THE UNITED REPUBLIC OF TANZANIA

NATIONAL EXAMINATIONS COUNCIL

ADVANCED CERTIFICATE OF SECONDARY EDUCATION EXAMINATION

153/2 **ACCOUNTANCY 2**

(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. Write brief explanations on the following auditing documents:

(a) Audit report
An audit report is the official opinion issued by auditors after examining a company's financial statements. It provides assurance to stakeholders on whether the financial statements give a true and fair view of the company's financial position.

(b) Letter of management
A letter of management is a document prepared by auditors addressed to the company's management. It highlights weaknesses in internal controls and accounting systems discovered during the audit and gives recommendations for improvements.

(c) Letter of engagement
A letter of engagement is a formal agreement between an auditor and a client which outlines the scope, objective, responsibilities, and terms of the audit engagement before the audit begins.

(d) Letter of representation
A letter of representation is a written statement provided by management to the auditor confirming the accuracy and completeness of the information provided during the audit, including financial data and internal controls.

2. Mrs. Sakina has employed Melinda as her housemaid. The employment contract stipulates that Melinda has to work for 200 hours per month for a wage rate of TZS 1,500 per hour. Any hour worked in excess of the basic working hours in a month will be compensated at one and a half times the normal rate of pay. During the month ending 31st August, 2020 she worked for 215 hours. Melinda pays income tax of TZS 15,000 plus 25 percent of the earnings above TZS 300,000 per month and contributes ten per cent of her basic salary to national provident fund monthly. She is also entitled to transport allowance of TZS 10,000 per week, meal allowance at 12 percent of her basic salary per month and medical service allowance of TZS 20,000 per month.

Using the information provided to prepare Melinda's Salary Slip and the General Journal to record the Payroll for the month ending 31st August, 2020.

Working:
Basic pay = 200 × 1,500 = 300,000
Overtime = 15 × 1,500 × 1.5 = 33,750
Transport allowance = 10,000 × 4 = 40,000
Meal allowance = 12% of 300,000 = 36,000
Medical = 20,000
Gross pay = 300,000 + 33,750 + 40,000 + 36,000 + 20,000 = 429,750

PAYE = 15,000 + 25% of (429,750 - 300,000) = 15,000 + 32,437.50 = 47,437.50
NPF = 10% × 300,000 = 30,000

Net pay = 429,750 - 47,437.50 - 30,000 = 352,312.50

Salary Slip

Description	Amount (TZS)
Basic Salary	300,000
Overtime	33,750
Transport Allowance	40,000
Meal Allowance	36,000
Medical Allowance	20,000
Gross Pay	429,750
Less: PAYE	47,437.50
Less: NPF	30,000
Net Pay	352,312.50

General Journal

Date: 31st August 2020

Dr: Salaries Expense 429,750
Cr: PAYE Payable 47,437.50
Cr: NPF Payable 30,000
Cr: Bank 352,312.50

3. Owing to staff illness, Frank Ironside Ltd was not able to take stock of its inventory on 31st December, 2019. However, the company was able to do so on 17th January, 2020 when the cost value of inventory was estimated at TZS 960,000. The company's transactions during the period of 1st to 17th January, 2020 were as follows:

Credit purchases: 1,020,000
Cash purchases: 950,000
Credit sales: 830,000
Cash sales: 580,000
Carriage inwards: 75,000
Returns inwards: 640,000
Returns outwards: 920,000
Value of stock scrapped: 100,000
Invoice value of goods on consignment: 640,000
Goods sent on return basis: 870,000 with 30% return rate
Stock undercast: 78,600
Expired stock: 50,000

Gross profit = 25% on cost
Gross profit margin = 25/125 = 20%

Sales = 830,000 + 580,000 = 1,410,000
Returns inwards = 640,000
Net sales = 1,410,000 - 640,000 = 770,000
Cost of sales = 770,000 × 100/125 = 616,000

Closing stock on 17 Jan = 960,000
Add: Cost of goods sold = 616,000
Add: Returns outwards = 920,000
Add: Scrapped stock = 100,000
Less: Purchases = 1,020,000 + 950,000 = 1,970,000
Less: Carriage inwards = 75,000
Adjust stock = 960,000 + 616,000 + 920,000 + 100,000 - 1,970,000 - 75,000 = 551,000
Less: Goods on return basis (30% of 870,000 = 261,000 value)
Less: Expired goods = 50,000
Add: Stock undercast = 78,600
Adjusted closing stock on 31 Dec 2019 = 551,000 - 261,000 - 50,000 + 78,600 = 318,600

