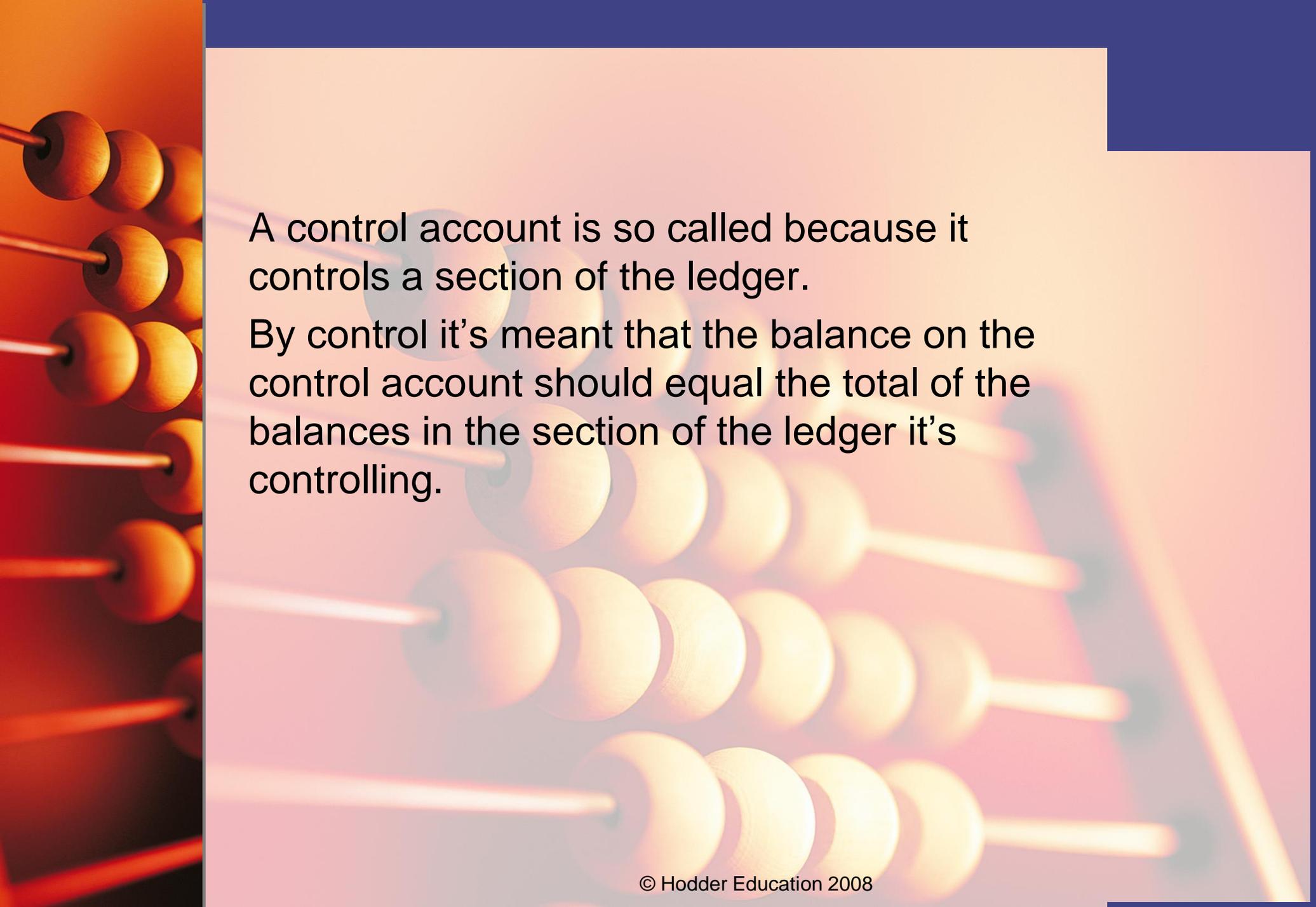


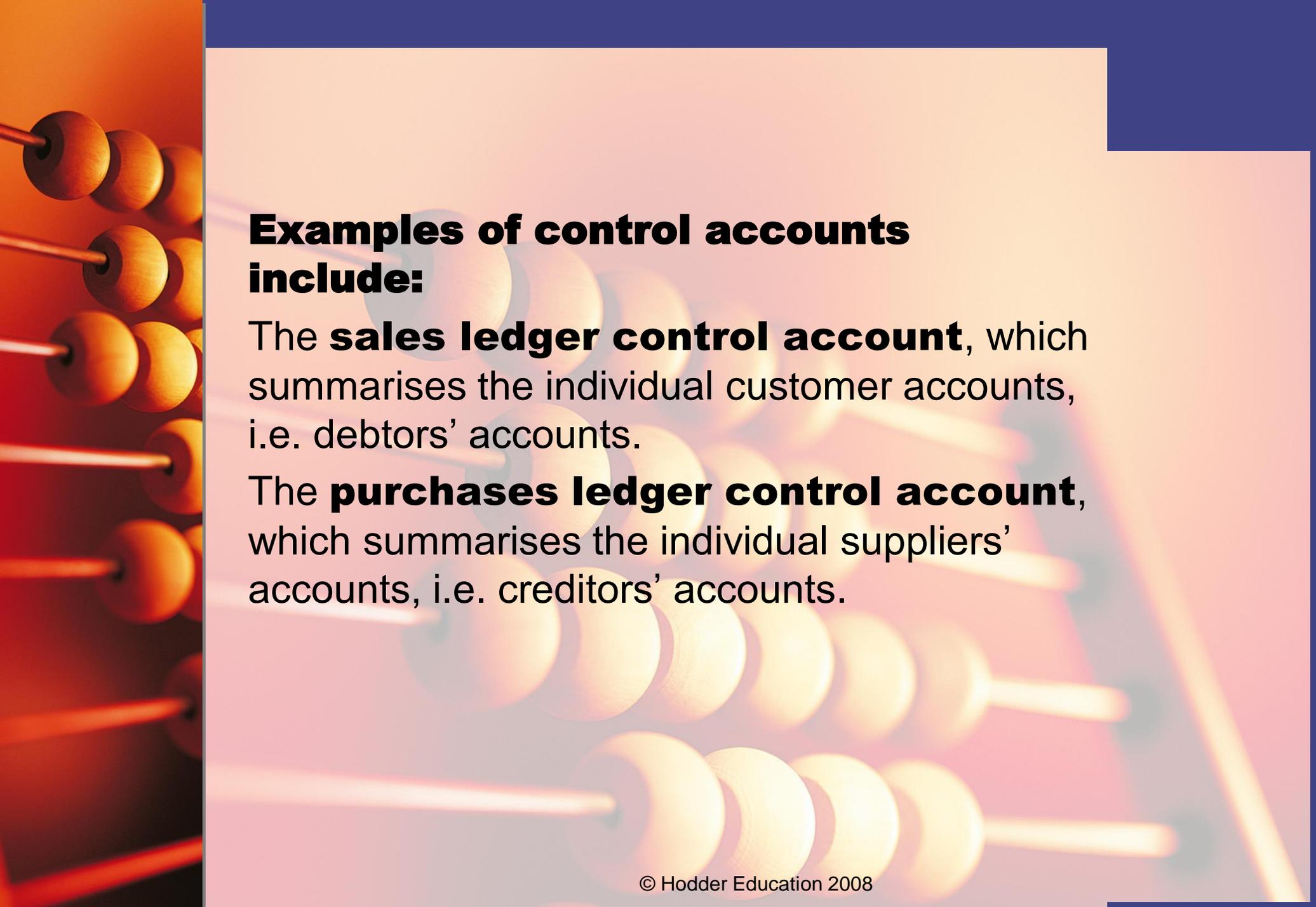


Control Accounts



A control account is so called because it controls a section of the ledger.

