

Week 5 - DQ 2

What are the differences between counterbalancing and noncounterbalancing errors?

What are some examples of counterbalancing and noncounterbalancing errors? How are each handled? What experience do you have with counterbalancing and/or noncounterbalancing errors in your organization or an organization that you are familiar with? Does it matter if the books are closed? Explain why or why not.

Response #1

Counterbalancing errors are those that will offset or corrected over two periods; such as the failure to record accrued wages. Noncounterbalancing errors are those that are not offset in the next accounting period; such as the failure to capitalize equipment that has a useful life of 5 years. If the company presents comparative statements, it must restate the amounts for comparative purposes.

If the company has closed the books in the current year: If the error is already counterbalanced, no entry is necessary; if the error is not yet counterbalanced, make an entry to adjust the present balance of retained earnings.

If the company has not closed the books in the current year: If the error is already counterbalanced, make an entry to correct the error in the current period and to adjust the beginning balance of Retained earnings; if the error is not yet counterbalanced, make an entry to adjust the beginning balance of retained earnings.

Response #2

Counterbalancing is when errors will be corrected over the course of two accounting periods while noncounterbalancing errors are corrected but will take longer than two accounting periods to correct. An example of counterbalancing is when a company incorrectly enters a salary or wage as one number while it was to be higher. In order to correct this, an adjusting entry is made to correct this error and balance the error out.

Noncounterbalancing errors still need to be corrected if the books are closed. Using the same example, the adjusting entry would be made to retained earnings and the salary and wages expense accounts. In the company that I work for, our accounting firm catches errors when entries are made. I receive adjusting entries at the end of every month to correct entries that I have made incorrectly. If I realize an error has been made and the next period has started, I generally call them and ask them to make note of the error to fix in the next period. I have not run into an instance when the books have been closed and something needed to be corrected.

Response #3

Counterbalancing errors are errors that will be offset or corrected over two periods. An example if this would be the failure to record accrued wages. Over at two year period the error will no longer be present. Other examples include the failure to accrued revenue when earned, failure to record accrued wages, and failure to record prepaid expenses.

Noncounterbalancing errors are errors that will be offset in the next accounting period. For example the failure to capitalize equipment that has a useful life of five years. If the asset is expensed immediately it will be overstated in the first period but understated in

the next four. Other examples include failure to record depreciation, or adjustments for bad debt.

In my organizations all of these type of transactions are recorded properly. Since I am not in that department, I have never heard or witnessed failure to record a particular type of transaction. I think it does matter that the books are closed each period. This gives starts everything over for that period and there won't be any running balances left over. Closing the books is like a fresh starting point.

Response #4

An example of counterbalancing error would be when you pay your January rent in the month of December of the prior year and yet you expense it in the month of December. And an example of non-counterbalancing error is improperly coding your expenses. And example of this would be, coding an advertising expense to a salary expense. The difference between the two is that counterbalancing error will eventually fix themselves by the end of the 2nd year, while non-counterbalancing errors will be always wrong during the year that the error was made. Errors can be handled in several ways, they can be detected by the employee before the books are closed or they could be found through an audit before the financial statements are done. If the books are already closed then it take a little more explaining. For example, if a company has filed a tax return with an error, then they must file an amendment the minute they find their mistake. At the same time the accountant should make a journal entry adjusting the account.