

Subsidiary Ledgers the General Ledger and Control Accounts

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Abstract

It is a usual practice in the field of accounting and finance to record business transactions that occur in organization on source documents, classify them in various day books and eventually record them in ledgers. Some transactions may be recorded in impersonal accounts while others may be recorded in personal accounts of customers and suppliers. In larger organizations in particular it seems impractical to maintain volumes of personal accounts of customers and suppliers for the purpose of preparing financial accounts. The title of this article is therefore the general ledger and control accounts and focus on how the general ledger is used to eliminate the volumes of personal accounts of customers and suppliers for the purpose of preparing financial accounts by using what is referred to as control accounts.

The details in this article are entirely collected through secondary research due to the specialized nature of the paper. Reference was specifically made from scholarly articles in accounting and finance, various text books in accounting and finance, and journals from professional bodies such as AAT, ACCA and CIMA.

Keywords: Subsidiary Ledgers, The Sales Ledger, The Purchases Ledger, Control Accounts, The Sales Ledger Control Account, The Purchase Ledger Control Account, The General Ledger.

Introduction

This title of this article is the general ledger and control accounts and it initially discusses subsidiary ledgers and types of subsidiary ledgers. Furthermore the article discusses control accounts and the general ledger. Finally the article discusses how control accounts are function of the general ledger to summarize the subsidiary ledgers.

Subsidiary Ledgers

Subsidiary ledgers contain the details to support general ledger control accounts. There are two main subsidiary ledgers namely the sales ledger and the purchase or creditors of bought ledger and they are discussed below.

The Sales Ledger

The sales ledger is the subsidiary ledger which contains personal accounts of individual customers. As a subsidiary ledger for accounts receivable, the sales ledger contains the information for each of the company's credit sales to customers, each customer's remittance, return of goods by customers, discounts offered to specific customers, contra agreements to customers if any and so on. It should be noted that each the items stated will be entered in each of the respective customer's account in the sales ledger so long they relate to the customer in question.

The Purchases Ledger

The purchases ledger is the subsidiary ledger which contains the personal accounts of individual suppliers or creditors. It is also known as the creditor's ledger or bought ledger. As a subsidiary ledger for accounts payables, the purchases ledger contains the information for each of the company's credit purchases from suppliers, payments made each of the suppliers, return of goods to suppliers, discounts received from specific suppliers, contra agreements to suppliers if any and so on. It should be noted that each the items stated will be entered in each of the respective supplier's account in the purchases ledger so long they relate to the supplier in question.

It should be noted that contra agreements (abbreviated as contras) also known as set offs applies in situation where the company has customers in its data base who are also suppliers or creditors.

Control Accounts

Control accounts are general ledger accounts containing only summary amounts. The control account keeps the general ledger free of details, but still has the correct balance for preparing the company's financial accounts. Control accounts speed up the process of producing financial accounts as the control account balance can be used without waiting for the individual balances to be reconciled and extracted. Control accounts are mainly used to help identify errors that appear in the subsidiary ledgers. Furthermore control accounts permit a single trial balance to be extracted from the general ledger. Control accounts are also used to detect fraud as they are under the charge of a responsible official; fraud is made more difficult because transfers made to disguise frauds will have to pass the scrutiny of this person. Management control is thereby aided "Frank Wood and Alan Sangster, 2005".

The balance in the each respective control account can always be taken to be equal to the total of the individual balances of customers and suppliers respectively. In order to arrive at the closing balance control accounts are prepared on the basis of the opening balance, with information of the additions and deductions entered in the accounts. The use of control accounts is more pronounced in larger firms than in small firms due to large volume of transactions that take place in large firms such that they are part of the double entry system. There are two main types of

control accounts namely the sales ledger control account and the purchases ledger control account and they are discussed below.

The Sales Ledger Control Account

A control account for a sales ledger is known as '*Sales ledger control account*' or '*Total debtor account*' "Frank Wood and Alan Sangster, 2005". The sales ledger control accounts will contain only summary amounts, such as total credit sales for a period, total collections from customers for a period, total returns and allowances for a period and total set offs in a period.

The Purchase Ledger Control Account

A control account for a purchases ledger is known as '*Purchases ledger control account*' or '*Total creditors accounts*' "Frank Wood and Alan Sangster, 2005". Similarly The purchases ledger control account will contain only summary amounts, such as total credit purchases for a day, total payments to suppliers for a period, total returns and allowances for a period and total set offs in a period.

The General Ledger

The general ledger is the type of ledger that contains impersonal accounts. The general ledger is also referred to as the Nominal ledger. The following are examples of the accounts are found in the general ledger.

- Asset accounts such as inventory, cash and bank accounts, accounts receivables, land and buildings, machinery, motor vehicle and investments.
- Liability accounts such accounts payable, bank overdrafts, accruals and loans.
- Equity accounts such as share capital, retained profit and accounts for various types of reserves.
- Operating revenue accounts such as Revenue.
- Operating expense accounts including electricity expense, rent payable, advertising costs and so many other expense accounts.
- Non-operating income accounts such as gains on disposal of non- current Assets.

Conclusion

Some general ledger accounts notably the sale ledger control account and the purchase ledger control account can become summary records and will be referred to as control accounts. In that situation all of the detail that supports the summary amounts in the control accounts will be available in a subsidiary ledger. Accordingly the individual personal accounts for debtors and creditors contained in the subsidiary ledger are for memorandum purpose only especially in larger firms and control accounts contain summary amounts which will provide essential information for the preparation of financial accounts. Therefore control accounts can be viewed

as the function of the general ledger to summarize the subsidiary ledgers namely the sale ledger and purchase ledger to the extent that there are no personal accounts when the accounts are prepared in the general ledger.

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