

PART I (30 MARKS)
ANSWER ALL QUESTIONS

Question 1

a) For each question, there are four alternatives: A, B, C and D. Choose the correct alternative and circle it. Do not circle more than the ONE alternative. If there is more than one choice circled, NO score will be awarded. [20]

i. Investment property is initially measured at

A cost.
B cost less impairment losses.
C cost less accumulated depreciation.
D cost less accumulated depreciation and impairment losses.

ii. Cash budget includes all of the following items EXCEPT

A sales revenue.
B material cost.
C depreciation.
D payment of wages.

iii. An intangible asset (other than goodwill) is an identifiable

A monetary asset with physical substance.
B monetary asset without physical substance.
C non-monetary asset with physical substance.
D non-monetary asset without physical substance.

iv. The following information is related to company A:
Quick Ratio of 1.8: 1, Current Ratio of 2.7: 1 and Current Liabilities of Nu. 80,000. Compute the value of Inventory.

A 72,000
B 80,000
C 144,000
D 216,000

v. Which ONE of the following is correct about contingent liability?

A It is a present obligation where the outflow of resources in the future is remote.
B It is a possible obligation where the outflow of resources in the future is certain.
C It is a present obligation where the outflow of resources in the future is probable.
D It is a present obligation where the outflow of resources in the future is not probable.

vi. To close a partner's drawing account, the following entry must be made:

- A Debit Partner's Drawing Account and Credit Cash Account.
- B Debit Cash Account and Credit Partner's Drawing Account.
- C Debit Partner's Drawing Account and Credit Partner's Capital Account.
- D Debit Partner's Capital Account and Credit Partner's Drawing Account.

vii. The journal entry to record current tax expenses for the current period is

- A Debit Income Tax Expense Account and Credit Cash Account.
- B Debit Cash Account and Credit Income Tax Expense Account.
- C Debit Income Tax Expense Account and Credit Current Tax Liability Account.
- D Debit Current Tax Liability Account and Credit Income Tax Expense Account.

viii. The term 'owner' in the "Owner Occupied Property" refers to

- A business entity.
- B owner of the business.
- C employee of the business.
- D owner occupying the property of the business.

ix. What would be the impact of declaration of dividend on equity shares on the financial statement of the company?

- A increase in the net income of the firm
- B decrease in the net income of the firm
- C increase in the retained earnings of the firm
- D decrease in the retained earnings of the firm

x. Singye Company reported sales revenue of Nu. 80,000 and cost of goods sold of Nu. 30,000. The gross profit margin of the company is

- A 27.2%.
- B 37.5%.
- C 45.5%.
- D 62.5%.

xi. Any gain or loss on disposal of Investment Property is recognized in the

- A income statement.
- B statement of financial position.
- C statement of changes in equity.
- D notes to the financial statements.

xii. An example of liquidity ratio is a/an

- A acid test ratio.
- B gross profit ratio.
- C asset turnover ratio.
- D inventory turnover ratio.

xiii. A company had retained earnings of Nu. 80,000 in the year 2017 and Nu. 90,000 in the year 2018. The company earned net profit of Nu. 40,000 after deducting tax in the year 2018. The amount of dividend paid in the year 2018 to be included in cash flow statement is

- A Nu. 10,000.
- B Nu. 30,000.
- C Nu. 40,000.
- D Nu. 50,000.

xiv. Calculate the production budget from the following data:
Sales 90,000 units, Opening Inventory of finished goods 20,000 units and Closing Inventory of finished goods 30,000 units.

- A 40,000 units
- B 80,000 units
- C 100,000 units
- D 140,000 units

xv. Which one of the following expenses is **NOT** allowable under the Income Tax Act of The Kingdom of Bhutan 2001?

- A wages and salaries
- B private expenses on food and clothing
- C conveyance or transport facility expenses
- D gas, electricity and water supplies expenses

xvi. Timber used in the production of furniture is an example of

- A fixed cost.
- B indirect cost.
- C variable cost.
- D overhead cost.

xvii. Which **ONE** of the following budget is normally prepared first?

