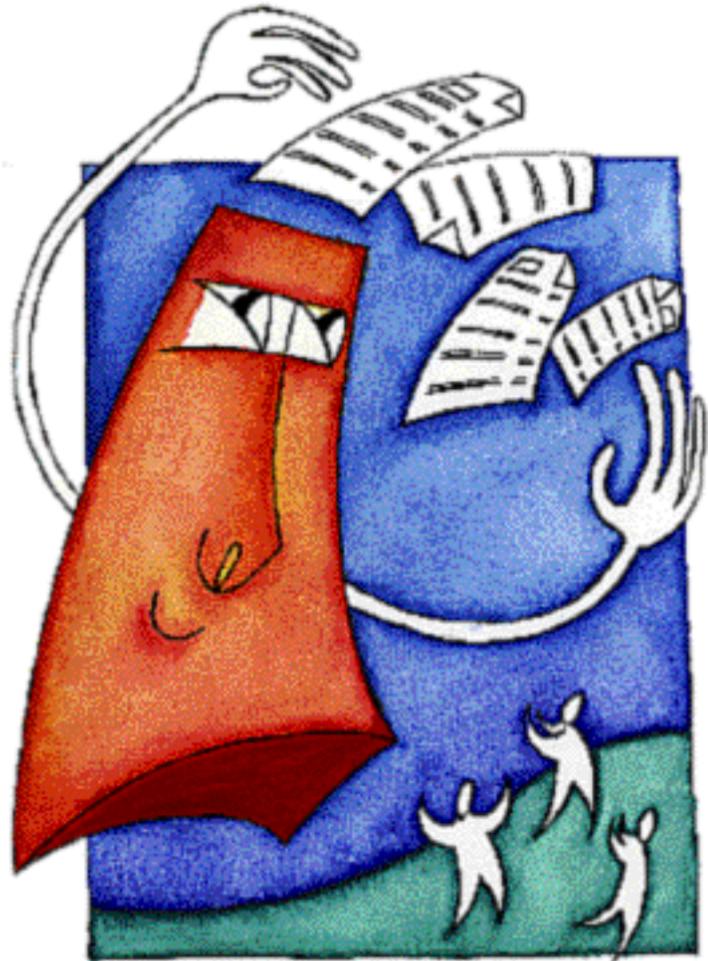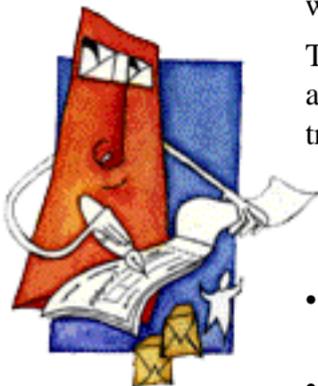*Working with the*

Purchase Ledger

10

Introducing the Purchase Ledger

ALL BUSINESSES ARE CONCERNED WITH PROFITABILITY AND ONE IMPORTANT FACTOR ON THE ROAD TO INCREASED PROFITS IS THE ABILITY TO CONTROL SPENDING.

SOME OF YOUR OVERHEADS MAY BE FIXED SUCH AS RENT AND RATES — BUT MANY OTHER AREAS OF EXPENDITURE CAN BE MANIPULATED WITH BENEFICIAL RESULTS. FOR EXAMPLE…

- If you have a high turnover with a particular supplier, can you negotiate better discounts?

- Can you negotiate and take advantage of Early Settlement terms?

- Are you paying your suppliers too early and causing undue cash flow problems?

- And, perhaps, the ultimate question — are your business costs in danger of costing you out of business altogether?

Before you can answer these questions you need to know what you are spending in the first place — this is where the Purchase Ledger comes into the picture.

This ledger helps you keep up-to-date information about all your purchases and suppliers. The various transactions — in the form of purchase invoices, payments, credit notes and refunds — can be entered against the relevant supplier accounts as they come in. This information is then used to…

- Update the current turnover and outstanding balance for each supplier account.

- Produce an Aged Creditors report — lets you keep track of amounts you owe and for how long.

- Prompt for Suggested Payments to ensure that cash is paid at the right time — neither too late nor too early.

- Update the General Ledger.

