

Objectives

At the end of this chapter, students should be able to:

- Explain the meaning and uses of control accounts;
- Identify the types of ledgers;
- Prepare control accounts.

14.1 Introduction

A large business, by its nature, may have to open many ledgers for its numerous customers and suppliers. In this situation, an ordinary trial balance may not be effective in checking the arithmetical accuracy of the accounts. In this chapter, you will learn about the system of accounting devised to cope with the problem. This is by the means of control accounts.

14.2 Meaning of Control Accounts

A large business may have to use more than one ledger to keep records of their numerous customers and suppliers. Such ledgers include sales ledgers, purchases ledgers and general ledgers. Since account is a human affair, it can not be error-free all the time. In each of these ledgers, it is necessary to prepare a control account to verify the arithmetical accuracy of the accounts in the ledger. Control accounts can be defined as a memorandum account into which transactions are transferred in totals, the various amounts of the transactions which have been debited or credited in detail to the individual ledger accounts.

Control accounts are otherwise called total accounts because it considers all the total balances in the ledger accounts. It must be stressed that control accounts are not necessarily part of the double entry system; they are merely performing the same function as the trial balance to a particular ledger.

14.3 Uses of Control Accounts

- i.. It helps to prevent and locate errors.
- ii. It reduces and prevents fraud.
- iii. The balances of total debtors and creditors can be easily ascertained.
- iv. It encourages grouping of similar accounts.
- v. It can be used to detect missing figures.
- vi. It aids the management's decision as a result of the speed at which information is obtained.
- vii. It serves as a moral and internal check on ledger clerk or book-keeper to be more conscious in performing his duties since he knows that his work will be monitored through the preparation of

control accounts.

14.4 Types of Control Accounts

There are two main types of control accounts:

- i. Sales Ledger Control Account or Total Debtors Control Account
- ii. Purchases Ledger Control Account or Total Creditors Control Account

14.5 Sales Ledger Control Accounts

This account is debited with the sum of all the items which have been debited in details to various personal accounts in the Sales Ledger and credited with the totals of all the items which have been credited to such accounts. The sales ledger control account will contain on both debit side and credit side, the totals of the following items:

<u>Debit Side</u>	<u>Credit Side</u>
Opening debit balance	Opening credit balance
Total cash sales made during the period	Cash received from customers
Cash and cheque paid to debtors	Cheque received from customers
Sales (credit)	Return inwards
Discount allowed	Bad debts
Interest charges on overdue account	Discounts allowed to debtors
Carriage outwards	Credit notes issued
Dishonoured cheque	Contra entry
Dishonoured bill	Contra entry
Payment to debtors for claims	Bills receivable
Debit note issued	

The table below shows the source of each entry in the control account and its corresponding credit entry or debit in the general ledger or cash book.

	Source	Corresponding credit or debit in the general ledger in sales Account
1. Sales	Total of sales day book	Credit the sales account
2. Cash	Total of column for sales ledger Receipts in Cash book	Debit in cash or bank Column in cash book
3. Discount	Total of column for discount allowed in cash book	Debit in Discount Allowed Account
4. Returns inwards	Total of Returns Inward Day Book	Debit in Returns Inward Account
5. Bad Debts	Journals	Debts in Bad Debts Account

Dr	Sales Ledger Control Account		Cr
	N		N
Balance b/f	x	Cash received from debtors	x
Credit sales	x	Cheque from customers	x
Interest charges	x	Discount allowed	x
Dishonoured bill	x	Bill receivable	x
Dishonoured cheque	x	Allowances	x
Carriage outwards	x	Bad debts	x
Discount disallowed	x	Return inwards	x
Debit note issued	x	Credit note issued	x
Payment to debtors for claims	x	Contra entry/set off	x
		Balance c/d	x
	x x		x x
Balance b/d	x		

Fig. 14.1: Format of Sales Ledger Control Account

Example 14.1

From the particulars given below, construct from the sales ledgers of Odunsi Enterprises Ltd. a sales ledger control account for the month of March 2009 as it would appear in the general ledger.

