

Keeping Sales and Purchase Ledgers

Business Information Factsheet

BIF024 · July 2017

Introduction

There are three types of accounting records necessary for the effective financial control of any business - the cash book, the sales ledger and the purchase ledger.

A cash book records any transactions that involve the inflow (receipt) or outflow (payment) of money from a business, and is explained in more detail in BIF030, How to Keep a Manual Cash Book.

A sales ledger records each sale the business invoices for during a month, and each payment the business receives from its customers.

A purchase ledger is used to record all the purchase invoices from suppliers and to show those that are still unpaid. It also helps to account for any VAT that the business could claim back if it is VAT-registered.

Sales and purchase ledgers can be maintained in a simple cash book available from any office stationer. Business owners may prefer to use accounting software, but it is still important to understand the basic process of maintaining sales and purchase ledgers.

This factsheet explains what sales and purchase ledgers are and describes how transactions should be recorded in the ledgers.

The sales ledger

The sales ledger records all sales invoiced in a month. Every time an invoice is issued, it should be recorded in the sales ledger.

A copy of the invoice should be retained, showing:

- The date the invoice was issued.
- The details of the customer and the product or service for which the invoice was issued.
- A unique invoice number.
- The amount charged.

If the business is registered for VAT (see BIF522, An Introduction to Registering for VAT), the invoice must also include:

- The VAT rate applied.
- The amount of VAT.
- The VAT number of the business.

A typical format for a manual sales ledger is shown in Figure 1. There is a column to enter the date when an invoice is paid, so it is easy to see which invoices are outstanding and which need to be pursued at the end of the month.

Date	Customer	Invoice No.	VAT	Net Amount	Total	Date Paid
1 Sept	Jones Wood	9101	200	1,000	1,200	
4 Sept	Nails & Co.	9102	400	2,000	2,400	25 Sept
7 Sept	Bloggs	9103	200	1,000	1,200	26 Sept
12 Sept	Mask Ltd	9104	200	1,000	1,200	
Totals			1,000	5,000	6,000	
Outstanding debtors at the end of September					2,400	

Figure 1 - Sales ledger

Adding up the total invoice values and the value of outstanding debtors (customers who have not yet paid) at the end of each month provides essential financial information for managing the business from month to month.

Debtors who are still outstanding at the end of the month should be carried forward by recording the amount they owe at the bottom of the page. It will be helpful at the end of the following month to add a further line for the debtors who are still outstanding. Unless there are any 'bad debts', (debts that are unlikely to be paid) the debtors figure for any one month will eventually reduce to zero.

The figure for total invoiced sales should be copied to the profit and loss account (see BIF008, A Guide to Understanding Profit and Loss Accounts), while the figure for outstanding debtors should be copied to the balance sheet (see BIF007, A Guide to Understanding Balance Sheets). The totals in the net amount and VAT columns can also be used to complete a VAT return speedily and accurately (see BIF045, An Introduction to Charging and Accounting for VAT).

The purchase ledger

A purchase ledger is used to record all purchase invoices and to show those that are still unpaid. It is also useful for accounting for any VAT that the business could claim back. As with the sales ledger, the VAT figures can be extracted quickly when required.

It is good practice to record purchase invoices (or bills) in the purchase ledger as soon as they arrive. This helps to show which bills are still outstanding and keep track of any money that is still owed to suppliers. Most invoices will have an invoice number provided by the supplier that will allow them to track when the invoice has been paid. This invoice number should be recorded in the purchase ledger.

While it is not essential to use purchase order (PO) numbers in a purchase ledger, allocating a PO reference number to any orders makes it easier to track invoices as they come in, and to identify any purchases that have not yet been invoiced.

Date	Supplier	PO No.	Invoice No.	Total	VAT	Materials	Travel	Premises	Date Paid
1 Sept	Northern Electric	91	14055	96	16			80	
5 Sept	Premier Paper	92	00265	240	40	200			
7 Sept	Andy's Garage	93	14774	48	8		40		25 Sept
12 Sept	Rent	94	00324	500				500	26 Sept
Total				884	64	200	40	580	
Outstanding creditors at the end of September				336					

Figure 2 - Purchase ledger

As with the sales ledger, every time a payment is made against a purchase invoice, it should be noted in the 'date paid' column. It is then very easy, at the end of each month, to note all those invoices that are still outstanding. This will help in the preparation of management accounts.

The total net amounts should be copied to the profit and loss account where they can be recorded under their individual headings. The figure for outstanding creditors should be copied to the balance sheet.

Hints and tips

- Record sales in the sales ledger as soon as invoices are produced.
- Record receipts in the sales ledger as soon as invoices are paid by customers.
- Record purchases in the purchase ledger with a PO number as soon as the order is placed.
- Record payments in the purchase ledger as soon as they are made.
- Reconcile both ledgers every month and transfer the relevant information to the profit and loss account and balance sheet.

Further information

BIF007 A Guide to Understanding Balance Sheets
 BIF008 A Guide to Understanding Profit and Loss Accounts
 BIF030 How to Keep a Manual Cash Book
 BIF045 An Introduction to Charging and Accounting for VAT
 BIF234 An Introduction to VAT (Value Added Tax)
 BIF522 An Introduction to Registering for VAT

Useful contacts

The Institute of Chartered Accountants in England and Wales (ICAEW) is a global professional body representing chartered accountants. It has a searchable directory of accountants on its website.

Tel: (01908) 248250

Website: www.icaew.com

The Institute of Chartered Accountants of Scotland (ICAS) is a global professional body representing chartered accountants. Its website includes a directory of chartered accountants in Scotland.

Tel: (0131) 347 0100

Website: www.icas.org.uk

Chartered Accountants Ireland is a membership organisation representing qualified accountants in Ireland. It has a directory of firms and members on its website.

Tel: (028) 9043 5840 (Northern Ireland office)

Website: www.charteredaccountants.ie

DISCLAIMER While all reasonable efforts have been made, the publisher makes no warranties that this information is accurate and up-to-date and will not be responsible for any errors or omissions in the information nor any consequences of any errors or omissions. Professional advice should be sought where appropriate.

Cobweb Information Ltd, Unit 9 Bankside, The Watermark, Gateshead, NE11 9SY.

Tel: 0191 461 8000 Website: www.cobwebinfo.com