

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: 2019

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) Going Concern Concept

This concept assumes that a business will continue to operate in the foreseeable future without the intention or need to liquidate. Assets are recorded based on their value in use, not liquidation value.

(b) Dual Aspect Concept

This states that every transaction has two equal and opposite effects in the accounting records. For example, purchasing goods increases assets and increases liabilities or reduces cash.

(c) Money Measurement Concept

Only transactions and events that can be measured in monetary terms are recorded in the books of accounts. Non-monetary items such as employee skill or brand loyalty are not recorded.

(d) Cost Concept

Assets are recorded in the books at their original purchase cost, and not adjusted for market value. This provides objectivity and verifiability of asset values.

(e) Business Entity Concept

This concept separates the business from its owner. The business is treated as a separate entity, and all transactions are recorded from the business's point of view.

2(a) Makinikia Ltd – Journal Entries and Corrected Net Profit

Original provisional profit = TZS 220,000,000

(i) Commission received TZS 4,000,000 was debited as TZS 400,000

Correction:

Dr Suspense 3,600,000

Cr Commission Income 3,600,000

Effect: Increase profit by 3,600,000

(ii) Invoice of TZS 7,600,000 from Segerea Community Ltd not recorded

Dr Purchases 7,600,000

Cr Segerea Community Ltd 7,600,000

Effect: Decrease profit by 7,600,000

(iii) Sales were overcast by TZS 1,400,000

Dr Sales 1,400,000

Cr Suspense 1,400,000

Effect: Decrease profit by 1,400,000

(iv) Bad debts of TZS 900,000 recovered not recorded

Dr Debtors 900,000
Cr Bad Debts Recovered 900,000
Effect: Increase profit by 900,000

(v) Repairs TZS 7,000,000 recorded under equipment
Dr Repairs 7,000,000
Cr Equipment 7,000,000
Effect: Decrease profit by 7,000,000

(vi) Capital balance of TZS 50,000,000 not brought forward
Dr Capital 50,000,000
Cr Suspense 50,000,000
Effect: No impact on profit

Net profit adjustments:
+3,600,000
−7,600,000
−1,400,000
+900,000
−7,000,000
Net adjustment = −11,500,000

Corrected Net Profit = 220,000,000 − 11,500,000 = 208,500,000

2(b) Namutombo Traders – Ratios and Values Reconstruction

Let capital employed = x
Then:
Net profit = 15% of x = 0.15x
Sales = 166.67% of x = 1.6667x
Gross profit = 25% of sales = $0.25 \times 1.6667x = 0.4167x$
Cost of sales = $1.6667x - 0.4167x = 1.25x$
Expenses = $0.4167x - 0.15x = 0.2667x$

Inventory Turnover = 10
Inventory = $1.25x \div 10 = 0.125x$

Debtors Collection = 36.5 days
Debtors = $(36.5 \times 1.6667x) \div 365 = 0.1667x$

Acid test = $(\text{Debtors} + \text{Bank}) \div \text{CL} = 2.75$
Current ratio = $\text{CA} \div \text{CL} = 4$

$$CA = 0.125x + 0.1667x + \text{Bank}$$

$$\text{Let Bank} = b$$

$$CA = (0.2917x + b)$$

Then:

$$(0.2917x + b) \div CL = 4$$

$$(0.1667x + b) \div CL = 2.75$$

Solve:

$$\text{From second: } CL = (0.1667x + b) \div 2.75$$

Substitute into first:

$$(0.2917x + b) \div ((0.1667x + b) \div 2.75) = 4$$

$$(0.2917x + b) \times 2.75 = 4(0.1667x + b)$$

$$0.8012x + 2.75b = 0.6668x + 4b$$

$$0.1344x = 1.25b$$

$$b = 0.10752x$$

$$\text{Now } CA = 0.2917x + 0.10752x = 0.3992x$$

$$CL = 0.3992x \div 4 = 0.0998x$$

Now prepare:

Income Statement

$$\text{Sales} = 1.6667x$$

$$\text{COGS} = 1.25x$$

$$\text{Gross profit} = 0.4167x$$

$$\text{Expenses} = 0.2667x$$

$$\text{Net profit} = 0.15x$$

$$\text{Sundry expenses} = \text{TZS } 38,400,000 = 0.2667x$$

$$x = 38,400,000 \div 0.2667 = \text{TZS } 144,000,000$$

Final values:

$$\text{Sales} = 1.6667 \times 144\text{m} = 240,000,000$$

$$\text{COGS} = 180,000,000$$

$$\text{Gross profit} = 60,000,000$$

$$\text{Net profit} = 21,600,000$$

$$\text{Inventory} = 18,000,000$$

$$\text{Debtors} = 24,000,000$$

$$\text{Bank} = 15,480,000$$

$$CL = 14,370,000$$

$$CA = 57,480,000$$

$$\text{Capital employed} = 144,000,000$$

3. Prepare Kibo Stores' Income Statement for the year ended 31st December 2017:

Sales = 124,450

Less: Return inwards = 186

Net Sales = 124,264

Cost of goods sold:

Opening stock = 8,000

Add: Purchases = 86,046

Less: Return outwards = 135

Net Purchases = 85,911

Goods available = 93,911

Less: Closing stock = 7,550

COGS = 86,361

Gross profit = 124,264 – 86,361 = 37,903

Add: Bad debts recovered = 45

Total income = 37,948

Less Expenses:

Bad debts = 256

Provision for doubtful debts: 5% of 20,280 = 1,014

Existing provision = 740

Increase = 274

Bank charges = 120

Rent = 2,000 (less 250 prepaid) = 1,750

Depreciation on Plant (10% of 5,500) = 550

Depreciation on Furniture (5% of 500) = 25

Salaries = 3,500

Wages = 8,250

Travelling expenses = 1,040

Carriage inwards = 156

Carriage outwards = 640

General expenses = 2,056

Gas, electricity and water = 2,560

Discount allowed = 48

Traveller salaries and commission = 5,480

Printing and stationery = 640

Total expenses = 27,395

Net profit = 37,948 – 27,395 = 10,553

Statement of Financial Position as at 31st December 2017:

Assets

Non-Current Assets

Freehold premises = 8,000

Plant & Machinery = $5,500 - 550 = 4,950$

Furniture & Fittings = $500 - 25 = 475$

Total NCA = 13,425

Current Assets

Closing Stock = 7,550

Trade debtors = 20,280

Less new provision = 1,014

Net Debtors = 19,266

Cash at Bank = 650

Prepaid Rent = 250

Total CA = 27,716

Total Assets = 41,141

Capital & Liabilities

Capital = 20,500

Add Net Profit = 10,553

Less Drawings = 1,750

Adjusted capital = 29,303

Loan from Uncle = 2,000

Interest accrued = $5\% \text{ of } 2,000 = 100$

Trade creditors = 10,056

Accruals = Interest + Rent prepaid adjustment = 100

Total liabilities = 12,156

Total = 41,459

4. (a) Miwale Finance Investment Ltd – 12% Treasury Bills Investment Account

Opening balance 1st April 2016

Dr Investment Account 95,000,000

31st Aug 2016: Purchase 40,000,000 at 96 cum-interest

Face value = 40,000,000

Interest for 2 months = $40,000,000 \times 12\% \times 2/12 = 800,000$

Cost (excl. interest) = $40,000,000 - 800,000 = 39,200,000$

Dr Investment Account 39,200,000

Dr Interest Receivable 800,000

Cr Bank 40,000,000

31st Oct 2016: Sold 30,000,000 at 94 ex-interest

Dr Bank 28,200,000

Dr Loss on Sale 1,000,000

Cr Investment Account 29,200,000

28th Feb 2017: Sold 20,000,000 at 96 cum-interest

Interest for 2 months = 400,000

Sale proceeds = 20,000,000

Dr Bank 19,600,000

Dr Interest Receivable 400,000

Cr Investment Account 20,000,000

Interest Received:

30 June: $12\% \text{ of } 100,000,000 \times 6/12 = 6,000,000$

31 Dec: Remaining investment after sales = 90,000,000

Interest = $90,000,000 \times 12\% \times 6/12 = 5,400,000$

Total interest = 11,400,000

Dr Bank 11,400,000

Cr Interest Income 11,400,000

(b) Zawadi Office Equipment Depreciation and Disposal

2014

Equipment = 1,800,000

Provision = 700,000

RBM at 20%

2015

Depreciation = $20\% \times 1,800,000 = 360,000$

Provision = 1,060,000

2016

Depreciation = $20\% \times (1,800,000 - 1,060,000) = 148,000$

Provision = 1,208,000

Early 2017:

Sold equipment with cost 200,000, bought 1 March 2015

Depreciation for 2015 = $20\% \text{ of } 200,000 = 40,000$

2016 = $20\% \text{ of } 160,000 = 32,000$

Total depreciation = 72,000

NBV = 128,000

Sold for 140,000 → Gain = 12,000

End 2017: switch to straight-line

Remaining cost = 1,800,000 – 200,000 = 1,600,000

Accumulated depreciation = 1,208,000 – 72,000 = 1,136,000

Net book value = 464,000

Remaining life assumed = 5 years

Depreciation = 464,000 ÷ 5 = 92,800

5. Prepare the accounts in the head office books for the year ended 31st March 2017:

Markup:

Kilwa branch: 20% on cost → Profit % = 16.67% on invoice

Liwale branch: 25% on cost → Profit % = 20% on invoice

(a) Branch Stock Account – Kilwa

Opening stock (invoice price) = 100,000

Add: Goods sent = 500,000

Less: Returns to HO = 30,000

Less: Transfer to Liwale = 50,000

Less: Closing stock = 240,000

COGS at invoice = 100,000 + 500,000 – 30,000 – 50,000 – 240,000 = 280,000

(b) Branch Stock Adjustment – Kilwa

Opening balance = CR 25,000

COGS at invoice = 280,000

Profit = 16.67% of 280,000 = 46,676

Entry:

Dr Branch Stock Adj. 46,676

Cr Branch P&L 46,676

Adjustment for markup removed

(c) Goods Sent to Branch – Kilwa

Goods sent = 500,000

Less: returns = 30,000

Less: transfer to Liwale = 50,000

Net = 420,000

(d) Branch Profit and Loss – Kilwa

Sales = Cash remitted = 800,000
 Add: Cash retained = Opening 20,000 – Closing 10,000 = 10,000
 Total sales = 810,000
 Less: COGS at invoice = 280,000
 Gross profit = 530,000
 Less: Adjusted profit (markup) = 46,676
 Net cost = 233,324
 Expenses = 90,000
 Non-current asset (not expensed) = 40,000 → remove from expenses
 Adjusted expenses = 90,000 – 40,000 = 50,000
 Net profit = 530,000 – 50,000 = 480,000

Same procedure applies to Liwale with:

Markup = 20% of invoice
 Goods sent = 400,000
 Returns to HO = none
 Received transfer from Kilwa = 50,000 (at cost) → invoice = $50,000 \times 1.25 = 62,500$
 Total goods = 462,500
 COGS = 462,500
 Sales = 800,000 + retained cash = 800,000 (no net change)
 Gross profit = 800,000 – 462,500 = 337,500
 Expenses = 30,000
 Profit = 337,500 – 30,000 = 307,500

6(a) Adjustments for year ended 31st December 2017:

Opening accounts receivable = 25,000,000
 Closing accounts receivable = 24,300,000
 Doubtful debts provision = 3%
 Discount allowed provision = 2.5%

Bad Debts

Steven's debt = $1,200,000 \times 75\% = 900,000$ written off
 Included in this year = 600,000 further written off
 Total bad debts = 900,000 + 600,000 = 1,500,000

Cheque of 200,000 returned = dishonored, added back to receivables
 Adjusted closing debtors = 24,300,000 + 200,000 = 24,500,000

Provision for doubtful debts = 3% of 24,500,000 = 735,000
 Provision for discounts = 2.5% of 24,500,000 = 612,500

Journal Entries:

(i)

Dr Bad Debts 1,500,000

Cr Debtors 1,500,000

(ii)

Dr Debtors 200,000

Cr Bank 200,000

(iii)

Adjust provisions:

Old provision is not stated, so assume these are fresh provisions:

Dr Profit and Loss 735,000

Cr Provision for Doubtful Debts 735,000

Dr Profit and Loss 612,500

Cr Provision for Discounts on Debtors 612,500

6(b) Mr. Mapambano – Extract for year ended 31st December 2016:

Insurance Account:

Opening prepaid = 164,000

Paid = 350,000

Prepaid at end = 30,000

Insurance expense = $164,000 + 350,000 - 30,000 = 484,000$

Wages Account:

Opening accrued = 156,000

Paid = 600,000

Closing accrued = 105,000

Wages expense = $600,000 + 105,000 - 156,000 = 549,000$

Rent Receivable:

Opening unearned = 80,000

Received = 1,200,000

Arrears = 77,000

Total income = $1,200,000 - 80,000 + 77,000 = 1,197,000$

Income Statement Extract:

Insurance expense = 484,000

Wages = 549,000

Rent income = 1,197,000

Statement of Financial Position (extract):

Current Assets:

Prepaid Insurance = 30,000

Rent Receivable = 77,000

Current Liabilities:

Accrued Wages = 105,000

Unearned Rent = 80,000

7. Financial Ratios for Company A and Company B:

(i) Gross profit as percentage of sales

Company A: $400,000 \div 1,800,000 \times 100 = 22.22\%$

Company B: $410,000 \div 2,700,000 \times 100 = 15.19\%$

(ii) Net profit as percentage of sales

A: $60,000 \div 1,800,000 \times 100 = 3.33\%$

B: $90,000 \div 2,700,000 \times 100 = 3.33\%$

(iii) Expenses as percentage of sales (Depreciation + Other Expenses)

A: $(22,000 + 318,000) \div 1,800,000 \times 100 = 18.89\%$

B: $(40,000 + 320,000) \div 2,700,000 \times 100 = 13.33\%$

(iv) Stock turnover = Cost of goods sold \div Average stock

A: $(1,600,000 - 200,000) = 1,400,000$

Average stock = $(300,000 + 200,000) \div 2 = 250,000$

Stock turnover = $1,400,000 \div 250,000 = 5.6$ times

B: $(2,530,000 - 240,000) = 2,290,000$

Average stock = $(280,000 + 240,000) \div 2 = 260,000$

Stock turnover = $2,290,000 \div 260,000 = 8.81$ times

(v) Rate of return of net profit on capital employed

Capital employed A = $240,000 + 60,000 - 70,000 = 230,000$

A: $60,000 \div 230,000 \times 100 = 26.09\%$

Capital employed B = $430,000 + 90,000 - 80,000 = 440,000$

B: $90,000 \div 440,000 \times 100 = 20.45\%$

(vi) Current ratio = Current assets \div Current liabilities

A: $(200,000 + 205,000 + 4,000) \div 245,000 = 409,000 \div 245,000 = 1.67:1$

$$\text{B: } (240,000 + 140,000 + 282,000) \div 252,000 = 662,000 \div 252,000 = 2.63:1$$

(vii) Acid test ratio = (Current assets – stock) ÷ Current liabilities

$$\text{A: } (409,000 - 200,000) \div 245,000 = 209,000 \div 245,000 = 0.85:1$$

$$\text{B: } (662,000 - 240,000) \div 252,000 = 422,000 \div 252,000 = 1.67:1$$

(viii) Debtors: sales ratio (in months)

$$\text{A: } (205,000 \div 1,800,000) \times 12 = 1.367 \text{ months}$$

$$\text{B: } (140,000 \div 2,700,000) \times 12 = 0.622 \text{ months}$$

(ix) Creditors: purchases ratio (in months)

$$\text{A: } (245,000 \div 1,300,000) \times 12 = 2.26 \text{ months}$$

$$\text{B: } (252,000 \div 2,250,000) \times 12 = 1.34 \text{ months}$$