

CHAPTER

7

Overcoming Errors

Overcoming Errors

Owners, bankers, investors, employees, and tax authorities represent some of the people who rely on the information produced by accounting systems. Accountants must work to a high degree of accuracy. The information produced by an accounting system must be trustworthy. Few errors should enter into an accounting system, and the small number that do get in must be discovered and corrected. If you have a clear understanding of the accounting concepts presented so far, you will be able to find and correct errors.

Correcting Errors in the Books

Manual accounting was traditionally done in pen, not pencil. Accountants made it a rule not to erase or use liquid paper to correct errors. Erasures in the books might arouse the suspicions of the auditors, the official examiners of the books and records. For the benefit of auditors, even accounting software does not delete or cover up what was written in the past. Other methods are used for making corrections.

Errors Found Immediately

It is simple to correct an error that is found right away. Simply stroke neatly through the incorrect figures or letters and write in the correct ones immediately above. Figures 7.7 below and 7.8 on the next page show this type of correction.

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DATE	PARTICULARS	P.R.	DEBIT	CREDIT		
Jun. 16 ²⁰	Bank		50 -			
	B. Martin A/R - A. Asscot			50 -		
	Payment of account balance					

An accounting clerk should learn to write small and neatly so that errors are easy to correct.

ACCOUNT Bank No. 101

DATE	PARTICULARS	P.R.	DEBIT	CREDIT	Dr/Cr	BALANCE
Feb. 5 ²⁰		J3	64 10		Dr	64 10
			131 75			195 85
		J6	141 85		Dr	205 95

Errors Found Later

On July 5, an accounting clerk noticed that an invoice for \$752 had been debited to the wrong account. The invoice was clearly for supplies but had been debited to the Equipment account. The error had been made on January 17, almost six months earlier.

ACCOUNT **Supplies** NO. 120

DATE	PARTICULARS	P.R.	DEBIT	CREDIT	Dr/Cr	BALANCE
Jan. ²⁰⁻ 1	Forwarded	11			Dr	150 -
Feb. 12		18	370 -		Dr	520 -
20		13	110 -		Dr	630 -
Mar. 30		25	50 -		Dr	680 -
Apr. 19		33	225 -		Dr	905 -
May 12		41	70 -		Dr	975 -
28		48	125 -		Dr	1100 -
Jun. 25		59	45 -		Dr	1145 -

← Missing a \$752 debit

ACCOUNT **Equipment** NO. 125

DATE	PARTICULARS	P.R.	DEBIT	CREDIT	Dr/Cr	BALANCE
Jan. ²⁰⁻ 1	Forwarded	11			Dr	7350 -
17		17	752 -		Dr	8102 -

A Correcting Journal Entry

The best way to correct an error of this type is by using a correcting journal entry. A **correcting journal entry** is an accounting entry that cancels the effect of an error. In the above case, the entry is needed to cancel the \$752 in the Equipment account and set it up in the Supplies account. This correcting journal entry is shown in Figure 7.10.

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DATE	PARTICULARS	P.R.	DEBIT	CREDIT	
Jul. 20 ¹⁸ 5	Supplies		752 -		
	Equipment			752 -	
	To correct posting error made on January 17th.				

New Postings:

ACCOUNT		Supplies		NO. 120			
DATE		PARTICULARS	P.R.	DEBIT	CREDIT	Dr/Cr	BALANCE
Jan. ²⁰⁻	1	Forwarded	J1			Dr	150 -
Feb.	12		J8	370 -		Dr	520 -
	20		J13	110 -		Dr	630 -
Mar.	30		J25	50 -		Dr	680 -
Apr.	19		J33	225 -		Dr	905 -
May	12		J41	70 -		Dr	975 -
	28		J48	125 -		Dr	1100 -
Jun.	25		J59	45 -		Dr	1145 -
Jul.	5		J62	752 -		Dr	1897 -

ACCOUNT		Equipment		NO. 125			
DATE		PARTICULARS	P.R.	DEBIT	CREDIT	Dr/Cr	BALANCE
Jan. ²⁰⁻	1	Forwarded	J1			Dr	7350 -
	17		J7	752 -		Dr	8102 -
Jun.	5		J53	1100 -		Dr	9202 -
Jul.	5		J62		752	Dr	8450 -

Trial Balance Out of Balance

1. Equal debit and credit amounts are recorded in a journal entry.
2. Debit and credit journal amounts are posted to debit and credit columns in ledger accounts.
3. New ledger account balances are calculated each time amounts from the journal are posted.
4. Final balances of each ledger account are identified as either debit or credit. Then they are transferred to debit and credit columns of the trial balance.
5. The totals of the two columns in the trial balance are calculated. If both totals are the same, the ledger is in balance. Account balances shown on the trial balance are then used to prepare the income statement and balance sheet.

