



# **Level 3**

## **Certificate**

### **in**

# **Bookkeeping & Accounts**

## **Lesson 1**

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Sixth Edition  
Printed in Great Britain

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## INTRODUCTION TO THE COURSE

Welcome to the Ideal Schools' course; Level 3 Certificate in Bookkeeping and Accounts, which follows on from the Level 2 Certificate Courses.

Some of the topics covered in this course have been explained in the Level II course but are covered in greater depth in this course.

Regular study on your part is essential if you are to reach a high standard of competence. Therefore we encourage you to follow the study timetables you plan at the start of the course. Approach your training with vigour, enthusiasm and a genuine desire to learn, and you will be well rewarded.

Throughout the course, prices and rates quoted will be for illustrative purposes only, in order to help you understand the principles and concepts of bookkeeping. These are not to be assumed to represent current prices.

### Assignments

This course comprises six lessons, and at the end of each there is an assignment. In addition, there are final assignments in the form of a mock examination papers. Please submit each assignment, completed to the best of your ability, to Ideal Schools for marking. We recommend that you send only **one** assignment at a time.

### Suggested Answers

When the marked assignment has been returned to you, please take very careful note of the tutor's comments and the printed Suggested Answers. These are all part of the tuition process. Sometimes there may be more than one possible way of presenting the information required in the answer, so your answer is not necessarily *wrong* because it differs from the suggested answer. Your tutor will tell you if your answer is wrong or if your method of presenting the information is unacceptable.

### Progress Tests

In addition to the assignments, there are a series of progress tests throughout each lesson. These tests are a valuable part of your training. They will help you to practice applying the material you have studied and they will also help you to judge how well you have understood it. If you are really going to learn a subject, then regular practice is essential. Experience has shown that these tests both increase your memory and improve your understanding of your studies.

Please do each test as you come to it, as part of your study programme. Do not be tempted to ignore these tests. They may seem like hard work, but you will certainly feel the benefit when you come to the assignment at the end of each lesson.

## Level 3 Certificate in Bookkeeping and Accounts

The procedure to follow is this:

- First read the questions carefully and think about them.
- Next plan your answers and write them on paper.
- Then look again at your answers until you are satisfied they are the best you can do.
- Finally, when you have finished the test, check your answers with the answers included at the end of the lesson.

**Do not send your answers to the School, but keep them for your own future reference.**

If approximately 75% or more of your answers are correct, go on to the next part of the lesson. If you have less than 75% correct, we suggest that you restudy the material. This should ensure that you learn each lesson thoroughly.

It does not matter how often you have to do each progress test; what really matters is that you learn everything thoroughly.

If you are new to Ideal Schools you will find enclosed with this lesson is a leaflet called *How to Study*. This will help you to get the best results from your course. So now read *How to Study*, and then go straight on with your studies - and good luck with them.

### Examinations

Within this level of study (parts A & B) there are four home based exams and one centre based exam, not also available at home under exam conditions. When you complete your assignments within each section of study, including the mock exams, and the online practice exams you are ready for the final ICB Examination. All final exams must be ordered via Ideal Schools and you'll be provided with appropriate guidance as you progress.

**IMPORTANT:** we strongly advise that you complete all assignments and the mock exam(s) before ordering your final exam. Our statistics and anecdotal evidence show that this will give you the best opportunity to pass with a high percentage mark. This also validates your exam pass guarantee.

## OBJECTIVE OF THIS COURSE

The main objective of this course is to prepare you for the ICB Level 3 Bookkeeping exams.

This course folder for Level 3 (part A) prepares you for the home based exam: Paper M4.

Where tutorial support is required do not hesitate to phone us on 0141 248 5200 or email to [tutor@idealschools.co.uk](mailto:tutor@idealschools.co.uk)

## OBJECTIVES OF LESSON 1

When you have finished this lesson you will know the details of the code of ethics and the important provisions of the anti-money laundering rules. You will also understand the use and function of the sales and purchases ledgers and of control accounts. You should also understand what a trial balance is and how to make corrections.

The final section of this lesson consists of an extensive bookkeeping case-study, by the end of which you will be capable of making bookkeeping entries such as those required in a normal sized business.

