3 Setting up records for customers and suppliers

this chapter covers...

- *The term 'Customers' means people to whom a business sells on credit. In other words, the goods or services are supplied straightaway and the customer is allowed to pay at a specified later date – often a month or more later. Another term for a credit customer is a 'receivable' (debtor).*
- *A business keeps running accounts for the amounts owed by individual customers – much as a bank keeps accounts for its customers. The accounts are maintained by the business in the 'Sales Ledger'.*
- *The term 'Suppliers' means people from whom a business buys on credit. In other words, the goods or services are supplied straightaway and the business is allowed to pay at a specified later date. Another term for a credit supplier is a 'payable' (creditor).*
- *A business keeps running accounts for the amounts owed to individual suppliers. The accounts are maintained by the business in the 'Purchases Ledger'.*
- *This chapter continues the Tapper Timber Case Study and shows how the business sets up its Customer and Supplier records on the computer.*
- *When the accounts have been set up on the computer the business will need to input the amounts currently owed by Customers and owing to Suppliers.*

CASH AND CREDIT SALES

cash and credit – the difference

When businesses such as manufacturers, shops and travel agents sell their products, they will either get their money straightaway, or they will receive the money after an agreed time period. The first type of sale is a **cash sale**, the second is a **credit sale**. These can be defined further as:

cash sale A sale of a product where the money is received straightaway – this can include payment in cash, by cheque or by credit card and debit card. The word 'cash' means 'immediate' – it does not mean only notes and coins.

credit sale A sale of a product or service where the sale is agreed and the goods or services are supplied but the buyer pays at a later date agreed at the time of the sale.

buying and selling for cash and on credit

Businesses are likely to get involved in cash and credit sales not only when they are selling their products but also when they are buying. Some goods and services will be bought for cash and some on credit. Buying and selling are just two sides of the same operation.

You will see from this that it is the nature of the business that will decide what type of sales and purchases it makes. A supermarket, for example, will sell almost entirely for cash – the cash and credit/debit card payments come in at the checkouts – and it will buy from its suppliers on credit and pay them later. It should therefore always have money in hand – which is a good situation to be in for a business.

SETTING UP CUSTOMER ACCOUNTS

accounting records for customers

Customers who buy from a business on credit are known as **receivables** (**debtors)** because they owe money to the business and the business will in due course 'receive' it.

The amounts owed by customers are recorded in individual customer accounts in the **Sales Ledger**. In double-entry terms these customer account balances are **debit balances**.

The total of all the customer (receivable/debtor) accounts in the Sales Ledger is recorded in an account known as **Debtors Control Account**. This is the total amount owing by the customers of a business.

accounting records for suppliers

When a business purchases goods and services from its suppliers on credit the suppliers are known as **payables** (**creditors)** because the business owes them money and has to 'pay' them.

The amounts owed to suppliers (payables/creditors) are recorded in individual supplier accounts in the **Purchases Ledger**. In double-entry terms these supplier account balances are **credit balances**.

The total of all the supplier accounts in the Purchases Ledger is known as **Creditors Control Account**. This is the total amount owing to the suppliers of a business.

All this is summarised in the table set out below.

Customers	Suppliers
• buy from the business	• sell to the business
• have individual accounts in the Sales Ledger	• have individual accounts in the Purchases Ledger
• are also known as receivables (debtors)	• are also known as payables (creditors)
• normally have debit balances on their accounts	• normally have credit balances on their accounts

credit limits

When a business is opening a new account it will need to establish a credit limit. A **credit limit** is the maximum amount of credit a seller is willing to grant to a customer. For example if a credit limit of £5,000 is set up by the seller, the customer can owe up to £5,000 at any one time – for example two

invoices of £2,500. A well-managed business will keep an eye on situations where a credit limit might be exceeded.

credit terms

The seller will need to establish its **terms** of trading with its customers and the customer will have to agree. The terms are normally set out on the invoice (the invoice is the document issued when the goods or services are sold and supplied). They include:

- **trade discount** given to the customer based on the selling price, for example a customer with a 30% trade discount will pay £70 for goods costing £100, ie £100 minus £30 (30% discount)
- the **payment terms** – the length of credit allowed to the customer, ie the number of days the customer is allowed to wait before paying up – this is commonly 30 days after the invoice date
- **settlement discount** (also known as **cash discount**) sometimes given to a customer who settles up early within a specified number of days, for example a 2.5% reduction for settlement within 7 days

day-to-day customer/supplier information

A business will need information on file relating to its day-to-day dealings with customers and suppliers. For example:

- the name and address of the customer
- telephone and fax numbers, email, and website address (if there is one)
- contact names
- credit limit, trade discount, payment terms and any settlement discount agreed

setting up the accounts

As you will see from the last three pages, there is a great deal of information that has to be input when setting up accounts for customers and suppliers on a computer accounting program such as Sage.

In the Case Study which follows on page 40 we will follow the steps taken by Tapper Timber in setting up its Customers and Suppliers records.