Accounting software never shows a trial balance out of balance. This is because accounting software prohibits unbalanced journal entries. Once a balanced entry is input, the software transfers and calculates amounts correctly.



Quick Tests for Detecting a Single Error

1. If the trial balance difference is a multiple of 10, such as 10 cents, 1 dollar, and so on, an error in addition has likely been made. Therefore, re-add the trial balance columns. If this does not work, recalculate the balance of each account.
2. Check both the ledger and the journal to see if the trial balance difference is equal to an amount entered in the ledger or the journal. Whenever you find such an amount, verify it to make sure that it has been handled correctly.
3. Divide the trial balance difference by two. Then search (1) the trial balance and (2) the ledger accounts for this divided amount. If an equivalent amount is found, check it carefully. In particular, look to see if a debit amount has been posted or transferred as a credit, or vice versa.

3. Divide the trial balance difference by two. Then search (1) the trial balance and (2) the ledger accounts for this divided amount. If an equivalent amount is found, check it carefully. In particular, look to see if a debit amount has been posted or transferred as a credit, or vice versa.

An error of this type always produces a trial balance difference equal to twice the amount of the error. This type of error most commonly occurs during posting, but can also happen when preparing the trial balance. For example, consider the simplified trial balance shown below. It contains a single error. The \$30 item listed as a credit should have been listed as a debit. Notice that the difference between the totals is \$60, twice the amount of the error.

TRIAL BALANCE	
Dr	Cr
110	
40	
50	30 ← Error
25	55
225	200
225	285
↑	↑
Trial balance difference is \$60.	

Quick Tests for Detecting a Single Error

4. If the trial balance difference is a multiple of 9, it is likely that a transposition error or a decimal point error has occurred.

A **transposition error** is a mistake caused by changing the order of digits when transferring figures from one place to another. A transposition error has occurred when, for example, \$137 is posted as \$173. The difference is \$36, which is evenly divisible by nine.

When trial balance differences are evenly divisible by 9, you must begin a careful search of the journal, ledger, and trial balance to discover possible sources of the transposition error. The tip in the margin should help narrow that search.

A **decimal point error** is a mistake caused by misplacing the decimal point. A decimal point error has occurred when, for example, \$1.19 has been entered as \$119.00. Such errors always produce a trial balance discrepancy that is divisible by 9 (e.g., $119 - 1.19 = 117.81$, which divided by 9 equals 13.09).

Multiple of 9 Errors

The number of digits in the trial balance difference may shorten your search! For example, if the difference between debit and credit totals is a multiple of nine and has two digits—like 54—then digits in the “tens” could have been switched (e.g., 5693 to 5639).

If the discrepancy has four digits—for example, 4500—look for numbers in the “thousands” that could have been transposed (e.g., 9438 to 4938).

Procedures for Encountering Multiple Errors

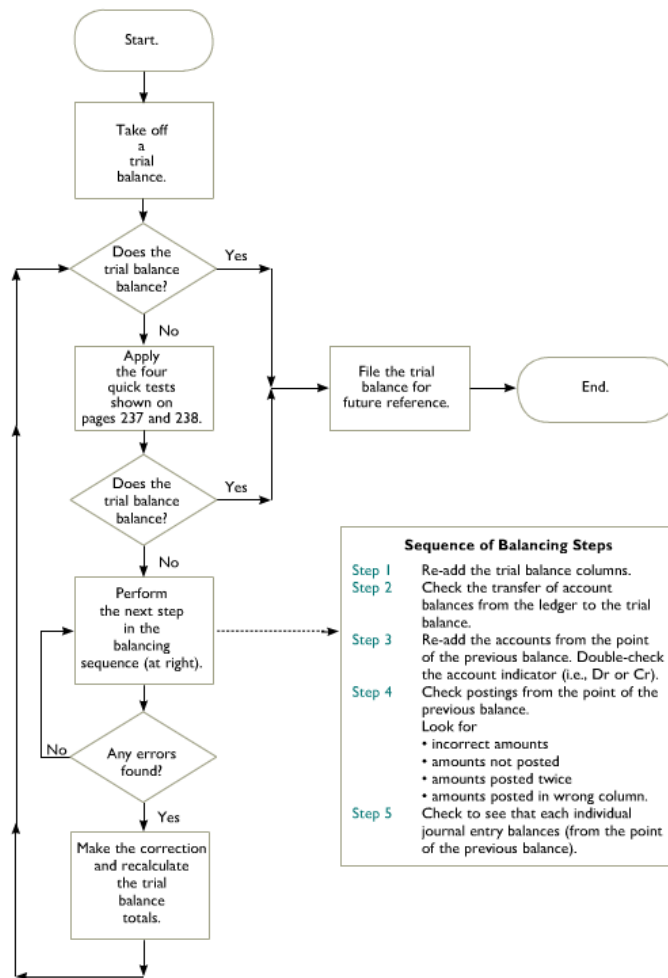
If the four quick tests fail to reconcile a trial balance discrepancy, it is likely that multiple errors have been made. If you have a sound grasp of the accounting cycle, you should have no problem finding and correcting multiple errors.

