

14

CORRECTION OF ERRORS

In this chapter, you will learn:

- A. Types of Errors
- B. Correction of Errors

A

TYPES OF ERRORS

Different errors have different correction entries. Therefore, before working on them, we should classify the type of error. Generally, there are two types of error:

- (i) Errors not affecting trial balance agreement,
- (ii) Errors affecting trial balance agreement. (To be covered in the syllabus of level 2.)

Errors NOT Affecting Trial Balance Agreement

Although the total debit balances agrees with the total credit balances, trial balance cannot find out the following errors:

	Types of error	Explanations	Examples
1.	Error of principle (原則性錯誤)	Due to wrong accounting concept , accounts are wrongly classified.	Owner's drawings is wrongly debited to capital account directly.
2.	Error of omission (遺漏錯誤)	The double entries are entirely omitted from the books or when posting to the trial balance.	Credit sales has been completely omitted from the books.
3.	Error of commission (帳名調亂錯誤)	Wrong accounting entries within the same ledger (分類帳).	Credit sales to Kelvin is mistakenly debited to another debtor, Calvin's account.
4.	Error of original entry (過帳錯誤)	Incorrect amount is debited and credited to the relevant accounts.	Cash payment for insurance \$1 300 are incorrectly recorded in both insurance and cash accounts as \$3 100.
5.	Error of compensating (抵銷性錯誤)	When there is more than one of unrelated errors, their effects cancel with each other.	Sales understated (少報) by \$100 cancels the machinery understated by \$100.
6.	Error of complete reversal of entries (顛倒入帳錯誤)	Wrongly debit the account that has to be credited, and vice versa.	Credit purchases is mistakenly debited to trade payable and credited to purchases accounts.

B

CORRECTION OF ERRORS

Write up **journal entries** and then **double entries** in the ledger accounts to correct all types of errors.

Journal entries → Double entries in ledger accounts

Skills on correction of errors:

1. Write up the correct entries.
2. Write up the incorrect entries.
3. Write up the adjusting entries so that the wrong entries can be changed to the right one.

Errors NOT Affecting the Trial Balance Agreement

1. **ERROR OF PRINCIPLE**

○ Illustrative EXAMPLE

Purchases of stationery \$100 was wrongly entered in the purchases account.

Working Steps ...

1. Correct entries: *Dr* Stationery *Cr* Cash / Bank / Trade payables
2. Incorrect entries: *Dr* Purchases *Cr* Cash / Bank / Trade payables
3. Adjusting entries: *Dr* Stationery *Cr* Purchases

Therefore, the purchases can be cancelled by the above double entries.

Solution

The Journal

	<i>Dr</i>	<i>Cr</i>
	\$	\$
Stationery	100	
Purchases		100

Correction of errors: expense wrongly debited to purchases account.

GENERAL LEDGER

Stationery	
	\$
Purchases: error corrected	100

Purchases	
	\$
Stationery: error corrected	100

2. **ERROR OF OMISSION**

○ Illustrative EXAMPLE

Returns inwards \$62 by Mr Chan was completely omitted in the books. The correction entries is to **record the transaction**.

Solution

The Journal		
	<i>Dr</i>	<i>Cr</i>
	\$	\$
Returns inwards	62	
Mr Chan		62
<i>Correction of errors: returns inwards by Mr Chan omitted</i>		

GENERAL LEDGER

Returns Inwards	
	\$
Mr Chan: error corrected	62

SALES LEDGER

Mr Chan	
	\$
Returns inwards: error corrected	62

3. **ERROR OF COMMISSION**

○ Illustrative EXAMPLE

Goods sold to Kelvin \$200 was wrongly debited to Calvin in sales ledger.

Working Steps ...

1. Correct entries: *Dr* Kelvin *Cr* Sales
2. Incorrect entries: *Dr* Calvin *Cr* Sales
3. Adjusting entries: *Dr* Kelvin *Cr* Calvin

Therefore, Calvin can be cancelled by the above double entries.

Solution

The Journal		
	<i>Dr</i>	<i>Cr</i>
	\$	\$
Kelvin	200	
Calvin		200
<i>Correction of error: sales to Kelvin wrongly debited to Calvin account</i>		

SALES LEDGER

Kelvin		
	\$	
Calvin: error corrected	200	

Calvin		
		\$
	Kelvin: error corrected	200

4. **ERROR OF ORIGINAL ENTRY**

○ Illustrative EXAMPLE

Electricity expense of \$150 by cheque was wrongly posted as \$105 in both accounts. The correction entries is to record the insufficient (不足的) amount.

Solution

The Journal		
	<i>Dr</i>	<i>Cr</i>
	\$	\$
Electricity \$(150-105)	45	
Bank		45
<i>Correction of error: electricity expense understated *</i>		

GENERAL LEDGER

Electricity		
	\$	
Bank: error corrected	45	

CASH BOOK

Bank		
		\$
	Electricity: error corrected	45

Note: * **Overstatement** (多報): Amount was wrongly **posted** at a figure **larger** than the original one.
Understatement (少報): Amount was wrongly **posted** as a figure **smaller** than the original one.