

**THE UNITED REPUBLIC OF TANZANIA**  
**NATIONAL EXAMINATIONS COUNCIL**  
**ADVANCED CERTIFICATE OF SECONDARY EDUCATION EXAMINATION**  
**153/1**  
**ACCOUNTANCY 1**

(For Both School and Private Candidates)

**Time: 3 Hours**

**ANSWERS**

**Year: 2005**

**Instructions**

1. This paper consists of EIGHT questions.
2. Answer all questions in section A and three questions from section B.

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1 (a) Write short notes on the following terms:

(i) Accounting cycle.

The accounting cycle refers to the process of recording and processing all financial transactions of a business, from the time the transaction occurs to its representation in the financial statements. This cycle includes the identification of transactions, recording them in journals, posting to the general ledger, preparing trial balances, making necessary adjustments, and ultimately preparing financial statements such as the income statement, balance sheet, and cash flow statement.

(ii) Accruals and prepayments

- Accruals refer to expenses and revenues that have been incurred or earned but are yet to be paid or received. For example, if a company has used electricity in December but hasn't paid the bill by the year-end, this expense is an accrual.

-Prepayments are amounts paid in advance for goods or services that will be received in future periods. For example, if rent is paid for three months in advance, the payment for the months not yet due is considered a prepayment.

(b) Differentiate between:

(i) Provision and liability.

- Provision is an amount set aside for a known liability, the amount of which cannot be precisely determined. It is an estimated obligation. For example, a provision for bad debts is an estimated amount that may be owed but not yet paid.

- Liability is a present obligation of the business, the amount of which is known and certain, such as a loan or an accounts payable balance.

(ii) Revenue reserve and capital reserve

- Revenue reserve refers to the portion of a company's retained earnings that is set aside for future use, such as dividend payments or reinvestment in the business. These reserves are typically created from profits generated by the business operations.

- Capital reserve is a reserve created from capital gains or profits from non-operating activities, such as the sale of assets or revaluation of assets. These reserves are not distributed as dividends and are meant for long-term use, such as absorbing losses or funding expansions.

(c) Give two (2) examples of capital reserve and indicate how each of them could be used.

1. Share premium reserve – This reserve is created when shares are issued at a premium (above the nominal value). It can be used for purposes like issuing bonus shares or covering the expenses incurred during the issuance of shares.

2. Revaluation reserve – This reserve is created when assets are revalued, and the increase in the value of assets is recognized. It can be used for the replacement of assets or to absorb impairment losses on revalued assets.

2. The machinery account of a firm for the three years ending on March 31, 1990, appeared as follows:

**Machinery Account**

Date	Particulars	Debit (Tsh)	Credit (Tsh)
March 31, 1990	Balance c/d	150,000	
	Balance b/d		100,000
	Purchases	50,000	
	Depreciation		20,000

**Additional Information:**

- Depreciation at 20% on the diminishing value basis was accumulated in the provision for depreciation account.
- On January 1, 1991, machine 2 was damaged and had to be replaced by a new machine 4 costing Tsh. 75,000.
- Machine 2 was expected to fetch Tsh. 3,300, but it was insured and an insurance claim for Tsh. 37,200 was admitted by the insurers.

Required: Show for the year ended 31st March 1991:

(a) The Machinery Account

Date	Particulars	Debit (Tsh)	Credit (Tsh)
March 31, 1991	Balance b/d	150,000	
	Purchases	75,000	
	Insurance claim	37,200	
	Balance c/d		187,200

(b) Provision for Depreciation Account

Date	Particulars	Debit (Tsh)	Credit (Tsh)
March 31, 1991	Depreciation (on new machinery)	15,000	
	Balance b/d	20,000	
	Depreciation (on machine 2)	3,960	
	Balance c/d	18,960	

(c) Machinery Disposal Account

Date	Particulars	Debit (Tsh)	Credit (Tsh)
January 1, 1991	Machine 2 (cost)	50,000	
	Proceeds from sale		3,300
	Insurance claim	37,200	
	Accumulated depreciation		20,000
March 31, 1991	Loss on disposal	9,500	

These accounts show the transactions related to the replacement of machine 2 with machine 4, taking into account depreciation, the insurance claim, and the sale of the old machine.

5. The following errors were discovered in the books of A. Matumula on December 31, 2003. The difference in the trial balance of Tshs. 130,500 had been entered in a suspense account since the accounts were to be prepared urgently. On correction of the errors, the suspense account was eliminated.

(a) Show by means of journal entries how these errors would be corrected.

1. Error (i): The total of the purchases day book had been undercast by Tshs. 50,000.

Journal Entry:

Dr Purchases Account 50,000

Cr Suspense Account 50,000

2. Error (ii): Tshs. 38,000 for motor repairs had been taken to the motor vehicle account.

Journal Entry:

Dr Motor Vehicle Account 38,000

Cr Motor Repairs Account 38,000

3. Error (iii): A cheque received from F. Basu Tshs. 19,500 had been debited in the cash book but the double entry had not been completed.

Journal Entry:

Dr Cash Book 19,500

Cr F. Basu Account 19,500

4. Error (iv): The returns outward book had been overcast by Tshs. 25,000.

Journal Entry:

Dr Suspense Account 25,000

Cr Returns Outward Account 25,000

5. Error (v): A sale of Tshs. 20,000 to Tereza has been entered in the purchases day book.

Journal Entry:

Dr Tereza Account 20,000

Cr Purchases Account 20,000

6. Error (vi): A purchase of a chair from New Happy Ltd Tsh. 17,500 had been entered in the books as Tsh. 26,500.

Journal Entry:

Dr Suspense Account 9,000

Cr New Happy Ltd Account 9,000

7. Error (vii): Goods returned by Maneno Tshs. 37,500 have been entered in the returns outward book. However, Maneno's account is correctly posted.

Journal Entry:

Dr Maneno Account 37,500

Cr Returns Outward Account 37,500

(b) Show the suspense a/c, bringing out the original difference in the books.

Suspense Account

Date	Particulars	Debit (Tsh)	Credit (Tsh)
Dec 31, 2003	Balance c/d	130,500	
Jan 1, 2004	Purchases undercast correction		50,000
Jan 1, 2004	Motor repairs to motor vehicle correction	38,000	
Jan 1, 2004	Completed double entry for F. Basu		19,500
Jan 1, 2004	Returns outward overcast correction	25,000	
Jan 1, 2004	Sale of Tsh 20,000 to Tereza entered incorrectly	20,000	
Jan 1, 2004	Overstatement of purchase of chair from New Happy Ltd	9,000	
Jan 1, 2004	Correction of goods returned by Maneno	37,500	
Total		130,500	130,500

The suspense account is balanced by correcting the errors identified, and the difference (Tsh 130,500) has been eliminated through journal adjustments.