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: 2006

Instructions

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

1. (a) Distinguish between capital expenditure and revenue expenditure.

- Capital Expenditure refers to money spent on acquiring or improving fixed assets, such as buildings, machinery, or vehicles, which will be used for the long term. These expenses are capitalized and appear in the balance sheet. They are not fully deducted in the year incurred but are depreciated over time. Example: Purchase of machinery, construction of a building.

- Revenue Expenditure refers to expenses incurred in the day-to-day running of the business, and they are fully deducted in the profit and loss statement of the year incurred. These expenses do not add value to fixed assets but are necessary to maintain normal operations. Example: Rent, utilities, salaries, and repairs.

(b) How should capital and revenue expenditures be raised in order to maintain the financial position of a business?

- Capital Expenditure should be raised through long-term financing, such as loans or issuing shares. This helps ensure that the investment in fixed assets does not strain the company's cash flow in the short term.

- Revenue Expenditure should be funded through short-term sources like operational income, working capital, or short-term loans, as these expenses are related to the day-to-day operations of the business.

2. E. Chewa's business from 2003 to 2005 — accounts involving bad debts, bad debts recovered, and provision for bad debts.

Required for 2003, 2004, and 2005:

(a) Bad debts

Bad debts should be written off as an expense in the profit and loss account in the year they occur. For each year, bad debts are directly recognized when a customer is unable to pay.

(b) Bad debts recovered

If a bad debt previously written off is recovered, it should be recognized as income in the year it is recovered. This should be credited to the profit and loss account.

(c) Provision for bad debts

A provision for bad debts should be created based on an estimate of potential bad debts, typically calculated as a percentage of outstanding receivables. This provision should be adjusted at the end of each year to reflect the change in the estimated bad debts.

(d) Profit and Loss Account extract

The profit and loss account should reflect:

- Bad debts written off as an expense.

- Bad debts recovered as income.

- The net change in the provision for bad debts (either increasing or decreasing the provision based on the estimate).

3. A company purchases a fixed asset for TShs. 800,000, expected to last 5 years, sold in year 3 for TShs. 400,000. Depreciation is calculated using the 40% reducing balance method.

Required:

(a) Write relevant accounts for years 1, 2, and 3 using 40% reducing balance depreciation.

1. Year 1 Depreciation:

   - Depreciation = 40% of 800,000 = 320,000

   - Book Value at the end of Year 1 = 800,000 - 320,000 = 480,000

2. Year 2 Depreciation:

   - Depreciation = 40% of 480,000 = 192,000

   - Book Value at the end of Year 2 = 480,000 - 192,000 = 288,000

3. Year 3 Depreciation (before sale):

   - Depreciation = 40% of 288,000 = 115,200

   - Book Value at the end of Year 3 = 288,000 - 115,200 = 172,800

Journal Entries for the Sale in Year 3:

- Depreciation Expense (Year 3):

  Dr Depreciation Expense 115,200

  Cr Accumulated Depreciation 115,200

- Record Sale:

Dr Cash 400,000

Dr Accumulated Depreciation 607,200

Cr Fixed Asset 800,000

Cr Gain on Sale of Asset 7,200 (400,000 - 392,800)

(b) Explain the net figure of the fixed asset at the end of year 2.

The net book value of the fixed asset at the end of Year 2 is the cost of the asset less accumulated depreciation up to that point.

Net Book Value at end of Year 2 = 800,000 - 320,000 (Year 1) - 192,000 (Year 2) = 288,000.

(c) Justify appropriate depreciation if the asset was bought in year 1 but not used until year 2.

If the asset was not used until year 2, depreciation should be calculated starting from the date the asset is put into use. However, if depreciation is calculated on the assumption that the asset is used, the business should adjust depreciation to reflect the actual usage period or account for depreciation in year 2 accordingly.

4. Details on PAYE (income tax) and employee deductions like transport allowance, meal allowance, NSSF, mortgage, car loan, and responsibility allowance.

Required:

Prepare salary slips for employees for December 2005.

