

# UNIT 10: FINANCIAL ACCOUNTING

**LO 4: RECONCILE CONTROL ACCOUNTS AND SHIFT RECORDED TRANSACTIONS FROM THE  
SUSPENSE ACCOUNTS TO THE RIGHT ACCOUNTS**

# UNIT 10: FINANCIAL ACCOUNTING

**P6: EXPLAIN THE PROCESS TAKEN TO RECONCILE CONTROL ACCOUNTS AND CLEAR SUSPENSE ACCOUNTS USING GIVEN ACCOUNTS EXAMPLES.**

# OVERVIEW

- › A control account is a general ledger account containing only summary amounts. The details for each control account will be found in a related (but separate) subsidiary ledger.

# CONTROL ACCOUNTS

- › A control account is a summary-level account in the general ledger. This account contains aggregated totals for transactions that are individually stored in subsidiary-level ledger accounts. Control accounts are most commonly used to summarize accounts receivable and accounts payable, since these areas contain a large volume of transactions, and so need to be separated into subsidiary ledgers, rather than cluttering up the general ledger with too much detailed information.

# CONTROL ACCOUNTS

- › The balance in a control account should match the total for the related subsidiary ledger. If the balance does not match, it is possible that a journal entry was made to the control account that was not also made in the subsidiary ledger. The typical level of activity in a control account is on a daily basis.
- › The control account keeps the general ledger free of details, but still has the correct balance for preparing the company's financial statements.

# CONTROL ACCOUNTS

- › For example, all payables entered during one day will be aggregated from the subsidiary ledger and posted as a single summary-level number into the accounts payable control account. Posting into all control accounts must be completed before the books can be closed at the end of a reporting period; otherwise, transactions may be stranded in a subsidiary ledger.

# CONTROL ACCOUNTS

- › Types of Control Accounts
- › Let's say that you run a medium-sized business. At any given time you have extended credit to 2500 clients. The people that owe you money are called debtors.
- › With such a large number of debtors, it would clutter the general ledger (GL) with 2500 single accounts. In order to simplify the mess, you can create both a control account and subsidiary ledger for your debtors. More on the subsidiary ledger later.

# CONTROL ACCOUNTS

- › Debtors' Control Account
- › The debtors' control account is an account in the GL that shows the total of all transactions with debtors. Entries must still be made using the double entry method (credit/debit), but the following totals are entered:
- › The sales journal totals, or the total amount of credit extended.
- › Total amount that debtors have paid to the company.



# CONTROL ACCOUNTS

- › List from where information is obtained with which to draw up control accounts.

Sales Ledger Control	Source
1 Opening debtors	List of debtors' balances drawn up at the end of the previous period
2 Credit sales	Total from the Sales Day Book
3 Returns inwards	Total of the Returns Inwards Day Book
4 Cheques received	Cash Book: bank column on received side. List extracted or the total of a special column for cheques which has been included in the Cash Book
5 Cash received	Cash Book: cash column on received side. List extracted or the total of a special column for cash which has been included in the Cash Book
6 Discounts allowed	Total of discounts allowed column in the Cash Book
7 Closing debtors	List of debtors' balances drawn up at the end of the period

# CONTROL ACCOUNTS

- › List from where information is obtained with which to draw up control accounts.

<u>Source of Information</u>		Sales Ledger Control Accounts		<u>Source of Information</u>	
	\$		\$		
Sales Ledger	→ Balances b/f	70	Balances b/f	30	← Sales Ledger
Sales Journal	→ Credit Sales	1600	Returns Inwards	65	← Returns Inwards Journal
Cash Book	→ Bank: dishonoured Cheques	5	Bad Debts	2	← General Ledger
General Ledger	→ Bad Debts Recovered	3	Receipts cash	230	← Cash Book
Sales Ledger	→ Interest on Debt	10	Receipts: Bank	570	← Cash Book
Sales Ledger	→ Cash Redunded	130	Discounts Allowed	30	← Cash Book
Sales ledger	→ Balances c/d	182	Set off: Purchases Ledger	100	← Sales Ledger
			balances c/d	973	← Sales ledger
		<u>2000</u>		<u>2000</u>	

