**CONTROL ACCOUNTS**

Control accounts are so called because they control a section of the ledgers. By control we mean that the total on the control accounts should be the same as the totals on the ledger accounts. There are two main types of control accounts:

1. **Sales ledger control Account** – also called total debtors. The balance on the sales ledger control account should be the same as the total of the balances in the sale ledger.
2. **Purchases Ledger Control Account** – also called total creditors .The balance carried down (Bal c/d) on the purchases Ledger Control Account should be the same as the total of the balances in the purchases ledger.

**Example (Sales Ledger Control a/c)**

Sales Ledger Control A/c

|  |  |  |  |
| --- | --- | --- | --- |
|  |  |  | Sales = 200 + 300 + 400 + 500  Cashbook = 50 + 100 + 250 + 300  Balance c/d = 150 + 150 + 200 + 200 |
| Sales | 1400 | CashBook | 700 |
|  |  | Bal C/D | 700 |
|  | 1400 |  | 1400 |

SALES LEDGER

Debtor A a/c

|  |  |  |  |
| --- | --- | --- | --- |
|  |  |  |  |
| Sales | 200 | C/B | 50 |
|  |  | Bal c/d | 150 |
|  | 200 |  | 200 |

Debtor B a/c

|  |  |  |  |
| --- | --- | --- | --- |
|  |  |  |  |
| Sales | 400 | C/B | 250 |
|  |  | Bal c/d | 150 |
|  | 400 |  | 400 |

Debtor C a/c

|  |  |  |  |
| --- | --- | --- | --- |
|  |  |  |  |
| Sales | 300 | C/B | 100 |
|  |  | Bal c/d | 200 |
|  | 300 |  | 300 |

Debtor D a/c

|  |  |  |  |
| --- | --- | --- | --- |
|  |  |  |  |
| Sales | 500 | C/B | 300 |
|  |  | Bal c/d | 200 |
|  | 500 |  | 500 |

Example: Purchases Ledger Control a/c

Purchases Ledger Control a/c

|  |  |  |  |
| --- | --- | --- | --- |
|  |  |  |  |
| C/B | 1900 | Purchases | 2600 |
| Bal c/d | 700 |  |  |
|  | 2600 |  | 2600 |

## PURCHASES LEDGER

Creditor A

|  |  |  |  |
| --- | --- | --- | --- |
|  |  |  |  |
| C/B | 400 | Purchases | 600 |
| Bal c/d | 200 |  |  |
|  | 600 |  | 600 |

Creditor B

|  |  |  |  |
| --- | --- | --- | --- |
|  |  |  |  |
| C/B | 450 | Purchases | 700 |
| Bal c/d | 250 |  |  |
|  | 700 |  | 700 |

Creditor C

|  |  |  |  |
| --- | --- | --- | --- |
|  |  |  |  |
| C/B | 350 | Purchases | 500 |
| Bal c/d | 150 |  |  |
|  | 500 |  | 500 |

Creditor D

|  |  |  |  |
| --- | --- | --- | --- |
|  |  |  |  |
| C/B | 700 | Purchases | 800 |
| Bal c/d | 100 |  |  |
|  | 800 |  | 800 |

Purpose of Control Accounts

1. Provide for arithmetical check on the postings made in the individual accounts (either in the sales ledger or purchases ledger.)
2. To provide for a quick total of the balances to be shown in the trial balance as debtors and creditors.
3. To detect and prevent errors and frauds in the customers and suppliers account.
4. To facilitate delegation of duties among the debtors and creditors clerks.