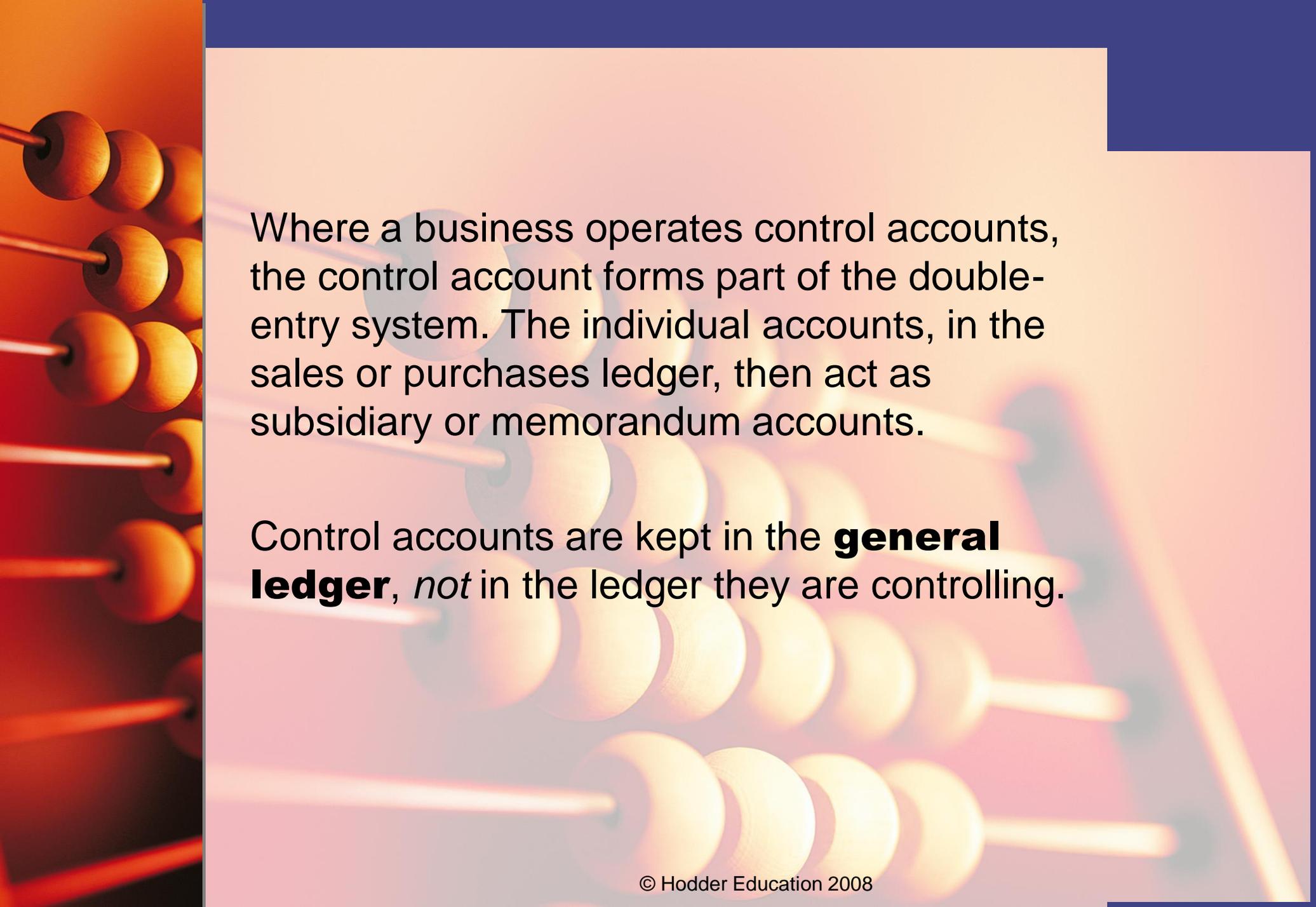
By control it's meant that the balance on the control account should equal the total of the balances in the section of the ledger it's controlling.



