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: 2024**

Instructions

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

1. Why accounting information is important to each of the following users?

(a) Creditors
Creditors use accounting information to determine the creditworthiness of a business before offering credit. It helps them evaluate whether the business can repay its debts on time.

(b) Customers
Customers rely on accounting information to assess the long-term stability and continuity of a business, especially if they depend on it for products or services.

(c) Debt providers
Debt providers such as banks and other financial institutions use accounting information to analyze the firm's financial position, profitability, and cash flow before providing loans or credit facilities.

(d) Tax authorities
Tax authorities use accounting information to assess the correctness and completeness of tax returns. It ensures that businesses comply with tax laws and remit the correct amount of tax.

(e) Financial analysts
Financial analysts use accounting information to evaluate financial performance, trends, and ratios. They interpret this information to make recommendations to investors and management.

2. The Trial Balance of Kieta Traders failed to agree on 31st December 2022. The debits exceeded the credits by TZS 23,800,000. Investigation of the accounting records for the year ended 31st December 2022 revealed the following errors:

(a) Sales had been over cast by TZS 1,500,000
Dr Sales Account 1,500,000
Cr Suspense Account 1,500,000

(b) Returns outwards account had not been credited with an amount of TZS 6,132,000
Dr Suspense Account 6,132,000
Cr Returns Outwards Account 6,132,000

(c) A payment by debtor of TZS 15,000,000 by a direct bank transfer had not been entered in the debtor's account
Dr Debtor's Account 15,000,000
Cr Suspense Account 15,000,000

(d) TZS 2,200,000 received from a debtor had been debited to his account
Dr Suspense Account 4,400,000
Cr Debtor's Account 2,200,000

Cr Bank Account 2,200,000

(e) A cash purchase of TZS 232,000 had been recorded in the cash book only
Dr Purchases Account 232,000
Cr Suspense Account 232,000

(f) A sale of goods worth TZS 125,000 to Adam had been omitted from the books
Dr Debtor's Account 125,000
Cr Sales Account 125,000

Suspense Account

Debit Side

Returns Outwards Omitted	6,132,000
Debtor's Receipt Error	4,400,000
Cash Purchase Error	232,000
Total	10,764,000

Credit Side

Sales Overcast	1,500,000
Debtor's Direct Payment	15,000,000
Total	16,500,000

Balance c/d	5,736,000

3. Equipment purchased on 1st January 2018 at TZS 10,000,000
Useful life: 5 years, Straight Line Method
Annual depreciation = 10,000,000 ÷ 5 = 2,000,000
Sold on 30th June 2020 for TZS 5,000,000

Equipment Account

2018
Dr Bank 10,000,000
Cr Balance c/d 10,000,000

2020
Dr Equipment Disposal Account 10,000,000
Cr Equipment Account 10,000,000

Provision for Depreciation Account

2018: Cr 2,000,000
2019: Cr 2,000,000
2020: Cr 2,000,000
Total: Cr 6,000,000
Dr Equipment Disposal Account 6,000,000

Equipment Disposal Account

Dr Equipment 10,000,000
Cr Provision for Depreciation 6,000,000
Cr Bank (sale proceeds) 5,000,000
Dr Profit on Disposal (balancing figure) 1,000,000

4. Minolta Ltd Provision for Doubtful Debts at 2.5 percent

2020:
Debtors = 10,000,000
Provision = 2.5 percent × 10,000,000 = 250,000

2021:
Debtors = 20,000,000
Provision = 2.5 percent × 20,000,000 = 500,000
Increase = 250,000

2022:
Debtors = 14,000,000
Provision = 2.5 percent × 14,000,000 = 350,000
Decrease = 150,000

Provision for Doubtful Debts Account

2020
Cr 250,000 from P&L

2021
Cr 250,000 from P&L

2022
Dr 150,000 to P&L

Extract of Income Statement

2020: Increase in provision = Expense 250,000
2021: Increase in provision = Expense 250,000
2022: Decrease in provision = Income 150,000

Statement of Financial Position Extract

Provision for doubtful debts
2020 = 250,000
2021 = 500,000
2022 = 350,000

5. Income Statement for Suzan Kipanga for the year ending 31st December 2022

Sales	520,000,000
Less: Cost of Sales	
Opening Inventory	50,000,000
Add: Purchases	280,000,000
Less: Drawings (Goods)	(2,000,000)
Net Purchases	278,000,000
Goods Available for Sale	328,000,000
Less: Closing Inventory	(60,000,000)
Cost of Sales	268,000,000
Gross Profit	252,000,000

Operating Expenses	
Salaries and Wages	35,000,000
Discounts Allowed	7,500,000
Rates	5,600,000
Add: Accrued Rates	400,000
Total Rates	6,000,000
Advertising	10,400,000
Insurance	3,800,000
Less: Prepaid Insurance	(500,000)
Net Insurance	3,300,000
General Expenses	7,200,000
Depreciation	
Plant and Machinery (10 percent)	14,000,000
Fixtures and Fittings (15 percent)	3,750,000
Provision for Doubtful Debts	
Old Provision	1,800,000
New Provision (4 percent of 60m)	2,400,000
Increase	600,000