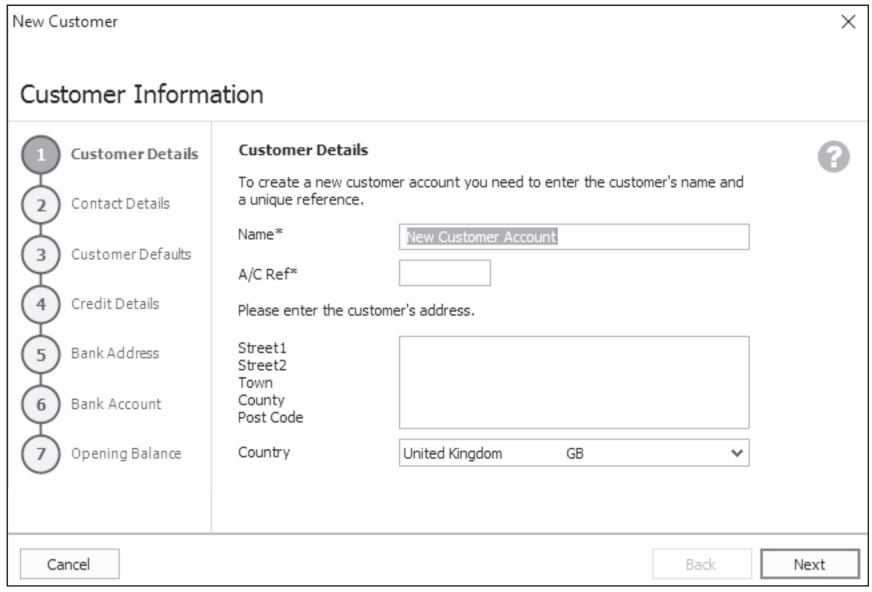
SETTING UP THE COMPUTER FILES

There are two methods in Sage for setting up new records for customers or suppliers. If, for example, you wanted to set up a new Customer account you could:

1 Go to the CUSTOMERS screen and click on WIZARD. You will be given a Wizard to take you through the procedure.

2 Go to the CUSTOMERS screen and click on NEW. You will be given a blank screen to complete, but with no Wizard guidance.

The Wizard screen is shown below and the second method is illustrated in the Case Study, as the process is very simple.



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Whether you are using the Wizard or just setting up a new record through NEW, you will need to have to hand all the customer details you have on file. These are the type of details covered earlier in this chapter.

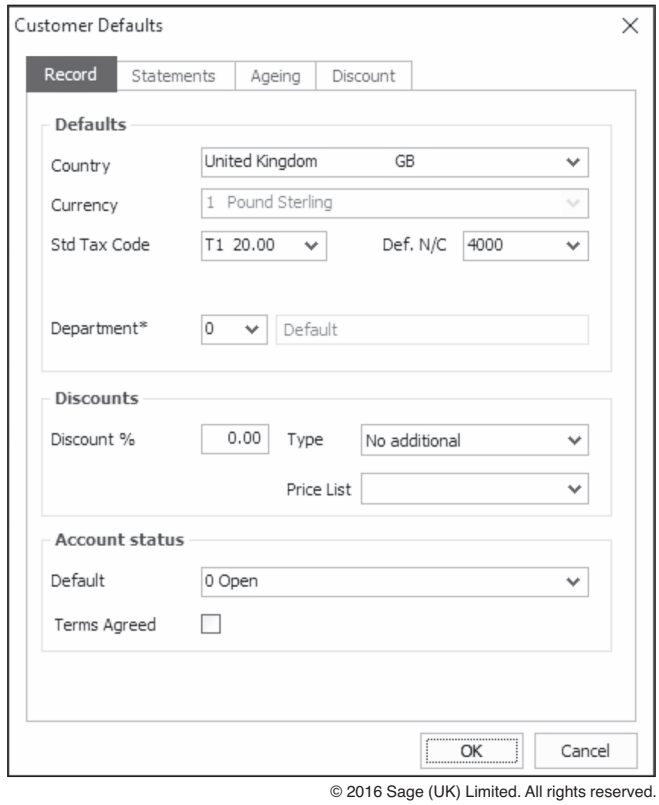
customer and supplier reference codes

You will see from the Wizard screen shown above that you need to decide on a unique reference code for each customer and supplier account. This code can be letters, numbers, or a mixture of both. If letters are used they are often an abbreviation of the account name. This process, using both letters and numbers, will be illustrated in the Case Study.

customer and supplier record defaults

If you are setting up a number of customer and supplier accounts it is possible that the terms agreed – discounts and payment periods – will be the same for each customer or supplier account. To save you entering these in each and every account (which can take a lot of time!) you can establish a default set of terms which will apply to all accounts. These can be set up from the 'Terms' tab of the CONFIGURATION EDITOR in SETTINGS.

It is also important to establish the standard VAT rate to be used in transactions (currently 20%) and also the default account number used for sales to customers (usually account number 4000). This is carried out from the 'Record' tab in CUSTOMER DEFAULTS in SETTINGS. In the illustration below note the default VAT code (T1, 20%) and the 'Def. N/C' default Sales Account number 4000 (N/C stands for 'Nominal Code').



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Case Study

TAPPER TIMBER: SETTING UP CUSTOMERS AND SUPPLIERS

Ross Tapper has decided to input his customer and supplier records into the system first, and then afterwards he will input the General ledger balances.

There are three customer accounts and three supplier accounts.

Customers

Account reference	Account name	Amount outstanding £
OC001	Oliver Cole & Sons	2,904.20
VH001	Victoria Hotel	9,900.78
CS001	Cornwood Stud	5,726.88
		18,531.86

The total outstanding from customers as at 1 July 2016 is £18,531.86.

