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: 2021**

Instructions

1. This paper consists of EIGHT questions.

2. Answer all questions in section A and three questions from section B.

1. Briefly describe the following accounting concepts:

(a) Business entity
This concept treats the business and the owner as two separate entities. All business transactions are recorded from the perspective of the business, not the owner.

(b) Dual aspect concept
This concept states that every transaction has two aspects: a debit and a credit. It forms the foundation of the double-entry system.

(c) Time interval concept
Financial statements must be prepared for specific periods, such as monthly, quarterly, or yearly, to assess performance consistently.

(d) Going concern
The business is assumed to continue operating indefinitely unless there is evidence to the contrary. Assets are therefore recorded on the basis of continued use.

2. Trial Balance failed to agree. Errors were discovered as follows:

(a) Goods worth TZS 70,000 were taken monthly by the owner for personal use and not recorded.
12 × 70,000 = TZS 840,000
Dr Drawings 840,000
Cr Purchases 840,000

(b) Credit sale worth TZS 940,000 recorded in sales book correctly, but only TZS 490,000 in the personal account.
Dr Debtors 450,000
Cr Suspense 450,000

(c) Returns outwards book undercast by TZS 100,000
Dr Suspense 100,000
Cr Returns Outwards 100,000

(d) Goods costing TZS 225,000 returned by customer recorded only in returns inwards book
Dr Returns Inwards 225,000
Cr Debtors 225,000

(e) Motor car expenses of TZS 1,475,000 debited to Motor Vehicles account
Dr Motor Car Expenses 1,475,000
Cr Motor Vehicles 1,475,000

Suspense Account:

Dr side:
Credit sale error (450,000)
Returns outwards undercast (100,000)
Total Dr = 550,000

Cr side:
None affecting suspense other than above

Balance = Suspense account opening was 125,000
Add new correct entries = 550,000
Total balance needed = 675,000
So additional correction must balance the suspense

Corrected Net Profit:

Original net profit = 17,172,000
Less: Owner's drawings (840,000)
Less: Motor car expenses (should reduce profit) = no effect on profit, just misclassified
No effect on profit: entries (b), (c), and (d)
Corrected net profit = 17,172,000 – 840,000 = 16,332,000

3. Provision for Discounts on Debtors at 2.5 percent

2017
Debtors = 5,000,000
Provision = 125,000
Provision Account:
Dr P&L 125,000

2018
Debtors = 6,000,000
Provision = 150,000
Increase = 25,000
Dr P&L 25,000

2019
Debtors = 4,000,000
Provision = 100,000
Decrease = 50,000
Cr P&L 50,000

Income Statement Extracts:

2017 – Provision expense = 125,000
2018 – Provision expense = 25,000
2019 – Income = 50,000

Statement of Financial Position (Provision):

2017 – 125,000
2018 – 150,000
2019 – 100,000

4. Machinery Depreciation and Disposal – Straight Line

Each machine bought at 2,500,000
Life = 10 years, Depreciation = 250,000 per year

In 2016:
5 machines bought = 5 × 2,500,000 = 12,500,000
Depreciation = 5 × 250,000 = 1,250,000

In 2017:
Same machines = depreciation = 1,250,000

In 2018:
T 201 ADK sold on 31 March 2018, used for 3 months
Depreciation = 250,000 × 3/12 = 62,500
4 others = 4 × 250,000 = 1,000,000
Total = 1,062,500
New machine T 650 FGB bought July 2018
Depreciation = 300,000 × 1/10 = 30,000 × 6/12 = 15,000
Total for 2018 = 1,077,500

In 2019:
T 506 CGM sold on 1 Oct 2019
Depreciation = 250,000 × 9/12 = 187,500
Remaining 3 old machines = 3 × 250,000 = 750,000
T 650 FGB = full year = 300,000 ÷ 10 = 30,000
Total = 967,500

Disposal Accounts:

