

Subledger vs General Ledger: What's The Difference?



Financial statements are commonplace for any business that does in-house bookkeeping. We rely on the trial balance to show us the perfect match for any given accounting cycle.

The balance sheet gives us a good idea of rates of return. The general ledger allows us to check account balances at any given moment.

Subledger and general ledgers are often confused as being the same thing. The reality is that they are different and they work with each other.

Accountants have been using the sub-ledger to explain parts of the general ledger to their clientele. To understand your general ledger better, you need to have sub-ledgers.

This article will explain what a general ledger and sub-ledger are and how they are different. We will also discuss how this information can help you grow your business.

What Is A General Ledger?

You have probably looked at your general ledger a million times without thinking much about it. It is a journal of all your financial transactions that take place every day.

General ledgers use T accounts to show debits and credits to each account that makes up the ledger. It explains every single transaction that has occurred. If a transaction has been refunded or voided, it is not removed from the ledger but has a reversal entry made.

What general ledger accounts consist of are often based on the nature of the company. Common master accounts include Cash On Hand, Accounts Payable, Accounts Receivable, Income, Expenses, Assets, and Liabilities. Assets are often broken up into current assets and fixed assets.

Fixed assets are items that are long-term (a year or more), such as buildings, vehicles, computers, and heavy equipment. Current assets are short-term items that last less than a year.

The chart of accounts is also known as control accounts. A benefit to these accounts is a built-in checking mechanism that provides information regarding errors and fraud detection. If you have an employee handling all the bookkeeping, you need to rethink the plan. Two or more employees keep fresh eyes on the transactions and ensure accurate reporting.

What Is A Subledger?

A sub-ledger, also known as a subsidiary ledger, is used to understand the numbers associated with your general ledger. Let's say you have \$180,000 in Cash On Hand.

More often than not, that account is the cash you have available in your bank accounts and short-term investments (something you can convert into cash within 90 days). A sub-ledger account will show each bank account and the transactions within it to show why the amount is \$180,000.

Very small businesses, with one bank account and one or two vendors, won't use

subledger accounting. Once a business grows to the point where they have multiple accounts within each of their main five accounts, subledger accounting will become a necessity to keep things running smoothly.

The accounts that are most often associated with subsidiary accounts are:

- Accounts Payable
- Accounts Receivable
- Inventory
- Purchases
- Fixed Assets

This is due to the fact that these accounts have the most transactions than any other accounts in the general ledger.

The purchase ledger, as part of the purchases account, is essential for tracking detailed supplier transactions and outstanding payments.

When it comes to Inventory, items for that account come from the Purchases account. The Inventory account keeps track of the number of items in the warehouse.

When inventory that is outdated or obsolete is written off if unsold or into Accounts Receivable when sold at a discounted rate.

The sales of inventory then affect Accounts Receivable which will also affect Income. There is a separate account for discounts to account for loss of income.

Fixed Assets grow as the business grows. Acquiring new machinery to make a product or a new building for your offices.

Company cars and telephone equipment, anything you can imagine needing will have its own subsidiary account. It is especially important because tracking appreciation and depreciation has an effect on the value of fixed assets.

General Ledger Vs. Subledger

Although we have explained each to you, it can still leave you with questions on how they differ. Here is a quick rundown of how different they are.

A general ledger is your master chart of accounts that shows a list of transactions, you cannot run a business without it. A sub-ledger explains transactions and feeds into the general ledger.

You do not have to have a sub-ledger. However, we find that many small businesses do better when using sub-ledgers.

A sub-ledger has no chart of accounts. A general ledger has a few accounts in the following categories; assets, liabilities, income, expenses, and equity. They also have a few sub-accounts, such as accounts payable and accounts receivable. Accounts are often created as needed.

Such as when obtaining a new loan, bank account, line of credit, or adding a product or service. Sub-ledgers can have a large number of accounts within each main account. If you have five bank accounts, each one will have its own sub-ledger. The same is true for your customer accounts, vendors, credit cards, and assets.

The general ledger shows summaries of your double-entry accounting at any given point in time. A sub-ledger records the detailed information of the summaries of the general ledger.