Suppliers

Account reference	Account name	Amount owing £
CP001	Chapman Panels	6,242.52
ET001	Estate Timber Ltd	4,506.00
JF001	Johnsons Fixings	5,006.82
		15,755.34

The total owing to suppliers as at 1 July 2016 is £15,755.34.

entering the customer defaults

Ross sets his program date to 1 July 2016. He decides that he will save time by setting up his standard terms in the CONFIGURATION EDITOR in SETTINGS:

Payment due days 30 days

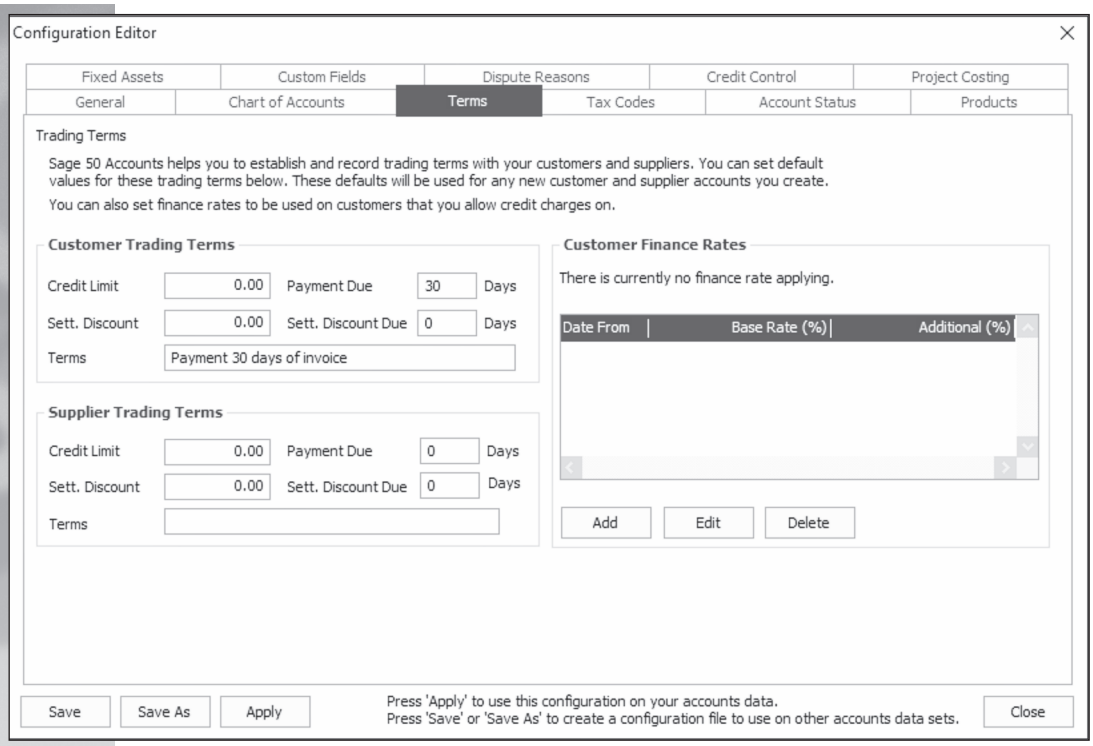
Terms of payment Payment 30 days of invoice

See image at the top of the next page.

He also checks his default VAT code (T1) and rate (20%) and Sales Account number (4000) in CUSTOMER DEFAULTS (reached through SETTINGS):

VAT rate Standard rate of 20% (this is Tax Code T1)

Default nominal code 4000



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Ross decides not to set a default credit limit as this will vary from customer to customer and will be input with the individual customer details.

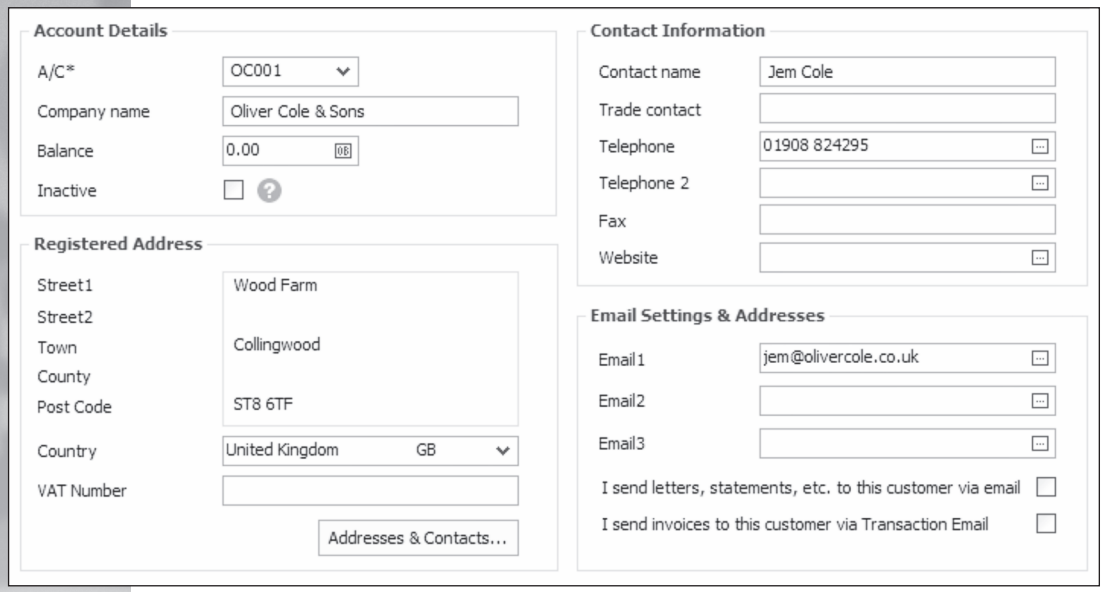
Note also that Ross does not allow **discounts** on his sales nor receive discounts on his purchases.

entering customer details and opening balances

Ross now enters the details and the opening balances for each customer. He does this by clicking on NEW in CUSTOMERS. The first customer to input is Oliver Cole & Sons. The information to be input (including an outstanding invoice issued in June) is as follows:

Account name	Oliver Cole & Sons
Account reference	OC001
Address	Wood Farm, Collingwood ST8 6TF
Contact name	Jem Cole
Telephone	01908 824295
Email	jem@olivercole.co.uk
Credit limit	£5,000
Outstanding invoice	Invoice reference 10013 for £2,904.20 issued on 10 June 2016

Ross inputs the data on the 'Details' screen.