Examples of control accounts include:

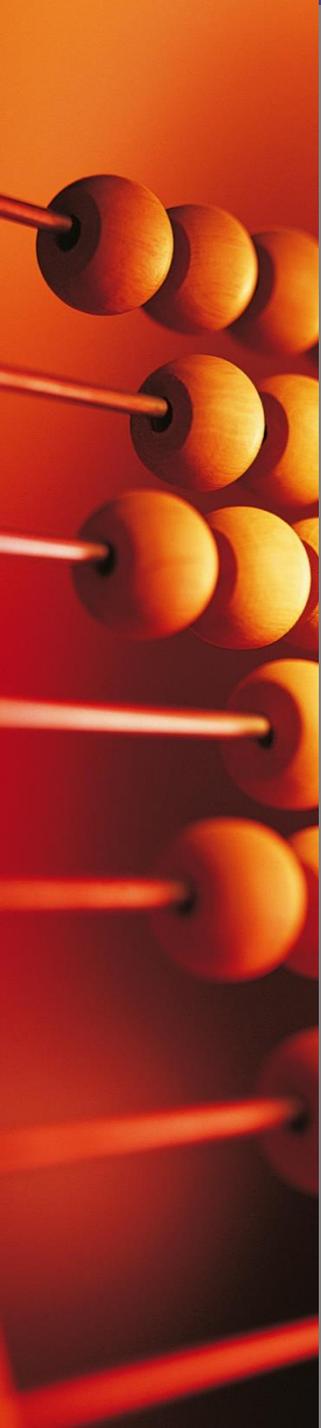
The **sales ledger control account**, which summarises the individual customer accounts, i.e. debtors' accounts.

The **purchases ledger control account**, which summarises the individual suppliers' accounts, i.e. creditors' accounts.



Where a business operates control accounts, the control account forms part of the double-entry system. The individual accounts, in the sales or purchases ledger, then act as subsidiary or memorandum accounts.

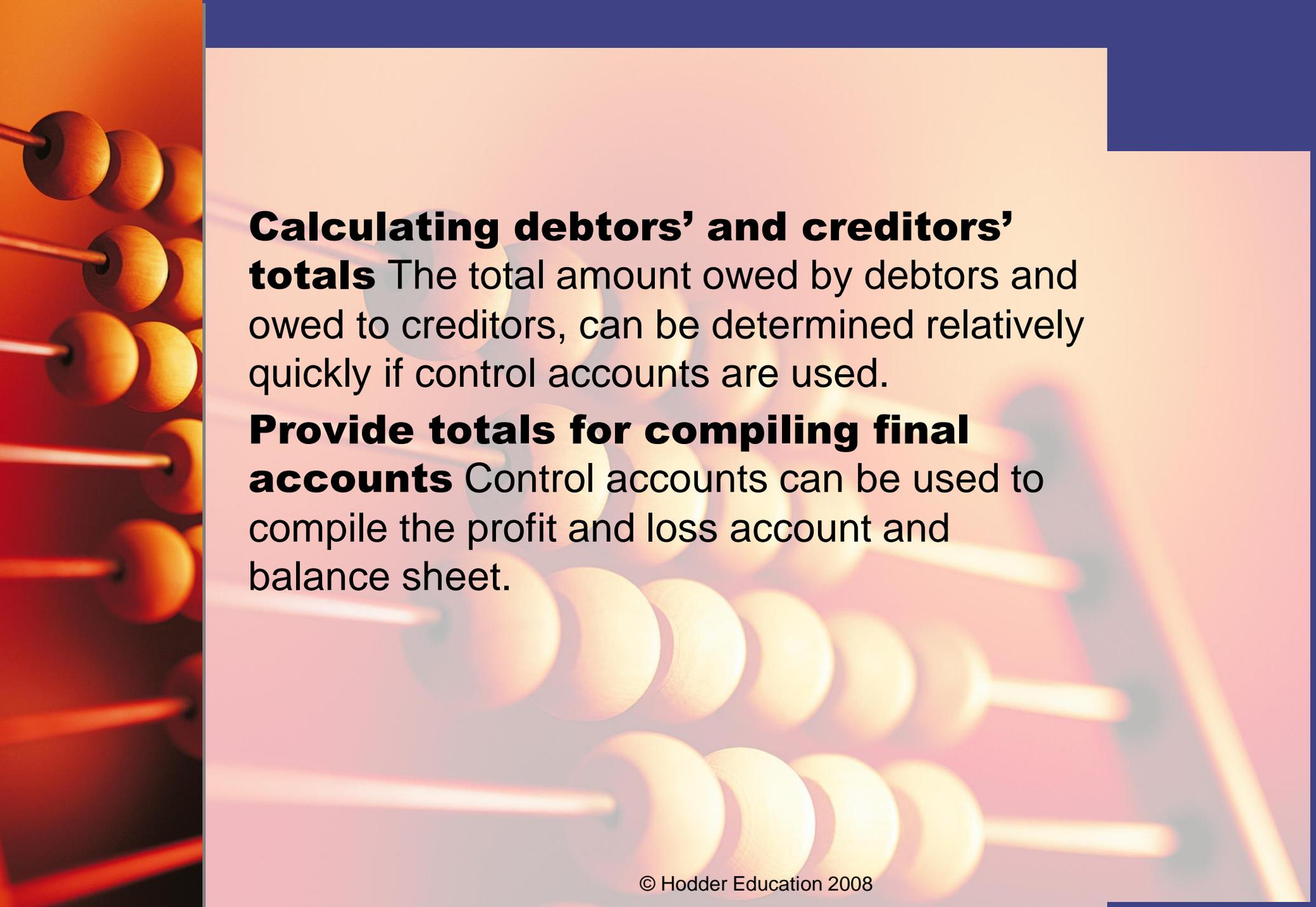
Control accounts are kept in the **general ledger**, *not* in the ledger they are controlling.



