Errors not affecting trial balance and their corrections

Every error is unique on their own accord. The same is true for compensating mistakes. However, this is the most difficult error to solve. At times, it may affect the profit statement and a corrected statement must be prepared. Let begin by defining it. This is a type of accounting error where a debit side mistake compensates or offset a credit side error. This means that the value of error in the debit side is equal to the value of error in the credit side. In such a case, the trial balance will definitely have equal amounts on both sides. Read: Key Errors that do not affect trial balance: Error of Omission Key Explanations A type of accounting error. There are six types of mistakes that wouldn't affect a trial balance. Compensating error is one of them. Others are commission, omission, principle, complete reversal of entry and original entry errors. It compensates or offset. The error affects different accounts on the debit and credit sides of the business books of accounts. And the amounts on both sides are the same. This implies that if an error of N20,000 is on the debit side of various accounts also, the same amount is on the credit side of a single account or multiple accounts. Overcasts and undercasts. Overcast means the amount in an account is more than what is supposed to be there. And undercast is the value in the account is less than the original amount. In compensating error, both sides can either be undercast or overcast. The debit side cannot be undercast with an amount and overcast in the credit side of another account. In this case, the trial balance will have different figures on both sides. And therefore the mistake cannot be corrected by offsetting it. Correction of Profit Statement. Compensating error affects profit statements. It can either overstate or understate profit. For example, if sales is undercast along an asset a/c with the same amount, it means that revenue earned for the period had been understated. Therefore, misleading users of the statement. Examples. Various examples can ensue here. Sales was undercast by N58,000 so is a furniture account with the same figure. The commission paid account is overcast by N7,000 and insurance policy a/c by N15,000 so is Account Payable account by N22,000. The list goes on. Read: Key Errors that don't affect trial balance: Error of Commission How to identify Compensating Error There is no lay down rule on how to identify compensating errors. As long as the amount on the debit side offset the amount on the credit side of the books of accounts of the business in question, then such mistakes can be labeled compensating error. How to correct Compensating Errors This depends on if the mistake is overcast or undercast. For overcast, you will have to subtract the amount from the accounts affected. However, you will need to add the amount undercast to correct it in the accounts. Example of Compensating Errors Sales was undercast by N58,000 so is a furniture account with the same figure. In this example and as explained, you will need to add the amount to the sales and furniture account. Therefore the entry shall be: Dr: Furniture account Cr: Sales account With the amount. That is N58,000. The commission paid account is overcast by N7,000 and insurance policy a/c by N15,000 so is Account Payable account by N22,000. Here, the amount will be subtracted. To subtract an amount on the debit side, you record that amount on the credit side and vise versa. Commission paid and insurance policy accounts are expenses. So, it is normally debited to record an entry. While Account Payable is always credited. To comply with the rule, to correct the overcasts, you will need to record the amount in he opposite sides, thus: Dr: Account Payable A/c with N22,000 Cr: Commission Paid A/c with N7,000 Cr: Insurance Policy A/c with N15,000 Accounting Errors that Do Not Affect the Trial Balance SHAIKH ZAHIR In accounting there are two error groups. The first group affects the balancing of the trial balance and these errors are known as type1 errors. The second group of errors are known as type2 errors and these errors do not affect the balancing of the trial balance. This article focuses on type2 errors. Type2 Errors Type1 errors cause an imbalance between the debit balances and thecredit balances on the trial balance. Type2 errors are different because thedebit and credit balances on the trial balance are equal and errors have been made in the accounting process. Type2 errors are difficult to detect or identify because the trial balance does not report any error, even though errors would have been made. Other internal control tools such as nominal accounts analyses, nominal accounts reviews and reconciliations should be used to identify and correct these type2 errors. The main type2 accounting errors that do not affect the balancing of the trial balance are as follows: Error of omission. This occurs when a transaction is completely omitted from the books of accounts. This error will not be detected by the trial balance because the trial balance does not know that the transaction exists as it is off the books. Error of reversal. This error occurs when a transaction that should have been posted as a debit is posted as credit, for example, in a cash sale, sales are