LET'S GET TECHNICAL

Control accounts is the subject for Gareth John's incisive analysis this time

Graham Hambly asked me the other day: "How many bottles of wine do you have in your cellar?" If I answered this by telling him about every bottle by each individual producer (a bottle of 1972 Chateau Musar, a bottle of 2000 Chateau Angelus, a bottle of 1982 Grange, etc.) then we would be there for several hours. It would be far easier to tell him I have a **total** of 2,345 bottles of red wine and a **total** of 1,764 bottles of white wine!

In a similar way, although businesses do need to keep track of amounts owed by credit customers and amounts owed to credit suppliers, it would be rather cumbersome to include balances for every single individual customer and every single individual supplier in the general ledger. It is far easier to simplify things by just including a single **total** figure for trade receivable and a single **total** figure for trade payables. These single **total** figures are recorded in the so-called control accounts.

Think '**control account**' – think '**total**'! (Note – the records that do show the individual balances owed by each customer and owed to each supplier are called the subsidiary ledgers. There is a subsidiary sales ledger for individual customer account balances, and a subsidiary purchases ledger for individual supplier account balances.)

Trade receivables

Trade receivables balances are amounts owed to the business by credit customers. The subsidiary sales ledger contains a list of balances owed by individual customers while the sales ledger **control account** (SLCA) is the general ledger account showing the **total** amount owed by all credit customers as a single figure.

The balance of trade receivables is an asset of the business which means that:

• To increase the balance for new credit sales made we would **debit** the SLCA.

• To decrease the balance for payments made by credit customers, sales returns or discounts allowed to customers we would **credit** the SLCA.

Trade payables

Trade payables balances are amounts owed by the business to credit suppliers. The subsidiary purchases ledger contains a list of balances owed to individual suppliers whilst the purchases ledger **control account** (PLCA) is the general ledger account showing the **total** amount owed to all credit suppliers as a single figure.

The balance of trade payables is a liability of the business which means that:

• To increase the balance for new credit purchases made we would **credit** the PLCA.

• To decrease the balance for payments made to credit suppliers, purchases returns or for discounts received from suppliers we would **debit** the PLCA.

An example of completing a sales ledger control account

At the start of January the balance on the SLCA was £50,000. During January credit sales totalled £40,000, payments made by credit customers were £30,000, sales returns were £3,000 and discounts allowed to customers were £1,000. What would the balance on the SLCA be at the end of the month?

Let's take each figure in turn:

• Since the SLCA is an asset of the business (the trade receivables owed by credit customers) then the opening balance will be a brought forward **debit** balance.

• The credit sales in the month will increase the balance owed by customers so this would be a further **debit** entry.

• Payments made by customers will reduce the amount they owe so will be a **credit** entry.

• Sales returns also reduce the balance owed by customers (they are certainly not going to want to pay for things they have sent back to us) so would also be a **credit** entry.

• Discounts allowed to customers mean that we are letting them off with part of what they owe us which will reduce the outstanding balance and therefore requires another **credit** entry.

To establish the balance at the end of the month we could work through each transaction in turn adding the debits and deducting the credits as follows:

£50,000 + £40,000 – £30,000 – £3,000 – £1,000 = £56,000 balance at the end of January.

Alternatively we could show the transactions on a ledger account:

SALES LEDGER CONTROL ACCOUNT

	£		£
Opening balance b/d	50,000	Payments received	30,000
New credit sales	40,000	Sales returns	3,000
		Discounts allowed	1,000
		Closing balance c/d (BF)	56,000
	90,000		90,000

Exercise

Here's one for you to try. Once you have finished your answer you can watch me work through my solution at www.firstintuition.co.uk/blog.html.

An example of completing a purchases ledger control account

The balance on the PLCA brought forward at the start of January was £56,780. During January payments were made to credit suppliers of £34,586, credit purchases were £42,745, purchases returns were £4,385 and discounts received from credit suppliers were £2,384. What will the balance on the PLCA carried forward at the end of January be? PQ

• Gareth John is a tutor/director with First Intuition and helps to manage their AAT online learning programme. He was PQ Magazine Accountancy Lecturer of the Year in 2011

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