

Control Accounts

Every Organization maintains individual Trade Receivables and Trade Payables personal T accounts in an alphabetical order. These are called subsidiary ledgers. When these personal Accounts increases in numbers as the business grows there are chances of mistakes, errors along with misappropriation and fraud. To minimize these chances of errors company prepares total of these accounts known as Trade Receivables or Trade Payables control account.

Control Accounts only record credit sales and credit purchases and does not include sales and purchase on cash terms.

- **Customer's / Trade Receivables / Sales Ledger Control Account (SLCA)**
- **Supplier's / Creditor's / Purchase Ledger Control Account (PLCA)**

Advantages / Uses of Control Accounts

- Locate Errors
- Proof of Arithmetical Accuracy of subsidiary Ledgers
- They provide total figures of account receivable and account payable
- Help to reduce fraud and misappropriations of funds
- Help in preparation of final accounts

Contra – Set off

Accounts that can offset against each other e.g. If Co. A owes money to Co. B and Co B also owes money to Co. A then the lower amount can be set off against each other so that only the difference then needs to be paid by one party

Action Required = Dr PLCA and Cr SLCA with the lower amount.

Refunds to Customer

when a customer paid more of the amount which was due to him then company owes that customer which needs to be refunded.

Action Required = Dr SLCA and Cr Bank

Refunds from supplier

When we paid more of the amount which was due to a supplier then supplier owes us the excess amount which he will refund us.

Action Required = Dr Bank and PLCA Cr

Interest charged on overdue account

When the amount is due on a customer and he require more time for the payment. Then

company usually charge interest on the amount due to him. Customer would have to pay the original amount and interest.

Action required = Debit SLCA with the interest amount and credit Interest Income

Sources of Information for control accounts

Sales Ledger Control Account

Item	Source of Information
1 Opening Trade Receivables	List of Trade Receivables' balances drawn up at the end of the previous period
2 Credit sales	Total from the Sales Day Book
3 Returns inwards	Total of the Returns Inwards Day Book
4 Cheques received	Cash Book: bank column on received side. List extracted or the total of a special column for cheques which has been included in the Cash Book
5 Cash received	Cash Book: cash column on received side. List extracted or the total of a special column for cash which has been included in the Cash Book
6 Discounts allowed	From Discount Allowed column in 3 Column Cash book
7 Closing Trade Receivables	List of Trade Receivables' balances drawn up at the end of the period

Purchase Ledger Control Account

Item	Source of Information
1 Opening Trade Payables	List of creditor's balances drawn up at the end of the previous period
2 Credit Purchases	Total from the Purchase Day Book
3 Returns Outwards	Total of the Returns Outwards Day Book
4 Cheques Paid	Cash Book: bank column on payment side. List extracted or the total of a special column for cheques which has been included in the Cash Book
5 Cash Paid	Cash Book: cash column on payment side. List extracted or the total of a special column for cash which has been included in the Cash Book
6 Discounts received	From Discount received column in 3 Column Cash book
7 Closing Trade Payables	List of creditor's balances drawn up at the end of the period

Total debtors account or Sales Ledger Control Account (SLCA)

balance b/d	xxx	AND /OR	balance b/d (Cr)	xxx
Sales	xxx		Cash / Bank (Payment received)	xxx
Dishonored/Unpaid/Bounced Chq	xxx		Discount Allowed	xxx
Interest Charged to debtors	xxx		Return inward / Sales return	xxx
Refunds to Debtors (Bank)	xxx		Bad Debts	xxx
			Contra - PLCA	xxx
balance c/d (Cr)	xxx	AND /OR	balance c/d	xxx
Totals	xxx		Totals	xxx
balance b/d	xxx		balance b/d (Cr)	xxx

State why SLCA may have a credit balance?

Credit balance in SLCA shows the amount that a company owes to debtor/customer.

