To: [The name of your fictional supervisor]

From: Kelsey Berta

Date: 3/12/2022

Subject: Accounting Error For Year 5

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I am writing to you to inform you that there has been an accounting error on the equipment bought by the company. The whole million dollars was capitalized when only $600,000 should have been capitalized.

This error if not changed will affect your capital. Your capital will be overstated, and the Income Statement will be overstated because the repairs expense would not be included, Statement of Retained Earnings will be understated because your repair expense would not be expensed, and Balance Sheet will be understated as well because your asset account should be increased.

The company will be misled and spend more money than is available. They will have inaccurate information and the cost of the equipment is wrong.

To fix the error the extraordinary repairs should have been debited in the assets because they are extending the life on the equipment while the ordinary repairs should have been debited to expense account.

The Original Entry:

Equipment $1,000,000

Cash $1,000,000

The correcting entry:

Repairs Expense $400,000

Equipment $400,000

Entry Should Have Been:

Equipment $600,000

Repairs Expense $400,00

Cash $1,000,000