Salary Slip Preparation:

Description	Xavier (shs)	Zainabu (shs)
Basic Salary	X	Y
Transport Allowance (20%)	X x 20%	Y x 20%
Meal Allowance (12.5%)	X x 12.5%	Y x 12.5%
NSSF Employee Contribution (5%)	X x 5%	Y x 5%

NSSF Employer Contribution (15%)	X x 15%	Y x 15%
Mortgage (20% of Basic)	X x 20%	Y x 20%
Car Loan (0.5% of Basic)	X x 0.5%	Y x 0.5%
Responsibility Allowance	20,000	20,000
Total Salary	Sum	Sum

4. Sengerema Co. Ltd - Accounting for Share Transactions

(a) Record the above transactions in the appropriate ledger accounts.

1. Share Capital Account:

Date	Particulars	Debit (Tsh)	Credit (Tsh)
01/01/2005	Issued Capital (Initial)		600,000
01/01/2005	Issued Capital (Increase)		680,000
20/01/2005	Application on 40,000 shares	192,000	
30/01/2005	Allotment on 40,000 shares	112,000	
01/05/2005	Reissue of forfeited shares		4,400
Total		304,000	1,280,000

2. Application Account:

Date	Particulars	Debit (Tsh)	Credit (Tsh)
20/01/2005	Application Received (65,000 shares)	312,000	
30/01/2005	Balance Applied on Allotment	13,600	
Total		325,600	

3. Allotment Account:

Date	Particulars	Debit (Tsh)	Credit (Tsh)
30/01/2005	Application Account (Balance Applied)	13,600	
30/01/2005	Allotment Due (40,000 shares)		112,000
Total		13,600	112,000

4. Forfeited Shares Account:

Date	Particulars	Debit (Tsh)	Credit (Tsh)
16/04/2005	Forfeiture of Shares	4,000	
Total		4,000	

5. Bank Account:

Date	Particulars	Debit (Tsh)	Credit (Tsh)
30/01/2005	Allotment Paid (40,000 shares)	112,000	
01/05/2005	Reissue of Forfeited Shares	4,400	
Total		116,400	

(b) Show how the balances on such accounts should appear in the company's balance sheet as of 31st May 2005.

Balance Sheet as at 31st May 2005.

Equity and Liabilities

- Share Capital:

Issued share capital (75,000 original shares + 40,000 newly issued shares) = Tsh. 1,280,000

Reissued forfeited shares (500 shares reissued at Tsh. 8.80) = Tsh. 4,400

- Total Shareholders' Equity:

  Share Capital = Tsh. 1,280,000 + Tsh. 4,400 = Tsh. 1,284,400

Assets

- Bank:

  Cash balance from allotment payments and reissued shares = Tsh. 116,400

5. Mary's Tea Kiosk - Cost and Break-even Calculations

(a) Variable cost per cup of tea

Variable costs per cup:

Water = Tsh. 2

Milk = Tsh. 5

Sugar = Tsh. 10

Tea leaves = Tsh. 3

Total Variable Cost per Cup of Tea = 2 + 5 + 10 + 3 = Tsh. 20

(b) Total fixed costs per month

Fixed costs are those that do not vary with the number of cups sold and include:

- Assistant’s salary = Tsh. 50,000
- Other overheads = Tsh. 10,000
- City council kiosk rental = Tsh. 20,000

Total Fixed Costs per Month = 50,000 + 10,000 + 20,000 = Tsh. 80,000

(c) The contribution margin per cup of tea

Contribution margin is the difference between sales price per unit and variable cost per unit.

Sales price per cup = Tsh. 100

Variable cost per cup = Tsh. 20

Contribution Margin per Cup of Tea = 100 - 20 = Tsh. 80

(d) The break-even point in number of cups per month

The break-even point is the number of units that must be sold to cover all fixed and variable costs.

Break-even Point (in cups) = Total Fixed Costs / Contribution Margin per Cup

= 80,000 / 80

= 1,000 cups

So, Mary needs to sell 1,000 cups per month to break even.