

IGCSE Accounting Control Accounts

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- 1 Vijay Singh maintains a full set of accounting records and prepares control accounts at the end of each month.

He provided the following information.

2015		\$
April	1 Debit balance on sales ledger control account	475
	30 Totals for the month	
	Sales journal	590
	Sales returns journal	46
	Cash sales	614
	Cheques received from credit customers	387
	Cheque received from credit customer (included in the above figure) later dishonoured	26
	Cheques paid to credit suppliers	469
	Discounts allowed	13
	Discounts received	34
	Bad debts written off	32
	Interest charged to credit customer	8
	Contra entry to purchases ledger	150
May	1 Debit balance on sales ledger control account	?
	Credit balance on sales ledger control account	21

REQUIRED

- (a) Select the relevant figures and prepare Vijay Singh's sales ledger control account for the month ended 30 April 2015.

Vijay Singh
Sales ledger control account

Date	Details	\$	Date	Details	\$
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Answer:

		Vijay Singh			
		Sales ledger control account			
		\$		\$	
2015			2015		
April	Balance		April	Sales	
1	b/d	475	30	returns	46
	3				
	0 Sales	590		Bank	387
	Bank (dis. chq.)	26		Discount allowed	13
	Interest	8		Bad debt	32
	Balance c/d	21		Contra Balance c/d	150
		1120			1120
2015			2015		
May	Balance		May	Balance	
1	b/d	492	1	b/d	21

+ (1) dates
 Three column running balance presentation acceptable

(b) Explain the contra entry to the purchases ledger.

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Answer: This is when the balance of an account in the purchases ledger is set against the balance of an account of the same person in the sales ledger.
 It is used when a trader both buys goods from and sells goods to another business.

(c) Suggest why Vijay Singh charged a credit customer interest.

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Answer: The customer had not paid the balance owed by the end of the period of credit allowed.

(d) State one reason why Vijay Singh prepares a monthly sales ledger control account.

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Answer: To assist in the location of errors
 To provide an instant total of trade receivables
 To prove the arithmetical accuracy of the sales ledger
 To enable a statement of financial position to be prepared quickly To provide a summary of

transactions relating to trade receivables To help reduce fraud

(e) State two reasons why Vijay Singh does not use the information contained in the sales ledger to prepare the sales ledger control account.

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- 2
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Answer: *An error in the sales ledger would not be revealed*
Any fraud would not be revealed
Or other relevant point

- 2 (a) Where is discount received shown?
- A credit side of the purchases ledger control account
- B debit side of the purchases ledger control account
- C credit side of the sales ledger control account
- D debit side of the sales ledger control account

Answer: *B. debit side of the purchases ledger control account*

- (b) Why is inventory valued at net realisable value when this is lower than cost?
- A to calculate the rate of inventory turnover
- B to ensure the balancing of the statement of financial position
- C to prevent profit being recorded before it is earned
- D to recognise losses as soon as they are incurred

Answer: *D. to recognise losses as soon as they are incurred*

3 Kriti provided the following information.

At 1 January 2014	Trade receivables balances	\$ 13 400 debit
		120 credit
	Inventory	21 600
For the year ended 31 December 2014	Cash sales	44 400
	Credit sales	165 600
	Bad debts written off	2 800
	Receipts from credit customers	155 010
	Discount allowed to credit customers	4 560
	Contra with supplier's account	1 300
	Cheque refund to a credit customer	90
At 1 January 2015	Trade receivables balances	? debit
		200 credit
	Inventory	28 800

Mark up on goods sold 50%.

REQUIRED

(a) Calculate Kriti's purchases for the year.

Answer: $Total\ sales = 165\ 600 + 44\ 400 = 210\ 000$

$Cost\ of\ sales = 210\ 000 \times \frac{2}{3} = 140\ 000$

$Purchases = 140\ 000 - 21\ 600 + 28\ 800 = 147\ 200$

(b) Prepare the sales ledger control account for the year ended 31 December 2014. Balance the account and bring down the balance on 1 January 2015. See next page.

