

Subject: Accounting

Teacher: Mr Lee

Week: Week 6

Lesson: Control Accounts

Control Accounts

Learning Intentions

By the end of this lesson you should be able to;

- Discuss the purpose of Control Accounts
- Explain the advantages of Control Accounts
- List the elements of Control Accounts
- Describe the Bookkeeping process
- Complete a Schedule of Debtors/Creditors question

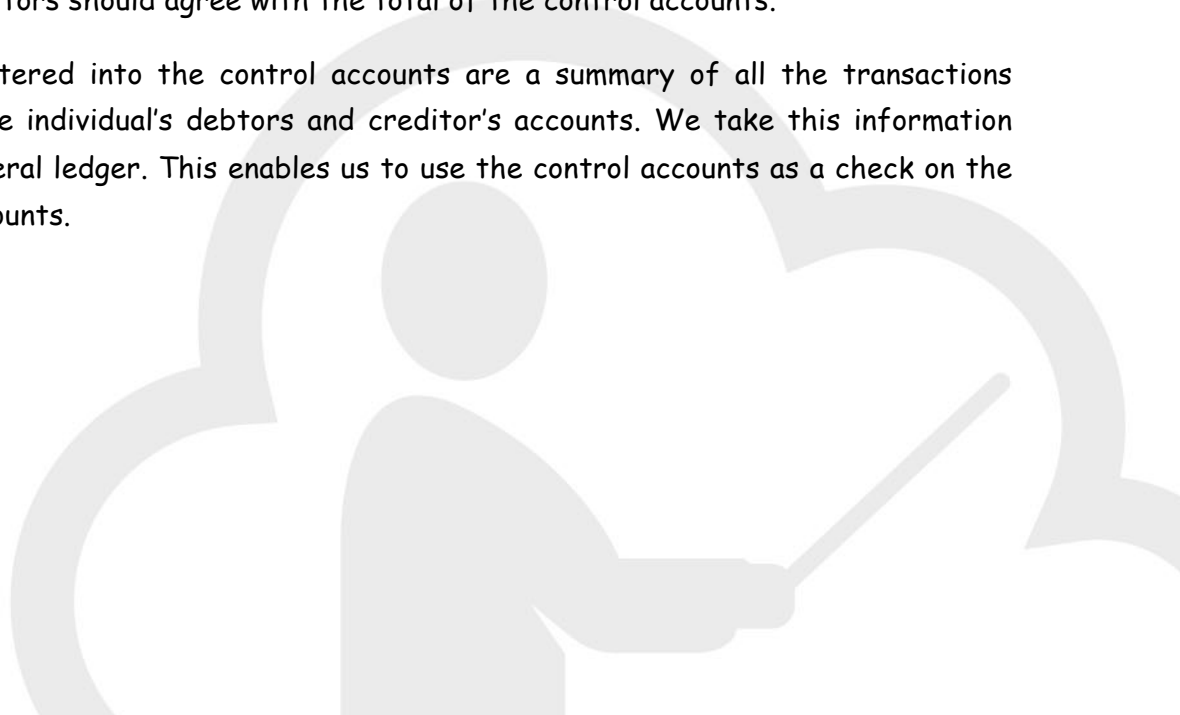
What is the Purpose of Control Accounts?

Control Accounts were developed to;

- help locate errors quickly
- ensure accuracy with debtors and creditors ledgers
- find out quickly the amounts owed by debtor's and the amounts owed to creditors

In order to find out the amounts owed by debtors or owing to creditors we would need to add up the closing balances in each individual's account. In order to ensure that the figures are **accurate** a **control account** is also prepared. The total from the list of debtors/creditors should agree with the total of the control accounts.

The items entered into the control accounts are a summary of all the transactions entered in the individual's debtors and creditor's accounts. We take this information from the general ledger. This enables us to use the control accounts as a check on the individual accounts.



Things to remember;

Contra Entry

- A contra entry is an **offset** between a debtor and a creditor, each being the **same person**.
- Money that is owed by the debtor is offset by what is owed to the creditor

From where are the figures taken?

- The figures in a control account are taken from the **totals** of the books of **first** entry i.e. sales, purchases, returns, cash book and journal.

Bills payable and receivable

- A bill is classed as current (if due within 12 months) and non-current (if due after 12 months) of the balance sheet date.
- Bills **receivable** are entered into the **debtor's** account.
- Bills **payable** are entered into the **creditors** account.