Purposes of control accounts

Localising errors Help locate errors, as the control account balance should equal the total of balances from schedule of debtors or creditors, therefore easier to locate. Control accounts allow errors to be confined to relatively small areas in the books and accounts.

Helps prevent fraud They provide an *independent check*: control accounts are completed by a different member of staff than the individual ledger accounts.

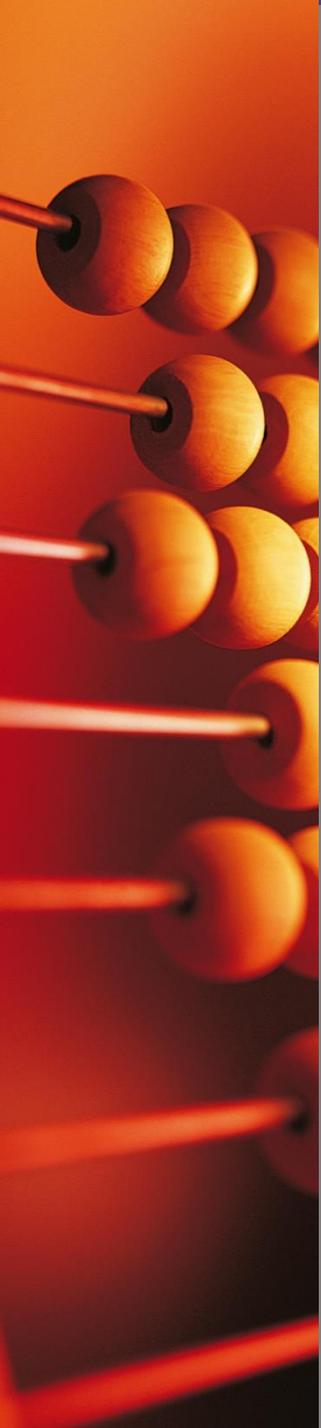


Calculating debtors' and creditors'

totals The total amount owed by debtors and owed to creditors, can be determined relatively quickly if control accounts are used.

Provide totals for compiling final

accounts Control accounts can be used to compile the profit and loss account and balance sheet.



Example of a sales ledger control account

Goods sold to: Smith £500, Jones £550, Walker £400 and Thomas £50.

Smith returned goods to the value of £50 and Jones £40.

Thomas's debt was written off as a bad debt.

Smith and Walker made payments of £294 and £196 after being allowed a cash discount.

Follow the entries in the double-entry accounts on the next slide.

