



Chapter 5

Control Accounts

Notes to teachers

- 1 Start with Chapters 3 and 4 of *Frank Wood's Introduction to Accounting* and briefly explain to students the basic principles of recording in the books and ledgers transactions with trade debtors and creditors.
- 2 Remind students that cash sales and purchases are not recorded in the accounts receivable and accounts payable ledgers.
- 3 Most students have difficulty relating the journals to the ledgers. Teachers should go over with students the bookkeeping procedures shown in Exhibit 5.1.
- 4 The preparation of a control account for the accounts receivable or accounts payable ledger is not a difficult task for most students. But it is not that easy to work out the reconciliation of balances of a control account with its corresponding ledger. Teachers should spend sufficient time explaining the errors and their corrections, as shown in Sections 5.8 – 5.10.
- 5 Remind students that minority balances should not be netted off with the normal balances. This error always occurs in public exam questions.
- 6 This topic is usually combined with other topics, most likely the correction of errors, in public examinations.
- 7 Some teachers prefer teaching the correction of errors first before teaching the control accounts. There is no objection to such arrangement. The reason for placing the topic of control accounts before the correction of errors is that this topic involves fewer types of transactions (only transactions with trade debtors and trade creditors), making it an easier topic to deal with.



- Q1** Trade debtors' accounts
- Q2** Debtors are individuals or organisations which owe the firm money. Trade debtors are debtors who arise from goods or services sold on credit. Non-trade debtors are debtors who arise for other reasons.
- Only the transactions with trade debtors should be shown in the accounts receivable ledger control account.
- Q3** If the bad debt was written off in a previous period but was recovered in the current period, the required double entries would be:
- 1 Restating the debt (for the amount paid back) in the debtor's account:
Dr Debtor's account
Cr Bad debts recovered account





- 2 Recording the receipt of payment:

Dr Cash/Bank account
Cr Debtor's account

- 3 Transferring the total of bad debts recovered to the profit and loss account at the end of an accounting period:

Dr Bad debts recovered account
Cr Profit and loss account

If the bad debt was written off and recovered in the same period, the required double entries would be:

- 1 Restating the debt (for the amount paid back) in the debtor's account:

Dr Debtor's account
Cr Bad debts account

- 2 Recording the receipt of payment:

Dr Cash/Bank account
Cr Debtor's account

In this case, there is no need to open a separate account for bad debts recovered. What is needed is to reverse the bad debt from the bad debts account.

- Q4** 1 Put (a) the monthly totals of transactions that are related to trade debtors from the books of original entry (such as the sales journal, the returns inwards journal and the cash book) and (b) the trade debtors' balances from the accounts receivable ledger into a control account.

- 2 Check whether the debit and credit totals of the control account agree.

If the debit and credit totals of the control account do not agree, errors must have been made somewhere in the books or ledgers.

- Q5** Trade creditors' accounts

- Q6** Creditors are individuals or organisations to whom the firm owes money. Trade creditors are creditors who arise from goods or services purchased on credit. Non-trade creditors are creditors who arise for other reasons.

Only the transactions with trade creditors should be shown in the accounts payable ledger control account.

- Q7** Minority balances refer to credit balances in the accounts receivable ledger or debit balances in the accounts payable ledger. Such balances only exist temporarily.

- Q8** With a self-balancing control account, the opening or closing balance in the control account is not extracted from the corresponding ledger. Instead, it is the difference between the totals of the two sides of the control account itself.

- Q9** The advantages for keeping control accounts include:

- Control accounts help test the arithmetical accuracy of entries in ledgers.
- They help safeguard against fraud.
- They facilitate the preparation of financial statements.





A1 The general journal (or the journal)

A2 (a) and (b): They will both decrease.

A3 Possible reasons:

- 1 The firm returned goods to a creditor after making full payment.
- 2 The firm had over-paid a creditor.

The total of minority balances in the accounts payable ledger should be shown separately in the control account. They should not be netted off with the credit balances in the accounts payable ledger.

A4 (a) \$600

(b) The credit balances would become \$55,000 (i.e., reduced by \$600) and minority balances would not be separately shown.

A5 All the errors mentioned in Section 5.7 would not occur if posting was done automatically by computer.

A6 The total of balances in the accounts receivable ledger would become \$9,000, while the balance of the accounts receivable ledger control account would be unaffected (i.e., \$8,000). So these two balances would not agree.

A7 The error shown in Exhibit 5.16 would not occur if posting was done automatically by computer.

A8 The debit balances in the accounts receivable ledger would have been overstated by \$428. The debit total should be reduced by \$428 and the credit balance of \$428 should be separately shown.

