

Help Guide: Understanding Contra Posting in Accounting

What is a Contra Posting?

A **contra posting** is an accounting entry that offsets one account against another, typically when a business acts as both a supplier and a customer to another entity. This method allows for the netting of mutual debts without the need for actual cash transactions, simplifying the reconciliation of accounts.

When to Use Contra Postings

Contra postings are commonly used in scenarios where:

- A company both sells to and purchases from the same entity.
- There are outstanding sales and purchase invoices between the two parties.
- The goal is to offset mutual debts to reflect the net payable or receivable amount.

How Contra Posting Works

Example Scenario:

- Your company has issued a sales invoice to Company A for £1,000.
- Company A has issued a purchase invoice to your company for £700.
- By applying a contra posting, you offset £700 from both accounts, resulting in:
 - A net receivable of £300 from Company A.
 - Both the sales and purchase ledgers accurately reflecting the remaining balances.

Accounting Entries:

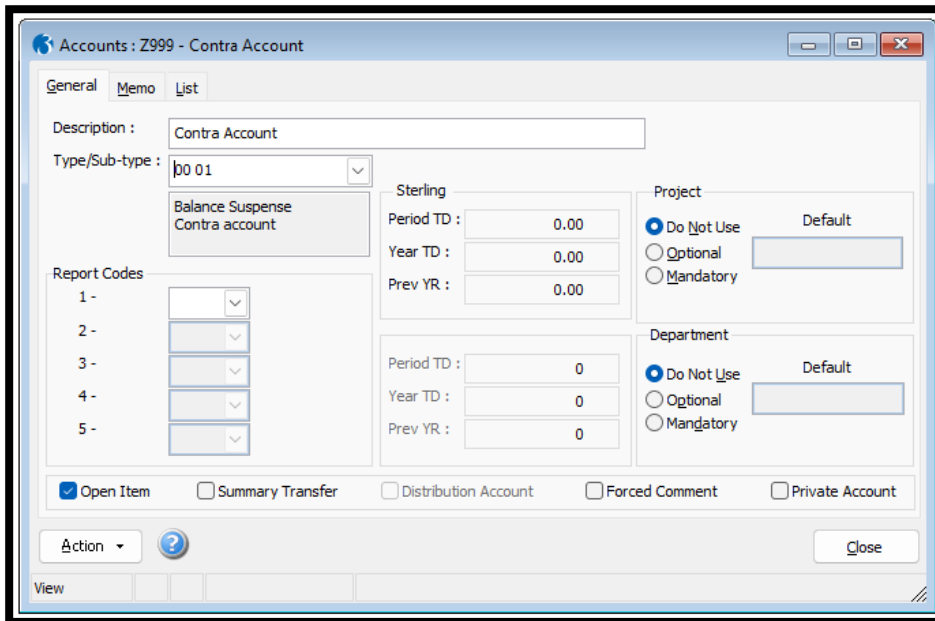
- **Debit:** Purchase Ledger Control Account £700
- **Credit:** Sales Ledger Control Account £700

This entry reduces both the accounts receivable and accounts payable by the same amount, effectively netting the mutual debts.

Steps to post a Contra entry in Opera 3

Prerequisites:

Ensure you have an account to post the in and out transactions in the Nominal ledger.
I have set up an example below.



