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The Role of Subsidiary Ledgers in The Company's Financial Reporting

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Abstract

The general ledger provides account information that can control the general ledger that can be used when there is transaction information that does not provide clear information to the company. Usually, small companies do not need a general ledger because the subsidiary ledgers usually manage every transaction that occurs in several children. Certain accounts are also described in the role of the subsidiary ledger previously contained in the company's main ledger. Subsidiary ledgers will be used when the company is still using manual systems in compiling financial reports, so usually the general ledger will be used by large companies. This is done by large companies when the company is already using a good accounting program. Subsidiary ledgers can be managed in almost any general ledger account at the parent company. However, it is usually only made for areas where there is a high transaction volume which limits its use in some areas.

Keywords : *Subsidiary Ledger, General Ledger Controller, High Transaction.*

1. INTRODUCTION

A subsidiary is a company controlled by the parent company. The subsidiary acts and operates as its own entity, but will still be connected to the parent company. The parent company can create a subsidiary in one of the ways, namely by creating from within the company or by acquiring control of an external entity. There are several advantages to a parent company in acquiring or forming a subsidiary. For example, a company may find additional resources that other companies can provide, it may wish to enter a new market dominated by another company, or a multi-brand company may create subsidiaries to keep its brand identity separate and increase brand recognition.

From a financial perspective, there are other problems that can affect the formation of subsidiaries, namely when a company wants to sell an unprofitable centre without disrupting overall business operations. In this case, setting it up as a subsidiary and then selling it will accomplish that goal. A company can also raise capital by selling shares in the subsidiary without affecting the shares of the parent company. In the financial reporting process, subsidiaries also allow companies to keep certain business operations and uses under SEC requirements confidential by keeping the subsidiaries private. This is especially beneficial when a company is developing a new product.

Financial statements are prepared in the same way for a subsidiary as for a parent company (Kadirbayevich, 2021). However, apart from that, a consolidated balance sheet is also prepared. This is a consolidated report report of the parent company and all of its subsidiaries. Consolidated financial statements provide an overview of how well the entire company is managed and are useful in assessing the company as a whole. Shares held by outsiders are shown on the balance sheet as items. The consolidated balance sheet also includes foreign subsidiaries. However, it is difficult to convert the financial statements of foreign subsidiaries back to the eyes of the company.

When a company is listed on a stock exchange, the information found on its financial statements is consolidated. Consolidated financial statements are very important for shareholders, managers, and directors of the parent company. Each subsidiary gains from the income and strengths of the parent company whereas the parent company suffers from the company's losses from any weaknesses or losses of the subsidiary. However, consolidated statements are only used on a limited basis by creditors or minor shareholders of subsidiaries. For example, a subsidiary's creditors have claims against the subsidiary only, and they cannot expect payments from the parent company (Yi et al., 2021). Shareholders are not affected by the company's operations, but they benefit from the strengths and weaknesses of the subsidiary.

Therefore, because subsidiary stakeholders are more interested in the individual financial statements of the subsidiary than in the consolidated statements, a company's annual report often includes both a consolidated report and a subsidiary report, but never only the parent financial statements. The decisions and quality of the parent company's management that affect the subsidiary. It is very important to include parent company information when analyzing subsidiaries.

2. LITERATURE REVIEW

The subsidiary ledger stores the details for the general ledger control account of the parent company. Once the information has been recorded in the subsidiary ledger, it is periodically summarized and posted to a control account in the company's reporting ledger, which in turn will be used to prepare the company's financial statements (Muda et al., 2020). Most accounts in the general ledger are not control accounts or vice versa but instead become individual transactions that are recorded directly into them. Subsidiary ledger will be used when there is a number of transaction information that can disrupt the general ledger of the parent company. This situation usually arises in companies with significant sales volume. Thus, there is no need for a subsidiary ledger in a small company.