- Due to over/duplicated payment by the customer.
- Sales return after the settlement of an account.
- Advance payment from the customer

Total Creditors account or Purchase Ledger Control Account (PLCA)

balance b/d (Dr)	xxx	AND /OR	balance b/d	xxx
Cash / Bank (Payment made)	xxx		Purchases (Credit)	xxx
Discount Received	xxx		Interest Charged by Suppliers	xxx
Return Outwards/Purchase return	xxx		Refunds from Creditors	xxx
Contra - SLCA	xxx			
balance c/d	xxx	AND /OR	balance c/d (Dr)	xxx
Totals	xxx		Totals	xxx
balance b/d (Dr)	xxx	OR	balance b/d	xxx

State why PLCA may have a debit balance?

Debit balance in PLCA shows the amount that a supplier owes to company

- Due to over/duplicated payment by us
- Purchase return after the settlement of an account.
- Advance payment by us

Treatment of Balances in the Balance Sheet

SLCA (Debit)	+	PLCA (Debit)	=	Trade Receivables
PLCA (Credit)	+	SLCA (Credit)	=	Trade Payables

Reconciliation of control accounts

Errors and omissions can occur when entering information into the accounting records. When a ledger control account is not in balance, it indicates that something has gone wrong with the entries made to the accounting records. This leads to an investigation which (hopefully) reveals the cause(s). Then, in order to verify whether the identified item(s) caused the failure to balance the control account, reconciliation is carried out.

Corrected / Revised / Updated Sales Ledger Control A/c

Balance b/d (Given)	XXX	Error(s) / Adjustment	XX
Error(s)/ Adjustment	<u>XX</u> <u>XXX</u>	Balance c/d	<u>XX</u> <u>XXX</u>
Balance b/d	XX		

CONTROL ACCOUNTS RECONCILIATION STATEMENT

Balance as List / Schedule of Balances			XXX
<u>Errors / Adjustments</u>	ADD	LESS	
1)	XX		
2)		(XX)	
3)	<u>XX</u>	—	<u>XX/(XX)</u>
Balance as Per Corrected Control Account			<u>XXX</u>

Past Paper Questions

- Q1.** The sales ledger control account of Dream Beds for the year ended 31 December 2010 is shown below.

		\$			\$
Jan 1	Balance b/d	43 900	Dec 31	Sales returns	28 510
Dec 31	Sales	522 650		Bank	436 300
	Bank (dishonoured cheques)	2 200		Discount allowed	28 800
				Bad Debts	8 400
				PLCA	3 210
				Balance c/d	63 530
		<u>568 750</u>			<u>568 750</u>

The schedule of trade receivables (debtors) extracted from the sales ledger at 31 December 2010 totalled \$61 140.

The following errors were subsequently discovered:

- 1 A sale of \$750 had been entered in John's account in the sales ledger as \$570. The correct entry had been made in the sales journal.
- 2 An entry of \$850 was correctly entered in Samera's account in the sales ledger, closing the account owing to Samera's bankruptcy. No other entry had been made.
- 3 A sum of \$120 discount allowed had been debited to Beach's account in the sales ledger. The correct entry had been made in the cash book.
- 4 At 31 December 2010 the balances in Richard's accounts were:

	\$	
Purchases Ledger	2680	Credit
Sales Ledger	1980	Debit

It was decided to set off Richard's balance in the sales ledger against the balance in the purchases ledger. No entries had been made.

- 5 Goods to the value of \$800 were sold to Claire in June 2010, and the account had not yet been paid. Interest charges of \$30 are to be applied on the overdue account, but no entries for this had yet been recorded.

In addition a provision for doubtful debts of 10% on the new outstanding balance is to be created.
- 6 Dream Beds had sent goods with a selling price of \$400 on a sale or return basis to Majit. Majit had not yet signified any intention to purchase the goods. Dream Beds had considered the goods as sold, and made the relevant accounting entries.
- 7 A page in the sales returns journal in October 2010 had been undercast by \$1600. No correction had yet been made.