Accounts: Z999 - Contra Account

General Memo List

Description: Contra Account

Type/Sub-type: 00 01

Balance Suspense
Contra account

Report Codes

1 -
2 -
3 -
4 -
5 -

Sterling

Period TD : 0.00
Year TD : 0.00
Prev YR : 0.00

Project

☒ Do Not Use Default
☐ Optional
☐ Mandatory

Department

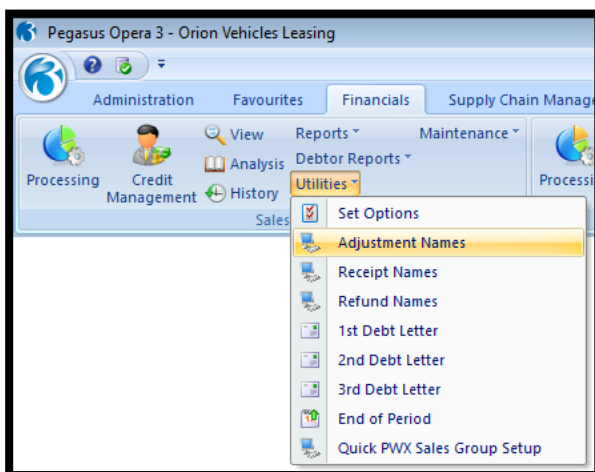
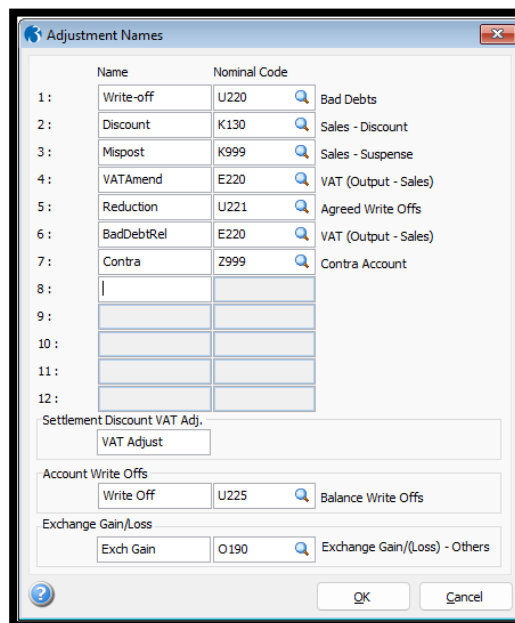
☒ Do Not Use Default
☐ Optional
☐ Mandatory

☒ Open Item ☐ Summary Transfer ☐ Distribution Account ☐ Forced Comment ☐ Private Account

Action ? Close

View

Ensure you have set up the adjustment types in the Sales Ledger and Purchase Ledger pointing to the correct Nominal ledger account. As displayed below:

Adjustment Names

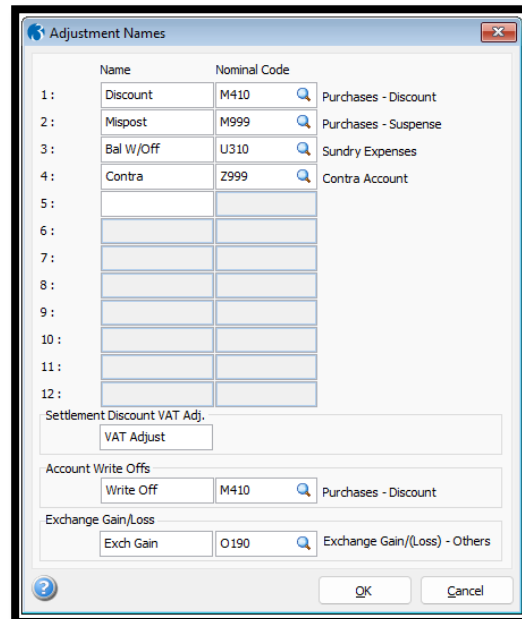
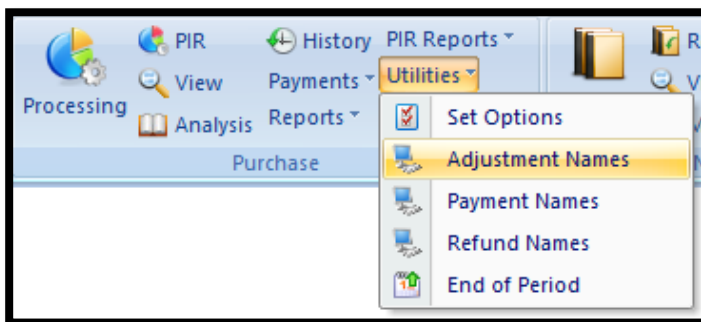
	Name	Nominal Code	
1:	Write-off	U220	Bad Debts
2:	Discount	K130	Sales - Discount
3:	Mispost	K999	Sales - Suspense
4:	VATAmend	E220	VAT (Output - Sales)
5:	Reduction	U221	Agreed Write Offs
6:	BadDebtRel	E220	VAT (Output - Sales)
7:	Contra	Z999	Contra Account
8:			
9:			
10:			
11:			
12:			

Settlement Discount VAT Adj.
VAT Adjust

Account Write Offs
Write Off U225 Balance Write Offs

Exchange Gain/Loss
Exch Gain O190 Exchange Gain/(Loss) - Others

OK Cancel



Steps to post the Contra.

Contra Amount: Enter the lesser of the two invoice amounts.

Date: Use the date agreed upon for the contra.

