

**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: 2009**

**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. The accounting cycle of a profit-making organization starts with the source documents and ends with the preparation of financial statements.

(a) Identify five (5) important stages of the accounting cycle.

1. Identifying and analyzing transactions – Recognizing and documenting business events and transactions.
2. Recording transactions– Entering the identified transactions into the journal using the double-entry system.
3. Posting to the ledger – Transferring journal entries to the relevant accounts in the general ledger.
4. Preparing a trial balance – Listing all account balances to ensure that debits equal credits.
5. Preparing financial statements – Generating the income statement, balance sheet, and cash flow statement based on the adjusted trial balance.

(b) List and explain five (5) source documents.

- Invoice – A document issued by the seller to the buyer showing the amount owed for goods or services provided.
- Receipt – A written acknowledgment of receiving payment for goods or services.
- Cheque – A written order directing a bank to pay a specified sum from the account holder's bank account to the person or business named.
- Bank Statement – A document issued by the bank detailing all transactions in the business's bank account over a certain period.
- Purchase Order – A document issued by a buyer to a seller, indicating the goods or services ordered and the agreed price.

2. Wabongo Ltd, whose financial year runs from 1st June to 31 May in the following year, maintains a combined rent and rates account in its ledger.

Rent is fixed on a calendar year basis and is payable quarterly in advance. Rent was shs. 24,000 for the year ended 31st December 2003 and shs. 30,000 for the year ending 31st December 2004.

Wabongo Ltd. has made the following payments by cheque:

Date	Details	Amount (shs)
2003 3 Jan	Quarter to 31 March 2003	6000
1st April	30 June 2003	6000
1st July	30 Sept. 2003	6000
1st October	31 December 2003	6000
2004 3rd Jan	31 March 2004	7500
1st April	30 June 2004	7500

Rates are assessed annually for the year from 1st April to the following 31st March and are payable in a lump sum by the 30th September. The rates assessment was shs. 20,400 for the year to 31st March 2004 and shs. 22,800 for the year ending 31st March 2005.

Wabongo Ltd paid the rates for the year ended 31st March 2004 by cheque on 30th September 2003 and intends to pay the rates for the year ending 31st March 2005 on 30th September 2004.

Required:

Prepare Rent and Rates Account for the year ending 31st May 2004 only as it would appear in the books of Wabongo Ltd.

Rent and Rates Account for the year ending 31st May 2004

Date	Details	Amount (shs)	Amount (shs)
2003 3 Jan	Bank (Quarter to 31 March 2003)	6000	
2003 1 Apr	Bank (Quarter to 30 June 2003)	6000	
2003 1 Jul	Bank (Quarter to 30 Sept 2003)	6000	
2003 1 Oct	Bank (Quarter to 31 Dec 2003)	6000	
2004 3 Jan	Bank (Quarter to 31 March 2004) 7500		
2004 1 Apr	Bank (Quarter to 30 June 2004)	7500	
Total		39000	
Less: Prepaid rent (due in 2005)		6000	
Balance c/d		33000	

Rates Account for the year ending 31st May 2004

Date	Details	Amount (shs)	Amount (shs)
2003, 30 Sept	Bank (for year ended 31 March 2004)	20,400	
Balance c/d			20,400

### 3. Investment Accounts of SAFE INVESTMENT TRUST Ltd for the year ending 30th June 2002.

#### (a) 4% Corporation Stock

- 2001 July 1, purchased shs. 84,000, 4% stock at 72 cum. div.

Interest payable 1st February and 1st August.

- August 1, received half-year's interest.

- 2002 Jan. 2, sold shs. 28,000 stock at 69 ex. div.

#### Journal Entries:

- 2001 July 1

Dr Investment Account 84,000

Cr Bank 84,000

- 2002 Jan. 2

Dr Bank 28,000

Cr Investment Account 28,000

#### (b) Range Ltd Ordinary Shares

- 2001 July 12, purchased 14,000 shares at shs. 20 each.

- August 16, received a bonus issue of three shares for every five held. Sold 4,480 of these for shs. 15 each.

- 2002 Feb. 2, received a dividend of 15%.

#### Journal Entries:

- 2001 July 12

Dr Investment Account 280,000

Cr Bank 280,000

- 2002 Feb. 2

Dr Bank (15% dividend on 14,000) 42,000

Cr Investment Income 42,000

#### (c) Tan Roads Ltd Ordinary Shares

- 2001 Oct. 1, purchased 15,000 shares at shs. 7.50 each.