However, simply knowing **how much** you owe to **whom** is only the starting point. You need to be able to draw together all your purchase transactions to analyse **where** money is being spent and how these costs are affecting your business finances as a whole. This is done by creating the Purchase Allocation Structure…

The Purchase Allocation Structure

Like its counterpart in the Sales Ledger, the Purchase Allocation Structure consists of a set of analysis records which help you record your business expenditure as follows…
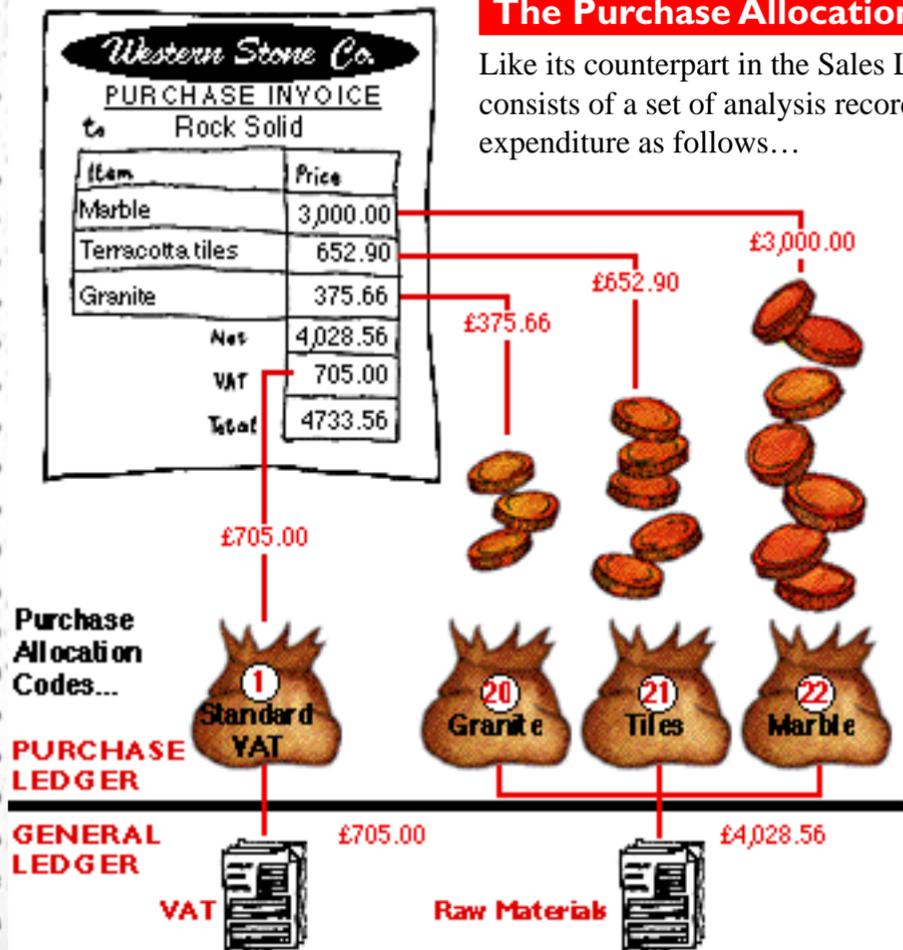
The first, and primary purpose, of each analysis record is to map the value of each type of purchase to the relevant account in the General Ledger. This ensures that the full effect of your business expenditure is correctly summarised on the Balance Sheet and Profit & Loss Account.

The analysis records also feed the value of each purchase to cost categories of your choosing. It is this localised analysis of expenditure which enables you to see where your costs are being incurred.

In addition, to help you save time, each analysis record can be assigned a preset value (for regular purchases) and/or VAT rate which are automatically recalled whenever the code is used. These values may, of course, be amended for each invoice or credit note as required…

The Purchase Allocation Structure (continued)

The first six analysis records (numbered 0 to 5) in the allocation structure are reserved for VAT purposes. These correspond to the VAT rates specified when setting up VAT Rates.

The remaining slots (from number 6 onwards) are used to allocate and analyse the actual purchases. The way in which you choose to allocate expenditure depends on the nature of your business and the level of analysis you require.

You may feel that you already have a sufficient number of expenditure accounts in the General Ledger to provide a satisfactory breakdown of your spending. In that case an allocation structure consisting of one purchase analysis record per General Ledger expenditure account will suffice.

Alternatively, by setting up several analysis records for each General Ledger account, you are able to use the Purchase Ledger to provide an additional sub-analysis of expenditure as shown on the previous page.

VAT rates… …who needs them?

If your business is VAT registered but you have not set up your VAT rates then you should do this before proceeding any further. Turn to Chapter 3 for more information.