	N
Sales ledger balances	20,000
Discount allowed	10,000
Cash received from debtors	120,000
Bad debts written off	15,000
Credit sales	300,000
Return inwards	23,000
Bills receivable accepted	10,560
Cheque received from customers	42,000

Solution

Dr	Sales Ledger (Debtors) Control Account		Cr
	N		N
Balance b/f	20,000	Discount allowed	10,000
Sales	300,000	Cash received from debtors	120,000
		Cheque received from customers	42,000
		Bad debts	15,000
		Returns inward	23,000
		Bills receivable	10,560
		Balance c/d	99,440
	<hr/> 320,000		<hr/> 320,000
Balance b/d	99,440		

14.6 Preparation of the Purchases Ledger Control Account

It serves as a control account of the purchases ledgers and should show a balance equal to the total of all the balances of creditors personal accounts in those ledgers. The following will be shown in the purchases ledger control account:

<u>Debit side</u>	<u>Credit side</u>
Opening debit balance	Opening credit balance
Cash to supplier	Credit purchase
Cheque to supplier	Cash refunds
Return outwards	Total cash purchase during the period
Bills payable	
Credit note received	
Discounts received	
Contra entry/set-off	

It should be noted that the entries in this account take the opposite form of total debtors account. The table below shows the source of each entry in the control account and its corresponding credit or debit entry in the general ledger or cash book.

		source	Corresponding credit or debit in the general ledger or cash book
1.	Purchases	total of purchases day book	edit purchases account
2.	Cash	total of column for purchases ledger in cash book	credit in cash or bank column in cash book
3.	Discount	total of column of discount	redit in discount received account
4.	Returns Outwards	otal of returns outwards day book	Credit in return outwards account

Dr	Purchases Ledger Control Account		Cr
	₦		₦
Cash to suppliers	x	Opening balance	x
Cheque to supplier	x	Balance b/f	x
Purchases returns	x	Credit purchase	x
Discounts received	x	Cash refunds	x
Credit note received	x		
Bills payable	x		
Contra entry/set off	x		
Balance c/d	x		
	<hr/> <u>x x</u>		<hr/> <u>x x</u>
		Balance b/d	x

Fig. 14.2: Format of Purchases Ledger Control Account

Example 14.2

The following balances have been extracted from the books of Abegunde Enterprises on 30th October, 2009.

	₦
Purchase ledger balance	27,000
Credit purchase	10,000
Cash paid to creditors	15,000
Bills payable	13,000
Purchases return	12,270
Discounts received	18,150
Cheque paid to creditors	10,650

You are required to prepare the total creditor account.

Solution

Dr	Purchases Ledger (Creditor) Control Account		Cr
	₦	₦	
Cash paid to creditors	15,000	Balance b/f	27,000
Cheque paid to creditors	10,650	Credit purchase	103,000
Discount received	18,150		
Bills payable	13,000		
Returns outward	12,270		
Balance c/d	60,930		
	<hr/> 130,000		<hr/> 130,000
		Balance b/d	60,930

14.7 Contra Entries/Set Off

It is possible for an organisation to have the same person as debtor and creditor. It means that the business has dealings with such person in two different ways i.e. as a supplier and customer.

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It is possible for an organisation to have the same person as debtor and creditor. It means that the business has dealings with such person in two different ways i.e. as a supplier and customer. Instead of the organisation receiving a cheque from the other business for goods sold to it and make payments to the same business for goods purchased, both parties may conveniently agree to set it off, that is, at the end of the month the smaller amount will be used to offset the larger amount. So it is the net payment that will either be received or paid as the case may be.

Example 14.3

The following balances were extracted from the books of Mazi and Sons Ltd. for the month of February, 2009.

	₦
Sales ledger balance	30,000
Purchases ledger balance	23,250
Cheque paid to supplier	50,000
Cheque received from customers	35,000
Credit purchases	187,000
Credit sales	215,000
Credit note received	21,600
Return inwards	10,650
Return outwards	8,297
Debit note received	26,000
Credit note issued	7,000
Contra settlement	12,000
Discount allowed	8,500
Discount received	37,103

Solution

Sales Ledger Control Account

	₦		₦
Balance b/f	30,000	Discount allowed	8,500
Credit sales	215,000	Returns inwards	10,650
Debit note issued	45,000	cheque received from customers	35,000
		Contra settlement	12,000
		Credit note issued	7,000
		Balance c/d	216,850
	<u>290,000</u>		<u>290,000</u>
Balance b/d	<u>216,850</u>		

Purchases Ledger Control Account

	₦		₦
Discount received	37,103	Balance b/f	23,250
Returns outward	8,297	Credit purchase	187,000
Cheque paid to supplier	50,000	Debit note received	26,000
Contra settlement	12,000		
Credit note received	21,600		
Balance c/d	<u>107,250</u>		
	<u>236,250</u>		<u>236,250</u>
		Balance b/d	107,250