Why would the balance in a control account not agree with our schedule list?

Errors in the control account or our schedule list (list of people who owe or we owe to) may not be in the other.

There may be a failure to complete the double entry in the ledgers and this will affect one but not the other.

There could also be incorrect totalling of subsidiary books sent to the control account.



The closing balance in both the debtor's and creditor's control accounts should be equal to the total of the debtor's account balance and the creditor's account balance.

Cash sales and cash purchases are not entered in control accounts, only credit purchases and credit sales are entered.

VAT on purchases, sales and returns must be VAT inclusive in the control accounts.

Contra entries - credit the debtors control account and debit the creditors control account.

Advantages of Control Accounts

Control accounts have several advantages they are as follows:

- They act as a check on the accuracy of the postings and totals in individual ledger accounts
- They allow amounts owed by debtors and amounts owing to creditors to be ascertained quickly by simply balancing the control accounts
- They enable errors to be localised and found more speedily
- They are very useful when preparing accounts from incomplete records



Remember;

Opening and closing balances

A control account may have both a **debit** and **credit** opening and closing balance.

This happens when a debtor pays for sales previously received and sometime later return's a portion of the goods. This results in a credit balance in a debtor's account in addition to the normal debit balance in the debtor's ledger.

Contra Accounts

Again a contra item occurs when a firm is both a supplier and a customer. For example, a firm may both sell to and purchase from the same firm.

One amount is offset or balanced against the other. This offset allows one payment to be made for the difference.

A contra is an offset and is treated as a reduction of a debt in both control accounts.

Cash Sales & Cash Purchases

Sales and purchases for cash again do not appear in the control accounts. However, if the figures given for sales and purchases are total figures, it will be necessary to remove the cash sales and cash purchases in order to arrive at the credit sales and credit purchases.

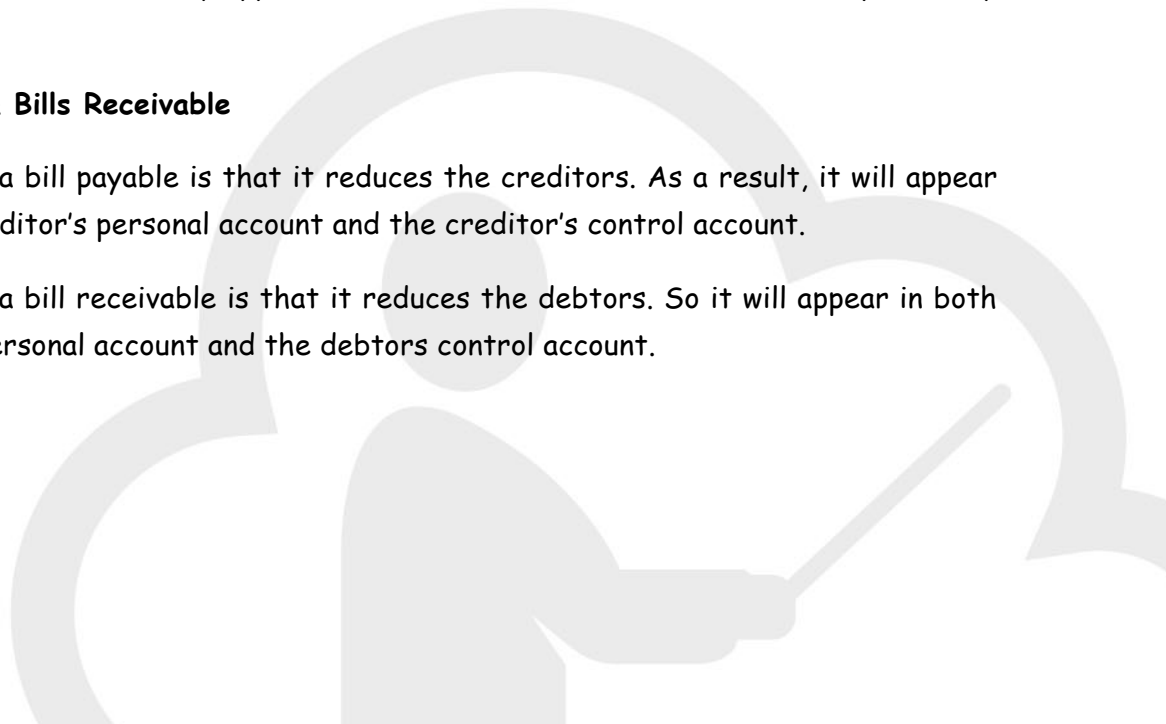
Bad Debt Recovered

A bad debt recovered will only appear in the control account if the debt was previously reinstated.