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## PROFESSIONAL CODE OF ETHICS

Many professions that are trusted by the public to apply expert knowledge (doctors, engineers, surveyors, accountants and the like) have a Code of Ethics which sets out their expectations of a member's behavior and the boundaries within which members have to operate. A Code of Ethics helps to clarify the profession's values, provides a reference point for decision making, and can be used as a framework for discipline. Most Codes of Ethics are principles based, providing guidance as to the principles on which professional judgement and decisions should be based, rather than a rigid system of rules.

There tend to be some common themes which members must apply:

**Integrity, objectivity, professional competence and due care, confidentiality and professional behavior.**

### Law v Ethics

Behaviour can be unethical without being illegal, and professional ethics covers a wider area than the law. For example tax evasion (the deliberate misrepresentation of personal or corporate affairs to the tax authorities) is illegal and not something that most people would wish to condone. However the comedian Jimmy Carr used a legal tax avoidance scheme to significantly reduce the tax on his earnings which gave rise to widespread criticism by the media and politicians (including the Prime Minister) who questioned the morality of his actions. Although not illegal there is an ethical issue concerning tax avoidance and the payment of what is fair/just by the wealthy.

### An Attitude of Mind

Thus professional ethics is not just about complying with the letter of the law but also about applying the spirit of principles, rules and guidelines. Really it is about cultivating the right attitude of mind. Ethical issues are not always clear cut. Claiming expenses for amounts that have not been incurred or were for personal rather than business use might be considered unethical by most (the MPs expenses scandal is an obvious example) but what about the taking home of office stationery, pens, paper etc? A useful test is to consider what a reasonable person who is well informed, well intentioned and unbiased would do in a similar situation.

### Conflicts of interest

Many professional ethics issues are about conflict and in particular the conflict between professional duties and personal interest. In order to act ethically a professional expert must be sure they are protecting the interests of others rather than themselves. At the start of 2012 the Chairman of the Swiss National Bank, Phillip Hildebrand, resigned after he was unable to prove that he was unaware of the currency trade made by his wife just before the Swiss National Bank intervened in the currency markets and capped the Swiss Franc against the Euro. His wife made around £45,000 on the transaction but was later quoted as saying that she had failed her husband by not even considering the perception of a conflict of interest...a conflict which cost him his job.



In situations of possible conflict, professionals need to balance the commercial pressures of the business environment with the need to treat people fairly and act with integrity. So with the Facebook flotation there were concerns about the ethics of how Facebook's professional advisors disclosed information, when estimates of revenue growth were revised downward a few days before the company went to the market, but this information was only provided to selected investors. The unequal dissemination of information meant that individual investors were left buying shares at prices that the institutional investors already knew were overvalued.

### **Ethical Dilemmas**

The difficult economic environment has increased pressure on businesses to evidence liquidity, e.g. by reporting appropriate cash balances to the stock exchange, or to achieve profitability, e.g. by ensuring certain contracts are won. In such circumstances the pressure to act unethically increases.

Britain's banks have been heavily criticised for aggressively selling ineffective but highly profitable payment protection insurance during the course of the last decade alongside their mortgages, credit cards and loans – either mis-selling to customers who already had insurance, putting inappropriate pressure on customers to buy PPI, or in some cases adding insurance to loans without the customer's knowledge.

In the famous case of Lehman Brothers, sale and repurchase agreements that were in reality loans were treated as sales, after a well-known UK legal firm advised Lehman that such treatment was acceptable under UK accounting regulations. Lehman was the largest bankruptcy in US history and its collapse triggered the panic that led to the global economic crisis. Many questioned the ethics of Lehman's professional advisors in conspiring to manipulate the balance sheet. In such cases the conflict between the duty to the client and the duty to the wider public interest is clear.

Professional ethics help individuals faced with such ethical dilemmas to make the right decision, by setting out a framework which informs members about the issues to consider and the steps to go through in resolving difficult situations, whether a solicitor who has been asked to act for both parties in a dispute, or a finance director under pressure from a Board of Directors to take an aggressive approach to reporting earnings.

### **Conclusion**

In conclusion the main thing that distinguishes members of a profession is a commitment to the highest standards of professional practice reflected in the high level of ethical standards expected of its members.

## ANTI-MONEY LAUNDERING CONTROLS

### Overview

Money laundering means exchanging money or assets that were obtained criminally for money or other assets that are 'clean'. The clean money or assets don't have an obvious link with any criminal activity. Money laundering also includes money that's used to fund terrorism, however it's obtained.

