

5

SETTING UP THE NOMINAL LEDGER

chapter introduction

- *In the last two chapters we have set up the company in Sage and entered details of Customers and Suppliers. All that remains to be done is to set up the Nominal Ledger on the computer.*
- *The Nominal Ledger contains all the other accounts in the accounting system:*
 - *income accounts, including Sales*
 - *purchases accounts for goods that the company trades in*
 - *expenses and overheads accounts*
 - *asset accounts (for items the business owns)*
 - *liability accounts (for items the business owes)*
 - *capital accounts (the investment of the business owner)*
- *The Nominal Ledger lists the bank accounts of the business, but they are operated from a separate BANK icon, just as in a manual accounting system the bank accounts are recorded in a Cash Book, kept separately from the Nominal Ledger accounts.*
- *The accounts in the nominal ledger are set up in Sage using the structure of a 'Chart of Accounts' provided by the program. This allocates suitable reference numbers to the various accounts which are grouped in categories (eg expenses, assets, liabilities) so that the computer program knows where to find them in the system and can then provide suitable reports to management.*
- *One of the reports produced by the computer is the Trial Balance, which lists the nominal account balances in two balancing columns. When the balances of all the nominal accounts have been entered on the computer, the two columns should balance and the Suspense Account (which records any difference) should disappear.*

NOMINAL ACCOUNTS

nominal accounts

An account in an accounting system records financial transactions and provides a running balance of what is left in the account at the end of each day. The **nominal ledger** accounts in any accounting system are the accounts which are not Customer accounts (sales ledger) or Supplier accounts (purchases ledger). The nominal accounts record:

- income - eg sales, rent received
- expenses - eg wages, advertising
- assets - items that a business owns or amounts that it is owed
- liabilities - money that a business owes, eg loans or creditors
- capital - money invested by the owner(s) and profits made

bank accounts

In a manual accounting system the bank accounts are kept in a separate Cash Book and are not strictly speaking part of the Nominal Ledger. In Sage the bank accounts of the business are *listed* in NOMINAL, but they are *operated* from a separate BANK icon.

the default Nominal accounts

When Tom in the Case Study set up his company he chose the set of nominal accounts automatically provided by the Sage program.

If you click on the NOMINAL icon in the Sage opening screen the accounts are to be found in the NOMINAL opening screen (see below). You can scroll down this screen to see the whole list (summarised on the next page).

The screenshot shows the 'Nominal Ledger' window in Sage. At the top, there are icons for 'New', 'Record', 'Activity', 'Journals', 'Reversals', 'Prepay', 'Accrual', 'CDA', and 'Reports'. Below these is a 'Chart of Accounts' dropdown set to 'Default Layout of Accounts', a 'Display' dropdown set to 'All', a 'Cumulative' dropdown, a 'Variance' dropdown set to 'Don't Show', and a 'Layout' dropdown set to 'List'. The main area contains a table with columns for 'N/C', 'Name', 'Debit', and 'Credit'. The table lists the following accounts:

N/C	Name	Debit	Credit
0010	Freehold Property		
0011	Leasehold Property		
0020	Plant and Machinery		
0021	Plant/Machinery Depreciation		
0030	Office Equipment		
0031	Office Equipment Depreciation		
0040	Furniture and Fixtures		
0041	Furniture/Fixture Depreciation		
0050	Motor Vehicles		
0051	Motor Vehicles Depreciation		
1001	Stock		

