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: 2018**

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. Briefly explain the following accounting terms:

a) Reserve
A reserve is a portion of profit retained in the business for future use or to meet unforeseen liabilities. It strengthens the financial position of the business.

b) Reserve fund
A reserve fund is a reserve that is specifically invested outside the business, usually in securities, to ensure availability of funds in case of emergency.

c) Specific reserve
This is a reserve created for a particular purpose such as asset replacement, dividend equalization, or redemption of debentures.

d) General reserve
A reserve not created for any specific purpose. It is part of retained profits and can be used for any future business needs.

e) Secret reserve
A reserve that is not shown in the books of accounts. It is created by undervaluing assets or overstating liabilities to hide real profits.

2. Ledger entries for March transactions:

March 1: Started business with cash
Dr Cash 160,000
Cr Capital 160,000

March 5: Bought goods for cash
Dr Purchases 60,000
Cr Cash 60,000

March 6: Sold goods on credit to Cherehani
Dr Cherehani 30,000
Cr Sales 30,000

March 7: Bought goods on credit from Dasuna
Dr Purchases 40,000
Cr Dasuna 40,000

March 8: Sold goods on credit to Shakila
Dr Shakila 50,000

Cr Sales 50,000

March 10: Paid salary in cash
Dr Salaries 10,000
Cr Cash 10,000

March 12: Received commission in cash
Dr Cash 20,000
Cr Commission Received 20,000

March 15: Paid rent in cash
Dr Rent 15,000
Cr Cash 15,000

March 25: Withdrew cash for personal use
Dr Drawings 18,000
Cr Cash 18,000

3. Journal entries to correct the errors:

i) Goods worth 1,500,000 purchased wrongly entered in sales book
Dr Purchases 1,500,000
Cr Sales 1,500,000

ii) Promissory note received from Arun for 2,500,000 wrongly entered in bills payable
Dr Bills Receivable 2,500,000
Cr Bills Payable 2,500,000

iii) Prepaid rent of 350,000 not adjusted
Dr Prepaid Rent 350,000
Cr Suspense 350,000

iv) Purchase return to Roshan of 200,000 wrongly recorded in purchases account
Dr Purchase Returns 200,000
Cr Purchases 200,000

v) Payment to Hari of 500,000 wrongly debited to Harish
Dr Hari 500,000
Cr Harish 500,000

vi) Repair expenses of 250,000 to furniture wrongly debited to furniture account
Dr Repairs 250,000

Cr Furniture 250,000

Received. I'll continue with question 4 and 5 step by step.

4(a) Write up the following accounts for Mount Meru Contractors Ltd

(i) Machine Account (using cost method)

2015:
Dr Machine 5,000,000 (MV1)
Dr Machine 2,500,000 (MV2)

2016:
No purchase or disposal.

2017:
Dr Machine 700,000 (MV3)
Cr Machine 2,500,000 (MV2 sold)

(ii) Provision for Depreciation Account

Depreciation rate is 20% on cost.

2015:
MV1: 5,000,000 × 20% = 1,000,000
MV2: 2,500,000 × 20% = 500,000
Total: 1,500,000

2016:
MV1: 1,000,000
MV2: 500,000
Total: 1,500,000
Cumulative: 3,000,000

2017:
MV1: 1,000,000
MV3: 700,000 × 20% = 140,000
Total: 1,140,000
MV2 is sold, its accumulated depreciation is 1,000,000 removed.

(iii) Disposal Account (for MV2)

Cost: 2,500,000

Depreciation: 1,000,000
Book Value = 1,500,000
Sold for 900,000
Loss on Disposal = 600,000

Dr Disposal 2,500,000
Cr Machine 2,500,000
Dr Provision for Depreciation 1,000,000
Cr Disposal 1,000,000
Dr Cash 900,000
Cr Disposal 900,000
Loss on Disposal: Dr Profit and Loss 600,000

4(b) Journal entries and accounts:

Debtors = 2,050,000
Provision for doubtful debts = 30,000
Bad debts = 100,000

Additional bad debt to write off = 50,000
New provision = 10% of 2,050,000 = 205,000
Remaining balance after writing off 50,000 = 2,000,000
Required provision = 200,000
Increase in provision = 200,000 - 30,000 = 170,000

Journal entries:

Dr Bad Debts 50,000
Cr Debtors 50,000

Dr Profit and Loss 170,000
Cr Provision for Doubtful Debts 170,000

5. Journal entries for adjustments at 31st December, 2016:
(i)
Dr Salaries 270,000
Cr Outstanding Salaries 270,000

(ii)
Dr Interest Income 124,000
Cr Unearned Interest 124,000

(iii)
Dr Rent Receivable 144,000
Cr Rent Income 144,000

(iv)
No journal entry for closing inventory, but used in financial statement
Inventory closing = 185,000

(v)
Dr Drawings 126,800
Cr Purchases 126,800

(vi)
Dr Landlord 172,000
Cr Rent Expense 172,000

(vii)
Dr Commission Receivable 132,000
Cr Commission Income 132,000

(viii)
Dr Prepaid Postage and Telephones 116,000
Cr Postage and Telephones Expense 116,000

(ix)
Dr Debtors 150,000
Cr Bank 150,000

(x)
Dr Cash 118,000
Cr Bad Debts Recovered 118,000

(xi)
Dr Debtors 223,000
Cr Sales (or Suspense if unclear) 223,000

Received. Proceeding with question 6(a) and 6(b).

