**Unit Two**

**General and Subsidiary Ledgers**

**Introduction**

This unit is made up of three main sections. In the first part a complete *description of ledgers* is presented. *How the* *ledgers are* *structured and organized* as general and subsidiary ledgers are also discussed.

The unit mainly describes the purpose and format of each ledger and the process of *recording entries in ledgers*. The processes used in posting to the general ledger and in the subsidiary ledgers from all FGE Registers are the same regardless of whether the transactions involve domestic or foreign currency. For simplicity, in this unit, the term Register means local currency transaction register and foreign currency transaction register.

After you complete this unit, you will be able to:

* Analyze the relationship that exists between controlling and subsidiary ledger
* Explain how ledgers in FGE accounting system are structured into general and subsidiary ledger
* Identify the ledgers in FGE accounting system easily based on its organization
* List the activities in finance section at the end of the month and the budget year.

**Description of Ledgers**

A ledger is the entire group of accounts maintained by an accounting unit. The ledger summarizes transactions by accounts. The ledgers summarize the transaction information from registers in the form of accounts that facilitate reporting of financial results. Transactions are recorded in the register, but reports are produced from the ledgers. Two types of ledgers are maintained in the FGE accounting system*: General Ledgers and Subsidiary Ledger* (MOFED and DSAS Project manual, December, 2002).

**General Ledger**

A ledger card is maintained for every account code recorded in the register. Every amount that is entered as either a debit or credit on the Register is also entered to the corresponding debit or credit column of the appropriate ledger card. The aggregate of all such ledger cards is the general ledger. The general ledger is a set of self-balancing ledger cards because at all times the total debits and the total credits recorded in the general ledger are equal. The general ledger is maintained to classify information reported in the Register by respective account codes. All transaction amounts recorded in the Register are entered on ledger cards in the general ledger. The balances for all individual accounts are maintained in the general ledger. Because the general ledger serves as a basis to prove that the net cumulative debit and credit balances of all accounts are equal, the general ledger simplifies and improves the report generation process (MOFED and DSA Project manual, December, 2002).

**Subsidiary Ledger**

The accountant maintains a general ledger for each register. Where more than one BI shares the same bank account, the accounting unit maintains one Register and one general ledger for the bank account. A system of control accounts in the general ledger and supporting subsidiary ledgers is used to maintain sufficient account balance detailed to facilitate management reporting requirements. A control account is an account in the general ledger that maintains the total balance of all related accounts in a subsidiary ledger. A subsidiary ledger is a ledger that is separate from the general ledger and contains transaction details of each control account in the general ledger. Any account in the general ledger that requires more detail than simply the total account balance becomes a control account with a Subsidiary Ledger (MOFED and DSA Project manual, December, 2002).

A ledger card is maintained for every control account code recorded in the general ledger. Either every amount that is entered as a debit or credit on a control account's ledger card in the general ledger is also entered to the corresponding debit or, credit column in the subsidiary ledger card. The aggregate of all subsidiary ledger cards for a single control account is the subsidiary ledger. For example, expenditure account code 6111 salary expense has a ledger card in the general ledger that contains all salary expenses recorded in the transaction register .A set of subsidiary cards, one for each BI, also is maintained for expenditure account code 6111.At all times, the net cumulative balance of debits and credits recorded in the subsidiary ledger is equal to the respective net cumulative balance of debits and credits of the corresponding control account in the general ledger (MOFFED and DSA Project manual, December,2002).