This guide will help you decide whether Money Laundering Regulations apply to your business and understand your responsibilities if they do.

### Who the Money Laundering Regulations apply to

The Money Laundering Regulations apply to a number of different business sectors, including financial and credit businesses, accountants and estate agents.

Every business covered by the regulations must be supervised by a supervisory authority. Your business may already be supervised, for example because you belong to a professional body like the ICB.

### HMRC supervises the following 5 business sectors:

- Money Service Businesses
- High Value Dealers
- Trust or Company Service Providers
- **Accountancy Service Providers (this is you)**
- Estate Agency Businesses

### Anti-money laundering controls and monitoring

You must put in place certain controls to prevent your business from being used for money laundering if you're covered by the Money Laundering Regulations. These include:

- assessing the risk of your business being used by criminals to launder money
- checking the identity of your customers
- checking the identity of 'beneficial owners' of corporate bodies and partnerships
- monitoring your customers' business activities and reporting anything suspicious to the **National Crime Agency (NCA)**
- making sure you have the necessary management control systems in place
- keeping all documents that relate to financial transactions, the identity of your customers, risk assessment and management procedures and processes
- making sure that your employees are aware of the regulations and have had the necessary training

### Reporting suspicious activity

You need to appoint a nominated officer as part of the anti-money laundering controls that you have to put in place.

You don't need to appoint a nominated officer if your business doesn't have any employees, because you're the person who is directly responsible for informing the NCA.

Your nominated officer must be told if anyone in your business knows or suspects that another person is laundering money or financing terrorism. The nominated officer then has to review the information they have received and decide if it needs to be reported to the NCA.

Once the nominated officer decides there are reasonable grounds to suspect money laundering they must tell the NCA **at the earliest possible opportunity**. The nominated officer should get consent from the NCA to complete the transaction. If it's not possible to delay the transaction to get consent, the nominated officer should inform the NCA of this when they send their report.

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## THE TRIAL BALANCE

In the Level II course, we discussed the process of balancing accounts off at a given point in time. We noted that if we had debited and credited each transaction correctly then the total of the debit balances must equal the total of the credit balances. This exercise of totalling the debit and credit balances is known as the trial balance. It enables us to check the accuracy of our double-entry bookkeeping by listing the various debit and credit balances in the ledger at a given point in time. We include all our balances, which means those in the general ledger, the sales ledger and the purchases ledger, as well as those for cash, bank and petty cash.

**The trial balance is not part of the ledger, nor is it involved in the double-entry process. It is merely a summary of the balances of the accounts in the ledger at a particular point in time.**

Every business produces a trial balance at least once a year, as a step towards producing the final set of accounts. It does not form part of the actual final accounts, but is a way of drawing together and checking the information on which those final accounts are based. Sometimes a trial balance may be required at times other than the end of the financial year to help monitor the business's progress.

If the trial balance squares, that is if the total of the debit balances equals the total of the credit balances, then it is likely that the double-entry process has been correctly carried out. (We shall discuss later some types of error which could still be present, even though the trial balance squares.)

If the trial balance does not square, the reason can be found by taking the following steps:

Check the additions of the debit balances and the credit balances in the trial balance itself; there may have been a simple error of addition at this stage.

If step (1) does not reveal the error, check that the balance of each account has been correctly transferred to the trial balance, i.e. that the correct amount has been copied and on the correct side. A simple copying error may be the cause of the problem.

If neither of these steps reveals the error, then check that each account has been correctly balanced (i.e. taking the difference between the debit and credit totals in each account.) Check that if credits are greater than debits it is shown as a credit balance, and vice versa.

If all of the above steps fail to reveal the error, then it is necessary to check that a double-entry has been made for each transaction. Before embarking on the laborious

process of going through the books transaction by transaction, there are some short cuts, which may reveal a single error of the most common types:

One of the most common sources of error in the ledger is the omission of one half of the double-entry. Therefore start by taking the difference in the trial balance (i.e. between the debit and credit totals) and looking for a transaction for this amount. If there is one, check that both halves of the double-entry have been made.

Another common source of error is where a transaction has been entered twice on the same side of the ledger (two debits or two credits), instead of one entry on each side. If so, the effect on the trial balance will be an error of double the amount of the transaction, since one side will be incorrectly increased by the amount of the transaction and the other will be incorrectly decreased by the same amount. Therefore, halve the difference on the trial balance and look for any transactions of this amount to check whether they have been correctly entered.