Total Expenses	87,750,000
Net Profit	164,250,000

Statement of Financial Position as at 31st December 2022

Assets

Non-Current Assets	
Freehold Premises	240,000,000
Plant and Machinery	140,000,000
Less Depreciation	(14,000,000)
Net Plant and Machinery	126,000,000
Fixtures and Fittings	25,000,000
Less Depreciation	(3,750,000)
Net Fixtures and Fittings	21,250,000
Total Non-Current Assets	387,250,000

Current Assets	
Closing Inventory	60,000,000
Sundry Debtors	60,000,000
Less: Provision	(2,400,000)
Net Debtors	57,600,000
Bills Receivable	30,000,000
Cash in Hand	2,400,000
Prepaid Insurance	500,000
Total Current Assets	150,500,000

Total Assets	537,750,000

Capital and Liabilities

Capital	300,000,000
Add: Net Profit	164,250,000
Less: Drawings	(6,000,000)
Adjusted Capital	458,250,000

Non-Current Liabilities
None

Current Liabilities	
Creditors	43,000,000

Bills Payable 15,000,000
Bank Overdraft 18,600,000
Accrued Rates 400,000
Total Current Liabilities 77,000,000

Total Capital and Liabilities 535,250,000

Statement balances with Assets 537,750,000, difference of 2,500,000 to reconcile via suspense or correction.

6. In columnar form, prepare the income statement for the head office and branch, as they would appear if goods sent to branch had been invoiced at cost, and the combined statement of financial position of Silicon Ltd as on 31st December, 2020.
Adjustments Summary

- Goods sent to branch = 2,250,000 (at selling price)
  Therefore, at cost = 2,250,000 ÷ 1.25 = 1,800,000
  Loading = 450,000

- Goods in transit from HO to branch = 36,800 (at selling price)
  At cost = 36,800 ÷ 1.25 = 29,440
  Loading = 7,360

- Goods in transit from branch to HO (cash) = 40,000 (to be added to HO bank)

- Branch inventory shortage = 12,000 (at selling price)
  At cost = 12,000 ÷ 1.25 = 9,600

Income Statement for the year ended 31st December 2020

Particulars	Head Office (TZS)	Branch (TZS)
Sales	3,342,000	2,068,000
Less: Cost of Goods Sold		
Purchases	4,935,200	
Less: Goods sent to branch (cost)	(1,800,000)	
Net Purchases	3,135,200	
Add: Opening Inventory	0	0
Less: Closing Inventory	0	
Cost of Sales	3,135,200	
Gross Profit	206,800	
Branch:		
Opening Inventory	0	0

Add: Goods received from HO	1,800,000	
Less: Closing Inventory (adj.)	(1,800,000 - 9,600)	
Adjusted Cost of Sales	1,790,400	
Gross Profit		277,600
Less: Expenses		
General Expenses	(338,800)	(242,000)
Net Profit	(132,000)	35,600

Combined Net Profit = (132,000) + 35,600 = Loss 96,400

Statement of Financial Position as at 31st December 2020**

Assets

Non-Current Assets
Head Office Fixed Assets 1,320,000
Branch Fixed Assets 240,000
Total Non-Current Assets 1,560,000

Current Assets
Debtors (HO) 319,200
Debtors (Branch) 281,600
Inventory (Branch, adjusted) 1,800,000 - 9,600 = 1,790,400
Goods in transit (HO to Branch at cost) 29,440
Cash in transit (Branch to HO) 40,000
Bank (HO) 149,600
Bank (Branch) 60,800
Total Current Assets 2,670,640

Total Assets 4,230,640

Liabilities

Creditors (HO) 442,400
Creditors (Branch) 65,200
Total Liabilities 507,600

Net Assets 3,723,040

Capital:
Opening Capital 2,080,000
Drawings (69,600)
Add: Net Loss (96,400)

Adjusted Capital 1,914,000

Balancing Figure (to reconcile): Suspense or retained earnings = 1,809,040

7. Use the information provided to prepare the 4 percent Loan Stock Investment Account and the Equity Shares Investment Accounts in Hambo Ltd and Tembo Ltd in the books of Mr. Jommo for the year ending 30th June, 2020.

4 Percent Loan Stock Investment Account

Date	Details	Debit (TZS)	Credit (TZS)	Balance
Jul 1, 2019	Purchase	4,800,000		4,800,000
Feb 1, 2020	Interest Received		x	
Aug 1, 2020	Interest Received		x	
Jan 2, 2020	Sold		1,200,000	3,600,000

Note: Interest is on face value. Face value = 4,800,000 ÷ 60.5% = TZS 8,000,000
Interest per year = 4% × 8,000,000 = 320,000
Feb 1 = 320,000
Aug 1 = 180 days on remaining stock = (4,800,000 - 1,200,000) ÷ 60.5% = 6,000,000 face value
Interest = 4% × 6,000,000 × 6/12 = 120,000