Kriti
Sales ledger control account

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Answer:

<u>Kriti</u> Sales ledger control account			
	\$		\$
<i>2014</i>		<i>2014</i>	
<i>Jan 1 Balance b/d</i>	<i>13 400</i>	<i>Jan 1 Balance b/d</i>	<i>120</i>
<i>Dec 31 Credit sales</i>	<i>165 600</i>	<i>Dec 31 Bad debts</i>	<i>2 800</i>
<i> Bank</i>	<i>90</i>	<i> Bank</i>	<i>155 010</i>
<i> Balance c/d</i>	<i>200</i>	<i> Discount allowed</i>	<i>4 560</i>
		<i> PLCA</i>	<i>1 300</i>
		<i> Balance c/d</i>	<i>15 500</i>
<i>2015</i>	<u><i>179 290</i></u>	<i>2015</i>	<u><i>179 290</i></u>
<i>Jan 1 Balance b/d</i>	<i>15 500</i>	<i>Jan 1 Balance b/d</i>	<i>200</i>

(c) State two reasons why Kriti maintains a sales ledger control account.

1 _____

2 _____

Answer: *Check for errors in sales ledger*

May reduce fraud

Provides quick total of trade receivables

Provides summary of trade receivables transactions

(d) State one reason why a credit balance on a sales ledger control account can arise.

Answer: *Customer overpays*

Customer returns goods after payment

Customer did not deduct discount before payment

(e) State why a sales ledger control account does not contain an entry for a provision for doubtful debts.

Answer: *A provision for doubtful debts does not affect an individual debtor's account*

4 Esme provided the following information.

At 1 January 2014	\$
Trade payables	7 000
Trade receivables	9 500
For the year ended 31 December 2014	
Sales (all credit)	95 100
Sales returns	1 050
Purchases (all credit)	63 600
Purchases returns	1 950
Receipts from credit customers	92 750
Payments to credit suppliers	59 000
Refund to credit customer	450
Discount allowed	2 100
Discount received	850
Bad debt written off	300

Additional information at 31 December 2014

1 Esme owed \$100 to a supplier who also owed \$180 to Esme. It was agreed to record this as a setoff in the control accounts.

2 Esme owed \$50 to a credit customer who had overpaid.

REQUIRED

(a) Prepare the sales ledger control account and the purchases ledger control account for the year. Balance the accounts and bring down the balances on 1 January 2015. See next page.

Esme
Sales ledger control account

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Purchases ledger control account

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Answer:

		Esme			
		<u>Sales ledger control account</u>			
		\$			\$
2014			2014		
Jan 1	Balance b/d	9 500	Dec 31	Sales returns	1 050
Dec 31	Sales	95 100		Bank/Cash	92 750
	Bank	450		Discount allowed	2 100
	Balance c/d	50		Bad debt	300
				PLCA/Contra	100
				Balance c/d	8 800
		105 100			105 100
2015			2015		
Jan 1	Balance b/d	8 800	Jan 1	Balance b/d	50

		Esme			
		<u>Purchases ledger control account</u>			
		\$			\$
2014			2014		
Dec 31	Purchases rets	1 950	Jan 1	Balance b/d	7 000
	Bank/Cash	59 000	Dec 31	Purchases	63 600
	Discount received	850			
	SLCA/Contra	100			
	Balance c/d	8 700			
		70 600			70 600
			2015		
			Jan 1	Balance b/d	8 700

(b) State one reason why Esme maintains a sales ledger control account.

Answer: *Provide total of trade receivables*

Check for the arithmetical accuracy of the sales ledger

Reduce fraud

To check for errors or fraud

Provide summary of transactions involving debtors Enable financial statements to be prepared quickly

(c) State why the discount allowed was given.