- 2002 Mar. 1, rights issue of one share for every two held at shs. 6 per share.

- The rights were sold for shs. 1 per share.

- June 1, received a dividend of 10%.

#### Journal Entries:

- 2001 Oct. 1  
Dr Investment Account 112,500  
Cr Bank 112,500
- 2002 Mar. 1  
Dr Investment Account 45,000  
Cr Bank 45,000
- 2002 June 1  
Dr Bank (10% dividend) 15,000  
Cr Investment Income 15,000

4. Mr. Mwanzo Mgumba is a businessman in Mindega area who keeps proper books of accounts. At the end of the accounting period 31st December 2005, the following trial balance was extracted in his ledger accounts.

Trial Balance as at 31st December 2005

Name of Accounts	Dr. (Shs)	Cr. (Shs)
Purchases	640000	
Salaries	60000	
Carriage inwards	6	000
Debtors	33200	
Provision for bad and doubtful debts		1200
Discount received		3000
Creditors		50000
Wages	50	000
Bad debts	4000	
Motor truck at cost	160	000
Accumulated depreciation on motor truck		40000
Tools and Equipment at cost	160	000
Accumulated depreciation on Tools and Equipment		10000
Carriage outward	6000	
Capital		2300000

Cash and bank	13260	
Suspense account		3000
Stock	20000	
Total	3753760	3753760

The following additional information is relevant:

- (i) Closing stock on 31st December 2005 was valued at shs. 20,000.
- (ii) Motor truck is depreciated at the rate of 20% using the diminishing balance method. A new motor truck and tools and equipment that were three years old and were estimated to last for five years, leaving a residual value of shs. 10,000.
- (iii) Further bad debts of shs. 1,060 are to be written off.
- (iv) Investigations have revealed the following:
  - (a) The administration expenses of shs. 7,640 was paid by issuing a cheque but the amount was not entered in the administrative expenses account.
  - (b) The debtors were debited with shs. 1,470 but the amount was not credited to the sales account.
  - (c) Upon posting the Purchases account, the purchases day book was under cast by shs. 65,000.
  - (d) A mistake was made in posting discount allowed, amounting shs. 2,220, where the amount was credited to discount received account.
  - (e) The salaries expenses was under cast by shs. 30,000.
  - (f) The provision for doubtful debts is estimated at 5% of debtors.

Required:

- (i) Show the suspense account after correcting the errors.
- (ii) Prepare trading and profit and loss account for the year ended 31st December 2005 and the balance sheet as at that date.

Solution:

Suspense Account

Dr Side	Cr Side
Administration expenses	7,640
Debtors	1,470
Purchases undercast	65,000
Discount allowed incorrect	2,220
Suspense balance (balancing figure)	10,470
Salaries undercast	30,000
Total	106,800

Trading and Profit and Loss Account for the year ended 31st December 2005.  
Head Office

Sales (adjusted for debtors undercast)  
 $= 33,200 + 1,470 = 34,670$   
Less: Cost of sales  
Purchases (adjusted for undercast)  
 $= 640,000 + 65,000 = 705,000$   
Less: Closing stock  
 $= 20,000$   
Cost of sales  $= 705,000 - 20,000 = 685,000$

Gross Profit  
 $= \text{Sales} - \text{Cost of Sales} = 34,670 - 685,000 = 16,670$

Less: Operating Expenses  
Wages 50,000  
Bad debts written off 1,060  
Depreciation (on truck) 40,000  
Depreciation (on tools & equipment) 10,000  
Administrative expenses 7,640  
Salaries undercast correction 30,000  
Total operating expenses 138,700

Net Loss  
 $= \text{Gross Profit} - \text{Operating Expenses} = 16,670 - 138,700 = -122,030$

Balance Sheet as at 31st December 2005

Assets

Fixed Assets:  
Motor Truck (Cost) 160,000  
Tools and Equipment (Cost) 160,000  
Less: Depreciation  
Motor Truck 40,000  
Tools and Equipment 10,000  
Net Fixed Assets 270,000

Current Assets:

Debtors (after adjustments)  $33,200 + 1,470 = 34,670$   
Less: Provision for doubtful debts (5% of debtors) 1,734  
Net Debtors 32,936

Closing Stock	20,000
Cash and Bank	13,260
Suspense Account	10,470
Total Current Assets	76,666
 Total Assets	 346,666
 Liabilities	
Creditors	50,000
Capital	2,300,000
Net Loss	(122,030)
Total Liabilities	2,227,970