If these short cuts do not find the error, then the transactions will have to be worked through one by one until the error is found, or all the errors if there are more than one. The normal layout of a trial balance is as follows:

Trial Balance as at 30/09/xxxx

|                               | DR              | CR              |
|-------------------------------|-----------------|-----------------|
| Capital                       |                 | £50,000         |
| Motor Car                     | £5,000          |                 |
| Office premises and furniture | 10,000          |                 |
| Purchases                     | 20,000          |                 |
| Sales                         |                 | 40,000          |
| Wages                         | 5,000           |                 |
| Office expenses               | 10,000          |                 |
| R Jones                       | 16,000          |                 |
| R Thomson                     | 18,000          |                 |
| D McKenzie                    | 23,000          |                 |
| R Bonno                       |                 | 6,000           |
| D Brewer                      |                 | 8,000           |
| F Slayer                      |                 | 1,000           |
| T McTavish                    |                 | 2,000           |
|                               | <u>£107,000</u> | <u>£107,000</u> |

The above represents the balances on each of these accounts in J. Bloggs's ledger as at the date given. The fact that the balance squares confirms the calculations were correct and suggests that the double-entry process has probably been correctly

carried out. There are certain errors, however, which would not result in the trial balance not squaring and will therefore not be revealed by it. A full audit would bring such errors to light.

There are seven main categories of such error.

### 1 Error of omission

If a transaction has been completely omitted from the ledger, i.e. neither a debit nor a credit entry has been made, then the trial balance will not reveal this. This type of error will be most likely to occur where one of the business's documents, such as a sales invoice, goes missing before being recorded in the relevant subsidiary book; it would therefore not appear in the accounts at all. Where such an omission subsequently comes to light, the entries which have been omitted are merely made at a later date.

### 2 Error of original entry

This is where the original figure entered in the subsidiary book is incorrect and this incorrect figure is used for both halves of the double-entry. Suppose, for example, that a purchase invoice for £54 is wrongly entered in the purchases day book as £45 and this wrong figure is then posted to supplier's personal account and the total posted to the purchases account is also accordingly £9 short. Again this would not affect the trial balance, since both sides are short by the same amount. When such an error comes to light, it is corrected by a journal entry amending the relevant accounts to the correct total. In this case the entry would be;

|                         |           |           |
|-------------------------|-----------|-----------|
|                         | <b>DR</b> | <b>CR</b> |
| Purchases               | £9        |           |
| Supplier's personal a/c |           | £9        |

Being correction of error in recording of  
Invoice 9832 in the Purchases Day Book:  
£45 recorded instead of £54.

Thus the two accounts have been corrected to what they should be.

### 3 Error of commission

This is where the correct amount is entered but in the wrong account. An example would be where a sales invoice for £100 was correctly entered in the day book and credited to the sales account in the general ledger, but was debited to D. White instead of L. White. The trial balance will still agree, as there have been balancing debit and credit entries, but the accounts of the two Whites will be wrong. Again, this would require a journal entry:

|         |           |           |
|---------|-----------|-----------|
|         | <b>DR</b> | <b>CR</b> |
| L White | £100      |           |
| D White |           | £100      |

Being correction of misposting to wrong  
account in the Sales Ledger per Invoice 63862.



Note that the correct type of account has been used in the misposting, both accounts being personal accounts.

#### 4 Error of principle

This is where one of the ledger entries is made to the wrong type of account, though to the correct side of the account, so that the trial balance will not be affected. For example, a motor car bought for £2,000 by cheque is correctly credited to bank account but, instead of being debited to motor vehicles account (an asset or real account), it is debited to a motor vehicle expenses account (an expense or nominal account). The trial balance will agree but there is an error in the ledger. The correcting journal entry will be:

|                        | DR     | CR     |
|------------------------|--------|--------|
| Motor vehicles         | £2,000 |        |
| Motor Vehicle expenses |        | £2,000 |

Being correction of misposting  
per Cash Book page 96.