4. SBC Ltd is a manufacturing company that manufactures a soft drink called Kinywaji.

Direct materials = 10,000,000
Direct labour = 1,350,000
Direct expenses = 2,000,000
Variable overheads = 1,120,000
Fixed overheads = 2,000,000
Total units = 500,000
Selling price = 200

(a) Cost Statement

Direct materials = 10,000,000
Direct labour = 1,350,000
Direct expenses = 2,000,000
Prime cost = 13,350,000
Add: Variable overheads = 1,120,000
Total variable cost = 14,470,000
Add: Fixed overheads = 2,000,000
Total cost = 16,470,000
Sales = 500,000 × 200 = 100,000,000
Profit = 100,000,000 - 16,470,000 = 83,530,000

(b) Break-even point

Selling price per unit = 200
Variable cost per unit = 14,470,000 ÷ 500,000 = 28.94
Contribution per unit = 200 - 28.94 = 171.06
Break-even point in units = 2,000,000 ÷ 171.06 ≈ 11,694 units
Break-even revenue = 11,694 × 200 = 2,338,800

(c) At break-even point, total revenue equals total cost:
11,694 units × 200 = 2,338,800 = variable cost + fixed cost

5. Sun Systems Ltd issued 100,000 ordinary shares of TZS 200 each payable in instalments:
Application: 50
Allotment: 50
1st call: 40
2nd call: 30
3rd call: 30

Applications received for 145,000 shares
Rejected 45,000
Forfeited:
Mr. Kahitira (200 shares): unpaid 1st, 2nd, 3rd calls
Mr. Kambarage (400 shares): unpaid 2nd, 3rd
Mr. Mafwimbo (600 shares): unpaid 3rd call
Re-issued at TZS 220 to Mr. Medium

Working:

Amount due on forfeited shares:
Kahitira = 200 × (40 + 30 + 30) = 20,000
Kambarage = 400 × (30 + 30) = 24,000
Mafwimbo = 600 × 30 = 18,000
Total unpaid = 62,000
Total reissue value = 1,200 × 220 = 264,000
Nominal value = 1,200 × 200 = 240,000
Premium = 24,000

Prepare:
Bank, Application, Allotment, 1st Call, 2nd Call, 3rd Call, Capital, Forfeited Shares, Re-Issued Shares, Share Premium accounts.

Preparation of Accounts for Question 5 (Sun Systems Ltd):

1. Bank Account

Dr Side (Receipts)

- Application (100,000 × 50) = 5,000,000
- Allotment (100,000 × 50) = 5,000,000
- 1st Call (100,000 - 200) × 40 = 3,992,000
- 2nd Call (100,000 - 200 - 400) × 30 = 2,973,000
- 3rd Call (100,000 - 200 - 400 - 600) × 30 = 2,982,000
- Reissue (1,200 shares × 220) = 264,000

Total = 20,211,000

2. Application Account

Cr Side:

- Application received (145,000 × 50) = 7,250,000

Dr Side:
- Refund for rejected (45,000 × 50) = 2,250,000
- Transfer to Share Capital (100,000 × 50) = 5,000,000

Total = 7,250,000

3. Allotment Account

Cr Side:

- Due (100,000 × 50) = 5,000,000

Dr Side:
- Bank = 5,000,000

4. 1st Call Account

Cr Side:

- Due (100,000 × 40) = 4,000,000

Dr Side:
- Unpaid (Kahitira only 200 shares) = 200 × 40 = 8,000
- Bank = 3,992,000

5. 2nd Call Account

Cr Side:

- Due (100,000 × 30) = 3,000,000

Dr Side:
- Unpaid (Kahitira + Kambarage) = (200 + 400) × 30 = 18,000
- Bank = 2,982,000

6. 3rd Call Account

Cr Side:

- Due (100,000 × 30) = 3,000,000

Dr Side:
- Unpaid (Kahitira + Kambarage + Mafwimbo) = (200 + 400 + 600) × 30 = 36,000
- Bank = 2,964,000

7. Ordinary Share Capital Account

Cr Side:

- Application = 5,000,000
- Allotment = 5,000,000
- 1st Call = 4,000,000
- 2nd Call = 3,000,000
- 3rd Call = 3,000,000

Total = 20,000,000

8. Forfeited Shares Account

Cr Side:

- Kahitira: Paid application and allotment = 200 × (50 + 50) = 20,000
- Kambarage: Paid application, allotment, and 1st call = 400 × (50 + 50 + 40) = 56,000
- Mafwimbo: Paid application, allotment, 1st and 2nd call = 600 × (50 + 50 + 40 + 30) = 102,000

Total = 178,000

Dr Side:
- Amount transferred to capital reserve after reissue =
  Forfeited on reissued 1,200 shares = 178,000
  Amount unpaid = 62,000
  Balance = 116,000 → Capital Reserve