Hambo Ltd Equity Investment Account

Date	Details	Debit	Credit	Shares
Jul 12	Purchased	1,600,000		8,000
Aug 15	Bonus (3:2)	-	-	12,000
Aug 15	Sold 10,000 shares		1,000,000	10,000
Mar 1	Dividend (18%)		x	
Remaining Shares = 10,000 - 10,000 = 10,000				

Dividend = 18% × 10,000 × 100 = 180,000

Tembo Ltd Equity Investment Account

Date	Details	Debit	Credit	Shares
Oct 1	Purchased	1,550,000		20,000

Apr 1	Rights (1 for 2)	-	-	10,000
Apr 1	Rights sold		250,000	
Jun 1	Dividend (12.5%)		x	

Dividend = 12.5% × 20,000 × 100 = 250,000

8(a) Use the information provided to calculate the following ratios:

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

TEHAMA Ltd: 1,260,000 ÷ 2,220,000 × 100 = 56.76 percent
Net Com Plc: 1,680,000 ÷ 3,000,000 × 100 = 56 percent

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

TEHAMA Ltd: 400,000 ÷ 2,220,000 × 100 = 18.02 percent
Net Com Plc: 600,000 ÷ 3,000,000 × 100 = 20 percent

(iii) Expenses as a percentage of sales = Total expenses ÷ Sales × 100
(Expenses = Depreciation + Wages and salaries + Miscellaneous)

TEHAMA Ltd: (20,000 + 660,000 + 180,000) ÷ 2,220,000 × 100 = 39.64 percent
Net Com Plc: (60,000 + 880,000 + 140,000) ÷ 3,000,000 × 100 = 36.67 percent

(iv) Inventory turnover = Cost of goods sold ÷ Average inventory

TEHAMA Ltd:
COGS = Opening inventory + Purchases - Closing = 400,000 + 800,000 - 240,000 = 960,000
Average inventory = (400,000 + 240,000) ÷ 2 = 320,000
Inventory turnover = 960,000 ÷ 320,000 = 3 times

Net Com Plc:
COGS = 320,000 + 1,280,000 - 280,000 = 1,320,000
Average inventory = (320,000 + 280,000) ÷ 2 = 300,000
Inventory turnover = 1,320,000 ÷ 300,000 = 4.4 times

(v) Rate of return on capital employed = Net profit ÷ Average capital × 100

TEHAMA Ltd:
Capital = 304,000, Net profit = 400,000
Average capital = (304,000 + 704,000) ÷ 2 = 504,000
Return = 400,000 ÷ 504,000 × 100 = 79.37 percent

Net Com Plc:
Capital = 288,000, Net profit = 600,000
Average capital = (288,000 + 888,000) ÷ 2 = 588,000
Return = 600,000 ÷ 588,000 × 100 = 102.04 percent

(vi) Current ratio = Current assets ÷ Current liabilities

TEHAMA Ltd:
(240,000 + 500,000 + 100,000) ÷ 416,000 = 840,000 ÷ 416,000 = 2.02:1

Net Com Plc:
(280,000 + 400,000 + 730,000) ÷ 1,010,000 = 1,410,000 ÷ 1,010,000 = 1.4:1

(vii) Acid test ratio = (Current assets - Inventory) ÷ Current liabilities

TEHAMA Ltd:
(500,000 + 100,000) ÷ 416,000 = 600,000 ÷ 416,000 = 1.44:1

Net Com Plc:
(400,000 + 730,000) ÷ 1,010,000 = 1,130,000 ÷ 1,010,000 = 1.12:1

(viii) Total assets turnover = Sales ÷ Total assets

TEHAMA Ltd:
Total assets = TV equipment (net) + current assets = (200,000 - 160,000) + 840,000 = 880,000
Turnover = 2,220,000 ÷ 880,000 = 2.52 times

Net Com Plc:
Total assets = (400,000 - 120,000) + 1,410,000 = 1,690,000
Turnover = 3,000,000 ÷ 1,690,000 = 1.78 times

(ix) Accounts receivable collection period in months = (Accounts receivable ÷ Sales) × 12

TEHAMA Ltd:
(100,000 ÷ 2,220,000) × 12 = 0.045 × 12 = 0.54 months

Net Com Plc:
(50,000 ÷ 3,000,000) × 12 = 0.0167 × 12 = 0.2 months

(x) Accounts payable payment period in months = (Accounts payable ÷ Purchases) × 12

TEHAMA Ltd:
(416,000 ÷ 800,000) × 12 = 0.52 × 12 = 6.24 months

Net Com Plc:
(1,010,000 ÷ 1,280,000) × 12 = 0.789 × 12 = 9.47 months

8(b) Which company seems to be the most profitable?

Net Com Plc is more profitable. Reasons:

1. Actual profit for the year is higher (Net Com Plc: 600,000 vs TEHAMA Ltd: 400,000).
2. Net profit margin is better (20 percent vs 18.02 percent).
3. Rate of return on capital employed is higher (102.04 percent vs 79.37 percent).
4. Inventory turnover is faster (4.4 times vs 3 times), meaning better stock management.
5. Accounts receivable collection period is shorter (0.2 months vs 0.54 months), indicating faster collection and better liquidity.