Nominal Account List					
0010	Freehold Property	4100	Sales Type D	7303	Vehicle Insurance
0011	Leasehold Property	4101	Sales Type E	7304	Miscellaneous Motor Expenses
0020	Plant and Machinery	4200	Sales of Assets	7350	Scale Charges
0021	Plant/Machinery Depreciation	4400	Credit Charges (Late Payments)	7400	Travelling
0030	Office Equipment	4900	Miscellaneous Income	7401	Car Hire
0031	Office Equipment Depreciation	4901	Royalties Received	7402	Hotels
0040	Furniture and Fixtures	4902	Commissions Received	7403	U.K. Entertainment
0041	Furniture/Fixture Depreciation	4903	Insurance Claims	7404	Overseas Entertainment
0050	Motor Vehicles	4904	Rent Income	7405	Overseas Travelling
0051	Motor Vehicles Depreciation	4905	Distribution and Carriage	7406	Subsistence
1001	Stock	5000	Materials Purchased	7500	Printing
1002	Work in Progress	5001	Materials Imported	7501	Postage and Carriage
1003	Finished Goods	5002	Miscellaneous Purchases	7502	Telephone
1100	Debtors Control Account	5003	Packaging	7503	Telex/Telegram/Facsimile
1101	Sundry Debtors	5009	Discounts Taken	7504	Office Stationery
1102	Other Debtors	5100	Carriage	7505	Books etc.
1103	Prepayments	5101	Import Duty	7600	Legal Fees
1200	Bank Current Account	5102	Transport Insurance	7601	Audit and Accountancy Fees
1210	Bank Deposit Account	5200	Opening Stock	7602	Consultancy Fees
1220	Building Society Account	5201	Closing Stock	7603	Professional Fees
1230	Petty Cash	6000	Productive Labour	7700	Equipment Hire
1240	Company Credit Card	6001	Cost of Sales Labour	7701	Office Machine Maintenance
1250	Credit Card Receipts	6002	Sub-Contractors	7800	Repairs and Renewals
2100	Creditors Control Account	6100	Sales Commissions	7801	Cleaning
2101	Sundry Creditors	6200	Sales Promotions	7802	Laundry
2102	Other Creditors	6201	Advertising	7803	Premises Expenses
2109	Accruals	6202	Gifts and Samples	7900	Bank Interest Paid
2200	Sales Tax Control Account	6203	P.R.(Literature & Brochures)	7901	Bank Charges
2201	Purchase Tax Control Account	6900	Miscellaneous Expenses	7902	Currency Charges
2202	VAT Liability	7000	Gross Wages	7903	Loan Interest Paid
2210	P.A.Y.E.	7001	Directors Salaries	7904	H.P. Interest
2211	National Insurance	7002	Directors Remuneration	7905	Credit Charges
2220	Net Wages	7003	Staff Salaries	7906	Exchange Rate Variance
2230	Pension Fund	7004	Wages-Regular	8000	Depreciation
2300	Loans	7005	Wages-Casual	8001	Plant/Machinery Depreciation
2310	Hire Purchase	7006	Employers N.I.	8002	Furniture/Fitting Depreciation
2320	Corporation Tax	7007	Employers Pensions	8003	Vehicle Depreciation
2330	Mortgages	7008	Recruitment Expenses	8004	Office Equipment Depreciation
3000	Ordinary Shares	7009	Adjustments	8100	Bad Debt Write Off
3010	Preference Shares	7010	SSP Reclaimed	8102	Bad Debt Provision
3100	Reserves	7011	SMP Reclaimed	8200	Donations
3101	Undistributed Reserves	7100	Rent	8201	Subscriptions
3200	Profit and Loss Account	7102	Water Rates	8202	Clothing Costs
4000	Sales Type A	7103	General Rates	8203	Training Costs
4001	Sales Type B	7104	Premises Insurance	8204	Insurance
4002	Sales Type C	7200	Electricity	8205	Refreshments
4009	Discounts Allowed	7201	Gas	9998	Suspense Account
		7202	Oil	9999	Mispostings Account
		7203	Other Heating Costs		
		7300	Fuel and Oil		
		7301	Repairs and Servicing		
		7302	Licences		

reports from Nominal

The Sage Nominal accounts are used as the basis for a number of computer-generated management reports telling the owner about subjects such as the profit and the value of the business. If accounts get into the wrong category, the reports will also be wrong.

a summary of categories

It may be that a new business will adopt all the default nominal accounts (see list on page 72) because it does not need any others, but if a new account has to be set up it is critical that the new account is in the right category. The business owner will therefore need to understand what the categories mean and what they include.

The nominal categories and account number ranges are:

Sales	4000 - 4999	income from sales of goods or services
Purchases	5000 - 5299	items bought bought to produce goods to sell
Direct Expenses	6000 - 6999	expenses directly related to producing goods
Overheads	7000 - 8299	expenses the business has to pay anyway

*These are used to produce the **profit and loss statement** which shows what profit (or loss) the business has made.*

Fixed Assets	0010 - 0059	items bought to keep in the business long-term
Current Assets	1000 - 1250	items owned by the business in the short-term
Current Liabilities	2000 - 2299	items owed by the business in the short-term
Long Term Liabilities	2300 - 2399	items owed by the business in the long-term
Capital & Reserves	3000 - 3299	the financial investment of the owner(s)

*These are used to produce the **balance sheet** which gives an idea of the value of the business and shows the owner what is represented by the capital investment (the money put in by the owner).*

We will now put this theory into practice with a continuation of the Pronto Supplies Limited Case Study.

