individual accounts, it is easier to spot any errors within those individual accounts.

Subsidiary ledgers also aid in the streamlining of information, allowing us to keep unnecessary information out of the general ledger and maintain that as strictly financial data. The additional information can be reflected on our subsidiary ledgers.

Subsidiary ledgers are used by all businesses with computerized systems, where customer information can be stored and tracked. Customers with store credit cards also have their own subsidiary ledgers.

There are two types of subsidiary ledgers, which we will discuss in detail in the following sections:

- Sales subsidiary ledger
- Purchases subsidiary ledger



TERM TO KNOW

Subsidiary Ledgers

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.

2. Subsidiary Ledgers

The sales subsidiary ledger is used to track sale data. A **sale** is the selling of inventory by a merchandising business. Therefore, the sales subsidiary ledger helps to track data around the selling of inventory by a merchandising business.

With the sales subsidiary ledger, there are going to be unique subsidiary ledgers. This means that each customer has their own unique sales subsidiary ledger containing information about that specific customer.

Sample Sales Subsidiary Ledger

Sales	
Betty Baker	\$ 2,000
Christine Collins	\$ 3,000
Debbie Drake	\$ 2,500
Ellen Engel	\$ 4,700
Florence Fonda	\$ 2,600
	\$ 14,800

Betty Baker	
1/1/2013	\$ 1,250
2/7/2013	\$ 500
3/15/2013	\$ 250
	\$ 2,000

Christine Collins	
1/4/2013	\$ 1,750
2/6/2013	\$ 650
3/18/2013	\$ 600
	\$ 3,000

All of the subsidiary ledgers are for those customers that purchase items on account, *not* cash transactions. The subsidiary ledger tracks all of the merchandise the customer purchases if they purchase it on account, not cash, because a merchandiser can't track any information if the customer purchases the goods with cash.

The total of all sales subsidiary ledgers equal total credit sales. Because the subsidiaries track information on account, the total of all subsidiary ledgers should equal total credit sales.

Now, sales are not the only thing tracked in the sales subsidiary ledger. It is also used to track information about sales discounts, meaning any discounts that a customer receives, in addition to any return allowances for that customer, and any payments made by that customer. Therefore, the sales subsidiary ledger helps to track information about specific customers beyond the sale itself.



TERM TO KNOW

Sale

The selling of inventory by a merchandising business.

3. Purchases Subsidiary Ledger

The other type of subsidiary ledger is the purchases subsidiary ledger. The purchases subsidiary ledger is used to track purchase data. **Purchase** refers to the buying of inventory for resale to customers or assets, such as supplies or equipment, for cash or credit.

Similar to the sales subsidiary ledger, there are going to be unique subsidiary ledgers for each vendor. Each vendor has their own purchases subsidiary ledger--similar to the sales subsidiary ledger--but it is on the purchases side and will contain vendor information, as opposed to customer information.

Sample Purchases Subsidiary Ledger

Purchases	
Carl's Couches	\$ 4,800
Chris' Chairs	\$ 2,765
Collin's Cushions	\$ 1,547
	\$ 9,112

Carl's Couches	
1/18/2013	\$ 2,100
2/27/2013	\$ 1,800
3/11/2013	\$ 900
	\$ 4,800

Chris' Chairs	
1/19/2013	\$ 845
2/12/2013	\$ 855
3/27/2013	\$ 1,065
	\$ 2,765

Also like the sales subsidiary ledger, the purchases subsidiary ledgers are going to track information about purchases made on account. This means that any purchases that are made with a vendor on account will be tracked in the purchases subsidiary ledger--not the cash transactions.

The total of all purchases subsidiary ledgers should equal total credit purchases--the key word being "credit."

Lastly, similar to the sales subsidiary ledger, the purchases subsidiary ledger is used to track purchase discounts, if a merchandiser receives a return and allowance, as well as any payments made by that merchandiser.



TERM TO KNOW

Purchase

The buying of inventory for resale to customers, or assets such as supplies or equipment, for cash or credit.



SUMMARY

Today we learned about **subsidiary ledgers**, which 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. We learned that there are two types of subsidiary ledgers. The information of the customers is tracked in the **sales subsidiary ledger**, and the information about the vendors is tracked in the **purchases subsidiary ledger**.

Source: Adapted from Sophia instructor Evan McLaughlin.



TERMS TO KNOW

Purchase

The buying of inventory for resale to customers, or assets such as supplies or equipment, for cash or credit.

Sale

The selling of inventory by a merchandising business.

Subsidiary Ledgers

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.