When performing your accounting duties, every penny must be accounted for. Every asset must be accounted for as well. This will be a lifesaver when applying for loans or enduring an external audit.

A general ledger is not required to balance. It is simply a snapshot of the company's finances.

A sub-ledger must balance in order to reflect correct information regarding the transactions. If it is out of balance, there is a problem. The imbalance must be taken care of immediately or you can find yourself in a financial crisis.

Keeping track of the general ledger is important for general accounting purposes.

Why Use Subledgers?

Sub-ledgers are very important to explain your financial situation. Investors and banks want to know that you have a viable business before providing you with capital.

Let's say they are impressed with your accounts receivable numbers. They will be more impressed by seeing how many customers you have that are currently owing you money. At the same time, your accounts payable can tell them a lot about how you are spending money.

A subledger report explains more about the accounts payable and if you are paying things timely and if you are taking advantage of discounts available to you.

It also helps you understand where your money is coming from and going. Every transaction has to be recorded and you can find problematic accounts that need to be confronted.

You can stop overspending and find suitable areas to cut back on when money is tight. You can also use sub-ledgers to help determine your next years' budget. Don't forget about auditors, they love sub-ledger accounts to help them track transactions to ensure proper recording of information.

Some auditors, such as worker's compensation, only look at specific accounts which will save you time on preparing paperwork.

Another key factor in using subsidiary accounts is that it doesn't bog the general ledger down. If you didn't have such accounts a Trial Balance could become overwhelming with so many accounts being listed.

No one wants to read pages and pages of transactions, so sub-ledgers save the day. Furthermore, you can delegate the accounting processes between more than one employee.

One can post all transactions to the subsidiary ledgers daily and another post to the general ledger monthly. This keeps your accounts protected from potential fraud and simplifies the workload on each employee.

Best Practices For Subledger Accounts

For those that decide to use sub-ledger accounts to improve their understanding of their financial health, there are some things you need to remember to do. By implementing these to your accounting process, you will keep your books balanced and easy to understand.

Always remember to ensure the accounts balance each month. For example, the total amount of all your accounts receivables should be the same number as the total on the general ledger.

If not, you need to go back and find out why. There could be a simple fix as correcting an entry (wrong date or forgetting a credit), enter a missing entry, or making an adjustment journal entry.

This is a task that is not to be put off for quarterly reports or annual reports. By doing it each month, you are ensuring that your accounting records are accurate and up to date.

Complete your closing entries after you have reconciled the sub-ledger accounts. If you do not do this, you could end up having inflated numbers the next month. Inflated numbers are not helpful when it comes to paying taxes. You could end up paying more than you should, or find yourself owing a lot more than planned for. It can also cost you an investor or line of credit.

Let's say your expenses are considerably more than your income. An investor or lender is going to look at that and instantly be concerned about your cash flow.

Furthermore, if your income is overstated, you could get a loan or investor and then be in hot water when it is learned to be untrue. Your business relationships rely on your financial security and honesty is the best policy when it comes to finances.

Limit who has access to subsidiary accounts. You can do this by specific accounts, such as the accounts payable department handling all accounts payable sub-ledger accounts. For smaller businesses, it could be that one or two employees have access to update daily. The Vice-President of Finance should always have access since they are responsible for presenting financial information to auditors, loan officers, investors, and sometimes to the Chairman of the Board.

Conclusion

Sub-ledger accounts are an important part of the small business accounting system. They are the details of the transactions that take place and can show how well you are doing.

Or where you need to be improving. It supports your balance sheet and trial balance, which lenders and investors want to look at. Sometimes, a vendor wants to see it also. While many perform their accounting duties manually, we recommend that you opt for accounting software that features an automated system.

Using automation ensures that every transaction is accounted for as soon as you pay something or receive payment. Your bookkeeper will get notifications if something is off balance and you can generate your reports easily. If there is a problem, it won't take as long to figure out the issue and solve it.

Stop torturing yourself by using antiquated methods! We offer accounting software with automation to free up your time for other important projects. These same systems also protect you against errors and fraudulent entries. Give us a call today so that we can discuss how our service can help you.

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