



**UNIVERSITY OF THE WEST
MONA CAMPUS**

Financial Accounting – ACCT 1005(MS15D)

ERRORS & CORRECTION OF ERRORS

The trial balance is merely superficial evidence of the arithmetical accuracy of postings of transactions, as there are certain classes of mistakes, which do not affect the balancing of the trial balance.

Note: All errors are corrected by way of journal entries, in the General Journal.

Errors Not Affecting the Balancing of the Trial Balance

1. Error of Omission

This is where a transaction is completely omitted from or left off the books. E.g. purchased a motor car on account from Used Wheels Ltd. for \$450,000, but made no record of the transaction.

2. Error of Commission

This is where the correct amount is entered but in the wrong account of the same class e.g. sold goods to B. Marks for \$23,900 but debited the account of D. Marks instead

3. Error of Principle

This is where a transaction is entered in the wrong class of accounts e.g. bought a computer for \$54,000 for use in the business and debited purchases and credited the bank account.

4. Error of Original Entry

This is where the figure taken from the source document is incorrect and entered in all accounts affected by the transaction as such. E.g. sold goods on credit to S. Greaves for \$5,640 and entered the amount as \$4,640.

5. Compensating Errors

These are errors, which cancel or balance each other.

Where an account carrying a debit balance is over- or under-stated by an amount and an account carrying a credit balance is over- or under-stated by the same amount e.g. Purchases overstated by \$2,000 and Sales overstated by \$2000.

Or

Where both accounts are carrying the same type of balance i.e. Dr or Cr., but one is over-stated by an amount and the other under-stated by the same amount. E.g. Electricity Expense overstated by \$500 and Rent Expense understated by \$500.