- A Cash budget
- B Sales budget
- C Production budget
- D Selling and distribution budget

xviii. A company pays royalty to the government on the basis of production. The payment of such royalty is treated as a/an

- A direct material.
- B direct expenses.
- C administration expenses.
- D factory overhead expenses.

xix. Depreciation of a delivery van will appear under

- A factory overhead.
- B administration overhead.
- C selling and distribution overhead.
- D research and development expenses overhead.

xx. The Business Income Tax in Bhutan is levied at the rate of 30% on the

- A net profit of the business.
- B gross profit of the business.
- C total revenue of the business.
- D accumulated profit of the business.

b) Answer the following questions.

i. How is amortization different from impairment in the context of intangible assets? [2]
Give **TWO** differences.

ii. PCAL Company has maintained a warranty provision of Nu. 10,000 for the year 2019. [2]
During the year, the management of PCAL Company decided to use warranty provision for the purpose of paying rent expenses. Comment on the action of the management of PCAL Company with a reason.

iii. Differentiate between equity financing and debt financing with **TWO** points. [2]

Equity financing	Debt financing	

iv. Despite the fact that partnership agreement can be verbal or written, most of the partnership firms prefer written form of agreement. Identify any **TWO** reasons in favour of written form of agreement. [2]

v. How are the proceeds from the sale of Property, Plant and Equipment and loss on the sale of Property, Plant and Equipment reported on the statement of cash flow under indirect method? [2]

PART II (50 MARKS)
ANSWER ANY FIVE QUESTIONS

Question 2

a) Karma owns a Pharmaceutical Company in Thimphu and is the only supplier of medicines. Lately, one of the customers who became ill due to the consumption of medicines sold by Karma claimed an amount of Nu. 100,000 as compensation. The claim is then submitted to the court. On 31st December 2019, Karma's lawyer advised that it is probable that the company will not be found liable. However, when Karma prepares the financial statements for 31st December 2020, the lawyer advises that owing to the developments in the case, it is probable that the company will be found liable.

i. When preparing financial statements for 31st December 2019, how would Karma record the compensation of Nu. 100,000? [1]

ii. When preparing financial statements for 31st December 2020, how would Karma record the compensation of Nu. 100,000? [1]

iii. How is contingent liability different from provision? Give ONE difference. [1]

b) On 1st January 2000, 'A' contributed a capital of Nu. 20,000 and 'B' contributed a capital of Nu. 40,000. During the year, they earned a net profit of Nu. 200,000 and 'B' withdrew Nu. 5,000 from the business for personal use on 1st July 2000. The partnership deed provides that: [4]

- Interest on capital to be allowed @ 5% p.a. and interest on drawing to be allowed @ 10% p.a.
- 'A' will get salary of Nu. 5,000 p.m. and 'B' will get salary of Nu. 4,000 p.m.

Prepare Profit and Loss Appropriation Account **ONLY** for the year ended 31st December 2000 assuming that 'A' and 'B' will share profit and losses equally.

c) ABC Co. paid Nu. 200,000 cash to acquire a patent on 1st January 2019 and the expected useful life of the patent is 5 years. During the year the company also developed brand internally estimated at Nu. 50,000.

i. Pass the journal entry to record purchase of patent and amortisation expense on the patent acquired for the year ending 31st December 2019. [2]

ii. Should ABC Co. recognise brand as an intangible asset? Why? [1]

Question 3

a) "An importer in Phuntsholing, the country's commercial hub, has reportedly evaded sales tax and customs duty amounting to more than Nu. 11.045 million for goods imported from third countries". *(Kuensel, September 2, 2016)*

i. Identify the ethical issue from the above case. What negative impact does tax evasion have upon the government? [2]

ii. If you are working as a manager for the importer in the above case, what would be your statutory responsibility? Mention any **ONE** responsibility. [1]

iii. Frame **TWO** policies to curb tax evasion in Bhutan. [2]

b) Identify each of the following transactions as either operating (O), investing (I) or financing (F) and indicate whether each item increases (+) or decreases (-) cash. The first part has been done for you. [3]

i. Sale of Property, Plant and Equipment	I	+
ii. Issue of Equity Shares		
iii. Decrease in Inventory		
iv. Increase in Accounts Receivable		
v. Purchase of Investment Property		
vi. Increase in Accounts Payable		
vii. Payment of Short Term Loans		

c) At the end of the year, Pillow Company has a budget balance of Nu. 1 million. The budget officer of the company decides to utilize the budget for the purchase of machinery since the company was facing difficulties in meeting the demand of the customers. However, the procurement officer of the company suggested that the balance budget be used for entertainment purposes. [2]

From the above case, do you think using the budget balance of Nu. 1 million is unethical? Why?