### FORMAT OF A SALES LEDGER CONTROL

Sales Ledger Control a/c

|  |  |
| --- | --- |
|  |  |
| 1. Balance b/d of the total debit balances from previous period | 1. Total credit balances of the sales ledger brought forward |
| 1. Total credit sales for the period (from the sales journal) | 1. Total cash received from credit customers/debtors (from cash book) |
| 1. Refunds to customers (from cashbook) | 1. Total cheques received from credit customers/debtors (from cash book) |
| 1. Dishonored cheques (from cashbook) | 1. Total returns-inwards (returns-inwards journal) |
| 1. Bad debts recovered (from general journal) | 1. Total cash discount allowed to customers (from cash book) |
|  | 1. Bad debtors written-off (from general journal) |
|  | 1. Cash received from bad debtors recovered (cash book) |
|  | 1. Purchases Ledger contra |
|  | 1. Allowances to customers (price reduction in excess to discounts allowed) |
| 1. Total credit balances of the sales Ledger carried forward | 1. Total debit balance carried down to the next period – to be derived after posting all those transactions |

###### Refunds to Customers

Sometimes a firm can refund some cash on the customers account. This takes place when there is a credit balance on the debtor’s a/c and the customer is not a creditor too.

The entry will be:

Dr. Debtor’s a/c

Cr. Cashbook

**Example:**

Debtor A

|  |  |  |  |
| --- | --- | --- | --- |
|  | £ |  | £ |
| Sales | 1000 | Cashbook | 950 |
| (Refunds) C/B | 100 | Discounts | 50 |
|  |  | Returns | 100 |
|  | 1100 |  | 1100 |

If the firm has not paid this amount owed to the customer, then it’s carried forward to the next period then is a credit balance in the customer’s a/c. Therefore, if a firm has several customer, this information will be shown in the control a/cs as total balance c/f

(debit side).

**Contra against the purchases ledger balances:**

Some debtors may also be creditors in the same firm and therefore, if the amount due to them as creditors is less than what they owe as debtors, then the credit balance is transferred from their creditors a/c to their debtors a/c as a contra entry.

**Example:**

Debtor (A)

|  |  |  |  |
| --- | --- | --- | --- |
|  |  |  |  |
| Sales | 2000 | Contra- purchases | 1000 |
|  |  | Bal c/d | 1000 |
|  | 2000 |  | 1100 |

Creditor (A)

|  |  |  |  |
| --- | --- | --- | --- |
|  |  |  |  |
| Contra - Debtor | 1000 | Purchases | 1000 |

## FORMAT OF A PURCHASES LEDGER CONTROL ACCOUNT

Purchases Ledger Control A/C

|  |  |
| --- | --- |
| 1. Total debit balances from purchases ledger brought forward from previous period | 1. Total credit balance brought forward (of purchases ledger from the previous period) |
| 1. Total cash paid to creditors   (from cash book) | 1. Total credit purchases for the period (from purchases journal) |
| 1. Total cheques paid to creditors   (from cash book) | 1. Refunds from suppliers   (from cash book) |
| 1. Total cash discounts received   (from cash book) |  |
| 1. Allowances by suppliers |  |
| 1. Sales ledger contra |  |
| 1. Total returns outwards   (from returns-outwards journal) |  |
| 1. Total credit balance   (to be derived after posting entries) | 1. Total debit balances (of the purchases ledger carried forward) |

**NOTES:**

The following notes should be taken into consideration:

1. Cash received from CASH SALES should NOT be included in sales ledger control a/c.
2. Only cash discounts (allowable & receivables) should be included. Trade discounts should NOT be included.
3. Provision for doubtful debts is NOT included in the sales ledger control a/c. i.e. increase or decrease in provisions for doubtful debts will not affect this account.
4. Cash purchases are NOT posted to the Purchases Ledger Control A/C. However in some cases it can be included especially where there are incomplete records (Topic to be covered later).
5. Interest due that is charged on over due customers’ account may also be shown on the debit side of the sales ledger control. However when trying to determine the turnover under incomplete records then it is wise to omit it.