REQUIRED

- (a) Prepare the corrected sales ledger control account for the year ended 31 December 2010.

- (b) Prepare a statement reconciling the schedule of trade receivables (debtors) total with the corrected balance in the sales ledger control account.
- (c) Explain **two** advantages of using a sales ledger control account.

Q2. The following information has been extracted from the accounts of Harvey Rabbit for the year ended 31 March 2010.

	\$
Sales ledger balance at 1 April 2009	29040
Credit sales	499892
Cash sales	14634
Credit sales returns	9878
Receipts from debtors, banked	462680
Discount allowed on credit sales	21404
Bad debts written off	9510
Debtors' cheques dishonoured	662
Contra entries	1153

REQUIRED

- (a) Prepare Harvey Rabbit's sales ledger control account for the year ended 31 March 2010.

The total of Harvey Rabbit's sales ledger balances at 31 March 2010 was \$26845, which did not agree with the closing balance of his sales ledger control account. On checking his accounts he discovered the following errors.

- 1 A credit note for \$420 which had been sent to a debtor had been entered in the sales journal (day book) and posted as a sale to both accounts.
- 2 A debit entry in the sales ledger for \$698 had been set off as a contra entry in the purchases ledger, but no entry had been made in the control accounts.
- 3 The discount allowed account had been overstated by \$310.
- 4 A sales invoice for \$998 had been completely omitted from the accounts.
- 5 A debit balance of \$2102 had been omitted from the list of debtors.
- 6 A debtor who owed \$896 had been declared bankrupt during March 2010. The debt had been written off in the control account, but no entry had been made in the debtor's account.
- 7 A receipt for \$630 had been debited to the bank account but omitted from the debtor's account.
- 8 An entry for \$816 in the sales journal (day book) had not been posted to the debtor's account.
- 9 A sales ledger account had been understated by \$200.

10 A page of the sales journal (day book) with entries totalling \$3856 had been omitted from total sales. The amounts had, however, been posted to the debtors' accounts.

REQUIRED

- (b) (i) Beginning with the closing balance which you have calculated in (a), prepare a statement showing the amended balance on the control account.
- (ii) Beginning with Harvey Rabbit's sales ledger balance of \$26845, prepare a statement amending the total of the sales ledger balance to agree with the new control account balance.
- (c) State **three** advantages of keeping control accounts.

Q3.

JR's sales ledger control account balances at 1 March 2008 were as follows.

Dr \$340 600	Cr \$1 960
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During March 2008 the following transactions took place.

	\$
Credit sales	295 000
Cash sales	219 750
Sales returns from credit customers	6 480
Receipts from debtors	238 600
Discounts allowed	3 500

Additional information for the month of March 2008

- 1 The receipts from debtors included a cheque for \$3600 in full settlement of a debt of \$3800. This was returned by the bank on 28 March marked "insufficient funds".
- 2 Eva Little and JR both buy from and sell to each other. At 31 March 2008 Eva owed JR \$5000 and JR owed \$8600 to Eva. They agreed to offset balances, the net amount being payable by JR on 31 March 2008.
- 3 It was agreed that a debt of \$2300 from Alice Springs was bad and it was written off.
- 4 The total credit balances in the sales ledger control account at 31 March 2008 were \$8340.

REQUIRED

- (a) Prepare JR's sales ledger control account for the month of March 2008.
- (b) State **three** possible reasons why a debtor's account might have a credit balance.
- (c) State **three** reasons for keeping control accounts.

Q4

Ali maintains a full set of accounting records, including a sales ledger and a sales ledger control account. All sales are on credit.

REQUIRED

(d) State one advantage of maintaining a sales ledger control account.

Additional information

At 31 January 2015 the balance on the sales ledger control account was \$64 850. After investigation the following errors were discovered.