#### 5 Compensating errors

This is where the ledger contains two or more separate errors which by chance cancel each other out. Suppose, for example, that the sales and purchases accounts were both added up to £1 too much. The trial balance would still square, since both the debit balance and the credit balance would be overstated by £1. Sometimes a series of errors of entry are compensating. Suppose for example that a customer's account is debited £10 instead of being credited, resulting in a final debit balance which is £20 more than it should be. At the same time, suppose two suppliers' accounts are credited with £8 and £2, respectively, instead of being debited, resulting in a credit balance of £20 ( $[\text{£8} + \text{£2}] \times 2$ ) too much. These entries result in both sides of the trial balance being overstated by £20, but the balance will still square and the error will not be revealed. Several correcting journal entries would be required when the errors are discovered.

#### 6 Reversal of Entries

This is where the debit and credit entries are recorded on the wrong side of the accounts. For example Purchases a/c was credited and the supplier a/c debited. This error would not show up in the Trial Balance.

#### 7 Error of duplication

This is where the same transaction is entered twice, both the debit and the credit entry being correctly made each time. Care should always be taken to mark documents such as invoices or remittance advices as soon as they are entered and to indicate clearly which entries in a book of original entry have been posted. Where there are a large number of transactions per period, however, it is probably possible that human error will sometimes creep in and there may be occasions where a clerk omits to give a clear indication that the entry has been made and another clerk may duplicate the entry. If each entry is correct in itself, with the full double-entry being made each time, the balance will still square.

## CORRECTION OF ERROR USING A SUSPENSE ACCOUNT

In theory, the cause of any difference in a trial balance should be discovered and put right before the final accounts are prepared. Sometimes, however, this is not practicable. Clearly it would not be wise to go ahead with preparing final accounts if the trial balance revealed a substantial discrepancy, but if the error is a small one then it may well not be worth the inconvenience of holding up the accounts, relative to the size of the business. **This does not mean that no attempt should be made to locate the error**, but the next stages in account preparation should be able to go ahead while the error is being located.

Since no progress can be made without a trial balance which squares, the procedure is to insert an item (a suspense account) to make up the balance. For instance, suppose that the debit column exceeds the credit column by £50, the trial balance would end as follows:

|                                    |                |                |
|------------------------------------|----------------|----------------|
| Sundry debit balances              | £10,570        |                |
| Sundry credit balances             |                | £10,520        |
| Suspense a/c (difference in books) |                | 50             |
|                                    | <u>£10,570</u> | <u>£10,570</u> |

A suspense account will be opened in the ledger and credited with £50, but it should be noted that **no double-entry is made for this**; it represents the compensating credit entry for the net difference caused by one or more errors. **When these errors are discovered, corrective entries are made both in the account in which the error occurred and in the suspense account.** This corrective entry is a double-entry, i.e. a debit and a credit. (This is not true where the accounts themselves are correct but a figure has been merely miscopied in preparing the trial balance — see example 3, below.)

Great care is needed in making these corrective entries. In respect of each item, consider precisely what effect the error has had on the balance of the account in question, and make an appropriate double-entry (through the journal) to correct it. When all the errors have been corrected, the suspense account balance will be eliminated.

An example will make this clear. Suppose that, in the above example showing a credit balance which is £50 short, a rechecking of the books reveals the following errors:

1. The sales day book has been overcast by £10.
2. The purchase of goods from Appleton Bros has been posted to their account as £100, whereas it should have been £130.
3. The balance on Blenkinsopp & Sons account has been extracted as £55 but is in fact £35, due to a copying error.



4. A discount of £5 allowed to Cantrell & Co was debited to their account instead of credited.

The suspense account will then appear as follows:

#### SUSPENSE ACCOUNT

|                         |            |                     |            |
|-------------------------|------------|---------------------|------------|
| Appleton Brothers (2)   | £30        | Difference in books | £50        |
| Error re Blenkinsop (3) | 20         | Sales (1)           | 10         |
| Cantrell & Co (4)       | <u>10</u>  |                     |            |
|                         | <u>£60</u> |                     | <u>£60</u> |

The explanation of the above entries is as follows:

- 1 The double-entry is completed by debiting the sales account with £10, thus offsetting the previous over-credit of £10 to that account.
- 2 The double-entry is completed by crediting Appleton Bros account in the creditors' ledger with £30, thus correcting the item under-credited.
- 3 There is no double entry to this item. Blenkinsopp & Sons account in the debtors' ledger is already correct; the error was made in taking out the trial balance (a mere copying error) and the entry of £20 in the suspense account merely rectifies this.
- 4 The discount of £5 has been debited instead of credited. The double-entry for this item is a credit of £10 to Cantrell & Co's account, made up of a credit of £5 to eliminate the incorrect debit entry and a further credit of £5 to record the discount allowed.