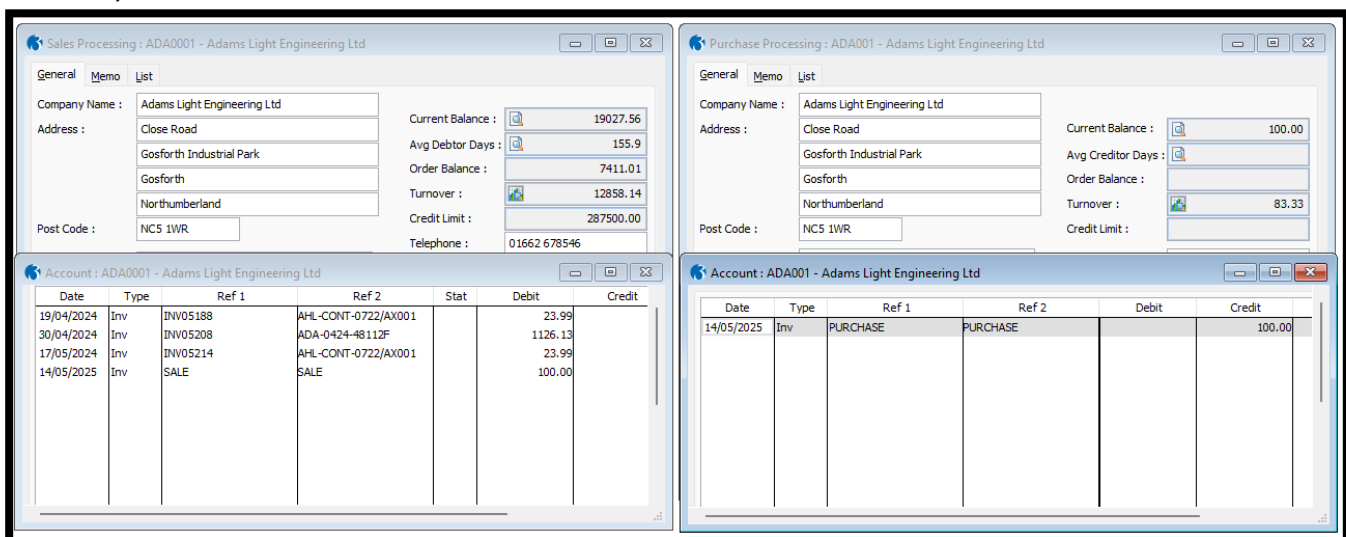
Reference: Add any relevant notes or references.

Review Ledgers: Confirm that the ledgers reflect the updated balances.

Detailed below:

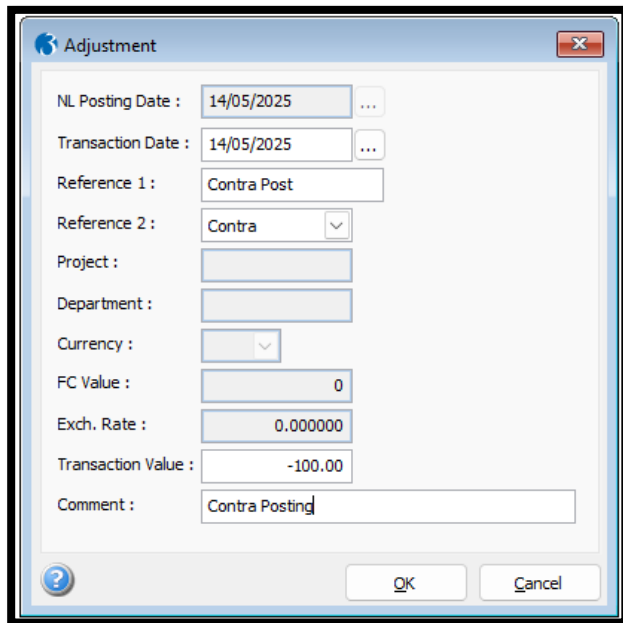
Check the invoices on both Sales Ledger and Purchase Ledger exist.

Sales entry



Go to the action button on the Sales ledger account and select Adjustment:

Enter in the required transaction details and ensure to select Contra from the Reference 2 dropdown.
Enter the value as a negative value to reduce the sales balance.

