

Chapter 8 Correction of Errors [I]: Errors Not Affecting Trial Balance Agreement

Error of commission (帳名調亂錯誤)

Error of principle (原則性錯誤)

Error of omission (遺漏錯誤)

Error of original entry (原始分錄錯誤)

Complete reversal of entries (顛倒入帳)

Compensating errors (抵銷性錯誤)

8.2 Error of commission (帳名調亂錯誤)

An error of commission is an entry has been made in a wrong account of the same type. The error would not affect the agreement of a trial balance, as both the debit and credit entries were of the same amount. To correct errors, we first need to record the correcting entries in the journal and then post the entries to the ledger accounts.

Example 1:

if a trade debtor, P Lau, paid us \$500 by cheque on 18 May 2010 but the receipt was wrongly credited to P Lee's account, instead of P Lau's account. If the error was found on 31 May 2010, the error should be corrected as follows:

Step 1 Record the correcting entries in the journal (第一步 在日記簿作更正分錄)

Journal		
	Dr	Cr
Details	\$	\$

Step 2 Post the correcting entries to the ledger accounts (第二步 把更正分錄過帳到分類帳帳戶內)

P Lee			

P Lau			

P Lee's account was debited in order to offset (抵銷) the incorrect credit entry in his account, while P Lau's account was credited in order to make the correct entry in his account.

8.3 Error of principle (原則性錯誤)

An error of principle is where an entry has been made in a wrong type of account (錯誤記錄在另一類別的帳戶內).

Example 1:

if we bought a lorry for \$55,000 by cheque on 14 May 2010 but the value was wrongly debited as an motor expense account instead of the lorry account. If the error was found on 31 May 2010, the error should be corrected as follows:

Step 1 Record the correcting entries in the journal (第一步 在日記簿作更正分錄)

Journal		
	Dr	Cr
Details	\$	\$

Step 2 Post the correcting entries to the ledger accounts (第二步 把更正分錄過帳到分類帳帳戶內)

Motor expenses			
			\$

Lorries			

8.4 Error of omission (遺漏錯誤)

An **error of omission** is where **no entry has been made for a transaction** (漏記交易項目).

Example 1:

if we bought goods on credit from T Hui for \$2,500 on 12 May 2010 but no entries were made in our books to record this transaction. If the error was found on 31 May 2010, the error should be corrected as follows:

Step 1 Record the correcting entries in the journal (第一步 在日記簿作更正分錄)

Journal		
	Dr	Cr
Details	\$	\$

Step 2 Post the correcting entries to the ledger accounts (第二步 把更正分錄過帳到分類帳帳戶內)

Purchases			

T Hui			

8.5 Error of original entry (原始分錄錯誤)

An error of original entry is where an incorrect amount has been entered in a book of original entry (在原始分錄簿錯記金額) and therefore the posting to ledger accounts is made with that incorrect amount (因此過帳到分類帳帳戶的金額也不正確).

Example 1:

if we sold goods on credit to T Lo for \$1,500 on 13 May 2010 but the debtor's account and the sales account were wrongly debited and credited with \$1,300 instead of \$1,500. If the error was found on 31 May 2010, the error should be corrected as follows:

Step 1 Record the correcting entries in the journal (第一步 在日記簿作更正分錄)

Journal		
	Dr	Cr
Details	\$	\$

Step 2 Post the correcting entries to the ledger accounts (第二步 把更正分錄過帳到分類帳帳戶內)

T Lo			

Sales			

8.6 Complete reversal of entries (顛倒入帳)

Complete reversal of entries is where a double entry has been made on the wrong sides of ledger accounts (顛倒入帳是指顛倒了分類帳帳戶的借方和貸方).

Example 1:

if we paid \$2,000 cash to a trade creditor, D Cheung, on 28 May 2010. The cash account was wrongly debited and the creditor's account was wrongly credited. If the error was found on 31 May 2010, the error should be corrected as follows:

Step 1 Record the correcting entries in the journal (第一步 在日記簿作更正分錄)

Journal		
	Dr	Cr
Details	\$	\$

Step 2 Post the correcting entries to the ledger accounts (第二步 把更正分錄過帳到分類帳帳戶內)

D Cheung			

Cash			

8.7 Compensating errors (抵銷性錯誤)

Compensating errors are where two or more errors cancel out each other (抵銷性錯誤是指當兩個或以上的錯誤互相抵銷) so that trial balance agreement is not affected (使試算平衡不會受到影響).