Bills Payable & Bills Receivable

The effect of a bill payable is that it reduces the creditors. As a result, it will appear in both the creditor's personal account and the creditor's control account.

The effect of a bill receivable is that it reduces the debtors. So it will appear in both the debtor's personal account and the debtors control account.



VAT in Control Accounts

The figures for sales, purchases and returns may be given exclusive of VAT but the figures in the personal accounts include VAT. Therefore, when preparing control accounts, it is necessary to include the VAT elements of sales, purchases and returns when not included.

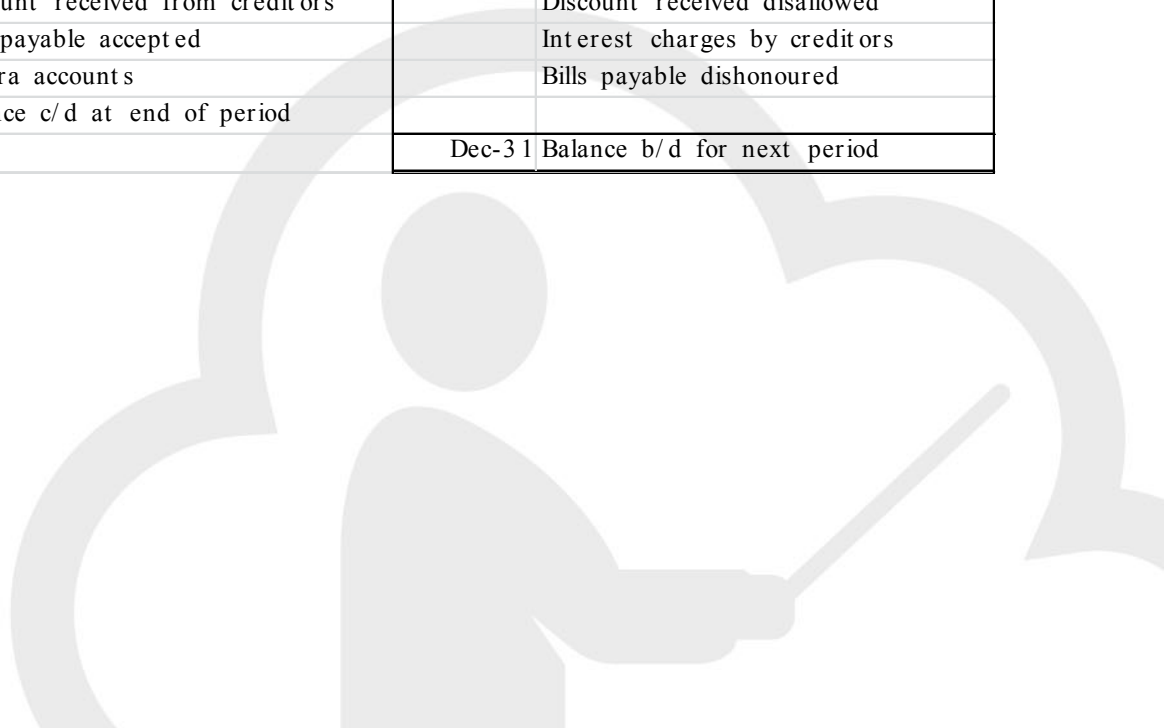
Entries to the Debtors/Creditors Control Accounts

The following entries would appear on the sales/debtors ledger control account:

Sales/ Debt ors Ledger Control Account			
Dr.		Cr.	
Jan-01	Balances due by debtors at start	Dec-31	Opening credit balance
Dec-31	Credit sales for period		Payments made by debtors
	Carriage charges to debtors		Discount allowed to debtors
	Debtors cheques dishonoured		Bad debts written off
	Discount disallowed		Bills receivable accepted
	Interest charged to debtors		Contra accounts
	Bills receivable dishonoured		Balance c/d at end of period
Dec-31	Balance b/d for next period		

The following entries would appear on the purchases/creditors ledger control account:

Purchases/ Credit ors Ledger Control Account			
Dr.		Cr.	
Dec-31	Opening debit balance	Jan-01	Balance due to trade creditors
	Purchases returns	Dec-31	Credit purchases
	Payments made to creditors		Carriage charged on purchases
	Discount received from creditors		Discount received disallowed
	Bills payable accepted		Interest charges by creditors
	Contra accounts		Bills payable dishonoured
	Balance c/d at end of period		
		Dec-31	Balance b/d for next period



Now let's take a look at a question;

Q 6.1

The following figures were taken from the books of Drury on 31 January 2011.