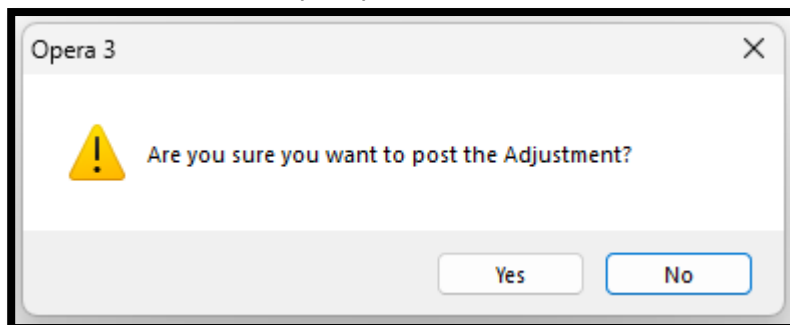


The 'Adjustment' dialog box contains the following fields and values:

- NL Posting Date : 14/05/2025
- Transaction Date : 14/05/2025
- Reference 1 : Contra Post
- Reference 2 : Contra
- Project :
- Department :
- Currency :
- FC Value : 0
- Exch. Rate : 0.000000
- Transaction Value : -100.00
- Comment : Contra Posting

Buttons at the bottom: ? (help), OK, Cancel.

Select OK and Yes to the prompt to continue.



The 'Opera 3' dialog box displays a warning icon and the text: "Are you sure you want to post the Adjustment?".

Buttons at the bottom: Yes, No.

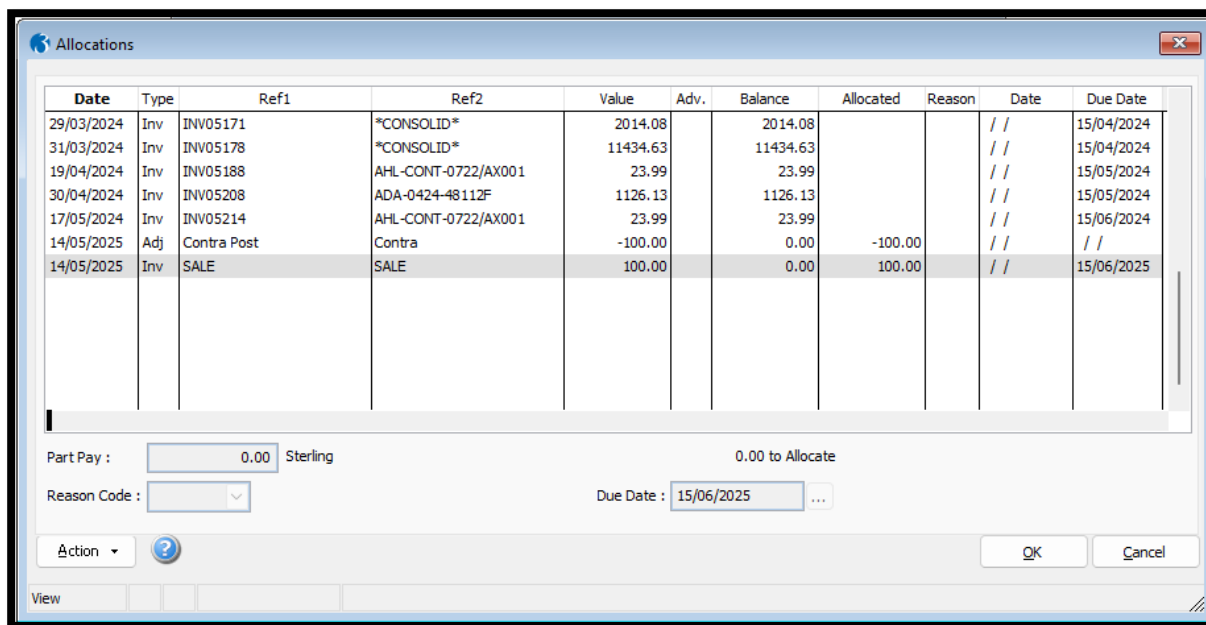
Purchase Entry

Repeat the steps followed above on the Purchase ledger account.
Enter the value as a negative value to reduce the purchase balance.

Allocation

You can now allocate the Invoice with the Adjustment Contra posting.
In both ledgers.