A subsidiary ledger is not a set of self-balancing accounts. Not all debits in a subsidiary ledger are equal to all credits in the subsidiary ledger. A subsidiary ledger's total debits and credits equal the balance in the corresponding control account in the general ledger. The purpose of control accounts and subsidiary ledger accounts is to facilitate the report generation process, minimize the size of the general ledger, and maintain sufficiently detailed records regarding account balances to assist proper financial management. For example, total of advances to staff is a control account in the general ledger, but the amount owed by each staff member is a subsidiary ledger account in the subsidiary ledger. Total of advances to staff is a control account in the general ledger because the reporting requirements require only the total amount of the advances to staff (rather than the amount owed by each staff member). In addition, it is likely that the number of staff members who owe advances is significant, and it may be cumbersome to maintain the amounts owed by each staff member in the general ledger. However, the accounting unit will maintain a record of the amount owed by each staff member in a subsidiary ledger in order to monitor repayment of the amounts owed from each staff member. The accountant maintains a set of subsidiary ledger cards for each control account in the general ledger. However, a subsidiary ledger is not maintained for all accounts in the general ledger. Subsidiary ledgers are only maintained for accounts within the general ledger that requires more detail than simply the total account balance (MOFFED and DSA Project manual, December, 2002).

**Structures and Organization of Ledgers**

This section presents the *structure* of ledgers***,*** *which* is presented to discuss abou**t** *recurrent Expenditure,* revenue, and *other accounts, transfers, cash and cash equivalents, receivables, payables, and letters of credit.* In this section, organizationof ledgers in FGE accounting system will also be discussed. Structure is about the relationship that exists between general and subsidiary ledger and organization is about the systematic grouping in general ledger. You will study this issue in the next presentations.

**Structure of Ledgers**

This section describes when an account in the general ledger is treated as a control account. Two criteria define whether an account code is a control account with a related subsidiary ledger:

* Monthly reporting requirements
* Management and control of the account balance

**Recurrent and Capital Expenditure**

An accounting unit is required to report recurrent and capital expenditures at the level of each BI managed by it. Expenditure control accounts are maintained in the general ledger for each item of expenditure and type of budget. The control account contains information whose detail is shown in the subsidiary ledger. In order to also track and report actual expenditure at the level of each BI managed by the accounting unit, a subsidiary ledger is maintained for each expenditure control account by BI. Accounts in the subsidiary ledger provide information on total expenditures by type of budget and item of expenditure for each BI managed by the accounting unit (MOFED and DSA Project manual, December, 2002).

**Revenue**

An accounting unit is required to report revenue at the level of the accounting unit and not the level of each BI managed by it. In order to record and report actual revenue at the level of the accounting unit, an account should be maintained in the general ledger for each item of revenue by account code. The general ledger provides information on total revenues by item of revenue for the accounting unit as a whole. Since there is no reporting requirement at the level of each BI, a subsidiary ledger is not maintained for items of revenue (MOFED and DSA Project manual, December, 2002).

**Other Accounts**

Other categories of accounts maintained in the general ledger include:

* Transfers
* Cash and Cash Equivalents
* Receivables
* Payables
* Letters of Credit
* Net Assets/Equity

An accounting unit is required to report on accounts in these categories at the level of the accounting unit only and not at the level of each BI managed by it. However, some of these account categories contain control accounts with Subsidiary Ledgers.

**Transfers:**Transfers accounts typically are not control accounts and have no related Subsidiary Ledgers.

**Cash and Cash Equivalents*:*** Cash and Cash Equivalents accounts typically are not control accounts and have no related Subsidiary Ledgers. If the accounting unit controls more than one safe, a Subsidiary Ledger is needed for each safe under the general ledger control account for Cash in Safe(MOFED&DSA Project,December,2002) .

**Receivables, Payables, and Letters of Credit*:*** Receivables, payables, and letters of credit accounts typically are control accounts with related Subsidiary Ledgers. Accounts in the Subsidiary Ledgers identify individual items under the control account (MOFED and DSA Project, December, 2002).

**Organization:** The general ledger is organized into seven broad categories comprising:

* Revenue, Assistance or Loan accounts in sequence of the account codes
* Expenditure accounts in sequence of the account codes
* Transfer accounts in sequence of the account codes
* Asset accounts in sequence of the account codes
* Liability accounts in sequence of the account codes
* Letters of Credit accounts in sequence of the account codes
* Net Asset/Equity account

The subsidiary ledger is organized by the related control account maintained in the General Ledger (MOFED and DSA Project manual, December, 2002).