A9 The allowance for doubtful debts is made at the end of an accounting period and recorded in the 'allowance for doubtful debts' account and the profit and loss account. Both of the accounts are kept in the general ledger. No entries are to be made in the accounts receivable ledger. Therefore, the error in respect of the allowance for doubtful debts would not affect the accounts receivable ledger or its control account.

A10 No. This is because there are certain types of errors that do not affect the agreement of a control account and its corresponding ledger. Refer to Section 5.8 for examples.

A11 Even when the balance of a control account agrees with the total of balances in its corresponding ledger, it does not necessarily mean all the entries in the corresponding books and ledgers are correct. This is because there are certain types of errors that do not affect the agreement of a control account and its corresponding ledger. Therefore, control accounts cannot help to detect all accounting errors.



ASSESSMENT

Short Questions

1

Accounts Receivable Ledger Control

2009			\$	2009			\$
Mar	1	Balance b/d	12,490	Mar	31	Returns inwards	1,120
"	31	Sales	24,610	"	31	Cash and bank	16,380
			<u>37,100</u>	"	31	Balance c/d	19,600
							<u>37,100</u>

2X

Accounts Payable Ledger Control

2009			\$	2009			\$
May	31	Returns outwards	1,220	May	1	Balance b/d	19,320
"	31	Bank	22,390	"	31	Purchases	31,745
"	31	Balance c/d	27,455				
			<u>51,065</u>				<u>51,065</u>

3

Accounts Receivable Ledger Control

2009			\$	2009			\$
Mar	1	Balance b/d	6,708	Mar	31	Discounts allowed	300
"	31	Sales	11,500	"	31	Cash and bank	8,970
				"	31	Bad debts	115
				"	31	Returns inwards	210
			<u>18,208</u>	"	31	Balance c/d (balancing figure)	8,613
							<u>18,208</u>

4X

Accounts Payable Ledger Control

2009			\$	2009			\$
Nov	30	Discounts received	240	Nov	1	Balance b/d	7,560
"	30	Returns outwards	355	"	30	Purchases	11,100
"	30	Cash and bank	9,850				
"	30	Balance c/d (balancing figure)	8,215				
			<u>18,660</u>				<u>18,660</u>

5

Accounts Receivable Ledger Control

2009			\$	2009			\$
May	1	Balance b/d	6,420	May	31	Cash and bank	10,370
"	31	Sales	12,800	"	31	Discounts allowed	395
"	31	Balance c/d	50	"	31	Set-offs — Accounts payable ledger	145
			<u>19,270</u>	"	31	Balance c/d (balancing figure)	8,360
							<u>19,270</u>

Application Problems

6X

(a) Accounts Payable Ledger Control					
2009				2008	
			\$		\$
Mar	31	Discounts received	1,125	Apr	1
"	31	Payments to creditors	156,250		Balance b/f
"	31	Set-off — Accounts receivable ledger	2,500	2009	
"	31	Balance c/f	6,125	Mar	31
			<u>166,000</u>		Purchases
					151,000
					<u>166,000</u>

(b) Accounts Receivable Ledger Control							
2008			\$	2009		\$	
Apr	1	Balance b/f	30,000	Mar	31	Receipts from debtors	212,875
2009				"	31	Set-off — Accounts payable ledger	2,500
Mar	31	Sales	236,250	"	31	Balance c/f	51,100
"	31	Interest charged to debtors	225				
			<u>266,475</u>				<u>266,475</u>

7X

- (a) The advantages for keeping control accounts include:
- It keeps a check on the arithmetical accuracy of entries in the accounts receivable and accounts payable ledgers. See (c) below.
 - It enables a quick check, for management control, on the totals of trade debtors and trade creditors without waiting for all the accounts to be balanced off.
- (b) He can set off the balances between the particular trade debtor's account in the accounts receivable ledger and the trade creditor's account of that person in the accounts payable ledger. Only the net indebtedness will have to be paid or received.
- (c) No, he can't. Errors may still occur when there are:
- Complete omissions of sales, purchases, returns inwards or outwards from the books.
 - Complete omissions from the books of cash/cheques received or cash/cheques paid out.
 - Errors of commission, e.g., sales to K Wong debited to K Woo.
 - Compensating errors.
 - Errors of original entry, e.g., sales of \$95 entered as both debit and credit items as \$59.
 - Other items, such as debts written off as bad debts in error.
- (Note: These types of errors will be covered in Chapter 6.)