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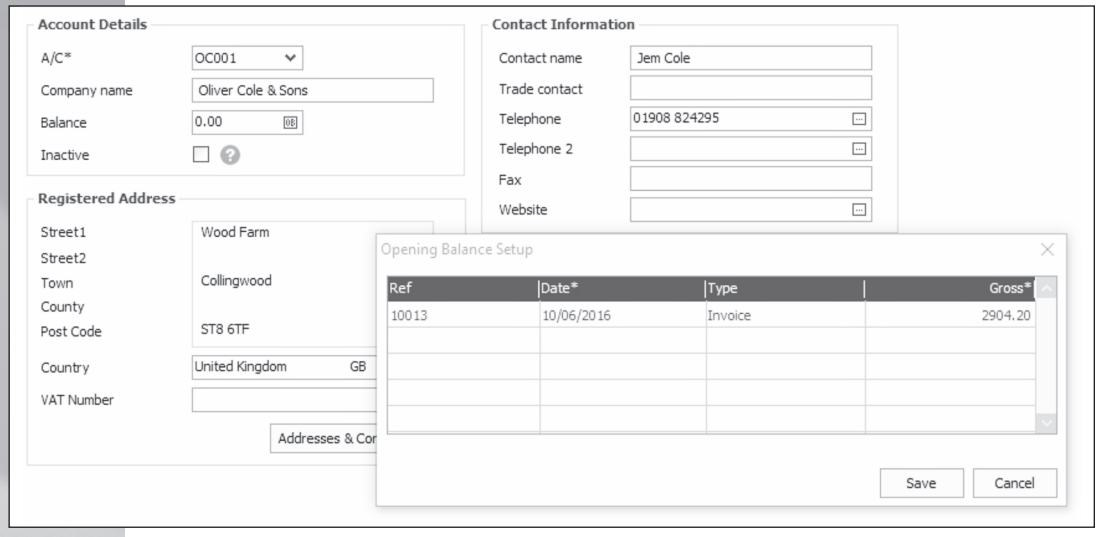
He now has to input the details of the invoice which he issued to Oliver Cole & Sons on 10 June which has not yet been paid. He does this by clicking the O/B button (in the Balance box below Company Name) which brings up the screen shown on the next page. When prompted to Save the new record, Ross clicks 'Yes'.



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Ross inputs the following data into the above screen:

Ref: the invoice reference number

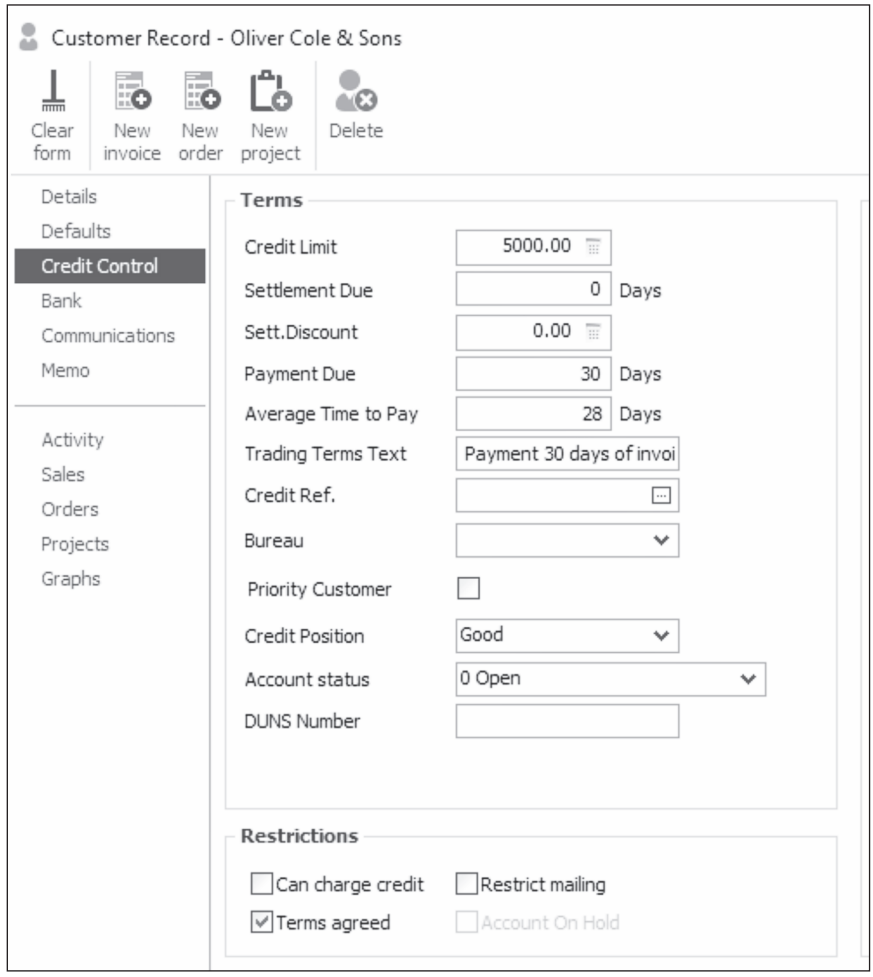
Date: the date the invoice was issued *

Type: the transaction was an invoice

Gross: the total amount of the invoice

*the program warns that this date is outside the current financial year – this is OK

Ross now goes to the CREDIT CONTROL screen of Oliver Cole's new record to input the customer credit limit, the payment period and terms. The terms may already be entered if the default customer terms have been entered. He ticks the box marked 'Terms agreed' and then hits Save.



