

**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: 2023**

**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 describe the following accounting terms:

(a) Reserve

A reserve is a portion of profit set aside for a specific purpose or as a safeguard against future uncertainties. It is not meant to cover known liabilities.

(b) Provision

A provision is an amount set aside from profit to cover a known liability or loss the amount or timing of which is uncertain, such as provision for bad debts.

(c) Revenue reserve

Revenue reserve is created from the retained earnings of the business and is available for distribution as dividends or reinvestment in the business.

(d) Capital reserve

Capital reserve arises from non-operating profits such as revaluation surplus or profits from the sale of fixed assets. It is not available for dividend distribution.

2. For each of the following cases, state which of the basic accounting concepts or conventions is being violated:

(a) Punching machine having a life of 4 years acquired by a small business for TZS 1,000 is debited to office equipment account.

Violation: Materiality concept — Because the amount is insignificant, it should be expensed, not capitalized.

(b) The proprietor of the business withdraws cash from a business bank account for payment of his personal purchases.

Violation: Business entity concept — Business and owner are treated as separate entities.

(c) Office furniture is recorded in the books of account at its estimated realizable value which is lower than its acquisition cost.

Violation: Historical cost concept — Assets should be recorded at their original cost.

(d) While preparing the statement of financial position of a business, the management of the business is not certain whether 5 percent of the accounts receivable will be collected or not, yet the accounts receivable are shown in full.

Violation: Prudence (or conservatism) concept — Possible losses should be recognized by making provisions.

(e) Machinery sold under hire purchase agreement and delivered to a purchaser is shown in the statement of financial position of the vendor.

Violation: Substance over form — The substance of the transaction (sale) should be recognized, not just the legal form.

3. The financial statements of Sitinde Ltd for the year ended 31st December 2020 showed a net profit for the year of TZS 782,630. During the subsequent audit, the following errors and omissions were discovered:

(a) Trade debtors were shown as TZS 52,100. However:

(i) Bad debts of TZS 6,190 had not been written off.

Dr Bad Debts 6,190

Cr Debtors 6,190

(ii) The existing provision for doubtful debts of TZS 1,300 should have been adjusted to 2% of debtors.

Debtors after (i) =  $52,100 - 6,190 = 45,910$

Required provision =  $2\% \times 45,910 = 918.2 \approx 918$

Old provision = 1,300

Decrease in provision =  $1,300 - 918 = 382$  (gain)

Dr Provision for doubtful debts 382

Cr Profit and Loss 382

(iii) A provision of 2% for discounts on debtors should have been made.

$2\% \times 45,910 = 918$

Dr Profit and Loss 918

Cr Provision for Discount on Debtors 918

(b) No adjustment had been made for insurance prepaid at 31st December 2020, TZS 4,910.

Dr Prepaid Insurance 4,910

Cr Insurance Expense 4,910

(c) Credit purchase of TZS 17,620 had been correctly entered in the general ledger but debited to supplier's account.

Dr Purchases 17,620

Cr Debtors (or suspense) 17,620

(d) Inventory items worth TZS 21,710 had been omitted from closing stock.

Dr Inventory 21,710

Cr Profit and Loss 21,710

(e) At 31st December 2020 an accrual of TZS 5,430 for electricity charges and insurance prepayment of TZS 1,620 had been omitted.

Dr Electricity Expense 5,430

Cr Accrued Expenses 5,430

Dr Prepaid Insurance 1,620

Cr Insurance Expense 1,620

4. Use the information to calculate the following financial ratios for Misunah Enterprises.

(a) Gross profit as a percentage of sales =  $\text{Gross profit} \div \text{Sales} \times 100$   
 $140,000 \div 520,000 \times 100 = 26.92$  percent

(b) Net profit as a percentage of sales =  $\text{Net profit} \div \text{Sales} \times 100$   
 $57,000 \div 520,000 \times 100 = 10.96$  percent

(c) Net profit as a percentage of capital employed =  $\text{Net profit} \div (\text{Capital} + \text{Loan}) \times 100$   
Capital employed =  $180,000 + 60,000 = 240,000$   
 $57,000 \div 240,000 \times 100 = 23.75$  percent

