

A Different Approach Tuition Limited (ADApT)

September 6th, 2010: -

Control Accounts

Definition: An account that is used to help check whether or not the information in a ledger is correct.
(They are also called *Total or Summary Accounts* and are part of a company's accounting controls)

How: A control account is prepared for a specific ledger (Sales or Purchases) using the opening balance from that ledger and information from the same source documents that were used to write up the journals (Remember: the journals are used to enter information into the T-accounts in the ledger)

Logic:	If the information in the ledger accounts	=	The information in the control account	The closing balances must be equal
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Thus, if the closing balance of the ledger (i.e. the sum of all the closing balances of the individual accounts in the ledger) is equal to the closing balance of the control account then no errors exist in the ledger.

(Note: this assumes that (i) the opening balance of the ledger and the source documents' info are correct, and (ii) the control account is correctly prepared).

Similarly, if the two balances are NOT equal then there is an error in the ledger.

Sources of Errors: Human error and technological error.

Types of Errors:

- Incorrect addition when balancing off accounts or totaling the balances for a ledger.
- Transposition errors: - transferring or using incorrect figures (e.g. \$483 instead of \$438).
- Documentation error: - when source documents are prepared with inaccurate information.

Two control a/c's For the purpose of sitting the CXC CSEC examination you are required to be able to prepare two control accounts:

- (i) The Debtors' or Sales Ledger Control Account, and
- (ii) The Creditors' or Purchases Ledger Control Account.

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Format for the Debtors' control account

The Debtors Control account (also called the Sales Ledger Control Account) is used to double check the Sales Ledger. The format below shows most of the usual items that appear in this control account and the side on which they are put.

Debtors/Sales Ledger Control Account					
Date	Particulars	Amount	Date	Particulars	Amount
		\$			\$
	Opening Debit Balance b/d	x		Opening Credit Balance b/d	x
	Credit Sales/Sales Journal	x		Receipts from Debtors (Cash/Bank)	x
	Refunds	x		Returns Inward	x
	Dishonored Cheques	x		Discounts Allowed	x
	Interest on overdue debts	x		Bad Debts	x
				<i>Set off*** (see explanation below)</i>	x
	Closing Credit Balances c/d	x		Closing Debit Balances c/d	x
		<u>x</u>			<u>x</u>

Bear in mind that the above account is **classified as an asset** account because it records details of all debtors' accounts (Remember: debtors are classified as an asset) and as such it follows the double entry rules:

- **DEBIT to INCREASE**
- **CREDIT to DECREASE**
- *Debit balances are the "regular" balances*
- *Credit balances occur if we owe debtors money*

Very Important

If you encounter an item in your exercises or exams that you are not familiar with and are not sure whether it goes on the debit or credit side of the account ask yourself the following question:

"Will this item increase or decrease my balance?"

When you determine that you will be able to know what side of the account to put the item on.

Set-Off

A set off is a cancellation of common debt.

For example, if A Ltd owes B Ltd \$400, but B Ltd owes A Ltd \$500, the net result is that B owes A \$100. So what will happen in the books of both of these companies is that they will cancel off the \$400 as that is the "common debt" and leave only the \$100 owed from B Ltd to A Ltd existing on the books.

This is done to simplify/streamline payments and avoid unnecessary transfers of funds.

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Format for the Creditors' control account

The Creditors Control account (also called the Purchases Ledger Control Account) is used to double check the Purchases Ledger. The format below shows most of the usual items that appear in this control account and the side on which they are put.

Creditors/Purchases Ledger Control Account

Date	Particulars	Amount	Date	Particulars	Amount
		\$			\$
	Opening Debit Balance b/d	x		Opening Credit Balance b/d	x
	Payments to Creditors (Cash/Bank)	x		Credit Purchases	x
	Returns Outward	x		Refunds received	x
	Discounts Received	x		Interest on overdue debts	x
	Set-Off	x			x
	Closing Credit Balances c/d	x		Closing Debit Balances c/d	x
		<hr/>			<hr/>
		x			x

Bear in mind that the above account is **classified as a liability** account because it records details of all creditors' accounts (Remember: creditors are classified as a liability) and as such it follows the double entry rules:

- **CREDIT to INCREASE**
- **DEBIT to DECREASE**
- **Credit balances are the "regular" balances**
- **Debit balances occur if creditors owe us money**

Closing comments:

Control accounts is one of the easiest topics on the syllabus and, as with all other topics, requires the working of multiple review questions in order for you to become comfortable with it.

Do not neglect this topic because it is easy.

If you have any questions please contact chris@adapttuition.com