**Control Accounts**

In a small organization it may be possible for one person to maintain all the ledger accounts. Where a business maintains a large number of accounts it will become necessary to divide the ledger into sections and to assign the recording of each section to different persons. The main areas to which such ledgers can be divided are in the subsidiary ledger, trade ledger, trade receivables ledger, trade payables ledger and general ledger.

In very large organizations, the sub-division may further be divided among employees.

Where this type of divisions takes place, it will be necessary to institute controls on the accuracy of the postings made to each ledger. This is achieved by maintaining total accounts for trade receivables and payables in the general ledger. These total accounts are referred to as control accounts.

**The Nature and Functions of Control Accounts**

A control account is an account, the balance of which reflects the aggregate balances of many related subsidiary accounts which are part of the double entry system.

It is a memorandum record only, it does not form part of the double entry system but it is kept using double entry principle. Control accounts can be kept in respect of customers (sales ledger) accounts, suppliers (bought ledger) accounts and expenses. Control accounts are maintained to facilitate easy detection of errors because they act as a check on the entries in the various ledgers. Where the Trial Balance totals are not equal, balances in each ledger can be added together and compared with the balance in the respective control accounts. Ordinarily the two should be equal, where there is a difference, such ledger that fails to reconcile with the control account will be investigated rather than all the ledger accounts.

Control accounts are also called self-balancing ledgers because the total trade receivables and total trade payables in the general ledger should be equal to the aggregate of the balances in the respective individual accounts in the subsidiary ledger.

**Merits of Control Accounts**

The merits of using control accounts can be summarized as follows:

1. They can be used to locate errors more easily
2. They make it difficult to commit fraud because they are normally under the control of responsible officers and their preparation is separate from the clerks who maintain the individual ledger accounts.
3. They provide information about the total trade receivables and total trade payables thereby making management of the receivables and payables accounts easy. They allow for account set-off

**Sources of Information for Control Accounts**

Information recorded in control accounts are obtained from:

* Receivables and Payables accounts
* Returns inwards and outwards accounts
* Bills payable and receivable accounts
* Dishonoured cheques
* Cash paid to payables and cash received from receivables (obtained from the cash book).
* Discount received and discount allowed accounts
* Sales day book and purchases day book.

**Receivables or Sales Ledger Control Account**

Sales ledger control account is the account containing the summary of all trade receivables or customers‟ accounts. What is posted to the debit side of this account is the aggregate of all the items recorded on the debit side of the receivables accounts. The same thing applies to the credit side of the account.

Summary of Entries

Debit – (a) Credit Sales from sales day book

(b) Dishonoured cheques from customers

(c) Debit notes issued

Credits– (a) Cash received from receivables as recorded in the cash book.

(b) Discount allowed as recorded in the cashbook

(c) Returns inwards as recorded in the sales return day book.

(d) Set off between sales ledger control and purchases ledger control accounts

(e) Bad debts written off

**Trade payables or Purchases Ledger Control Account**

This is the account containing the summary of all the accounts of the creditors or suppliers in the purchases ledger.

Summary of entries in the Purchases Ledger Control Accounts

Debit entries (a) Payment to customers obtained from the cash book

(b) Returns outwards

(c) Cheques paid to suppliers from the cash book

(d) Discount received from the memorandum column on the credit side of the

(e) cash book

(f) Credit notes

(g) Transfer between sales ledger control and purchases ledger control accounts.

Credit entries (a) Credit purchases obtained from the purchases day book

(b) Cash refund from suppliers

(c) Dishonoured bills payable

**NOTE**: Cash sales should not be debited to the sales ledger control account rather, cash sales should be debited to the cash book. Cash purchases should also not be credited to purchases ledger control account but should be credited to the cash book.

**Illustration**

Extracts from the books of JK Ltd. shows the following balances for the month of June 20021

N

Sales ledger balances – 1 June 2021 4,702

Purchases ledger balances – 1 June 2021 2,757

Sales journal balances – 30 June 2021 37,437

Purchases journal balances – 30 June 2021 40,800

Returns Inwards 910

Returns Outwards 749

Receipts from Customers – Cash 38,529

Discount allowed 1,345

Payment to Customers 35,415

Discount received 746

Bad debt written off 115

Sales ledger set off 209

Purchases ledger set off 110

On 30 June 2021, it was discovered that a supplier was paid twice in error for N157. The amount was refunded on that date. You are required to determine the sales and purchases ledger balances at 1 July 2021

**Illustration 2**

Aji Father Enterprises controls his Trade payables accounts by drawing up monthly, a Trade Payables Ledger Control Account in two parts A and B. The following figures are available at January 31 2020 when there is a difference on the Trial Balance of N2, 000.

A B

N N

Jan 1 Balances on Trade Payables (credit side) 18,400 13,600

Jan 1 Balances on Trade Payables Ledger (debit side) 150 184

Jan 1 – 31 Purchases 114,512 17,372

Jan 1 – 31 Returns 11,000 1,652

Jan 1 – 31 Sundry charges by suppliers 1,200 144

Jan 1 – 31 Cheques paid to suppliers 17,980 13,420

Jan 1 – 31 Discount received from suppliers 1,420 1,180

Jan 31 Balances carried down to debit side 150 132

The book-keeper in charge of the A Ledger makes his accounts total N 103, 712 while the clerk in charge of the B Ledger makes his Ledger balances total N 16,812.

Draw up the two Control Accounts and draw any conclusion you can from them.