Example 1:

if the monthly total in the purchases journal was overcast as \$80,000 instead of \$79,000, while the monthly total in the sales journal was overcast as \$100,000 instead of \$99,000 at the end of May 2010. If the errors were found on 15 June 2010, the error should be corrected as follows:

Step 1 Record the correcting entries in the journal (第一步 在日記簿作更正分錄)

Journal		
	Dr	Cr
Details	\$	\$

Step 2 Post the correcting entries to the ledger accounts (第二步 把更正分錄過帳到分類帳帳戶內)

Purchases			

Sales			

The ultimate error correction method

The ultimate error correction method is to first list the correct double-entries accounting required by the question, and then list the wrong double-entries accounting. Make a comparison between correct double-entries accounting and incorrect double-entries accounting. Then make corrections based on the compared double-entries accounting errors.

Class work 1

Before preparing financial statements of International Food Company for the year ended 31 December 2010, the following errors are found. List the correct and incorrect double-entries accounting. Then you are required to list the double-entries to correct the errors below.

- (i) The sale of a machine for \$640 was credited to the sales account.
- (ii) A cheque of \$370 paid to a creditor, P Liu, was debited to the account of another creditor, P Li.
- (iii) No entry had been made for an accrued expense of \$180.
- (iv) Equipment repairs, \$720, were debited to the equipment account.
- (v) The closing inventory was overvalued by \$2,000.
- (vi) A cheque of \$248 received from a debtor, L Wu, was credited to the account of another debtor, L Woo.
- (vii) Payment of \$3,000 for rates was debited to the rental deposit account.
- (viii) A credit sale of \$1,180 had been debited to the sales account and credited to the trade receivables account.
- (ix) A rental deposit of \$17,000 had been paid but no entries were made in the books.
- (x) It is the company's policy to charge depreciation on equipment at a rate of 25% per annum using the straight-line method. The bookkeeper had provided the depreciation on equipment for 2010. A piece of equipment which was purchased for \$20,000 on 1 January 2006 was still in use at the end of 2010.

Item	Correct Entries	Wrong Entries
(i)		
(ii)		
(iii)		
(iv)		
(v)		
(vi)		
(vii)		
(viii)		
(ix)		
(x)		

	Correction entries	
Item	Dr	Cr
(i)		
(ii)		
(iii)		
(iv)		
(v)		
(vi)		
(vii)		
(viii)		
(ix)		
(x)		

AAT 2011 (Pilot Paper 2, 3)**(Correction Errors)**

Before preparing financial statements of International Food Company for the year ended 31 December 2010, the following errors are found. You are required to prepare journal entries to correct the errors below.

REQUIRED:

- (a) An invoice of \$1,400 from a supplier, Grate one Company was omitted in the company's books.
- (b) A trade debtor transferred \$4,510 to the company's business bank account. The company debited the trade receivables account and credited the trade payables account in its books.

The Journal			
		Dr	Cr
	Details	\$	\$
(a)			
(b)			

HKCEE (2010, 7)**(Correction Errors)**

The trial balance of Tess Company as at 31 December 2009 failed to agree. All normal sales of the company are made at a gross profit of 40% on cost. Subsequent checking of the records revealed the following:

- (iii) Withdrawal of goods with a selling price of \$2,800 by the owner had been incorrectly recorded as a credit sale to a customer, Russ Company.
- (iv) A contra entry of \$792 in the debtors and creditors accounts had been incorrectly recorded as \$972.
- (v) A cash discount of \$700 received from a supplier was treated as a trade discount.
- (vi) A payment for telephone expenses of \$300 for the owner was recorded as a telephone payment for the business.
- (vii) Goods with a cost of \$1,000 were sold to a customer at a special discount of 10%. This transaction had been recorded as a normal credit sale.
- (viii) A credit sale of office equipment for \$10,000 was incorrectly treated as a credit sale of a fully depreciated motor vehicle with a cost of \$100,000. The office equipment had a cost and accumulated depreciation of \$80,000 and \$64,000 respectively on 31 December 2009.