#### The Adjusting Journal Entries

The journal entries required to record the above adjusting entries may be summarized as follows:

1.

|                  | DR  | CR  |
|------------------|-----|-----|
| Sales            | £10 |     |
| Suspense Account |     | £10 |

*Being rectification of over cast of  
£10 in Sales Day Book*

2.

|                   | DR  | CR  |
|-------------------|-----|-----|
| Suspense Account  | £30 |     |
| Appleton Brothers |     | £30 |

*Being rectification of error in crediting Appleton Brothers with £100 in place of £130 as per Purchases Day Book*

3.

|                  | DR  | CR |
|------------------|-----|----|
| Suspense Account | £20 |    |

*Being rectification of error in extracting debit balance of Blenkinsopp & Sons as £55 rather than £35  
(As there is no double entry a single entry in journal is all that is required)*

4.

|                  | DR  | CR  |
|------------------|-----|-----|
| Suspense Account | £10 |     |
| Cantrell & Co    |     | £10 |

*Being rectification of error in debiting Cantrell & Co with £5 discount allowed*

## Exam Questions

Examination questions are sometimes set in which the amount of the difference in the books is not stated. From the foregoing explanation, however, it should be clear that the difference is the amount which it is necessary to enter in the suspense account to close it off, after all the corrective entries have been made, £50 in this case.

Where the trading and profit and loss account and balance sheet are prepared before the errors are discovered, the difference, which may be either a debit or a credit item, is usually shown in the balance sheet as 'suspense account (difference in books): Alternatively the balance may be written off to the profit and loss account, possibly via the general expenses account. **It must be emphasised, however, that every attempt should be made to locate a difference in a trial balance, as the opening of a suspense account is merely a temporary expedient, pending location of the actual error or errors.**

The above rules apply only to those errors which affect the agreement of the trial balance. Errors of commission and errors of principle are dealt with by means of a transfer between the accounts concerned and not through the suspense account, since there is no balancing entry to be eliminated in respect of these errors.

Suspense accounts are also employed to record temporarily any items which, because there is insufficient data, cannot at the time of entry be posted to their correct accounts.

In an examination situation, students will be told if a question involves a suspense account and should not create their own suspense accounts if differences arise in their trial balances; they should identify the source of their error.

### **Example**

On 8 April a trader receives a postal order to the value of £15.30 without any indication of the identity of the sender. As he will be unable at the time to make the correct credit entry in his books, he credits this amount temporarily to a suspense account. The amount would be debited to the cash book and credited to the suspense account.

On 18 April, a letter is received from J. Jackson complaining that he has received no receipt for the postal order to the value of £15.30 which he had sent on 6 April. It would be reasonable to assume that this referred to the previously unidentified payment, and adjusting entries would be made through the journal, debiting to suspense account and crediting to J. Jackson.

## CONTROL ACCOUNTS

We have seen how a business's personal accounts for debtors and creditors are removed from the general ledger and kept apart in the sales ledger and purchases ledger. We have also seen how the trial balance takes all the accounts in the ledger, wherever they may be held, to verify the arithmetical accuracy of the double-entry process in the ledger.

The largest number of accounts a business has is likely to be the personal accounts of its customers and suppliers. Consequently the sales ledger (and to a lesser extent, the purchases ledger) are likely to become fairly large books in their own right.

In view of this, a useful bookkeeping tool called the control account is often used. **A control account is a total account showing in summary form the detailed entries made in the ledger.** If, for instance, we have a sales ledger control account and a purchases ledger control account in the general ledger, this will enable a trial balance to be prepared from the general ledger and the cash book balances, without referring to all the individual accounts in the sales and purchases ledgers.

You may find it more helpful to refer to a Sales Ledger Control a/c as a **Debtors Control Account**, as it contains totals of all accounts effecting amounts owed by debtors.

Similarly, the Purchase Ledger Control a/c can be referred to as a **Creditors Control Account**, as all information included related to amounts owed to creditors.

### Example

The following example illustrates the use of control and total accounts. We have used a series of transactions relative to the sales ledger. The principles used would be exactly the same if you were working with the purchases ledger.