Sales Journal

Smith	500
Jones	550
Walker	400
Thomas	<u>50</u>
	<u>1,500</u>

Sales Returns Journal

Smith	30
Jones	<u>40</u>
	<u>70</u>

The Journal

Bad Debts	50
Thomas	50

Sales Ledger

Smith			
SJ	500	SRJ	30
		CB	294
		DA	6

Jones			
SJ	550	SRJ	40

Walker			
SJ	400	CB	196
		DA	4

Thomas			
SJ	50	Bad Debt	50

General Ledger

Sales	
SJ	1,500

Sales Returns	
SRJ	70

Sales Ledger Control	
SJ	1,500
SRJ	70
CB	490
DA	10
Bad D	50
Bal c/d	<u>880</u>
<u>1,500</u>	<u>1,500</u>

Cash Book

Smith	6	294
Walker	<u>4</u>	<u>196</u>
	<u>10</u>	<u>490</u>

The balance from the individual accounts in the sales ledger should equal the balance in the sales ledger control account.

Schedule of debtors

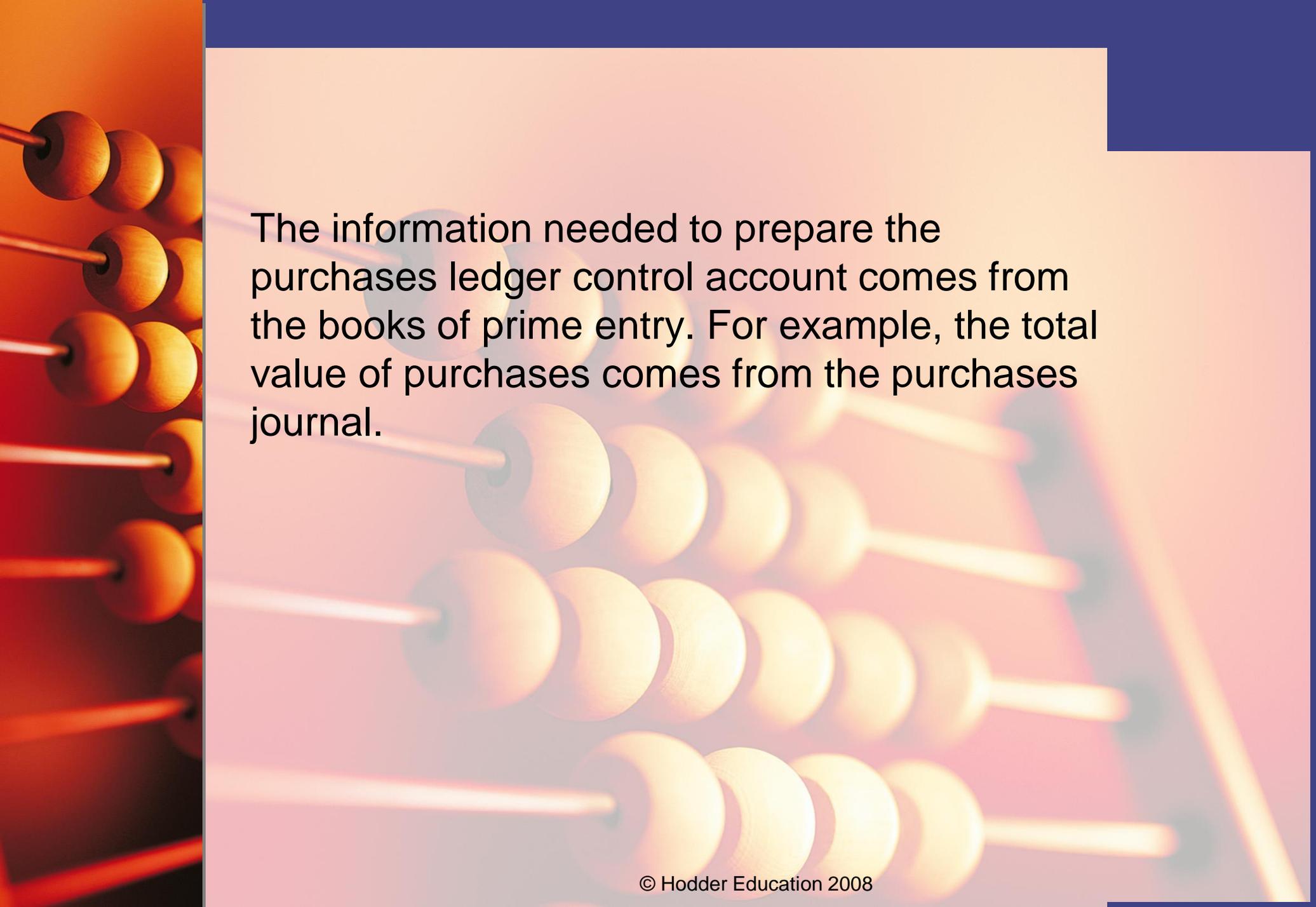
Balance on control
account

	£		£
Smith	170	Balance b/d	880
Jones	510		
Walker	200		
Thomas	<u>0</u>		
Total debtors	<u>880</u>		



The purchases ledger control account

The purchases ledger control account is sometimes known as the creditors' control account. It is used to control the purchases ledger, which controls the accounts of the individual suppliers who supply goods on credit.



The information needed to prepare the purchases ledger control account comes from the books of prime entry. For example, the total value of purchases comes from the purchases journal.

Set-off/contra entries

Set-off entries or contra entries arise if a business sells goods to, and also buys goods from the same trader.

For example

We sell P Claire goods valued at £300. We also purchase goods valued at £400 from P Claire. The accounts in the ledgers would appear as follows:

Set-off/contra entries

Sales ledger

P Claire

Sales	<u>300</u>	Set-off purchases	<u>300</u>
-------	------------	-------------------	------------

Purchases ledger

P Claire

Set-off sales	300	Purchases	<u>400</u>
Bank	<u>100</u>		
	<u>400</u>		<u>400</u>



Sources of information: sales ledger control account

Opening debtors – List of debtors' balances drawn up at the end of the previous period

Credit sales – Total from the sales journal

Sales returns – Total from the sales returns journal

Cheques/cash received from debtors – Cash book

Discounts allowed – Cash book

Bad debts – Journal

Closing debtors – List of debtors' balances drawn up at the end of the period



Sources of information: purchases ledger control account

Opening creditors – List of creditors' balances drawn up at the end of the previous period.