Question 4

a) Zimdra Automobile is an authorised distributor of Suzuki cars in Bhutan. The company at the time of selling a car also offers warranty relating to servicing of cars. In preparing its financial statements, Zimdra Automobile needs to ascertain the provision of warranty that would be required to provide at the year end. The entity's past experience with warranty claims are:

70% of car sold in a year have zero defects.
20% of car sold in a year have minor defects.
10% of car sold in a year have major defects.

The cost of rectifying a “minor defect” is Nu. 20,000 and the cost of rectifying a “major defect” is Nu. 50,000.

- i. Identify the obligating event from the above case. [1]
- ii. Compute the amount of “provision for warranty” needed at the year end. [2]
- iii. Pass the journal entry to record the amount of provision. [1]

b) Company 'A' and Company 'B' have the same opening and closing inventory balance of raw materials. Both the companies have purchased the same amount of raw materials from the same supplier but at different dates during the year. Study the table and answer the questions below.

	Company A (Furniture Industry, Paro)	Company B (Furniture Industry, Paro)
Direct Materials	30,000	40,000
Direct Labour	8,000	10,000

- i. Why do you think that Company B has a higher direct material cost compared to Company A? Give **TWO** reasons. [2]
- ii. What will be the impact on the cost sheet of the company if the government increases the minimum wage rate payable to the workers? [1]
- iii. List down any **TWO** examples of indirect materials used in the production of furniture. [1]

c) Rigsel Furniture Company estimated the production of 50,000 chairs in 2016. The cost of labour for polishing is Nu. 10 per hour. Assuming that 30 minutes is required to polish a chair, determine the direct labour cost budget for 2016. [2]

Question 5

a) The following is the Income Statement of Zeko Company for the year ended 31st December, 2008: [4]

Statement of Income for the year ended on 31st December, 2008

Sales Revenue	300,000
Cost of Goods Sold	(100,000)
Gross Profit	400,000
Dividend Income	10,000
Administration Expense	(50,000)
Interest Expense	(30,000)
Profit before Tax	330,000
Income Tax Expense	(20,000)
Profit after Tax	310,000

Additional information:

- The net increase in current liability and current asset is 0.
- Tax paid is Nu. 20,000 and interest paid is Nu. 30,000 during the year.
- Depreciation on Property, Plant and Equipment during the year is Nu. 15,000.

Interest and dividend received and paid should be considered as operating activities.

Prepare Cash Flows from Operating Activities for the year ended 31st December 2008.

b) State with a reason each whether XY Co. can recognize the following as intangible assets based on the criteria of “identifiable” and “controlling”. [4]

- i. XY Co. buys Manchester City club and signs the contract with Manchester City club players.
- ii. XY Co. spends on training for improving skills of employees leading to increase in the economic benefits in the future.
- iii. XY Co. acquired taxi licenses from the government that are transferable to other qualified taxi operators.
- iv. XY Co. through advertising is successful in building customer loyalty. However, there are no contracts with those customers.

c) Beetal Company decided to transfer Nu. 100,000 from Retained Earnings Account to General Reserve Account. How will this affect the financial statement of the company? Pass the journal entry. [2]

Question 6

a) Drukyul Co. purchased building for cash Nu. 1 million on 1st January 2018 for the purpose of earning rental income. The company depreciates the building on the basis of straight line at the rate of 10% every year. On 31st December 2020, the company sold the building for Nu. 1.5 million. The company has the policy of maintaining accumulated depreciation account. [4]