6(a) Prepare the 15% Preference Shares Investment Account in Tehama Ltd's books

1st October 2016:
Dr Investment in 15% Preference Shares 39,200

Cr Bank 39,200

30th June 2017:
Dr Bank (Dividend) = 40,000 × 15% × 6/12 = 3,000
Cr Income from Investments 3,000

31st October 2017:
Dr Bank (Sale) 39,830
Cr Investment in 15% Preference Shares 39,200
Cr Profit on Sale of Investment 630

31st October 2017:
Dr Bank (Dividend) = 40,000 × 15% × 4/12 = 2,000
Cr Income from Investments 2,000

Total dividend income = 3,000 + 2,000 = 5,000
Profit on sale = 630

6(b) Prepare Tambo Wambugu's Income Statement for the year ended 30th June 2017

Sales = 4,411,200
Less: Sales Return = 8,000
Net Sales = 4,403,200

Cost of Sales:
Opening stock = 329,600
Add Purchases = 3,312,000
Less: Purchase return = 9,600
Goods Available = 3,632,000
Less Closing Stock = 403,200
Cost of Sales = 3,228,800

Gross Profit = 4,403,200 - 3,228,800 = 1,174,400

Expenses:
Motor van expenses = 40,800
Motor van depreciation = 10% of 500,000 = 50,000
Bad debts = 18,400
Provision adjustment = Increase from 20,000 to 24,000 = 4,000
General expenses = 89,600
Salary and wages = 649,600 + 65,600 (accrued) = 715,200
Transport & comm = 60,000 + 12,000 (accrued) = 72,000

Rent and rates = 19,200 - 3,200 (prepaid) = 16,000
Less Discount received = 74,400
Add Discount allowed = 84,000

Total Expenses =
40,800 + 50,000 + 18,400 + 4,000 + 89,600 + 715,200 + 72,000 + 16,000 + 84,000 - 74,400 = 1,015,600

Net Profit = Gross Profit - Total Expenses = 1,174,400 - 1,015,600 = 158,800

7. Using the given financial statements of Simba PLC for the years ended 31st December 2016 and 2017:

(a) Acid Test Ratio = (Current Assets – Stock) ÷ Current Liabilities
2016 = (28,480 – 7,200) ÷ 6,880 = 21,280 ÷ 6,880 = 3.09
2017 = (30,080 – 13,120) ÷ 14,560 = 16,960 ÷ 14,560 = 1.16

(b) Current Ratio = Current Assets ÷ Current Liabilities
2016 = 28,480 ÷ 6,880 = 4.14
2017 = 30,080 ÷ 14,560 = 2.07
(c) Gross Margin Ratio = Gross Profit ÷ Sales × 100
2016 = 51,520 ÷ 101,600 × 100 = 50.70%
2017 = 60,800 ÷ 118,400 × 100 = 51.35%

(d) Net Profit Ratio = Net Profit ÷ Sales × 100
2016 = 9,600 ÷ 101,600 × 100 = 9.45%
2017 = 13,120 ÷ 118,400 × 100 = 11.08%

(e) Total Assets Turnover = Sales ÷ Average Total Assets
Average Total Assets = (Total Assets at start + end) ÷ 2
2016 = Sales ÷ 50,880 = 101,600 ÷ 50,880 = 1.996
2017 = 118,400 ÷ ((50,880 + 67,680) ÷ 2) = 118,400 ÷ 59,280 = 2.00

(f) Return on Total Assets = Net Profit ÷ Average Total Assets × 100
2016 = 9,600 ÷ 50,880 × 100 = 18.87%
2017 = 13,120 ÷ 59,280 × 100 = 22.13%

(g) Rate of Stock Turnover = Cost of Sales ÷ Average Stock
2016 = 50,080 ÷ 7,200 = 6.95 times
2017 = 57,600 ÷ ((7,200 + 13,120) ÷ 2) = 57,600 ÷ 10,160 = 5.67 times

(h) Average Debtors Collection Period = (Debtors × 365) ÷ Credit Sales
90% of sales is credit.
2016 = (10,400 × 365) ÷ (101,600 × 0.9) = 3,796,000 ÷ 91,440 = 41.5 days
2017 = (15,040 × 365) ÷ (118,400 × 0.9) = 5,489,600 ÷ 106,560 = 51.5 days