8

(a)		Accounts Payable Ledger Control			
2010		\$	2010		\$
Mar 31	Purchases (iii)	120	Mar 31	Balance b/f	5,850
" 31	Balance c/f	5,960	" 31	Purchases (i)	230
		<u>6,080</u>			<u>6,080</u>

(b) **Statement of Accounts Payable Ledger Balances as at 31 March 2010 (before corrections)**

		\$	\$
Original balances (balancing figure)			4,950
Add Purchases wrongly debited to creditor's account (\$870 × 2)	(ii)		1,740
			<u>6,690</u>
Less Purchases overstated	(iii)	120	
Total of balances overcast	(iv)	<u>610</u>	<u>(730)</u>
Corrected balances as per control account			<u><u>5,960</u></u>

Note: Item (v) did not affect the accounts payable ledger and its control account.

9X (a) **Accounts Receivable Ledger Control**

2010		\$	2010		\$
Dec 31	Balance b/f	4,560	Dec 31	Sales overcast (i)	640
" 31	Sales undercast (ii)	50	" 31	Balance c/f	3,970
		<u>4,610</u>			<u>4,610</u>

(b) **Statement of Corrected Accounts Receivable Ledger Balances as at 31 December 2010**

		\$	\$
Original balances			3,770
Add Sales undercast	(ii)	50	
Balance omitted	(iv)	<u>330</u>	<u>380</u>
			4,150
Less Returns inwards understated (\$200 – \$20)	(iii)		<u>(180)</u>
Corrected total of balances			<u><u>3,970</u></u>

Note: Item (v) affected neither the accounts receivable ledger nor the accounts receivable ledger control account.

10 **Accounts Payable Ledger Control**

	\$		\$
Returns outwards	2,648	Balance b/f	11,874
Bank	146,100	Purchases	154,562
Petty cash	78		
Discounts received	2,134		
Set-offs — Accounts receivable ledger	1,036		
Balance c/f	<u>14,530</u>		
	166,526*		<u>166,436*</u>

* Error: Difference between two sides — \$90 on the credit side (\$166,526 – \$166,436)

Accounts Receivable Ledger Control

	\$		\$
Balance b/f	19,744	Returns inwards	4,556
Sales	199,662	Cash and bank	185,960
		Discounts allowed	5,830
		Set-offs — Accounts payable ledger	1,036
		Balance c/f	<u>22,024</u>
	<u>219,406</u>		<u>219,406</u>

11 (A) The advantages of maintaining control accounts include:

- With a control account for each ledger, it is easier to locate errors.
- With control accounts for the accounts receivable ledger and the accounts payable ledger, it is faster to derive the totals of debtors' balances and creditors' balances.
- With ledgers and control accounts being separately prepared by different persons, it is more difficult to commit fraud in the books.

(Any two of the above or other acceptable answers)

(B) (a) Statement of Revised Total of Accounts Receivable Ledger Balances as at 31 December 2009

			\$	\$
Original total of balances				38,253
Add	Debit total of a debtor's account undercast	(iv)	200	
	Debit balance included as a credit balance (\$466 × 2)	(vii)	<u>932</u>	<u>1,132</u>
				39,385
Less	Sales understated and entered twice [(\$628 × 2) – \$682]	(i)	574	
	Cheque received wrongly debited to debtor's account (\$3,697 + \$3,679)	(ii)	<u>7,376</u>	<u>(7,950)</u>
Revised total of balances				<u><u>31,435</u></u>

(b) Accounts Receivable Ledger Control

2009		\$	2009		\$
Dec 31	Balance b/f (balancing figure)	30,902*	Dec 31	Returns inwards (iii)	121
" 31	Sales (i)	54	" 31	Balance c/f (from (B)(a))	31,435
" 31	Discounts allowed (v)	<u>600</u>			
		<u><u>31,556</u></u>			<u><u>31,556</u></u>

* The balances before adjustments in the accounts receivable ledger control account amounted to \$30,902.

Note: Item (vi) should be corrected as follows:

Dr Bank account \$1,280

Cr Bad debts recovered account (or profit and loss account) \$1,280

Therefore, this item would not affect the accounts receivable ledger or the accounts receivable ledger control account.

12X (a) Accounts Receivable Ledger Control

	\$		\$
Balance b/f	46,540	Balance b/f	470
Sales (\$7,650 – \$7,560) (ii)	90	Sales (iii)	1,800
Balance c/f	470	Bad debts (v)	680
		Set-off — Accounts payable ledger (vi)	3,600
		Balance c/f	<u>40,550</u>
	<u><u>47,100</u></u>		<u><u>47,100</u></u>

Accounts Payable Ledger Control

	\$		\$
Balance b/f	230	Balance b/f	38,220
Purchases overcast (i)	290	Purchases (iii)	1,800
Set-off — Accounts receivable ledger (vi)	3,600	Balance c/f	230
Balance overcast (vii)	90		
Balance c/f	<u><u>36,040</u></u>		
	<u><u>40,250</u></u>		<u><u>40,250</u></u>