#### **Example 5.1**

You are required to prepare a purchases ledger control account from the following for the month of June. The balance of the account is to be taken as the amount of creditors as on 30 June.

|  |  |  |
| --- | --- | --- |
| 2003 |  | £ |
| June 1 | Purchases ledger balances | 36,760 |
|  | Totals for June: |  |
|  | Purchases journal | 422,570 |
|  | Returns outwards journal | 10,980 |
|  | Cheques paid to suppliers | 387,650 |
|  | Discounts received from suppliers | 8,870 |
| June 30 | Purchases ledger balances | ? |

Solution

Purchases Ledger Control A/C

|  |  |  |  |
| --- | --- | --- | --- |
| 2003 | £ | 2003 | £ |
| Returns out | 10,980 | Bal b/d (1/6) | 36,760 |
| Bank | 387,950 |  |  |
| Discounts received | 8,870 |  |  |
| Bal c/d (30/6) | 51,830 | Purchases | 422,570 |
|  | 459,330 |  | 459,330 |

#### **Example 5.2**

Prepare a sales ledger control account from the following:

|  |  |  |
| --- | --- | --- |
| 2003 |  | £ |
| May 1 | Debit balances | 64,200 |
|  | Totals for May: |  |
|  | Sales journal | 128,000 |
|  | Cash and cheques received from debtors | 103,700 |
|  | Discounts allowed | 3,950 |
|  | Debit balances in the sales ledger set off against credit balances in the purchases ledger | 1,450 |
| May 31 | Debit balances | ? |
|  | Credit balances | 500 |

###### Solution

Sales Ledger Control A/C

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| 2003 |  | £ | 2003 |  | £ |
| 1/5 | Bal b/d | 64,200 |  | Cash book | 103,700 |
|  | Sales | 128,000 |  | Discounts allowed | 3,950 |
|  |  |  |  | Purchases contra | 1,450 |
| 31/5 | Bal c/d | 500 | 31/5 | Bal c/d | 83,600 |
|  |  | 192,700 |  |  | 192,700 |

**Example 5.3 (Exam type question – November 1997 Question 2)**

1. Explain the purposes for which control accounts are prepared. (3 marks)
2. The balances and transactions affecting the control accounts of Kopesha Ltd. for the month of November 1997 are listed below:-

|  |  |  |
| --- | --- | --- |
|  | Sh. |  |
| Balances on 1 November 1997: |  |  |
| Sales ledger | 9,123,000 | (debit) |
|  | 211,000 | (credit) |
| Purchases ledger | 4,490,000 | (credit) |
|  | 88,000 | (debit) |
| Transactions during November 1997: |  |  |
| Purchases on credit | 18,135,000 |  |
| Allowances from suppliers | 629,000 |  |
| Receipts from customers by cheques | 27,370,000 |  |
| Sale on credit | 36,755,000 |  |
| Discount received | 1,105,000 |  |
| Payments to creditors by cheques | 15,413,000 |  |
| Contra settlements | 3,046,000 |  |
| Bills of exchange receivable | 6,506,000 |  |
| Allowances to customers | 1,720,000 |  |
| Customers cheques dishonored | 489,000 |  |
| Cash received from credit customers | 4,201,000 |  |
| Refunds to customers for overpayments | 53,000 |  |
| Discounts allowed | 732,000 |  |
| Balances on 30 November 1997 |  |  |
| Sales ledger | 136,000 | (credit) |
| Purchases ledger | 67,000 | (debit) |

**Required:**

The sales ledger and purchases ledger control accounts for the month of November 1997 and show the respective debit and credit closing balances on 30 November 1997.

(17 marks)

**(Total: 20 marks)**

(a)

* 1. Provide for arithmetical check on the postings made in the individual accounts (either in the sales ledger or purchases ledger.)
  2. To provide for a quick total of the balances to be shown in the trial balance as debtors and creditors.
  3. To detect and prevent errors and frauds in the customers and suppliers account.
  4. To facilitate delegation of duties among the debtors and creditors clerks.

