- ✓ WEEK 2: ACCOUNTING ERRORS✓ Lesson Title:
- **Errors in Accounting (Account Errors)**
- **✓** Lesson Duration:

60 minutes

- Learning Objectives (By the end of the lesson, students should be able to):
  - 1. Define accounting errors
  - 2. Differentiate between types of errors
  - 3. Identify errors that affect the trial balance and those that do not
  - 4. Understand how errors are corrected
  - 5. Use a suspense account where necessary
- STEP 1: Introduction and Meaning of Accounting Errors (10 mins)
- Definition:

Accounting errors are unintentional mistakes made in recording, posting, or interpreting financial transactions. These mistakes can occur at any stage of the accounting process and may lead to inaccurate financial reports.

- Nature of Accounting Errors:
  - They can be clerical or conceptual.
  - Some errors affect the trial balance (one-sided), while others do not (two-sided).
  - They must be detected and corrected to avoid misleading financial statements and poor business decisions.
- Causes of Errors:

- Fatigue
- Carelessness
- Lack of accounting knowledge
- Misinterpretation of transactions
- Technical glitches (in computerized systems)
- ✓ STEP 2: Types of Accounting Errors (20 mins)

Accounting errors fall into two broad categories:

A. Errors That DO NOT Affect the Trial Balance:

These are two-sided errors where both the debit and credit entries are wrong, but still balanced.

1. Error of Omission

Definition: When a transaction is completely omitted from the books.

- ★ Example: A cash sale of #20,000 was not recorded.
  - No debit or credit entry was made.
- **\*** Correction:

Debit: Cash A/C ₱20,000

• Credit: Sales A/C №20,000

#### 2. Error of Commission

Definition: Correct class of account, wrong individual account.

★ Example: Payment to Mr. Obi ¥5,000 posted to Mr. Obo's account.

## **\*** Correction:

• Debit: Mr. Obi's A/C ₩5,000

• Credit: Mr. Obo's A/C ₩5,000

## 3. Error of Principle

Definition: Entry made in the wrong class of account — against accounting principles.

★ Example: Purchase of office furniture of ¥30,000 recorded as stationery expense.

#### **\*** Correction:

• Debit: Furniture A/C ₦30,000

• Credit: Stationery A/C ₦30,000

## 4. Error of Original Entry

Definition: Wrong amount entered in the book of original entry.

★ Example: Wages paid ¥7,000 recorded as ¥700.

## **\*\*** Correction:

• Debit: Wages A/C **№**6,300

• Credit: Cash A/C \$46,300

# 5. Compensating Error

Definition: Two or more unrelated errors cancel each other out.

★ Example: Overstated rent by #2,000 and understated salary by #2,000.

## **\*** Correction:

• Adjust Rent and Salary accounts accordingly (journal entries).

#### B. Errors That DO Affect the Trial Balance:

These are one-sided errors — the debit and credit totals do not match.

#### 1. Error of Partial Omission

Definition: Only one part of a transaction is recorded.

★ Example: Sold goods for ¥8,000 — debit made to Cash A/C, but Sales A/C was not credited.

### **\*** Correction:

• Credit: Sales A/C ₩8,000

## 2. Error in Posting

Definition: Wrong amount posted to an account or entry posted twice.

★ Example: Payment of ¥6,000 posted as ¥60,000.

## **\*** Correction:

Debit/Credit the difference to the correct account.

### 3. Error in Balancing

Definition: Errors in totaling account balances or carrying forward wrong balances.

★ Example: Cash A/C balance brought forward as ¥4,000 instead of ¥40,000.

#### **\*** Correction:

Adjust the balance with the difference.

## 4. Transposition Error

Definition: Digits are reversed while recording.

★ Example: ¥543 written as ¥354.

#### **\*** Correction:

• Reverse the wrong entry and post the correct one.

## 5. Single Entry Error

Definition: Only one side of a double-entry transaction is recorded.

★ Example: Rent paid of ¥10,000 only debited to Rent A/C with no corresponding credit to Cash A/C.

#### **\*** Correction:

- Credit: Cash A/C ₩10,000
- ✓ STEP 3: Suspense Account and Trial Balance Disagreement (10 mins)
- What is a Suspense Account?

A suspense account is a temporary account used to balance the trial balance when errors affecting only one side have not yet been found.

- Functions of a Suspense Account:
  - Helps in proceeding with final accounts despite imbalance.
  - Used until all one-sided errors are located and corrected.
  - Once all errors are fixed, the suspense account should have a zero balance.
- STEP 4: Identification and Correction of Errors (15 mins)
- How to Detect Errors:
  - Regular ledger reviews
  - Comparing books with source documents
  - Preparing and reviewing the trial balance
  - External/internal audit
  - Bank reconciliation
- How to Correct Errors:

- Before Posting to Ledger:
   Correct the entry directly in the journal.
- After Posting to Ledger:Use a journal proper to reverse and correct.

# Example:

## Wrong Entry:

• Debit: Rent A/C ₱15,000 (Instead of Equipment A/C)

## **Correction Entry:**

- Debit: Equipment A/C ₱15,000
- Credit: Rent A/C #15,000
- 3. Use of Suspense Account:

  For one-sided errors, use suspense account to temporarily balance.
- **Example:** Trial Balance is ₩2,000 short on credit side
  - Credit: Suspense A/C #2,000
     (Until the error is traced and corrected)
- STEP 5: Examples and Class Practice (10 mins)
- Example 1:

Goods sold for ₩12,000 were recorded only in the Sales Day Book, not posted to ledger.

- Type of error: Error of omission (partial)
- Correction:
  - o Debit: Debtors A/C ₱12,000
  - o Credit: Sales A/C ₱12,000

# • Example 2:

Stationery bought for ₱5,000 was posted to Furniture A/C.

- Type of error: Error of principle
- Correction:

o Debit: Stationery A/C ₱5,000

o Credit: Furniture A/C ₱5,000

## • Example 3:

Trial balance shows a difference of #1,500 more on the debit side.

- Action:
  - o Credit: Suspense A/C ₱1,500
  - Investigate and fix the error
  - o Reverse suspense entry after correction

# Conclusion

Accounting errors are common but must be handled carefully to ensure accuracy in financial reporting. Students should be able to:

- Identify different types of accounting errors
- Correct errors using appropriate journal entries
- Understand the role of suspense accounts in reconciling the trial balance
- STEP 6: Assessment and Summary (5 mins)
- Key Takeaways:
  - Not all errors affect the trial balance
  - Some errors require correction through journal entries
  - Suspense accounts are used to temporarily manage discrepancies
  - Timely error detection is crucial for reliable financial reporting

# ✓ Homework / Assignment

**Instruction:** Identify the type of error and suggest a correcting journal entry:

- 1. A payment of ₦8,000 to a supplier was entered as ₦800
- 2. Electricity expense of ₩2,500 was posted to Furniture A/C
- 3. A sale of ₩12,000 to James was posted to John's account