Subsidiary ledgers can be managed in almost any general ledger account at the parent company (Laptev and Feyzrakhmanova, 2021). However, it is usually only made for areas where there is a high transaction volume which limits its use in some areas. An example of a subsidiary ledger in a company is:

1. Accounts payable ledger;
2. Accounts Receivable Ledger;
3. Ledger of fixed assets;
4. Inventory ledger; and
5. Purchase ledger;

As an example of information in a subsidiary ledger, the inventory ledger could contain transactions about receipts into inventory, movement of inventory to the production floor, conversion to finished goods, reporting of scrap and rework, write-off of obsolete inventory, and sales to customers.

Part of the period-end closing process is posting the information in the subsidiary ledgers to the general ledger. Posting is usually a manual processing step, so when the parent company requires verification of all subsidiary ledgers it can be completed and closed in a timely manner before posting its summary totals to the general ledger. Otherwise, there will be some transactions that are overdue and may not be posted to the general ledger until the next company reporting period.

To examine accounting information when a subsidiary ledger is used, the company needs to trace from the general ledger to the appropriate subsidiary ledger, where detailed information has been stored.

3. METHODS

There are several meanings of the subsidiary ledger or commonly known as the subsidiary ledger. Although from many sources, the meaning of subsidiary ledger actually has little resemblance to each other. In this description, at least two (2) definitions of the subsidiary ledger will be explained.

In general, the subsidiary ledger is a ledger that is used to record certain accounts in the general ledger. In addition to these accounts, the subsidiary ledgers also recorded several changes that occurred in more detail. This subsidiary ledger can be said to be a breakdown of the main ledger accounts.

Whereas in other languages, the subsidiary ledger is part of the expansion of the main ledger (general ledger). All entries written in the subsidiary ledger are details of the accounts in the main ledger. In trading companies, especially, accounting records are known through two general ledgers. First, the main ledger and subsidiary ledgers, the two books have differences in the source of recording, posting time and date of recording. According to the Introduction to Accounting Book (Bowo, 2011) that to facilitate understanding, table 1 below can explain the difference.

Table 1. Differences between Main Ledger and Subsidiary Ledger

Differences	Main Ledger	Subsidiary Ledger
Recording Source	From special and general journals	From a collection of transaction evidence
Post Time	Generally it is done at the end of every month and is done collectively	Done every day or every time a transaction occurs
Listing Date	End of every month	On the transaction date

The actual function of a subsidiary ledger or subsidiary ledger is to record the details of certain accounts. These accounts previously existed in the general subsidiary ledger. Accounts recorded in the main ledger that are detailed back to the subsidiary ledger are called subsidiary accounts.

The subsidiary ledger is used when the company is still using a manual system in preparing financial reports. However, if the company already uses an accounting program, this process is no longer necessary.

Then when viewed from the procedure for making financial statements, the creation of the subsidiary ledger is after the availability of the general ledger. Not because the subsidiary ledger is part of the details of the accounts in the general ledger. In addition, the subsidiary ledger also provides information that does not exist in the general ledger.

In general, the subsidiary ledger consists of or is divided into 3 types. These include the accounts receivable subsidiary ledger, accounts payable ledger and inventory subsidiary ledger. The three types of subsidiary ledgers are:

1. Accounts receivable subsidiary ledger or it can also be called a subsidiary account payable. This subsidiary ledger functions to record changes due to debt transactions to creditors. This means, the accounts payable subsidiary ledger is a breakdown of the accounts payable account in the main ledger.
2. Accounts receivable subsidiary ledger or in other words the account receivable subsidiary ledger. Used for recording changes in accounts receivable or bills on the debtor. This means that the accounts receivable subsidiary ledger is also a detail of the accounts receivable accounts that have previously been recorded in the general ledger.
3. Subsidiary ledger for inventory account (rarely created). Companies rarely make this, usually used to record in detail about the inventory of merchandise owned by the company. Both about the type of goods, the amount, the price per unit and the cost of goods sold. Everything is written in detail.