### Kopesha Ltd

Sales Ledger Control A/C

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| 1997 |  | Sh | 1997 |  | Sh |
| 1/11 | Bal b/d | 9,123,000 | 1/11 | Bal b/d | 211,000 |
|  | Sales | 36,755,000 |  | Bank | 27,370,000 |
|  | Dishonored cheques | 489,000 |  | Contra | 3,046,000 |
|  | Refunds to customers | 53,000 |  | Bills of exchange receivable | 6,506,000 |
|  |  |  |  | Allowances | 720,000 |
|  |  |  |  | Cash | 4,201,000 |
|  |  |  |  | Discounts allowed | 732,000 |
| 30/11 | Bal c/d | 136,000 | 30/11 | Bal c/d | 2,770,000 |
|  |  | 46,556,000 |  |  | 46,556,000 |

Purchases Ledger Control A/C

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| 1997 |  | Sh | 1997 |  | Sh |
| 1/11 | Bal b/d | 88,000 | 1/11 | Bal b/d | 4,490,000 |
|  | Allowances from suppliers | 629,000 |  | Purchases | 18,135,000 |
|  | Discounts received | 1,105,000 |  |  |  |
|  | Bank | 15,413,000 |  |  |  |
|  | Contra settlement | 3,046,000 |  |  |  |
| 30/11 | Bal c/d | 2,411,000 | 30/11 | Bal c/d | 67,000 |
|  |  | 22,692,000 |  |  | 22,692,000 |

**Example 5.4 (Exam Question – May 2000 Question 4)**

Poesha Limited keeps sales and purchases control accounts in the General Ledger. The transactions for the month ended 30 April 2000 were as follows:

|  |  |  |
| --- | --- | --- |
|  |  | Sh |
| Credit balances on 1 April 2000 | -Sales ledger | 154,000 |
|  | -Purchases ledger | 569,000 |
| Debit balances on 1 April 2000 | -Sales ledger | 956,000 |
|  | -Purchases ledger | 196,000 |
| Credit balances on 30 April 2000 | -Sales ledger | 178,000 |
| Debit balances on 30 April 2000 | Purchases ledger | 189,000 |
| Credit purchases |  | 2,450,000 |
| Credit sales |  | 4,563,000 |
| Cheques received from debtors |  | 3,140,000 |
| Cash received from debtors |  | 1,367,000 |
| Cheque payments to creditors |  | 1,994,000 |
| Cash payments to creditors |  | 352,000 |
| Bad debts written off |  | 68,000 |
| Discounts received |  | 104,000 |
| Discounts allowed |  | 169,000 |
| Contra entry to sales ledger from purchases ledger |  | 234,000 |
| Refunds to debtors |  | 62,000 |
| Returns outwards |  | 138,000 |
| Returns inwards |  | 231,000 |

**Required:**

Sales ledger and purchases ledger control accounts for the month ended 30 April 2000.

**(20 marks)**

###### ERRORS ON ACCOUNTS

There are two types of errors in accounts:

* Errors that don’t affect the trial balance
* Errors that affect the trial balance

##### Errors that don’t affect the trial balance

The trial balance produced from the accounts appears to be okay/correct, i.e the debits are the same as the credits. However, on taking a close check on the balances and transactions posted, errors may have been made and therefore the balances shown on the trial balance may be incorrect i.e. under/over stated.

There are 6 main types of errors that don’t affect the trial balance and these are explained as follows:

1. **Error of omission**

Here, a transaction is completely omitted from the accounts and therefore the double entry is not made e.g. a sales invoice of £400 is not posted in the sales journal therefore no entry is made in the debtor’s account and the sales account i.e. both debit of £400 in debtor’s account and credit of £ 400 in the sales account.

The effect of the error is understates both the debtors and the sales.

To correct this error, the transaction is posted in the books by:

Debiting debtors £400

Crediting sales £400

1. **Error of Commission**

This error occurs when a transaction is posted to a wrong account but the account is of the same class. Example: a credit sale to T Thompson is posted to L Thompson’s account for an amount of £ 200. Instead of a debit to T Thompson’s account it is made to L Thompson’s account and the corresponding credit in the sales account is correct.

Although the debit entry is made into the wrong account, the two accounts are of the same class i.e. debtors.