T 201 ADK
Cost = 2,500,000
Accumulated depreciation = 250,000 (2016) + 250,000 (2017) + 62,500 (2018) = 562,500
NBV = 1,937,500
Sale = 2,200,000
Profit = 262,500

T 506 CGM
Cost = 2,500,000
Depreciation = 3 years × 250,000 + 187,500 = 937,500
NBV = 1,562,500
Sale = 1,500,000
Loss = 62,500

5. Maryam Simba – Income Statement for the year ended 30th June 2019

Sales = 4,411,200
Less: Sales returns = 9,600
Net Sales = 4,401,600

Cost of sales:
Opening stock = 329,600
Add: Purchases = 3,312,000
Less: Purchases returns = 8,000
Net purchases = 3,304,000
Goods available = 3,633,600
Less: Closing stock = 403,200
Cost of sales = 3,230,400

Gross profit = 4,401,600 – 3,230,400 = 1,171,200

Operating expenses:
Salaries and wages = 649,600 + 65,600 = 715,200
Motor van expenses = 40,800
Depreciation (10% of 500,000) = 50,000
Transport accrued = 12,000
Transport and communication = 18,400
General expenses = 89,600
Rent and rates = 19,200 – 3,200 (prepaid) = 16,000
Discounts = 10,000
Bad debts = 60,000
Increase in provision = New: 24,000 – Old: 20,000 = 4,000

Total expenses = 1,007,200

Net profit = 1,171,200 – 1,007,200 = 164,000

Statement of Financial Position as at 30th June 2019

Assets:
Non-current:
Motor van = 500,000 – 50,000 = 450,000

Current:
Closing stock = 403,200
Debtors = 580,000 – 60,000 (bad debts) = 520,000
Less: Provision = 24,000 → Net debtors = 496,000
Bank = 313,600
Prepaid rent = 3,200

Total current assets = 1,216,000
Total assets = 1,666,000

Capital = 1,552,000
Add: Net profit = 164,000
Less: Drawings = 368,000
Closing capital = 1,348,000

Current liabilities:
Creditors = 308,800
Accrued salaries = 65,600
Accrued transport = 12,000
Total liabilities = 386,400

Capital + Liabilities = 1,348,000 + 386,400 = 1,734,400

6. Prepare Pemba Branch Accounts

(a) Branch Stock Account:

Opening stock = 800,000
Goods received = 1,900,000
Returns to H.O = (120,000)
Closing stock = (600,000)

Cost of goods sold = 1,980,000
Loading = 25% on cost → 1.25 cost = invoice
Cost = 1,980,000 ÷ 1.25 = 1,584,000
Loading = 396,000

(b) Branch Debtors Account:

Opening = 140,000
Add credit sales = 900,000
Returns = (10,000)
Discounts = (26,000)
Bad debts = (42,000)
Cash received = (860,000)
Closing balance = 102,000

(c) Goods Sent to Branch:

Total = 1,900,000
Less: Returns = (120,000)
Net goods sent = 1,780,000

(d) Branch Expenses:

Paid by H.O = 236,000
Salaries = 200,000
Insurance = 25,000
Petty cash = 11,000

(e) Branch Income Statement:

Sales:
Cash = 1,100,000
Credit = 900,000
Total = 2,000,000

Cost of sales (at cost) = 1,584,000
Gross profit = 416,000
Less: Expenses = 236,000
Net profit = 180,000

7. Kibamba Investment Ltd – 15% Preference Shares Investment Account for the years ended 31st December 2018 and 2019

Initial investment:
1st May 2018 – Purchased 400,000 shares at TZS 2,000,000
Cost per share = 2,000,000 ÷ 400,000 = TZS 5 per share
Dividend dates: 31st March and 30th September

Dividend for 2018:
- No dividend received on 31st March 2018 (shares not yet acquired)
- Dividend on 30th Sept 2018:
  400,000 × 1 × 15% × 6/12 = 30,000

2019 transactions:
1st Jan 2019 – Sold 50% of 400,000 shares = 200,000 shares
Proceeds = 1,600,000 ex-dividend
No dividend element included in price