- (i) The total of the discount allowed column in the cash book had been overstated by \$200.
- (ii) A receipt of \$800 from Siri, a customer, had been treated as a refund from Sally, a supplier.
- (iii) The total of the sales journal for January had been undercast by \$500.
- (iv) An invoice for \$950 sent to Bernie had been entered in the sales journal as \$590.
- (v) Goods with a selling price of \$760 had been invoiced to Janine. The goods were sent on a sale or return basis. Janine had not indicated whether or not she intended to buy them.
- (vi) An invoice for \$280 sent to Ken had been correctly entered in the sales journal but had been entered in Ken's account as \$208.

REQUIRED

(e) Calculate the correct balance on the sales ledger control account after making the appropriate adjustments.

Q5 Trott provided the following information for the year ended 30 April 2017:

	\$
Sales ledger control account balance	93 185
Sales ledger balances	78 370

The following errors were identified:

- 1 The sales journal total had been overcast by \$30 420.
- 2 A dishonoured cheque for \$9 745 had not been entered in the customer's account.
- 3 Interest charged on an overdue amount, \$720, had been completely omitted from the books of account.
- 4 The sales returns journal had been overcast by \$4 560.
- 5 Discount allowed of \$1 520 had been completely omitted from the books of account.
- 6 Receipts from credit customers entered in the cash book had been overcast by \$18 965.
- 7 An irrecoverable debt of \$1 825 had been written off in the sales ledger control account but no entry had been made in the customer's account.

REQUIRED

- (a) Complete the following tables to update the sales ledger control account balance and the sales ledger balances at 30 April 2017.

Sales ledger control account

Description	Add (\$)	Less (\$)	Total (\$)
Opening balance			93 185

Sales ledger balances

Description	Add (\$)	Less (\$)	Total (\$)
Opening balance			78 370

- (b) State **four** advantages to a business of preparing a sales ledger control account.

Q6 ARD provided the following information for the year ended 30 Oct 2019:

	\$
Purchase ledger control account balance	43 185
Balance as per list of creditors	39 848

The following errors were identified:

- 1 The purchase journal total had been overcast by \$10 420.
- 2 Interest charged by supplier by, \$420, had been completely omitted from the books.
- 3 The purchase returns journal had been undercast by \$3 560.
- 4 Discount received of \$1 220 had been completely omitted from the books of account.
- 5 Payment to credit suppliers entered in the cash book had been overcast by \$8 965.
- 6 A Purchase of \$870 had been entered in Sultan's Account in the purchase ledger as \$780, the correct entry has been made in purchase journal.
- 7 A sum of \$220 discount received had been credited to Asghar's account in purchase ledger. The correct entry has been made in the cash book.

8 At 30 Oct 2019 the balances in Akram's accounts were:

	\$
Sales Ledger	1 580
Purchase ledger	1 280

It was decided to set off Akram's balance in the purchase ledger against the balance in the sales ledger. No entries had been made

9 ARD has received goods costing \$5 000 on sale of return basis from Akbar. ARD has not signified any intention to purchase the goods but his accountant has considered the goods as bought and recorded the transaction.

10 A credit note \$100 received from a supplier had been entered in purchase day book and posted as a purchase to both accounts.

11 A credit balance of \$1 502 had been omitted from list of creditors.

12 A purchase invoice for \$858 had been completely omitted from the books.

13 A payment of \$1 500 had been credited to bank account but omitted from supplier's account.

14 An entry for \$516 in the purchase journal (daybook) had not been posted to creditor's account.

15 A Purchase ledger account had been overstated by \$300

16 A page of the purchase journal (daybook) with entries totaling \$1 546 had been omitted from total purchase. The amounts had, however been posted to creditor's account.

REQUIRED

- (a)** Prepare corrected Purchase ledger control account as at 30 Oct 2019.
- (b)** Prepare a statement reconciling the schedule of creditor's balances with the corrected balance in purchase ledger control account.