9. Reissued Shares Account

Cr Side:

- Reissued 1,200 shares = 264,000 (Bank)

Dr Side:

- Share Capital = 1,200 × 200 = 240,000
- Share Premium = 24,000

10. Share Premium Account

Cr Side:

- From Reissue = 24,000

6. A new firm LG & Company sells its goods in containers for which a deposit is chargeable to customers on delivery of goods, a credit being allowed on their return within three months. During the year ended 31st December, 2019 the company had the following transactions:

800 new containers were bought for TZS 400 each
3,800 containers were sent out on sales at a deposit of TZS 800 per container
2,200 containers were returned within 3 months at TZS 600 each (credited back to customers)
1,000 containers were forfeited (kept beyond time)
200 containers were damaged and sold at TZS 1,000 each
On 31st December, 2019: 600 containers still with customers
1,200 containers still in warehouse
Stock value per container = TZS 300 (for accounting)

Containers Stock Account

Dr
Opening stock: unknown, calculate from balancing
Purchases: 800 × 400 = 320,000
Returns from customers: 2,200 × 400 = 880,000
Total containers received = purchases + returns = 3,000 units
Damaged containers: 200 × 400 = 80,000
Closing stock in warehouse: 1,200 × 300 = 360,000
Balancing figure (opening stock) = total issued - (purchases + returns - closing + damaged)

Cr
Sent to customers: 3,800 × 400 = 1,520,000
Damaged sold: 200 × 1,000 = 200,000

Containers Suspense Account

Dr
Deposit from customers: 3,800 × 800 = 3,040,000
Cr
Refunded: 2,200 × 600 = 1,320,000
Forfeited: 1,000 × 800 = 800,000
Balance (still with customers): 600 × 800 = 480,000

7. Henry Rook sold typewriters and earned commission on hire purchase

Cost per typewriter = 400,000
Cash selling price = 500,000
HP selling price = 580,000
HP debtors collections = 7,600,000
Commission = 10% of amount collected = 760,000
Total revenue =
300 × 500,000 = 150,000,000 (cash sales)
450 × 580,000 = 261,000,000 (HP sales)
Total = 411,000,000
Cost of sales = 800 × 400,000 = 320,000,000
Gross profit = 91,000,000

Expenses:
Wages = 450,000
Carriage = 200,000
Rent = 350,000
Water & electricity = 500,000
Insurance = 225,000
Stationery = 250,000
Postage = 300,000
Storage = 100,000
Total expenses = 2,375,000

Income Statement:

Sales (cash + HP) = 411,000,000
Less: Cost of sales = 320,000,000
Gross profit = 91,000,000
Add: Commission income = 760,000
Less: Expenses = 2,375,000
Net Profit = 89,385,000

8. Arnold, Bester and Cheddy were partners in profit sharing ratio 4:3:3
Balance sheet total = 10,900,000

Realization:
Debtors realized = 3,000,000
Stock = 4,500,000
Furniture = 500,000
Goodwill = 2,000,000
Creditors paid = 7,500,000
Unrecorded creditors paid = 50,000
Cost of dissolution = 300,000
Bester commission = 5% on 10,000,000 = 500,000

Realization Account

Dr
Debtors = 3,900,000
Stock = 6,000,000
Furniture = 450,000
Goodwill = 2,000,000
Total = 12,350,000

Cr
Realized Debtors = 3,000,000
Stock = 4,500,000
Furniture = 500,000
Goodwill = 2,000,000
Total = 10,000,000
Loss = 2,350,000
Add: Expenses = 300,000
Commission = 500,000
Creditors = 7,500,000 + 50,000 = 7,550,000
Total loss to be shared = 2,350,000 + 300,000 + 500,000 = 3,150,000
Share of loss:
Arnold 40% = 1,260,000
Bester 30% = 945,000
Cheddy 30% = 945,000

Partners' Capital Accounts

Arnold
Opening: 3,000,000
Less: Loss: 1,260,000
Balance: 1,740,000
Cash received: 1,740,000

Bester
Opening: 2,000,000
Less: Loss + commission = 945,000 + 500,000 = 1,445,000
Balance: 555,000
Cash received: 555,000

Cheddy
Balance: 3,000,000
Less: Loss: 945,000
Balance: 2,055,000
Paid 300,000 for full settlement
Cash received: 2,055,000 - 300,000 = 1,755,000

Cash Account

Dr:
Cash from assets = 10,000,000

Cr:
Paid to creditors = 7,550,000
Dissolution + commission = 800,000
Partners: Arnold = 1,740,000, Bester = 555,000, Cheddy = 1,755,000
Balance = 0