(d) Rate of stock turnover =  $\text{Cost of sales} \div \text{Average stock}$   
COGS = 380,000  
Opening stock = 51,000  
Closing stock = 51,000  
Average = 51,000  
 $380,000 \div 51,000 = 7.45$  times

(e) Current ratio =  $\text{Current assets} \div \text{Current liabilities}$   
Current assets =  $\text{Inventory} + \text{Debtors} + \text{Cash} = 51,000 + 12,000 + 15,000 = 78,000$   
Current liabilities = 43,000  
 $78,000 \div 43,000 = 1.81:1$

(f) Acid test ratio =  $(\text{Current assets} - \text{Inventory}) \div \text{Current liabilities}$   
 $(78,000 - 51,000) \div 43,000 = 27,000 \div 43,000 = 0.63:1$

(g) Total assets turnover =  $\text{Sales} \div \text{Total assets}$   
 $520,000 \div 340,000 = 1.53$  times

(h) Interest cover =  $\text{Operating profit} \div \text{Interest}$   
Operating profit = 83,000  
Loan interest not given, but if only interest paid on loan, assume  $10\% \times 60,000 = 6,000$   
 $83,000 \div 6,000 = 13.83$  times

(i) Current assets turn over =  $\text{Sales} \div \text{Current assets}$   
 $520,000 \div 78,000 = 6.67$  times

(j) Debtors collection period in number of days =  $(\text{Debtors} \div \text{Sales}) \times 365$   
 $(12,000 \div 520,000) \times 365 = 8.42$  days

5. Prepare Sierra Mobati's Income Statement for the year ended 31st December, 2020

Opening stock	75,000
Add: Purchases	1,080,000
Less: Purchase returns	(60,000)
Net purchases	1,020,000
Cost of goods available	1,095,000
Less: Closing stock	(67,500)
Cost of goods sold	1,027,500

Sales	750,000
Less: Sales returns	(120,000)
Net sales	630,000

Gross profit	(397,500)
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Operating expenses:

Wages and Salaries	120,000
Carriage inwards	15,000
Carriage outwards	9,000
Postage and Telephone	7,200
Water and Electricity	25,800
Bad debts written off	12,000
Provision for doubtful debts (increase)	6,000
General expenses	25,500
Rent and Rates	42,000

Depreciation:

Plant and Machinery (10% of 750,000)	75,000
Motor vehicles (20% of 240,000)	48,000
Accrued expenses	9,000
Outstanding electricity expense	1,800
Prepaid rent adjustment	(3,000)
Total expenses	393,300

Net profit	4,200
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Statement of Financial Position as at 31st December, 2020

Non-current Assets

Plant and Machinery	750,000
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Less Depreciation (75,000)  
 Net 675,000  
 Motor Vehicles 240,000  
 Less Depreciation (48,000)  
 Net 192,000  
 Total NCA 867,000

Current Assets  
 Closing Stock 67,500  
 Debtors 165,000  
 Cash in hand 18,000  
 Cash at Bank 90,000  
 Prepaid Rent 3,000  
 Total CA 343,500

Total Assets 1,210,500

Capital and Liabilities  
 Capital 750,000  
 Add: Net profit 4,200  
 754,200  
 Less: Drawings (not listed) -  
 Adjusted Capital 754,200

Non-current liabilities – none

Current Liabilities  
 Creditors 139,800  
 Accrued General Expenses 9,000  
 Outstanding Electricity 1,800  
 Provision for Doubtful Debts 9,000  
 Total CL 159,600

Total Liabilities + Capital 913,800

6(a) Branch Stock Account (at cost and invoice price)

Particulars	Cost (TZS)	Invoice Price (TZS)
Opening Stock	29,400	44,000
Goods sent	210,000	280,000
Closing Stock	(24,000)	(39,840)

| Cost of Goods Sold | 215,400 | 284,160 |

6(b) Branch Debtors Account

Opening balance	39,480
Add: Credit Sales	210,000
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	249,480
Less:	
Returns	10,000
Bad Debts	4,800
Discounts Allowed	2,400
Cash Received	228,000
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Closing Debtors	4,280

