

THE UNITED REPUBLIC OF TANZANIA
NATIONAL EXAMINATIONS COUNCIL
CERTIFICATE OF SECONDARY EDUCATION EXAMINATION

062

BOOK KEEPING

(For Both School and Private Candidates)

Time: 3 Hours

ANSWERS

Year: 2006

Instructions

1. This paper consists of NINE questions.
2. Answer all questions

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1. For each of the items (i) – (x) choose the correct answer from among the given alternatives and write its letter beside the item number.

(i) If the cost of goods sold is shs.160,000 and the vendor's margin is 20%, what will be the vendor's sales figure?

A shs. 161,600

B shs. 176,000

C shs. 200,000

D shs. 196,000

E shs. 220,000

Correct answer: C

Reason: $\text{Sales} = \text{Cost} \div (1 - \text{Margin}) = 160,000 \div 0.8 = 200,000$

(ii) Which of the following is not a source of capital for a business?

A Revenue from business operations

B Money contributed by the owner

C Money borrowed from external source

D Cash raised from sales of shares

E Accounts payable

Correct answer: E

(iii) Outstanding salaries are shown as

A an asset

B an income

C a liability

D an expense

E a gain for the business

Correct answer: C

(iv) Postings in book-keeping means

A entering the first entry of double entry transactions

B making entries in cashbook

C making the entries in different books

D making the second entry of double entry transactions

E recording entries in cash account

Correct answer: D

(v) Money spent on heavy advertising, whose benefit is to continue for three years to come, is

A revenue expenditure

B capital expenditure

C development expenditure

D deferred revenue expenditure

E current expenditure

Correct answer: D

(vi) The descending order in which current assets should be drawn in the balance sheet is

A debtors, stock, bank and cash

B debtors, cash, bank and stock

C cash, stock, debtors and bank

D cash, bank, stock and debtors

E stock, debtors, bank and cash

Correct answer: A

(vii) The value of stock in hand, at the end of financial year is found by

A stock taking

B stock control

C stock check

D stock valuation

E stock verification

Correct answer: D

(viii) A list of balances extracted from the ledger to check the arithmetical accuracy of the entries is

A balance sheet

B trial balance

C trading account

D profit and loss account

E cash account

Correct answer: B

(ix) Which of the following should not be called sales?

A Sales of unwanted furniture

B Sales of goods on credit

C Cash sales

D Sales of goods to Evans

E Clearance sales

Correct answer: A

(x) The term “expense” denotes

A payment for recovering of a debt for an asset

B cost of services used for generating revenue

C cost of items held to produce revenue

D payment incurred in buying an asset

E cost used for paying goods purchased

Correct answer: B

Match the items in List A with the responses in List B by writing the letter of the corresponding response beside the item number.

(i) A person who owes money to a business for goods or services supplied to him

Answer: K (Debtor)

(ii) Given to fixed assets plus working capital

Answer: S (Circulating capital)

(iii) Carried by an independent auditor who is not an employee of the organization

Answer: F (External audit)

(iv) Excess of current assets over current liabilities

Answer: L (Working capital)

(v) The written document for payments for goods purchased and sold on credit

Answer: H (Invoice)

(vi) Is a special designed form used by a person incharge of making minor cash payments in a business

Answer: M (Petty cash voucher)

(vii) A senior officer that brings in a person to the business

Answer: P (Collector of revenue)

(viii) An officer appointed and charged with a duty of collecting revenue and accounting for it

Answer: P (Collector of revenue)

(ix) The law made and established under the provision of section 17 of the exchequer and audit ordinance

Answer: Q (Exchequer and audit ordinance)

3. On 1/1/2002, A. Angaza had debtors of shs.25,000 on which he made a provision for doubtful debts of 3%.

During 2002:

(i) B. Boss who owed A. Angaza shs.1,200 was declared bankrupt and a settlement of shs.25/= for every shs.100/= owing was made. The balance being treated as a bad debt.

(ii) Other bad debts written off during the year amounted to shs.4,800

(iii) On 31/12/2002 total debtors owing amounted to shs.34,200; but this required to be adjusted as follows:

a. Bush, a debtor owing shs.600/= was known to be unable to pay and this was to be written off.

b. A cheque for shs.200/= from M. Makoye was returned from the bank unpaid.

c. A. Angaza maintained his provision for doubtful debts at 3% on debtors.

Required:

- (a) Prepare
(i) Provision for doubtful debts
(ii) Journal entries
(b) What is the effect on net profit due to the changes in the provision for doubtful debts?