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Ross now repeats this process for the other two customers.

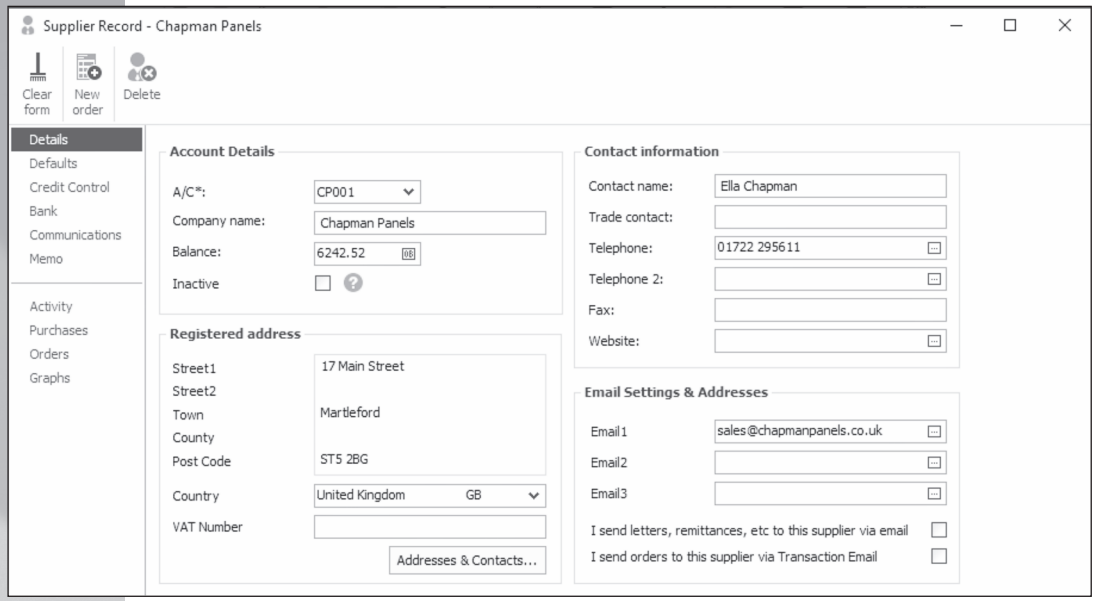
entering supplier details and opening balances

Ross now carries out the same process for supplier details and opening balances. He first ensures that the supplier defaults include T1 as the default tax code and 5000 as the default nominal account code.

He sets up his supplier accounts by clicking on NEW in SUPPLIERS. The first supplier to input is Chapman Panels. The information to be input (including an outstanding invoice from June) is as follows:

Account name	Chapman Panels
Account reference	CP001
Address	17 Main Street, Martleford ST5 2BG
Contact name	Ella Chapman
Telephone	01722 295611
Email	sales@chapmanpanels.co.uk
Credit limit	£15,000
Outstanding invoice	Invoice reference 7611 for £6,242.52 dated 20 June 2016
Terms	Payment due 30 days

Ross inputs the supplier details and opening balances, starting with Chapman Panels. The completed details screen is shown below.



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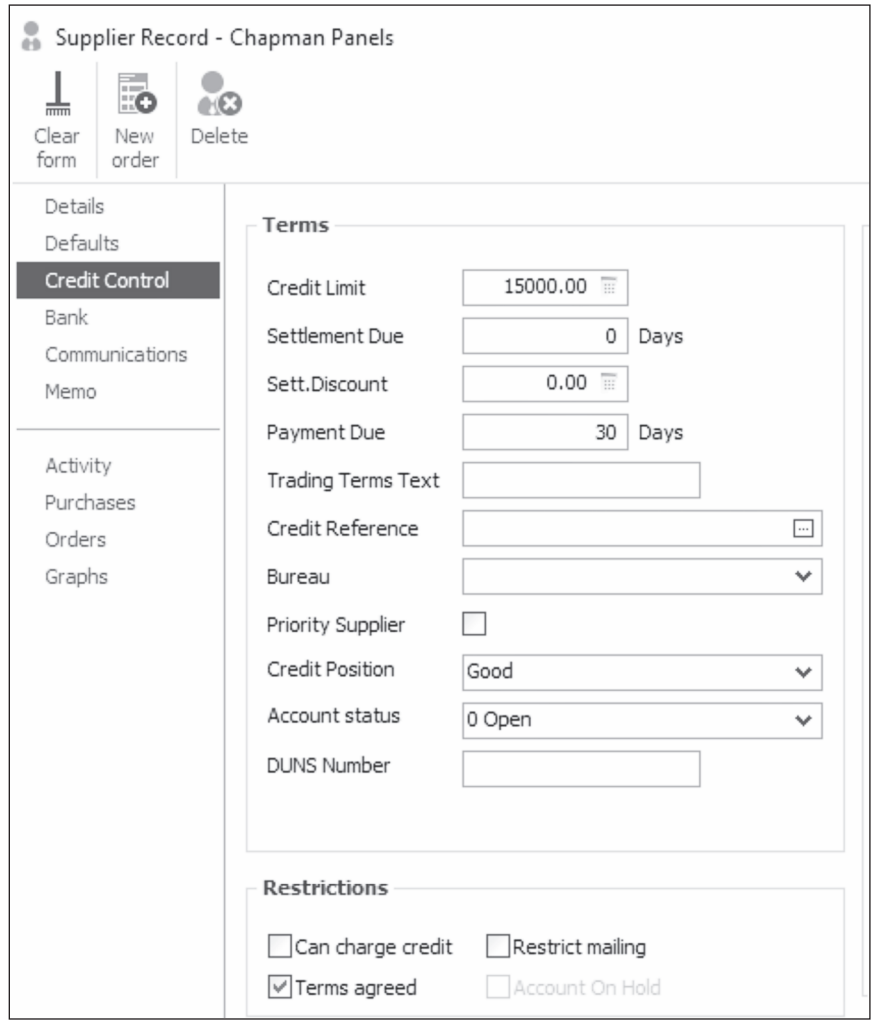
Ross now goes to the CREDIT CONTROL screen to input the credit limit imposed by the supplier, and the payment terms. He ticks the box marked 'Terms agreed' and then Saves again.