On 1 January the following debtors' balances appear in the books of R. L. Swan:

|             |       |
|-------------|-------|
| Brown       | £ 500 |
| Green       | 1,000 |
| Black       | 2,000 |
| O. Johnston | 3,000 |
| Laird       | 4,000 |
| Munro       | 2,000 |
| Nairn       | 3,000 |

The other accounts in his ledger at 1 January are office furniture £3,000 and capital account £18,500.

This is a brief list, but it is sufficient to illustrate the principles we are illustrating, which would be those used even if the list covered thousands of individual accounts.

During the first week in January the following sales are made:

|                     |              |            |       |
|---------------------|--------------|------------|-------|
| Jan 2 <sup>nd</sup> | Invoice 1091 | L. Brown   | £500  |
| Jan 4 <sup>th</sup> | Invoice 1092 | N. Black   | 200   |
| Jan 5 <sup>th</sup> | Invoice 1093 | P. Laird   | 2,000 |
| Jan 7 <sup>th</sup> | Invoice 1094 | G. Thomson | 1,000 |
| Jan 7 <sup>th</sup> | Invoice 1095 | Q. Munro   | 200   |

The following sales returns are received:

|                     |                 |            |      |
|---------------------|-----------------|------------|------|
| Jan 4 <sup>th</sup> | Sales Credit 81 | L. Brown   | £100 |
| Jan 7 <sup>th</sup> | Sales Credit 82 | G. Thomson | 20   |

The following payments are received:

|                     |                  |        |                      |
|---------------------|------------------|--------|----------------------|
| Jan 6 <sup>th</sup> | From O. Johnston | £2,000 | Discount allowed £50 |
| Jan 7 <sup>th</sup> | From P. Laird    | 1,500  | Discount allowed £25 |
| Jan 7 <sup>th</sup> | From Q. Munro    | 2,000  |                      |

The transactions would first be recorded in R L Swan's subsidiary books:

#### Sales Day Book (extract)

|                     |            |      |               |
|---------------------|------------|------|---------------|
| Jan 2 <sup>nd</sup> | L. Brown   | 1091 | £500          |
| Jan 4 <sup>th</sup> | N. Black   | 1092 | 200           |
| Jan 5 <sup>th</sup> | P. Laird   | 1093 | 2,000         |
| Jan 7 <sup>th</sup> | G. Thomson | 1094 | 1,000         |
| Jan 7 <sup>th</sup> | Q. Munro   | 1095 | 200           |
|                     |            |      | <u>£3,900</u> |

#### Sales Returns Day Book (extract)

|                     |            |    |             |
|---------------------|------------|----|-------------|
| Jan 4 <sup>th</sup> | L. Brown   | 81 | £100        |
| Jan 4 <sup>th</sup> | G. Thomson | 82 | 20          |
|                     |            |    | <u>£120</u> |

#### Cash Book (extract)

|                     |             | Discount   | Bank          |
|---------------------|-------------|------------|---------------|
| Jan 6 <sup>th</sup> | O. Johnston | £50        | £2,000        |
| Jan 7 <sup>th</sup> | P. Laird    | 25         | 1,500         |
| Jan 7 <sup>th</sup> | Q. Munro    |            | 2,000         |
|                     |             | <u>£75</u> | <u>£5,500</u> |

The double-entry for the sales invoices from the sales day book would be to debit each individual amount to the account of the relevant debtor and to credit the total to the sales account.

The sales and general ledgers would appear as follows:

## SALES LEDGER

### L. Brown

|       |                |      |       |                   |      |
|-------|----------------|------|-------|-------------------|------|
| Jan 1 | Balance        | £500 | Jan 4 | Sales return book | £100 |
| 2     | Sales Day Book | 500  |       |                   |      |

### M. Green

|       |         |        |  |  |  |
|-------|---------|--------|--|--|--|
| Jan 1 | Balance | £1,000 |  |  |  |
|-------|---------|--------|--|--|--|

### N. Black

|       |                |        |  |  |  |
|-------|----------------|--------|--|--|--|
| Jan 1 | Balance        | £2,000 |  |  |  |
| 4     | Sales Day Book | 200    |  |  |  |

### O. Johnston

|       |         |        |       |                      |        |
|-------|---------|--------|-------|----------------------|--------|
| Jan 1 | Balance | £3,000 | Jan 6 | Cash Book            | £2,000 |
|       |         |        |       | Cash Book (discount) | 50     |