(a)(i) Provision for doubtful debts

Step 1: Adjust closing debtors

Closing balance as at 31/12/2002 = 34,200

Less: Bush (to be written off) = 600

Add: Returned cheque from Makoye = 200

Adjusted closing debtors = 33,800

New provision = 3% of 33,800 = 1,014

Old provision = 3% of 25,000 = 750

Increase in provision = 1,014 - 750 = 264

(a)(ii) Journal entries

1. Bad debt from B. Boss

Amount unpaid = 1,200 - (25% received \times 1,200) = 1,200 - 300 = 900

Dr Bad Debts 900

Cr Debtors 900

2. Bad debts written off

Dr Bad Debts 4,800

Cr Debtors 4,800

3. Bush written off

Dr Bad Debts 600

Cr Debtors 600

4. Returned cheque

Dr Debtors 200

Cr Bank 200

5. Adjust provision

Dr Profit and Loss Account 264

Cr Provision for Doubtful Debts 264

(b) Effect on net profit due to change in provision

Increase in provision = 264

Bad debts written off during the year = 900 (Boss) + 4,800 (others) + 600 (Bush) = 6,300

Total expense to P&L = 6,300 + 264 = 6,564

This reduces the net profit by shs.6,564

4. Mr. A. Juma sold goods to J. Makala at the value of shs.10,000/= and accepted a bill of exchange for three months. On maturity date the bill was dishonoured and a new bill for 6 months was accepted at an interest of 5% p.a.

You are required to calculate the amount of

(a) interest

(b) a new bill

(a) Interest

Principal = 10,000

Rate = 5% p.a.

Time = 6 months = 6/12 years = 0.5

Interest = Principal \times Rate \times Time

Interest = 10,000 \times 5/100 \times 0.5 = 250

(b) New Bill = Principal + Interest = 10,000 + 250 = 10,250

5. 1000 cases of goods costing shs.350,000/= were sent on consignment by ABC Ltd. to XYZ Ltd. on 1st January 2003. At the same time ABC Ltd. paid delivery expenses of shs.10,000/= and insurance of shs.2,000/=. On 1st March 2003 an interim account sales was received from XYZ Ltd. showing that 800 cases had been sold for shs.6,300/= each and that storage charges of shs.18,000/= and selling expenses of shs.10,000/= had been deducted from the account. After also deducting the commission on sales which was agreed at 5% of gross sales. XYZ Ltd. settled the balance due to ABC Ltd. for goods sold by a bank draft.

You are required to prepare the

(a) interim account sale

(b) consignment account in the books of ABC Ltd.

(a) Interim Account Sale (in the books of ABC Ltd.)

800 cases sold at shs.6,300 each = 800 \times 6,300 = 5,040,000

Less:

Storage Charges = 18,000

Selling Expenses = 10,000

Commission (5% of 5,040,000) = 252,000

Total Deductions = 280,000

Balance Remitted = 5,040,000 - 280,000 = 4,760,000

(b) Consignment Account in the books of ABC Ltd.

Dr Side

Goods sent on consignment.....	350,000
Add: Delivery expenses.....	10,000
Add: Insurance.....	2,000
XYZ Ltd – Storage Charges.....	18,000
XYZ Ltd – Selling Expenses.....	10,000
XYZ Ltd – Commission.....	252,000
Profit on Consignment (balancing figure).....	4,400,000
Total.....	5,042,000

Cr Side

Sales ($800 \times 6,300$).....	5,040,000
Closing stock (200 units unsold):	
Cost per unit = $350,000 / 1,000 = 350$	
$200 \text{ units} \times 350 = 70,000$	
Add proportion of delivery + insurance	
Delivery = $10,000 \div 1,000 = 10$	
Insurance = $2,000 \div 1,000 = 2$	
Add $12 \times 200 = 2,400$	
Closing Stock = $70,000 + 2,400 = 72,400$	
Total.....	5,112,400

Correction: Since Cr side is 5,112,400 and Dr side is 5,042,000, the Profit on Consignment = $5,112,400 - 5,042,000 = 70,400$

6. A firm whose trading period ends on 31st December each year buys machinery for shs.100,000 cash on 1st April 2000. The firm estimates that the asset will be used for 5 years. After exactly $2\frac{1}{2}$ years, the asset was suddenly sold for shs.50,000 cash. The firm always provides a full year depreciation in the year of purchase and no depreciation in the year of disposal.

Required

Write up the relevant accounts (including disposal account but not profit and loss account) for each of the years 2000, 2001 and 2002 using

- (a) straight line method of depreciation (assume 20% depreciation rate)
- (b) reducing balance method of depreciation (assume 40% depreciation rate)

(a) Straight Line Method (20% per annum)

Depreciation per year = $20\% \times 100,000 = 20,000$

Machinery Account

2000

Apr 1 Dr Cash..... 100,000
Cr Balance c/d..... 100,000

2001

Jan 1 Balance b/d..... 100,000
Cr Balance c/d..... 100,000

2002

Jan 1 Balance b/d..... 100,000
Cr Disposal a/c..... 100,000

Provision for Depreciation Account

2000

Dr P&L..... 20,000
Cr Accumulated Depreciation..... 20,000

2001

Dr P&L..... 20,000
Cr Accumulated Depreciation..... 20,000

2002

No depreciation charged
Total Depreciation = 40,000

Disposal Account

Dr Machinery..... 100,000
Cr Accumulated Depreciation..... 40,000
Cr Cash (proceeds)..... 50,000
Cr Profit on Disposal (balancing)... 10,000

