

How to handle contra accounts

You need to use a contra account in the following situations:

When your customer is also a supplier

Example:

Company X owes you 164.46 plus VAT at 21% - total €199.00. But they have deducted from it the amount that you owe them for commission which is €29.85 plus VAT at 21% - total €36.12. In order to record this accurately you need to create a Sales Invoice for the amount that they owe you of €199. You are going to need to input the full purchase invoice of €36.12.

When you are recording receiving the money for the sales invoice you are going to have to do it as follows in order to keep your Debtors, Creditors, VAT, and Bank payments correct:

Account Maintenance

Click on Accounts, Bank

Add a bank account called Contra. **Note that this is not a real bank account**; it is just a place to record your contra transactions. You only need to set this up one time.

Purchases

Enter a Purchase Invoice as normal as per the amount they are deducting from the sale. This will ensure you get the VAT back that you are entitled to.

Supplier	Gross	Net	Vat
Company X	36.12	29.85	6.12

Payments to Suppliers (Click Purchases, Payments)

You now need to record paying your supplier, out of the Contra account.

Supplier	Amount	Bank Account
Company X	36.12	Contra

This will ensure that your Creditors Report is correct.

Sales

Now enter the full amount of the sales invoice as normal

Customer	Gross	Net	Vat
Company X	199.00	164.46	34.54

Lodgments from Customers (Sales, Invoices)

You now have to record your Customer paying you for your Sales Invoice in 2 steps as follows:

Record the amount that they owe you being paid into the Bank Account:

Customer	Amount	Bank Account
Company X	162.88	Bank Account 1

This will be the account that the money is going into

Second, record the amount that they owe you being paid out of the Contra Account:

Customer	Amount	Bank Account
Company X	36.12	Contra

This will ensure that your Debtors Report is correct and that your VAT liability is recorded accurately as well.

To make sure that you have taken care of both sides of the transaction correctly please run a Supplier Statement. Click on Reports, Supplier Reports and select Supplier Statements. Run a statement for your Supplier and check that the balance is correct.

To check your Debtors is correct, run a Customer Statement. Click on Reports, Customer Reports and select Customer Statements, select your Customer and make sure that the balance is correct.