**What are Subsidiary Ledgers?**

The general ledger (chart of accounts) contains the entire list of all accounts available for a business to use in recording its financial transactions. The general ledger contains the control accounts, and the control accounts contain the subsidiary accounts.

A **subsidiary ledger** is a group of related accounts whose combined balances equal the balance in a specific general ledger account. They are supplementary accounts that provide the detail to support the balance in a control account and are used where the control account contains a great deal of information.

The control account is the general ledger account that summarises the subsidiary ledger balances.

A chart of accounts may contain many subsidiary ledgers. Financial reports are created from the data in the general ledger, which in turn is created from the detail included in subsidiary accounts or ledgers.

For example, an accounts receivable (or trade debtors) control account has a subsidiary ledger for accounts receivable, which includes a separate account for each customer who makes purchases. The subsidiary ledgers include information about sales, refunds, discounts, partial payments, work in progress and so on. The combined balance of every account in this subsidiary ledger equals the balance of the accounts receivable control account in the general ledger.

 Accounts Receivable $10,000

 Customer 1 $1,500

 Customer 2 $4,500

 Customer 3 $4,000

## The Importance of Subsidiary Accounts

Managing subsidiary accounts is the process of entering and maintaining the correct detail required for each transaction in each subsidiary account. This ensures that the correct combined total is shown in the general ledger and financial reports.

Understanding, maintaining and verifying the detail contained within the subsidiary accounts are the basis of professional bookkeeping and vital to reconciling balance sheet accounts.

The chart of accounts contains five broad categories of account types: income or revenue, expenses and direct costs, assets, liabilities and equity.

Any one of these categories may have control accounts and subsidiary accounts. Some of the most common ones are accounts receivable, accounts payable, payroll, and inventory.

The required level of detail for each transaction and each account differs from business to business. This is governed by the entity type, industry and required level of reporting for the business owner, tax agent and other advisors. With the increase of add-on solutions being used to supplement online accounting, often detailed subsidiary reports are produced by the add-on solution rather than the accounting software.

**Managing subsidiary ledgers can include:**

* Processing customer purchases, purchase orders, prepayments, returns and credit notes.
* Processing sales, including orders, deposits, cancellations and refunds, via online point of sale programs or retail or wholesale outlets.
* Receiving customer payments via all payment options.
* Processing supplier payments and returns.
* Processing expenses paid by credit card, PayPal or other online payment gateways.
* Checking the GST component of transactions.
* Checking external point-of-sale software is integrating and reporting correctly.
* Processing payroll, ensuring wage categories are linked and reporting to the correct accounts.
* Reconciling bank and balance sheet accounts.
* Producing financial reports.

Having subsidiary ledgers allows financial reports to be run according to various levels of detail.

Other benefits include storing greater detail within multiple accounts, making searching for errors easier, allocating transactions according to types of accounts, jobs or categories, controlling user access to relevant accounts, and extracting details from specific subsidiary ledgers.

Understanding the importance of subsidiary ledgers is crucial to the foundations of your bookkeeping knowledge and becoming an accomplished professional accounting technician.