(b) Reducing Balance Method (40% per annum)

2000

Depreciation = 40% of 100,000 = 40,000
NBV end of 2000 = 60,000

2001

Depreciation = 40% of 60,000 = 24,000
NBV end of 2001 = 36,000

2002

No depreciation charged
Disposal proceeds = 50,000

Book value = 36,000

Profit on Disposal = 50,000 - 36,000 = 14,000

Machinery Account

2000

Apr 1 Dr Cash..... 100,000
Cr Balance c/d..... 100,000

2001

Jan 1 Balance b/d..... 100,000
Cr Balance c/d..... 100,000

2002

Jan 1 Balance b/d..... 100,000
Cr Disposal a/c..... 100,000

Provision for Depreciation Account

2000

Dr P&L..... 40,000
Cr Accumulated Depreciation..... 40,000

2001

Dr P&L..... 24,000
Cr Accumulated Depreciation..... 24,000

Disposal Account

Dr Machinery..... 100,000
Cr Accumulated Depreciation..... 64,000
Cr Cash..... 50,000
Cr Profit on Disposal (balancing)... 14,000

7. J. Mwana is a proprietor of a shop selling books, periodical newspapers and children's games and toys. For the purpose of his accounts he wishes the business to be divided into two departments:

Department A: Books and periodical newspapers

Department B: Games, toys and fancy goods

The following balances have been extracted from his nominal ledger as on 31st December 2003:

	DEPT. A	DEPT. B	TOTAL
Sales.....	300,000	100,000	400,000
Stock 1.1.2003...	2,500	2,000	4,500
Purchases.....	125,000	82,000	207,000

Salaries & wages.	10,000	7,500	17,500
Newspapers delivery wages.....		1,500	
General office salaries.....		7,500	
Rates.....		1,300	
Fire insurance.....		500	
Electricity.....		1,200	
Repair to premises.....		250	
Internal telephone.....		250	
Cleaning.....		300	
Accountancy & audit charges.....		600	
General office expenses.....		1,200	
Stock as on 31.12.2003:			
Department A.....		3,000	
Department B.....		1,500	

The proportion of the total floor area occupied by each department was:

Dept A = $\frac{2}{5}$, Dept B = $\frac{3}{5}$

Required:

Prepare J. Mwana's Trading and Profit and Loss Account for the year ended 31.12.2003, apportioning costs where necessary to show the departmental profit or loss. The apportionment should be made using the methods shown below:

Area – rates, insurance, electricity, repairs, telephone and cleaning

Turnover – general office salaries, accountancy and audit charges, and general office expenses

Step 1: Departmental Trading Account

Dept A

Sales.....	300,000
Opening Stock.....	2,500
Add Purchases.....	125,000
Cost of Goods Available.....	127,500
Less Closing Stock.....	(3,000)
Cost of Sales.....	124,500
Gross Profit.....	175,500

Dept B

Sales.....	100,000
Opening Stock.....	2,000
Add Purchases.....	82,000
Cost of Goods Available.....	84,000
Less Closing Stock.....	(1,500)

Cost of Sales..... 82,500
Gross Profit..... 17,500

Step 2: Apportion Expenses

i) Area-based expenses ($\frac{2}{5}$: $\frac{3}{5}$)

Rates (1,300):

Dept A = 520, Dept B = 780

Fire insurance (500):

Dept A = 200, Dept B = 300

Electricity (1,200):

Dept A = 480, Dept B = 720

Repairs (250):

Dept A = 100, Dept B = 150

Telephone (250):

Dept A = 100, Dept B = 150

Cleaning (300):

Dept A = 120, Dept B = 180

ii) Turnover-based expenses

Total sales = 400,000

Dept A = 75%, Dept B = 25%

General office salaries (7,500):

Dept A = 5,625, Dept B = 1,875

Accountancy & audit charges (600):

Dept A = 450, Dept B = 150

General office expenses (1,200):

Dept A = 900, Dept B = 300

iii) Direct expenses

Salaries & wages:

Dept A = 10,000, Dept B = 7,500

Newspapers delivery wages (Dept A only):
Dept A = 1,500

Step 3: Profit and Loss Account

Dept A

Gross Profit.....	175,500
Less Expenses:	
Salaries & wages.....	10,000
Newspapers delivery wages.....	1,500
Rates.....	520
Fire insurance.....	200
Electricity.....	480
Repairs.....	100
Telephone.....	100
Cleaning.....	120
General office salaries.....	5,625
Audit charges.....	450
General office expenses.....	900
Total Expenses.....	20,995
Net Profit Dept A.....	154,505

Dept B

Gross Profit.....	17,500
Less Expenses:	
Salaries & wages.....	7,500
Rates.....	780
Fire insurance.....	300
Electricity.....	720
Repairs.....	150
Telephone.....	150
Cleaning.....	180
General office salaries.....	1,875
Audit charges.....	150
General office expenses.....	300
Total Expenses.....	12,105
Net Profit Dept B.....	5,395