

# Control Accounts

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Every Organization maintains individual debtors and creditors 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 debtors or creditors control account.

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

- **Customer's / Debtors / 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 debtors	List of debtors' 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 debtors	List of debtors' balances drawn up at the end of the period

### Purchase Ledger Control Account

Item	Source of Information
1 Opening creditors	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 creditors	List of creditor's balances drawn up at the end of the period

### Total debtors account or Sales Ledger Control Account (SLCA)

<b>Balance b/d</b>	xxx	AND / OR	<b>Balance b/d (Cr)</b>	xx
Sales	xxx		Bank	xxx
Bank (Dishonored Cheque)	xxx		Discount Allowed	xxx
Interest Charged to debtors	xxx		Return inward	xxx
Bank (Refunds to Debtors)	xxx		Bad Debts	xxx
			Contra - <b>PLCA</b>	xxx
<b>Balance c/d (Cr)</b>	xx	AND / OR	<b>Balance c/d</b>	xxx
Totals	<b>xxx</b>		Totals	<b>xxx</b>
<b>Balance b/d</b>	xxx	AND / OR	<b>Balance b/d (Cr)</b>	xx

#### 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)

<b>Balance b/d (Dr)</b>	xx	AND / OR	<b>Balance b/d</b>	xxx
Bank	xxx		Purchases	xxx
Discount Received	xxx		Interest Charged by Suppliers	xxx
Return Outwards	xxx		Bank (Refunds from Creditors)	xxx
Contra - <b>SLCA</b>	xxx			
<b>Balance c/d</b>	xxx	AND / OR	<b>Balance c/d (Dr)</b>	xx
Totals	<b>xxx</b>		Totals	<b>xxx</b>
<b>Balance b/d (Dr)</b>	xx	AND / OR	<b>Balance b/d</b>	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



## CONTROL ACCOUNTS

**Q1.** From the following figures, compile debtors ledger and creditor's ledger control accounts for the month, and ascertain what the net balances of the respective ledgers should be on 31 January 2010.

### Balances on 1 January 2010

Debtors ledger

\$  
Dr 46,462

Cr 245

Creditors ledger

Dr 1,472

Cr 25,465

### Total for the month to 31 January 20X0

Purchases

76,474

Sales

126,024

Purchase returns

2,154

Debtors accounts settled by contra accounts with creditors

455

Bad debt written off

1,253

Discounts and Allowances to customers

746

Cash received from customers

120,464

Cash discount received

1,942

Cash paid to creditors

70,476

Cash paid to customers

52







**Q3** Arjit provided the following information for the month of July 2018.

1 Sales ledger control account balances 1 July 2018

	\$
Debit	4230
Credit	80

2 Transactions for the month ended 31 July 2018

	\$
Credit sales	9200
Cash sales	3100
Bad debts written off	450
Discount allowed	230
Returns inwards	740
Receipts from credit customers	8000
Refund to credit customer by cheque	300
Interest charged on overdue account	180

3 Sales ledger control account balances 1 August 2018

	\$
Debit	?
Credit	150



**REQUIRED**

- (a)** Prepare the sales ledger control account for the month of July 2018. Balance the account and bring down the balances on 1 August 2018.

Sales ledger control account

Date	Details	\$	Date	Details	\$

[9]

Q4 Umar sells goods on credit and maintains a sales ledger control account. The following information is available for the month ended 31 March 2017.

2017		\$
March 1	Amount owing by credit customers	36 000
31	Cheques from credit customers	53 800
	Dishonoured cheque (included in cheques received)	2 080
	Cash sales	4 500
	Credit sales	51 270
	Credit notes issued to customers	1 750
	Discount allowed	950
	Bad debt	1 450

**REQUIRED**

(a) State **two** benefits of using control accounts.

- 1 .....
- 2 ..... [2]

(b) Prepare the sales ledger control account for March 2017. Balance the account and bring down the balance on 1 April 2017.

Sales ledger control account

Date	Details	\$	Date	Details	\$

[9]