4. RESULTS DAN DISCUSSION

4.1. Result

After recording transactions into a special journal, the next step is to transfer (post) it to the general ledger, both the main ledger and the subsidiary ledger. The discussion below is a recording source for the accounts receivable and accounts payable subsidiary ledgers.

1. Sources of accounts receivable subsidiary ledger are:
   a. Proof of credit sales transactions or sales journals,
   b. Proof of sales return transactions or general journal,
   c. Proof of receivables settlement transactions or cash receipts journal.
2. Sources of accounts payable subsidiary ledger are:
   a. Proof of credit purchase transactions or purchase journals,
   b. Proof of purchase return transactions or general journal,
   c. Proof of debt settlement transactions or cash disbursements journal.

The table below is an example of recording transactions from the Accounts Receivable Subsidiary Ledger.

Table 2. Recording of Accounts Receivable Subsidiary Ledger Transactions

Date	Invoice Number	Information	Ref	D : Account Receivable K : Sales
206				
Jan				
7	0100	Ramayana Store, Solo	✓	Rp. 2.600.000,00
11	0101	Limasan Store, Bogor	✓	Rp. 1.800.000,00
14	0102	Asep Store, Bandung	✓	Rp. 600.000,00
24	0103	Mutiara Store, Semarang	✓	Rp. 2.400.000,00
				Rp. 7.400.000,00

In detail, the accounts receivable subsidiary ledger will be explained in the table below.

Table 3. Details of Recording of Accounts Receivable Subsidiary Ledger Transactions

Date	Info.	Ref	Debit		Credit				
							Miscellaneous		
			Cash (Rp)	Discount (Rp)	Accounts Receivable (Rp)	Sales (Rp)	Estimated	Ref	Total (Rp)
2006, Jan									
2	Deposit		32.000.000	-	-	-	Store Capital	301	32.000.000
9	Cash Sale		800.000	-	-	800.000			
17	Ramayana Store		2.558.000	52.000	2.600.000	-			
19	Cash Sale		1.400.000	-	1.800.000	1.400.000			
21	Limasan Store		1.764.000	36.000		-			
27	Returns		100.000	-		-	Purchase Returns	502	100.000
Total			**38.612.000**	**88.000**	**4.400.000**	**2.200.000**			**32.100.000**

4.2. DISCUSSION

The subsidiary ledger stores the details for the general ledger control accounts of the company. The general ledger will be used when a number of transaction information is found that can disrupt the ledger of the parent company. This situation usually arises in companies with significant sales volume. Thus, there is no need for a subsidiary ledger in a small company. Subsidiary ledgers can be managed in almost any general ledger account at the parent company. However, it is usually only made for areas where there is a high transaction volume which limits its use in some areas.

The inventory ledger can contain transactions about receipts into inventory, moving inventory to the production floor, conversion of finished goods, reporting of scrap and rework, write-off of obsolete inventory, and sales to customers.

Part of the period-end closing process is the information in the subsidiary ledgers to the general ledger. Posting is usually the first step, so when the underlying company needs leverage on all general ledgers it can be completed and closed in a timely manner before summarizing the totals to the general ledger. Otherwise, there will be some transactions that are overdue and may not be posted to the general ledger until the next company reporting period.

The actual function of a subsidiary ledger or subsidiary ledger is to record the details of certain accounts. These accounts already exist in the main ledger. The accounts recorded in the main ledger which are detailed back in the subsidiary ledger are called subsidiary accounts.

The subsidiary ledger used when the company was still using the manual system in compiling financial reports. However, if the company already uses an accounting program, this process is no longer necessary.

5. CONCLUTION

The general ledger provides account information that can control the general ledger that can be used when there is transaction information that does not provide clear information to the company. Usually, small companies do not need a general ledger because the subsidiary ledgers usually manage every transaction that occurs in several children.

Certain accounts are also described in the role of the subsidiary ledger previously contained in the company's main ledger. The subsidiary ledger will be used when the company is still using the manual system in compiling financial reports, so usually the general ledger will be used by large companies. This is done by large companies when the company is already using a good accounting program.

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