Creditors ledger balance 1 January Cr.	€9,600
Creditors ledger balance 1 January Dr.	€400
Debtors ledger balance 1 January Dr.	€7,600
Debtors ledger balance 1 January Cr.	€320
Credit Purchases	€16,920
Payments to creditors	€14,640
Credit sales for month	€20,960
Cheques received from debtors	€16,800
Discount received	€760
Discount allowed	€1,120
Returns in	€720
Returns out	€440
Bad debts written off	€480
Debtors cheques dishonoured	€160
Interest charged on debtors accounts	€180
Bills receivable	€1,760
Debtors ledger balance transferred to creditors ledger	€920
Debtors ledger balance 31/1/2011 Cr.	€300
Creditors ledger balance 31/1/2011 Dr.	€380



Debtors Ledger Control Account					
2011			2011		
Jan-01	Balance b/d	€ 7,600.00	Jan-01	Balance b/d	€ 320.00
Jan-31	Credit Sales	€ 20,960.00	Jan-31	Cheques from debtors	€ 16,800.00
	Dishonoured cheque	€ 160.00		Discount allowed	€ 1,120.00
	Interest charged	€ 180.00		Returns in	€ 720.00
	Balance c/d	€ 300.00		Bad debts written off	€ 480.00
				Bills receivable	€ 1,760.00
				Contra	€ 920.00
				Balance c/d	€ 7,080.00
		€ 29,200.00			€ 29,200.00
	Balance b/d	€ 7,080.00		Balance b/d	€ 300.00

Creditors Ledger Control Account					
2011			2011		
Jan-01	Balance b/d	€ 400.00	Jan-01	Balance b/d	€ 9,600.00
Jan-31	Payments	€ 14,640.00	Jan-31	Credit purchases	€ 16,920.00
	Discount received	€ 760.00		Balance c/d	€ 380.00
	Returns out	€ 440.00			
	Contra	€ 920.00			
	Balance c/d	€ 9,740.00			
		€ 26,900.00			€ 26,900.00
Feb-01	Balance b/d	€ 380.00	Feb-01	Balance b/d	€ 9,740.00

Remember;

- If a debtor owes more, then the item is added to their balance b/d on the debit side
- If a debtor owes less, then the item is subtracted from the balance b/d and entered on the credit side
- If a creditor is owed more, then the item is added on to the balance b/d on the credit side
- If a creditor is owed less, then the item is subtracted from the balance b/d and entered on the debit side
- If the debtor's ledger credit balance of €300 at the end of the month is to appear on the credit side, then it must be entered as a balance c/d on the debit side first
- If the creditors ledger debit balance of €380 at the end of the month is to appear on the debit side, then it must be entered as a balance c/d on the credit side first

Schedule (list) of Debtors & Creditors (Higher Level)