**CASE
STUDY**



**PRONTO SUPPLIES LIMITED:
SETTING UP THE NOMINAL ACCOUNTS**

Pronto Supplies Limited was set up in January 2007 and during that month operated a **manual** book-keeping system using hand-written double-entry ledger accounts.

It was a busy month for Tom Cox . . .

financing Tom paid £75,000 into the bank as ordinary share capital to start up the limited company business.

Tom also raised a £35,000 business loan from the bank.

assets The finance raised enabled Tom to buy:

office computers	£35,000
office equipment	£15,000
furniture for the office	£25,000

purchases Tom bought in a substantial amount of stock during January for £69,100.

All of this stock was for resale by Pronto Supplies Limited.

sales Tom divided his sales into three types:

- Computer hardware sales
- Computer software sales
- Computer consultancy

overheads Tom also had to pay fixed expenses including:

Wages	£16,230
Advertising	£12,400
Rent	£4,500
Rates	£450
Electricity	£150
Telephone	£275
Stationery	£175

Pronto Supplies Trial Balance

Tom at the end of January listed all the balances of his accounts in two columns, using a spreadsheet. This is his **trial balance** and will form the basis of the entries to the Sage system. The columns are headed up Debit (Dr) and Credit (Cr) and they have the same total. In double-entry book-keeping each debit entry in the accounts is mirrored by a credit entry. (Refer to Chapter 14 if you are not sure about this). If the book-keeping is correct, the total of debits should be the same as the total of the credits. The spreadsheet is shown below. Note that:

- **debits** = assets and expenses **credits** = liabilities, capital and income
- the control (total) account for debtors shows the total amount owed by all Tom's customers; it is a debit balance because it is money owed to the business
- the control (total) account for creditors shows the total amount owed by Tom to his suppliers: it is a credit balance because it is money owed by the business
- Tom is registered with HM Revenue & Customs for Value Added Tax (VAT). This means that he has to quote his registration number on all his documents and also
 - charge VAT on his sales – this is due to HM Revenue & Customs and so is a credit balance - Sales tax control account
 - reclaim VAT on what he has bought – this is due from HM Revenue & Customs and so is a debit balance - Purchase tax control account

	A	B	C	D	E
1	TRIAL BALANCE		Dr	Cr	
2					
3	Plant and machinery	35000			
4	Office equipment	15000			
5	Furniture and fixtures	25000			
6	Debtors control account	29534			
7	Bank current account	14656			
8	Creditors control account			18750	
9	Sales tax control account			17920	
10	Purchase tax control account	26600			
11	Loans			35000	
12	Ordinary Shares			75000	
13	Computer hardware sales			85000	
14	Computer software sales			15000	
15	Computer consultancy sales			2400	
16	Materials purchased	69100			
17	Advertising	12400			
18	Gross wages	16230			
19	Rent	4500			
20	General rates	450			
21	Electricity	150			
22	Telephone	275			
23	Stationery	175			
24					
25	Total	249070		249070	
26					



inputting the accounts into Sage Nominal

The date is 31 January 2007.

Tom uses his trial balance as the source document for inputting his nominal account balances. The procedure he adopts is:

- 1 He clicks on the NOMINAL icon on the opening screen and examines the nominal accounts list which appears on the NOMINAL screen. He allocates the accounts in his existing books with computer account numbers as follows:

Plant and machinery (computers)	0020
Office equipment (photocopiers, phones etc)	0030
Furniture and fixtures	0040
Debtors control account	1100
Bank current account	1200
Creditors control account	2100
Sales tax control account	2200
Purchase tax control account	2201
Loans	2300
Ordinary Shares	3000
Sales type A (hardware)	4000
Sales type B (software)	4001
Sales type C (consultancy)	4002
Materials purchased	5000
Advertising	6201
Gross wages	7000
Rent	7100
General rates	7103
Electricity	7200
Telephone	7502
Stationery	7504

- 2 Tom scrolls down the screen and clicks on all the accounts that he is going to need – they then show as selected.

But – importantly – he does not click on the following two accounts:

Debtors Control Account - the total of the Customers' accounts

Creditors Control Account - the total of the Suppliers' accounts

This is because he has already input the debtors' (Customers') and creditors' (Suppliers') balances (see the last chapter). If he inputs these totals now they will be entered into the computer twice and cause havoc with the accounting records!

The NOMINAL screen is shown at the top of the next page.