debited and cash is credited. This is technically wrong but since the duality concept of the double entry has been applied, the trial balance will still balance. Error of principle. This error occurs when a bookkeeper wrongly applies an accounting principle, for example by recording assets as expenses. Assets and expenses are both recorded in the books as debits so this is a technical error. Error commission. This occurs when, for example, in the debtor's account an amount owed to M Woman is recorded as being owed to K Woman. The individual debtor accounts will be incorrect because one account will be overstated and the other will be understated, however the total debtors of the business will be correct and the big picture correctly reports the business' debtors. This error shares the same characteristics as the error of principle except that it occurs in accounts of the same class. Errors of subsidiary entry. This occurs when an error is made in the subsidiary entry or the book of original entry. For example, if a business buys stock for $1,000 on credit and the stock account is debited by $100 and the creditor is also credited by $100, rather debiting and crediting both accounts by $1,000. The trial balance will not be able to detect this error because the error applies to both the debit and credit entries as the wrong amount has been used in the two double entry accounting entries. Compensating errors; these are rare and are likely to occur by chance. Compensating errors occur when, for example, debtors are overstated by $5000, and by chance creditors are also overstated by the same amount. As a result these two errors will compensate for each other and therefore will cancel out each other. In order to continue enjoying our site, we ask that you confirm your identity as a human. Thank you very much for your cooperation. The objective of preparing trial balance is to a counter check process to test the accuracy of posting. If the trial balance agrees it proves that the books are arithmetically accurate, and the two aspects of the transactions (Debit and Credit) have been recorded in the books of original entry as well as in the ledger. In this article, we will discuss errors in the trial balance and steps to locate errors. We know when the sum total of two columns of Trial Balance tallies, then it means that the Trial Balance is in agreement with books of accounts. But it also means that the accounting entries have been arithmetically correct and has been correctly posted in the ledger. But if the Trial Balance does not tally, then there could be errors in transaction entry. Such errors are called 'Errors affecting trial balance'. These can be: Where only one effect of a transaction is posted to ledger e.g. for rent paid in cash, if entry is posted to cash but not to rent account, then obviously the Trial balance will not match Wrong posting of the amount in one of the ledger accounts e.g. rent of ` IDR 1,000 is paid in cash. The posting to Rent A/c is done for `IDR 1,000, Cash A/c is recorded at ` IDR 10,000. Then too the Trial balance will not tally If one of the postings is entered twice, then too the Trial balance will not match If the balance in a ledger is not correctly taken to the trial balance. e.g. the Rent A/c has a balance of ` IDR 1,000, but while taking it to the Trial Balance. it is taken as ` IDR 100, then the Trial Balance will throe up differences Taking balance to the wrong side in the Trial Balance e.g. a debit balance of ` IDR 5,00,000 in Debtors A/c is taken as credit balance in the Trial Balance, then there will be a mismatch Wrong carry forwards also will result in the trial balance. mismatch There are certain types of errors that will not affect tallying of the Trial Balance. i.e. it will tally but still there will be errors. These are as follows: The error of omission: If any entry is totally missed, the Trial Balance will tally but will be incorrect and incomplete Compensating error: If there are two errors that are compensating each other, still, the Trial Balance will tally but not accurate Wrong Account head: If entry for insurance paid is wrongly debited to Commission A/c, tallying of Trial Balance will not be affected The error of duplication: If a transaction is recorded twice, again the Trial Balance will match. The error of principle: If interest received is wrongly entered as debit to interest and credit to cash, there won't be any mismatch in the Trial Balance For the type of errors mentioned above, the identification process is very time-consuming. Only strict vigil and ongoing audit of entries could minimize such errors. Of course, the computerized accounting packages such as Tally.ERP 9 systems do provide built mechanisms to avoid occurrence of these mistakes. After preparation of Trial Balance, if the difference not major, it is temporarily transferred to "Suspense A/c' until the errors are located and corrected. There are also errors which cannot be detected by a Trial Balance: They are as follows:- Error of Omission: When the transaction is not at all recorded in the books of accounts, i.e. neither in the debit side nor in the credit side of the account – trial balance will agree. Error of Commission: Where there is any variation in figure/amount, e.g. instead of ` IDR 800 either ` IDR 80 or `IDR 8,000 is