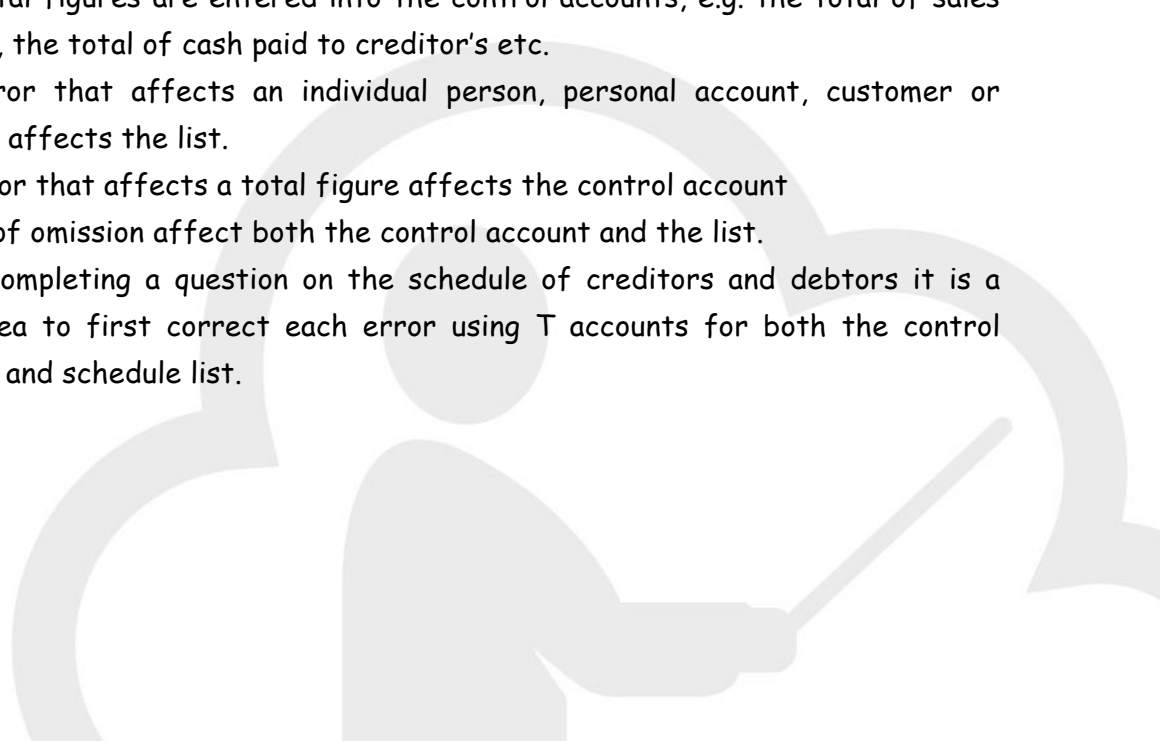
The total debtors figure arrived at in the debtors control account should be equal to the sum of the individual account balances in the debtor's ledger.

If the totals of the control account and the list do not add up, then it is necessary to find the errors in one or both and set out the adjustments in a reconciliation statement.

The individual ledger accounts and the schedule should be corrected as necessary. The control account also needs to be corrected where necessary.

The schedule of creditors is treated in the same manner.

Remember;

- A schedule of debtor's and creditor's balances is required. The balances in the list are the total of all the individual balances in the debtor's or creditor's ledger. These should be the same as those in the control accounts, if not then the errors must be found.
 - Entries made in the control account will appear on the same side as they appear in the individual debtor or creditor account in the ledger, e.g. credit sales appears on both the debit side in the control account and on the debit side of the debtor's account.
 - Only total figures are entered into the control accounts, e.g. the total of sales returns, the total of cash paid to creditor's etc.
 - Any error that affects an individual person, personal account, customer or supplier affects the list.
 - Any error that affects a total figure affects the control account
 - Errors of omission affect both the control account and the list.
 - When completing a question on the schedule of creditors and debtors it is a good idea to first correct each error using T accounts for both the control account and schedule list.
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Now let's take a look at a question;

Q 6.2

The debtor's ledger control account of P. Johnson showed the following balances, €50,000 dr. and €600 cr. on the 31/12/2010. These figures did not agree with the schedule list of debtors balances €50,410 taken on the same date. Looking into the books showed us the following errors.

1. Discount disallowed to a customer of €100 was entered correctly in the debtors account but had been treated as a discount allowed in the discount accounts.
2. Interest of €60 charged to a customer's overdue account had been entered as €50 in the interest account. Following a complaint by the customer this charge was reduced to €30 but this reduction was not entered into the books.
3. A cash sale of €1,000 was debited to a customer's account.
4. A credit note of €200 has been sent to a customer. The only entry made in the books was €20 debited to the debtors account.
5. Sales returns of €300 had been omitted from the books.
6. Bill payable of €400 had been entered on the credit side of a customer's account.
7. A credit note for €200 was sent to a customer and entered in the books. A restocking charge of 10% was forgotten and not applied. When the error was found another credit note for €180 was sent and it was debited to the debtors account.

