6.3.4

**CONTROL ACCOUNTS**

- Understand the purposes of purchases ledger & sales ledger control A/c's.

2. Why do we need to prepare a purchases ledger control A/c?
   - To assist in the location of errors.
   - To provide instant total of trade payables.
   - To prove the arithmetical accuracy of the purchase ledger.
   - To enable a statement of financial position to be prepared quickly.
   - To help reduce fraud.
   - To provide a summary of transactions relating to trade payables.

2. Advantages of preparing of control A/c's:
   - Assist in the location of errors.
   - Provide instant totals of trade receivables (debtors) & trade payables (creditors).
   - Prove the arithmetical accuracy of the sales/purchases ledgers.
   - Enable a balance sheet to be prepared quickly.
   - Provides a summary of the transactions relating to trade receivables (debtors) and trade payables (creditors).
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- Provides an internal check on sales/purchases (lager - may reduce fraud).

- Identify the books of prime (original) entry as sources of info.

<table>
<thead>
<tr>
<th>INFO</th>
<th>Book of Original Entry</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cheque refund to credit customer</td>
<td>Cash Book</td>
</tr>
<tr>
<td>Bad debts written off</td>
<td>Journal</td>
</tr>
<tr>
<td>Returns by credit customers</td>
<td>Sales Returns Journal</td>
</tr>
<tr>
<td>Interest charged on customer's overdue A/c</td>
<td>Journal</td>
</tr>
<tr>
<td>Credit sales</td>
<td>Sales Journal</td>
</tr>
<tr>
<td>Returns of credit purchases</td>
<td>Purchases Return Journal</td>
</tr>
<tr>
<td>Receipts from credit customers</td>
<td>Cash Book</td>
</tr>
<tr>
<td>Bad debts written off</td>
<td>Journal</td>
</tr>
<tr>
<td>Interest charged on overdue A/c's</td>
<td>Journal</td>
</tr>
</tbody>
</table>
Q. Why is info in the sales ledger not used to prepare sales ledger control A/c?

- Any error in the sales ledger would not be revealed.
- Any fraud would not be revealed.

* Prepare purchases & sales ledger control A/c's to include credit purchases and sales, receipts & payments, cash discounts, returns, bad debts, dishonoured cheques, interest on overdue a/c's, contra entries, refunds, opening balances + closing.

* If balances on both the Cr & Dr side are mentioned, then write them down accordingly.
  
  But, if they aren't then A/c receivable will be on Dr side & A/c payable on Cr side.

* A/c receivable ↑ = DV
  " " ↓ = CV

A/c payable ↑ = Cr
  " " ↓ = Dr
* No cash sales or purchases/receipts are written down in Control A/c's

* Credit purchases = Purchases Dr A/c payable Cr

* Credit sales = A/c receivable Dr Sales Cr

* Receipts from credit customers = Bank/Cash Dr A/c receivable Cr

* Payments to credit suppliers = A/c payable Dr Bank/Cash Cr

* Discount allowed = Discount allowed Dr A/c receivable Cr

Discount received = A/c payable Dr Discount received Cr

* Returns of credit sales = Sales Returns Dr A/c receivable Cr

* Returns of credit purchases = A/c payable Dr Purchases Returns Cr

* Bad debts written off = Bad debt Dr A/c receivable Cr
* Cheque received from customer was later dishonoured.

* Interest charged to credit customer on overdue A/c

* Contra-entries:
  Contra-entries in Sales L.C.

<table>
<thead>
<tr>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Purchases Ledger Contra</td>
</tr>
</tbody>
</table>

This reduces the amount debtors owe to you.

Contra-entries in Purchases L.C.

<table>
<thead>
<tr>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales Ledger C.A.</td>
<td></td>
</tr>
</tbody>
</table>

This reduces the amount you owe to Creditors.