6(c) Branch Income Statement for year ended 31st Dec 2020

Sales Revenue (Credit sales)	210,000
Less: Returns	(10,000)
Net Sales	200,000

Cost of Goods Sold = Opening + Goods sent – Closing

$$44,000 + 280,000 - 39,840 = 284,160$$

Cost at selling price 284,160

Less: Loading 25 percent on cost

$$\text{Cost} = 284,160 \div 1.25 = 227,328$$

$$\text{Gross Profit} = 200,000 - 227,328 = (27,328) \text{ Loss}$$

Add: Cash discount received	0
Less: Expenses	
Bad debts	4,800
Discounts allowed	2,400
Loss	34,528

7. 6% Government Stock Investment Account in the books of Mr White for the year ending 31st Dec 2020

01 Jan 2019:

Bought TZS 40,000 stock at 90 = 36,000

Brokerage = 800

Total cost = 36,800

28 Feb 2019:

Sold TZS 10,000 nominal at 95 = 9,500

Gain = 9,500 – (10,000 × 90) = 500

Record sale price only

01 Jun 2019:

Sold TZS 20,000 nominal

Net proceeds = 171,000

Cost = 20,000 × 90 = 180,000

Loss = 9,000

01 Feb 2020:

Bought TZS 25,000 nominal

Price = 100,000

Brokerage = 370

Cost = 100,370

01 Jun 2020:

Bought TZS 10,000 nominal at 91 = 91,000

Interest earned (nominal × 6% ÷ 2):

Feb 2019 on 40,000 = 1,200

Jun 2019 on 30,000 = 900

Sep 2019 on 10,000 = 300

Dec 2019 on 10,000 = 300

Mar 2020 on 10,000 = 300

Jun 2020 on 35,000 = 1,050

8. Sayari Ltd was formed on 1st January 2017 and the following purchases and sales of machinery occurred:

- On 1st January 2017, Machine A was purchased for TZS 400,000
- On 1st October 2018, Machine B was purchased for TZS 450,000
- On 30th June 2020, Machine A was sold for TZS 326,000
- On 1st July 2020, Machine C was purchased for TZS 600,000

The company uses the diminishing balance method for depreciation at 14 percent annually.

Machinery Account:

In 2017, Machine A was purchased and debited to the Machinery Account at TZS 400,000. No other movement occurred in 2017.



In 2018, the Machinery Account was increased by TZS 450,000 due to the purchase of Machine B on 1st October.

In 2020, the Machinery Account was credited by TZS 400,000 for the disposal of Machine A and debited by TZS 600,000 for the purchase of Machine C.

Provision for Depreciation on Machinery Account:

For 2017, depreciation on Machine A was 14 percent of 400,000, giving TZS 56,000. Provision was credited with this amount.

In 2018, depreciation on Machine A was calculated as 14 percent of the reduced value ( $400,000 - 56,000 = 344,000$ ), giving TZS 48,160.

For Machine B, which was purchased in October, depreciation was charged for 3 months. 14 percent of 450,000 for 3 months equals TZS 15,750.

The total depreciation in 2018 was TZS 63,910.

In 2019, the written-down value of Machine A was  $344,000 - 48,160 = 295,840$ . Depreciation on it was 14 percent of this, TZS 41,418.

Machine B's book value was  $450,000 - 15,750 = 434,250$ . Depreciation was TZS 60,795.

The total depreciation for 2019 was TZS 102,213.

In 2020, Machine A was sold mid-year, so depreciation was charged for 6 months on 254,422, giving TZS 17,810.

Machine B's value before 2020 was  $434,250 - 60,795 = 373,455$ . Depreciation for 2020 was TZS 52,284.

Machine C, purchased in July, was charged 6-month depreciation on 600,000, which is TZS 42,000.

The total depreciation in 2020 was TZS 112,094.

Machinery Disposal Account:

Machine A was sold on 30th June 2020. Its cost was TZS 400,000 and accumulated depreciation till sale was  $56,000 + 48,160 + 41,418 + 17,810 = \text{TZS } 163,388$ .

Book value at the time of sale was  $400,000 - 163,388 = \text{TZS } 236,612$ .

It was sold for TZS 326,000, resulting in a profit on disposal of TZS 89,388.