You are asked to show;

- a) An adjusted debtors control account
- b) An adjusted list of debtors showing the original balance

Control Account			
Discount Allowed *	€ 200.00	Discount Allowed	€ 100.00

Control Account		↔	List	
Interest	€ 50.00		Interest	€ 60.00
Interest *	€ 20.00		Interest *	€ 30.00

List			
Cash sales	€ 1,000.00	Cash sales *	€ 1,000.00

Cont rol Account				↔	List			
		Sales ret urns *	€ 200.00		Sales ret urns	€ 20.00	Sales ret urns *	€ 220.00

Cont rol Account				↔	List			
		Sales ret urns *	€ 300.00				Sales ret urns *	€ 300.00

List			
		Bill payable *	€ 400.00

Cont rol Account				↔	List			
Sales ret urns *	€ 20.00	Sales ret urns	€ 200.00		Sales ret urns	€ 180.00	Sales ret urns	€ 200.00
							Sales ret urns *	€ 160.00

Debt ors Ledger Cont rol Account			
Balance b/ d	€ 50,000.00	Balance b/ d	€ 600.00
Discount allowed (1)	€ 200.00	Int erest (2)	€ 20.00
Credit not e (7)	€ 20.00	Credit not e (4)	€ 200.00
		Sales ret urns (5)	€ 300.00
Balance c/ d	€ 600.00	Balance c/ d	€ 49,700.00
	€ 50,820.00		€ 50,820.00
Balance b/ d	€ 49,700.00	Balance b/ d	€ 600.00

Adjusted List of Debtors		
Balance as per list		€ 50,410.00
Add:		
Bill payable (6)		€ 400.00
		€ 50,810.00
Subtract:		
Interest (2)	€ 30.00	
Cash sales (3)	€ 1,000.00	
Credit note (4)	€ 220.00	
Sales returns (5)	€ 300.00	
Credit note (7)	€ 160.00	
		€ 1,710.00
Net balance b/d as per control account		€ 49,100.00



Homework

Q 6.3

The creditor's ledger control account of J. Stevens showed the following balances, €500 dr. and €60,000 cr. on the 31/12/2008. These figures did not agree with the schedule list of creditor's balances €59,110 extracted on the same date. When the books were examined the following errors were discovered.

1. Credit note of €300 was received from a supplier. The only entry made in the books was 60 debited to a debtors account.
2. Cash purchases of €600 had been debited to a suppliers account.
3. Stevens had received a credit note from a supplier for €100. This had been entered in the appropriate daybook as €80. When posting from this book to the ledger, no entry had been made in the creditors account.
4. A creditor charges Stevens interest of €50 on an overdue account. The only entry in the books for this interest had been €60 debited to the creditors account. After a complaint the interest was reduced to €40 but the reduction was not reflected in the accounts.
5. Stevens had returned good €200 to a supplier and entered this correctly in the books. Later, a credit note arrived showing a deduction of 5% for a restocking charge. The total amount of this credit note was credited to the creditors account. No other entry was made in the books regarding the credit note.

You are asked to show;

- a) An adjusted creditors ledger control account
- b) An adjusted creditors list showing the original balance

Control Account				List			
Credit note *	€	300.00		Credit note *	€	300.00	

List					
Cash purchases	€	600.00	Cash purchases *	€	600.00

Control Account				List			
Purchases returns *	€	20.00		Purchases returns *	€	100.00	

Control Account				List			
		Interest *	€ 40.00	Interest	€ 60.00	Interest *	€ 100.00

Control Account				List			
Returns	€	200.00	Returns *	€	10.00	Returns	€ 190.00
						Returns *	€ 180.00

Creditors Ledger Control Account					
Balance b/d	€	500.00	Balance b/d	€	60,000.00
Credit note (1)	€	300.00	Interest (4)	€	40.00
Credit note (3)	€	20.00	Credit note (5)	€	10.00
Balance c/d	€	59,730.00	Balance c/d	€	500.00
	€	60,550.00		€	60,550.00
Balance b/d	€	500.00	Balance b/d	€	59,730.00

Adjusted List of Creditors		
Balance as per list		€ 59,110.00
Add:		
Cash purchases (2)	€	600.00
Interest (4)	€	100.00
		€ 700.00
		€ 59,810.00
Subtract:		
Credit note (1)	€	300.00
Credit note (3)	€	100.00
Credit note (5)	€	180.00
		€ 580.00
Net balance b/d as per control account		€ 59,230.00