

# **LECTURE 10**

  

# **CONTROL MECHANISMS**

# LEARNING OUTCOMES

Upon completion of the lecture, the students should be able to:

- Understand how control mechanism that are the sales ledger and the purchase ledger can be useful in accounting for control purposes.
- Understand the reasons for Suspense account and how it is used for accounting purposes.

# Control Account

- Control account is a type of accounting control which is use mainly in manual accounting system.
- Control account is a summary account that enables the business to see at a glance whether general ledger balance for the ledger to which that control account belongs agrees with the total of all the individual account held within that ledger.
- Using control accounts means that it is only the ledgers whose control accounts that do not balance need detailed checking to find errors.

# Important Points

- The balance on the sales ledger control account should equal the total of the balances in the debtors ledger.
- Balance on the purchase ledger control account should equal the total of the balances in the creditors ledger.

# Treatment of Reconciling Items

- In practice, the balance on the Control accounts may not agree with the total of the ledger accounts, and in such an instance the causes of the difference must be identified and adjustments made where necessary.

# Causes of the Differences

- Errors in the sales or purchase ledger control accounts. In such a case, it must always be borne in mind that the control account is part of the double entry book-keeping system. An error in the sales ledger control account may well affect another double entry account.
- Errors in the debtors or creditors ledger. Such ledgers are not part of the double-entry book-keeping system, so no double-entry will be necessary.
- Errors in both the control accounts and the ledgers accounts.

# **Information for Control Account**

- **Sales Ledger Control**
  - Opening debtors: list of debtors' balances drawn up at the end of the previous period.
  - Credit sales: total from the Sales Day Book.
  - Returns inwards: total of the Returns Inwards Day Book.

- Cheques received: list extracted from the bank column or the total of a special column for cheques which has been included in the Cash Book.
- Cash received: list extracted from the cash column or the total of a special column which has been included in the Cash Book.
- Discounts allowed: total of discounts allowed column in the Cash Book.
- Closing debtors: list of debtors' balances drawn up at the end of the period.

- **Purchases Ledger Control**

- Opening creditors: list of creditors balances drawn up at the end of the previous period.
- Credit purchases: total from Purchases Day Book.
- Returns outwards: total of Returns Outwards Day Book.
- Cheques paid: list extracted from the bank column or total of a special column for cheques which has been included in the Cash Book.

- Cash paid: list extracted from the cash column or total of a special column for cash which has been included in the Cash Book.
- Discounts received: total of discounts received column in the Cash Book.
- Closing creditors: list of creditors balances drawn up at the end of the period.

**REVISION**

# REFERENCES

Wood, F. & Sangster, A. [1996]. **Business Accounting 1**. 7<sup>th</sup> edition, London: Pitman Publishing.

Horngren, Harrison, Best, Fraser & Izan [1997]. **Accounting**. 2<sup>nd</sup> edition, Australia: Prentice Hall.