Examine the flow chart (Figure 7.12) on page 239. This chart describes the events that lead to a balanced ledger. Proceeding down the chart, look what happens when the quick tests do not solve the problem. You are directed to start the five Sequence of Balancing Steps.

Read the five steps. You will notice that they are the reverse of the five steps on page 232 that describe the flow of a transaction through the accounting cycle. Accordingly, the Sequence of Balancing Steps can be summarized in two words: work backwards. You might also find it helpful to remember the pattern of working backwards through the five steps: re-add, check the transfers, re-add, check the transfers, re-add.

All errors will be found if you work backwards and carefully. If errors still exist, the flow chart directs you to repeat the steps again and again. The demands of accounting give no other option.

Figure 7.12



Homework

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Exercises 1

SECTION 7.2 REVIEW QUESTIONS (page 240)

1. You do not erase errors in the books of account because this might make auditors suspicious when they review the records.
2. To correct a simple error in the accounts or the journal found immediately, simply stroke neatly through the incorrect figures or letters and write in the correct ones immediately above.
3. The best way to correct an error that is found after some time has passed is by using a correcting journal entry. A correcting journal entry is an accounting entry that cancels the effect of an error.
4. Accountants must work to a high degree of accuracy to minimize errors and ensure that the information in the accounts and the journal is correct.
5. The four quick tests for finding a single error are as follows. Test 1: Check to see if the difference is a multiple of 10. Test 2: Check the journal and the ledger to see if the trial balance difference is equal to an amount entered in the journal or the ledger. Test 3: Divide the trial balance difference by two and search the journal and the ledger for that amount. Test 4: Check to see if the trial balance difference is evenly divisible by nine.
6. Before applying any of the quick tests, you must calculate the trial balance difference.
7. A trial balance difference of \$10 suggests an error in addition.
8. To correct an error in addition, as in Question 7, you should re-add the trial balance columns and each ledger account.
9. If the trial balance difference is not an even amount, \$23.45 for example, the third quick test can be eliminated since a cent number that is odd cannot be divided evenly by two.
10. When an amount is posted to the wrong side of an account, the trial balance difference is always twice as large as the amount of the error.
11. A transposition error occurs when numerals are reversed when copying figures. For example, writing \$239.39 as \$239.93.
12. A trial balance difference of \$270 could be caused by a transposition error because \$270 is evenly divisible by nine.
13. A trial balance difference of \$2430 could be caused by a decimal point error because \$2430 is evenly divisible by nine. (2700.00 written as 270.00 creates a difference of 2430.)
14. If the quick tests fail, the Sequence of Balancing Steps that should be used are as follows. Step 1: Re-add the trial balance columns. Step 2: Check the transfer of account balances from the ledger to the trial balance. Step 3: Re-add the ledger accounts. Step 4: Check the postings from the journal to the ledger. Step 5: Check to see that each individual journal entry balances.
15. If the Sequence of Balancing Steps is completed but the ledger is still not balanced, you must repeat the five-step procedure again but more carefully.

SECTION 7.2 EXERCISES (page 240)**Exercise 1, p. 240**

A. to D.

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DATE	PARTICULARS	P.R.	DEBIT			CREDIT		
	A. <i>A/P—Acme Equipment</i>			6	0	-		
	<i>Equipment</i>						6	0 -
	B. <i>P. Kane, Drawings</i>			7	0	0 -		
	<i>Miscellaneous Expense</i>						7	0 0 -
	C. <i>Bank</i>			1	5	0 0 -		
	<i>A/P—Evening Sun</i>						1	5 0 0 -
	D. <i>Bank</i>			2	7	-		
	<i>Utilities Expense</i>						2	7 -