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: 2017**

Instructions

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

1. (a) Define the term accounting cycle.

Accounting cycle refers to the series of steps followed by an organization in the process of recording, processing, summarizing, and reporting financial transactions. It begins with the identification of a transaction and ends with the preparation of financial statements and closing of accounts.

(b) Describe six chronological steps in accounting cycle.

The steps include:

1. Identifying transactions – Recognizing financial events affecting the business.
2. Recording transactions in journals – Using source documents to make initial entries.
3. Posting to ledger accounts – Transferring journal entries into the general ledger.
4. Preparing trial balance – Listing debit and credit balances to check arithmetical accuracy.
5. Making adjustments – Recording accruals, prepayments, and other year-end adjustments.
6. Preparing financial statements – Preparing income statement, balance sheet, and cash flow.

2. (a) With examples, state six types of errors which cannot be revealed by the trial balance.

1. Error of omission – A transaction is completely omitted from the books.
2. Error of commission – A transaction is posted to the correct side but wrong account.
3. Error of principle – An entry is made violating accounting principles, like capital treated as revenue.
4. Compensating error – Two or more errors cancel each other out.
5. Error of original entry – The wrong amount is recorded in the original books.
6. Complete reversal of entry – The debit is entered as credit and vice versa.

(b) The trial balance of D. Mass failed to agree. Credit exceeded debit by 12,500. Net profit was 1,717,200. Errors were discovered. Required:

(i) Necessary journal entries to correct the errors:

1. Drawings a/c Dr 84,000
   To Purchases a/c 84,000
(7000 × 12 months)

2. S. Rock a/c Dr 45,000
   To Sales a/c 45,000
(Correcting 94,000 wrongly entered as 49,000)

3. Return Outwards a/c Dr 10,000
   To Suspense a/c 10,000
(Error of understatement)

4. R. Stone a/c Dr 22,500
   To Return Inwards a/c 22,500
(Correcting omission of return)

5. Suspense a/c Dr 147,500
   To Drawings a/c 147,500

(Motor expenses posted instead of drawings)

(ii) Suspense account:

Dr side:
- Return Outwards 10,000
- Drawings (motor expense error) 147,500

Cr total = 157,500
Opening balance Cr = 12,500

Balance = (Cr 12,500 – Dr 157,500) = Dr 145,000

(iii) Adjusted profit and loss account:
Previous net profit = 1,717,200
Add: Return outwards understated = 10,000
Add: Drawings treated as expense = 147,500
Corrected net profit = 1,717,200 + 10,000 + 147,500 = 1,874,700

3. (a) A company depreciates machines at 25% per annum using reducing balance.

Machine A: TZS 252,000 on 1/1/2009
Year 1: 252,000 × 25% = 63,000 → Balance = 189,000
Year 2: 189,000 × 25% = 47,250 → Balance = 141,750
Year 3: 141,750 × 25% = 35,437.5 → Balance = 106,312.5
Year 4: 106,312.5 × 25% = 26,578 → Balance = 79,734.5
Sold on 30/9/2012 for 77,000 → Loss = 2,734.5

(b) Rent, rates and insurance:
Prepaid at start = 600 (Rates), 800 (Insurance)
Owed rent = 400
During year paid:
- Rates = 3,000
- Rent = 2,400
- Insurance = 1,400

Prepaid at end = Rent 400, Insurance 500

Rent expense = 2,400 + 400 – 400 = 2,400
Rates expense = 3,000 + 0 – 600 = 2,400
Insurance = 1,400 + 0 – 800 + 500 = 1,100

Combined account (Rent, rates, insurance):
Total to P&L = 2,400 + 2,400 + 1,100 = 5,900

4. On 1st July, 2007, Tujenge Ltd bought Tshs. 8,000 6% Government stock at 90. The cheque for Tshs. 7,360 being Tshs. 7,200 for stock and Tshs. 160 for brokerage charges was issued. Interest is receivable each year on 30th September, 31st December, 31st March and 30th June.

On 1st August, 2008 Tshs. 2,000 nominal value of the stock is sold cum-div, the net proceeds being Tshs. 1,900.

On 1st December, 2008 Tshs. 4,000 nominal value stock was sold ex-div, net proceeds after brokerage being Tshs. 3,420.

On 1st August, 2009 Tshs. 10,000 nominal value stock was bought ex-div the cost including brokerage being Tshs. 8,740.

On 1st December, 2009 Tshs. 2,000 nominal value bought ex div cost including brokerage being Tshs. 1,820.

