LO 4- Reconcile control accounts and shift recorded transactions from the suspense accounts to the right accounts

Control accounts

The control accounts represent the most accurate and up to date positon of a financial account at any given time.

They can be classified as the true bottom line of an account and figures can be confidently transferred to the profit and loss account or balance sheet dependent on the account concerned.

Control accounts will contain as little information as possible to keep things simple and transparent for balances to be correctly shown and sometimes are referred to as a summary account in the general ledger.

 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. 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. 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 left isolated in a subsidiary ledger.

If anyone wants to see detailed transactional information for accounts payable, they can review the detail located in the subsidiary ledger, since it is not located in the general ledger.

Control accounts are most commonly used by large organizations, since their transaction volume is very high. A small organization can typically store all of its transactions in the general ledger, and so does not need a subsidiary ledger that is linked to a control account.

The two main control accounts used are the total debtors account ( sales ledger control account) and the total creditors account (purchase ledger control account). Each ledger is a summary total of the respective ledger. The main information which each account would normally would contain the following

|  |
| --- |
| Information for sales ledger control account  |
| Information needed:  | Information located:  |
| Opening balance of debtors  | Debtor accounts in sales ledger  |
| Credit sales  | Sales daybook  |
| Returns inwards  | Returns inwards daybook  |
| Money received from customers  | Cashbook  |
| Discounts allowed  | General ledger or cashbook (3rd column)  |
| Closing balance of debtors  | Debtor accounts n sales ledger  |

|  |
| --- |
| Information for purchases ledger control account  |
| Information needed:  | Information located:  |
| Opening balance of creditors  | Creditor accounts in purchases ledger  |
| Credit purchases  | Sales daybook  |
| Returns outwards  | Returns outwards daybook  |
| Money received from customers  | Cashbook  |
| Discounts received  | General ledger or cashbook  |
| Closing balance of creditors  | Creditor accounts in purchases ledger  |

|  |  |
| --- | --- |
|  | Debtor accounts  |
| Balance due opening  |  | Cash/cheques received  |
| Credit sales made during period  |  | Returns inwards  |
| -  |  | Discounts allowed  |
| -  |  | Balance due closing  |

|  |  |
| --- | --- |
|  | Creditor accounts  |
| Cash/Cheques paid  | Balance owed opening  |
| Returns outwards  | Credit purchases made during period  |
| Discounts received  | -  |
| Balance owed closed  | -  |

Suspense Accounts

A suspense account is set up to create a temporary record for entries that cannot be fully determined until a later stage and can therefore be posted accurately to the correct ledger.

 This could be due to a bookkeeper who is still investigating the nature of the entry and requires a temporary account until such time that this until further clarification is received.

Alternatively, quite commonly a suspense account can act as a balancing figure when there is a difference resulting from a trial balance in order for the account to balance whilst an error is investigated and rectified. Double-entry in this instance would be an exception where only a single correcting entry would be recorded.

A suspense account is an account used temporarily to carry doubtful receipts and disbursements or discrepancies pending their analysis and permanent classification. Once the correct account can be identified the correct amount and entry will be moved across from the suspense account to the correct account.

Suspense entries should as previously mentioned be only temporary and therefore must be eliminated by at the end of the fiscal year.

Reconciling control and suspense accounts

Where there are errors in the trial balance then we would normally identify the type of likely error that may have arisen and correct this in order to close the suspense account and post this to the proper account.

Typically this may include the following posting incorrect amounts in both sides of the transaction, entering two double entries or credit entries for a transaction, or even failing to make an entry on both sides of the transaction.

Dependent on the number of errors made the time taken for detecting and correcting this entries may take up a considerable amount of time and resources. In addition, the trail balance will not be correct and consequently we cannot therefore transfer closing balances to the profit and loss account and balance sheet. To speed up the process this would then allow us to place a correcting single suspense entry to account for the resulting difference.

 Example

On 31 December 2015, the trial balance is for Joe Bloggs. This is a summary of the trial balance:

|  |  |
| --- | --- |
| Joe Bloggs- Trial Balance as at 31 December 2015  |  |
| -  | Dr  | Cr  |
| -  | £  | £  |
| Total of all entries  |  50,000  | 48,800  |

To allow us to construct the final account, we enter the amount, in this case, in the credit column, and the trial balance will now appear as follows:

|  |  |
| --- | --- |
| Joe Bloggs - Trial Balance as at 31 December 2015  |  |
| -  | Dr  | Cr  |
| -  | £  | £  |
| Total of all entries  | 50,000  | 48,800  |
| Suspense account  | -  | 1,200  |
| -  | 50,000  | 50,000  |

The entry in the trial balance has to be represented by an account. Therefore, we will now open up a suspense account with a credit balance of £1,200.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Suspense  |  |  |  |  |
| 2015  | -  | £  | 2015  | -  | £  |
| -  | -  | -  | Dec 31  | Difference in trial balance  | 1,200  |

Normally, we would be now forced to make a debit entry in another accounts somewhere else in the ledgers. However, in this case we make no entry as there need for the credit entry in the suspense account must be the result of excess debit entries made, or shortages on the credit side elsewhere in the accounts - i.e. the mistakes that we are trying to locate.

This balance will remain in the accounts until the errors have been located and corrected. If we assume that the error that had been made was that the capital account had been undercast by £1,200 then this would explain why we appeared to have shortage on the credit column. However, it is possible that the error was that a debit entry (e.g. purchases) had been overcast by £1,200.

Let us assume that the error in our example, was due to Fixtures and Fittings being overcast by £1,200, then the procedure to correct this would be as follows:

* Enter up the correction in the journal
* Enter the amendment to correct the error
* Enter the other half of the transaction in the suspense account.

If the error affects the trial balance then one entry in the transaction needed to correct the error must be in the suspense account.

The error is found on February 2nd 2016- the fixtures and fittings had been overcast by £1,200. A credit entry in this account will correct the errors. Therefore, a debit entry will be made in the suspense account.

|  |  |  |
| --- | --- | --- |
| The Journal  |  |  |
| Details  | Dr  | Cr  |
| -  | £  | £  |
| Suspense  | 1200  | -  |
| Fixtures and Fittings  | -  | 1200  |
| Fixtures and Fittings account overcast - now corrected  | -  | -  |

|  |  |  |  |
| --- | --- | --- | --- |
| Suspense  |  |  |  |
| 2016  | -  | £  | 2015  | -  | £  |
| Feb 2nd  | Fixtures and Fittings  | 1200  | Dec 31  | Difference in trial balance  | 1200  |

|  |  |  |  |
| --- | --- | --- | --- |
| Fixtures and Fittings  |  |  |  |
| 2016  | -  | £  | 2016  | -  | £  |
| -  | -  | -  | Feb 2nd  | Suspense  | 1,200  |

Notice that once the errors have been corrected, the balance on the suspense account disappears. While a balance remains, we know that there must be at least one error remaining undetected which affect the agreement of the trial balance.