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Debtors Control Account

2011 Q2

This topic is a little like the suspense (correction of errors) topic and it might be worth covering that before you look at this. Lots of the same principles are applied in that topic and if you do that first, you'll definitely find it much easier to understand Control Accounts.

The main issue to remember at the start is that Debtors are people who owe us money. Whenever we deal with Debtors there will always be two accounts involved. In other words, let's say we sell something to a Debtor, this will change our Debtors figure *and* our Sales figure. If a Debtor pays us, this will change our Debtors figure *and* our Bank figure. There's several other accounts that might be changed when we deal with Debtors – Sales, Sales Returns, Bad Debts, Cash, Bank, etc.

A Control Account is basically a combination of all those other accounts (Sales, Sales Returns, Bad Debts, Cash, Bank, etc.), so in these questions we basically fix the list of Debtors (to see how much we are owed in total) *and* we fix the Control Account (the total of all the sales, sales returns, etc.) and we are assuming that both should end up equal.

Make sure to have the 2011 question and solution in front of you before you read on. Right, let's go...

In Part (a) of 2011 we are asked to begin with the original figures they give us for the Debit and Credit sides of the Control Account and then to make whatever changes are needed based on the 5/6 adjustments shown in the question. So for the 2011 question, we start with €32,500 on the left and €600 on the right. The reason for the two balances is that the figure on the right is money we owe back to a Debtor (a refund). If there's no mention in the question that we paid that back during the year, make sure to include it again at the bottom of the account (to show that we still owe it).

In these, questions, the best thing is to do part (A) and (B) together at the same time because each adjustment will affect the Control Account and the list of Debtors, so it makes sense to fix them together as we progress.

If the correction we need to make means that debtors owe us more money it goes on the left of the Control Account (Part A) or gets added to List of Debtors (Part B),



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whereas it's the opposite if they now owe us less money (the right of the Control Account or subtracted from the List of Debtors).

Ok, so here's what happens with the 6 adjustments in the 2011 question...

(i)

Right, remember that in the Control Account we fix the bits that change the other accounts (i.e. not the Debtors account), so in this first adjustment we're focusing on the fact that a discount disallowed (where Debtors would now owe us more money), was recorded as a discount allowed (where they would owe us less). The error was €60, so we need to put €120 on the left-hand side of the Control Account (to cancel the error of €60 and to record that they now owe us €60 more).

In terms of the list of Debtors (part B of the question) don't forget that this is where we fix any errors that were made in the original Debtors Account. In this case it says they put €16 in the customer's account on the credit side when they should have put €60 (the discount disallowed) on the debit side, so we fix that by increasing Debtors by €76.

NB: I know it seems a little confusing, but you really just need to get the two key rules into your head and then it's not too bad at all – Any errors that were made in the original Debtors Account are fixed in the list of Debtors, whereas any errors in *any* other account are fixed in the Control Account.

(ii)

In the second adjustment there's again two problems – one affecting the Debtors Account and one affecting another account (interest). Let's do the interest one first (and hopefully we know by now, this will be fixed in the Control Account). The interest was originally entered correctly in its account but now needs to be reduced by €20. This means the Debtor will owe us less money, so we put this on the credit (right-hand) side of the Control Account.

For our list of Debtors (part B of the question), we focus on the change we need to make to the Debtors Account. In this case, when we charged them interest of €140 we originally put this as €40 on the credit side of the Debtors Account (making it look like we were letting them off €40). We should therefore be adding €180 to the debit



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side of the Debtors Account, although we are only going to add €160 because the adjustment tells us we had already reduced the error by €20.

(iii)

In adjustment (iii) the only account affected is the Debtors Account (There's no mention of any error in any other account), so we only need to enter the correction into the List of Debtors (nothing needed in the Control Account). This one is pretty clever because it says that cash and credit sales were both entered on the wrong side of the Debtors account. You might be tempted to double the two figures and add them to Debtors but the sneaky thing to remember here is that cash sales have nothing to do with Debtors – Debtors are people who owe us money so if they've paid, we shouldn't be recording them as Debtors! So what should happen here is that we should be adding €1200 and €710 to Debtors (to cancel out the original errors that were made) and then also adding €710 only (not adding the €1200 again), because we need to record the €710 where it should have been in the first place, but there's no need to add the €1200 a second time. That's why the solution shows an addition of €2620 to Debtors ($€1200 + €710 + €710$).

(iv)

Hopefully you're getting into the swing of it a bit now. In this fourth adjustment we sent a customer a credit note (reduction on his bill) of €45 (this is because he returned things we sold to him). The reduction should have been €65 though, because we originally charged him €20 for restocking, which we have now cancelled. The full €65 is therefore subtracted in the List of Debtors.

In terms of the Control Account, €35 was entered as Sales Returns (which would imply that the Debtor owes us €35 less). But what should have happened is that €65 should have been recorded as Sales Returns – We issued a credit note for €45 which is what we do when sales are returned to us, but we had mistakenly taken €20 off this figure by charging them a restocking charge incorrectly. So if there was meant to be €65 on the right of the Control Account and we actually recorded it as €35, we just need to put an extra €30 there to fix the mistake.



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(v)

An invoice sent to a customer (informing them that they owe us money) was never entered in the customer account so we need to add this €1450 to the List of Debtors.

In the Control Account, €90 too much was originally recorded, which means we simply put €90 on the credit side to cancel it out. Don't forget, it was originally on the left because it shows that the Debtors owed us Money (Debtor accounts have a debit balance).

(vi)

For the final adjustment, no entry had been made in any accounts and so we basically enter whatever should have happened in the first place. For the List of Debtors, nothing happens with the €140 (the debt was previously written off which means it wasn't in our figure for Debtors, therefore receiving the money doesn't reduce the figure). What does get added to Debtors though is the remaining 30% (€60) which the Debtor has now said he will pay us.

For the Control Account, that €60 now owed to us is technically a 'Bad Debt Recoverable) and we put it on the Debit side because it increases the amount owed to us.

Finally, we have two jobs to do...

In the List of Debtors (Part B) we are clearly asked to 'show the original balance'. If you look at the solution, you'll see that they've entered this as €27639. Where does this come from? Well, to get the figure you first of all have to do a quick balance of the Control Account (do this somewhere on rough paper). Add up the entries on the left of the Control Account ($€32500 + €120 + €60 = €32680$), then add up the entries on the right ($€600 + €20 + €30 + €90 = €740$), then take one from the other ($€32680 - €740 = €31940$). This figure is the "Net Balance as per adjusted Control Account" and it goes at the bottom of the List of Debtors (Part B answer). Working upwards from there, you'll see how we reach the original Debtors balance of €27639.

The last thing is to properly balance the Control Account. You probably are thinking that we just balanced it a minute ago when we took the totals of each side from each



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other and got a balance of €31940. That would be totally correct except for one issue that you possibly remember from the very beginning of the question – the fact that we started with a second opening balance (the €600 on the credit side) which was showing us that we owe a refund to a customer. Since there was no mention in the question that we have paid this, we need to make sure we end the year still with this €600 on the credit side. To do this, you get the normal balance that we worked out (€31940) and add €600 to it (€32540). By writing this as the balance on the debit side, it means we can also write the €600 balance on the credit side and ultimately, we are keeping the same correct overall balance (i.e., $€32540 - €600 = €31940$).

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