### P. Laird

|       |                |        |       |                      |        |
|-------|----------------|--------|-------|----------------------|--------|
| Jan 1 | Balance        | £4,000 | Jan 7 | Cash Book            | £1,500 |
| 5     | Sales Day Book | 2,000  |       | Cash Book (discount) | 25     |

### Q. Munro

|       |                |        |       |           |        |
|-------|----------------|--------|-------|-----------|--------|
| Jan 1 | Balance        | £2,000 | Jan 7 | Cash Book | £2,000 |
| 7     | Sales Day Book | 200    |       |           |        |

### R. Nairn

|       |         |        |  |  |  |
|-------|---------|--------|--|--|--|
| Jan 1 | Balance | £3,000 |  |  |  |
|-------|---------|--------|--|--|--|

**G. Thomson**

|       |                |        |       |                   |     |
|-------|----------------|--------|-------|-------------------|-----|
| Jan 5 | Sales Day Book | £1,000 | Jan 7 | Sales Return Book | £20 |
|-------|----------------|--------|-------|-------------------|-----|

If you balance off each of these accounts you will find that a trial balance in the sales ledger at 7<sup>th</sup> January will be as follows:

|             |       |
|-------------|-------|
| L. Brown    | £900  |
| M. Green    | 1,000 |
| N. Black    | 2,200 |
| O. Johnston | 950   |
| P. Laird    | 4,475 |
| Q. Munro    | 200   |
| R. Nairn    | 3,000 |
| G. Thomson  | 980   |

**Total** **£13,705**

**SAMPLE**  
**GENERAL LEDGER**

**Sales Ledger Control**

|       |                |               |       |                      |               |
|-------|----------------|---------------|-------|----------------------|---------------|
| Jan 1 | Balance        | £15,500       | Jan 7 | Sales Returns Book   | £ 120         |
| 7     | Sales Day Book | 3,900         | 7     | Cash Book            | 5,500         |
|       |                |               | 7     | Cash Book (discount) | 75            |
|       |                |               | 7     | Balance c/d          | <u>13,705</u> |
|       |                | <u>19,400</u> |       |                      | <u>19,400</u> |
| 8     | Balance b/d    | 13,705        |       |                      |               |

**Sales**

|       |                |        |
|-------|----------------|--------|
| Jan 7 | Sales Day Book | £3,900 |
|-------|----------------|--------|

**Sales Returns**

|       |                    |      |
|-------|--------------------|------|
| Jan 7 | Sales Returns Book | £120 |
|-------|--------------------|------|



**Discount Allowed**

|        |           |     |  |
|--------|-----------|-----|--|
| Jan 78 | Cash Book | £75 |  |
|--------|-----------|-----|--|

**Office Furniture**

|       |         |        |  |
|-------|---------|--------|--|
| Jan 1 | Balance | £3,000 |  |
|-------|---------|--------|--|

**Capital**

|       |         |  |         |
|-------|---------|--|---------|
| Jan 1 | Balance |  | £18,500 |
|-------|---------|--|---------|

You will now see that a trial balance in the general ledger at 7<sup>th</sup> January will be as follows:

|                      | <b>DR</b>      | <b>CR</b>      |
|----------------------|----------------|----------------|
| Sales Ledger Control | £ 13,705       |                |
| Sales                |                | £3,900         |
| Sales Returns        | 120            |                |
| Discount Allowed     | 75             |                |
| Office Furniture     | 3,000          |                |
| Capital              |                | 18,500         |
| Bank                 | 5,500          |                |
|                      | <u>£22,400</u> | <u>£22,400</u> |

So to recap: the control accounts make the general ledger more manageable by removing many of the individual accounts from it and keeping them in another record, while retaining a total picture of the business's affairs in summarised form in the general ledger.

**Note:**

When a business is VAT registered the Control Accounts should include the full amount (gross amount) – net plus VAT. The Control Accounts are a record of what the business owes the supplier, and what customers owe the business, so these amounts will be shown in full including VAT.

In the General Ledger the Sales a/c and Purchases a/c only show the net amount of the transaction.



## PROGRESS TEST

1. What type of accounts are contained in the sales ledger?
2. What type of accounts are contained in the purchases ledger?
3. What is a trial balance?
4. What are the main types of errors which will not be disclosed by a trial balance?
5. What is the main purpose of control accounts?

# SAMPLE