14.8 Summary

In this chapter, students have learnt that:

- A control account is prepared to verify the arithmetical accuracy of the accounts in the ledger it controls.
- The sales ledger control account contains on the debit side the sum of the debit balances of the various personal accounts in the ledger while the credit side contains the sum of the credit balances of the various personal accounts in the ledger.
- 3. The purchases ledger control account contains on the credit side the sum of the credit balances of the various personal accounts in the ledger and the debit side contains the sum of the debit balances of the various personal accounts in the ledger.
- 4. The contra entries or set off occur when the firm bought from and sold to the same person that is a supplier and also a customer.
- 5. The preparation of control account does not require the application of the principle of double entry rather records are gathered from various ledgers for the preparation of the account.

14.9 Revision Questions

1. A control account is _____.
A. an imprest system
B. a statement of affairs
C. a book of reconciliation statement
D. a self balancing ledger system
2. The purchase ledger control account is also referred to as a _____.
A. total creditors account
B. total debtors account
C. cash account
D. personal account
3. Which of the following is a primary source of entry into the debtors' ledger?
A. Supplier invoice
B. Returns outward notes
C. Sales invoices
D. Payment vouchers
4. Which of the following does not appear in the debit side of debtors control account?
A. Credit sales
B. Dishonoured cheque
C. Unpresented cheque
D. Carriage outward
5. The balance in the purchasing ledger control account is _____.
A. the total of the creditors
B. the total credit purchases
C. total sales
D. the total of the debtors
6. i. What is a control account?
ii. Mention two types of control account.
iii. Outline three advantages of control account.

7. List three items and the sources from which they are transferred into each of the following accounts:

(i) sales ledger control (ii) purchases ledger control (WASSCE June, 2004)

8 a. List the subsidiary books from which each of the following is obtained:

(i) payments in cash to creditors

(ii) credit sales

(iii) cash and cheque received

(iv) discount received

(v) discount allowed

(vi) credit purchases

(vii) cash refund on account of overpayment by customers

(viii) bad debts written off

(ix) debtor's cheque dishonoured

(x) sales ledger balance set off against purchases ledger balance

b. State two advantages of a control account. (WASSCE June, 2006)

9. The following balances were extracted from the books of

Discount allowed 1,200

Discount received 700

Bills payable 200

Credit notes received 800

Ayomide Enterprises on 31st March, 2008:

	₦
Sales Ledger balance 1/4/2009	22,000
Purchases ledger balance 1/4/2009	30,000
Sales day book	420,000
Purchases day book	331,000
Cash received from customers	119,000
Cash paid to creditors	132,000
Returns outwards day book	5,000
Returns inwards day book	4,000
Bad debts written off	600
Bills dishonoured	4,500
Discount allowed	1,200
Discount received	700
Bills payable	200
Credit notes received	800

Cash refund to customers	500
Contra settlement	300
Cash refund from creditors	1,000

You are required to prepare:

- (i) Sales ledger control account
- (ii) Purchases ledger control account

(WASSCE June, 2005)

10. The following information were extracted from the ledgers of Chuks Enterprises for the month of March, 2009:

	₦
01/3/09 Debit balances in sales ledger	40,020
Debit balance in the purchases ledger	7,800
31/3/09 Sales	360,000
Returns inward	88,000
Bad debts written off	12,000
Cash received	49,900
Discount allowed	11,000
Purchases	678,000
Cash paid	32,400
Returns outwards	20,000
Customers' cheque dishonoured	40,000
Discount received	22,000
Interest charged to customers on Overdue a/c	2,000

You are required to prepare the following for the month of March, 2009:

- (a) Debtors' Control Account
- (b) Creditors' Control Account.

11. The following information were extracted from the ledgers of Temiloluwa Limited for the month of August, 2002.

	₦
1/8/2002 Debit balance in the sales ledger	10,005
Debit balance in the purchases ledger	195
31/8/2002 Sales of goods	25,000
Return inwards	2,000
Bad debts written off	300
Discount allowed	275
	₦
Purchases	16,750
Cash received	12,475
Cash paid	8,100
Return outwards	500
Customers cheques dishonoured	1,000
Discount received	550
Interest charged to customers on accounts	50

You are required to prepare for the month of August 2009;

- (i) Sales Ledger Control Account
- (ii) Purchases Ledger Control Account.