**Recording Entries in Ledgers**

In this section, you will study the formats of ledgers. The type of information that each entry in the ledger requires from a transaction register is also the focus of your study in the section. Try to get the ledger formats from government institutions found in your area and ask people working in finance section to get clear and practical experience in addition to your reading.

***Recording Transactions into the Ledger Card of the General Ledger***

Each transaction recorded in a register is also recorded in the related general ledger. Each transaction is recorded in two separate ledger cards because two accounts are affected by each transaction. Each account is recorded on its appropriate ledger card in the general ledger immediately after it is recorded in the register. The only source document to the general Ledger is the register.

**Figure 3.1: Ledger Card**

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**MINISTRY OF FINANCE AND ECONOMIC DEVELOPMENT**

**LEDGER CARD**

Public body \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ Code \_\_\_\_\_\_\_ page \_\_\_\_\_\_\_

Program \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_Code \_\_\_\_\_

Sub Agency \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ Code \_\_\_\_\_ Type of Budget \_\_\_\_\_\_\_\_\_\_\_\_\_

Sub-program \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ Code \_\_\_\_\_

Project \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ Code \_\_\_\_\_ account Code\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Source of Finance \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_Code \_\_\_\_\_

Bank Account No.\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ Description \_\_\_\_\_\_\_\_\_\_\_\_\_\_

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| Date | Reference from  Register | | | | Description | Debit | | Credit | | Balance | | | |
| Month | Page | Item no | Date | Debit |  | Credit |  |
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(Source: MOFED&DSA Project manual, December 2002)

The ledger card has two parts:

* Top of the form contains information that identifies the general ledger to which the card belongs, and the specific account code and type of budget recorded on the card.
* The table contains information from the transaction register for computing the balance for the account code/type of budget.

Not all information on the left side at the top of the ledger card is needed for all general ledger cards. The information provided on the left side must be sufficient to uniquely identify the general ledger from all other general ledgers. The detail of information required will vary.

The information on the right side at the top of the ledger card is required to uniquely identify the ledger card from all general ledgers except that the space for description is not necessary for a ledger card in the general ledger.

According to MOFED&DSA Project, the table on the ledger card in the general ledger contains the following features:

* Date is the date that the entry is made in the ledger card, not the date of the transaction.
* Reference from registrar contains sufficient information to uniquely identify the Register source of the entry.
* Description is option. If additional information about the transaction is desired, it should be written here.
* Debit and Credit contains the amount from the Register for the transaction. Every amount that is entered as a debit (or credit) on the register is entered in a corresponding debit (or credit) column of a ledger card in the general ledger.
* Balance is the net cumulative balance of the account. After every transaction is recorded in the debit or credit column of the ledger card in the general ledger, the net cumulative balance of the account is derived by appropriately adding or subtracting the amount of the current transaction from the previous net cumulative debit or credit balance. The purpose of the monthly net cumulative debit and credit balances is to record the net balance in the monthly reports and Trial Balance.

**Recording Transactions into the Foreign Currency Cash Account Ledger Card**

The cash account ledger card for Account Code 4102 "cash at bank in foreign currency" requires a special format. This account code, and only this account code, maintains a balance in Birr and in foreign currency denomination. The same information is recorded in the foreign currency transaction Register.

The foreign currency cash account ledger card is shown in figure 3.2. The foreign currency cash account ledger card is identical to any other ledger card, except that the amount of each transaction recorded from the foreign currency transaction register is recorded on the card twice: once in Birr and once in foreign currency. In addition, the net cumulative balance of the account is kept in both currencies.