Building a Purchase Allocation Structure

Having decided which cost headings you want to use and how they link to the General Ledger, you are now ready to start building the Purchase Allocation Structure.

First open the Purchase Analysis icon from the Bottom Line desktop…

VAT analysis codes

Purchase analysis codes

You now see a list of numbered codes which can be viewed using the vertical scroll facilities.

The first six slots in the allocation structure are occupied by the **VAT analysis records**. When entering purchase invoices and credit notes, it is these record codes that verify the VAT rate as specified in the VAT Details panel…

The VAT analysis titles correspond with the VAT Details panel as described in Chapter 3. It is necessary to open these records to enter the allocation code(s) for the VAT account(s) in the General Ledger.

The remaining slots are available for you to analyse your expenditure in whatever way you require. Before you start creating the analysis structure, it is a good idea to plan a sensible order for your list of purchase categories — leaving gaps for future items.
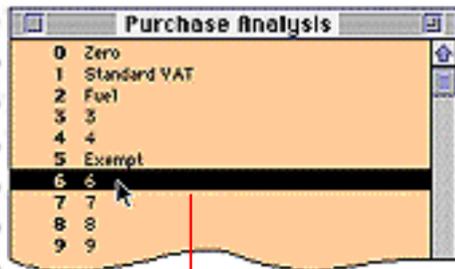
Creating an Analysis Record

To create a new purchase analysis record (or to link a VAT analysis code to its General Ledger account), open the record then enter the relevant details…

Double click the purchase analysis code to open its window…

GL Account Code: Each analysis code establishes a link between the Purchase Ledger and the General Ledger.

Enter the General Ledger account number to be debited or credited whenever this analysis code is used in an Invoice or Credit Note.

Description: Enter a description for this item the way you want it to appear on the Purchase Analysis report or as the peset descriptions in invoices.

Account numbers

You can open the Expenditure or Asset windows and display their contents using the By Name option to provide quick reference to the account numbers.

Preset Values: These settings allow you to specify preset costs and/or VAT rates which automatically appear whenever you use this code in an invoice or credit note.

Click here to assign preset values to this record then…

…enter the preset amount (excluding VAT)…

…and/or specify the VAT code to be applied whenever this analysis code is used.

Historical Purchase Analysis Figures

Purchases This Year: If you are switching to Bottom Line part way through your financial year, you can enter the costs already incurred for this purchase category for the year to date.

You will see either 12 or 13 entry boxes, depending on whether you are using monthly or four weekly accounting periods. Use these boxes to enter the purchase amounts (excluding VAT) for the relevant periods to date.

Purchases Last Year: If you want the purchase analysis figures to include information from your previous financial year then enter the historical purchase amounts for each period in the previous year.

Analysis Record

Analysis code:	6
Description:	Delivery costs
GL Acct code:	71500

Purchase Analysis

Preset Values

☒ Use Preset Values

Amount: 25.00   **VAT code:** 1

Purchases this year:

1	100.00	4	200.00	7	0.00	10	0.00
2	175.00	5	125.00	8	0.00	11	0.00
3	125.00	6	0.00	9	0.00	12	0.00

Purchases last year:

1	0.00	4	46.49	7	0.00	10	0.00
2	0.00	5	0.00	8	129.19	11	104.25
3	50.00	6	116.95	9	0.00	12	130.00

Save   Ignore   Close

Historical purchase amounts

The preceding historic purchase values are designed to provide historical information about purchases. Note the following points:

- Before setting up these values, wait until you have entered all open items in the Purchase Ledger.
- The information is not essential to the operation of the accounts and can be ignored
- Bottom Line maintains the values for future periods.
- These values are only optional and can be entered at a later date.

What about historic VAT amounts?

If you want to include historic VAT information in your purchase analyses then, when setting up each VAT analysis record use the Purchases This Year and Purchases Last Year boxes to record the amount of input tax already claimed for each period. As with historical purchases, historical VAT analysis figures should only be entered **after** all open items have been posted.

Bear in mind that, if you are using 4 weekly accounting periods, the **period** totals you enter here may not be the same as the **monthly** totals you have already entered in the VAT Amounts panel (as described in Chapter 14). The latter are used solely to produce your VAT Return figures on a monthly basis and therefore, relate to periods longer than 4 weeks.

The periodic VAT analysis figures, on the other hand, provide a more detailed breakdown of input tax. This information is particularly useful when preparing cash flow forecasts.

