

Transition Activity Level 3 AAT

We are really pleased you are joining our level 3 AAT course in September and hope you are excited about all the new skills and knowledge you are going to learn.

Before you start next term we would like you to complete some work on one of the units you will be studying.

Have a read through a typical powerpoint from a lesson and have a go at the example. No cheating as the answers are on one of the slides Give it a go!



Learning outcome

- Explain the purpose of control accounts
- Prepare reconciliation for control accounts
- Identify discrepancies in the reconciliation process and take steps to rectify them

Purpose/advantage of control account

- A control account is a summary account in the ledger.
- The purpose of control account is to keep the ledger free of detail. Credit manager in a company will have access to all the customer information without having to access the main ledger

Difference between Control account and subsidiary account

- **Control accounts** are held in the **main ledger** and only deal with **total amounts** owed by debtors and owed to creditors.
- Therefore it is necessary to have **individual** balances for debtors and creditors for accounting purposes. This is done via the **subsidiary ledgers** accounts, where individual transactions are recorded in separate accounts for **each debtor/creditor**.

Difference between Control account and subsidiary account

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- Control account is part of a double entry system.
- Subsidiary accounts are not part of the double entry.

Preparation of control accounts

- Control accounts are updated from
- Day book (using the total column including vat)
- Returns day book (using total column including vat)
- Cash book

Other transactions involved in the Control accounts

- Bad debts
- Contra entries
- Discounts

Activity

- Which of these transactions increase the control account and which ones reduce them?
- Invoices
- C/notes
- Cash book
- Bad debt
- Contra
- Discount

Sales ledger control account

Sales ledger control account

£		£	
Balance b/d	X	Returns per returns day book	X
Sales per sales day book	X	Cash from debtors	X
		Discounts allowed	X
		Bad debts written off	X
		Contra with PLCA	X
		Balance c/d	X
	— X		— X
Balance b/d	— X		—

Purchase ledger control a/c

Purchases ledger control account

£	£
Payments to suppliers per analysed cash book	Balance b/d X
- cash X	Purchases per purchase day book X
- discount received X	
Returns – per day book X	
Contra with SLCA X	
Balance c/d X	
X	X
X	Balance b/d X

An example

The balance on the SLCA at 31 December 20X8 was £15,450

The balances in the subsidiary sales ledger total £15,075

On investigation the following errors are discovered.

- (1) A debit balance of £65 has been omitted from the list of balances
- (2) A contra between the subsidiary purchases ledger and subsidiary sales ledger of £40 has not been recorded in the control accounts
- (3) Discounts allowed totalling £70 have been recorded in the subsidiary sales ledger, but not in the SLCA
- (4) The sales day book was overcast by £200

Reconcile the balance on the SLCA with the total of the balances extracted from the subsidiary sales ledger.

The answer

SLCA			
	£		£
Balance b/f	15,450	Contra with PLCA	40
		Discounts allowed	70
		Overcast of sales day book	200
		Adjusted balance c/f	15,140
	15,450		15,450
Balance b/f	15,140		

	£	
Original total of list of balances	15,075	
Debit balance omitted	65	
	15,140	
Adjusted total of list of balances	15,140	

Activity

- Students perform spot the deliberate mistake by the teacher

Procedure for preparing control accounts

- **Procedure:**
- 1 Balance the control account in the main ledger
- 2 Strike a balance on the subsidiary ledger
- 3 List the subsidiary account names and balances
- 4 Compare the balance on the control account to the total of the individual
- accounts

Correction of errors-Omission

- If invoices have been omitted they would increase the balances when corrected.
- If payment (or receipt). Credit note, bad debt, contra or discount is omitted the correction entry would reduce the balance.

If an item has been entered on the wrong side

- To correct the error -**double it** and increase if it is **an invoice**
- To correct the error –**double it** and **decrease it** for all the other items

Incorrect total-

- If sales day book, sales return day book cash book have been totalled incorrectly then only the control account would be affected because only the control account is posted in total.

Extra task

- The total of the debtor
- balances was £56,923.48. Sales ledger control account balance was £81157.4
- Upon investigation you discover the following errors in the subsidiary ledger:
 - • A debit balance of £895.77 was listed as £985.77.
 - • An invoice to a customer for £12,750.50 was entered on the credit side of the customer's account.
 - • A credit note to a customer for £1,000.00 was not posted from the sales returns day book.
 - • A credit balance of £88.54 was listed as though it were a debit balance.
- You are to reconcile the total of the list of debtor balances to the balance on the sales ledger