Answer: *Payment before specified date.*

5 The sales journal for March 2017 was destroyed, but Waheed was able to provide the following information.

2017		\$
March 1	Debit balances in sales ledger	2346
	Credit balances in sales ledger	140
March 31	Totals for the month	
	Cheques received from credit customers	2145
	Cheques paid to credit suppliers	3013
	Cheque received from credit customer (included in the cheques received), later dishonoured	350
	Discount allowed	55
	Discount received	90
	Returns by credit customers	276
	Returns to credit suppliers	198
	Contra entry	182
	Bad debts written off	62
April 1	Debit balances in sales ledger	2670
	Credit balances in sales ledger	86

REQUIRED

(a) Select the relevant figures and prepare the sales ledger control account for the month of March 2017. Insert a figure for credit sales.

Balance the account and bring down the balances on 1 April 2017. See next page.

Waheed
Sales ledger control account

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Answer:

Waheed
Sales ledger control account

2017		\$	
March 1	Balance b/d	2 346	
March 31	Bank (dis.chq)	350	
	Sales	2 748	
	Balance c/d	86	
		<hr/>	
		5530	

2017		\$	
March 1	Balance b/d	140	
March 31	Bank	2 145	
	Discount	55	
	Returns	276	
	Contra	182	
	Bad debts	62	
	Balance c/d	2 670	
		<hr/>	
		5 530	

2017		\$	
April 1	Balance b/d	2 670	

2017		\$	
April 1	Balance b/d	86	

(b) Suggest two reasons why the sales ledger control account had a credit balance on 1 April 2017.

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Answer: *Overpayment by customer*

Payment made by customer without deducting cash discount

Goods returned by customer after payment of balance due

Payment made in advance by customer

6 Simran had further transactions in the period 2 February to 28 February 2017. These were as follows:

	\$
Credit sales	6300
Cheques received from credit customers	5830
Returns from credit customers	190

The cheques received included one for \$95 from Paul which was later dishonoured. Paul then paid Simran \$20 in cash and she wrote the remaining amount off as a bad debt.

REQUIRED

(f) Prepare the sales ledger control account for February, starting with the balance on 1 February of \$1300. Balance the account and bring down the balance on 1 March.

Simran
Sales ledger control account for February 2017

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Answer:

Simran					
Sales ledger control account for February 2017					
2017		\$	2017		\$
Feb 1	<i>Balance b/d</i>	1 300	Feb	<i>Bank</i>	5 830
			28		
Feb 28	<i>Sales</i>	6 300		<i>Sales returns</i>	190
	<i>Bank</i>	95		<i>Cash</i>	20
				<i>Bad debts</i>	75
				<i>Balance c/d</i>	1 580
		7 695			7 695
Mar 1	<i>Balance b/d</i>	1 580			

7 Which item would be recorded as a credit entry in a purchases ledger control account?

- A amounts paid to credit suppliers
- B contra with the sales ledger control account
- C discount received from credit suppliers
- D interest charged on late payment

Answer: *D. interest charged on late payment*

8 Kumu purchases goods for resale on both cash and credit terms.

Kumu's credit suppliers allow 30 days for payment of invoices.

Kumu provided the following information for the year ended 30 April 2018.

	\$
Trade payables 1 May 2017	19 800
Trade payables 30 April 2018	22 200
Discount allowed	480
Discount received	330
Interest charged by suppliers	122
Credit purchases	180 870
Cash purchases	26 400
Sales ledger balances set off against purchases ledger balances	400

REQUIRED

(a) Select the relevant items and prepare the purchases ledger control account for the year ended 30 April 2018. Insert the amount paid to credit suppliers. See next page.

Kumu
Purchases ledger control account

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Answer:

Kumu
Purchase ledger control account

Date	Details	\$	Date	Details	\$
2018			2017		
Apr 30	Discount received	330	May 1	Balance b/d	19 800
	Bank	177 862	2018		
	Contra sales ledger	400	Apr 30	Interest charged	122
	Balance c/d	22 200		Credit purchases	180 870
		200 792			200 792
			May 1	Balance b/d	22 200

(b) State the formula for calculating the trade payables payment period.