REQUIRED:

- (a) Prepare the necessary journal entries to correct the above. Narrations are not required.

Journal			
		Debit	Credit
	Details	\$	\$
(iii)			
(iv)			
(v)			
(vi)			
(vii)			
(viii)			

Errors in nominal accounts after closing entries (名義賬戶關閉後的錯誤)

If errors affecting **nominal accounts** (such as **revenue and expense accounts**) are found after closing entries have been made at the end of an accounting period (如果一些影響名義帳戶的錯誤在會計期結束後被發現), they should not be corrected in the nominal accounts (他們不應該在名義帳戶內糾正) because these accounts have been closed off (因為這些名義帳戶已被封閉). Instead, these errors should be corrected directly in the profit and loss account or retained profit account (相反, 這些錯誤應該直接在損益帳或留存利潤帳內糾正).

Example 1:

If we bought a lorry for \$55,000 by cheque on 14 May 2010 but the value of the lorry was wrongly debited as a motor expense account instead of an asset account. If the error was found at the end of accounting year,

Step 1 Record the correcting entries in the journal (第一步 在日記簿作更正分錄)

Journal		
	Dr	Cr
Details	\$	\$

Step 2 Post the correcting entries to the ledger accounts (第二步 把更正分錄過帳到分類帳帳戶內)

Lorries			

Profit and loss			

1ST Mock Exam 2012-2013

(Correction Errors)

6. After closing all the nominal accounts and preparing the draft income statement, subsequent investigation revealed the following:
- (i) A debt of \$500 already written off in the previous year has been collected in the current year. The only entry made was debited bank account and credited accounts receivable account.
 - (ii) The closing stock as at 31 March 2010 was overcast by \$1,050.
 - (iii) Discounts allowed of \$1,850 had been credited to the discounts allowed account and debited to the accounts receivable's account.
 - (vi) A free sample had been sent to Shark Limited and recorded as credit sales at a selling price of \$26,000. The margin of the sample is 30% on sales.

Journal			
	Details	Debit	Credit
		\$	\$
(i)			
(ii)			
(iii)			
(vi)			

8.8 Errors in year-end adjustments (期末調整的錯誤)

8.8.1 Errors in the charging of depreciation (折舊計算的錯誤)

If the depreciation of \$4,000 was charged on machinery. However, it was later found that the depreciation had been overcharged by \$400. The correcting entries for the error would be:

	Dr	Cr
Details	\$	\$

8.8.2 Errors in the allowance for doubtful accounts (呆帳準備的錯誤)

If the allowance for doubtful accounts was increased by \$2,300. However, it was later found that the allowance for doubtful accounts should have been increased by \$3,200. The correcting entries for the error would be:

	Dr	Cr
Details	\$	\$

8.8.3 Errors in the treatment of accruals and prepayments (處理應計和預付項目的錯誤)

If the rent payment during the whole period amounted to \$80,000 by cheque and rent expense account was adjusted for an accrual of \$14,000 at the end of an accounting period. However, it was later found that the accrual should have been a prepayment of rent. The correcting entries for the error would be:

	Dr	Cr
Details	\$	\$

8.8.4 Errors in the valuation of inventories (存貨計價的錯誤)

1 Closing inventory

If the closing inventory was valued at \$20,000 at the end of an accounting period. However, it was later found that the closing inventory had been overvalued by \$2,000. The correcting entries would be:

	Dr	Cr
Details	\$	\$

2 Sale or return transactions

If a firm sent 1,000 units of goods to J Fong, on a sale or return basis. A price of \$20 was to be charged for each unit sold by J Fong and unsold goods could be returned at no cost. The goods cost the firm \$8 per unit. At the end of the financial year, J Fong informed the firm that only 400 units had been sold and the remaining were still kept by J Fong.