Customers Suppliers Nominal Bank Products Invoicing Financials Projects Credit

Nominal Ledger

New Record Activity Journals Reversals Prepay Accrual COA Reports

Chart of Accounts: Default Layout of Accounts Display: All Cumulative Variance: Don't Show

N/C	Name	Debit	Credit
0021	Plant/Machinery Depreciation		
0030	Office Equipment		
0031	Office Equipment Depreciation		
0040	Furniture and Fixtures		
0041	Furniture/Fixture Depreciation		
0050	Motor Vehicles		
0051	Motor Vehicles Depreciation		
1001	Stock		
1002	Work in Progress		
1003	Finished Goods		
1100	Debtors Control Account		29534.00

3 of 147 accounts selected, total Debit

Search Swap Clear Delete Print List Expand All Collapse All Send

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- 3 Tom is now ready to input the balances of these accounts. To do this he will
- Select the RECORD icon which will bring up a RECORD window.
 - Click on O/B on the balance box which asks him to enter the date (31/01/2007) and the balance which must go in the correct box: debits on the left, credits on the right. He should ignore the 'ref' box. The first account entry will look like this;

Nominal Record - Office Equipment

Details Graphs Activity Memo

N/C: 0030
Name: Office Equipment
Balance: 0.00 Account Type: Nominal Account

Month: A Opening Balance Setup

B/F	Ref	Date	Debit	Credit
Jan	O/Bal	31/01/2007	15000.00	0.00
Feb				

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This record should then be saved.

Tom should repeat this for all the selected accounts (using the Next button to move to the next one), making sure that he is saving all the data as he goes along.

checking the input – the trial balance

Tom needs to check that what he has input is accurate. He needs to check his original list of balances – his trial balance (see page 76) – against the computer trial balance.

The trial balance is produced through FINANCIALS by clicking on the TRIAL icon. The printout produced is shown below.

<u>Pronto Supplies Limited</u>			
<u>Period Trial Balance</u>			
To Period:		Month 1, January 2007	
N/C	Name	Debit	Credit
0020	Plant and Machinery	35,000.00	
0030	Office Equipment	15,000.00	
0040	Furniture and Fixtures	25,000.00	
1100	Debtors Control Account	29,534.00	
1200	Bank Current Account	14,656.00	
2100	Creditors Control Account		18,750.00
2200	Sales Tax Control Account		17,920.00
2201	Purchase Tax Control Account	26,600.00	
2300	Loans		35,000.00
3000	Ordinary Shares		75,000.00
4000	Sales Type A		85,000.00
4001	Sales Type B		15,000.00
4002	Sales Type C		2,400.00
5000	Materials Purchased	69,100.00	
6201	Advertising	12,400.00	
7000	Gross Wages	16,230.00	
7100	Rent	4,500.00	
7103	General Rates	450.00	
7200	Electricity	150.00	
7502	Telephone	275.00	
7504	Office Stationery	175.00	
Totals:		<u>249,070.00</u>	<u>249,070.00</u>

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Is the input accurate? Yes, because all the figures agree with the original trial balance figures and they are all in the correct column. The totals also agree.

You will see that the Suspense Account which the system created in the last chapter (see page 61) has now disappeared because the total of the debits now equals the total of the credits, as on Tom's spreadsheet shown on page 76.

Tom is now ready to input February's transactions – new sales invoices, new purchase invoices and payments in and out of the bank. These will be dealt with in the chapters that follow.

CHANGING NOMINAL ACCOUNT NAMES

It is possible to change the names of accounts in NOMINAL if they do not fit in with the nature of your business. If, for example, you run a travel agency your NOMINAL account names may be very different from the names used by an insurance broker.

The important point to remember is that if you change your account names they must fit in with the categories in the Chart of Accounts. You should not, for example, include an Office Rent Paid Account in the Purchases category. Much of this should be common sense.

In the Case Study continuation below, Tom changes the names of his Sales accounts to reflect more accurately what is going on in his business.

CASE STUDY

PRONTO SUPPLIES LIMITED: CHANGING NOMINAL ACCOUNT NAMES

Tom looks at his Trial Balance (see page 79) and realises that his Sales Accounts are named 'Type A' and 'Type B' and Type C'. This does not really tell him much about what he is actually selling, so he decides that he will change the names as follows:

<i>account number</i>	<i>old name</i>	<i>new name</i>
4000	Sales Type A	Computer hardware sales
4001	Sales Type B	Computer software sales
4002	Sales Type C	Computer consultancy

He selects the three accounts in the NOMINAL list screen, goes to RECORD in NOMINAL and overwrites the old name in the name box for each account and then Saves. The amended screen for Account 4000 (Computer hardware sales) is shown below.