Pass the journal entry for the year 2018 and 2020.

b) Sonam owns a sole trading business but due to shortage of capital and human resource, he decided to dissolve the business and start a partnership firm with Karma and Deki. The partnership firm was performing well, however, Sonam noticed that Deki was silently misusing the resources of the firm. Sonam did not share the incident with Karma neither did he say a word to Deki.

i. Using the reference identify the ethical issue.

ii. If you were Sonam, what steps would you take to rectify the conduct of Deki? Write **TWO**. [1]

iii. Highlight any **TWO** advantages of partnership business over sole trading business. [1]

c) Study the part of a Statement of Financial Position below and prepare Common Size Statement Analysis.

[3]

	2018 (Nu.)	2019 (Nu.)
<u>Non-Current Assets</u>		
Property, Plant and Equipment	280,000	385,000
Investment Property	40,000	30,000
Intangible Assets	60,000	82,000
<u>Current Assets</u>		
Inventory	18,000	28,000
Trade Receivable	20,000	32,000
Cash	1,000	1,500
Total Assets	419,000	558,500

Question 7

a) Study the table below and answer the questions:

	Company X (Nu.)	Company Y (Nu.)
Current Assets		
Cash	1,000	10,000
Accounts Receivable	2,000	20,000
Inventory	38,000	11,000
Total Current Assets	41,000	41,000
Current Liabilities	20,000	20,000

i. Company X and Company Y are both operating in the same industry with current ratio of 2:1. Which company is performing better? Justify with **TWO** points. [1.5]

ii. From the above information, calculate the acid-test ratio of both the companies. [2]

iii. How can Company X improve its acid test ratio? [0.5]

b) Compute Factory/Works Cost using the format of Cost Sheet from the following information. [3]

Prime Cost	100,000
Advertising	10,000
Office rent	12,000
Oil and grease	8,000
Interest paid	5,000
Depreciation on Machinery	15,000
Opening Inventory of Work in Progress	20,000
Opening Inventory of Finished Goods	30,000
Closing Inventory of Work in Progress	25,000
Closing Inventory of Finished Goods	35,000

c) Dungsam Cement issued 100,000 shares at Nu. 10 each. Further, on 1st January 2018, Dungsam Cement also issued 2,000 bonds at Nu. 1,000 each repayable after 5 years with the interest of 10% p.a.

- Pass the journal entry for the issue of shares.
- Pass the journal entry for issue of bonds and recognition of interest expenses for the year ending 31st December 2018.

[1]
[2]

Question 8

a) On 1st September 2015, Accounts Receivable showed a balance of Nu. 50,000 which will be collected in full in the month of September. The following is the pattern for cash collection on account of sale: [3]

60% collected in the month of sale,
30% collected in the following month and
10% is uncollected.

From the above information, you are required to fill up the Cash Collection Budget given below:

Cash Collection Budget			
	September (Nu.)	October (Nu.)	November (Nu.)
Total Revenue From Sales			
Budget (Cash yet to be collected)	<u>100,000</u>	<u>300,000</u>	<u>500,000</u>
Accounts Receivable Balance			
<u>September Month Collection</u>			
<u>October Month Collection</u>			
<u>November Month Collection</u>			

b) XYZ Co. has provided you with a list of the properties they own:

- i. Land held for sale in the ordinary course of business
- ii. Building rented out to the employees
- iii. Land held for undetermined future use

[3]

Advise the company whether the above mentioned properties will qualify as an investment property? If they do not qualify as an investment property, how should they be treated?

c) Sonam wants to invest in equity shares of the company, however, his friend suggested to him to invest in preference shares. Should Sonam invest in equity shares or preference shares? Why? Give **TWO** reasons. [2]

d) Phayul Enterprise earned a net profit of Nu. 200,000 before tax deduction for the year ended 31st December 2017. The enterprise deducted direct cost expense of Nu. 10,000 inclusive of Nu. 4,000 which is not deductible for the tax purpose.

i. Compute the tax payable assuming tax rate of 30% as per the tax authority. [1]

ii. Calculate the amount of over provision or under provision. [1]