Dividend for 2019:
- 31st March 2019: On 200,000 shares (held after sale)
  200,000 × 1 × 15% × 6/12 = 15,000
- 1st July 2019 – Bought 300,000 shares at TZS 5 per share
Cost = 300,000 × 5 = 1,500,000
- 30th Sept 2019: Dividend on 200,000 (held full year) + 300,000 (held for 3 months)
200,000 × 1 × 15% × 6/12 = 15,000
300,000 × 1 × 15% × 6/12 = 22,500
Total dividend = 37,500

Total dividends received:
2018: 30,000
2019: 15,000 (March) + 37,500 (Sept) = 52,500

Investment Account:

2018
Dr
1st May: Investment 400,000 shares – TZS 2,000,000

2019
Cr
1st Jan: Sale of 200,000 shares – TZS 1,600,000
Dr
1st July: Purchase of 300,000 shares – TZS 1,500,000

Closing balance at 31st Dec 2019 = 200,000 + 300,000 = 500,000 shares

Valued at cost = TZS 2,000,000 (1,000,000 from remaining half of 2018 purchase + 1,500,000 for 2019 purchase)

8. Required ratios for Himaya Enterprises:

(i) Acid test ratio = (Debtors + Bank) ÷ Current liabilities

2018: (15,040 + 10,880) ÷ 5,600 = 25,920 ÷ 5,600 = 4.63
2019: (15,520 + 1,920) ÷ 11,360 = 17,440 ÷ 11,360 = 1.54

(ii) Current ratio = Current assets ÷ Current liabilities

2018: 28,480 ÷ 5,600 = 5.08
2019: 30,880 ÷ 11,360 = 2.72

(iii) Gross profit margin = Gross profit ÷ Sales × 100

2018: 51,520 ÷ 101,600 × 100 = 50.71 percent
2019: 60,800 ÷ 118,400 × 100 = 51.35 percent

(iv) Net profit margin = Net profit ÷ Sales × 100

2018: 9,600 ÷ 101,600 × 100 = 9.45 percent
2019: 13,120 ÷ 118,400 × 100 = 11.08 percent

(v) Price earnings ratio = Market price per share ÷ Earnings per share

EPS 2018 = 3,520 ÷ 12,000 = 0.293
EPS 2019 = 3,520 ÷ 16,000 = 0.22
P/E 2018 = 28 ÷ 0.293 = 95.56
P/E 2019 = 32 ÷ 0.22 = 145.45

(vi) Rate of stock turnover = Cost of goods sold ÷ Average stock

2018: 50,080 ÷ 7,200 = 6.95 times
2019: 57,600 ÷ 13,120 = 4.39 times

(vii) Return on capital employed = Net profit ÷ Capital employed × 100

Capital employed 2018 = Shareholders fund + Loan = 34,400 + 9,600 = 44,000
Capital employed 2019 = 43,520 + 9,600 = 53,120
Return 2018 = 9,600 ÷ 44,000 × 100 = 21.82 percent

Return 2019 = 13,120 ÷ 53,120 × 100 = 24.7 percent

(viii) Average debtors collection period = (Debtors × 365) ÷ Sales

2018: (15,040 × 365) ÷ 101,600 = 54 days
2019: (15,520 × 365) ÷ 118,400 = 48 days

(ix) Earnings per share = Retained profit ÷ Ordinary shares

2018: 3,520 ÷ 12,000 = 0.293
2019: 3,520 ÷ 16,000 = 0.22

(x) Interest cover = Profit before interest and tax ÷ Interest

No interest separately shown, but CRDB loan is 9,600 in both years and likely the only interest cost. If we take corporation tax into account, assume profit before interest and tax equals net profit as interest is not recorded.

2018: 9,600 ÷ estimated interest (not given) → interest cover not computable
2019: 13,120 ÷ interest (unknown) → also not computable without interest value

So interest cover cannot be calculated unless interest expense is given or assumed.