To correct this error a transfer is made from L Thompson’s account to T Thompson by:

£

1. Debit T Thompson a/c 200
2. Credit L Thompson a/c 200
3. **Error of principle**

In this type of error a transaction is posted not only to the wrong account but also of a different class e.g. Motor vehicle purchased for £ 400 is posted to the motor vehicle expenses a/c. (Instead of debiting motor vehicles, we debited motor vehicle expenses a/c and the credit entry in the cashbook is correct)

The motor vehicles account is a non-current asset, and motor vehicles expenses a/c is an expense account. Therefore a capital expenditure has been posted as revenue expenditure.

To correct this error a transfer is made from the motor expenses account to the motor vehicles a/c by:

£

1. Debit Motor vehicles a/c 400
2. Credit Motor expenses a/c 400
3. **Complete reversal of entries**

A transaction is posted to the correct accounts but to the wrong sides of the accounts i.e. a debit is posted as a credit and a credit is posted as a debit. Example: cash drawn from the bank of £150 for business use is posted as a debit in the bank account and credit in cash in hand.

To correct this error, two entries are made in the relevant accounts:

1. Correct the error
2. Post the transaction correctly

The entries will therefore be as follows:

1. Debit Cash in hand by £150

Credit bank by £150

To correct the error of £ 150 posted in the wrong sides of these account

1. Debit cash by £150

Credit bank by £150

To post the entries correctly

1. **Error of Original entry**

Here a transaction is posted to the correct accounts but the amount posted is not correct i.e. it is either under/over stated. In some cases, this is known as a transposition error e.g. cash received from a debtor of £980 is credited/posted to the customer’s account as £890.

To correct this error, the amount understated or overstated is posted to these accounts to reflect the correct balance. In this case, we will:

£

Debit cash book 90

Credit debtors 90

1. **Compensating Errors**

These are errors that tend to cancel out each other i.e. if the effect of one error is to understate the debits or credits then another error may take place to overstate the debits or credits by the same amount, hence canceling out each other. E.g. if the balance c/d of the purchases a/c is £3,980 but shown in the trial balance as £3,890 and another error carried to the trial balance of fixture amounting to £4,540 instead of £4,450:

£

Purchases 3,980

3,890

(90)

£

Fixtures 4,450

(4,540)

90

This type of error is corrected by use of a suspense account.

#### **Example 5.5**

Give the journal entries needed to record the corrections of the following. Narratives are required.

1. Extra capital of £ 10,000 paid into the bank had been credited to Sales account.
2. Goods taken for own use £ 700 had been debited to General Expenses.
3. Private insurance £ 89 had been debited to Insurance account.
4. A purchase of goods from C Kelly £ 857 had been entered in the books as £ 587.
5. Cash banked £ 390 had been credited to the bank column and debited to the cash column in the cashbook.
6. Cash drawings of £ 400 had been credited to the bank column of the cashbook.
7. Returns inwards £ 168 from M McCarthy had been entered in error in J Charlton’s account.
8. A sale of a motor van £ 1,000 had been credited to Motor Expenses.

###### Solution

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|  |  |  |
| --- | --- | --- |
|  | Debit | Credit |
| Sales | 10,000 |  |
| Capital  Additional capital passed into sales a/c now transferred to capital a/c |  | 10,000 |
| Drawings | 700 |  |
| General expenses  Drawings debited in general expense now transferred to drawing a/c |  | 700 |
| Drawings | 89 |  |
| Insurance |  | 89 |
| Private insurance transferred from insurance a/c to drawings a/c |  |  |
| Purchases | 270 |  |
| C Kelly |  | 270 |
| Purchases and creditors amount to 857 initially entered as £587 |  |  |
| Bank | 390 |  |
| Cash |  | 390 |
| Correct error in posting |  |  |
| Bank | 390 |  |
| Cash  To post the cash banked correctly |  | 390 |
| Bank | 400 |  |
| Cash |  | 400 |
| Cash drawings correctly started from bank to cash |  |  |
| J Charlton | 168 |  |
| M McCarthy |  |  |
| Returns in from McCarthy entered in error in J Carlton now transferred to his a/c  Motor expenses  Motor disposal a/c  To correct error in recording sales proceeds In expense account | 1000 | 168  1000 |