Credit purchases – Total from purchases journal

Purchases returns – Total from purchases returns journal

Cheques/cash paid to creditors – Cash book

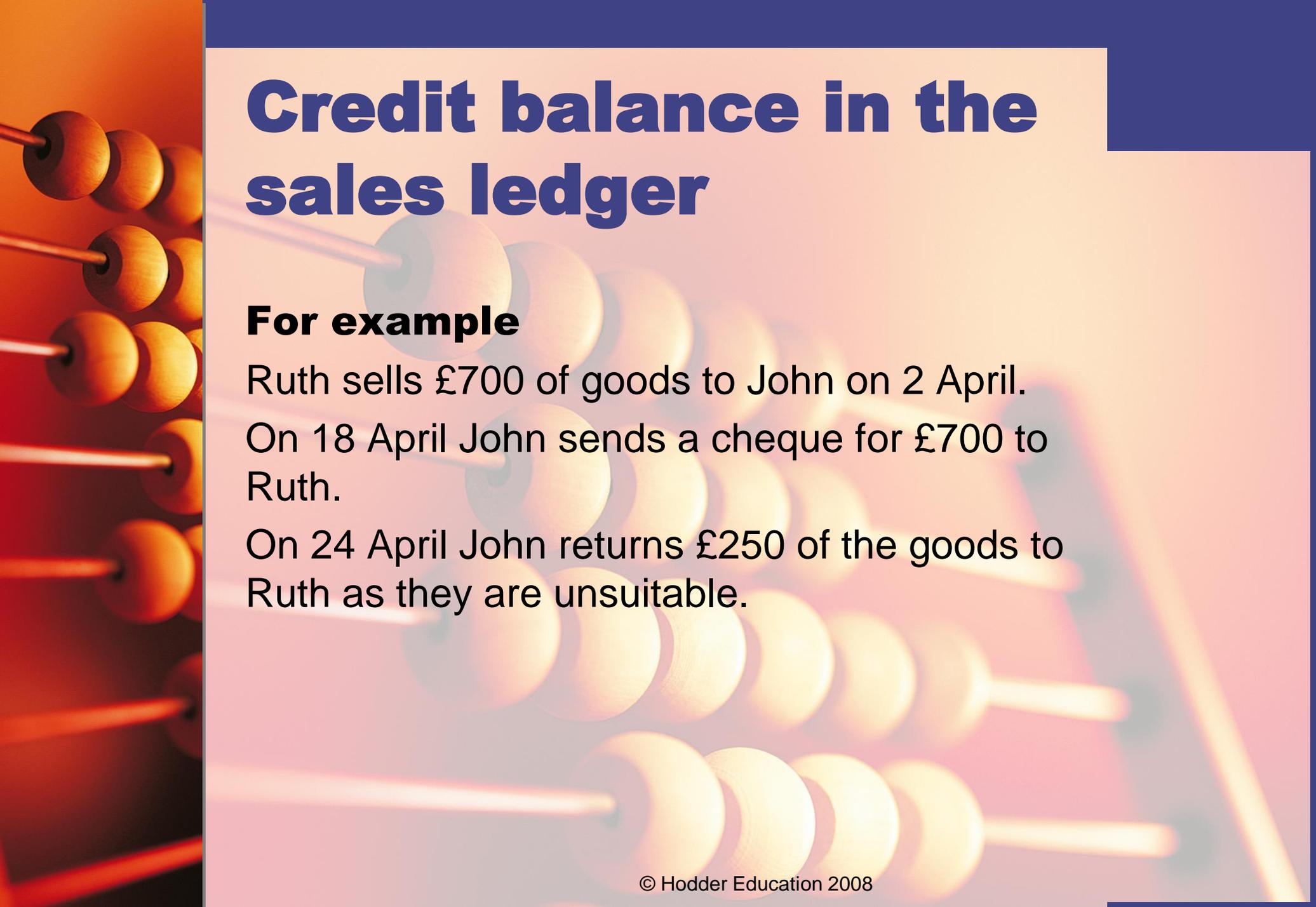
Discounts received – Cash book

Closing creditors – List of creditors' balances drawn up at the end of the period



Credit balance in the sales ledger

The opening balance on the sales ledger control account is normally on the debit side. It is possible for an individual credit customer to end up with a credit balance.



Credit balance in the sales ledger

For example

Ruth sells £700 of goods to John on 2 April.

On 18 April John sends a cheque for £700 to Ruth.

On 24 April John returns £250 of the goods to Ruth as they are unsuitable.

John's account

	£		£
Sales	700	Bank	700
Balance c/d	<u>250</u>	Sales returns	<u>250</u>
	<u>950</u>		<u>950</u>
		Balance b/d	250

We can see therefore that John now has a credit balance on his account. When we draw up the control account this is shown as a separate balance b/d.

Pro-forma layout

Dr	Sales ledger control account	Cr
	£	£
Balance b/d (large amount)		Balance b/d (small amount)
Credit sales		Bank
Bank (dishonoured cheques)		Cash
Interest charged to debtors		Discounts allowed
Balance c/d (small amount)		Sales returns
		Bad debts
		Contra/set-off
		Balance c/d (large amount)

Pro-forma layout

Dr	Purchases ledger control account	Cr
	£	£
Balance b/d (small amount)		Balance b/d (large amount)
Bank		Credit purchases
Cash		Bank (returned cheques)
Discounts received		Interest charged to creditors
Purchases returns		Balance c/d (small amount)
Contra/set-off		
Balance c/d (large amount)		

Tips

Don't forget contra entries appear in both the sales ledger control account and the purchases ledger control account.

Tasks

Complete task sheet and Questions 13-18,
Chapter 13 of text book.