**Figure 3.2: Foreign Currency Cash Account Ledger Card**

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**Foreign Currency Cash Account Ledger Card**

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Public Body \_\_\_\_\_\_\_\_\_\_ Code\_\_\_\_\_\_\_

Bank Account No.\_\_\_\_\_\_\_\_\_ Code \_\_\_\_\_\_ Account Code 4102

Donor/lender \_\_\_\_\_\_\_\_\_\_\_\_\_ Code \_\_\_\_\_\_\_\_\_\_\_\_\_

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| Date | Reference from  Register | | | | Description | Cash at Bank (birr) | | | | | Balance | | | | Cash at Bank ((FC) | | | | Balance | | |
| month | Page | Item no | Date |  | Debit | | Credit | | | Debit | | Credit | | Debit | | Credit | | Debit | | Credit |
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(**Source**: MOFED and DSA Project manual, December 2002)

**Recording Transactions into the Ledger Card of the Subsidiary Ledger**

A ledger card in the subsidiary ledger is maintained only for control accounts in the general ledger. Transactions are recorded on the appropriate ledger cards in the subsidiary ledger from the register immediately after they are recorded in the ledger cards in the general ledger. The only source document for the subsidiary ledger is the register. The format of a ledger card in the subsidiary ledger is the same as the format of the ledger card in the general ledger shown in figure 3.1. Ledger cards are printed in two colors. One color of cards should be used for general ledger account only, while the other should be used for all subsidiary ledger accounts. Not all information on the left side at top of the ledger card is needed for all subsidiary ledger cards. The information provided on the left side must be sufficient to uniquely identify the related general ledger. If the subsidiary ledger consists of budgetary institutions, sufficient information to uniquely identify the budgetary institutions is necessary. The detail of information required will vary (MOFED and DSA Project, December 2002).

The information on the right side at the top of the ledger card is required to uniquely identify the control account in the general ledger, except the description. If the subsidiary ledger consists of individual item (such as individual staff for advances or individual letters of credit), sufficient description is necessary to uniquely identify the individual account in the subsidiary ledger.

According to MOFED and DSA Project, the table in the subsidiary ledger contains similar information to that of the general ledger such as date, reference, description, debit and credit sides and balances. After every transaction is recorded in the debit or credit column of the ledger card in the subsidiary ledger, the net cumulative balance of the account is derived by appropriately adding or subtracting the amount of the current transaction from the previous net cumulative debit or credit balance

The net debit and credit cumulative balances on all ledger cards in a subsidiary ledger should be totaled on a monthly basis and compared to the balance on the control account's ledger card in the general ledger. The purpose is to verify the accuracy of the total net balance in the subsidiary ledger with net balance in the control account in the general ledger and to produce accurate monthly reports for expenditure (MOFED and DSA Project, December 2002).

**Month end activities related to General and subsidiary ledgers**

The general ledger account balances must be determined at the end of each month. The total cumulative balance of all debit and credits on all ledger cards in the general ledger must be in balance. Where the net cumulative debits and credits recorded on all ledger cards in the General ledger are imbalance, an error exists. The following types of errors should be verified to balance the general ledger (MOFED and DSA Project manual, December, 2002).

* An incorrect amount is transcribed into the Ledger Card from the Register.
* An amount is incorrectly posted into the credit column of a ledger card in the general ledger instead of into the debit column, and vice versa.
* Only one side (either debit or credit) of a transaction is posted into the general ledger and the other portion (either debit or credit) of he transaction is not posted into the general ledger.
* An arithmetic error has occurred in the computation of the net debit or credit balance of a ledger card in the general ledger.
* Permanent account balances are not carried forward correctly from the previous year.

At the end of each month, the net cumulative debit or credit balance for each ledger card in the subsidiary ledger should be calculated. The total net cumulative debit or credit balance for all ledger cards in the subsidiary ledger must be equal to net cumulative debit or credit balance on the respective control account's ledger card in the general ledger. Where total net cumulative debits or credit balance for all ledger cards in the subsidiary ledger is not equal to the net cumulative debit or credit balance on the respective control account's ledger card in the general ledger, an error exists (MOFED and DSA Project, December, 2002).