recorded, in both sides of ledger accounts – trial balance will agree. Error of Principal: When accounts are prepared not according to double-entry principle e.g. Purchase of a Plant wrongly debited to Purchase Account – Trial balance will agree. Error of Posting in Wrong Leger: When wrong posting is made to a wrong account instead of a correct one although the amount is correctly recorded, e.g., sold goods to B but wrongly debited to C's Account – trial balance will agree. Error of Compensation: When one error is compensated by another error e.g. Discount Allowed `IDR 100 not debited to Discount Allowed Account, whereas interest received `IDR 100, but not credit to Interest Account trial balance will agree. If the Trial Balance does not tally, the following procedure should carefully be followed: At first, check all ledger account balance one by one. Addition of both the columns (Debit and Credit) should be checked. If any difference, divide the same by 2 and see whether the said figure appears on the correct side or not. Additions of the subsidiary books, and ledger accounts to be checked up. Posting from subsidiary books to the ledger to be checked up. Read More on Trial Balance What is Trial Balance, How to Prepare Trial Balance, Methods to Prepare Trial Balance, Rules & Examples of Trial Balance April 16, 2021 April 16, 2021/ Steven Bragg The trial balance is a summary-level of listing of the debit or credit total in each account. You normally use the initial, or unadjusted, trial balance for two reasons:This unadjusted trial balance may contain a number of errors, only a few of which are easy to spot in the trial balance report format. Here are the more common errors, with suggestions on how to find them:Entries made twice. If an entry is made twice, the trial balance will still be in balance, so that is not a good document for finding it. Instead, for an ongoing transaction, you may have to wait for the issue to resolve itself. For example, a duplicate invoice to a customer will be rejected by the customer, while a duplicate invoice from a supplier will (hopefully) be spotted during the invoice approval process.Entries not made at all. Impossible to find on the trial balance, since it is not there (!). Your best bet is to maintain a checklist of standard entries, and verify that all of them have been made.Entries to the wrong account. This may be apparent with a quick glance at the trial balance, since an account that previously had no balance at all now has one. Otherwise, the best form of correction is preventive - use standard journal entry templates for all recurring entries.Reversed entries. An entry for a debit may be mistakenly recorded as a credit, and vice versa. This issue may be visible on the trial balance, especially if the entry is large enough to change the sign of an ending balance to the reverse of its usual sign.Transposed numbers. The digits in a number may have been switched. This is easy to find, since the underlying entry is unbalanced, and so should not have been accepted by the accounting software. If a manual system is being used, journal entry totals must be compared to the totals in the trial balance. This issue relates to the following one.Unbalanced entries. This is listed last, since it is impossible in a computerized environment, where entries must be balanced or the system will not accept them. If you are using a manual system, then the issue will be apparent in the column totals of the trial balance. However, locating the exact entry is vastly more difficult, and will call for a detailed review of every entry, or at least of the totals in every subsidiary ledger that rolls into the general ledger.Whenever you correct an error, be sure to use a clearly labeled journal entry with supporting documentation, so that someone else can trace through your work at a later date.Related CoursesBookkeeping Guidebook Closing the Books The Year-End Close April 16, 2021/ Steven Bragg/ Something went wrong. Wait a moment and try again. Tutor HuntResources Accounting Resources GCSEDate : 03/01/2019 Uploaded by : SubeshUploaded on : 03/01/2019Subject : AccountingWhat are the errors that do not affect trial balance?Trial balance is prepared when transactions posted into the accounts are balanced up. The trial balance is then prepared to check the accuracy of those posted transaction. It is normal sometimes that some errors may be apparent but despite this, they may not affect the trial balance. It is very important for any accounting officer to note that these may occur in one way or another.Different types of errors which don t affect the trial balance, Error of omissionWhere in the full transaction is omitted from the books of accounts. Error of commissionWhere we have entered the correct amounts but in wrong person s account. Error of principleThis type of error takes place when an item is entered in wrong head or class of accounts. Error of compensationAre that errors which cancel the effects of each other. Error of complete reversal of entriesThese errors occur when we debit and credit the two or more aspects of a transaction wrongly using correct figures or amounts. Error of original entryEntering wrong original figure or amount in an accounts. Error of transitionThis resource was uploaded by: SubeshOther articles by this author