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Answer: $\frac{\text{Trade payables}}{\text{Credit purchases}} \times 365$

(c) Calculate the trade payables payment period for the year ended 30 April 2018. Round up your answer to the next whole day.

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Answer: $\frac{22\,200}{180\,870} \times 365 = 45 \text{ days}$

(d) State whether Kumu's suppliers would be satisfied with her trade payables payment period.

Give a reason for your answer.

Satisfied?

Reason

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Answer: *Not satisfied.*

The payment period is longer than the standard terms allowed.

(e) State two problems Kumu may face if her trade payables payment period is unsatisfactory.

1.....

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2.....

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Answer: *An unsatisfactory payment period might make it difficult to obtain credit in the future*
Might get a poor credit rating/reputation
Could affect the ability to make purchases from chosen suppliers
If unable to make purchases may not be able to satisfy own customers
May be charged interest for late payment
Can't take advantage of cash discounts/discount received
May refuse to supply

9 Which item appears on the debit side of a sales ledger control account?

- A discount received
- B dishonoured cheque from customer
- C provision for doubtful debts
- D sales returns

Answer: *A. discount received*

10 Where are bad debts recorded in the control accounts?

- A on the credit side of the purchases ledger control account
- B on the credit side of the sales ledger control account
- C on the debit side of the purchases ledger control account
- D on the debit side of the sales ledger control account

Answer: *B. on the credit side of the sales ledger control account*

11 Jared buys goods from Winston. On 1 August 2016 Jared owed Winston \$300.

During August 2016 the following took place.

- August 3 Jared bought goods, list price \$600, after deducting 20% trade discount.
- 6 Jared returned goods, list price \$50.
- 9 Jared paid, by cheque, the balance due on 1 August after deducting 3% cash discount.
- 18 Jared purchased further goods, list price \$400, after deducting trade discount as before.

REQUIRED

(a) Prepare Jared's account in Winston's sales ledger for the month of August 2016. Balance the account and bring down the balance on 1 September 2016.

Winston
Sales ledger
Jared account

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Answer:

Winston Sales ledger Jared account			
2016	\$	2016	
Aug 1 Balance b/d	300	Aug 6 Sales returns	40
Aug 3 Sales	480	Aug 9 Bank	291
Aug 18 Sales	320	Discount allowed	9
	1 100	Aug 31 Balance c/d	760
Sept 1 Balance b/d	760		1 100

Winston also buys goods from Jared and on 31 August 2016 he owed Jared \$40. Winston decided to make a contra entry on 1 September 2016 to set off the accounts in the sales and purchases ledgers.

REQUIRED

(b) State the double entry needed to set off the accounts.

account debited	account credited

Answer:

account debited	account credited
<i>Jared (purchases ledger account)</i>	<i>Jared (sales ledger account)</i>

(c) Name the accounting term Winston uses for his partially finished products.

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Answer: *work in progress*

(d) Complete the following table, indicating with a tick (✓) where each item would appear in Winston's financial statements. The first has been completed as an example.

	manufacturing account	income statement
purchases of raw materials	✓	
salesmen's wages		
carriage outwards		
purchases of finished goods		
machine operators' wages		
factory supervisor's salary		
inventory of raw materials		
carriage inwards		
inventory of finished goods		

Answer:

	manufacturing account	income statement
purchases of raw materials	✓	
salesman's wages		✓
carriage outwards		✓
purchases of finished goods		✓
machine operator's wages	✓	
factory supervisor's salary	✓	
inventory of raw materials	✓	
carriage inwards	✓	
inventory of finished goods		✓

12 Amira’s financial year ends on 30 September. She buys and sells on both cash and credit terms and maintains a full set of accounting records.

Control accounts are prepared at the end of each month.