Prepare 6% Government stock investment account in Tujenge's books for the financial year ending 30th June, 2008, 2009 and 2010.

Answer:
6% Government Stock Investment Account

Year ended 30th June, 2008
Dr side

1-Jul-2007	Investment (8,000 @ 90)	7,200
1-Jul-2007	Bank – brokerage	160
30-Sep-2007	Interest received	240
31-Dec-2007	Interest received	240
31-Mar-2008	Interest received	240
30-Jun-2008	Interest received	240

Cr side
No disposal or change in 2008
Balance carried down: 7,360

Year ended 30th June, 2009
Dr side

1-Jul-2008	Balance brought down	7,360
30-Sep-2008	Interest received	240
31-Dec-2008	Interest received	240
31-Mar-2009	Interest received	240
30-Jun-2009	Interest received	240

Cr side
1-Aug-2008 Bank (sale cum-div) 1,900
Value of stock sold: Tshs. 2,000
Profit/loss is not recorded separately
1-Dec-2008 Bank (sale ex-div) 3,420
Value of stock sold: Tshs. 4,000
Balance carried down: Tshs. 2,000 stock @ 90 = 1,800 + part of brokerage

Year ended 30th June, 2010
Dr side
1-Jul-2009 Balance brought down 2,040 (approx.)
1-Aug-2009 Investment (10,000 ex-div) 8,740
1-Dec-2009 Investment (2,000 ex-div) 1,820
30-Sep-2009 Interest received 120
31-Dec-2009 Interest received 840
31-Mar-2010 Interest received 840
30-Jun-2010 Interest received 840

Cr side
No sales in this year
Balance carried down is total investment: 2,040 + 8,740 + 1,820 = 12,600
5. (a) Prepare income statement for the year ending 31st March, 2010.

Sales	356,430
Less: Return inwards	2,780
Net Sales	353,650

Opening Stock	89,680
Add: Purchases	256,590
Less: Drawings goods	(0)
Less: Closing stock	(128,960)
Cost of goods sold	217,310

Gross Profit = 353,650 - 217,310 = 136,340

Add: Commission earned but not received	600
Add: Interest on capital (10% of 119,400)	11,940
Add: Discount received	5,640
Add: Commission received	3,020
Total income	157,540

Less: Expenses
Wages (40,970 - 1,200) 39,770

Salaries	2,780
Rent and rates	11,000
Interest and discounts	5,870
Travelling expenses	5,620
Repairs and maintenance	1,880
Insurance (paid up to 30 Sept)	
= (3,370 × 6/12)	1,685
Bad debts (400 + 500)	900
Provision for doubtful debts	
= (62,000 × 5%)	3,100
Depreciation on Plant and Machinery	
= 28,800 × 15%	4,320
Depreciation on Fixtures	
= 8,970 × 10%	897
Total expenses	77,822

Net Profit = 157,540 - 77,822 = 79,718

5. (b) Prepare Statement of financial position as at 31st March, 2010.

Assets	
Non-Current Assets	
Plant and Machinery (28,800 - 4,320)	24,480
Fixtures and Fittings (8,970 - 897)	8,073
Total Non-Current Assets	32,553
Current Assets	
Stock	128,960
Debtors (62,000 - 1,000 - 31,000)	30,000
Bills Receivable	9,500
Cash at Hand	3,030
Cash at Bank	18,970
Commission receivable	600
Interest receivable	500
Total Current Assets	191,560

Total Assets = 224,113

Capital	
Opening Capital	119,400
Add: Net profit	79,718
Add: Interest on capital	11,940
Less: Drawings (10,550 + 1,200)	(11,750)
Closing Capital	199,308

Liabilities

Sundry Creditors	59,630
15% Loan	20,000
Provision for doubtful debts	3,100
Commission received in advance	600
Interest received in advance	500
Total Liabilities	83,830

Capital and Liabilities Total = 224,113

6. Using the details provided in Makuka's financial statements, calculate the following:
(i) Working capital ratio
(ii) Quick ratio
(iii) Rate of stock turn
(iv) Net profit to capital employed as percentage
(v) Debtors' collection period in months
(vi) Net profit as percentage of sales
(vii) Return on total assets
(viii) Expenses as percentage of sales
(ix) Creditors' collection period in days
(x) Gross profit to sales ratio

Answer:

Ratio Description	Formula	Value Calculation Result
(i) Working capital ratio	Current Assets / Current Liabilities	(4290 + 11910 - 810 + 180 + 90) / (6060 + 230 + 4350) = 15660 / 10640	1.57

| (ii) Quick ratio | (Current Assets - Stock - Prepaid Exp) / Current Liabilities | (15660 - 4290 - 180) / 10640 = 11190 / 10640
| 1.24 |
| (iii) Rate of stock turn | Cost of Sales / Average Stock | 23290 / ((5160 + 4290) / 2) = 23290 / 4725 | 4.93 times |

| (iv) Net profit to capital employed % | Net Profit / Capital Employed × 100 | 3580 / 7880 × 100 | 45.42% |

| (v) Debtors' collection period in months | (Debtors / Sales) × 12 | 11910 / 41970 × 12 | 3.40 months |

| (vi) Net profit as % of sales | Net Profit / Sales × 100 | 3580 / 41970 × 100 | 8.53% |

| (vii) Return on total assets | Net Profit / Total Assets × 100 | 3580 / (2880 + 15660) × 100 = 3580 / 18540 × 100 | 19.30% |

| (viii) Expenses as % of sales | Total Expenses / Sales × 100 | 15350 / 41970 × 100 | 36.57% |

| (ix) Creditors' collection period in days | (Creditors / Purchases) × 365 | 6060 / 22290 × 365 | 99.24 days |

| (x) Gross profit to sales ratio | Gross Profit / Sales × 100 | 18000 / 41970 × 100 | 42.89% |

7. Record the above transactions for January, 2014 in the following sets of accounts and balance off the accounts:
(a) Head Office records:
(i) Kigwe Branch Current Account
(ii) Goods sent to Kigwe Branch Account
(iii) Bank Account

(b) Branch records:
(i) Head Office Current Account
(ii) Bank Account
(iii) Premises Account
(iv) Motor Van Account
(v) Purchases Account

Answer:

(a) Head Office Records

(i) Kigwe Branch Current Account
```
Date        | Details              | Dr (TZS)   | Cr (TZS)
-------------------------------------------------------------
Jan 01      | Bank A/c             |            | 1,000,000
Jan 21      | Goods Sent to Branch  |           | 250,000
Jan 25      | Bank A/c (Return)    | 1,800,000  |
Jan 27      | Goods Sent to Branch | 100,000    |
Jan 29      | Profit transferred   | 480,000    |
-------------------------------------------------------------
            | Balance c/d          | 430,000    | 1,250,000
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(ii) Goods Sent to Kigwe Branch Account
```
Date        | Details             | Dr (TZS)   | Cr (TZS)
------------------------------------------------------------
Jan 21      | Kigwe Branch A/c      |            | 250,000
Jan 27      | Kigwe Branch A/c      | 100,000    |
------------------------------------------------------------
            |                       | 100,000    | 250,000
            | Balance (Net sent)    |            | 150,000
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(iii) Bank Account
```
Date        | Details             | Dr (TZS)   | Cr (TZS)
------------------------------------------------------------
Jan 25      | Kigwe Branch A/c      | 1,800,000  |
Jan 01      | Kigwe Branch A/c      |            | 1,000,000
Jan 05      | Premises Purchase     |            | 500,000
------------------------------------------------------------
            | Balance c/d           | 300,000    | 1,500,000
```

(b) Branch Records

(i) Head Office Current Account
```
Date        | Details             | Dr (TZS)   | Cr (TZS)
------------------------------------------------------------
Jan 01      | Bank A/c (Opening)    | 1,000,000  |
Jan 21      | Purchases A/c         | 250,000    |
Jan 27      | Return Outward        |            | 100,000
Jan 25      | Bank A/c              |            | 1,800,000
------------------------------------------------------------
            | Balance c/d           |            | 650,000
```

(ii) Bank Account
```
Date        | Details             | Dr (TZS)   | Cr (TZS)
------------------------------------------------------------
Jan 01      | Head Office A/c       | 1,000,000  |
Jan 20      | Sales                 | 1,500,000  |
Jan 25      | Head Office (Return)  |            | 1,800,000
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Jan 14	Purchases		240,000
Jan 06	Motor Van		40,000
	Balance c/d	460,000	2,080,000

(iii) Premises Account

Date	Details	Dr (TZS)	Cr (TZS)
Jan 05	Bank A/c	500,000	

(iv) Motor Van Account

Date	Details	Dr (TZS)	Cr (TZS)
Jan 06	Bank A/c	40,000	

(v) Purchases Account

Date	Details	Dr (TZS)	Cr (TZS)
Jan 14	Bank A/c	240,000	
Jan 21	Head Office A/c	250,000	
Jan 27	Head Office A/c		100,000
	Balance c/d	390,000	100,000