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Ross now repeats this process for the other two suppliers.

the final checks

Ross checks that the customer and supplier details he has input are correct.

He prints out a Day Books: Customer Invoices (Detailed) report to check that customer opening balance details are accurate. To do this he goes back to the CUSTOMERS screen and ensures that none of the customers are selected (if any are, he clicks 'Clear' on the toolbar). He clicks REPORTS on the toolbar, chooses Day books and scrolls down to Day Books: Customer Invoices (Detailed). He double clicks it (or clicks

the Preview icon) and leaves all the criteria values as default, then clicks OK.

Date: **Tapper Timber** **Page:** 1
Time:

Day Books: Customer Invoices (Detailed)

Date From: 01/01/1980
Date To: 31/12/2019

Customer From:
Customer To: ZZZZZZZZ

Transaction From: 1
Transaction To: 99,999,999

N/C From:
N/C To: 99999999

Dept From: 0
Dept To: 999

Tran No.	Type	Date	A/C Ref	N/C	Inv Ref	Dept.	Details	Net Amount	Tax Amount	T/C	Gross Amount	V	B
1	SI	10/06/2016	OC001	9998	10013	0	Opening Balance	2,904.20	0.00	T9	2,904.20	-	-
2	SI	17/06/2016	VH001	9998	10016	0	Opening Balance	9,900.78	0.00	T9	9,900.78	-	-
3	SI	24/06/2016	CS001	9998	10019	0	Opening Balance	5,726.88	0.00	T9	5,726.88	-	-
							Totals:	18,531.86	0.00		18,531.86		

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He prints out a Day Books: Supplier Invoices (Detailed) report to check that supplier opening balance details are accurate following a similar pathway.

Date: **Tapper Timber** **Page:** 1
Time:

Day Books: Supplier Invoices (Detailed)

Date From: 01/01/1980
Date To: 31/12/2019

Supplier From:
Supplier To: ZZZZZZZZ

Transaction From: 1
Transaction To: 99,999,999

N/C From:
N/C To: 99999999

Dept From: 0
Dept To: 999

Tran No.	Type	Date	A/C Ref	N/C	Inv Ref	Dept	Details	Net Amount	Tax Amount	T/C	Gross Amount	V	B
4	PI	20/06/2016	CP001	9998	7611	0	Opening Balance	6,242.52	0.00	T9	6,242.52	-	-
5	PI	23/06/2016	ET001	9998	16-2408	0	Opening Balance	4,506.00	0.00	T9	4,506.00	-	-
6	PI	27/06/2016	JF001	9998	M41997	0	Opening Balance	5,006.82	0.00	T9	5,006.82	-	-
							Totals	15,755.34	0.00		15,755.34		

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Lastly Ross prints out a trial balance. He does this by choosing NOMINAL CODES on the vertical toolbar and then clicking TRIAL BALANCE on the module toolbar. He chooses Preview and Run, and in Criteria Values he chooses July 2016 from the drop-down options.

A trial balance is a list of the account balances of the business. It shows the control (total) accounts as follows:

Debtors control account £18,531.86

Creditors control account £15,755.34

The suspense account has been created automatically and shows the arithmetic difference (£2,776.52) between the control accounts. It is put in automatically by the system to make the two columns balance.

Date: **Tapper Timber** **Page:** 1
Time: **Period Trial Balance**

To Period: Month 1, July 2016

N/C	Name	Debit	Credit
1100	Debtors Control Account	18,531.86	
2100	Creditors Control Account		15,755.34
9998	Suspense Account		2,776.52
	Totals:	18,531.86	18,531.86

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The customer and supplier records are now complete and their account balances summarised in the two control accounts.

The trial balance is far from complete, however, and Ross's next task is to input the general ledger balances – eg inventory value, bank balance, loans, capital. When these items have been entered the trial balance should 'balance' – the two columns will have the same total and the suspense account will disappear.