(b) **Statement of Accounts Receivable Ledger Balances as at 31 March 2009 (before corrections)**

		\$	\$
Adjusted total of debit balances			40,550
Add Purchases wrongly recorded as sales	(iii)	1,800	
Set-off with accounts payable ledger	(vi)	3,600	
Credit balance wrongly listed as a debit balance	(viii)	<u>470</u>	<u>5,870</u>
			46,420
Less Sales understated	(ii)		<u>(90)</u>
Total of debit balances before corrections			<u>46,330</u>
Total of credit balances before corrections			<u>0</u>

Statement of Accounts Payable Ledger Balances as at 31 March 2009 (before corrections)

		\$	\$
Adjusted total of credit balances			36,040
Add Set-off with accounts receivable ledger	(vi)		<u>3,600</u>
			39,640
Less Purchases wrongly recorded as sales	(iii)	1,800	
Purchases wrongly debited (\$850 × 2)	(iv)	<u>1,700</u>	<u>(3,500)</u>
Total of credit balances before corrections			<u>36,140</u>
Total of debit balances before corrections			<u>230</u>

(c) These are known as minority balances. The credit balances in the accounts receivable ledger control account represent the amounts owed to customers, while the debit balances in the accounts payable ledger control account represent the amounts owed by suppliers. These balances arise because goods have been returned after full settlement of the amounts owed and/or overpayments have been made.

Past Exam Questions

13 (a) Calculation of the Revised Total of the Sales Ledger Balances

		\$	\$
Total of sales ledger balances before adjustments			457,265
Add Dishonoured cheque	(iv)		<u>6,760</u>
			464,025
Less Bad debts written off	(vii)	8,600	
Debit balance included twice	(viii)	<u>2,050</u>	<u>(10,650)</u>
Revised total of the sales ledger balances			<u>453,375</u>

Calculation of the Revised Total of the Purchases Ledger Balances

		\$	\$
Total of purchases ledger balances before adjustments			120,356
Add Purchase invoice not posted	(vi)	3,040	
Credit balance omitted	(ix)	<u>3,770</u>	<u>6,810</u>
Revised total of the purchases ledger balances			<u>127,166</u>

(b) **Sales Ledger Control**

	\$	\$
Balance before adjustments	467,525	
		Sales day book overcast (i)
		5,550
		Bad debts written off (vii)
		8,600
		Balance after adjustments
	<u>467,525</u>	<u>453,375</u>
		<u>467,525</u>

Purchases Ledger Control

	\$		\$
Purchases day book overcast (ii)	6,820	Balance before adjustments	132,546
Discount received omitted (iii)	1,450	Returns outwards overcast (v)	2,890
Balance after adjustments	<u>127,166</u>		
	<u>135,436</u>		<u>135,436</u>

14X

(a) (i)

Purchases Ledger Control Account

2005	\$	2005	\$
Jun 1 Balance b/d	320	Jun 1 Balance b/d	7,645
" 30 Cash	37,659	" 30 Credit purchases	41,847
" 30 Discounts received	785	" 30 Balance c/d	246
" 30 Returns outwards	972		
" 30 Sales ledger: Set-off	648		
" 30 Balance c/d	<u>9,354</u>		
	<u>49,738</u>		<u>49,738</u>

(ii)

Sales Ledger Control Account

2005	\$	2005	\$
Jun 1 Balance b/d	14,160	Jun 1 Balance b/d	282
" 30 Credit sales	65,264	" 30 Cash	61,457
" 30 Legal expenses charged to customers' accounts	250	" 30 Discounts allowed	1,625
" 30 Dishonoured cheques	1,000	" 30 Bad debts expense	600
" 30 Balance c/d	135	" 30 Returns inwards	1,236
		" 30 Purchases ledger: Set-off	648
	<u>80,809</u>	" 30 Balance c/d	<u>14,961</u>
			<u>80,809</u>

(b)

Balance Sheet (extract) as at 30 June 2005

	\$
<i>Current assets</i>	
Trade debtors (\$246 + \$14,961)	15,207
Less Provision for bad debts	(338)
<i>Current liabilities</i>	
Trade creditors (\$9,354 + \$135)	9,489

- (c) (i) To summarise the transactions of subsidiary ledger accounts and to provide a debtors' balance and creditors' balance for the production of a trial balance and balance sheet.
- (ii) To provide an internal check on the accuracy of entries by comparing the total balances in the control accounts with the total of individual account balances in the subsidiary ledgers. This will help to locate errors more quickly.
- (iii) When there is a separation of bookkeeping duties, the control accounts provide an independent check.
- (Any two points)