The following types of errors should be verified to balance the subsidiary and general ledgers:

* An incorrect amount is transcribed into the ledger from the register.
* An amount incorrectly posted into the credit column of a Ledger Card in the subsidiary ledger instead of into the debit column, and vice versa.
* An arithmetical error has occurred in the computation of the net debit or credit balance of a ledger card in the subsidiary ledger.

Permanent accounts balances are not carried forward correctly form the previous year.

**Year end activities related to General and subsidiary ledgers**

In addition to the monthly routines, at the end of each year, a transfer of the debit or credit balances to the Net Assets/Equity account is required to close the temporary accounts in the general ledger. The temporary accounts are accounts in the following account categories:

* Revenue, Assistance and Loan items comprising account codes 1000 to 3999.
* Expenditure items comprising account codes 6000 to 6999.
* Transfers comprising account codes 4000 to 4099

The closing entry is the last entry made at the end of the fiscal year after all other transactions are captured. The closing entry ensures that temporary accounts start each fiscal year with a zero balance. The general ledger begins each new fiscal year with carry forward balances in the permanent accounts from the previous year (MOFED and DSA Project manual, December, 2002).

At the end of each year, the temporary accounts in the general ledger are closed to the net assets/equity account as described above. Any subsidiary ledger corresponding to a temporary account in the general ledger also is considered closed. A new subsidiary ledger is started each year for each temporary control account. All accounts in the new subsidiary ledger begin the year with a zero balance. Accounts in other account categories are permanent accounts and are not closed each year. These permanent accounts carry their previous year's balance forward to the next fiscal year. Any subsidiary ledgers corresponding to permanent account in the general ledger also carry forward to the next year (MOFED& and DSA Project manual, December, 2002).

**Summary**

Transactions are recorded in the register, but reports are produced from the ledgers. Two types of ledgers are maintained in the FGE accounting system: General ledgers and subsidiary ledgers. Because the general ledger serves as a basis to prove that the net cumulative debit and credit balances of all accounts are equal, the general ledger simplifies and improves the report generation process. The general ledger is organized into seven broad categories comprising in FGE accounting systems.

Any account in the general ledger that requires more detail than simply the total account balance becomes a control account with a subsidiary ledger. The purpose of control accounts and subsidiary ledger accounts is to facilitate the report generation process, minimize the size of the general ledger, and maintain sufficiently detailed records regarding account balances to assist proper financial management.

Based on two criteria that define whether an account code is a control account with a related subsidiary ledger, structure of ledgers in FGE accounting system is summarized as follows:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| ***A: Subsidiary Ledgers for Expenditure Control Accounts*** | | | | |
| Source of Funding | Sub Ledger | | Items | |
| Treasury | Yes | | By BI for each item of  Expenditure/type of budget | |
| Loans | Yes | | By BI for each item of expenditure | |
| Assistance | Yes | | By BI for each item of expenditure/type of budget | |
| ***B: Subsidiary Ledgers for Revenue, Assistance and Loan Accounts*** | | | | |
| Source of Funding | Sub Ledger | | Items | |
| Treasury | No | | Not applicable | |
| Loans | No | | Not applicable | |
| Assistance | No | | Not applicable | |
| ***C: Subsidiary Ledgers for Other Accounts*** | | | | |
| Codes | | Sub Ledger | | Items |
| Cash at Bank | | No | | Not applicable |
| Cash in Safe | | Yes | | By safe, if accounting unit controls more than one safe |
| Transfers | | No | | Not applicable |
| Receivables | | Yes | | By individual item |
| Payables | | Yes | | By individual item |
| Letters of Credit | | Yes | | By individual item |
| Net Assets/Equity | | No | | Not applicable |