AMENDING RECORDS

As well as setting up customer and supplier records, an organisation operating a computer accounting system will from time-to-time need to amend its records. For example:

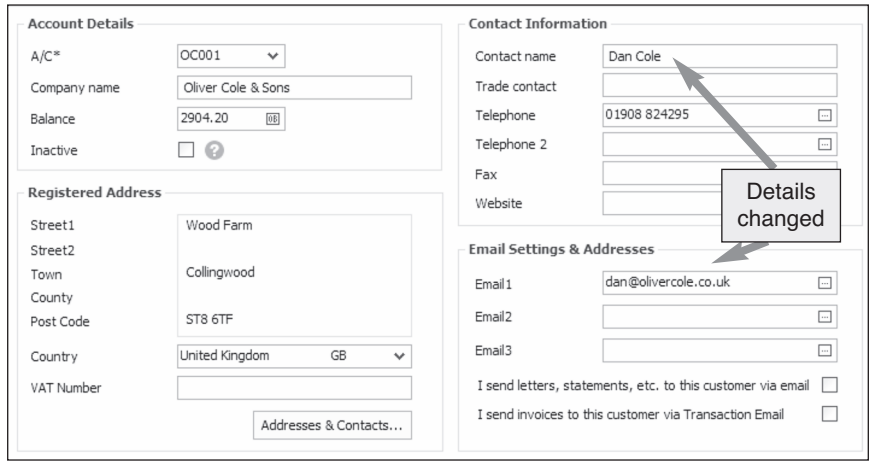
- to take account of changes of address, contact names, terms of supply
- by indicating that the account is no longer active
- by deleting the account (if the system allows you to – see next page)

amending records in Sage

The procedures in Sage are very straightforward:

- select either CUSTOMERS or SUPPLIERS as appropriate
- highlight the record that needs amending, click EDIT and go to the
  - DETAILS screen (for customer or supplier details) or
  - CREDIT CONTROL screen (for terms of supply, eg credit limit)
- make the necessary change on-screen
- SAVE

In the example at the top of the next page, the name of a customer contact and email address at Oliver Cole & Sons has been changed from Jem Cole to Dan Cole.



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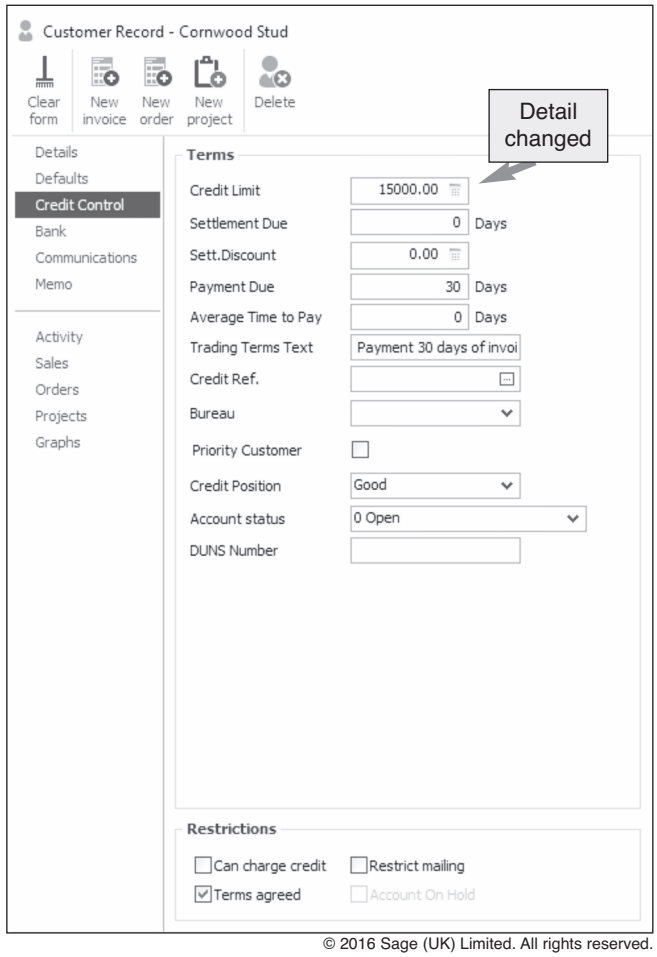
In the example below, the credit limit of £10,000 given to customer Cornwood Stud has been increased to £15,000.



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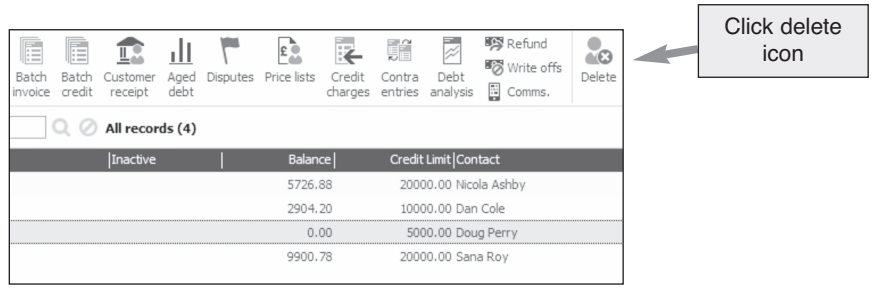
'closing' a customer or supplier account

The question may well arise "What should we do if a customer has ceased trading, or if we no longer use a particular supplier?" The logical answer is to close the account.

Sage does not allow you to **delete** an account when transactions have been recorded on it, even if the balance is nil. However, you can change the status of the account on the Credit Control screen in the customer record to 'Closed (On Hold)'.

If, on the other hand, the account has no transactions on it (eg it may have been opened and not used), it may be closed by clicking on the Delete icon on the toolbar. Here the account of Perry Builders can be deleted.