# CONTROL ACCOUNTS

- › Creditors' Control Account
- › Not only could you have multiple debtor accounts, but you might also have a large number of accounts payable entries. Like the debtors' control account, it shows:
- › Bank account balance(s)
- › Total purchases

# CONTROL ACCOUNTS

- › List from where information is obtained with which to draw up control accounts.

Purchases Ledger Control	Source
1 Opening creditors	List of creditors' balances drawn up at the end of the previous period
2 Credit purchases	Total from Purchases Day Book
3 Returns outwards	Total of Returns Outwards Day Book
4 Cheques paid	Cash Book: bank column on payments side. List extracted or total of a special column for cheques which has been included in the Cash Book
5 Cash paid	Cash Book: cash column on payments side. List extracted or total of a special column for cash which has been included in the Cash Book
6 Discounts received	Total of discounts received column in the Cash Book
7 Closing creditors	List of creditors' balances drawn up at the end of the period

# CONTROL ACCOUNTS

- › List from where information is obtained with which to draw up control accounts.

<u>Source of Information</u>			Purchases Ledger Control Accounts		<u>Source of Information</u>	
			\$		\$	
Cash Book	→	Payments: cash	1000	Balances b/f	50	← Purchases Ledger
Cash Book	→	Payments: bank	400	Credit Purchases	1850	← Purchases Journal
Returns Outwards Journal	→	Returns Outwards	40			
Cash Book	→	Discount received	4			
Purchases Ledger	→	Set off: Sales Ledger	100			
Purchases Ledger	→	Balances c/d	356			
			<u>1900</u>			<u>1900</u>

# HOW DO THEY SUPPORT EFFECTIVE FINANCIAL MANAGEMENT

- › Financial Management means planning, organizing, directing and controlling the financial activities such as procurement and utilization of funds of the enterprise. It means applying general management principles to financial resources of the enterprise.

# HOW DO THEY SUPPORT EFFECTIVE FINANCIAL MANAGEMENT

- › The financial management is generally concerned with procurement, allocation and control of financial resources of a concern. The objectives can be-
- › To ensure regular and adequate supply of funds to the concern.
- › To ensure adequate returns to the shareholders which will depend upon the earning capacity, market price of the share, expectations of the shareholders.

# HOW DO THEY SUPPORT EFFECTIVE FINANCIAL MANAGEMENT

- › To ensure optimum funds utilization. Once the funds are procured, they should be utilized in maximum possible way at least cost.
- › To ensure safety on investment, i.e, funds should be invested in safe ventures so that adequate rate of return can be achieved.
- › To plan a sound capital structure-There should be sound and fair composition of capital so that a balance is maintained between debt and equity capital.



# REFERENCES

- › Bragg, S., & Bragg, S. (2019). Control account. Retrieved 16 July 2019, from <https://www.accountingtools.com/articles/2017/5/4/control-account>
- › What is the purpose of control accounts? | AccountingCoach. (2019). Retrieved 16 July 2019, from <https://www.accountingcoach.com/blog/accounts-receivable-control-account-subsidiary-ledger>
- › (2019). Retrieved 16 July 2019, from <https://study.com/academy/lesson/control-accounts-definition-uses.html>
- › (2019). Retrieved 16 July 2019, from <http://skoolers.com/wp-content/uploads/2015/10/image0202.jpg>
- › Sangster, A., & Wood, F. (2018). Frank Wood's Business Accounting Volume 1. Harlow, United Kingdom: Pearson Education Limited.
- › Financial Management - Meaning, Objectives and Functions. (2019). Retrieved 16 July 2019, from <https://www.managementstudyguide.com/financial-management.htm>