When the goods were sent to J Fong, the following double entry was made in the firm's books:

Dr J Fong's account \$20,000
 Cr Sales account \$20,000

The correcting entries would be:

	Dr	Cr
Details	\$	\$

Class work 11

1. For each of the independent situations described below, prepare journal entries to show the necessary adjustment.
- (i) Rental income of \$4,355 represented the amount received for sub-letting part of the office premises for 13 months from 1 January 2011 to 31 January 2012. The unearned rental income had not been recorded.
 - (ii) An insurance premium of \$2,190 was prepaid for the three months ended 31 March 2012. The entry is omitted.
 - (iii) Accrued rental expenses of \$5,210 and prepaid insurance expenses of \$2,100 were omitted from the books.
 - (iv) An accrued expense of \$700 had been recorded as a prepaid expense and the expenses accounts are closed.
 - (v) The accrued expenses of \$180 should have been prepaid expenses and the expenses accounts are closed.
 - (vi) The firm had \$11,250 in wages and salaries outstanding as at 31 March 2010 but this had not been recorded and the wages and salaries account is closed.
 - (vii) As at 31 December 2010, prepaid rent and accrued telephone expenses amounted to \$500 and \$300, respectively. No entry had been made in the books and the expenses accounts are closed.
 - (viii) As at 30 April 2010, prepaid repair costs and accrued rent revenue amounted to \$210 and \$1,700, respectively. No entry had been made in the books.
 - (ix) As at 30 June 2012, prepaid wages and accrued miscellaneous expenses were \$1,000 and \$1,300, respectively. No entry had been made in the books and the expenses accounts are closed.
 - (x) The sales account was credited with \$24,000 for goods (costing \$20,000) sent to an agent on a sale or return basis. It was ascertained that only half of the goods were sold by the year-end. None of the goods were included in the firm's closing inventory.

	Journal	Dr	Cr
	Details	\$	\$
(i)			
(ii)			
(iii)			
(iv)			
(v)			
(vi)			
(vii)			
(viii)			
(ix)			
(x)			

4. The following trial balance was extracted from Dolce Enterprise's books as at 31 December 2011:

	<i>Dr</i>	<i>Cr</i>
	\$	\$
Capital as at 1 January 2011		300,000
5% bank loan		150,000
Non-current assets	270,300	
Purchases	733,500	
Sales		1,149,750
Inventory as at 1 January 2011	91,800	
Loan interest	7,500	
Accounts receivable	181,900	
Accounts payable		164,200
Bank	123,350	
Bad debts	1,800	
Water and electricity	7,000	
Carriage outwards	2,255	
Rental income		4,355
Returns outwards		7,950
Rent, rates and insurance	201,000	
Salaries and wages	148,050	
General expenses	7,800	
	<u>1,776,255</u>	<u>1,776,255</u>

Inventory as at 31 December 2011 was valued at \$90,855.

After the preparation of the trial balance, the following errors were discovered:

- A credit purchase of \$1,500 had been completely omitted.
- A credit sale of goods to Miss Fong totalling \$1,300 had been posted to her personal account in the accounts receivable ledger and the sales account as \$3,100.
- Bank charges of \$150 were included in the bank statement for December 2011. No entry had been made in the books.
- Rental income of \$4,355 represented the amount received for sub-letting part of the office premises for 13 months from 1 January 2011 to 31 January 2012. The unearned rental income had not been recorded.
- An insurance premium of \$2,190 was prepaid for the three months ended 31 March 2012. The entry is omitted.

Required:

- Show the journal entries to correct the above errors. (Narrations are not required.)
- Prepare a corrected trial balance as at 31 December 2011.
- Prepare an income statement for the year ended 31 December 2011.
- Prepare the statement of financial position as at 31 December 2011.

(a)

The Journal			
		Dr	Cr
	Details	\$	\$
(i)			
(ii)			
(iii)			
(iv)			
(v)			

(b)

Corrected Trial Balance as at 31 December 2011

[illegible]

(c)

Income Statement for the year ended 31 December 2011

[illegible]

(d)

Dolce Enterprise
Statement of Financial Position as at 31 December 2011

[illegible]