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Chapter Summary

- Businesses buy and sell products either on a cash basis (immediate payment) or on credit (payment made later).
- The accounting records for selling on credit comprise the accounts of customers (receivables/debtors) contained in the Sales Ledger.
- The accounting records for buying on credit comprise the accounts of suppliers (payables/creditors) contained in the Purchases Ledger.
- A business will also have to agree the terms of trading with a customer – the credit limit, the level of discount and the payment period it allows.
- Setting up Customer and Supplier records involves the input of details such as names, addresses and outstanding financial transactions.
- Records set up in this way should be carefully checked against printed out reports such as the Day Book Report and the trial balance.
- Customer and Supplier records can also be amended or deleted (where allowable) as required.

Key Terms

cash sale	a sale where payment is immediate
credit sale	a sale where payment follows after an agreed period of time
receivables (debtors)	customers who owe money to a business
payables (creditors)	suppliers who are owed money by a business
debtors control account	the total of the balances of debtors' accounts
creditors control account	the total of the balances of creditors' accounts
credit terms	discounts and extended payment periods allowed to customers who make purchases
defaults	sets of data on the computer which are automatically applied

Activities

3.1 A cash sale is a sale where the only means of payment is notes and coins. True or false?

3.2 Define:

(a) a receivable (debtor)

(b) a payable (creditor)

3.3 What books of the business (ledgers) contain:

(a) receivables' (debtors') accounts

(b) payables' (creditors') accounts

3.4 What is shown in:

(a) Sales Ledger Control Account (known in Sage as Debtors Control Account)

(b) Purchases Ledger Control Account (known in Sage as Creditors Control Account)

3.5 What is the difference between a trade discount and a settlement discount?

3.6 What report shows the debit and credit balances of the accounts in an accounting system?

3.7 There are two important pieces of information (excluding financial transactions) that are missing from the computer-held customer details shown below. What are they, and why are they important?

Account name	John Butler & Associates
Address	24 Shaw Street Mereford MR4 6KJ
Contact name	John Butler

Telephone 01908 824342, Fax 01908 824295, Email mail@jbutler.co.uk

3.8 Can you delete a customer or supplier record in Sage if you cease to deal with the customer or supplier?

TAPPER TIMBER INPUTTING TASKS

warning note!
This activity involves you in setting up Customer and Supplier records in Sage and inputting live data into the computer.
Ensure that you have changed your program date to 1 July 2016 in SETTINGS.

Also check that the Customer and Supplier Defaults are set to Nominal codes 4000 and 5000 respectively. The default tax code should be T1 (standard rate). The Customer Trading terms in Configuration Editor can also be set up for payment due days as 30 days and terms of payment 30 days of invoice.

Task 1

Enter the customer details into the Customers screens as indicated in the Case Study.
The three customer records are as follows:

Account reference: OC001
Oliver Cole & Sons
Wood Farm
Collingwood
ST8 6TF
Contact name: Jem Cole
Telephone: 01908 824295
Email: jem@olivercole.co.uk
Credit limit: £5,000
Invoice 10013, 10 June 2016, £2904.20

Account reference: VH001
Victoria Hotel
67 The Parade
Stourcastle
ST4 6HG
Contact name: Sana Roy
Telephone: 01908 345287
Email: mail@victoriahotel.com
Credit limit: £15,000
Invoice 10016, 17 June 2016, £9,900.78

Account reference: CS001
Cornwood Stud
The Foal Yard
Bartisham
ST6 4KG
Contact name: Nicola Ashby
Telephone: 01908 674237
Email: ashby@cornwood.net
Credit limit: £10,000
Invoice 10019, 24 June 2016, £5,726.88

Task 2

Enter the supplier details into the Suppliers screens as indicated in the Case Study.
The three supplier records are as follows:

Account reference: CP001
Chapman Panels
17 Main Street
Martleford
ST5 2BG
Contact name: Ella Chapman
Telephone: 01722 295611
Email: sales@chapmanpanels.co.uk
Credit limit: £15,000
Terms: Payment due 30 days
Invoice ref 7611, 20 June 2016, £6,242.52

Account reference: ET001
Estate Timber Ltd
Woodbury Farm
Martleford
ST5 5FG
Contact name: Brian Cope
Telephone: 01722 628161
Email: info@estatetimber.com
Credit limit: £7,500
Terms: Payment due 30 days
Invoice ref 16-2408, 23 June 2016, £4,506.00

Account reference: JF001
Johnsons Fixings
Unit 5
Huckle Estate
Stourcastle
ST4 7SL
Contact name: Mack Pang
Telephone: 01908 949233
Email: johnsons@fixings.com
Credit limit: £15,000
Terms: Payment due 30 days
Invoice M41997, 27 June 2016, £5,006.82

Task 3

Print out a Day Books: Customer Invoices (Detailed) report for the new Customer accounts and check and agree the amounts you have input. Check it against the printout on page 183.

Task 4

Print out a Day Books: Supplier Invoices (Detailed) report for the new Supplier accounts and check and agree the amounts you have input. Check it against the printout on page 183.

Task 5

Print out a trial balance for July 2016 and check that the Debtors and Creditors Control account balances agree with the figures on page 47 and the totals shown on the Day Book reports produced in Tasks 3 and 4.

Task 6

Jem Cole, who is your named contact at Oliver Cole & Sons, retires. He has been replaced by Dan Cole. His email address is dan@olivercole.co.uk. Amend the customer details as appropriate.

Task 7

At the beginning of July the credit limit for Cornwood Stud is increased to £15,000. Amend the customer record.

Reminder! Have you made a back-up?