Sales



Date	Type	Ref1	Ref2	Value	Adv.	Balance	Allocated	Reason	Date	Due Date
29/03/2024	Inv	INV05171	*CONSOLID*	2014.08		2014.08			//	15/04/2024
31/03/2024	Inv	INV05178	*CONSOLID*	11434.63		11434.63			//	15/04/2024
19/04/2024	Inv	INV05188	AHL-CONT-0722/AX001	23.99		23.99			//	15/05/2024
30/04/2024	Inv	INV05208	ADA-0424-48112F	1126.13		1126.13			//	15/05/2024
17/05/2024	Inv	INV05214	AHL-CONT-0722/AX001	23.99		23.99			//	15/05/2024
14/05/2025	Adj	Contra Post	Contra	-100.00		0.00	-100.00		//	//
14/05/2025	Inv	SALE	SALE	100.00		0.00	100.00		//	15/06/2025

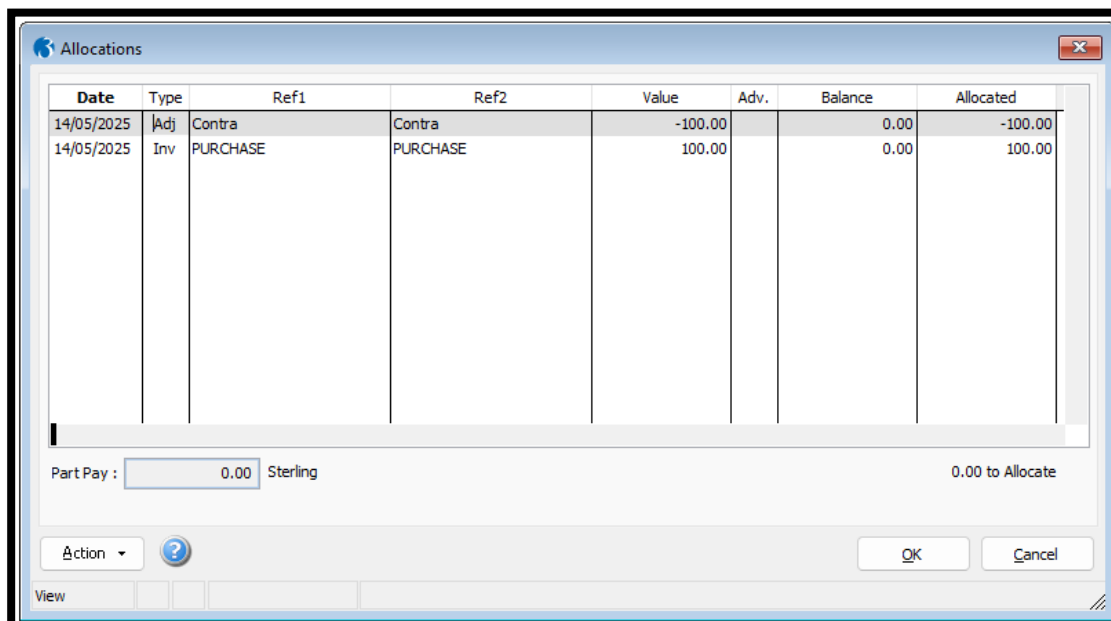
Part Pay : 0.00 Sterling 0.00 to Allocate

Reason Code : Due Date : 15/06/2025

Action

View

Purchase



Date	Type	Ref1	Ref2	Value	Adv.	Balance	Allocated
14/05/2025	Adj	Contra	Contra	-100.00		0.00	-100.00
14/05/2025	Inv	PURCHASE	PURCHASE	100.00		0.00	100.00

Part Pay : 0.00 Sterling 0.00 to Allocate

Action

View

In Pegasus Opera 3, contra entries are posted to the nominal ledger but do not affect the cash book, as no actual funds are transferred.

Important Considerations

- **Currency Consistency:** Both accounts must operate in the same currency to apply a contra.
- **Partial Offsets:** If invoice amounts differ, only the smaller amount is offset, leaving a balance on the larger invoice.
- **No Cash Movement:** Contra postings do not involve actual cash transactions and thus do not appear in bank reconciliations.
- **Audit Trail:** Maintain clear documentation for each contra entry to ensure transparency and ease of auditing.

Benefits of Contra Posting

- **Efficiency:** Reduces the number of transactions and simplifies account reconciliation.
- **Clarity:** Provides a clear view of net balances between entities.
- **Cash Flow Management:** Improves cash flow by offsetting mutual debts without actual payments.

Conclusion

Contra postings are a valuable tool in accounting for managing mutual debts between entities that have both receivables and payables with each other. By accurately applying contra entries, businesses can streamline their accounting processes, maintain accurate financial records, and improve overall financial management.