Saving the Purchase Analysis Record

Having entered the relevant details, you can now decide whether to save the information you have just entered…

Click here to close the window. If there are any un-saved changes, you will see the dialogue box described at the bottom of this page.

Analysis Record

Analysis code: 6
Description: Delivery costs
GL Acct code: 71500

Purchase Analysis

Purchases last year:

1	0.00	4	46.49	7	0.00	10	0.00
2	0.00	5	0.00	8	129.19	11	104.25
3	50.00	6	116.95	9	0.00	12	130.00

Save | Ignore | Close

…OR, click **Close** to close the window. If any thing is un-saved, you see this panel…

… OR, click **Ignore** to erase the changes and close the window.

Click **Save** to save the new record or changes in the purchase allocation structure…

> ### Modifying an analysis record
>
> If at any time, you need to change an analysis record —for example, to update the preset details, enter historical amounts or to re-link it to a different General Ledger account — open the Purchase Analysis window then double click the relevant code to open it. The analysis details are now displayed and you are free to add information or modify the existing entries as required

⚠ **Do you want to save the changes to this window?**

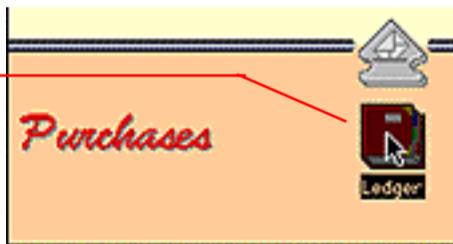[Don't Save] [Cancel] [Save]

Click here to ignore un-saved changes…

…OR Cancel to return to the window…

… OR, Save to save the new record or changes.

Purchase Account Details

Finally, you should now enter the standard account details needed by the Purchase Ledger. These details are accessed from the Purchase menu…

Click the Purchase Ledger icon to select it.

Purchase Control: Your accounts structure should include a Purchase Control account — as mentioned in Chapter 2. This account contains the balance of all moneys owed by the business to its suppliers in the Purchase Ledger. It works like this…

When you post a purchase invoice to the General Ledger, **you** specify (via the purchase analysis codes used) which Asset or Expenditure account is to be debited — while Bottom Line takes care of the other side of the equation by crediting the relevant amount from the Purchase Control Account.

When you post a supplier payment (or prepayment), the amount is credited from your Cash account and this is automatically balanced by a corresponding debit to the Purchase Control Account.

Enter the number of the General Ledger account to be used to balance all postings from the Purchase Ledger.

Purchase

Purchase Account Details... ⌘D

Enter Invoice... ⌘I
Enter Credit Note...
Enter Payments... ⌘V
Enter Refund...
Enter Other Transactions...
Allocate Unallocated Cash...
Automatic Payment...
Generate Automatic Invoice...

Clear Allocated Transactions

Choose Purchase Account Details from the Purchase menu.

Purchase Ledger – Account Details

General Ledger accounts

Purchase Control:	20500
Early Settlement Discount:	52900
Cash Payments:	16300
Payments by Cheque:	16200
Payments by Credit Card:	16100
Standing Order Payments:	16100
Next Remittance Advice no:	109
Next Invoice/Credit Note no:	117

[Cancel] [OK]

Purchase Account Details (continued)

Early Settlement Discount: Taking advantage of early settlement discounts is explained in the next chapter. This is where you enter the number of the General Ledger account to which all Early Settlement Discounts will be posted.

All for one… …and one for all

Depending on the complexity of your General Ledger accounts structure you may decide to use a single Cash account to record all payments, irrespective of their nature. In these circumstances, enter the same General Ledger account number in all four payment boxes below.

Purchase Ledger - Account Details

General Ledger accounts

Purchase Control:	20500
Early Settlement Discount:	52900
Cash Payments:	16300
Payments by Cheque:	16200
Payments by Credit Card:	16100
Standing Order Payments:	16100
Next Remittance Advice no:	109
Next Invoice/Credit Note no:	117

[Cancel] [OK]

Click OK to accept the details.

Accounts for Payments: When entering a supplier payment (or prepayment), you are able to specify four different methods of payment — Cash, Cheque, Credit Card or Standing Order. Use these four entry boxes to specify the General Ledger cash account to be used for each type of payment as shown opposite.

Next Numbers: To help you keep track of your purchase transactions, Bottom Line automatically generates an internal reference number for each purchase invoice and credit note entered.

It also numbers the Remittance Advice Notes which are generated whenever a payment (or prepayment) is entered.

Use these two entry boxes to enter the number from which the transactions should start.

next chapter