REQUIRED

(a) Name the book of prime (original) entry which Amira would use to obtain the following information when preparing her sales ledger control account.

	Book of prime (original) entry
Cheque refund to credit customer	
Bad debts written off	
Returns by credit customers	
Interest charged on customer’s overdue account	

Answer:

	Book of prime (original) entry
Cheque refund to credit customer	<i>Cash book</i>
Bad debts written off	<i>Journal</i>
Returns by credit customers	<i>Sales returns journal</i>
Interest charged on customer’s overdue account	<i>Journal</i>

(b) State two reasons why Amira prepares a purchases ledger control account.

- 1
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- 2
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Answer: *To assist in the location of errors*
To provide instant total of trade payables
To prove the arithmetical accuracy of the purchases ledger
To enable a statement of financial position to be prepared quickly
To provide a summary of transactions relating to trade payables
To help reduce fraud

Amira provided the following information for September 2016.

		\$
September 1	Debit balances in purchases ledger	93
	Credit balances in purchases ledger	4210
September 30	Totals for the month	
	Credit purchases	5366
	Cash purchases	1469
	Cheques paid to credit suppliers	3705
	Cheques received from credit customers	6102
	Discount allowed	204
	Discount received	95
	Returns to credit suppliers	197
	Interest charged by supplier on overdue account	12
	Cash refund received from credit supplier	150
	Contra entry	494
October 1	Debit balances in purchases ledger	68
	Credit balances in purchases ledger	?

REQUIRED

(c) Select the relevant figures and prepare the purchases ledger control account for the month of September. Balance the account and bring down the balances on 1 October 2016. See next page.

Amira
Purchases ledger control account

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Answer:

Amira
Purchases ledger control account

Date	Details	\$	Date	Details	\$
2016			2016		
Sep 1	<i>Balance b/d</i>	93	Sep 1	<i>Balance b/d</i>	4210
30	<i>Bank</i>	3705	30	<i>Purchases</i>	5366
	<i>Dis. Received</i>	95		<i>Interest</i>	12
	<i>Returns</i>	197		<i>Cash</i>	150
	<i>Contra</i>	494		<i>Balance c/d</i>	68
	<i>Balance c/d</i>	<u>5222</u>			
		<u>9806</u>			<u>9806</u>
2016			2016		
Oct 1	<i>Balance b/d</i>	68	Oct 1	<i>Balance b/d</i>	5222

(d) Suggest one advantage of paying credit suppliers before the due date.

.....

Answer: *May be able to take advantage of cash discount Improve the relationship with suppliers
 Avoid paying interest
 Or other suitable comment*

(e) Suggest one disadvantage of paying credit suppliers before the due date.

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Answer: *The business is deprived of the use of the money earlier than necessary
 Or other suitable comment*

13 Which statement is true about a sales ledger control account?

- A Discount allowed appears on the credit side.
- B Discount allowed appears on the debit side.
- C Discount received appears on the credit side.
- D Discount received appears on the debit side.

Answer: *B. \$720 understated*

14 How do discount received and sales ledger contras appear in a purchases ledger control account?

	discount received	contras
A	as a credit	as a credit
B	as a credit	as a debit
C	as a debit	as a credit
D	as a debit	as a debit

Answer: *D*

15 Paul is a trader. He maintains a full set of accounting records. His ledger is divided into a sales ledger, a purchases ledger and a nominal (general) ledger.

REQUIRED

(a) State one advantage of dividing the ledger into these three sections.

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Answer: *Work can be shared amongst several people*
Easier for reference as same types of account are kept together
Easier to introduce checking procedures
Reduce the possibility of fraud

(b) Name the ledger in which each of the following accounts would appear.

- (i)** J Smithson, a credit supplier, accountledger
- (ii)** Sales returns account..... ledger
- (iii)** Discount allowed account.....ledger

Answer: *(i) Purchases ledger*
(ii) Nominal (general) ledger
(iii) Nominal (general) ledger