Nominal Record - Sales Type A

Details | Graphs | Activity | Memo

N/C: 4000

Name: Computer hardware sales

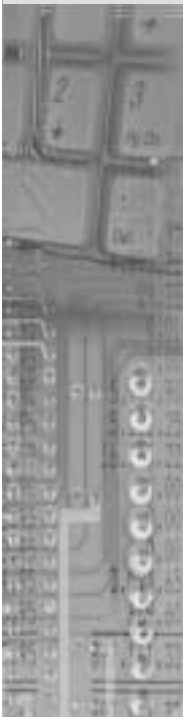
Balance: 85000.00 Cr Account Type: Control Account

Month	Actuals	Budgets	To end Dec 2005	To end Dec 2005	To end Dec 2005
B/F	0.00	0.00	0.00	0.00	
Jan	85000.00 Cr	0.00	0.00	0.00	
Feb	0.00	0.00	0.00	0.00	

**CHAPTER
SUMMARY**



**KEY
TERMS**



- When a business sets up its accounts on a Sage computer accounting package it will normally set up its Customer and Supplier records first.
- The next stage will be for the business to set up its nominal accounts, adopting the default list of accounts supplied by Sage in its 'chart of accounts' structure.
- If the business has already started trading it should input all its nominal account balances (except for the Debtors and Creditors control accounts).
- The input balances should be checked carefully against the source figures. The Sage program can produce a trial balance which will show the balances that have been input.
- Account names can be changed to suit the nature of the business – but it is important that the type of account should be consistent with the appropriate category in the 'chart of accounts'.

nominal ledger	the remaining accounts in the accounting system which are not Customers or Suppliers, eg income, expenses, assets, liabilities – in Sage this is known as 'Nominal'
chart of accounts	the structure of the nominal accounts, which groups accounts into categories such as Sales, Purchases, Overheads . . . and so on
categories	subdivisions of the chart of accounts (eg Sales, Purchases) each of which is allocated a range of account numbers by the computer
trial balance	<p>a list of the accounts of a business divided into two columns:</p> <p style="padding-left: 20px;"><i>debits</i> – mostly assets and expenses</p> <p style="padding-left: 20px;"><i>credits</i> – mostly income and liabilities</p> <p>The two columns should have the same total, reflecting the workings of the double-entry book-keeping system</p>


**STUDENT
ACTIVITIES**

- 5.1 Explain briefly what a chart of accounts is.
- 5.2 List the categories of account in a chart of accounts and write a sentence for each category, explaining what type of account that category includes.
- 5.3 You are transferring the manual accounting records of a company into a Sage system. The account names listed below are included in those used in the manual system. Refer to the nominal account list on page 72 and the categories of account numbers on page 74.
- (a) What account numbers will you allocate to these accounts?
- (b) In what categories in the chart of accounts will these accounts appear?

Complete the table below (or draw up your own table).

<i>account name</i>	<i>account number</i>	<i>category</i>
Freehold Property		
Office Equipment		
Motor Vehicles		
Materials Purchased		
Bank current account		
Creditors Control		
Directors Salaries		
Electricity		
Share Capital		

PRONTO SUPPLIES INPUTTING TASKS**warning note!**

This activity involves inputting live data into the computer.

Remember to Save your data and keep your printouts as you progress through the tasks.

Task 1

Make sure the program date is set to 31 January 2007.

Open up NOMINAL and select accounts in the computer nominal ledger list screen for the accounts included on the spreadsheet trial balance (see page 76).

But do *not* select Debtors Control Account or Creditors Control Account as they already have balances on them.

Task 2

Enter the balances from the spreadsheet trial balance (see page 76) into the appropriate nominal accounts as opening balances – but do not input the debtors control account and the creditors control account.

Make sure that debits are entered as debits and credits as credits.

Task 3

Print out a trial balance for January 2007 from the computer and check it against the trial balance on page 79, or have it checked by your tutor. The suspense account should have disappeared.

Task 4

Change the names of the three sales accounts you have chosen as follows:

<i>number</i>	<i>old name</i>	<i>new name</i>
4000	Sales Type A	Computer hardware sales
4001	Sales Type B	Computer software sales
4002	Sales Type C	Computer consultancy